Rent, Agglomeration and the economy of London
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Abstract
London shares with many cities very high housing costs, made more burdensome for low-income citizens by growing inequality to which housing costs also contribute. But London is distinctive in having some of the largest increases in house prices in Europe and by far the biggest income disparities between regions. It is a city increasingly dominated by land and property interests and that domination is implemented partly through the new GLA metropolitan planning system, now 25 years old. The chapter argues that these landed and development interests are the dynamo of London's growth, although the legitimation tends to be established through a discourse of agglomeration: London is the disproportionate location of high 'productivity' activity and the generation of value. The escalating social, health and environmental costs of this form of growth and its maintenance into the future highlight the need for more critical analysis of the agglomeration story and its production of inequality between Londoners and between regions.

<a>INTRODUCTION

In the year 2000 London gained a new layer of government, the Greater London Authority, ending a long period since the Greater London Council was abolished in 1986. This new organisation had rather few powers and delivered few services but its main job was to make strategies – for the Economy, Environment, Transport, Housing and so on – all linked together by an over-arching Spatial Development Strategy known as the London Plan. This Plan forms part of the mechanism for regulating development projects under the Town and Country Planning Acts. This has the negative effect of narrowing its scope to land-use matters but a positive effect in requiring a lot of public consultation on a draft, including public hearings. This is the main formal way, apart from voting every four years, in which Londoners can influence how their city develops. Businesses and land owners had been organising to defend their interests for the best part of a thousand years and quickly took advantage – took possession, even – of the new machinery. Citizens, however, had only fragmentary or localized organisations to express aspirations, needs or criticisms of public policies and new networks began to coalesce as the new planning machinery got under way. Among these the Just Space network was, and remains, the main London-wide organisation linking grassroots and environmental campaigns with a strong working class or social justice orientation. (Just Space 2022, 2024)

The author of this chapter has been involved in Just Space since its inception, providing a link with university research and students as citizens grappling with successive Plans. These plans have shown a remarkably strong continuity through the 3 Mayoralties of Ken Livingstone, Boris Johnson and now Sadiq Khan. All have been very much formed around the interests of property owners, big developers and corporate business. There have of course been differences, notably that the first eight years under Livingstone represented a pact with property and financial interests in which the Mayor was able to pursue progressive transport policies and require speculative housing developers to provide a proportion of their units as social or sub-market homes. The second Mayor, Johnson, had little interest in the housing conditions of poorer people but did preside over some large scale private projects, notably at Vauxhall, Nine Elms, Battersea and establish two under-resourced Development Corporations. The third Mayor, Sadiq Khan, oversaw a new plan with a number of new provisions welcomed by developers, on density, tall buildings and new residential building for rental. His efforts to increase the stock of low-rental housing were not strong enough to outweigh continuing housing losses from sales to tenants and others and reduced grant support from a hostile national government.

The entire 25-year period has consolidated a process in which London becomes an increasingly expensive city to live in, an extreme concentration of economic activity in sectors with high value added per worker (finance, information, professional and scientific services, real estate). Concentration is also very strong in cultural institutions, universities and scientific research, sport, ceremonial, diplomatic and state functions. Underwriting this concentration has been heavy state investment in transport and other infrastructure and heavy revenue support, especially for housing benefits which go some way towards enabling landlords to charge rents much higher than low-income Londoners can afford. London is thus a leading part of the process of making the British economy a rentier economy (Christophers, 2022) and this chapter explores some of the mechanisms involved with a particular focus on agglomeration and rent theory.

Methodologically this chapter follows Ball (2018) Harvey (1985), Fine (2019) and Delladetsimas (2006, 2012, 2024) in focusing on the value flows in the city and nation. What I consider we learn from these scholars is that

- the relationships of labour and capital with landed property can be major factors influencing not just the distribution of the social product between classes but also influencing what gets produced and where;
- the theorisations originated by Marx in his work on agriculture, which identified distinct mechanisms through which rents could be appropriated by land owners are illuminating but are not determining the form or scale of rent flows in any particular time or place;
- the actual outcomes will reflect the interplay of forms of leases between landlords and tenants, the state of banking and financial laws and practices, the taxation regimes governing various forms of income, wealth, inheritance and transactions.

