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Viewing the impact of Brexit on Britain's financial centre through an historical lens: Can there be a third reinvention of the City of London?

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Abstract: This paper considers the question of how Brexit will affect the City of London from a long-term perspective, putting the changes induced by Brexit into the context of the City's historical evolution over the past century. This perspective permits us to see that the City has continued to thrive because of a series of radical adjustments necessitated by the UK's loss of its empire and by the emergence of global US financial power. Challenges to the global prominence of the City in Britain's post-empire period have required two separate 'reinventions': the first, in the 1960s, involved localizing the Eurodollar markets; the second, in the 1990s, involved making London the preferred hub for providing sophisticated financial services within the European Union (EU)'s single market. The Great Financial Crisis put in motion several economic and political dynamics that have, however, undercut the City's special global role. It is unclear whether maintaining the City's offshore focus via a third reinvention, in a period of prolonged stagnation and increasing inequality in UK regions outside London, will be possible.

Keywords: City of London; Brexit; Offshore banking; Great Financial Crisis; Euromarkets; European Union; single market

1 Introduction

The political case for Brexit built on the idea that Europe's overly restrictive rules were blocking the emergence of a 'global' Britain. This narrative overlooked the reality that in

the past two decades, the success of the City of London as a global financial hub has been based on its unique geo-economic position: its location inside the EU 'single market' but outside the European Monetary Union (the Eurozone).¹ The ongoing process of leaving the single market has already adversely affected the City's global standing, mainly because Brussels has not yet recognised UK exchanges and trading venues as having the same supervisory status as its own (the so-called 'equivalence status'). Consequently, when the Brexit transition period concluded at the end of 2020, half of London's cross-border share trading with Europe immediately shifted to European financial hubs (Stafford 2021a). The bleeding has continued, month by month.²

Previous studies of the consequences of Brexit for the City – for example, Mullineux (2019), Eichengreen *et al.* (2020) and Kalaitzake (2021) – have focused on such short-term shifts, speculating on how City market volumes and jobs will be affected by a 'harder' or 'softer' Brexit. Here we take a longer-term approach, examining the post-Brexit context in relation to previous structural shifts in the history of the City of London. We argue that from the 1920s until Brexit, the City showed remarkable resilience in the face of crises, successfully undergoing two 'reinventions'. The first was triggered when London became the leading portal for Euromarkets in the 1960s; the second was initiated when Great Britain undertook its 'Big Bang' in 1986, and finished after Britain was forced out of the European Exchange-Rate Mechanism in 1992. The City of London has assumed a world-leading role due to these two successive reinventions in the years after World War II and the loss of its overseas

¹ The term 'City of London' – or simply 'the City' – is used in this paper to denote the globally-connected financial and commercial-capital firms, together with the business services providers (brokers, insurers, law firms, and so on) linked to these enterprises, that have historically been headquartered in a square mile of the British capital city (which also constitutes one of London's boroughs). This term has survived the expansion of this financial complex beyond the spatial borders of the 'square mile' to Canary Wharf, the Docklands, and beyond.

² For example, Amsterdam emerged as an early Brexit winner: in February 2021, a month after the end of the transition period, €8.6bn of London's daily EU share dealing (stocks and derivatives) were traded in Amsterdam, as was a fifth of the Euro swaps market volume and \$160 billion in sovereign debt trading that was previously transacted in London (Stafford 2021b, Stafford *et al.* 2021).

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empire. These successive shifts have replaced the domestic elite that dominated the City in the days of empire with an international elite and completed the uncoupling of globalized City financial firms from Britain's industrial base, in favor of offshore – and sometimes tax-avoiding – transaction services offered to foreign interests. Chief among these interests have been European clients who have benefitted from the City's 'over the counter' expertise and 'soft touch' regulatory approach.

The City's success in the single-market period stemmed from its ability to paper over the structural flaws in the Maastricht financial-governance architecture. This 'quiet life' coexistence of the offshore City and the core UK economy ended after the 2008 financial crisis exposed the cost of that architecture's downside risks. Specifically, the UK government's October 2008 bailout of insolvent banks – permitting City firms to largely maintain its activities subject to increasing capital-asset ratios – doubled the ratio of sovereign debt to GDP and led to the imposition of austerity macroeconomic policies from 2010 onward. This lit the fuse of popular discontent that spilled out in the 2016 Brexit referendum and that may have still further future consequences for the once-United Kingdom. In any case, Brexit has already stimulated changes in EMU-based financial centres that have undercut the City's privileged role and permitted the localization of many formerly offshore (if 'in-single-market') activities. Hall and Wojcik (2021: 195) noted that the power of London as an international financial centre 'includes an ability to reinvent itself, even in the face of adversity'; whether the City can renew its leadership role in global finance now depends on whether its leaders can orchestrate a third reinvention that both generates a bonanza of revenue and falls within the political choice-set of the government in power.

We proceed as follows. Section 2 conceptualizes adaptability in cities in the context of structural shifts, with a focus on London. Section 3 summarizes the transition of the London financial centre from being the hub of a global empire to being the global centre for the Euromarkets in the 1960s and 1970s. It then describes how the shifting global context led to further adjustments that ultimately led to the second reinvention of the City of London, as a global financial hub – attached, but not subservient, to the European Monetary Union and the European single-market under whose umbrella it grew. Sections 4 and 5 examine the City's circumstances after the Great Financial Crisis. Section 4 shows how the City thrived anew by reasserting strengths established in its first two reinventions. Section 5 goes on to explore the City's fragilities in the post-crisis period; it shows that the UK's subordinate role in a dollar-dominant global financial order has left it without the capacity to

offset these fragilities, with one result being the UK public's vote in favor of the Brexit referendum. Section 6 describes the changes in the locus and level of financial activities in the UK and the EU that Brexit has either accelerated or directly caused. Section 7 then considers whether a third reinvention for the City of London is likely, considering two possible pathways. Section 8 concludes.

2 Structural shifts and resilience in cities: the case of London

Many scholars – including Sassen (2005) and Glaeser (2008) – have argued that cities are strategic spaces in the process of capital accumulation. The current phase of capitalism is characterised by a finance-dominated regime of accumulation, with financial centres therefore serving as important capitalist nodes. Before the 2007–8 Global Financial Crisis, the dominant paradigm in urban studies was the belief that globalisation and financialisation had weakened the national level as a spatial unit, and strengthened the subnational – particularly city – level, given that 'many of the resources necessary for global economic activities are not hypermobile and are, indeed, deeply embedded in place, notably places such as global cities' (Sassen, 2005:31). In this context, London was seen as a 'global city', whose power was more dependent on global financial networks than domestic accumulation.

This perspective of the stateless city was, however, challenged during the financial crisis. As Therborn (2011:279) put it, 'when the crisis broke out, where did (...) the London City bankers run for help? To their global networks'; to other global cities? No, they went to (...) Downing Street'. State intervention to bail out failing financial institutions reasserted the role of national governments and highlighted the limits of city power.

