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Prawn Cocktails and Cold Shoulders: Labour, the Conservatives and the City of London since the 1990s

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Abstract

This article charts surprising departures in how the two major British parties have cultivated and regulated financial services since the 1990s. During this time, Labour leaderships have consistently sought to accommodate the City, while the Conservatives have defied it at important junctures. This pattern of behaviour challenges the assumption in classical business power theory that Conservatives should be more attuned to finance's preferences than Labour. The article attributes this to the parties' distinct understandings of the interplay between the sector's business power and their own statecraft, which derive from substantially varying political links with the City. Labour's repeated charm offensives are prompted by a sensitivity to disinvestment and perpetually weak political ties. The Conservatives' approach is less sensitive to the sector's economic weight and is underwritten by enduring political ties. The article examines these differences over time and with special reference to two episodes: post-financial crisis banking reforms and Brexit.

Keywords: City of London, banking and finance, party politics, Conservatives, Labour, business power

IN RECENT decades, the success of UK financial services has become ever closer aligned with that of the wider British economy. Britain has the largest finance export surplus of any country, with the sector contributing the third largest share of national economic output in the developed world—trailing only the specialised financial economies of Switzerland and Luxembourg.[1] Yet, as the City has assumed increasing prominence in British life, its political fortunes have also become more parlous. The 2008 financial crash dealt significant reputational damage, contributing to the sector's ostracism during ensuing public debates over Brexit. Both seismic events have also led to bouts of disruptive re-regulation, despite prevailing opposition from the sector. Yet, the responsible governments have been Conservative-led and have at both junctures outflanked Labour's more conciliatory policies. Why has the traditional party of free enterprise shown greater hostility towards finance than its social democratic rival?

Tracing both major parties' stances on the City from the 1990s, this article argues that these are the product of distinct perceptions of the interplay between the City's structural (economic) power and the parties' statecraft, that is, their strategic attempts to win elections and govern effectively. Labour's approach is marked by constraint, an awareness that the UK's oversized finance sector must be accommodated rather than antagonised. Pursuing the sector's confidence in the early 1990s, Labour embarked on its 'prawn cocktail offensive', attempting to establish dialogue and assuage City concerns about a Labour government. Since then, iterative charm offensives have been a feature of each leadership—even those otherwise more hostile to business interests. Yet, this has at best resulted in City ambivalence, or a lack of hostility, rather than a full-bodied embrace.

A relative neglect of Conservative-business relations has long characterised studies of

[1]OECD Data, 'Value added by activity', 2022; https://data.oecd.org/natincome/value-added-by-activity.htm (accessed 24 February 2022).

British politics and this article attempts to redress the balance with respect to finance.[2] Conservative-City preferences are thought naturally to overlap; the party enjoys a default confidence by dint of free market affinities, interpersonal and financial ties. But, far from securing Conservative adherence to majority-City preferences or sensitising the party to the sector's warnings, these linkages have facilitated an expedient form of statecraft that dismisses the sector's opposition when it is perceived to come into conflict with the party's capacity to govern. This has granted the Conservatives freedom to embrace, but also jettison, finance at important junctures, switching from full preference alignment to ambivalence or outright hostility and back again. More precisely, the Conservatives have defied finance at two pathbreaking moments when the sector's preferences have conflicted with the party's capacity to govern effectively: the financial crisis and Brexit. Notably, and contra Labour, the City's threats and warnings about disinvestment in both cases did not dissuade successive Conservative governments of differing ideological complexions. In short, both in and out of office, the recurrent pattern is one of Labour, but not the Conservatives, consistently and actively pursuing the confidence of the City as a necessary condition to govern.