Cross-national study is particularly helpful in these circumstances and for an English reader, Delladetsimas' close analysis (2006, 2021) of how property relations were playing out in Greece in the early 2000s tells me so much about England precisely because all of these legal, political and institutional circumstances are radically different, even while capital and labour are, at another level of abstraction, the same everywhere.

<a>LONDON'S ECONOMY IN RECENT DECADES

History is always important but it is hard to know how far back to go. For the purpose of this chapter the 1960s may be the place to begin. London was still a major centre of manufacturing, partly of consumer goods and partly processing linked with a strong and functioning port and growing international trade (Ancien & Moulaert 2013). This trade was largely the continuing exploitative relation with the former empire – re-named 'Commonwealth' – and with the recovering economies of Europe. Construction was a key sector, still heavily engaged in post-War rebuilding, delivering a massive state-funded housing programme and the beginnings of renewed private speculative development of housing, retail centres and factories. The mediaeval core, the 'City' of London, remained the centre for an archaic financial and insurance cluster and its attendant lawyers and accountants. The economy of the UK as a whole was distinctive for low levels of investment compared with other leading countries (Glyn, 2006).

As an ancient monarchy and the cradle of capitalism, Britain had a distinctive class structure: an almost mediaeval aristocratic ruling class which had adapted to, and helped to forge, capitalism. Necessarily too the country had developed the class struggles of capitalism with London experiencing its share of insurrection and resistance (Massey 2007, German and Rees 2012). In its formal government arrangements, elements of socialism were institutionalized in the London County Council, the later Greater London Council and the lower tier of Boroughs which provided public services, planning and the provision of much council housing. This political history has been brilliantly analysed by Owen Hatherley (2020).

With London already the largest city in the UK, indeed in Europe, it experienced major changes in the 1980s which converted the core area's post-War population decline to growth and re-structured its economy through de-industrialisation, the shift of port functions downstream and the growth of financial sector activity following a major liberalisation known as the 'big bang'. The government of Margaret Thatcher promoted these processes and the elaboration, by the City of London, of the neo-liberal orthodoxies which have dominated subsequent decades and been exported globally, especially to the formerly Communist countries of Central and Eastern Europe.

By the end of the 1980s London's relative pre-eminence as a financial centre was established and was to strengthen further in the remaining two decades of the century. This growth meant that London was contributing a growing share of national GDP with employment and wealth differentials expanding more than proportionately. The growth of employment was accommodated by a rapid expansion of the stock of office buildings in a speculative boom in the late 1980s which over-shot demand growth and led to a collapse in 1991-2. But by the end of the twentieth century London had a large stock of, mostly recent and high-specification, office buildings, concentrated in the old City of London and Docklands – mainly Canary Wharf. Accommodating the population growth was more difficult: the 1939 edge of the metropolis had become the inner edge of the famous Green Belt, a *cordon sanitaire* against continuing sprawl, so London could not grow freely outwards.

To some extent the population growth was managed in a truly neo-liberal way: by the de-regulation of private renting. This was a sector which had been dominant until the 1930s but had almost disappeared since WW2 under the triple pressures of social democratic building of council homes, the fostering of owner-occupation from the 1960s and the security and rent control enjoyed by remaining tenants. The security and the rent control were extinguished for new tenancies by a law of 1988; this turned around the sector which has since grown to 20% of the national housing stock, owned by 2.5 million landlords, mostly small scale proprietors (Bano, 2023). This recovery of private renting was reinforced by the attrition of the social rented housing stock through the Thatcher government's Right to Buy at a discount conferred on tenants. Roughly half of the units sold through the Right to Buy have ended up in the hands of private landlords and provide much of the cheaper end of the private rental market. Bano (2023) has shown how the distinctive combination of short insecure leases with the landlord power to evict tenants without giving a reason has led to a mechanism in which rents ratchet upwards, often beyond the level which tenants can afford and beyond the willingness of the state to bridge with subsidies. This booming private rental sector has enabled the city to house its stream of new arrivals, but at a price. If you come from South-East Asia or Africa to be a care worker on very low pay you may only afford a shared bunk bed in a crowded building in a remote suburb (Just Space 2022); if you come as a skilled programmer or forex trader to work in the City you may afford a fine riverside rental. Students and young professionals, often drawn from the country's and the world's elites, can also always find somewhere to live and the richer ones have become a profitable specialist market for developers. This is just the sort of flexible market which neo-liberalism is intended to provide.

