

Financial Services in the UK before and after the Global Financial Crisis (in an EU context)

Outline

1. Background – the UK’s long history of finance and imperialism
2. The City’s revival after World War II
3. Deregulation 1980s and “light touch” regulation before GFC
4. Re-regulation after the GFC
5. A short history of Brexit

1. The Rise of the City



- Lloyd's of London 1686
- Bank of England 1694
- HMG has never defaulted (except during 1970s inflation)
- Financial revolution before the Industrial Revolution
- Massive overseas investments before 1914: £4bn / 35% of national wealth – at the expense to domestic industry?

British imperialism and “Gentlemanly capitalism”



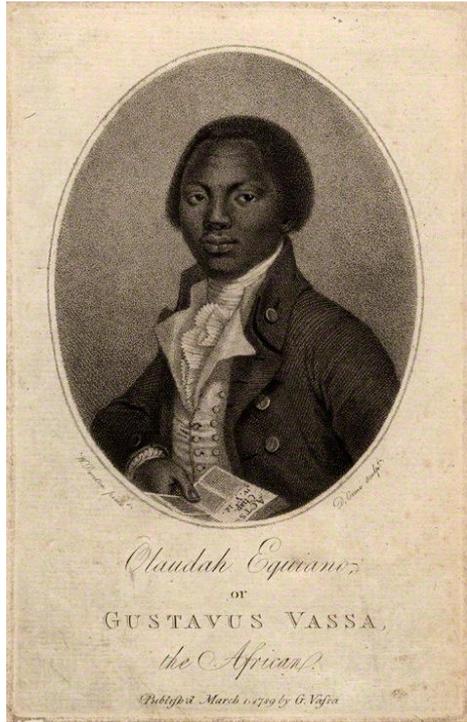
The Rhodes Colossus: Caricature of [Cecil John Rhodes](#), after he announced plans for a telegraph line and railroad from [Cape Town](#) to Cairo.

[Edward Linley Sambourne](#) (1844–1910), [Punch](#) and Exploring History 1400-1900: An anthology of primary sources, p. 401 by Rachel C. Gibbons

As the City developed to finance Empire and overseas investments...

...so-called “gentlemanly capitalism” emerged: finance, imperial government and the military - NOT industry

Dark side: slavery, imperial exploitation



“The abolition of slavery would be in reality an universal good. Tortures, murder, and every other imaginable barbarity and iniquity, are practiced upon the poor slaves with impunity”

Olaudah Equiano

- Britain “transported” over 3 million slaves from Africa to the Americas
- The Bank of England owned 600 slaves
- London financed the trade...
- ... and the Empire

For Jeffrey Sachs: “I have a theorem about the world that almost all problems in the world go back to Britain”



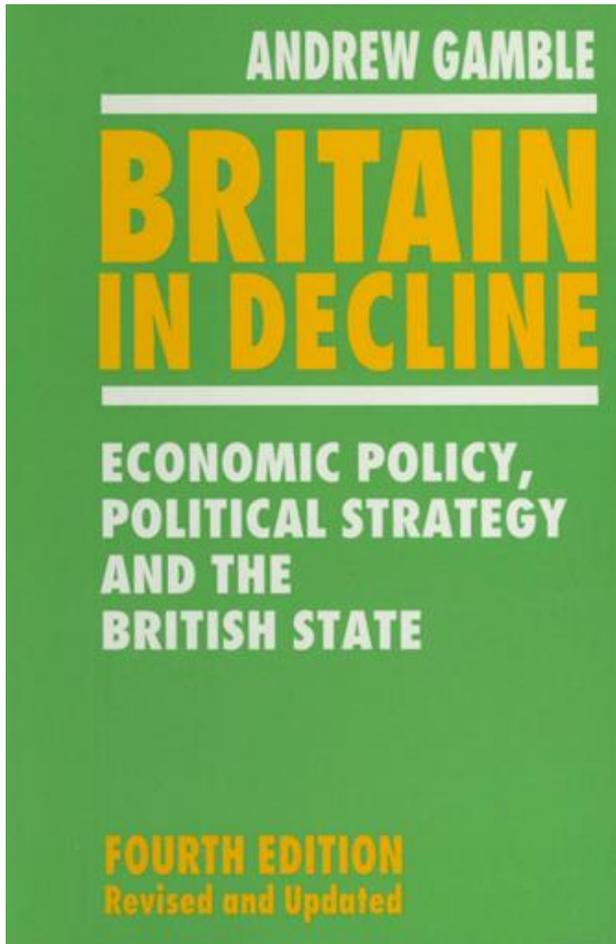
Crimea

Gaza/Palestine

Indo-Chinese border disputes (to say nothing of Kashmir)

“Britain made non-stop trouble... because it was the dominant empire”.

