2. Output and employment in the City's industries: recent trends to 2003

Overview

The City has been blessed over the last forty years by favourable trends in the world economy, which have hugely increased the demand for its services. As explained in Chapter 1, a reasonable – if very broad brush – estimate of the annual trend growth of international financial services *in real terms* over the last fifty years might be 7%. A fair generalisation is that the City – which in the 1950s mostly served UK-based customers – has become increasingly specialised on international financial services. It has therefore benefited to an unusual degree from the global boom in such activity.

While impressionistic evidence of the City's prosperity in the closing decades of the twentieth century was abundant, rigorous statistics are difficult to assemble. A starting point is the UK's national accounts. National output has risen typically by around 2½% a year over the last thirty years, but financial services' output has grown appreciably faster. Three sources of data motivate this conclusion:

- output for the financial services sector in the UK as a whole;
- employment within the sector nationally and the Square Mile itself;
- an assortment of business flows in international financial services.

The purpose of this chapter is to re-visit the assumptions made five years ago, to examine new figures over the intervening period, and to assess the most recent developments in international financial services in light of the global economic slowdown from 2000 to 2003.

The output of business and financial services at the national level

Since the 1998 Report, National Statistics (NS), the UK's official statistical agency, has revised many data series. Several series are no longer prepared while some new sets of figures are compiled. Although this report has tried to use data consistent with those in the earlier study, this has not always been possible. Central to the analysis are data on sections J and K in the Standard Industrial Classification (SIC). Section J relates primarily to financial intermediation while Section K is wider, embracing "real estate, renting and business activities". In practice, many of the Sections J and K activities are interdependent and difficult to distinguish.

NS produces figures on "gross value added" (GVA) at current (actual) prices by industrial sector. GVA differs from GDP, or output, as it excludes indirect taxes and does not take account of subsidies. Between 1970 and 2001 (the last year for which full information was available when this report was prepared), the average annual increase in the GVA of the business and financial services sector was 12.7%. For the economy as a whole, GVA rose at an annual average rate of 9.9%. The difference of almost three points a year confirms that business and financial services grew much faster than the rest of the economy.

Over the same 31-year period, real annual growth in UK output or GDP was 2.3%. If the three point differential calculated on the basis of nominal figures were duplicated at the real output level, then it could be said that real annual growth in the UK financial services industry averaged in excess of 5%, more than double the trend growth rate of the overall economy. (NS has produced data on real - as opposed to nominal - output but, rather unhelpfully, much of them use different sector definitions and are unavailable for earlier years. The NS figures generally give output growth rates for business and financial services lower than 5% a year, but NS has acknowledged in research papers on methodology that it has considerable difficulty in deflating nominal output series in the services sector.)

On the basis of the GVA data, financial and business services are estimated to have accounted for about 16% of whole economy GVA in 1970. By 1980, this share had risen to over 18% and by 1990 to almost 23%. Remarkably, over the last decade, the growth of financial and business services appears to have accelerated, and Sections J and K are estimated to have accounted for nearly 30% of the economy-wide GVA total in 2001. Whatever the inadequacies and inconsistencies in the available data, it seems clear that financial and business services have been growing significantly faster than the rest of the UK economy over the past thirty years. Moreover, the differential appears to have widened since 1990. Overall, a trend growth rate for the financial services sector of at least 4% and probably closer to 5% in the late 1990s and opening years of the twenty-first century remains a reasonable assumption.

Can that conclusion be made more precise? The 1998 Report used figures up to and including 1996, in some cases. Analysts now have full data on the period since 1996. The national accounts show that, in constant 1995 prices, the GVA of the business services and finance sector (very similar to sections J and K of the SIC codes) rose on average by 4.5% a year between 1995 and 2002. Growth was especially rapid in 1997 and 1998, in excess of 6% in both years, but even as recently as 2001, GVA is estimated to have risen by 4.7%. Although the rate slowed to 2.3% in 2002, this was a cyclical reverse which was to be expected in view of the slide in UK and global equities markets. To summarise, the evidence is consistent and shows that business and financial services have continued to enjoy faster trend growth than the rest of the economy, in line with the conclusion drawn in the 1998 Report.

Employment in business and financial services at the national level

The total workforce in employment in the UK rose from 26.1m in 1971 to 29.5m in 2002. Over the entire 31-year period, the annual increase in employment was 0.4%. Deriving equivalent numbers for the financial services industry is problematic because of differences in definitions and the lack of a consistent historical series. However, there is sufficient information to make meaningful estimates.

