Quantitative Easing of an International Financial Centre:

How London escaped (or gained from) the major impacts of the international financial crisis

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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)

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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

	FTE Change (000s) 2007-13	FTE Change (%) 2007-13	Difference in annual growth rate compared with 2005-7
City + 4 neighbours	+ 286	+ 23%	+ 2.4%
Rest of Greater London	- 27	- 1%	- 1.7%
Rest of UK outside London	- 394	- 2%	- 1.1%
UK	- 144	- 1%	- 0.9%

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 ¼ 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

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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.

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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?)

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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
- <u>Boost to budgets of wealthy would also have favoured London</u>

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

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