Why Did Britain Fight Germany in 20th Century?



- Britain a sea power
- Germany a land power
- But Britain more allied to free markets and free finance, like the United States

The Genius of the Anglo-Americans?

‘A clash of civilizations has dominated the history of the modern world: the clash between the English-speaking powers of the United Kingdom and the United States, and the various enemy nations since the seventeenth century that have fought against them to shape the world.’

GOD & GOLD
Britain, America
and the **Making** of the
Modern World
WALTER RUSSELL MEAD

Walter Russell Mead, “God and Gold”, 2007

The UK and US – “the maritime order”

Italy had Leonardo, Michelangelo and the Renaissance

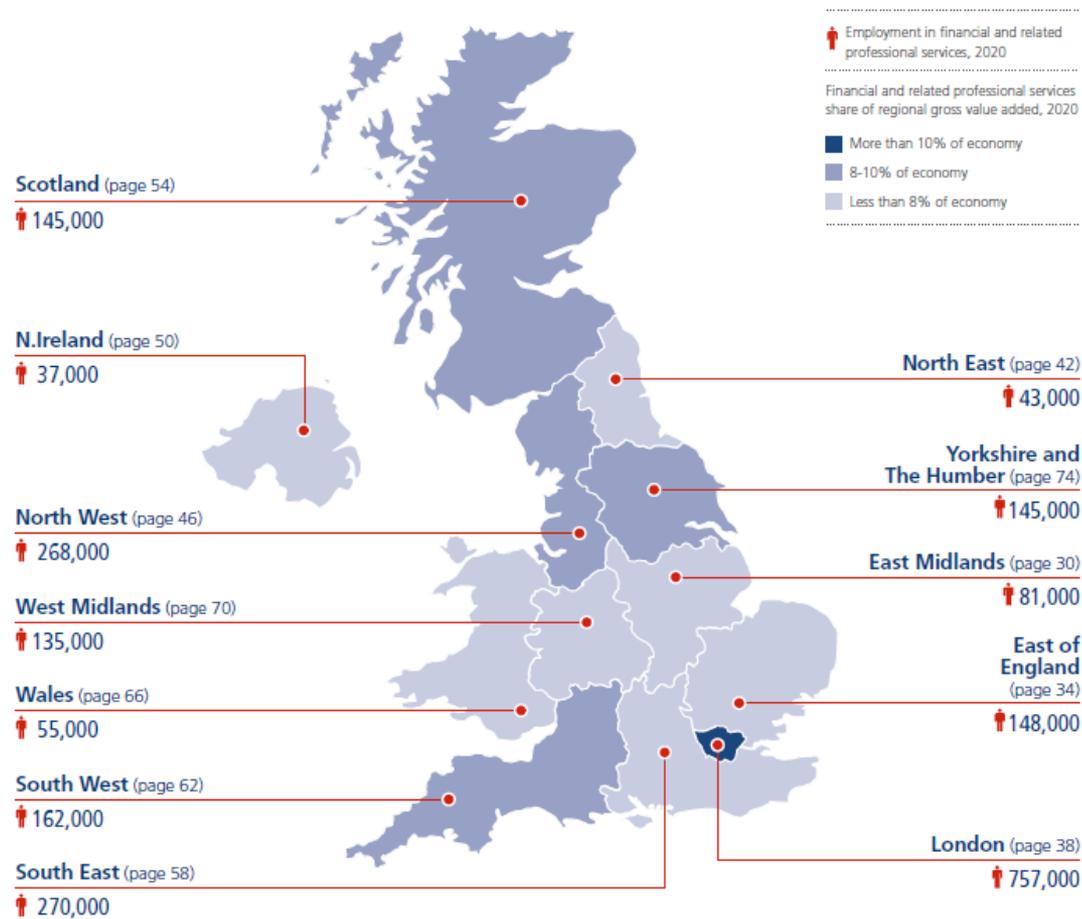
The UK and US have finance

<https://www.youtube.com/watch?v=irqwQk3KE98>

The Spread of The Industry Across the Country

Figure 1: Employment and gross value added in financial and related professional services, 2020

Source: Office for National Statistics, Nomis and TheCityUK estimates



2.2 million jobs in the UK

Two-thirds outside London

Source: TheCityUK, 2022.

