A DIVIDED CITY IN A DIVIDED WORLD

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In July 2012, 62,000 spectators in East London and almost a billion television viewers around the world were treated to a phantasmagoria of English pop culture—a high camp spectacle, orchestrated and directed by the acclaimed director Danny Boyle, that featured Her Majesty the Queen, James Bond, the Beatles, the Sex Pistols, David Bowie, squadrons of paratrooping Mary Poppins, Victorian metal workers and capitalists, and enough pyrotechnics to equip the armory of a small nation. All in all, wrote *The New York Times*, "it was a slightly insane portrait of a country that has changed almost beyond measure" during "a time of deep economic malaise."[1]

Unsurprisingly, London mayor Boris Johnson saw it rather differently. In his unabashedly positive vision for the city, *The Greatest City on Earth: Ambitions for London*,[2] he described the Olympics as an unalloyed triumph for England—one that brought a literal shower of gold, both of medals and "benefits in jobs, growth, infrastructure" that redounded to the whole nation.

THE REALITY, AS THEY SAY, LIES SOMEWHERE IN BETWEEN.

That London has emerged from nearly a century of British decline to take its place at the very apex of global capitalism cannot be denied. In an era in which cities have become the principle organizing units of the global economy, London stands head and shoulders above all but a handful of its urban peers.[3] New investments have turned East London's Tech City into a centre of start-up and venture capital activity. Talent has flowed in from all over the world. Real estate is booming; London has become one of the most expensive places on the planet to live.

A decade ago, many predicted that the emergent cities of the BRIC nations, from Shanghai and Mumbai to Sao Paulo and Moscow, would soon overshadow the Londons and New Yorks of the world. The economic collapse of 2008, it was thought, would seal their fates. But for all the turmoil in the financial industries, both London and New York emerged stronger. For better and for worse, the world is spikier[4] than ever; a relative handful of countries, regions, cities and people control a disproportionate amount of wealth and influence.

London owes its preeminence first and foremost to its historic and current status as a global capital of capital. If England's days of empire are a distant memory, London remains the world's dominant banking centre. But London's resurgence extends far beyond just the City. Today's post-industrial economy, or what John Howkins originally dubbed the "creative economy", is biased toward big, diverse places, and London is one of the most diverse cities in the world, with tremendous strengths in the knowledge-based and creative professions that span everything from finance to science and high technology, entrepreneurship and innovation, to media and entertainment, and arts, culture, music and design. Like New York, London excels in everything from movie-making and media, advertising and design to the entire edifice of pop culture, from Harry Potter to One Direction, and Burberry Street. Though perhaps this is nothing to brag about, London is where the whole Simon Cowell reality show star-making enterprise got its start. Like New York's Silicon Alley, London has Silicon Roundabout in Shoreditch, not far from the City and Olympic Park in East London.

But growth and resurgence give birth to a new set of troubling patterns. Rampant inequality is endemic to modern capitalism. Despite what some like to imagine, the global economy has not flattened out the world, equalizing opportunities and outcomes. While London is a centre of global capitalism, the lion's share of its spoils have stayed in the pockets of its elite. As has happened in so many other cities, from

New York to San Francisco, London's economic renewal has brought with it deep economic divides. The city itself is rived by class divisions and it has become a competitor rather than a net contributor to the rest of England, in essence a separate city state. London's very rebirth is planting the seeds of crisis.

FROM FINANCE CAPITAL TO CREATIVE CAPITAL

In *Capitals of Capital*, the great economic historian Yousef Cassis chronicled the rise and decline of global financial centres since 1750. "Once they are established," he wrote, "financial capitals have incredible staying power." [5]

Amsterdam led the world financial markets in the seventeenth century, only to be overtaken by Paris and ultimately London in the nineteenth century. Over time, Frankfurt, Berlin, and Zurich, as well as a few others, have played various roles. Britannia, of course, ruled much of the world in the nineteenth century; its military, political, and economic heft are today but a fraction of what they once were. Still, in a 2013 ranking[6] of global financial centres, London was placed first, followed by New York, Hong Kong, Singapore, Zurich and Tokyo. Once a city becomes a global financial centre, it remains influential; it never falls entirely off the map. What's more, the transition from one financial centre to another typically lags the simple accumulation of economic power. Despite Asia's rise as an economic competitor, Tokyo, Hong Kong and Singapore are still a long way away from overtaking New York and London in terms of global financial flows and influence.