From a broader theoretical perspective, the financial crisis and its differentiated outcomes on cities around the world rekindled scholarly interest in the issue of structural change, resilience and adaptability in cities. As noted by Sunley et al (2017: 389), 'understanding why some cities manage to re-orientate and transform their economics over time, while others struggle, is possibly one of the most pressing policy challenges of our time'. Sunley et al (ibid: 385) define adaptability as an ability 'to adjust to new conditions or a changed environment, or to exploit new opportunities to minimise the upheavals of future shocks and developments'. More recently, Leixnering and Höllner (2022) have emphasised the distinction between 'adaptation' and 'transformation', two key concepts associated with urban change,

which are sometimes used interchangeably in discussions around resilient cities. In fact, they refer to different types or degrees of change, with adaptation understood as ‘incremental adjustment and reorganisation’, ‘change within a resilient system’; whereas transformation constitutes ‘deep, more radical and thus potentially disruptive change’, a fundamental change to a system that needs to be rebuilt from scratch.

Since the financial crisis has not fundamentally altered the trajectory of financialised capitalism, our main concern here is with adaptation in the context of the City of London. There are different schools of thought around the factors that contribute to a city’s adaptability: scholars in urban economics argue that adaptability rests on the agglomeration of resources, information, knowledge workers, and human capital; Schumpeterian accounts focus instead on innovation and economic variety, viewing industry resilience as essential for city resilience; more recent perspectives emphasise innovation with a focus on digital technologies specifically (Sunley et al, 2017). All of these factors apply in the case of London to a certain extent: the City constitutes an agglomeration of financial services, whose sustained global competitiveness has been explained by geographers with reference to London’s locational advantage (e. g. as a clearing hub – see, for instance Dorry, 2017) as well as its advantage in terms of human capital, education, technology, and the global talent pool on which it draws (Clark and Monk, 2015; Beaverstock and Hall, 2012,).

Ultimately though, each of the aforementioned explanations offers only partial insights into the issue of city adaptability (Sunley et al, 2017). For a more holistic understanding, it is necessary to consider adaptability from a historical perspective and in the context of broader political and macroeconomic developments, given that ‘resilience to a specific shock or short-term crisis is often the outcome and reflection of longer-term processes of adaptation and response to longer transformations in markets, global trade, technologies, practices and so on’ (ibid: 384). Furthermore, crises are ‘interactive and recursive’ (ibid), meaning that any present-day adaptability as well as limits to it are shaped by previous crises and policy adjustments.

In the remainder of this paper, we adopt such an evolutionary, institutionalist view and explore how the City historically adjusted to a changing macroeconomic and political environment, how these previous adjustments are linked to Brexit, and whether there is potential for a further reinvention. For each reinvention, our analysis highlights crisis triggers, international dynamics and interlinkages, effects on institutions, and consequences for the adaptability of the City.

3 The City’s first two reinventions: From the heart of the empire to offshore haven

Crisis triggers: The relationship of the leading figures in the City of London to those in British manufacturing in the period before World War I was arguably both symbiotic and fractious: symbiotic, because the City provided financing vehicles and underwriting for overseas acquisitions and trade linkages that supplied both the raw materials needed to fuel Britain’s industrial revolution and market outlets for the goods its factories produced; fractious, because British policy largely privileged the agenda of its financial centre over that of its industrialists, due in large part to the central role in the City and in British government of members of the country’s landed aristocracy. Both factions benefited from Britain’s global empire, in any event. So the City of London, in the early 20th Century, marked out the centre of a global empire whose strength emanated from its pioneering role in the Industrial Revolution. As Alan Freeman (1988, p. 34) put it, Britain ‘was first of all the world’s banker ... the guarantor of the credit system on a world scale. ... [It] rose to world banker as its greatest producer, trader, and shipper, and bestrode it as *capital exporter*. At its zenith in 1913 fully 82 per cent of all capital issues in the UK were for foreign investment.’ In that same year, nine of the 20 largest commercial banks in the world were British; only two were American (Cassis 2006, p. 92).

The macroeconomic stresses and financing requirements of World War I forced the suspension of the poundsterling-led Gold Standard and necessitated borrowing from New York. In the 1920s, New York began to replace London in world finance; but even after abandoning the Gold Standard in 1931, London re-established its centrality in global finance role through several measures. One was the establishment of the Sterling area, wherein former and current members of Britain’s colonial empire (the US excepted) pegged their currencies to Sterling and held Sterling reserves. Second, Britain held onto its role in capital export. This was linked, as Freeman (1988, pp. 35–36) observed, to a ‘critical element of imperialist hegemony: the control of markets.’ But this had consequences: ‘In blunt terms, Britain’s trading advantage from superior technology had been supplanted by its monopoly privileges arising directly from its control of markets and territories.’ (Freeman, 1988, pp. 35–36)

After World War II, the Sterling area was revived, as part of a four-part system of global exchange arrangements governing the US, UK, and other currencies; but Britain’s efforts to sustain Sterling convertibility and the Sterling area clashed with its declining current-account balance

and the US focus on European recovery. While Augar (2000) attributed these measures to the influence of elite Edwardian financiers ('gentlemanly capitalists'), Edgerton (2018, p. 130) has argued that even in this period, this 'overplays the role of pure finance. British overseas interests were not merely those of financiers and rentiers: British capital was international, but also commercial and industrial. The City was as much about commodities as money, as much about shipping as stocks and shares.'

The first major crisis challenging the supremacy of the City in the postwar period was triggered by the fact that Britain's empire-centred role began slipping away, endangering the sterling-dollar rate.

Effects on institutions: As an institutional consequence, to protect the pound, the Bank of England raised interest rates and tightened liquidity. In mid-1955, Britain's Midland Bank found a way around this constraint by attracting Eurodollars – dollar deposits held outside the United States – at a premium to the baseline UK borrowing rate.

International dynamics and interlinkages: The structural international and dynamic interlinkages that made possible the emergence of the Eurodollar market were therefore US hegemony and more specifically US loans to Europe via the Marshall Plan, which led to a wide circulation – and ultimately oversupply – of dollars in Europe. This laid the basis for the first reinvention of the City of London (Schenk 1998). With the return of European currencies' convertibility in 1958 and the end of capital controls, the Eurodollar market for what Machlup (1970) would call 'stateless money' expanded, with London at its heart.

Consequences for the adaptability of the City: In 1962, George Bolton, a City banker, wrote to the governor of the Bank of England to propose 'a bold strategic change' that would ensure the City's revival as a financial centre: opening up London as a hub for loans in foreign currencies. (Ford, 2020). The Bank gave its consent in July 1962. The consequence of this was to turn London into an onshore financial centre for the entire European continent, and a competitive offshore financial centre for the rest of the world (with each of these sides reinforcing each other and contributing to the City's adaptability: 'when European integration permitted the City to expand its onshore domestic market into the EU's fragmented capital markets, London's massive offshore business helped it dominate them' (Ford 2020).