The City's Revival after World War II



CANARY WHARF
(now in
post-Covid crisis)

1960s Eurodollar and Eurobond markets

1970s US banks and petrodollars

1979 Thatcherism & deregulation: end to exchange controls

1986: Big Bang – deregulation and internationalisation

Docklands become financial centre etc.

New Labour 1997 > GFC 2007/8

- Bank of England – operational independence – 1997: Monetary Policy Committee (MPC)
- A consolidated macroeconomic regime – along lines of “Jackson Hole consensus”
- Stay out of the euro

“Light-touch” regulation



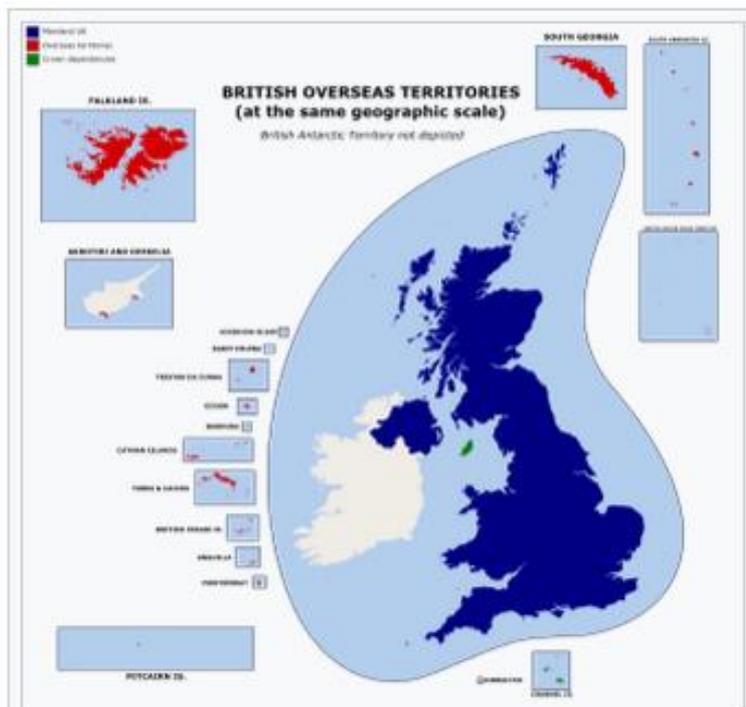
“Light-touch” regulation –
macroeconomics and
finance disconnected –

Financial Services
Authority

(as a company! outside
the Bank of England)

Britain's overseas tax havens

- Bermuda
- The British Virgin Islands
- Cayman Islands
- Channel Islands
- Isle of Man
- Gibraltar



British Overseas Territories (same geographic scale) includes leading traditional and corporate tax global tax havens, including the U.K. itself.

[Michael Foot \(2009\)](#): Crown Dependencies provided “net financing to UK banks of \$332.5 billion” in Q2 2009. p6

The London Laundromat



The UK welcomed Russian money... in a big way
Financial Times, “[How London became the dirty money capital of the world](#)”, April 22, 2022.



Anne Applebaum, 2024.
[London as a hub and investment centre for autocrats.](#)

After the Global Financial Crisis

- Development of prudential regulation:
 - Financial Policy Committee at BoE (2010)
- Financial Services Act 2012
 - Prudential Regulation Authority (at BoE)
 - Financial Conduct Authority (a limited company selling regulatory services to members of financial services industry)

2. Re-Regulation



Independent Commission on Banking
The Vickers Commission – final report 2012

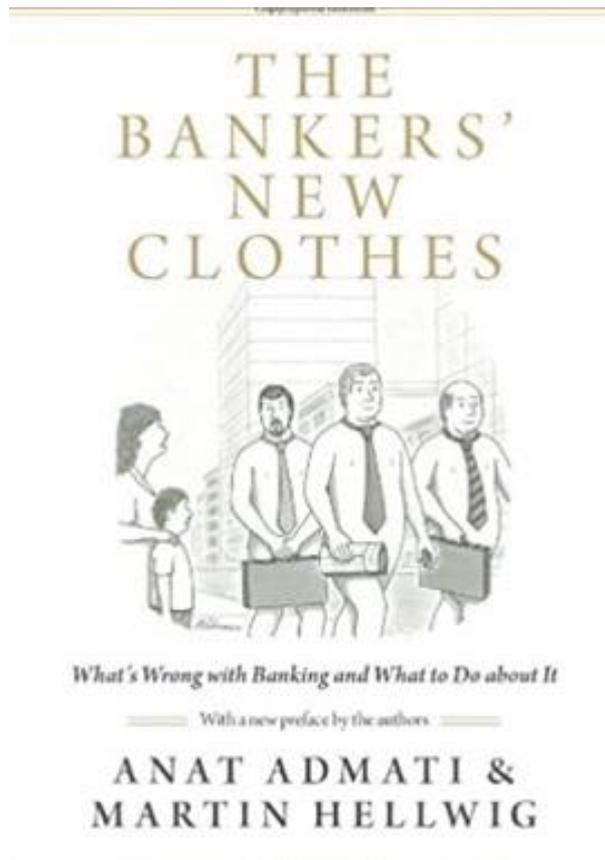
- Higher capital requirements: primary loss absorbing capital equal to at least 17% of assets
- “Ring-fencing” by 2019 of commercial and investment banking activities

