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Politics, capital and the City: London's financial reign in the face of internal and external shifts

Anastasia Nesvetailova¹

AQ2 New York, so the saying goes, is not the real America; Moscow is not the real Russia, and London is not the United Kingdom. In fact, the cities of New York, Moscow and London probably have more in common, between them, than their respective countries. But while many national capitals and megacities today represent only a distilled version of their own country and population, the chasm between London and the rest of the United Kingdom does stand out. This special section of *Economy and Society* tackles the political economy of this disjuncture, focusing on the very foundations of London's competitiveness in global finance (in the contribution by Lysandrou *et al.*), shifts in its internal political scene in the aftermath of the 2007–2009 crisis (as explored by Baker and Wigan) and the current political challenges of Brexit (addressed in the paper by Thompson).

The City of London – London's historical financial district, or the Square Mile – is a peculiar remnant of history. Governed by a special regulatory body, the City of London Corporation, it is a distinct jurisdiction within the United Kingdom, with various concessions awarded to it by monarchs through centuries. Today the City, home to banks and non-bank financial institutions, including more than 250 foreign banks, stretches far beyond the historic Square Mile. It includes global megabanks and financial firms in Canary Wharf,

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as well as the multitude of new financial, service and technological companies that have emerged in different areas around London. Calculated as the sum of all the financial assets owned by banks and non-bank financial companies in the United Kingdom, the size of the UK financial system is £20 trillion, or around 12 times the size of the UK annual GDP. Banks account for £8 trillion of the United Kingdom's financial system (Burrows & Low, 2015, p. 115).

The finance and insurance sector employs more than one million people (or 3.1 per cent of all UK jobs). In 2016, financial and insurance services contributed £124.2 billion in gross value added (GVA) to the UK economy, or 7.2 per cent of the United Kingdom's total GVA. In 2015–2016, the banking sector alone contributed £24.4 billion to UK tax receipts through corporation tax, income tax, national insurance and through the bank levy (Tyler, 2017, p. 3).

AQ3 In 2017, Office for National Statistics (ONS) data revealed the extent to which the UK public finances depend on London's revenue-generating capacity. Although London benefited from a relatively high level of public spending – £12,686 per person, above the UK-wide average of £11,579 – this was dwarfed by the extra tax revenues generated by the capital in 2015–2016. Revenues in London are estimated to have been £15,756 per person, generating a surplus of £3,070 per head. Apart from the South East and East of the United Kingdom, all other parts of the country receive more in public spending

AQ4 than they generate in revenue (Tetlow, 2017).

The supremacy of London and its financial hub, with its distinct orientation towards global financial markets and capital, has long been a contentious issue (e.g. Moran, 2013; Pryke, 1991; Thrift & Leyshon, 1992). Yet it was in the wake of the global financial crisis (GFC) of 2007–2009 that the dependence on financial services in London became a particularly acute political issue (see the discussion by Baker and Wigan in this issue). The years of austerity that followed the GFC only aggravated the disparity between London and the rest of the country as real incomes around the country diminished. The outcome of the June 2016 referendum, when 52 per cent of those voting elected to leave the European Union, has been interpreted as a popular protest against globalization, the metropolitan elites and London in particular. And although other factors – including, principally, the policies of austerity – have aggravated the economic conditions for the population since 2009, the City's economic supremacy, centred on finance and related industries, has become a particularly sensitive and divisive issue for politicians, often within the same party. Under Theresa May, the Conservative party put control over sovereignty above national economic and financial interests, much to the dismay of some Tory MPs and the civil service, while Labour's manifesto commitment to put a tax on financial transactions was called 'madness' by London's mayor and former Labour MP,

AQ5 Sadiq Khan (Perring, 2017).²

In many ways, London's success as a global financial centre is a paradox. On the one hand, the City of London has thrived even as the UK economy went through periods of crises, stagnation and recession ever since the end of the British Empire. The apparent contrast between the growing financial centre

and slower rates of growth and productivity in other areas of the United Kingdom seems to fit the academic argument about the deep-rooted disjuncture between finance and production, or the 'financial' and the 'real' economy (e.g. Dore, 2008; Hall, 2013; Webber, 2001). The City of London, it is often argued, with its powerful lobby³ and historic proximity to power centres in the United Kingdom and elsewhere, has been able to push a political agenda that favours the interests of business over industry, and the interests of finance over labour and society (e.g. Ingham, 1984; Johal *et al.*, 2014).

On the other hand, however, notwithstanding the supremacy of the financial centre in its economy, London today appears to be an outlier on the UK political scene. The 2015 General Election returned more Labour MPs in London than any other region in the United Kingdom; in the June 2016 EU referendum, Londoners voted overwhelmingly to stay in the European Union; in June 2017, Labour won 49 out of 70 parliamentary seats in London, with Labour candidates increasing their majority in some of the wealthiest areas of London traditionally occupied by the Tories.⁴

The three papers collected here tackle some of the core dimensions of the power of the City of London, against the historical context of financial globalization and in light of the present political challenges. Lysandrou, Nesvetailova and Palan analyse the foundations of the peculiar role that London occupies on the global financial map. Although historically London has been a financial hub serving the trade and commerce of the early trading powers (Carruthers, 1999; Germain, 1997; Langley, 2002), the City's competitiveness today is quite distinct from that of specialized regional financial centres like Shanghai, Frankfurt or New York, and very different to the 'niche' strategies pursued by financial havens in offshore jurisdictions. For the past few decades, London's supremacy in finance has been based on its ability to combine economies of scale in the global capital markets with a political strategy of exceptions and targeted regulations in the global regulatory arena. But this reign has not gone unchallenged, and the recent past has presented the City with at least two serious challenges to its dominance in the world financial architecture.