But to a great extent London's population growth was not accommodated at all well. Low and even middle income people were very badly housed in this private renting stock while the profitability of landlord operations and of property development for solvent renters and purchasers has grown. In this context capital values and rents for housing have boomed while overcrowding of low-income people and homelessness have increased. So too has the length of commutes as households are driven further from the centre to find space and homes they can afford.

The levels of price and rent in London are undoubtedly raised by the attractiveness of investment in London housing for international investors (Minton, 2017) and by the growth of short-term renting (Colomb et al. 2021; Ferreri and Sanyal 2018). Housing becomes a very central issue in urban politics on the lines sought by Aalbers and Christophers (2014), though often with more mystification than illumination.

<a>AGGLOMERATION, THE UP-SIDE

To a great extent the growth of London has been driven by landed and property interests: the harvesting of retail, office and housing rents in the city centre, the subject of early institutional investment through the 20th century, together with the profitability of the production and ownership of the suburban housing stock (Robertson 2016). The growth of these values was realized and facilitated by an increasingly financialized mortgage market, de-regulated in the 1980s and later diversified to enable 'buy-to-let' landlords to enjoy mortgage loans.

The justification of the process could not decently have relied upon this line of analysis, however, and has instead depended heavily on the agglomeration story. The basic idea is familiar: large concentrations of people and business in cities generate economic advantages for enterprises

- via proximity to similar firms (gossip, larger labour pools, specialisation);
- via proximity to complementary firms (better supply chains upstream and downstream);

- via support for better infrastructure (airports, universities, culture).

The elaboration of the agglomeration economies notion as it applied to London has been the regular business of mainstream urban economics experts in the public and private sectors and in universities. It all helped to show how productive and crucial was London's internationally-oriented economy for the whole nation, producing the output and the overseas earnings which supported consumption in less productive parts of the country. Awkward questions about the measurement of value were never asked (Fioramonti, 2013). There was greenwashing too: large dense cities make more use of public transport and support better local services so can be marketed as 'sustainable'. Since about 2000 public policy has embraced and reinforced this narrative and development firms have adapted fast and effectively (Karadimitriou 2005).

<a>AGGLOMERATION, THE DOWN-SIDE

On the other hand agglomeration brings disadvantages, 'diseconomies' in the jargon of costs and benefits, in the form of

- Congestion and pollution, worse in larger cities
- Increased travel times/costs
- Higher rents, displacement of low-rent-paying people and firms, insecurity
- Inter-regional divergence as growth of income and wealth accelerate faster in bigger cities. (Massey 2007)

A neo-classical habit of mind would lead one to question what is the optimum level of agglomeration. If the city were a firm it would confront these growing benefits of agglomeration and the growing costs of agglomeration and seek an optimum, an equilibrium level where the city could stabilize at the best size. But the city is not a firm and the benefits are not enjoyed by the same people who suffer the costs. The benefits of agglomeration are mainly enjoyed by firms and visitors and harvested as rents and property values while the costs are mainly borne by citizens or the state. Thus there is no mechanism to converge on the equilibrium level of city size where marginal benefits balance marginal costs.

Corporations enjoy the productivity and transaction benefits of agglomeration, owners of land and property enjoy the benefits of higher rents and asset values. This set of beneficiaries of course includes owner-occupiers of housing who are also citizens and have to put up with the downsides as well: the pollution and congestion, the extended trips to work and to other destinations. But the citizens who are non-owners – paying rent or buying with mortgages – are paying, often heavily, for the right to occupy their homes, often nowadays 40% or more of their incomes.