Some controversy:

Sir John Vickers, “The Bank of England must think again on systemic risk”, *The Financial Times*, February 14, 2016

- The Commission recommended an extra equity buffer of 3% of RWAs (on top of Basel 3 baseline capital of 8.5%)
- The Bank of England proposed 0.5%
- BoE justified this by new resolution arrangements, better supervision and a counter-cyclical buffer

Admati & Hellwig argue for far higher equity (2013)



- 20 - 30 % equity ratio, which in financial theory bankers apply to other businesses
- Banks not only TBTF
- But under-capitalized and too complex
- (It took [14 years](#) to end Lehman Brother's liquidation)

Over time more was done – 10 years after GFC

Banks

- capital did rise: RWA 4.5% to 14.3%
- \$1.5 trillion in capital raised
- Borrowing in whole sale markets down from 25% in 2006 to 10% in 2017

Financial system

- less toxic shadow banking (down 40%)
- funding sources more varied
- Complexity of derivatives reduced: 60% OTC derivatives cleared centrally – dependencies between banks reduced

Bank of England Fact Sheet: [*The financial crisis 10 years on: what's been done to make the system safer*](#), September 2017.

Individualised Responsibility

Also after GFC and Libor manipulation scandal

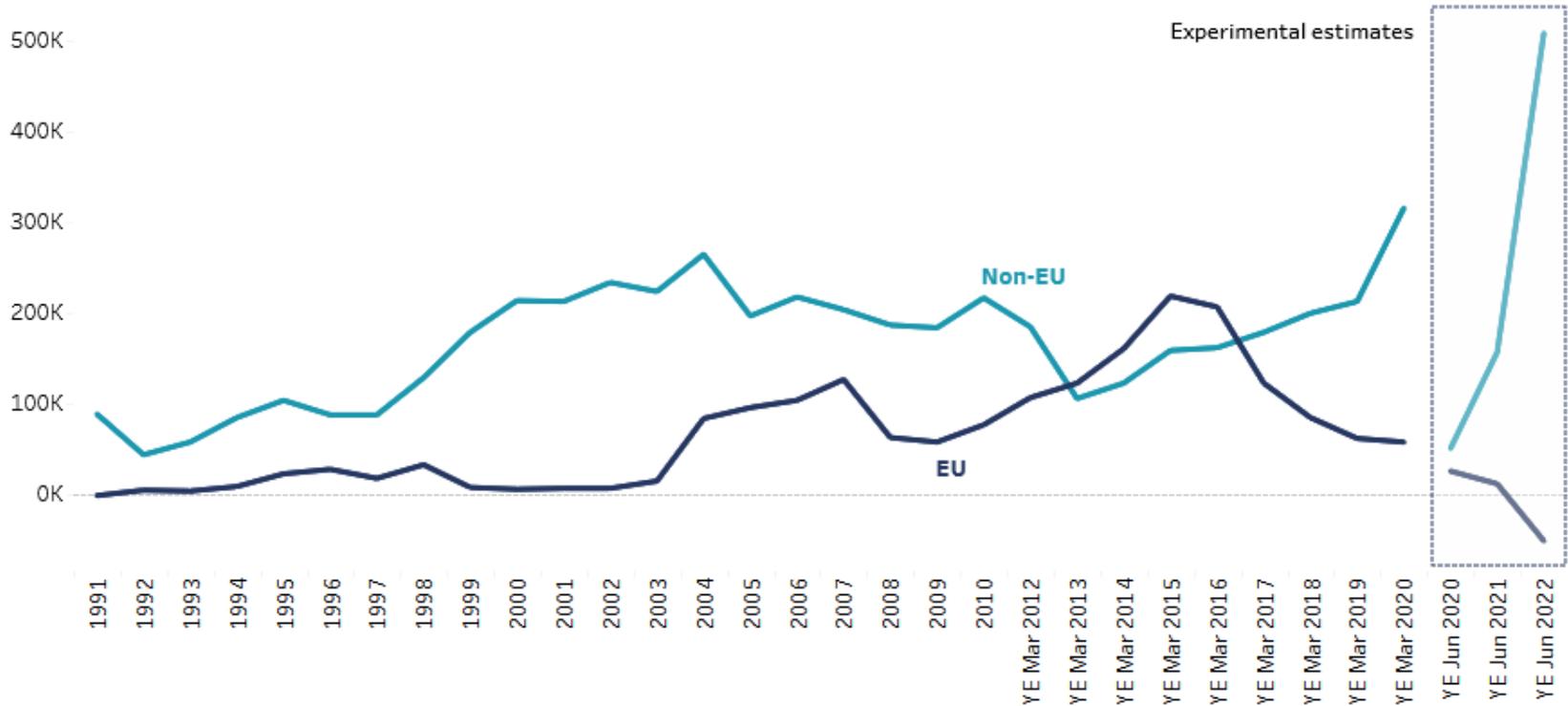
- Senior Managers and Certification Regime (SM&CR)
 - banking sector since March 2016
 - dual-regulated insurers since December 2018.