Some of this is path dependency, the concept first posited by the economist Paul David, in which "important influences…can be exerted by temporally remote events," much as the QWERTY keyboard persists, even though its original purpose (to prevent mechanical typebars from sticking) is no longer necessary.[7] But London took full advantage of it, laying the groundwork for its resurgence as far back as the 1960s, according to Cassis, when the City began to "open up," restructuring its practices and generating powerful external economies of scale. By the mid-2000s, London had become the leading centre for cross border lending, foreign currency transactions, asset management, Euro Bind issues, and foreign bank offices, overtaking Wall Street, which was relatively hamstrung by Sarbanes Oxley and tighter immigration restrictions in the wake of 9/11.

London of course owes its re-ascendance to more than just its current and historical strengths in finance. As noted above, it has also become something of a centre for startups and tech businesses. According to at least one ranking,[8] London scores third in startups, behind only New York and San Francisco, third in angel funding, and fifth in venture capital investment. The rapidly revitalizing and gentrifying areas of East London have become a global high-tech centre, housing 3200 firms and 48,000-plus jobs, according to report from the London based think tank Demos.[9] The area is a virtual case study in Jane Jacobs-like bottom-up, organic urban development, driven by proximity, density, amenities, and relatively cheap space. Significantly, the majority of London's tech start-ups are "digital creative." Their products – social media, music websites, games, shopping and marketing applications – combine computer technology with music, art, and narrative; they draw on existing skill sets in London's other creative industries.

Feeding and enabling London's tech industry (and the rest of its creative economy) are its great media and entertainment cluster as well its unparalleled universities, key assets for the knowledge driven economy. London remains one of the world's preeminent centres of research and higher education, with six of the world's top universities;[10] Cambridge and Oxford are only a short distance away.