This article makes sense of this imbalance by reinterpreting leading theories of the sources of the City's power and influence. Classical accounts of both structural (economic) and instrumental (political) power assume that ideological, interpersonal and financial ties should bind conservative parties more tightly to business' preferences than their social democratic rivals. This article contends that in the UK, such ties serve as leverage for the Conservatives to defy finance's majority preferences when expedient. It is difficult to imagine a harder test of this proposition than Brexit, but despite dire disinvestment warnings, City concerns barely registered in the Conservatives' post-referendum statecraft.

The article first defines its key terms and reviews classical literature on the sources of the City's power and influence in British politics. First, it argues that finance's structural and instrumental business power should be understood as constraining and enabling the two parties and shaping their behaviour in different ways. Second, it charts how these dynamics have played out over three decades, during which the sector has assumed increasing centrality in the British economy. Particular focus is devoted to the 2008 crisis and Brexit, where the Conservative reflex to City preferences was superseded. Labour's own approach has been one of steadier reconciliation—a strategy that has largely persisted despite leadership vicissitudes. The article concludes with a brief discussion of the implications of its argument for the two parties looking forward.

Statecraft and Financial Power

Jim Bulpitt defined statecraft in British politics as 'the art of winning elections and achieving some necessary degree of governing competence in office … [resolving] the electoral and governing problems facing a party at a particular time'.[3] This is the approach guiding the parties' distinct conceptions of financial power and their behaviour towards the sector. Business power is classically manifest in two forms, both of which would lead us to expect heightened Conservative sensitivity to finance's preferences. This section describes how these two types of power have created something different in British finance-party relations: Labour being guided by constraint and an eagerness to assuage the City; the Conservatives by expediency and empowered by a lasting proximity to the sector.

First, structural power emphasises how, in capitalist democracies, policy makers are beholden to markets in order to retain office and govern effectively. The spectre of capital being displeased with policy, and its agents withholding or relocating investment, is said to constrain policy-making agendas *a priori*, automatically ensuring that hostile regulations never the agenda.[4] In practice, capitalist democracies take a variety of forms and any privileged position business holds is shaped by a host of sociohistorical contextual factors,

[2]W. Grant, 'Business interests and the British Conservative Party', *Government and Opposition*, vol. 15, no. 2, 1980, pp. 143–61.

[3]J. Bulpitt, 'The discipline of the new democracy: Mrs Thatcher's domestic statecraft', *Political Studies*, vol. 34, no. 1, 1986, pp. 19–39, at p. 21.

[4]C. E. Lindblom, *Politics and Markets: The World's Political Economic Systems*, New York, Basic Books, 1979.

including war, prosperity and labour market institutions. Yet, the essential logic of the theory remains: capital is wont to divest from states that create regulatory barriers to free trade and free markets, and this constrains policy makers. The generally high structural power of finance can be attributed to a unique sectoral cocktail: centrality in funding the real economy; utility-like control of payments systems; highly mobile firms with low sunk costs; and an increasing importance as an employer-taxpayer in its own right in financialised service economies, acute among them the UK.[5] Such features are not constantly visible, but finance's structural power was brought into sharp focus by the 2008 crash, where the possibility of single 'too big to fail' banks failing provoked fears about the wholesale collapse of the entire financial system and the wider economy.

Yet, no matter the economic context, governments ultimately make policy decisions. They do so by absorbing signals about costs (and benefits) actively relayed by business actors. This brings up the second classical location of business power: instrumental power. Rather than depicting an economic straitjacket, it emphasises how explicit actions and political connections between economic and policy elites secure alignment. These include networks that facilitate knowledge exchange and 'revolving doors' for careers between government and the private sector, plus campaign financing and other lobbying activities.[6] Again, UK finance is considered to wield significant instrumental power: it is a leading site of political donations, faces comparatively weak and disorganised countervailing lobby group opposition, and there exists significant networking and personnel exchange between the City, regulators and politics.[7]