Cassis (2006, pp. 223–4) attributes this re-establishment of London's preeminent role among international financial centres to London's 'financial traditions,' British regulators' differentiation between tight controls over domestic activities and freedom for non-residents using foreign currencies, and strict American banking regulations. For Green (2016), the emergence of the Euromarkets was 'the foun-

dational moment' in a postwar Anglo-American monetary order, which accommodated expanding American financial power via a 'transatlantic regulatory feedback loop' feeding deregulatory momentum on both sides of the Atlantic.

Crisis triggers: A further crisis was triggered by the collapse of the Bretton Woods system. Amidst increasingly chaotic macroeconomic conditions, the US abandoned the Gold Standard in 1973, dismantled its strict Depression-era banking and finance controls step-by-step, while enabling the creation of new financial markets and authorizing a bank merger wave (Dymki 1999).

Effects on institutions: As the Bretton Woods system crumbled, the UK turned toward Europe: in 1972, the Heath government secured Britain's accession to the European Economic Community (EEC). This gave the City an 'in' as European financial markets were opened to competition. Capital and exchange rate controls were abolished in 1979, making Britain the second country after the US to embark on financial liberalisation (Thompson, 2017). The City pressed its advantages over the fragmented markets and regulations of its European competitors in 1986, when the 'Big Bang' deregulation of the London Stock Exchange ended fixed commissions on trades as well as the separation between brokers and market-makers (jobbers), and permitted banks (domestic and foreign) to buy member firms.

International dynamics and interlinkages: In terms of global interlinkages and developments, as Thrift and Leyshon (1994:312) observed, 'what seems to have happened post-Bretton Woods is that the number of (...) international financial centres that count (...) has decreased, but, in turn, those places that are left in contention have become more important', with the City firmly in the latter camp. In the 1970s, then, adaptability in the context of the City of London meant becoming a supra-national enclave managing the Eurocurrency (offshore) financial system, largely independently of domestic industry (Coakley and Harris 1983).

Meanwhile, two ideas for consolidating Europe's footprint in the global economy were gathering force: a single market, and a single currency. The macroeconomic harmonization required for the latter was to be achieved by nations' participation in the European Exchange-Rate Mechanism (ERM). The UK participated in these plans, but its effort to join the ERM in 1992 collapsed when George Soros' hedge fund shorted the pound. This speculative thrust pushed the pound sterling down, and exposed as contradictory the UK's moves toward both financial deregulation *and* tighter macroeconomic control. The UK immediately abandoned any notion of joining the single currency.

The half-way house status of UK deregulation in 1992 explains why its contradictory policy position could be exposed and exploited. While UK financial deregulation was

undertaken in advance of that in Europe, it lagged the US in several key areas. In particular, Soros' short involved deregulated instruments located outside of London (notably the Chicago-based derivatives markets, which had been operating on a largely unregulated basis since the mid-1980s). So the UK was exposed to global financial stresses without having enabled the full set of financial tools available to hedge (and take) risks in internationalized markets.

This humiliation led Britain to join the single market – the EU – but not the single currency – the European Monetary Union (EMU). Ironically, this created the preconditions for the second reinvention of the City of London. Two features of the emerging assemblage of the single market, the EMU, and the City then shaped subsequent events. First, as Thompson (2017: 216) observes, ‘the arrival of monetary union from the onset exposed the limits of a European-shaped external support structure’ for financial firms operating within the EMU. Second, with the opening of UK markets and ownership, the firms listed in the London Stock Exchange and the broker-dealers operating in the City were increasingly foreign in origin (Edgerton 2018: Chapter 19). So, since EU member nations often retained stricter controls over the issuance of financial paper, and the former colonies and the former Eastern European bloc of nations that were opening their economies lacked sophisticated financial-market structures, the City became a global leader in orchestrating borrowing and hedging outside the US. This positionality of a financial centre that ‘speaks your language’, closely linked to Europe but underwritten (unlike the Euro area) by an independent central bank, permitted London to reassert a dominant role among global financial centres.

Consequences for the adaptability of the City: In this period, the City disproportionately derived advantages from the market opportunities being extended in the EU. More than 250 foreign banks locate their main European subsidiaries there as a base for their wholesale (investment and corporate banking) European operations in the EU single market (Arnold and Fleming 2014). In the era of deregulation, London's ‘soft touch’ oversight constituted a ‘regulatory system consistent with the provision of sophisticated financial products’ (Clark, 2002:442), making it an ideal base for offshore and onshore financial activities for large multinational firms and the banks that service them. As argued by Faulconbridge (2004), London's dominance was sustained by its global and regional networks: many small nations commercialized their sovereignty and teamed with City firms to create tax havens for financial activities that escaped regulation and taxation even while being conducted within the same physical space (Palan 2002). Once Wall Street firms had pioneered market structures for subprime securitization (Dymki 2009), the special competence

of City bankers in using over-the-counter instruments to hedge exchange-rate and other risks facilitated the spread of these instruments across borders.

4 The Global Financial Crisis and the City's post-crisis reassertion of its intermediary strengths

Crisis triggers: The global spread of subprime securitization famously came to an abrupt halt with the September 2008 bankruptcy of Lehman Brothers, the US investment bank. The trigger of the crisis was the global market's realization that these opaque securities, stuffed with predatory loans attributable to ‘control fraud’ (Black 2005), had fueled an unsustainable housing boom targeting ethnic-minority borrowers and communities (Dymki et al, 2013). What is less remembered is that the September 2008 meltdown was preceded by other fractures. In the UK, a run on Northern Rock, an overextended mortgage lender, had brought down that institution; overnight, the UK housing market, which had been thriving on the basis of highly-leveraged loans backed by wholesale borrowing, ground to a halt. Simultaneously, the asset-backed commercial paper market that had been used to back subprime paper crashed – followed shortly thereafter by the meltdowns of the overnight repo and European interbank markets.

International dynamics and interlinkages: In terms of global interlinkages, the failure to contain the European and UK liquidity crisis in 2007 demonstrated the subordinate role of the City, Bank of England and the European Central Bank in the global financial system; only when the Federal Reserve stepped in as international lender of last resort in October 2008 did the markets stabilize. What Tooze (2018, Chapter 3) calls the system of ‘transatlantic finance’ was too intertwined to be halted once market confidence and liquidity evaporated. In fact, the City's primary contribution to this crisis was as an accelerator. An IMF analysis concluded, ‘The United Kingdom provides a platform for higher leveraging stemming from the use (and re-use) of customer collateral’ (Singh and Aitken 2010, p. 1); whereas the US, prior to the crisis, placed caps on re-hypothecation, the UK did not.³ A further factor in the collapse of interbank lending in the UK and Europe was widespread ‘fixing’ of the London Interbank Offered Rate (LIBOR), especially by

³ Singh and Aitken (2020) also found that the shadow banking system was at least 50 per cent larger than previously estimated.