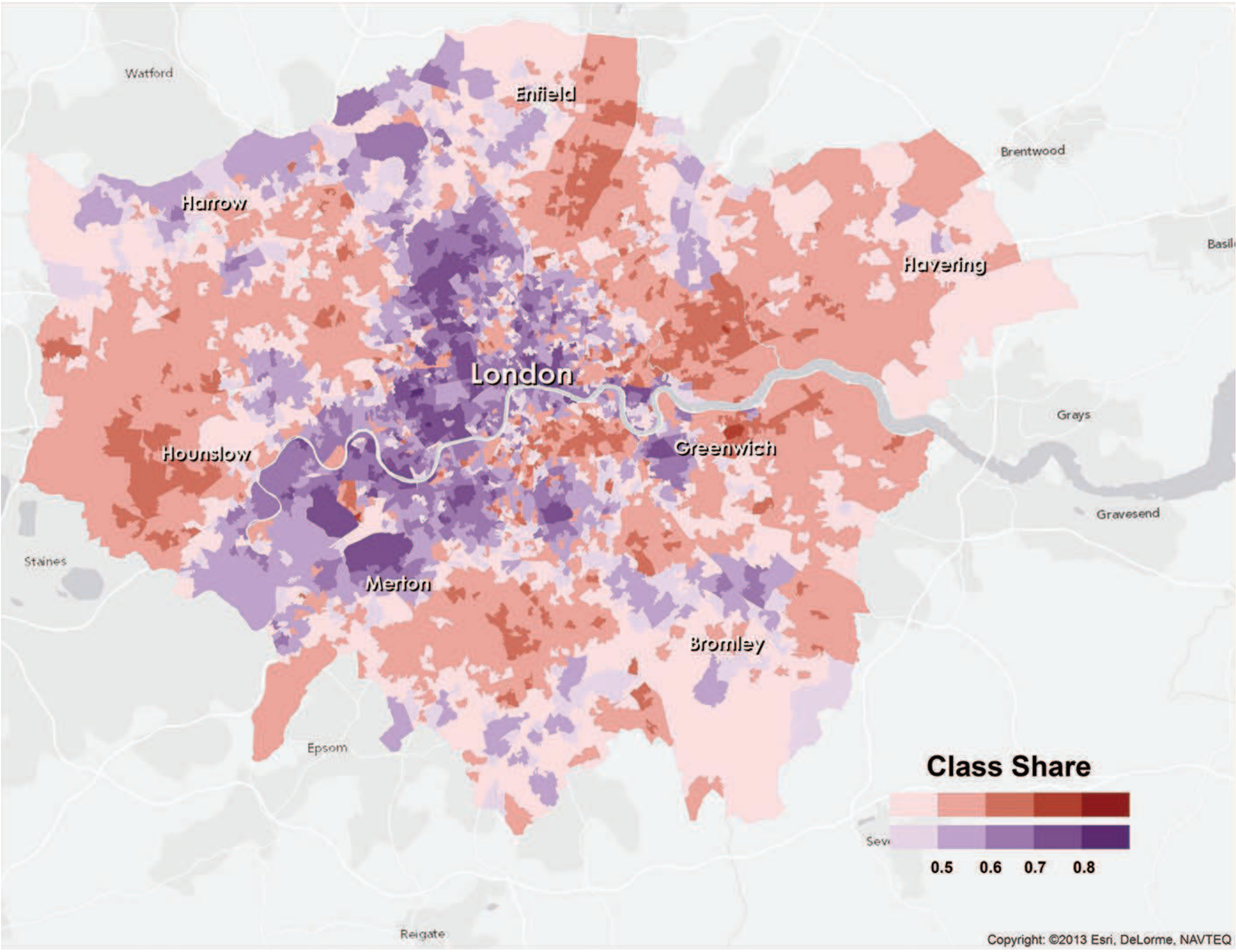
A TALE OF TWO CITIES

Dicken's phrase "a tale of two cities" has become something of a cliché among politicians and pundits who wish to convey the contrasting extremes of poverty and wealth in a single jurisdiction (New York's mayoral hopeful Bill DeBlasio wielded it effectively in his bid for the Democratic party nomination in the autumn of 2013), but it fits London – as it does New York – like a glove. For the most fortunate among its citizens, London is a diverse, vibrant hotbed of economic opportunity; for far too many others, it is a place of grinding disappointment and despair. London's signal successes, in fact, may be planting the seeds of its own contradictions and divides.

For one, London has become the premier location for the global super rich, its property market functioning almost as a "global reserve currency."[11] This has driven its real estate prices to truly stratospheric heights, making its housing increasingly unaffordable for actual working Londoners.[12] This is a fact that even Johnson's *Vision* can't elide. "The London property market is fine if you are an international tycoon," it notes dryly. "Living in the capital is perhaps toughest of all for working people on modest incomes who are the backbone of the economy. They deserve help, because housing cannot be viewed solely as a consumer good, like a car."[13]

The Economist's Ryan Avent put it more bluntly, dubbing London a "parasitic city," in which greedy property owners siphon off a huge share of economic gains, in ways that do damage to its overall productivity and potential for growth.[14]

London is tied much more closely to New York, Hong Kong, Shanghai, Sao Paolo and other spikes of the world economy than it is to its own suburbs and the rest of Great Britain. Its mayoralty, established in 2000, has been so successful at strategizing, lobbying, and marshalling resources that Kevin Meagher tongue-in-cheekily proposed that it be abolished in *The Guardian* last year. "London," he argued, "has now morphed into a city-state: autonomous, successful and happy to blaze a trail, while the rest of the country lags far behind."[15] Boris Johnson's *Vision* counters that "London is the capital of England, of Britain, of the UK….a pound invested in London drives jobs and growth around the country."[16] But that London's fortunes are far outstripping the rest of England's cannot be denied.



Source: Class geography of Greater London

The map above by, Zara Matheson of the Martin Prosperity Institute (MPI) at the University of Toronto, tracks the class geography of Greater London and the location, by neighbourhood, of its three major socio-economic classes (the declining working class, the rising creative class of high-skill, high-pay knowledge, professional, technical and culture workers, and the even more numerous low-wage, low-skill workers in the service class). The purple areas are the neighbourhoods that are made up of more than 50 percent creative class residents; red indicates neighbourhoods that are majority service class; and blue indicates neighbourhoods that are primarily working class. The data, from the 2011 census, reflect London's Lower Level Super Output Areas (or LSOAs), which are roughly comparable to U.S. census tracts.