Admittedly only broadly outlined here, these precepts of business power present a puzzle. In both dimensions, the Conservatives should be more sensitive to City preferences than Labour. Finance's sectoral structural power should be celebrated by free market conservatives. In Britain, Margaret Thatcher's Conservatives unshackled financial services throughout the 1980s and acquired an apparently enduring and principled commitment to the constraining force of free markets. Indeed, this was an argument advanced by the party to advocate for further liberalisation during its more recent years in opposition. Equally, the instrumental links described above skew heavily towards the Conservatives: money and personnel flow disproportionately from the City to the party. Yet, when faced with governance dilemmas, Conservative statecraft has been guided by expediency, relegating the City's majority concerns below its own capacity to maintain a governing coalition. In Andrew Gamble's terms, this is the party privileging maintaining the 'politics of support' over the 'politics of power', and at critical junctures it leads Conservative leaders to adopt a more antagonistic approach to finance than their Labour counterparts.[8]

To explain this departure, it is necessary to understand how both parties interpret and react to the City's structural and instrumental power. Since the 1990s, finance's structural power has acted as a constant constraint on Labour leaders, and a lack of instrumental ties between the party and the sector has shaped the party's compensatory behaviour. Structural power mechanics are synonymous with the notion of the 'race to the bottom' on taxes and regulation in a globalised economy of competitive states, and this was the prevailing logic underlying New Labour's wholesale embrace of the City as a motor for growth and fiscal returns. The party is said to have 'appropriated the image of a structurally weakened state necessarily ceding economic power to market imperatives' as part of an economic strategy focussed on welfare and labour market reform.[9]

At the onset of the 1990s, Labour sought to compensate for its weak instrumental ties to the City with the so-called 'prawn cocktail offensive', dispatching politicians to convey

[5] P. D. Culpepper, 'Structural power and political science in the post-crisis era', *Business & Politics*, vol. 17, no. 3, 2015, pp. 391–409.

[6] R. Miliband, *The State in Capitalist Society*, London, Quartet Books, 1969.

[7] S. Johal, M. Moran and K. Williams, 'Power, politics and the City of London after the great financial crisis', *Government and Opposition*, vol. 49, no. 3, 2014, pp. 400–425.

[8] A. Gamble, *The Conservative Nation*, London, Routledge, 1974.

[9] C. Hay and M. Watson, 'The discourse of globalisation and the logic of no alternative: rendering the contingent necessary in the political economy of New Labour', *Policy & Politics*, vol. 31, no. 3, 2003, pp. 289–305, at p. 301.

the party's credibility as a competent, non-inflationary custodian of the increasingly financialised economy that it had previously railed against. In opposition since 2010, consecutive leaders have continued this tradition, each regime iteratively assuaging City concerns and offering qualifications and assurances about future Labour governments. That the markedly more left-wing John McDonnell would deign to repeat this, extending olive branches as he toured City offices, is a hard test of the constancy of Labour's perceived structural constraint. Post-crisis and in opposition, Labour leaderships have not explicitly repeated New Labour's globalist justifications; nor they have publicly championed the City with the same gusto, but they have broadly sought to work with, rather than against, finance. The absence of any attempt to revive the overt distancing of the 1980s is striking, as is the lack of import of the enduring anti-Wall Street positioning of the American left, or any concerted attempt to translate critiques of the UK's finance-led growth model into a more radical reform package. As the next section describes, this strategy is a matter of statecraft: it is repeatedly couched as a path to a perception of economic competence that would both boost the party's electability and its capacity to govern effectively.