The workforce in employment series compiled by NS is disaggregated into broad industrial sectors. The key one for this report is "Banking, finance, insurance etc". The same data are also sometimes referred to under the categorisation of "Finance and business services" (FBS) and are available on a consistent basis for the period 1978-2002. Over that period, employment within the sector more than doubled from 2.75m to 5.68m with an average annual increase of just over 3% a year.

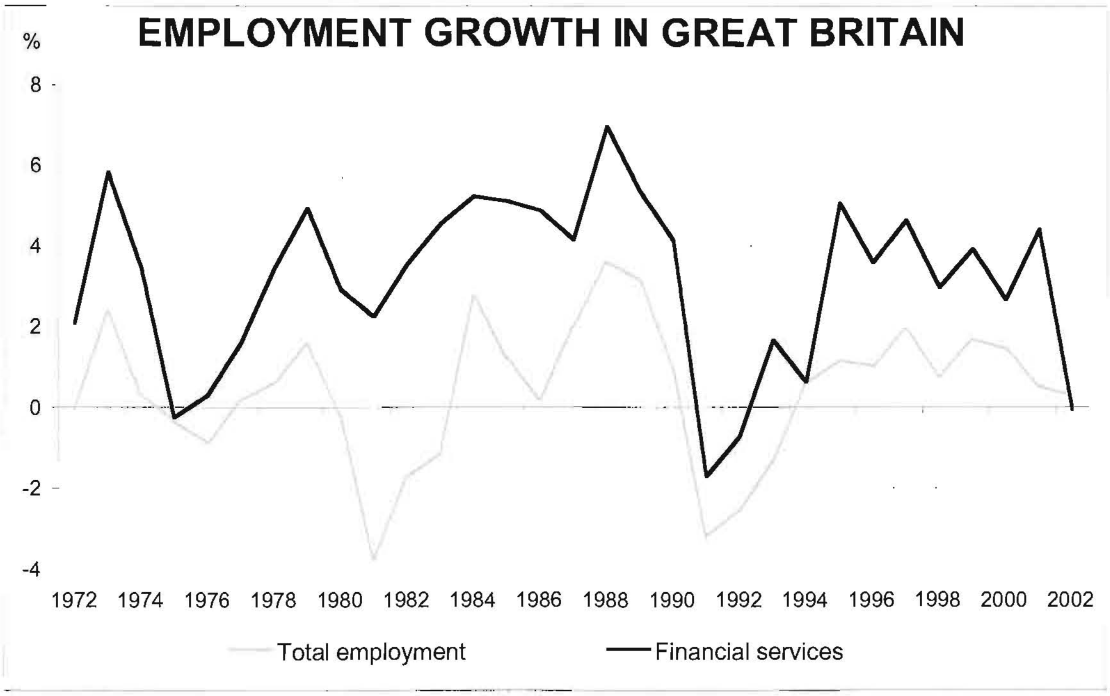
The FBS sector referred to above is wider than the sector defined by SIC codes J and K. For example, in 2002 it was estimated that a total of 5.01m people were employed in Great Britain within sections J and K, compared with 5.68m in the FBS sector. A consistent time series for J and K is available between 1991 and 2002 during which period total employment rose by an average of 2.6% annually. However, by using older SIC codings, it is possible to derive a series for J and K employment stretching back to 1971, when the total for the sectors was 1.94m. Over the entire period from 1971 to 2002, the average annual increase in employment was 3.1%. Reassuringly, this figure is identical to that of the FBS series.

What about the very latest information? According to FBS data, total employment in the sector rose by 0.4% in 2002 after growth of 3.0% in each of the previous two years. The alternative figures for sections J and K show that employment was static last year after increases of 2.7% in 2000 and 4.4% in 2001. Despite the abundant anecdotal evidence that the global setbacks in financial markets have hurt UK industries, employment has been resilient.

The overall conclusion must be that employment within the business and financial services sector in the UK has had a trend growth rate of around 3% over the past thirty years. Recent information confirms that this has again been the typical growth rate of employment over the past five years. If productivity (that is, output per head) within the sector were rising in line with the national average of about 2% a year, then the employment data, along with GVA information, would suggest that the real output of UK business and financial services has been growing by around 5% a year since the early 1970s. This conclusion was proposed in the 1998 Report: the latest data do not suggest that this conclusion needs to be withdrawn or qualified.

Chart 2.1 shows the annual growth rates of total GB employment using workforce in employment data and comparable figures for the FBS sector. Employment growth within the sector exceeded total employment growth, usually by some margin, in every year apart from 2002. As with the whole economy, the cyclical nature of employment growth is apparent, exhibiting a tendency to rise during periods of above-trend output growth and decline during major slowdowns and recessions.