Table 1: Global Financial Centre Index rankings by global area (Z/Yen and China Development Institute), March 2007-September 2021 (Top 18 centres only)

Global area	Financial centre	March 2007 to March 2010	Sept. 2010 to Sept. 2013	March 2013 to March 2017	Sept. 2017 to Sept. 2021
UK	London	1	1	1	2
US and Canada	New York	2	2	2	1
	San Francisco	9	10	7	9
	Washington DC	13	10	7	15
	Vancouver	17	12	13	11
East Asia	Hong Kong	3	3	3	3
	Singapore	4	4	4	4
	Tokyo	8	5	5	6
	Shanghai	14	7	11	5
	Beijing	16	15	14	7
Europe (non EMU)	Zurich	5	6	6	8
	Geneva	6	8	10	13
Europe (EMU)	Frankfurt	7	9	12	10
	Paris	10	14	14	13
	Luxembourg	11	13	9	12
	Amsterdam	15	16	16	16
	Dublin	12	17	17	17
	Milan	18	18	18	18

Notes: This listing is drawn from rankings produced by the Z/Yen Long Finance Group in collaboration with China Development Institute. These data report the rank of the 18 top Global Financial Centres over the period March 2007 - March 2021. Rankings encompass activity within each of the time periods shown. Source: Authors' own estimates, based on reports produced by Z/Yen Long Finance Group. See <https://www.longfinance.net/programmes/financial-centre-futures/global-financial-centres-index/>

global UK banks, in the period leading up to the crisis.⁴ To preserve the integrity of the globally hyper-leveraged financial system, and to avoid confronting the problem of 'too big to fail' megabanks, many countries provided bailouts for their financial institutions. According to Stolz and Wedow (2010), the UK package of £217.8 bn – including capital injections and liability guarantees – was the highest in monetary value recorded for Europe and the US. The UK's sovereign debt doubled overnight. Despite the high costs imposed on the public fisc, few penalties were imposed for malfeasance in both the UK and the US

Effects on institutions: Following the pattern adopted across Europe (Tooze 2018: Chapter 15), the newly-elected UK coalition government imposed macroeconomic austerity measures in June 2010. And while the EU explored different

measures to reduce financial risks (seeking to replace 'bail-outs' with 'bail-ins'), the UK government's policy response was to permit its financial sector to carry on: its definitive response to the crisis was to dissolve the Financial Services Authority, which had failed in its prudential regulation and consumer-protection duties, distributing these responsibilities respectively to the Bank of England and to a newly-created Financial Conduct Authority.

So the City carried on, thriving anew after the Global Financial Crisis. Table 1 reports comprehensive rankings for the 18 leading global financial centres for four different subperiods between 2007 and 2021. Note that the City retained its top ranking until the period commencing in September 2017. By contrast, every other major financial centre in Europe, whether inside or outside the Euro area, experienced a ranking decline in the post-crisis period.

Consequences for the adaptability of the City: The City's post-crisis lead involved a reassertion of its estab-

⁴ The European and UK interbank markets have never fully recovered. LIBOR-based contracts ceased at the end of 2021.

lished strengths in an environment that saw a slowdown in securitization volume, including the virtual collapse of subprime. The City's "exceptional" advantage vis-à-vis EMU-based competitors remained: its strengths in commercial practices, including risk management, as well as financial management consultancy; and its capacity to shape British Government decision-making according to its preferences. Consequently, the City remained a key locus for offshore institutions. London's total of 250 foreign banks exceeded that in New York, Paris, or Frankfurt. And over 500 foreign companies in London are listed on the London Stock Exchange, more than the total on the US NYSE and Nasdaq exchanges. This gives it the highest equity-market capitalisation relative to GDP among advanced countries.

Another source of its strength is the diverse portfolio of financial services on offer, many related to historical strengths developed during the UK's global-empire period. The City's insurance industry has become the largest in Europe and third largest in the world. It has a world-leading 22% share of the global marine insurance market and accounts for 10% of both global reinsurance and pension assets. The City has the second-largest global total of assets under management, a third of which are managed for foreign clients. The City is also the leading European centre for management of sovereign wealth funds and private equity funds. Fed by these activities, the City's role in both domestic and foreign financial management consultancy grew rapidly after the crisis: by 2019 the City's diverse population of small, medium and large consultancies led Europe in this business area, capturing some 13% of global fee and commissions revenue.

A legacy of the City's 1960s-era establishment of the Euromarkets is its leading global role in wholesale finance, especially offshore bonds. Its offshore profile has grown considerably since the Global Financial Crisis: it accounts for 17% of cross-border bank lending, and its hedge-fund assets have doubled as a share of the global total, to 18%, since the crisis. Twice as many US dollars are traded in the City as in the US, and more than twice as many euros are traded in the City than in all the euro-area countries combined. The City that 'speaks your language' leads the world in a range of intermediary and professional services, many related to risk management: In 2014, the City was the leading derivatives centre worldwide, accounting for nearly half of trading in interest rates OTC derivatives turnover and 41% of the foreign exchange trading.

5 Post-crisis fragilities: The City's triple market-spatial contradiction and the meaning of Brexit

Despite this record of continued success, the Global Financial Crisis set in motion or accelerated several dynamics that have hit areas of strength built up by the City in the course of its first and second reinventions. While these developments do not affect some City activities, such as consultancy and commercial services, they have squeezed the market space available to City-based firms and offices along three dimensions: offshore (Euro) markets for currency and financial instruments (loans and bonds); the provision of multiple financial services to EU firms and financial intermediaries; an independent role in global financial space. This exposes the limits to adaptability faced by the City at present, as a result of previous responses to structural shocks. Avoiding either of the first two squeezes would require clawing back hegemonic power. This is not in any of the cards in the City's hand: the contradictions stemming from being the preeminent global centre while linked to a post-hegemonic nation and currency are coming ever more clearly into view.

The first two impacts of the Global Financial Crisis have fallen precisely on the market space opened by the City's first two reinventions summarized above. The first reinvention involved the City's creation of – and leading role in – a mature 'Euromarkets' platform for offshore-currency lending and leveraging. In the subprime boom, the City provided the hyper-leveraging platform used by shadow banks to spread subprime paper across the UK, Europe, and East Asia. As noted above, the key was the absence of any limits on rehypothecation in the UK: this permitted the hyper-leveraging of the money markets required to support over-extended asset positions. The Financial Stability Forum, established after the G20 London in April 2009, took measures to create continuing oversight of liquidity and leverage in the global financial system; beginning in 2011, the FSB published lists of the global systematically important banks (GSIBs) and established capital-asset ratios linked to risk and size; it also monitored the activities and size of shadow banks. These 'soft law' guidelines affected domestic regulators' rules and controlled – while not eliminating – rehypothecation-based leveraging. This, together with the reduced global demand for opaque high-return securities, considerably reduced London's Euromarkets role. Restoring demand would require the rekindling of the 'follow the leader' game played by US megabanks with globally-ambitious megabanks from other countries. The Federal Reserve itself, as Tooze (2018) demonstrates, was barely able to suc-