As noted, the Conservatives have appealed to finance's structural constraints more consistently in opposition than government. This owes to the party's strong, enduring instrumental connections to the sector. Far from making it subservient to business interests, such ties have enabled the party to defy majority City interests at key junctures when its capacity to govern is threatened, in the expectation that financial firms will absorb costs and adjust without harming investment. For a century, sporadic periods notwithstanding, the Conservatives have been the default party of business. This is backed up by widely unbalanced donations, education-socialisation effects and ensuing elite networks all working in the party's favour. As Iain McMenamin suggests, 'the question [for business] has always been "how much do we like the Conservatives?", rather than "do we prefer Labour or the Conservatives?"'[10] Indeed, even during the peak years of New Labour, business still predominantly donated to the opposition, and these donations disproportionately came from finance, with Labour receiving a greater share from manufacturing.[11] Today, the pattern is even more stark, with City individuals donating over £50 million of a total of £130 million to the so-called 'Leader's Group' since 2010, of which five hedge fund managers alone donated over £18 million.[12] In 2010, in the immediate aftermath of the crisis, nineteen of 146 new Conservative MPs had backgrounds in finance, against one of sixty-two in Labour's new cohort, the current Shadow Chancellor, Rachel Reeves. Among the nineteen were prominent future ministers: Jacob Rees-Mogg, Stephen Barclay, Kwasi Kwarteng, Andrea Leadsom and Sajid Javid, and they were followed in 2015 by Rishi Sunak.

Instrumental ties to financial regulation in the UK have also historically crystallised in the so-called 'City-Treasury-Bank nexus', a networking triad circulating private sector, policy making and regulatory prerogatives. This nexus has been a key feature of British economic policy making for decades and has helped sustain the prominence of the City in the British political economy. The institutionalised relationships are not considered expressly ideological, but minor interludes notwithstanding, historically the tenor of such public-private relations has reflected the City's historical 'natural affinity with the Conservatives'.[13]

These dynamics are summarised in Table 1. Labour has consistently operated in a mode of constraint, actively seeking to signal a certain

[10]I. McMenamin, 'For the first time in a century, there is no British party which is clearly pro-business', *LSE Business Review Blog*, 11 August 2011; http://eprints.lse.ac.uk/91360/1/McMenamin_For-the-first-time_Author.pdf (accessed 1 December 2021).

[11]I. McMenamin, 'Liberal market economies, business, and political finance: Britain under New Labour', *West European Politics*, vol. 34, no. 5, 2011, pp. 1021–43, at p. 1034.

[12]P. Geoghegan, S. Thévos and J. Corderoy, 'Revealed: the elite dining club behind £130m + donations to the Tories', openDemocracy, 22 November 2019; https://www.opendemocracy.net/en/dark-money-investigations/revealed-the-elite-dining-club-behind-130m-donations-to-the-tories/ (accessed 1 December 2021).

[13]M. Moran, 'Finance capital and pressure-group politics in Britain', *British Journal of Political Science*, vol. 11, no. 4, 1981, pp. 381–404, at p. 391.

Table 1: Statecraft and the City since the 1990s

		Labour	Conservatives
Power Dynamics	**Structural**	Constraint (Finance must be accommodated)	Expediency (Finance may be defied)
	Instrumental	Weak, Iterative (Party actively signals accommodation)	Strong, Enduring (Finance actively endorses party)
	Statecraft	Party signals accommodation to mitigate structural constraint	Finance endorsement grants discretion for expediency

accommodation of the City's typically free market preferences. Each leadership has worked to signal recognition of this and open channels of communication in order to mitigate finance's concerns about the party, whether perceived or real. Meanwhile, the flow of donations and personnel from the City to the Conservatives acts as a continued endorsement of their pro-finance credentials, and has fostered an environment whereby the party feels confident to temporarily defy the City's interests at important junctures. The next section describes how this process has played out in further detail.