Chart 2.1



City-type employment since 1995

So far the discussion has focused on the business and financial services sectors in the UK as a whole. The conclusion, as in the 1998 Report, is that the sectors have been particularly dynamic parts of the economy. There has been a cyclical weakening over the last three years, but 1995-2000 were boom years, and the adverse cyclical impact was only registered in a significant way in 2002.

Of course, the business and financial services sectors in the UK as a whole should not be equated with the City. The 1998 Report introduced the concept of City-type employment, that is, employment in the headquarters operations of financial businesses with a domestic focus and in international financial services with a predominantly wholesale clientele. The latest figures from the Annual Business Inquiry (ABI) are compiled according to the SIC92 industrial classification codes. The relevant categories, as before, are sections J and K. These data are available on a consistent basis between 1995 and 2001 for both Greater London and the City (essentially, the Square Mile). It is estimated that in 2001 there were 324,400 employed in Section J jobs in Greater London, of whom 133,900 were working within the City itself. For Section K employment, the respective figures were 1,000,900 and 111,200, giving a City total of 245,100.

In contrast, 1995 ABI data showed 141,900 working in the City in section J and 77,100 in section K, a total of 219,000. The 1995-2001 increase represents an average annual rise of 1.9% a year. An exact breakdown is not yet available for 2002, and will not be until December 2003, but it is generally accepted that employment within the Square Mile fell by a further 20,000. If that is correct, then the average annual rate of financial services employment growth in the City between 1995 and 2002 would have been only 0.4% a year, significantly lower than the trend rate suggested in the 1998 Report.

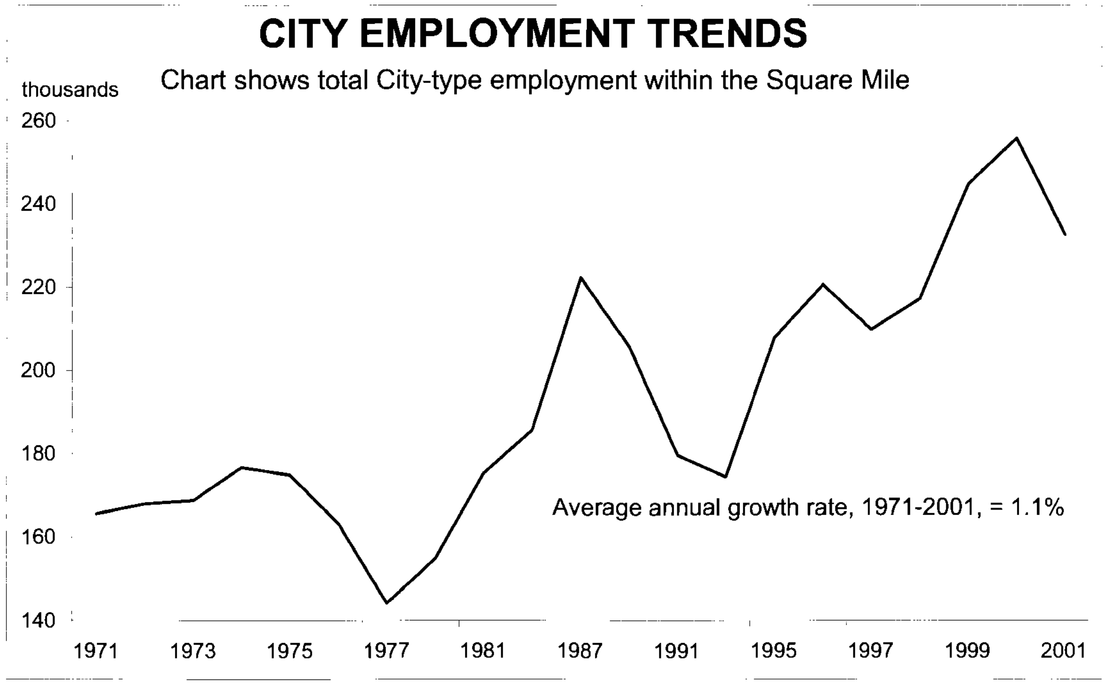
However, it is well known that employment growth in City-type industries is highly cyclical. For example, employment in such industries within the Square Mile is estimated to have risen by 12.7% in 1999 and by a further 4.5% in 2000 at the peak of the economic boom. It then dropped by over 9% in 2001 and at a similar rate in 2002. These rises and falls are comparable to those experienced in previous economic cycles. Employment fell by 6% a year between 1989 and 1991 during the last recession, but then rose at similar rates in the three years to 1987 at the time of the Lawson boom.