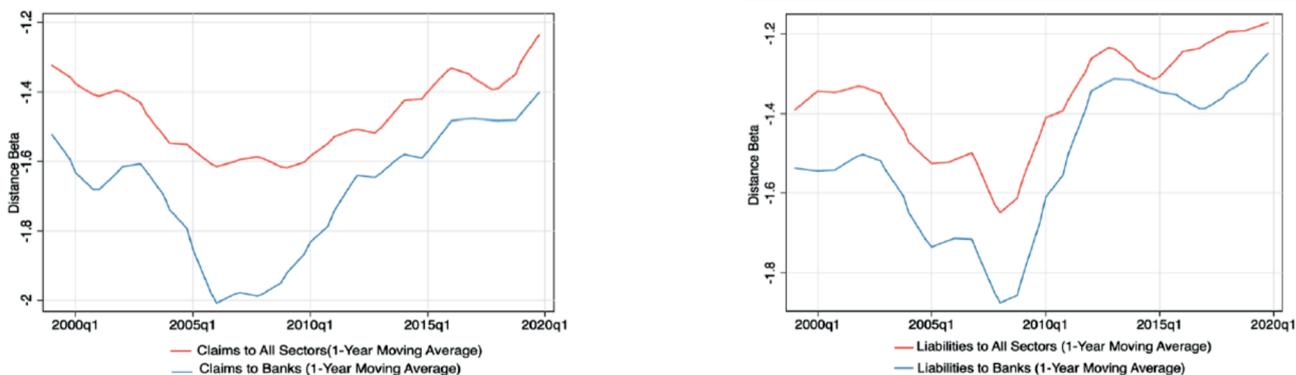


Figure 1: Distance Beta Trend Over Time (OLS)

successfully play its international lender-of-last-resort successfully in the Global Financial Crisis. The Bank of England could not fathom taking over that role, and thus has acted to constrain, not enable, its megabanks' leveraging ambitions. Indeed, the global reputation of London's megabanks has been considerably damaged by their participation in the LIBOR rate-fixing scandal.

Now consider the City's second reinvention: joining Europe's single market so as to create deep and extensive linkages with Continental financial centres. Here too limits emerged after the crisis. For while these centres are all nodes in an archipelago economy, EMU countries are embedded in national macroeconomies that lack central banks able to issue national currencies at will – a limitation not shared by Wall Street and the City, and one that came to the fore in 2008 (Dörry and Dymski 2021). Euro-area financial centres compensate for this limitation by sustaining trust-based localized relationships (Dörry 2015). Emblematic here is the use of clearinghouses and central counterparty-based arrangements, as in the Euro interbank repo market. The EU has moved strongly, if unevenly, after the Global Financial Crisis to establish unified policies in several areas: prudential regulation of banks, the operation of markets for securitization (the Capital Markets Union), and anti-money laundering policies. All of these efforts pushed back against the UK's 'light touch' regulation and against the 'centralizing momentum of global finance' (Dörry and Dymski *op cit.*) that operated relentlessly prior to the crisis.

Of course, these steps toward developing more coherent post-crisis policies for European finance pushed against the open global approach championed by the City. And since they were initiated while the UK and its City remained inside the single market, they drew immediate criticism from the UK. As early as October 2011, UK Prime Minister David Cameron complained in a speech that the UK's finance industry, a 'key national interest' was 'under attack' from EU directives (BBC 2011). Cameron was in no position

to push back against these EU measures, much less against the standards set by the Financial Stability Board.

The 'exorbitant privilege' of the US dollar in the global system puts both UK and EU financial firms seeking to play at the global scale at an unbridgeable strategic disadvantage, for three reasons. First, the Federal Reserve is the only central bank with the proven capacity to function as an international lender-of-last-resort in the neoliberal era. Second, the Federal-Reserve-underwritten wholesale dollar market supports global money markets. Third, global current and capital-account balances make the US a global liquidity sink: only the US, among all nations, can systematically violate the balanced-budget rule without consequence (and it has done so since 1981). The structural design of the ECB and of European banking, only lately modified by the European Banking Union, doom any EMU-domiciled bank from succeeding in global financial competition. Once shorn of this 'localized privilege', limits on UK banks' market reach – and, for that matter, on the attractiveness of the City of London as a global locus for non-UK banks – are similarly exposed.

UK banks' involvement in money-laundering and in rogue trading had formed part of the defining pattern of financial-market excess that ended in the Global Financial Crisis. And that crisis, as noted, could not have been resolved by the Bank of England. So while the City's politicians, who had so faithfully supported its growth as an off-shore magnet for capital and wealth, could back the City in regulatory fights with Europe, they could not restore global market conditions in which unrestrained competition among national-champion megabanks could play zero-sum speculation and hedging games without apparent cost to this competition's political cheerleaders.

The upshot of these developments is that the 'centralizing momentum' (Dörry and Dymski 2021) that had brought the City together with the EU single market began to reverse after the crisis. This reversal can be dramatically seen in the

simple gravity-model graphic shown in Figure 1 (authors' own). The gravity model examines whether flows of goods or finance across borders increase or decrease with the physical distance between the countries or regions being measured. Drawing on the Bank for International Settlements' locational statistics on cross-border banking flows, Figure 1 builds distance beta measures using data for UK banks' gross international financial claims and liabilities on banks and non-banking sectors in 182 countries worldwide for the years 1999–2019. Supplementing these data with spatial distance measures compiled by the Centre d'Etudes Prospectives et d'Informations Internationales in Paris (www.cepii.fr), we are able to show the quarter-by-quarter computed distance between the City of London and a weighted sum of its counterparties for claims (LHS of Figure 1) and liabilities (RHS). For both claims and liabilities on banks and on all sectors, Figure 1 shows a reversal in the 'gravity' of these point-in-time positions. These positions are larger as distance decreases, until the period of the crisis. This is the anticipated result, as less distance is associated with reduced transport costs, fewer cultural and institutional barriers, reduced informational asymmetries and costs, etc. However, in the second half of this period, the opposite effect is observed: outstanding commitments, on both the asset and liability side of UK banks, are increasingly far away. Insofar as the City/EU single-market relationship is a distance-minimizing factor, the influence of this factor on the overall distance beta weakens steadily as time passes.⁵

Crisis triggers: This brings us to Brexit. Austerity macroeconomic policy, as noted, was installed by the Conservative-led coalition government in 2010. The pace of recovery of employment and earnings was slow, especially slow in areas of the country that had never fully rebounded from the deindustrializations of the 1980s and 1990s. Cuts

5 Combining data from the BIS and CEPII permits us to run a univariate test on the relationship between the UK global financial position within the international banking system (distance) and bilateral banking flows. Specifically, for each quarter and year, we estimate the univariate relationship between the UK's distance from its counterparties and the overall volume of claims and liabilities traded. We store the cross-sectional beta coefficients for each year-quarter and plot the coefficient values over time. Many factors can explain the 'reversal of gravity' demonstrated in Figure 1; a full gravity-model estimation taking a multivariate approach helps to elucidate individual influences. We have done a preliminary multivariate analysis; for details, contact the authors directly. Note that a univariate test on the relationship between the City of London and financial centres in EU member countries was tried, and produced unsatisfactory results: the reason is that incorporating only London-EU financial centre distances in the calculation gives a measure of the shifting 'gravity' of UK claims and liabilities with counterparties in Europe per se.

in social welfare and in support for the National Health Service, on top of joblessness and wage stagnation, created what Philip McCann (2020) has called the 'geography of discontent.' Resentment toward politicians generally rose to new heights. Labour had been knocked out of office in 2010. Prime Minister Cameron offered a fresh new face at the head of the Tories; but people were looking for someone to blame.

