feature

THE CITY IN MYTH AND REALITY

Aeron Davis

The media in Britain still fall for fairy tales about the importance of finance to the UK economy. The explanation lies in the structure of business journalism.

The official and oft-repeated narrative around the City and UK financial sector is that it is a vital industry for the UK economy. It brings substantial employment, taxes and overseas income. By the early years of this century, the City had recorded an average growth rate of 7% per year for 25 years, and showed a consistent annual overseas trade surplus in the tens of billions (Golding, 2004). According to UKTI (Dec 2012), in 2010, the UK financial services industry was responsible for 10% of UK GDP and 11% of tax income. It employed a million people with up to another million employed in associated professions.

Most importantly, it generated a trade surplus of £40 billion, higher than any other sector of UK industry. These figures vary depending on the year and accounting bases used. But, they always look impressive, whether appearing in government or industry reports (Wigley, 2008, Bischoff and Darling 2009, Maer and Broughton, Aug 2012, IMAS, 2013). The story has been consistently repeated by City representatives and successive Chancellors of the Exchequer since the early 1980s.

The story is frequently repeated unquestioningly in mainstream news coverage. It has justified successive waves of financial deregulation. It is why, after the 2007-08 collapse of the banking industry, and a series of high profile scandals, from PPI mis-selling to Libor, the City continues to do business as usual. It is why attempts to re-regulate the banks (Tobin taxes, retail-investment bank separation, greater capital reserves) or limit City bonuses are so simply deflected. Hence, the *Daily Telegraph* is happy to feature (27.03.13) the reports stating 'banks should be allowed to decide themselves how much capital they need to hold instead of being told by regulators', or lending and economic recovery will suffer. The *Financial Times* (4.03.13) argues that it is 'Time to rehabilitate bankers' bonuses' and that bank bonus caps will 'hurt competitiveness'. The *London Evening Standard* (26.02.13) declares that economic 'growth is being strangled by regulation ... rather than the antics of investment bankers', and that (28.02.13) new EU regulation will be a 'boost for Zurich, Singapore and New York at London's expense'. Typically, as the *Economist* declared (29.10.11), at the height of City unpopularity, 'Wholesale finance is one of the few industries in which Britain has large net export earnings', 'is a source of comparative advantage', and is one of the 'world's leading centers'. It concluded that 'London's long-term prospects depend on its ability to sustain these attractions'. No matter how badly our financial sector behaves, it must be defended, quite simply because the UK economy cannot afford to restrict its activities. Coverage may admit to City faults and unpopularity but then restates the case that of financial industry indispensability to the UK.

There are some journalists who regularly question the activities and value of the City at a more fundamental level. However, the vast majority of day-to-day coverage

You want myths? The City of London's got them!

is broadly supportive of the UK financial centre and usually willing to support the City-is-indispensable line. There are several reasons for this (see Davis, 2002, 2007). Financial news, like most news sections,

"The national financial press are written for the City by the City."

has suffered from a long-term decline of reporting resources as its business model has become increasingly untenable. Unlike other areas of news reporting, such as politics or celebrity, financial journalists have little leverage. City leaders do not have to talk to them if they do not want to and can make access very hard. Added to this, the world of finance is a highly technical and information dense subject area. It is very hard for financiers to digest and comprehend even part of the material in circulation; harder still for journalists having to cover larger territories and with tight deadlines. Lastly, financial news is very low down on the list of things that ordinary citizens consume news for. That it has expanded and maintained a place in news is down to high levels of advertising and public relations support coming directly from City sources. All of which makes financial journalists extremely dependent on the City itself, both for information and interpretation of that information, as well as for advertising and general access. Thus, as one financial executive confidently explained to me 'The national financial press are written for the City by the City.'

This dependence on financial sources for coverage of the City itself has grown all the stronger since the early 1980s. City influence at Westminster, financial deregulation, the closing down of pluralist debate around finance and the economy, and the rise of financial public relations, have all gone hand in hand. So, media reports will often cover scandals and ire over banker bonuses but will rarely question the basic narrative around City indispensability. However, the foundations of this narrative are themselves very questionable.