The exceptional volatility of City-type employment means that any assessment of the long-run rate of growth should be based on long-run trends and not on short periods of time when the influence of the economic cycle – up or down – will dominate. Between 1971 and 2001, it is estimated that City-type employment within the Square Mile rose by 1.1% a year on average, slightly lower than the 1¾% figure referred to in the 1998 Report. However, there has been considerable employment growth in City-type industries outside of the Square Mile in recent years. It should not be forgotten that the 1¾% figure relates to total City-type employment and not simply to such employment within the City itself.

If all of the people working within the City in financial services as defined by sections J and K can be assumed to be involved in City-type activities then we can say that total City-type employment within the Square Mile in 2001 amounted to 245,100. This assumption, which was also used in the 1998 Report and in the earlier City Research Project, seems legitimate if debateable. As the total number of people working within the City in all industries was 306,400, City-type employment is clearly the dominant category, accounting for 80% of all jobs.

Although these data are available on a consistent basis only for the years 1995-2001, alternative figures are published with a different industrial coding classification. Somewhat confusingly, these still refer to employment within sections J and K, but the definitions of the sectors are different. These date back to 1971 and were compiled up to and including 1998. It is therefore possible to use them to derive backward estimates for earlier years that, implicitly, use the latest coding system. The results of this exercise are shown in Chart 2.2. Over the entire 1971-2002 period, employment rose at an average annual rate of just above 1%.

Chart 2.2



However, these numbers do not represent total employment within City-type activities *in London* since there are many international financial service companies located outside the Square Mile. The main concentration today is in the Docklands area, but financial organisations also have offices in the City fringes and elsewhere in London, including the West End. Deriving employment estimates for these areas is much more difficult than for the Square Mile. The methodology used in the 1998 Report (and also in the City Research Project) is described in Appendix 1. Unfortunately, it is no longer appropriate to use exactly the same methods, as some of the results turn out to be implausible. These problems, and a description of the compromise solution adopted, are also outlined in Appendix 1. The results of the analysis in Appendix 1 are summarised in charts A1 to A5 and discussed in the next section.

The methodology used in the current report indicates that total City-type employment (within Greater London, but not confined to the Square Mile) rose from 257,000 in 1995 to an estimated 322,000 by 2001, an average annual growth of 3.8% a year. Even taking account of a further employment declines in 2002 of around 20,000, the average annual growth rate of total City-type employment within Greater London between 1995 and 2002 was 2.2%. This is slightly above the 1¾% figure put forward in the 1998 Report as the trend rate for employment growth within City-type industries. It is also higher than the estimated growth rate of City-type employment within the Square Mile, indicating that international financial service operations have grown quicker in London outside the Square Mile. This view is supported by employment in Canary Wharf which is estimated to have risen from 4,000 in 1991 to 52,000 by the end of 2001 (and 66,000 at the end of 2002).

As noted in Chapter 1, three forces were vital in explaining the apparent anomaly over the twenty years to 1995 of rapidly growing financial industries and declining total employment in the Square Mile. These three forces – described as the ***displacement effect,*** the ***spill-over effect*** and the ***up-grading effect*** – will be discussed in turn.

Three crucial effects

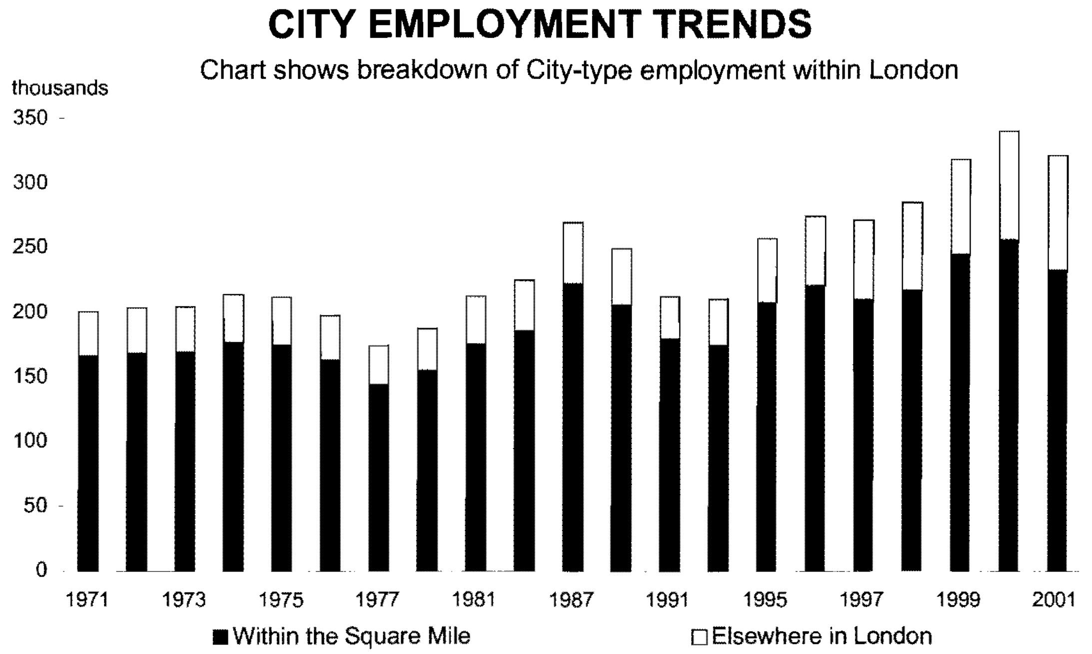
First, the ***"displacement effect"***. This effect, which seems to have run its course, showed itself in the trend for non-financial services industries to be pushed out of the City during the 1970s and 1980s by rising rents and labour costs. In 1971, total employment in the Square Mile was 415,000 of which 166,000 was in financial services. The remaining 249,000 represented a host of other activities including printing and publishing (Fleet Street) and utilities (British Telecom, the Post Office), as well as transport, government offices and even some manufacturing.

