

# London businesses benefit from the city's 'diversity bonus' – so current immigration policies are unhelpful. There should be a greater focus on workers' welfare

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*London's diversity is a cause for celebration for many, but does it have a positive impact on the city's economy? **Max Nathan** argues that companies and markets directly benefit from London's mix of cultures. Unfortunately, current government policy towards migrants and ethnic minorities does very little to maximise the potential of diverse workplaces.*



London exemplifies the cosmopolitan world city. Dominating the UK economy, a major hub of the global system, it is also one of the most diverse cities on the planet. The capital contains around 40% of UK immigrants, and has almost half the non-white population in England and Wales. London's schoolchildren speak almost 300 languages between them, and religious diversity is similarly rich.

Immigration is a major driver of these trends, but not the only one. Many 'new' communities have been here for some time, and London's multicultural history is a deep one. Peter Ackroyd in his book *London: The Biography* records "Cymric Brythons and Belgae ... remnants of the Gaulish legions ... East Saxons and Mercians ... Danes, Norwegians and Swedes ... Franks, Jutes and Angles, all mixed and mingling together to form a distinct tribe of 'Londoners'." Worries about multiculturalism are nothing new either: in 883AD, fearing unrest, King Alfred banished the Danes from the city, to the east of the River Lea.

Today, [a majority of Londoners are proud of the city's diversity](#), and see it as an important social asset but does that diversity translate into tangible economic benefits?

Economic analyses of diversity have traditionally focused on the labour market impacts of 'immigration shocks', rather than on wider effects of larger, more mixed communities and cities. These dynamic effects of diversity come in several flavours. For example, diverse workforces might have access to a bigger pool of ideas and perspectives, which could help firms to innovate. But mixed groups might also face communication and trust barriers, at least in the short term. Conversely, co-ethnic networks might help companies access international markets, or new 'home markets' opened up by immigration. However, discrimination could limit their success in the marketplace.

We know surprisingly little about how the wider economics of diversity operate in any city, let alone in London. So in [some recent research](#), Neil Lee and I tried to find out.

We used rich data from the London Annual Business Survey to test links between London firms' diversity and aspects of their business performance. We focused on firms' top teams, as managers and owners tend to make the business-critical decisions. Our analysis throws up four main results.

First, management diversity and co-ethnicity are positively linked to innovation in firms. Second, this does not carry over into successful commercialisation of ideas. Third, firms' diversity shapes the markets they sell into: 'migrant-diverse' firms are heavily internationalised, while 'ethnic-diverse' firms plug into London's cosmopolitan home markets. Finally, we find positive links between migrant status and entrepreneurial firm formation.

Together, these findings suggest a small but robust 'diversity bonus' for London businesses. So

what does this mean for policy?

Our results suggest the current government's immigration policies are unhelpful for London firms: both the immigration cap and restrictions on post-study work routes seem likely to restrict the future supply of potential entrepreneurs in the capital.

However, different skills are clearly required for starting up a business, having good ideas and taking them to market. Economists talk about 'noisy learning' as entrepreneurs try out new products, many of which will fail. However, our results suggest a commercialisation gap for many migrant and minority ethnic firms – which could be due to discrimination, a lack of skills, or poor quality business support.

Our findings also highlight broader welfare issues. Long term, some employers could use these diversity effects to improve their business models; others might become dependent on relatively cheap migrant labour. There is already some evidence of 'migrant-dependence' in sectors of the London economy. Better regulation of wages and working conditions for migrant workers are important here, as are effective employment and training initiatives for low-skilled Londoners.

*This post was based on an event hosted by LSE London on: **Is Cultural Diversity Good for London's Economy?** For the full list of Lent term seminars in this series, and for podcasts of previous events, [please click here](#).*

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