The first issue is that estimates of the size of the sector treat the entire financial services industry as one entity. Those figures on taxation and jobs combine the insurance industry, ordinary high street banking, and the activities of investment bankers and others in the City. Those working in high finance, a world of high risks, bonuses and scandals, are a minority in the industry and number in the tens of thousands.

Second, the overall accounting picture is extremely distorted. By 2009, the cost of the bank bailout was £289 billion and rising (CRESC, 2009). Further government loans and guarantees to banks are worth hundreds of billions more. Such figures more than wipe out the tax receipts of the industry accumulated since the turn of the century. From 2007 to 2009 the UK's external debt leapt from 22.5% to 66.5% of GDP and had continued to climb since (Turner, 2008). In sum total, whatever the City has contributed to Treasury balance sheets over recent decades, it's clear that it has taken more than it has put in over the last decade.

Third, quite apart from the financial figures there are wider questions about whether the UK's financial sector has contributed positively to the larger UK economy. Financial engineering and speculative activity have since caused huge bubbles and price volatility in internet stocks, property, commodities and derivatives markets, putting great pressure on personal and national finances (see Krugman, 2008, Cable, 2009). Many studies (Hutton, 1996, Myners, 2001, Chang, 2010, Engelen et al, 2011) argue that the City itself has been damaging to British industry as it is driven more by short-term returns than long-term investment. In the 1980s investment in manufacturing rose 2% per annum, but profits by 6% and dividends by 12% per year (Hutton, 1996). 'Productive investment', in business itself, declined from 1996-2008, from 30% to 12% (CRESC, 2009). From 1979 to 2011, employment in manufacturing dropped from 6 to 2.5 million (Engelen et al, 2011). As these and other studies argue, the UK's financial sector is more about extracting capital away from wider industry and external investors than it is about putting it into the economy.

Ultimately, the financial sector has contributed much to the UK in various ways. But it has also racked up large debts, been a cause of instability, and undermined other parts of the British economy. A real balance sheet is virtually impossible to construct as the sector remains opaque and amazingly well-spun to financial media, politicians and the public. Either way it is time more journalists stood back and asked what exactly the real value of Britain's oversized financial sector is.

Aeron Davis is Professor of Political Communications at Goldsmiths, University of London.

References

Bischoff, W and Darling, A (2009) *UK International Financial Services – the Future: A Report from UK Based Financial Service Leaders to the Government*, London, HM Treasury

Cable, V (2009) *The Storm: The World Economic Crisis and What it Means*, London, Atlantic Books

Chang, H (2010) *23 Things They Didn't Tell You About Capitalism*, London, Penguin/Allen Lane

CRESC (2009) *An Alternative Report on UK Banking Reform: A Public Interest Report from CRESC*, Manchester, Centre for Research on Socio-Cultural Change

Davis, A (2002) *Public Relations Democracy: Public Relations, Politics and the Mass Media in Britain*, Manchester, Manchester University Press

Davis, A (2007) *The Mediation of Power: A Critical Introduction*, London, Routledge

Engelen et al (2011) *After the Great Complacence: Financial Crisis and the Politics of Reform*, Oxford, Oxford University Press

Golding, T (2004) *The City: Inside the Great Expectations Machine*, 2nd edn. London, FT/Prentice Hall

Hutton, W (1996) *The State We're In*, London, Vintage

IMAS (January 2013) *UK Financial Services Industry Annual Review 2012*, London, UKTI

Krugman, P (2008) *The Return of Depression Economics*, London, Penguin

Maer, L and Broughton (August 2012) 'Financial Services Contribution to the Economy', *House of Commons Standard Note SN/EP/06193*, London, House of Commons

Myners, P (2001) *Institutional Investment in the United Kingdom: A Review*, London: HMSO

Turner, G (2008) *The Credit Crunch: Housing Bubbles, Globalisation and the World Wide Economic Crisis*, London: Pluto Press

UK Trade and Investment Website (Dec 2012): http://www.ukti.gov.uk/investintheuk/sectoropportunities/financialprofessionalservices.html

Wigley, B (2008) *London: Winning in a Changing World*, London, Merrill Lynch Europe Ltd