By 1989, total employment in the Square Mile had declined to 288,000, but financial services employment had risen to 205,900. Other employment had thus plunged to just 82,100: in other words, almost 170,000 non-financial jobs had disappeared from the City. As the 1998 Report stated, the fall in total employment in the City between 1971 and 1993 was more than explained by the collapse in non-financial service employment. A major reason for the change in the industrial composition of the City will have been that non-financial companies could not afford the costs of a central location, though other strategic and tactical reasons also suggest themselves.

It appears as if this process has gone about as far as it can. Since 1991, the estimate for non-financial service employment within the City has remained remarkably stable in the range 70,000-75,000. If that figure represents a critical mass of necessary support sectors such as retailing and catering, presumably it will remain at or around the current level. The implication is that changes in total City employment will be driven almost entirely by changes in financial service employment in the future. This was also the conclusion reached in the 1998 Report, but the evidence is now stronger that the displacement effect is complete.

Secondly, the ***"spill-over" effect***. This is still an important force within the London economy. The 1998 Report highlighted the trend of financial service companies to locate outside the Square Mile itself, again to escape high rents and costs. As noted above, it is virtually impossible to quantify exactly the number of people employed in City-type activities outside the Square Mile, but estimates have been made in Appendix 1 and appear in chart 2.3 below. This shows that City-type employment outside the City itself rose from around 30,000 in the early 1970s to between 40,000 and 50,000 at the end of the 1980s. Throughout the 1990s the pattern of growth continued as the Canary Wharf development was occupied. By 2001, almost 90,000 people were engaged in City-type activities outside the Square Mile, with the majority being in Docklands. Despite the global downturn, the total may have exceeded 100,000 by the end of 2002. Throughout the 1970s and 1980s the City itself probably accounted for between 80% and 90% of City-type employment, but by 2002 the proportion may have slipped below 70%.

Chart 2.3



Over the 1971 to 2001 period, total City-type employment in London is estimated to have grown at an average annual rate of 1.6%. Growth was punctuated by marked cyclical interruptions, with steep falls in employment during downturns. Between 1974 and 1977, City-type employment fell from 214,000 to 174,000, an average decline of 6.6% a year. The total dropped again from 270,000 in 1987 to 210,000 in 1993, after the deep recession in the early 1990s. The average annual decline over this period was 4.4% a year.

The impact of the recent economic slowdown is difficult to measure precisely as full data for 2002 are not available, but employment is estimated to have declined by 20,000 in both 2001 and 2002, an average annual decline of around 6%. However, these declines need to be contrasted with heavy recruitment during upswings. City-type activities can be extraordinarily dynamic, with employment in them increasing on average by more than 7% a year between 1993 and 2000.

Within the City itself, City-type employment in financial services recorded average annual growth of 1.1% between 1971 and 2001. Again, the 1990s were the most dynamic period, with average annual increases of 2.6%: in both the 1970s and 1980s, the comparable figures were below 1.5%. But, because of the spill-over effect, it is outside the City that the growth of City-type employment has been most dramatic. Until the late 1980s, the total outside the City rose only slowly, partly because of the lack of suitable office buildings. Nevertheless, average annual employment growth in City-type activities located outside the City between 1971 and 2001 was 3.1%, almost double the average for the sector as a whole. Between 1991 and 2001, as suitable modern office space came on stream, the total jumped from just over 30,000 to 88,800 - a 10% annual growth rate.

As the 1998 Report stated, the contrast between the relatively muted growth in City-type employment within the City itself and the dynamism elsewhere is consistent with planning tensions in the 1980s and 1990s, and large swings in City office rents.