Party Records

Labour

As Peter Burnham notes, prior to the 1990s Labour was inexorably torn, 'unable to meet the high expectations of its traditional supporters and trade union militants or convince financial capital of the probity of its economic policies.'[14] Antagonism was explicit in 1989 when Neil Kinnock stated in an official policy review, 'the Conservatives are the party for the City, we are the party for industry'.[15] There followed a rapid *volte-face*, with the party coming to consider City hostility an impediment to potential governance. First as Shadow Chancellor and then party leader, John Smith initiated the 'prawn cocktail offensive'. After her appointment in 1989, City spokesperson Mo Mowlam is said to have attended 150 lunches in eighteen months, a trend that would continue under Tony Blair's leadership.[16]

A light-touch approach that privileged the City's competitiveness against other financial centres aligned well with Labour's broader economic policy goals, including controlling inflation, promoting stable growth and full employment, and a shift to asset-based welfare. After winning power in 1997, Labour created the Financial Services Authority (FSA), a consolidated regulator. Ostensibly a response to the Barings Bank collapse, this had the effect of dislocating the third point of the City-Treasury-Bank nexus, with the central bank now marginalised in financial regulation. The government and FSA engaged in sporadic, low-level skirmishes with financial firms over the next decade, but the prevailing light-touch regulatory orthodoxy was never seriously in question.

The 2008 financial crisis offered an inflection point, but Labour doubled down on the notion that the UK was constrained in how it could respond, given the mobile market forces confronting it. The Chancellor, Alistair Darling, repeated this argument between 2007—when early tremors emerged—and 2010 when the party left office. In his 2008 Mansion House speech, Darling assured City executives that 'globalisation is not a choice. The clock can't be turned back.'[17] At the height of the crisis,

[14] P. Burnham, 'New Labour and the politics of depoliticisation', *British Journal of Politics & International Relations*, vol. 3, no. 2, 2001, pp. 127–49, at p. 128.

[15] Labour Party, *Meet the Challenge, Make the Change: A New Agenda for Britain : Final Report of Labour's Policy Review for the 1990s*, London, Labour Party, 1989, at p. 6.

[16] M. Wickham-Jones, 'Anticipating social democracy, preempting anticipations: economic policy-making in the British Labor Party, 1987–1992', *Politics & Society*, vol. 23, no. 4, 1995, pp. 465–94, at p. 476.

[17] A. Darling, 'Mansion House speech', 2008; https://www.ukpol.co.uk/alistair-darling-2008-mansion-house-speech/ (accessed 1 December 2021).

the government did impose a one-off bank bonus levy, unpopular in the City, but Darling otherwise took steps to reassure large banks about long-term reforms. Responding to Liberal Democrat calls for a UK version of the Glass-Steagall law in the US, separating commercial and investment banking, Darling argued, 'the consequences of telling a large bank that it is too big … the bank might say, "We're too big, so we'll go somewhere else."'[18] In May 2009, at the height of the crisis, Darling and former Citigroup executive, Sir Winfried Bischoff, co-chaired the Financial Services Global Competitiveness Group, a panel comprising senior banking executives and public figures. This would prove to be the party's last attempt in power to work with the City to co-produce a favourable agenda. Pulling together threads from this report, the FSA's Turner Review and the City-produced Wigley Review, the Treasury's 'Reforming Financial Markets' policy paper focussed on increasing capital requirements and the FSA's capacity to monitor markets. It expressly ruled out a structural break akin to Glass-Steagall, arguing it would 'would need to be applied across all countries to be effective', and that it 'could inhibit the growth and continued competitiveness of the UK financial market, and might encourage even sound UK financial institutions to move to other countries.'[19] Ultimately, Labour remained convinced by structural constraints and committed to City reassurance right up to leaving office.

In the following years, Labour would fall behind the coalition government's own, more punitive reforms. Under Ed Miliband after 2010, and in the wake of subsequent banking scandals related to Libor, fraud and money laundering, Labour also adopted a more assertive stance. Miliband backed the European Union's bonus ratio cap and a permanent bonus levy and a professional code of conduct akin to that of the British Medical Association. However, Miliband's position was not wildly out of kilter with the wider political orthodoxy at the time, where the Liberal Democrats remained hawkish, and influential Conservatives such as Treasury Select Committee chair, Andrew Tyrie, were vocal critics of the banks. With an election approaching, Miliband also launched his own charm offensive, sending business-friendly figures from the right of the party to a series of lunches and events focussed on conveying Labour's solid pro-European credentials amid the uncertainty prompted by the Conservatives' proposed Brexit referendum.[20]