London, fuelled by the City economy at its heart, grew ever more prosperous on the back of the reviving global financial industry, even while the remainder of the British economy stagnated. The City has mounted a continuing campaign highlighting its contributions to the UK economy: the largest taxpayer, biggest exporting industry, generates a trade surplus larger than all other UK industries' net exports, and so on.⁶ This narrative was supported by the government response to the UK 'productivity paradox,' wherein its national productivity levels were lagging behind European competitor nations' already low levels. At the regional level, low productivity is due to low levels outside London, especially in the North; London itself registers more globally competitive levels of productivity. This leads to the political conclusion, for a political elite intertwined with City interests, that freedom of global action for Britain's offshore and globally-connected financial complex must be protected at all costs. A central motivation in Cameron's deepening confrontation with the EU in the years following the Global Financial Crisis was to secure opt-outs for the City. However, this renegotiation had unintended consequences, with immigration issues coming to dominate the referendum debate, to the detriment of City interests (Thompson, 2017). Ultimately, unable to resolve pro- and anti-EU conflicts within his own party, Cameron put the Brexit referendum on the political table.

Triggered by the referendum, Brexit is, at its core, 'an organic crisis of the British state' (Jessop, 2017), which 'lacked the capacities to engage in statist intervention, or effective corporatist coordination, or a consistently rigorous laissez-faire line and therefore oscillated uneasily among different strategies that all failed in their different ways in different conjunctures'. And since the British state had removed itself from EU discussions about what post-crisis measures regarding financial regulation and oversight should be taken, decisions that were formerly agreed jointly were now those of a sovereign overseas entity. This crisis

6 *TheCityUK* (2020) asserted that the financial industry contributed over 10% of the UK's total economic output and employed more than 2.3 million people, with one third of these jobs in the City; and the UK's surplus on financial and related professional services trade stood at £79.7 billion.

of the state, in turn, had significant repercussions for the City, which historically depended on the ability of successive British governments to ward off political interference from states in whose currencies the City is doing business (Thompson, 2017).

6 Post-Brexit changes in European finance and the global role of the City of London

Effects on institutions: A key short-term institutional consequence of Brexit for finance in general and the City in particular has been fragmentation. Brexit has given individual EU member states as well as the EU as a whole the opportunity to exercise their own political and financial interests and actively shape the emerging financial landscape in Europe and beyond. Howarth and Quaglia (2018) speak of a ‘battle for finance’ amongst EU nations seeking to lure business away from London. Several EU member states have been backing their respective financial hubs to replace the City, most notably France (Paris) and Germany (Frankfurt), but also the Netherlands, Luxembourg, and Ireland (Lavery et al, 2019). According to Lavery et al. (2018), this took two main forms: attracting what were deemed to be vulnerable financial subsectors (e. g. clearing, asset management) away from London, but at the same time also using Brexit as a ‘bargaining chip’ to promote further financial liberalisation at both the domestic and EU levels to reduce competitive disadvantages vis-à-vis other centres.

New Financial (2021), a London-based think tank, has found that 440 financial services firms have moved at least part of their operations, assets and/or staff to financial hubs in continental Europe as a result of Brexit. The assets moved so far are estimated at £900bn, or approximately 10 % of the entire UK banking system (New Financial, 2021). Different European financial centres are attracting different types of business, reflecting sector specialisation (ibid.) Nevertheless, ‘the precise implications of any one departure of a financial institutions or a group are uncertain’ (Hall and Wojcik, 2021: 196).

So far, most relocations have benefitted Frankfurt, Luxembourg and Dublin (Heneghan and Hall, 2021a), with the former expected to be the primary beneficiary in asset terms (New Financial, 2021). Dublin has so far been able to take advantage of its status as a common-law jurisdiction integrated into the EU (in a context where English common law continues to underwrite financial contracts). However, countries such as France and Germany are in the process

of establishing their own English-language courts, which will challenge Dublin’s advantage in the long term (Beesley, 2018).

Nevertheless, a large-scale displacement of London’s financial power is, at least for now, unlikely, because of the way in which the EU is set up (majority voting, veto rights), and the fact that member states seem to be competing with each other in neo-mercantilist fashion for the financial spoils of Brexit instead of engaging in cooperation (Howarth and Quaglia, 2018). Little progress has been made in terms of the development of the European capital markets union, which would strengthen the links between the different financial centres in the EU and reduce dependence on London as a financial capital external to the EU. As Fleming et al. (2022) wrote for Financial Times, ‘the problem is that (...) key capitals have not been focusing their political energy on the EU financial agenda’. Liquidity differences between London and other European financial centres are also important to note here: London’s liquidity has always been more about pension funds and global sovereign wealth funds, which poses challenges for European regulators in a context where only a handful of financial institutions dominate the market. Another reason why no single financial centre has emerged as a clear contender is that some relocating firms (e. g. Bank of America) have deliberately split their business across different hubs, based on areas of specialisation (New Financial, 2021). As such, while London has been losing business, it has not been losing to any one hub (Hall, 2021). With no clear successor in sight, London is still likely to dominate, albeit to a lesser extent (Hall, 2021; New Financial, 2021), with several European centres vying to attract different parts of the City’s business away from London (Hall and Wojcik, 2021).

Two-way traffic is another aspect of this fragmentation process. EU-based financial firms have been taking advantage of the UK’s Temporary Permissions Regime, which allows them to continue to operate in the UK until the end of 2023, in the absence of passporting rights (the Guardian, 2021a). Firms like ABN Amro, Citibank, and Handelsbanken have instead set up new subsidiaries in the UK in the aftermath of Brexit (New Financial, 2021).

International dynamics and interlinkages: In terms of global interlinkages, the overall picture is altogether more complex than just a zero-sum game between the UK and the EU: other relocations occurred across the continent, with some financial operations being relocated to other financial centres, particularly New York and Chicago. Indeed, even the battle for supremacy in underwriting common law financial contracts might yet be lost by Dublin not in favour of Frankfurt or Paris, but New York. This has been described by Heneghan and Hall (2021a; 2021b) as a ‘nega-

tive-sum game for European finance'. This is particularly true for derivatives trading, and can be explained by the growing regulatory divergence between the UK and EU against the backdrop of the US's 22 equivalence agreements with the EU. The UK only has two equivalence agreements (securities depositories and clearing services) with the EU at present, in areas of high systemic risk (Hall, 2021).

