Quantitative Easing of an International Financial Centre: How London escaped (or gained from) the major impacts of the international financial crisis

Ian Gordon
Geography Department, SERC and LSE London
London School of Economics

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A puzzle and approaches to a story

- London was in at the birth of financial crisis
  - but overall it has shown little impact on employment
    - in fact, jobs here have grown faster since 2007!
- Big surprise to (this) believer in boom/bust nature of the ‘new’ London economy of past 30 years (Buck et al, 2002)
  ⇒ questions about how / if it could be deserved
- Not going to be a single answer – or ‘neat’ evidence - but paper tries to put together story, in which:
  - a key element is how finance sectors have been supported
  - including apparent neglect of their global dimension; and
  - even though last bust was muffled - London may remain ‘capital of boom and bust’ (Gordon, 2011)
3 Motivating Snippets

Hat check girl: "Goodness, what beautiful diamonds"

Blonde customer: "Goodness had nothing to do with it, dearie"

Mae West, Night After Night, 1937

'The problem with QE is: it works in practice, but it doesn’t work in theory'.

Ben Bernanke, final Q & A as Chair of the Fed, 2014

'A rising tide raises all (luxury) yachts'

Ajay Kapur, Citigroup Global Strategy Group, 2006
Outline

1. Employment change post-2007:
   1. Central London versus RUK
   2. 3 lines of explanation for the contrast

2. Two conventional accounts:
   – Economic strength: ‘when the going gets tough’?
   – Political advantage: ‘punching (above) its weight’?

3. A monetary perspective: ‘keeping the City in business’?
   – Financial support policies: from bailouts via QE to the FLS
   – Potential spatial impacts of these (within UK/internationally)?

4. Speculation:
   – from ‘getting away with it’ to a new boom and....?
Prelude – Established Cyclical Geographies in UK

Two distinct eras (in patterns of employment volatility):

• **1950s-70s (Fordist)**
  • Sensitive sectors: defined by postponability of demands – capital goods and consumer durables
  • Sensitive regions: those specialising in these sectors - purely structural
  • London = most stable of all

• **1980s-07 (Post - F)**
  • Sensitive sectors: defined by growth and knowledge intensity - IT and financial services
  • Sensitive regions: those specialising in these sectors – but by much more than simple mix effect – agglomeration of buzz, innovation & speculation (of all kinds by all groups)
  • London = least stable of all
Waiting for a London Bust that Didn’t Come

• Against reasonable expectations: after 2007/8 crises:
  • London employment declined by less/slower than elsewhere
  • and then rose earlier/faster
  • Notably in core – in/around the financial district!

• In 6 years after sub-prime crisis
  • Central London showed strong /accelerated job growth
  • While RGL and RUK moved into decline

<table>
<thead>
<tr>
<th></th>
<th>FTE Change (000s)</th>
<th>FTE Change (%)</th>
<th>Difference in annual growth rate compared with 2005-7</th>
</tr>
</thead>
<tbody>
<tr>
<td>City + 4 neighbours</td>
<td>+ 286</td>
<td>+ 23%</td>
<td>+ 2.4%</td>
</tr>
<tr>
<td>Rest of Greater London</td>
<td>- 27</td>
<td>- 1%</td>
<td>- 1.7%</td>
</tr>
<tr>
<td>Rest of UK outside London</td>
<td>- 394</td>
<td>- 2%</td>
<td>- 1.1%</td>
</tr>
<tr>
<td>UK</td>
<td>- 144</td>
<td>- 1%</td>
<td>- 0.9%</td>
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Six Major Growth Clusters in Central London post-2007

**Finance;** banks, other monetary intermediation and auxiliary activities (except for insurance or pensions);

**Business administration:** head offices, employment agencies and cleaning services;

**Property Development/Services;** construction, architecture, real estate agencies and real estate management;

**Digital Content;** advertising, radio and TV broadcasting services, [computer consultancy, programming and repairs];

**Public Services;** hospitals, primary/tertiary/misc education, and general public administration (not all in public sector);

**Tourism;** hotels and restaurants.
Explaining imbalance: 3 hypotheses

1. Economic: structural/competitive advantage:
   Key sources of structural advantage for (central) London prevailing since 1980s:
   • Gained in strength since last major recession; and/or
   • Confer particular benefits in the special circumstances of this downturn/recovery

2. Political / strategic advantage:
   Effective biases in pattern of decision-making within government / major corporations:
   • Have blunted impacts on London of austerity/rationalisation programmes applied across UK since the financial crisis

3. Protection of IFC activity
   Post crisis financial interventions serving more to protect finance sectors than regenerate/rebalance real economy
   Biasing impacts on real activity toward the international financial centre
Helpful Structural Factors?