This more critical interregnum continued as the party shifted left under Jeremy Corbyn and John McDonnell, but even this era featured courtship, with Corbyn and McDonnell taking appreciably different stances. While the former launched occasional vocal broadsides against finance, McDonnell embarked on what aides dubbed the 'tea offensive' in City offices. McDonnell's review of the Bank of England recommended devolving more powers for monitoring and recommending policy, while his pitch to City (and wider business) leaders centred around public infrastructure, capital investment and softening Brexit, thus aligning Labour with most of the City on the latter. McDonnell had an 'open door' policy, soliciting financial leaders' policy advice.[21] He unsettled some City executives by proposing a Financial Transactions Tax (FTT), but the manifesto that followed focussed chiefly on establishing a National Investment Bank and safeguarding high street branches rather than tightening regulations. Certainly, this Labour leadership's finance agenda was not comparable to that of Bernie Sanders which, in addition to a FTT, promised a breakup of the six largest American banks and full reinstatement of Glass-Steagall.

[18] *House of Commons Debates*, 'Reforming financial markets', vol. 495, col. 977, 8 July 2009; https://hansard.parliament.uk/Commons/2009-07-08/debates/09070881000003/ReformingFinancialMarkets?highlight=consequences%20telling%20large%20bank%20that%20big#contribution-09070881000206 (accessed 1 December 2021).

[19] HM Treasury, *Reforming Financial Markets*, Cm 7667, July 2009, at p. 75; https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/238578/7667.pdf (accessed 2 December 2021).

[20] P. Jenkins, 'Labour steps up charm offensive on City leaders', *Financial Times*, 3 February 2015; https://www.ft.com/content/090efca2-abd0-11e4-b05a-00144feab7de (accessed 21 April 2022).

[21] G. Parker, 'McDonnell strikes emollient tone with City leaders', *Financial Times*, 17 June 2018; https://www.ft.com/content/f852ca7e-70c0-11e8-852d-d8b934ff5ffa (accessed 21 April 2022).

Starting in April 2020, Sir Keir Starmer's leadership has been characterised by attempts to distance the party from Corbyn, extending to a more overt embrace of the City. Pat McFadden, a former New Labour minister, was appointed Shadow Treasury Secretary. McFadden and Shadow Chancellor, Anneliese Dodds, were described as embarking on their own 'charm offensive', with the former rueing the fact that finance had faced a 'cold climate' from both left and right.[22] Dodds complimented the City on its response to Covid-19 and promised that 'responsible financial services' would be matched by 'responsible government … that knows the value of one of our most important sectors and seeks to maximise it.'[23] Dodds was replaced in May 2021 by Reeves, a former Bank of England and HBOS economist. Starmer and Reeves have since struck a markedly pro-business tone, and prioritised EU equivalence for finance. It is still too early to assess precisely how substantive the present Labour leadership's imitation of New Labour will be. Rhetorically at least, it appears that like his predecessors, Starmer sees courting finance as an essential component of Labour's electoral strategy.

Conservatives

Margaret Thatcher's impact on the financialisation of the UK economy is well-documented. The 1990s under John Major appear less remarkable—essentially a continuation of the liberalising agenda of his predecessor, absent the rhetorical zeal. This period was marked by trauma and scandal: Britain's departure from the Exchange Rate Mechanism followed the start of Labour's overtures, and the 1995 collapse of Barings Bank brought further scrutiny to the Conservatives' regulatory record. Yet, there is little evidence that the City drifted significantly to Labour during the 1990s or 2000s. However, there later followed two key points of departure from the default setting of Conservative-City preference alignment: the financial crisis and Brexit.