For as long as the UK was a EU member state, UK financial institutions had benefited from passporting rights: they could conduct their European operations from the UK without requiring additional clearance from the relevant member state. Passporting rights were lost as a result of Brexit; City officials – and Remainers more broadly – then campaigned for equivalence with the EU. Equivalence would entail a formal decision by the EU confirming that the UK's regulatory regime (as a third country) is equivalent to the EU's. As opposed to passporting, equivalence is not a blanket decision, but instead needs to be granted for every area of financial services separately; it can also be revoked at short-notice, being a privilege and not a right (Hall, 2021).

Despite the strong push by the City, equivalence hopes for the UK were dashed in early July 2021, when Chancellor Sunak announced, in his Mansion House speech to British financiers, that no comprehensive post-Brexit agreement in the area of financial services between the UK and the EU can be reached (Partington, 2021). EU officials have been wary of a potential regulatory decoupling between the UK and the EU ever since the Brexit vote; Sunak's statement that greater financial divergence between the UK and the EU is to be expected in the future confirms the EU's fears. In line with the 'global Britain' discourse embraced by his predecessors at the Treasury, Sunak spoke about 'global opportunities' to be seized post-Brexit, in a shift away from the EU. These 'opportunities' included a financial services partnership with Singapore and deals with the US, China and the Indo-Pacific region (*ibid.*). The more time passes, the less valuable equivalence will be, even if eventually granted; not just because of this purported pivot away from Europe towards other regions, but because equivalence is, as Hall (2021) put it, a 'perishable good': financial firms will incur significant costs when planning how to adapt to the new post-Brexit context, in the absence of equivalence, making changes they would be reluctant to unpick if equivalence is granted further down the line.

More significant changes are expected in 2023, once the temporary agreements put in place to attenuate the impacts of the UK's departure from the single financial market expire (Davies 2021). These provisions had contributed to what has been labelled an 'orderly' exit for the UK financial sector in January 2021, having acted as a buffer;

their removal will undoubtedly result in greater uncertainty. With the end of euro-clearing, the City will lose its onshore centre position in Europe, and will remain onshore to the UK only, with the rest of the EU becoming offshore, which is likely to further threaten London's position as a financial centre. The aforementioned Temporary Permissions Regime granting access to the UK market for EU-based firms, will expire at the end of 2023 (New Financial, 2021). The impact of this will depend on whether, and how many, EU-based firms will decide to formally apply for authorisation in the meantime (New Financial, 2021).

7 Efforts at a third reinvention of the City of London: a European hub for Chinese finance, or the global hub for fintech

Consequences for the adaptability of the City: The third reinvention of the City can be understood in connection with the idea of a 'global Britain' and associated policy responses, championed by successive PM/Chancellor partnerships (Green, 2018b), starting with Cameron/Osborne and May/Hammond, and continuing under those led by Johnson, Truss and Sunak. The specifics of 'global Britain' are difficult to pinpoint, but generally, this entails a pivot away from Europe, and stronger partnerships instead with the US, China, the Indo-Pacific region. Critics have pointed out that 'global Britain' is not a coherent set of policies, but merely an idea, rooted in the country's imperialist past.

Politically charged and inchoate, the idea of 'global Britain' has nevertheless influenced some concrete policy changes in the domain of finance in recent years. One of these changes is the City's ambition to become a European hub for Chinese finance. In the context of a changing European and international economic order, the City's priorities shifted to new business opportunities predicated upon China's efforts to internationalise its currency. Even before the Brexit vote, a significant turning point in Sino-British relations was Chancellor Osborne's 2013 visit to China, when he and the Chinese Vice Premier agreed on a deal to allow Chinese banks to open branches in London, as well as to facilitate the liquidity of the RMB in London (Hall, 2017). This demonstrates the continued importance of the British state in supporting the competitiveness of the City.

The City's ability to capitalise upon the internationalisation of the renminbi suggests its continued adaptability to changing domestic and international conditions; indeed, this is one of the reasons why job losses in the City post-

Brexit have not been as extensive as originally predicted. Nevertheless, this has been termed a ‘uniquely vulnerable policy’ (Green, 2018a,b), highly contingent upon continued support from the government, in a context where ‘an accord’ with China ‘may mean discord with’ the US (Ryan, 2020). In other words, Britain is caught between the current hegemon and its contender, in a narrow space, that is difficult to navigate; while Cameron and May had been keen on strategic Sino-British partnerships, we have witnessed a reversal of that policy under Johnson and his successors, who have aimed instead to strengthen relations with the US and Western interests more broadly. How the UK-US relationship, on the one hand, and the UK-China relationship, on the other, will evolve now under Biden’s leadership, remains to be seen. For now, this strategy has ground to a halt due to the recent flare-up of geo-political conflict between the UK and China. Meanwhile, gains for the US as the current global hegemon in the fallout to Brexit, have already been noted: Heneghan and Hall (2021a) identified the US as the main extra-European beneficiary of Brexit-related relocations of financial firms and activities.

Fintech, the novel blending of finance with technology (Dörny, 2017) has been a second avenue explored by the City in its reinvention efforts post-Brexit, linked to the idea of global Britain (Financial Times, 2021). The City is regarded as ‘a pioneer of the fintech revolution’ (Boffey, 2017), currently hosting half of Europe’s 50 leading Fintech companies (Sohns and Wójcik, 2020). Access to top tier universities, a diverse talent pool, and government support have been listed as some of the main reasons behind Britain’s thriving fintech sector (Makortoff, 2021). Prior to the Brexit vote, then-Chancellor George Osborne declared in 2015 that he wanted London to become ‘the global centre for fintech’ (Boffey, 2017). In this context, Brexit was seen by some commentators as an opportunity for the UK ‘to make itself more attractive for fintech (...) fighting the battles of tomorrow, rather than battling to preserve a former glory’ (Financial Times, 2021). In 2022, the UK government unveiled proposals to make the country a global hub for cryptoasset technology and investment. The EU regulatory regime, by contrast, is seen by some as too cumbersome and complex, stifling innovation and creating a ‘real risk’ that EU member states are ‘left behind in the FinTech innovation race’ (Ahern, 2021).

However, as noted by Sohn and Wójcik (2020), London’s bid to become the global centre for fintech is challenged by competitors such as New York, Silicon Valley and Singapore. Furthermore, media headlines in the aftermath of Brexit (e. g. Boffey 2017) have warned of an exodus of fintech as a consequence of Brexit and of the loss of passporting rights. Nevertheless, the sector seems to have bounced back in

more recent years. The UK fintech sector generated 6.6bn in revenue and employed 76.500 as of the first half of 2020. UK fintechs received 20.1M from investors in 2019, up from 15M in 2017 (Stafford *et al.* 2021).

Since March 2020, London has constantly been ranked in the top five global financial centres that are deemed to be competitive locations for fostering a strong fintech industry, as illustrated in Table 2 below. The Global Fintech Index scores financial centres according to how advantageous they are for fintech, based on factors such as local business infrastructure and fintech ecosystem quality (including specialist knowledge and skills). London currently ranks fifth globally, after New York, Shanghai, Beijing and Shenzhen, and first in Europe.