London's creative class totals 1.7 million workers, comprising 41.6 percent of its workforce. Across London, the creative class accounts for more than half of all residents in 27.4 percent of neighbourhoods (LSOAs) and more than two-thirds of residents in 6.7 percent of London's neighbourhoods. London's creative class is highly concentrated in and around the city centre, where real estate, needless to say, is priciest. The darkest areas of purple, where the creative class makes up roughly 80 percent of residents, are in and around the core, including Kensington, Chelsea, the City of London and Camden (Parliament Hill). These areas are interspersed with areas of lighter purple where the creative class makes up roughly 50 to 60 percent of residents. The areas of highest creative class concentration (the darkest purple areas on the map) radiate north and west from the centre.

The red areas on the map, where the service class predominates, spread out along the city's periphery in three large areas to the northwest, northeast and south. Numbering 1.9 million, the service class is London's largest class, comprising 46.5 percent of its workforce. The service class is also highly concentrated and clustered, making up more than half of all residents in nearly two-thirds (64.1 percent) neighbourhoods (LSOAs).

Strikingly, not a single blue area – that is, a neighbourhood in which the traditional working class accounts for the majority of residents – can be seen on the map. The working class makes up just 11.6 percent of London's total workforce; there are only a vanishingly small percentage of neighbourhoods (0.12 percent) in which it accounts for 30 percent or more of residents. Conversely, the working class makes up less than 10 percent of residents in 40 percent of London's neighbourhoods. This is staggering when you recall that it was London where Karl Marx spent the last decades of his life, writing *Das Kapital.*

A similar pattern can be seen in a map of London's gentrification that appeared in *The Economist* in September 2013[17] under the headline "the great inversion," a phrase that is drawn from the title of Alan Ehrenhalt's book *The Great Inversion* and the *Future of the American City*,[18] which argues what the map clearly shows: that inner cities are taking on the demographic and economic characteristics that for the past half century were associated with suburbs and *vice versa*.

As central London's population becomes more affluent and educated, the service class and what's left of its working class (not to mention its under– and unemployed), are literally being pushed out to the periphery.

DESTRUCTIVE CREATION

Writing in the *Financial Times* in the wake of the London riots of 2011, I noted that "more than youth, ethnicity or even race, London's riots are about class and the growing divide between the classes."[19] London is the archetypal post-industrial creative city. Just one in ten of its workers belong to the traditional working class; the other two classes are roughly equal in numbers, but decidedly asymmetrical in wealth and education.

"In contrast to the physical divides of most American cities," I continued, London's "rich and poor often live right next to each other… As the global super-rich go on seemingly unscathed by the economic crisis, the young and the less skilled are out of work for longer and longer periods, their prospects fading as the economy worsens and budget cuts take hold…..With the social compact eroding and a lack of viable mass political institutions to channel resentment, what comes out is not a coherent voice but inchoate rage."[20]

Those same polarities, that same concentration of both advantage and disadvantage, can be seen not just between but within other great global cities. The post-industrial world may be flat for the rich, but for most people it is incredibly spiky. A world thus divided is inherently

unstable; the very conditions of its success plant the seeds of its ultimate collapse.
London's resurgence and growth has been and continues to be phenomenal, but left unaddressed, its class divides may well be met with an even deeper backlash. One worries that recent tensions may be a prelude to much worse.

London's future is not written in stone; there is much that its politicians and place-makers can do to change its course. A new urban social compact that can meet the inequities and divides of our current economic age is desperately needed—not by sawing off the economic and creative spikes, which are the sources of so much economic dynamism, but by lifting the troughs: improving the productivity and wages of service workers, providing educational opportunities, improving transit, and ensuring a supply of affordable housing.

This is a natural challenge for London. London was not just the adopted home of Karl Marx, who penned his most famous works in the Reading Room of the British Museum – it saw the birth of countless social movements, labor organizations, and the Labour Party that mitigated the Dickensian horrors of the industrial age and eventually made it possible for the great bulk of the proletarian working class to join the ranks of the middle class. Its challenge today is to craft a new social compact for service workers and for all workers so that they too can prosper in the knowledge and creative age.