There has otherwise been remarkably little mainstream research on the downsides of agglomeration. Combes and others (2019) is a rare exception and there is some work starting in London (Stranak in progress).

This quest for agglomeration benefits through further growth may have gone too far already. It certainly will be experienced as having gone too far by many of the working class people who suffer the impoverishing effects. The scale of inequalities between classes and between regions certainly calls for change. Environmental considerations probably support this view since the pursuit of very large scale housing output (the mantra of dominant political parties) looks certain to exhaust the nation's emissions target (zu Ermgassen et al. 2022). This integration of political economy and environmental analysis is proving to be a valuable innovation, as shown also by the work of Novy and others on Vienna (2024). The property relations governing London's development are a class struggle but a complex one because of the fragmentation of tenure forms. Can environmental imperatives repair the divide-and-rule inherent in housing struggles?

<a>RENT AS AN UNSPOKEN DRIVER

The forces which we observe in London are not unique. In many ways they are just an instance of the 'planetary urbanization' which Brenner and Schmid (2015) identify as ubiquitous and driving cities almost everywhere – in their urban and superficially rural settings – towards a more extractive, rentier form of capitalism.

The neo-liberal thrust of London's pursuit of growth makes maximum housing output the driving imperative of the London Plan and increasingly pervades almost every aspect of economy and society. Above all, the enormous profits to be made from speculative housing production have driven residential land prices to unprecedented heights, heights at which very few other uses of land can compete, and made it worthwhile for municipalities and other owners of social housing estates to demolish and replace estates with largely open-market homes at much higher densities (Watt 2021; Lees and Hubbard 2022; Penny 2024). In this process, not only do working class communities get violently dispersed but there is a loss of the communal meeting places and green spaces on estates which had been part of the *de facto* commons of the neighbourhoods. The same land market pressures lead to attrition of other municipally-owned spaces for sports, recreation, education and wildlife protection. While the strict definitions of private law treat all these spaces as the private properties of legal persons (municipalities, charities, public utilities) and conventional economics treats them as state property, for citizens they are in many respects commons and their loss is experienced as the loss of common rights. These are issues which Delladetsimas and others (2024) and Beswick and Penny (2018) are grappling with to powerful effect and which begin to drive resistance.

In a London context it is urgent to develop the analysis of these processes as a necessary precondition for a grounded public debate on what is to be done. As climate change, ecological crises and class polarisation destabilise the world, large cities will have to re-think how they can be liveable places. Containing or reducing the power of landed property will become essential and defence of landed commons and quasi-commons will be a key rallying point.

<a>BARRIERS TO ENGAGEMENT

The barriers to critical thinking on these topics are strong. Within national politics the land- and property-owning and development interests have managed to establish an almost-complete hegemony, crowned by the adoption by the newly victorious Labour Party of the mantra that the country can and should build itself out of the housing affordability crisis and that relaxing the planning system is the way to do that. Rival and critical perspectives are emerging in tenants' movements and in universities but there is far to go. One of the most difficult barriers to change is that the beneficiaries of the current system are not simply the

‘1%’ of global rich but the 20%-30% of the national population who are owner occupiers or owners of rental housing and would have a lot to loose from a fall or stabilisation of house prices.

The linking of political economy with environmental movements in a counter-narrative to London’s destructive growth path has to be the way forward.

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Biography

Michael Edwards studied economics (PPE) at Oxford and planning at UCL from 1964. He then worked in Nathaniel Lichfield's practice, doing most of the economic inputs to the Plan for Milton Keynes and learning the joys and hazards of working in a multi-disciplinary team. He became a lecturer at UCL in 1969, where he has enjoyed working ever since. He blogs at michaeledwards.org.uk where his publications are listed, and is active in the network of London activist groups Just Space justspace.org.uk and the International Network of Urban Research and Action INURA.org . He has contributed to the international IMSDP module since it took place in Lille.