Moreover, it is noteworthy that whereas City-type employment in the City may have dropped by around 40,000 over the last two years, City-type employment elsewhere in London possibly rose by 10,000-15,000. Tables 2.1 and 2.2 present our estimates of employment totals.

Table 2.1

EMPLOYMENT IN THE CITY (000s)			
	Total	**City-type**	**Other**
1971	414.9	165.6	249.3
1972	403.4	168.1	235.4
1973	391.8	168.9	223.0
1974	394.2	176.8	217.4
1975	379.7	175.0	204.7
1976	362.2	163.4	198.8
1977	316.4	144.2	172.2
1978	357.4	154.9	202.5
1981	340.9	175.4	165.5
1984	331.3	185.8	145.5
1987	330.2	222.4	107.8
1989	288.0	205.9	82.1
1991	252.1	179.8	72.3
1993	243.7	174.6	69.1
1995	277.5	208.1	69.4
1996	294.0	220.8	73.2
1997	283.0	210.0	73.0
1998	288.4	217.4	71.0
1999	318.5	244.9	73.5
2000	329.8	256.0	73.8
2001	306.4	232.8	73.6

Source: Lombard Street Research

Table 2.2

CITY-TYPE EMPLOYMENT IN LONDON (000s)				
	Total	**City**	**Docklands**	**Elsewhere**
1971	200.5	165.6	0.0	34.9
1972	203.5	168.1	0.0	35.4
1973	204.4	168.9	0.0	35.6
1974	214.4	176.8	0.0	37.2
1975	211.8	175.0	0.0	36.8
1976	197.8	163.4	0.0	34.4
1977	174.5	144.2	0.0	30.3
1978	187.6	154.9	0.0	32.6
1981	212.3	175.4	0.0	36.9
1984	224.9	185.8	0.0	39.1
1987	269.3	222.4	0.0	46.8
1989	249.3	205.9	0.0	43.4
1991	212.2	179.8	4.0	28.4
1993	210.2	174.6	8.0	27.6
1995	256.9	208.1	16.0	32.9
1996	274.1	220.8	18.5	34.9
1997	271.2	210.0	28.0	33.2
1998	284.7	217.4	33.0	34.3
1999	318.6	244.9	35.0	38.7
2000	340.5	256.0	44.0	40.4
2001	321.6	232.8	52.0	36.8

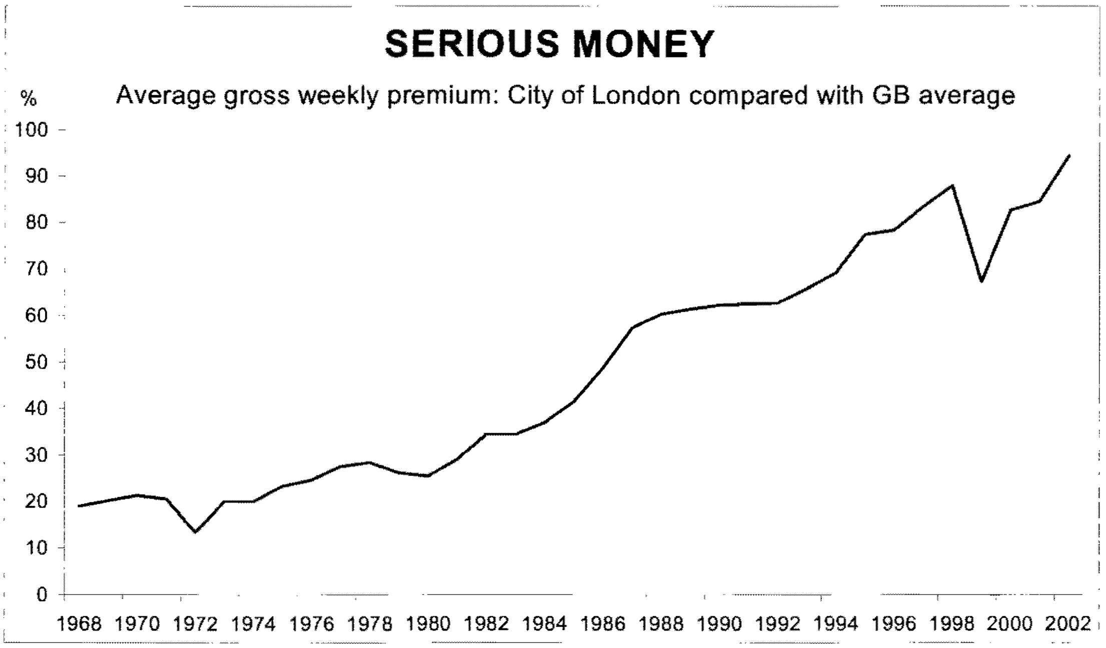
Source: Lombard Street Research

The third influence defined in the 1998 Report was the ***"upgrading effect"***. This provided evidence of rapid growth of output per head (productivity) within the UK international financial services sector. Levels of pay have long been greater in London (and especially the City) than the national average, partly to offset the higher cost of living. But the pay gap has widened, largely because the boom in international financial services has increased the productivity and incomes of those employed in the City. Official data show that the differential between incomes earned in the City and elsewhere has increased over the last thirty years. Further, the latest data show that this pattern has continued over the five years since the 1998 Report.