A short history of Brexit

- Britain historically detached from the EU
- A tradition of Parliamentary sovereignty
- Economic change and inequality > the “left behind”
- Eurosceptic media and politics
- Democratic identity concerns > “take back control”
- Migration after global financial crisis

Estimates of the net migration and immigration of EU and non-EU citizens in the UK, per year, 1991 to year ending June 2022

LTIM estimates are for 1991 to YE March 2020



Source: The Migration Observatory at the University of Oxford, based on ONS data, available at: <https://migrationobservatory.ox.ac.uk/resources/briefings/long-term-international-migration-flows-to-and-from-the-uk/> [29 March 2023].

“Populist fears” – and lies



... and more lies



The results of the referendum

51.89% x 72.21% = 37.45% of electorate

Should the United Kingdom remain a member of the European Union or leave the European Union?

Results

Choice	Votes	%
Leave	17,410,742	51.89%
Remain	16,141,241	48.11%
Valid votes	33,551,983	99.92%
Invalid or blank votes	25,359	0.08%
Total votes	33,577,342	100.00%
Registered voters/turnout	46,500,001	72.21%

The adult in the room



What did Brexit mean?



[Lancaster House speech,
17 January 2017](#)

“Hard Brexit”, leaving the EU, the Single Market and the Customs Union.

“Global Britain”
or Empire 2.0?

Michel Barnier: “stupefied”
at the “number of doors she
shut, one after the other”

Negotiations begin in June 2017



A picture is worth a thousand words

The Brexit Timeline (ChatGPT, 23 October 2025)

- **2013** – UK Prime Minister **David Cameron** promises a referendum on Britain's EU membership to address growing Euroscepticism, especially within his Conservative Party and pressure from the UK Independence Party (UKIP).
- **2016 (June 23)** – The **EU referendum** is held. The result: **51.9%** vote to **Leave**, **48.1%** to **Remain**. The outcome shocks political and financial circles.
- **2016 (July)** – Cameron resigns. **Theresa May** becomes Prime Minister, declaring "Brexit means Brexit."
- **2017–2019** – Lengthy and contentious negotiations with the EU follow. The UK triggers **Article 50** in March 2017, starting the formal withdrawal process. May's proposed Brexit deals are repeatedly rejected by Parliament.

Boris Johnson wins large majority in December 2019 elections, on the promise of an “oven ready” policy to “get Brexit done”



Timeline continued

- **2019 (July)** – **Boris Johnson** replaces May, pledging to “get Brexit done.”
- **2019 (Dec)** – Johnson wins a large majority in a general election, allowing him to pass his Brexit deal.
- **2020 (Jan 31)** – The UK **officially leaves the EU**, entering a **transition period** until the end of 2020, during which EU rules still apply.
- **2020 (Dec 24)** – The **EU–UK Trade and Cooperation Agreement** is reached, defining post-Brexit trade and relations.
- **2021 (Jan 1)** – The transition period ends. The UK fully exits the **EU single market** and **customs union**, marking the completion of Brexit.

The challenge to democracy of complexity



For every complex problem there is an answer that is
clear, simple, and wrong.

(H. L. Mencken)

ixquotes.com

Y a qu'à...

Takeouts

- Institutions and economic behaviour exhibit “path dependency”
- The City has maintained its global position, despite the UK’s medium-sized economy
- Deregulation and innovation have been important
- But Brexit was a significant set-back: non-urban Britain voting against the “urban elite”
- A populist revolt... that has not succeeded economically