In July 2021, the British fintech sector attained peak investor interest, having attracted investments worth \$5.7bn during the first 6 months of the year, via 317 deals (Makortoff 2021). Fintech lobbyists have also recently secured concessions from the government, in the form of a ‘scale-up visa’ meant to facilitate recruitment of highly-skilled staff from around the world. The idea for this visa dates back to a proposal made by a former CEO of WorldPay in 2016 (Financial Times, 2021), to address a primary concern of the fintech industry in the aftermath of Brexit, around recruitment of tech talent in the context of the end of freedom of movement (Sohns and Wójcik, 2020).

On the other hand, higher transaction costs as a result of Brexit, particularly in the form of non-tariff barriers and regulatory uncertainty (*ibid.*), remain a concern for the sector. Following Sunak’s Mansion House speech, the CEO of fintech firm MarketAxess maintained that British policymakers should still strive for equivalence, and that the City should also push harder for this (Financial Times, 2021), to avoid these extra costs.

8 Conclusion

In contrast to other investigations of the impact of Brexit on the City of London, which largely focus on short-term market-share changes, this paper puts Brexit, and the Great Financial Crisis that lit the Brexit fire, into the context of the City’s historical evolution since the 1920s, recognising that previous crises and policy responses are key factors that shape adaptability and its limits today in an interactive way. This approach makes visible the shifts in geo-economic power that undergirds financial center operations, and exposes the measures – here termed reinventions – that the City has taken to preserve a vital post-hegemonic role within global financial markets. The City of London has

Table 2: Fintech Index ranking by global area (Z/Yen and China Development Institute), September 2019-March 2021 (Top 20 centres only)

Global area	Fintech centre	September 2019	March 2020	September 2020	March 2021
UK	London	6	4	4	5
	<i>Edinburgh*</i>	-	-	16	-
US and Canada	New York	3	1	1	1
	San Francisco	9	9	7	9
	Washington DC	14	11	10	12
	Vancouver	-	-	20	20
	<i>Los Angeles*</i>	-	14	12	8
	<i>Chicago*</i>	10	15	13	-
	<i>Boston*</i>	17	-	12	-
East Asia	<i>Toronto*</i>	-	-	-	-
	Hong Kong	7	7	6	6
	Singapore	8	5	9	7
	Tokyo	12	10	14	16
	Shanghai	2	3	3	2
	Beijing	1	2	2	3
	<i>Shenzhen*</i>	5	6	5	4
	<i>Guangzhou*</i>	4	8	8	11
	<i>Chengdu*</i>	18	-	-	-
<i>Seoul*</i>	-	-	18	18	
Europe (EMU)	Frankfurt	20	-	20	20
	Paris	-	-	15	17
	Amsterdam	-	-	17	-
	<i>Stuttgart*</i>	15	12	-	-
	<i>Vilnius*</i>	-	13	-	-

* Cities not listed in Table 1.

Notes: This listing is, like Table 1, produced by the Z/Yen Long Finance Group. Whereas Table 1 shows overall rankings of 'global financial centres', this ranking combines two sets of factors: first, elements important for fintech providers, including (in order) access to finance, availability of skilled staff, ICT infrastructure, an ecosystem encouraging innovation, regulatory environment, and demand; second, important areas of fintech activity, including (in order) big data analytics, payment transaction systems, cyber security, credit and risk modeling, trading platforms, and cyber currencies. These elements and their rankings were based on surveys of informed industry participants. See pages 43-46 in:

https://www.longfinance.net/media/documents/GFCI_29_Full_Report_2021.03.17_v1.2.pdf

Listing notes: These data report the rank of cities from four global areas. Cities appearing in the Table 1 list of global financial centres are shown here in the same order by global area, except for five cities with zero appearances in the fintech ratings, which appear in Table 1 but are excluded here: Zurich, Geneva, Luxembourg, Dublin, and Milan. Cities from these four global areas that did not appear in Table 1 are listed below Table 1-listed cities.

reinvented itself so successfully that finance has achieved and retained a privileged place in UK industrial policy.

However, the Global Financial Crisis unmoored the City from the niche that its two reinventions have provided it as a centre of multi-market expertise and services for off-shore services, snugly located within the EU's single market. The publicly-funded bailout of several UK megabanks, which had collectively exploited light-touch regulation to make London the epicentre of hyperleveraged risk-taking prompted a change of government – and in turn the adoption of austerity macroeconomic policy. EU post-crisis policy measures to improve the oversight and coherence of the financial portions of its 'single market' were perceived as interfering with an autonomy of action within that market that had, until the Global Financial Crisis, been seen as strengthening Europe's global competitiveness. A British political elite hoping to retain its autonomy of action in domestic politics took the opportunity to blame emerging EU constraints on the City's autonomy as a primary cause of UK economic stagnation. This informed the political case for Britain's exit from the single market: the UK economy could return to prosperity by unleashing 'global Britain'.

This was always unlikely, as demonstrated by the City's insistence on preserving its 'passport' relationship to the EU single market, or at least 'equivalence' with EU financial standards. When these demands were held hostage to other political considerations in EU-UK negotiations, the globally subordinate position of the City as a space within post-hegemonic Britain was fully exposed.

Linking the current context back to the literature on structural shifts in cities, if we consider the City's successes in FinTech (innovation and technology) or the continued agglomeration of human capital in London (graduates from top universities continuing to flock to the City for work), we might conclude that the City has indeed proved its adaptability post-Brexit and is on a path towards a third reinvention. However, agglomeration, human capital, innovation or technology are only part of the picture, and must be situated in a broader historical and political context. The 'stateless' or 'global city' turned out to be a myth after the financial crisis; genuine resilience will therefore depend, on the one hand, on the relationship between the City of London and the British state, and, on the other, on the position of the City and that of Great Britain relative to the dominant countries now contesting for global leadership in currency and economic power. The ambiguity of Britain's place amidst this unsettled contest gives rise to the uncertainties that the City of London and its political champions have tried to mask by announcing the dawn of a post-Brexit 'global Britain'. Whether current efforts at generating a third reinvention can succeed is ultimately a political question in terms of

whether and how the British state will deal with its existential crisis.

In the meantime, from the perspective of the EU, the short-term policy objective appears to be to boost Europe's capital markets and reduce dependence on the UK financial sector, as evidenced, for example, by the European Commission's proposal for Derivatives Clearing Reform, aiming to repatriate business back to the Eurozone by restricting the euro-related activities of London-based banks (Fleming and Stafford, 2022). If successful, this will embolden the EU, spelling greater competition between UK and European financial markets, and thereby limiting prospects for a City-favourable deal in the future. As this is an evolving situation, it is not possible to draw definitive conclusions about the future of the City post-Brexit; our analysis has nonetheless highlighted that there are real fissures opening up (fissures in banking practices, institutions, and markets) that are gradually coming to reflect the geo-political divides of the nation-states involved.

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