Chart 2.4 shows the percentage total pay differential between a full-time non-manual male worker working in the City and a similar worker elsewhere in Great Britain, according to data collected by the New Earnings Survey (NES) in April each year. From 1968 until 1980, the average earnings of a male non-manual worker in the City exceeded the national average by 20%-30%. The differential had risen to 40% by the middle of the 1980s and to over 60% by 1990. During most of the 1990s, it continued to increase, reaching almost 90% in 1998.

There was a steep dip to 68% in 1999, which may have been related to financial market turmoil in the wake of the Asian crisis and the Russian debt default. As a result of these and other events, many bonuses in the financial sector were reduced significantly, but the underlying trend increase resumed in 2000, and was maintained in 2001 and 2002 by which time the differential had reached almost 95%. Roughly speaking, a typical male, full-time worker in the City now earns over £60,000 a year, almost twice his counterpart in non-manual employment elsewhere in Great Britain.

Chart 2.4



Until the early 1990s, at least some of the rise in the differential can be explained by the changing composition of the City workforce. As outlined earlier, well-paid City-type jobs were displacing less well-remunerated employment in other industrial sectors. Between 1971 and 2002, the proportion of total employment in the City of London in City-type activities increased from 40% to over 70%, a change which might have been expected to raise the differential from 25% to perhaps 40%. However, the remaining increase, from 40% to over 60%, must surely be related to changes in output per head within City-type activities.

As long as this assumption is correct, the extent of the widening differential can provide some insight into the divergence between productivity growth in City-type industries and for the wider economy. Between 1971 and 2002, the annual average rise in earnings for a male, non-manual worker in Great Britain was 9.3%. The comparable figure in the Square Mile was 11.0%, an excess of 1.7 (percentage) points. During the 1980s, the differential was twice as high - 3.4 points. Despite the recent global economic and stock market downturns, it was higher again between 2000 and 2002, by a surprisingly wide margin of five points a year.

Media headlines have focused on the big falls in stock markets over the last three years. While these have had a major adverse impact on employment in fund management and investment banking, it should not be forgotten that bond markets have done well over this period, and that new bond issuance and underwriting have also expanded rapidly. The evidence from City earnings for the past three years corroborates other evidence of continued long-term dynamism in international financial services. Overall, the inference is that the annual trend rate of productivity growth for City industries exceeds that for the economy as a whole by perhaps 2-3 points, in line with the view expressed in the 1998 Report.

Estimating the City's output[1]

Information on earnings within the City can also be used to reach an assessment of the importance of City-type activities to the UK economy, including its contribution to GDP. It has been shown that the typical income of a male, non-manual worker in City-type employment is almost double the national average for that category of worker. Furthermore, the differential against all earners is considerably higher, because account must be taken of manual workers and female employment, both of which categories earn significantly less than the average male, non-manual worker.

Incomes of City-type workers are about 2½-3 times the national average. The estimated 320,000 employed in City-type activities in London in 2001 represent about 1¼% of total national employment. On the assumption that they earned three times the national average income, and that other factor incomes (profits and rents) bear the same relationship to employment incomes as in the rest of the economy, the implied output of "the City" is therefore around 3½% of total UK GDP, suggesting a value for the City's GDP in 2001 in the region of £30bn.

This figure is consistent with other information. For example, many of the services provided by the City are exported, and can therefore be monitored from trade and balance-of-payments data. The 2002 Pink Book estimated that UK gross exports of financial services in 2001 were £13.0bn, but this is not the whole story. Allowance must also be made for financial services provided to UK residents and for business services which are dependent on the financial sector.

The UK's gross exports of other business services in 2001 were £23.1bn. Although they form a very miscellaneous bunch, a reasonable conjecture is that a quarter or a third were related to the financial sector. With exports of insurance services at £3.8bn, and of computer and information services at £2.4bn (both with a bias towards London), it is not difficult to arrive at a gross export figure for financial services, broadly understood, of about £25bn.

Further allowance for the work that the City does for UK residents could take the total for the City's output to £30bn, and possibly even higher. (Net exports were lower than gross exports, because UK companies and residents are provided with financial and business services by people and companies from other countries.)

