Tomorrow's Affairs

Analysis of today
Assessment of tomorrow

By: Harvey Morris

Two cheers for London's gilded Square Mile as politicians target economic growth

The City of London has defied the more dire predictions of the impact of the UK's departure from the European Union by maintaining its status as a world-leading financial centre.

The governing City of London Corporation has asserted, by its own reckoning, that the capital last year regained its overall position as the world's top financial centre, a position briefly ceded to New York. Other indexes put it narrowly in second place.

But it is not all good news for the Square Mile. The venerable Stock Exchange has been experiencing a steady decline, a phenomenon not specifically linked to Brexit, or indeed confined to the London market.

In a state-of-the-sector survey for 2023, the City corporation calculated that financial services and the related professional services sector nationwide produced 12 per cent of economic output and £100bn in tax revenue, while employing 2.5 million people across the UK.

In a "room for improvement" adjunct to the report, the corporation's policy chairman, Chris Hayward, cautioned however that the sector must tackle a risk-averse culture, while ensuring that regulation was both balanced and innovative.

"While London may currently hold the top position", he wrote in the financial daily City A.M. at the start of the year, "solid policy and reforms…must be presented by both leading political parties ahead of the coming General Election to once again revive the economy's engine room."

A growth strategy

With the date of a national vote looming ever closer, the financial sector is among those contemplating the likelihood of a future Labour government, a prospect reinforced by the results of local elections that last week delivered the latest thrashing to the governing Conservatives.

In the run-up to a likely late-autumn election, a reformed Labour party has sought to sell itself to the City as having replaced the Conservatives as the natural party of business.

Under the guidance of its shadow chancellor Rachel Reeves, who began her working career at the Bank of England, the party has outlined a growth strategy that would "unashamedly champion our financial services sector as one of the UK's greatest assets".

> Labour outlined a strategy for "securonomics" to describe a partnership between an active state and dynamic open markets

In its 2024 plan for financial services, Labour outlined a strategy for what Reeves calls "securonomics" to describe a partnership between an active state and dynamic open markets.

The Labour plan, as well as parallel commitments to the City by the ruling Conservatives, begs the question of how far politicians are able to influence the sentiment of financial sector players.

How to persuade innovators to list on the London exchange

Jeremy Hunt, the Conservative chancellor, has expressed frustration at the number of innovative UK-based companies opting to list their shares abroad rather on the London exchange.

Research by investment bank Peel Hunt identified companies worth about £100 billion quitting the exchange so far this year, either as a result of foreign buyouts or because they were moving their main listings elsewhere.

Hunt has invited key executives to a summit later this month which, given the exodus, is now likely to focus on how to persuade companies, particularly innovators in the fintech and biotech sectors, to list on the

London exchange.

> Part of the problem has been the growing reluctance of domestic pension funds and other institutional investors to invest in what they regard as under-performing UK equities

Part of the problem has been the growing reluctance of domestic pension funds and other institutional investors to invest in what they regard as under-performing UK equities.

The trend long predates Brexit. The capital markets think tank New Financial has estimated that the share of the UK stock market owned by UK pensions and insurance companies has fallen to 4 per cent from 39 per cent since 2000.

It blamed the trend on the impact of decades of reforms to accounting standards, regulation, and tax, warning that much of the pensions money sucked out of the UK equity market was not coming back.

In this year's Spring Budget, Hunt urged technology start-ups not only to remain in the UK but also to list their shares there. Urging pension funds to invest in them, he announced new requirements for funds to disclose their level of international and UK equity investments.

Too successful financial services

The move has inevitably generated some skepticism from a pensions sector that questions whether it is the role of government to tell investors where to put their money.

Despite the concerns about the future of the equity market, an incoming government can point to the financial services sector as a positive asset in an otherwise struggling economy.

London's attractions as a global city, and advantages that range from its legal system to its time zone, continue to draw overseas asset managers, bankers, insurers and currency traders.

Financial services might even be described as too successful within a wider domestic economy.

The Big Bang deregulation of the 1980s that transformed the City of London into a top international financial centre coincided with a decline in the manufacturing sector

The Big Bang deregulation of the 1980s that transformed the City of London into a top international financial centre coincided with a decline in the manufacturing sector.

The overall service sector, from banking to retail to entertainment, now represents 80 per cent of the economy and more than four in five jobs.

Cynics sometimes describe today's UK as a country that survives by taking in other people's washing, much of it from abroad. Half of the assets managed in the UK belong to international investors.

Some economists argue that whoever takes the reins after the next election must address this imbalance with a strategy that nurtures greater direct UK participation in new high-tech industries. That would offer higher value jobs and could help iron out some of the regional imbalances of a London-focussed economy.

It is a model that would inevitably require government action to foster an environment in which the industries of the future are encouraged to regard the UK as a place to operate and produce, not merely to list their shares.