First, the post-2009 financial regulation and consequent public outcry have generated a shift in the internal politics of the City of London. Andrew Baker and Duncan Wigan analyse the post-2009 political terrain of London, observing that since the financial crash of 2008 it has become notably more contested. Focusing on the role of NGOs in the politics of the City of London, the authors demonstrate how macro-narratives and public story-telling both construct and contest City and financial sector power. Their major finding is that, in a new pattern in London's political scene which has emerged since the financial crash, NGOs have moved from campaigns of limited duration and narrow focus to a more sustained presence on macro-structural issues. The authors see a more concerted construction of a global institutional civil society infrastructure in finance (a creation of a global 'financial public sphere') as the means to achieve greater access, resources, scrutiny and oversight over the financial sphere for a range of specialist expert NGOs.

Second, Brexit poses the most serious current threat to London's reign as a global financial centre. Helen Thompson investigates the complex relationship between the City of London and the British government on the one hand, and external political actors on the other. Her major premise is that the long-standing orientation towards offshore services ultimately undermined the capacity and ability of the British political apparatus to protect the interests of the City of London. She argues that the City's offshore position was almost immediately threatened by the 2008 financial crash and the subsequent Eurozone crisis. But with the British political class having long pursued the strategy of opting out of EU regulations, there was no tangible room for renegotiation at the time of Cameron's 2016 referendum gambit. As a result, Thompson argues, the City has been pushed into a very difficult position not only in relation to protecting its offshore euro position, but in its whole relationship to the continental market and its commercial opportunities.

Brexit undoubtedly cast doubts over the continuity of London's reign as a global capital hub: the post-Brexit regulatory politics between the United Kingdom and the European Union remain unclear, and major financial institutions and functions face the prospect of being relocated to continental Europe. Some on the political right downplay the risks associated with such moves, suggesting that – led by London's financial centre – the United Kingdom can thrive as a deregulated haven post-Brexit, replicating a Singapore model of a liberalized market or moving closer towards a Swiss model of financial capitalism based on bank secrecy. Those on the left, on the contrary, suggest that a diminished size and power of the City of London may play a beneficial role in the UK economy, with Brexit serving as a trigger towards a wider rebalancing of the economy away from finance and towards manufacturing.

As this issue goes to press, the contours of the ultimate form of Brexit remain vague, and serious dialogue between the City and Westminster is only beginning in earnest. However, it appears that the prospect of a rebalancing of the UK economy post-Brexit, away from finance and towards the 'real economy', is unlikely to materialize. Indeed, the shift of some financial activities away from London to other parts of Europe is most likely to fragment, but not diminish, the financial sector and its political power. Similarly, a possible departure of financial institutions from London does not herald a return of manufacturing to deindustrialized areas of the United Kingdom: many manufacturing giants with a sizeable presence in the United Kingdom, like Nestlé or Airbus, are considering relocating jobs to Europe if the United Kingdom leaves the single market. The prospect of a Singapore-style deregulated paradise proposed by some Brexiteers is also a delusion, since even outside the European Union the United Kingdom will have to abide by global rules set by major international players, such as the United States, the European Union, China and international organizations (CITYPERC, 2017).

Whatever the ultimate shape of Brexit therefore, it seems that the United Kingdom's withdrawal from the single market will diminish UK gains from the financial industry, while not necessarily making the sector more accountable

or structurally balanced. In other words, the structural and political problems brought up and encountered by the City over the past few decades are likely to persist in the near future, even if London's position as the premier financial centre in the world is diminished by Brexit.

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Disclosure statement

AQ8 No potential conflict of interest was reported by the author.

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Notes

1 This special feature was conceived before the referendum on EU membership took place. The authors of the papers published in this special section greatly appreciate the work of Jeremy Green, Anthony Payne and Colin Hay on the original idea to put under scrutiny the role of the City of London in the changing political economy of the United Kingdom and Europe, as well as their encouragement and advice. Brexit has influenced our thinking, and, where possible, we strove to reflect on its political realities and challenges. We are very grateful to the editors of *Economy and Society* for their support and work on this publication.

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2 Source : <http://www.express.co.uk/news/politics/804694/Labour-financial-transaction-tax-Sadiq-Khan-Jeremy-Corbyn-London>

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3 In 2011, the UK financial services industry spent more than £92m lobbying politicians and regulators in an 'economic war of attrition' that has secured a string of policy victories. Source: Mathiason, 2012: <https://www.thebureauinvestigates.com/stories/2012-07-09/revealed-the-93m-city-lobby-machine>

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4 In June 2017, by a margin of 20 votes, a Labour MP won the Kensington and Chelsea seat, the city's richest borough. The constituency had been represented by the Tories ever since its creation in 1974. Source : <http://www.telegraph.co.uk/news/2017/06/09/labour-take-kensington-tories-first-time-since-1974-creation/>

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