- **Sectoral base**: office services not manufacturing: accounts for \(\frac{1}{4}\) of net growth in C London – not distinctively so in this downturn
- **Occupational mix**: skilled workers might be hoarded for while – but though professionals fared well, other office workers didn’t
- **International orientation**: (a) benefitted from major share of overseas tourists following 25% devaluation in 2007-9
  - (b) large growth in overseas-born pop. since late 1990s generating demands for public services
- **High Quality Product Specialisation** – a more robust source of demand for CL, given increasing income/wealth *inequality*
  - *Plutonomy* thesis highlighted concentration of consumption growth the top 1% earners/wealth-holders over recent decades + rising value/profitability of luxury goods – highly differentiated products with strong metrop advantage.
  - Consumption of this group has been sustained since crisis by growth in equity values, the asset class in which this group specialises
CL-friendly Policy Directions during post-crisis period

- **Summer Olympics:** c. £9 bn of development activity over 2007-12
- **Crossrail:** c. £15bn over 9 years from 2010
  
  *jointly reflected in Econ Affairs capital budget with net increase in London – against strong cuts in RUK*

- **Head Office Protection / Growth**
  - Banks / building society employment heavily rationalised, outside central London (retail + back office)
  - General Head Office employment grew substantially, but much faster in C. London
  - Government contraction also bit less there
    - notably in top jobs
Policy Supports for Financial Activity 1

A. Bail Outs: direct response to 2007 & 2008 shocks:
   - securing stability & liquidity of banking system
   - combination of direct investment + promotion of restructuring in 4 failed banks & guarantee for I-B lending
   - Up to £1 trn guarantees, £120 bn cash commitment - and some subsidy in liquidity scheme

B. Implicit Subsidies: unintended reflection of B-Os
   - value (in lower interest rates) of effective state insurance against failure – for the too big / strategic to fail banks
   - actually pre-dates crisis, but risky situation inflates value – as do actual B-Os; continuing despite state ‘bail-in’ intents
   - value estimated at £50bn (2008), £100 bn (2009) for big 5 (Haldane, 2010) with direct impact on value-added.
Policy Supports for Financial Activity: 2

C. Monetary Expansion: actions (taken by Bank of England) with intent to revive demand in UK economy

- Bank rate reductions: rapid series down to 0.5% floor (March 09)
- Quantitative easing: printing money to purchase gilts/quality assets from private businesses – injecting liquidity, with aim of encouraging investment in higher yield assets (in UK?)
  - initial 2009 budget of £165 bn., raised in 2011-12 to total to £375 bn. (though value to banks etc. depends on what extra return they can earn – cf. subsidies).
  - A ‘direct injection into the economy’ but not actually targeted
- Funding for Lending Scheme (with HMT) 2012-
  - Channelling funds through banks into UK real economy, with incentives related to lending performance (initially to households/firms, then priority to SMEs, and just firms – rather than mortgages.
  - Gross commitment of £50 bn. but small net change suggests use to depress cost of capital (another subsidy?)
Looking for a Geography of Impacts

- Discussion of initiatives almost a-spatial (regionally or international)
  - because intentions / focus are largely systemic (esp. pre QE)
- Maybe reasonable in relation to bank rate cuts & bail-outs
  - 3/4 at risk banks HQ’d outside London
- But subsidies accrue essentially to City-type activities –
  - and with half of VA going to pay – could have big job impact
- QE impact depends on where activity is stimulated
  - and how much mediating activity in finance sector is involved
  - **Induced investment need not be within country:**
    - UK lending to households / real economy firms did not increase
    - US commentators in 2010 suggested substantial leakage (inc FDI)
    - Suggestion of QE tapering by Fed in 2013 stimulated literature on strong impacts in emerging markets (esp. portfolio investment)
- **Evidence of UK GDP boost of 1.5-2%** - but sectors unknown:
  - if investment occurring overseas – UK impacts might only be in City
  - and inequality of wealth effects  may also bias impacts to London
- **Boost to budgets of wealthy would also have favoured London**
Speculation: Back to Business as Usual?

- Central London has done remarkably well
- And finance sector has been recipient/medium for vast amounts of money since its 2007/8 crises
- London gains have been spread across several clusters – not just finance + supports
- And some other structural/special factors have helped London – at least temporarily
  - maybe including Tech City (Nathan & Vandore, 2014) in small way
- But it seems very likely that
  - supports to finance made substantial contribution to muffling a strong London bust and to upswing; and also
  - playing a substantial part in a new round of speculation-enhanced boom underway in (central) London
References