Finally, the income-based estimate of the City's GDP in the 1998 Report can be updated. In addition to labour incomes, account must be taken of rents and profits. The total office space occupied by City-type employment in 2001 was about 82 million square feet (see Chapter 3). On the assumption that the average rent paid was £40 per square foot, rental income was £3.3bn. Estimating profits is more difficult.

In the 1998 report, the method used involved making an estimate of the amount of capital devoted to City-type activities and assuming an average rate of return on this. On the assumption that the capital used to support City activities was between £90bn

[1] Note that "the City" should be taken in this section to include all City-type activities, whether they are carried out inside the Square Mile or elsewhere in London

and £180bn[2] in 2001, and that the rate of return was 10%, City profits would be between £9bn and £18bn. Of this figure, perhaps as much as two-thirds would be attributable to foreign-owned organisations. *Profits attributed to foreign-owned businesses in London would not be part of UK gross national product, although they could be deemed – perhaps tendentiously – to be as part of the City's GDP.*

As far as labour incomes are concerned, the New Earnings Survey (NES) implied an average income for a full-time, male non-manual worker in the City in 2001 of about £56,000. For *all* full-time workers (manual and non-manual) the comparable figure according to the NES was just under £46,000. Once account is taken of part-time workers in the City, the overall average falls to around £40,000-£45,000. A workforce of around 320,000 leads to a total labour income of £13-£15bn.

The total incomes-based estimate for City output in 2001 is therefore as follows:

	£ billion
Wage & salary incomes	**£13-£15bn**
Rental income	**£3.3bn**
Profits attributable to UK organisations	**£3-£6bn**
Total attributable to UK GDP	***£19-£24bn***
Profits attributable to overseas organisations	**£6-£12bn**
Grand total	***£25-£36bn***

Of course, this is an imprecise process but, in the absence of much confidential information (on, for example, the capital allocated to London-based operations and its profitability), it is unlikely that a significantly better estimate can be reached.

[2]Estimates of the amount of capital deployed in the City are necessarily imprecise. In June 2001, the sterling capital and other internal funds supporting the sterling balance sheets of UK banks other than the Bank of England was £138bn and the capital and other internal funds supporting the foreign-currency balance sheets of such banks was £79bn (source: Bank of England *Monetary & Financial Statistics*, April 2002, T46 and T48). The bulk of the capital supporting the foreign-currency balance sheets can be attributed to the City, that is, international banking, but the proportion of the sterling capital to be thus attributed is a matter of judgement and would need to be discussed with bank management. It would almost certainly be less than a sixth of sterling capital and might be much lower. The capital allocated to London activities by the investment banks is similarly uncertain, but since the value added in capital market activity is probably greater now than that in banking, it would not be foolish to suggest a similar capital usage, that is, about £50-£75bn. A sense of perspective comes from noting that the combined capital of Citigroup, Merrill Lynch, Goldman Sachs and Morgan Stanley at their end- or late 2002 reporting dates was about $150bn (of course, this capital covered all operations around the world).

Summary

A key conclusion in the 1998 Report was that the trend rate of growth of international financial services, and therefore of City-type activities, was 7% a year in real terms. The report's central projection was that that City-type employment would thus increase by 1¾% a year. Nothing that has happened over the past five years suggests that these conclusions are no longer valid. Between 1995 and 2000, the average annual growth rate in City-type employment is estimated to have been 5.8%. The fall in employment in 2001 takes the 1995-2001 growth rate down to 3.8%, while the further estimated decline of 20,000 in 2002 takes the 1995-2002 growth rate lower still, down to 1.74%. In other words, despite two years of contraction, the key point to note is that recent experience has been consistent with the trend growth rate postulated in the 1998 Report, even after marked cyclical fluctuations.

Total employment in City-type activities is estimated to have risen from 260,000 in 1995 to a peak of almost 340,000 in 2000. Since then the global economic downturn, and the associated stock market declines and collapse in international corporate finance activity, from early 2000 until now have taken a heavy toll. A 20,000 fall in City-type jobs occurred in 2001 and, although full data are not yet available, a similar drop in 2002 looks plausible. These changes are actually slightly better than employment performance in previous cyclical fluctuations.

The rate of decline in City-type employment in the last two years appears to be less than that experienced between 1974 and 1977 (total decline of 40,000 or 18.5%) and between 1987 and 1993 (total decline of 60,000 or 22%). Providing that the current trends underlying the rapid growth of international financial services remain in place and London stays internationally competitive, a resumption of strong growth is to be expected as the global economy and financial markets recover. These issues are examined further in Chapters 4 and 5.