Up until the crash, and most aggressively under David Cameron and George Osborne, the Conservatives endorsed the necessity of global competitiveness, depicting Labour and the FSA as still overbearing. As late as March 2008, Cameron addressed a City audience thus:

> As a free-marketeer by conviction, it will not surprise you to hear me say that a significant part of Labour's economic failure has been the excessive bureaucratic interventionism of the past decade—too much tax, too much regulation, too little understanding of what our businesses need to compete in the modern world.[2]

The party had a long-held enmity towards the FSA, which it saw as synonymous with Labour. In 2004, it promised FSA abolition, citing over-regulation, and though this reasoning became untenable after 2008, the policy remained as the Conservatives' headline 2010 manifesto response to the crisis. This was motivated by a concerted attempt to emphasise the supposed British origins of the crash and to blame it on the government and the regulator it established. In doing so, the party adopted a more ambivalent attitude towards regulatory reform and the banks' red lines, a stance exemplified by the Glass-Steagall question. Like Labour, the Conservatives expressed concern that unilateral reform would chase firms abroad, but unlike the government, its own review called for further exploration at a re-empowered Bank of England, acknowledging potential benefits. The Governor, Sir Mervyn King, was a vocal advocate of radical structural reform, so the suggestion that the question might be handed over to the Bank of England concerned large banks, particularly HSBC and Barclays, the two of the British 'Big Four' that avoided bailouts and maintained sizeable investment operations.

During the frenetic negotiations that followed the 2010 election, a *quid pro quo* was agreed between the Conservatives and the

[22] S. Riding, 'Labour Party embarks on charm offensive with banks and fund managers', *Financial Times*, 24 May 2020; https://www.ft.com/content/199c88dc-db88-466f-8616-d34d3c01724e (accessed 21 April 2022).

[23] Labour Party, 'Anneliese Dodds' full speech to Bloomberg', 2 December 2020; https://labour.org.uk/press/anneliese-dodds-full-speech-to-bloomberg/ (accessed 3 December 2021).

[24] D. Cameron, 'A Conservative economic strategy', speech to the City of London, 28 March 2008; https://conservative-speeches.sayit.mysociety.org/speech/599673 (accessed 22 April 2022).

Liberal Democrats on banking: the former would get FSA abolition and the latter a credible commitment to Glass-Steagall exploration, in the form of the Independent Commission on Banking (ICB). This deal was the first key act of expedient Conservative statecraft, the politics of coalition formation trumping any concerns harboured by major British banks. The ICB comprised critical voices selected by Vince Cable and Osborne (the latter consulting Mervyn King), was given ample time and resources and set out with a pragmatic and reformist approach to deliver meaningful change. The ICB fatally undercut the banks' own lobbying capacity, for eighteen months dispossessing the Treasury of policy-making responsibility, and along with the multiparty Parliamentary Commission on Banking Standards, chaired by Tyrie, locked in the UK's unilateral regulation ring-fencing investment and commercial banking. Though this policy fell short of Glass-Steagall, it nonetheless imposed significant costs, particularly on HSBC and Barclays. Evident in this process was the Conservatives' general ambivalence to the banks' exit threats and cost projections. In the wake of the ICB's 2011 preliminary report, HSBC, Barclays and Standard Chartered all proposed relocating their headquarters, prompting former banker and Treasury Select Committee member, Andrea Leadsom, to respond: 'I think it's unlikely—I'd say no better than evens—that any one bank will move offshore, and if they do move what that means for tax take will depend on the bank involved but is likely to be fairly limited.'[25] In sum, the policy's origins can be located in senior Conservatives privileging their own coalition-building prospects over powerful opposition, with its durability resting on the willingness of well-placed Conservatives to face down structural power plays.

Brexit tested this expediency to the extreme, with the Conservative Party coming to defy majority City preferences in favour of 'harder' EU dissociation, which it again pursued as a means of managing statecraft in a polarised climate. A clear majority of firms and associations favoured continued access to the EU's Single Rulebook on Financial Services, and City organisations again signalled significant costs and exit threats. Banking executives, including JP Morgan's Jamie Dimon, warned of job relocations, and consultants Oliver Wyman, in conjunction with industry association TheCityUK, estimated that in the lowest-access scenario 75,000 City jobs could be relocated. Annual costs were estimated to stretch to £38 billion in private revenues, £22 billion in gross-value added to the UK economy and £10 billion in tax receipts.[26] Yet, the government proceeded undeterred and any residual integration was effectively precluded by Theresa May's early intervention ruling out continued single market access. The City's resistance was weakened by the rapid creation of the Department for Exiting the European Union (DExEU) which, like the ICB, dislocated the traditional City-Treasury-Bank policy-making nexus. Throughout, the government was described as 'deaf by choice' to City concerns.[27] While firms have responded by significantly relocating euro-denominated share trading and steadily shifting jobs, Brexit appears not to have been a fiscal and employment cliff edge for the City, buying the Conservatives some time to decide their future orientation.

A vocal minority in the City supported Brexit and continues to extol its possibilities for future innovation, based broadly on deregulatory divergence. This 'ultraliberal' contingent, disproportionately representing hedge funds and alternative investments, has adherents in Westminster and its policy ecosystem. The extent to which the Chancellor, Rishi Sunak, subscribes is unclear. A former investment banker and hedge fund partner, Sunak talked up the 'freedom to do things differently', dismissing the pursuit of equivalence and prioritising digital innovation, green

[25] P. Hoskins, *Special Report—Why London Can Live without Its Big Banks*, Reuters, 4 August 2011; https://www.reuters.com/article/us-britain-banks-idUSTRE73725G20110408 (accessed 3 December 2021).

[26] *The Impact of the UK's Exit from the EU on the UK-based Financial Services Sector*, report, Oliver Wyman, October 2016; https://www.oliverwyman.com/content/dam/oliver-wyman/global/en/2016/oct/Brexit_POV.PDF (accessed 3 December 2021), at p. 14.

[27] City lobbyist, cited in S. James and L. Quaglia, 'Brexit, the City and the contingent power of finance', *New Political Economy*, vol. 24, no. 2, 2019, pp. 258–71 at p. 263.

finance and levelling up the regions in his July 2021 reform White Paper.[28] To date, however, this has yet to be backed up by substantial policy movement.

Conclusion

> The City establishment, if not fanatically and openly Conservative, is certainly conservative by instinct and training.[29]

So argued the iconoclastic stockbroker Victor Sandelson seven decades ago. This article has argued that these preferences pervade today and that they have afforded the Conservative Party the privilege of expediency in its approach to the City. At key points in recent years, when the City and the party's governance goals have come into friction, the Conservatives have strategically jettisoned the former, ignoring its warnings. For this, it has borne low political costs, apparently maintaining the City's favour. Lacking such linkages and historically sensitive to the City's structural power, Labour's approach has been consistently marked by iterations of courtship and attempts at consensus building that have at key points placed it in a more conciliatory position.

This article has presented an admittedly stylised view of the City, and further research might illuminate how parties are received by the sector and increasing differentiation between opposing sets of financial actors. This will likely be brought into relief by ongoing debates over post-Brexit divergence. With the 2008 crash still casting a shadow, and in a context of geopolitical volatility and widening inequality, the politics of the City will remain delicate for the foreseeable future, potentially leading to more frequent junctures presenting statecraft dilemmas. While both parties desire positive relations with the City, it is the Conservatives who are likely to feel greater discretion to defy it the next time such a moment arrives.

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[28]HM Treasury, *A New Chapter for Financial Services*, July 2021; https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/998102/CCS0521556086-001_Mansion_House_Strategy_Document_FINAL.pdf (accessed 3 December 2021).

[29]V. Sandelson, 'The confidence trick', in H. Thomas, ed., *The Establishment*: *A Symposium*, London, Anthony Blond, 1959, at p. 143.