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SPECIAL REPORTS

Enduring attraction

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Success may come at a price, but no one seems put off

THERE is no single route to success as a financial centre. London has been at the heart of a great overseas trading network for centuries. New York rose as the gateway to the New World. Geneva and Zurich sit in a wealthy region and have benefited from favourable tax and regulatory policies. Chicago emerged as a global centre for futures and options because of its proximity to America's agricultural belt. Shanghai and Mumbai, both fledgling international hubs with big ambitions, serve vast, developing national markets. Places such as Singapore or Dubai have had to work hard to lure business to their shores. Yet for all their variety, these financial centres have certain things in common.

Saskia Sassen, a sociologist with a special interest in global cities, argues that one reason for the concentration of financial firms in a small number of centres is the social connection and information that comes from proximity with people in related fields. A second is the use of technology that (counter-intuitively) still filters a lot of apparently dispersed investment back to a few key electronic exchanges.

A third is the increasing globalisation of big corporations. As companies open new factories and national offices, their financial advisers follow. And as more banks and brokers move into financial centres, they attract related businesses such as law firms, accountancy practices and public-relations agencies. Not long ago big investment banks were represented in only a handful of cities. Zoe Cruz, co-president of Morgan Stanley, recalls that when she joined the firm in 1982 it had fewer than 3,000 employees in its main office in New York and two smaller ones in London and Tokyo. Today it has "flags in almost every country in the world" (actually, about 30).

Even though these days anyone with a laptop and a high-speed internet connection can trade financial products from anywhere, people prefer to cluster in the same old places. *Trader* magazine, a glossy publication designed for hedge-fund managers, currency traders and the like, recently named Chicago, London and New York as its top three cities for traders, though it also lists some less obvious ones in a top 20 that includes Miami and Las Vegas. The ranking was based on a range of factors, from trading infrastructure and taxes to nightlife and recreation facilities.

Quality of life is important to highly paid financiers, and successful centres such as London are changing constantly to keep delivering what it takes. Take a stroll through the narrow lanes of Spitalfields in the old East End of London and see the trendy market stalls and cafés that have arisen from the former wholesale fruit and vegetable market. On nearby Brune Street an historic building that formerly housed a soup kitchen "for the Jewish poor" is being converted into upmarket flats. The sign for Fournier Street, recalling the French Huguenots who settled here to escape religious persecution, is



replicated in Bengali to cater for recent South Asian arrivals. Property prices have shot up, with ever more young financiers taking up residence here. The appeal of this traditional haven for working-class immigrants is its close proximity to the financial district, allowing financiers to walk to work.

Growing prosperity, a bigger tax haul and the cosmopolitan lifestyle of young financial professionals have injected new vitality into places like London, New York and Hong Kong. Yet there is also growing inequality, a steep rise in the cost of living and increasing pressure on middle-class families who are having to live ever farther away from city centres.

The income discrepancy between haves and have-nots in the world's financial capitals has not been this great since America's "gilded age" in the late 19th century, says Susan Fairstein, an expert on urban issues at Harvard. The trend began in the 1980s and has become stronger, despite temporary blips such as the dotcom bust in 2001. A report on wealth inequality in Britain in July found that the gap between rich and poor is now bigger than it has been for 40 years, with the proportion of middle-class households shrinking.

"People doing ordinary jobs, like firefighters, cannot afford to live in London," says Chris Hamnett, a sociologist. The city now has a commuting zone stretching about 80 miles (129 km). Something similar is happening in Manhattan, where the price of an average property has risen above \$1m.

The new wealth of nations

Not all this urban gentrification can be laid at the door of financial services, but the new rich in the world's top cities are more likely to be hedge-fund managers than industrialists. Research recently by Mr Kaplan and Mr Rauh of the University of Chicago showed that in 2004 nine times as many Wall Street executives earned over \$100m as did chief executives of public companies. The top 25 hedge-fund managers earned more than the chief executives of all the companies in the Standard & Poor's 500 combined.

As the financiers' money cascades across the cities where they live and work, it transforms everything from house prices to shopping patterns. Mr Hamnett draws an analogy with a multi-tiered water fountain, with water flowing first from the financial district to smart residential neighbourhoods, then to slightly less smart areas, and so on. On the other hand, if investment bankers' bonuses dry up, so will their lavish spending.

All this calls for a delicate balancing act from political leaders. The appeal of a vibrant financial sector is clear for politicians, ranging from Michael Bloomberg, New York's mayor, a former business tycoon who counts many of the city's top financiers among his personal friends, to Ken Livingstone, London's mayor, who used to be known as "Red Ken" for his far-left stance. They all understand that capitalism can be good for a city.

Many in the financial elite are closely involved with their communities, raising funds for charities, supporting schools and making donations to political parties. Mr Doctoroff in New York points to public-spirited firms such as AIG, JPMorgan Chase and Merrill Lynch that have set up charitable foundations. London's financiers have also become more generous donors to charity.

Yet the recent backlash against private-equity firms in several countries illustrates the dangers of appearing to favour the financial elites, whether through tax policies or political access. Trade unions, consumer groups and politicians have railed against such perceived favouritism. Moreover, globalisation has meant that the financiers' ties to a "home town" are not as clear as they once were. Mr Doctoroff notes that despite executives' recent public-spiritedness, none is as involved in and committed to public causes in New York as David Rockefeller was decades ago.

Illustration by Michelle Thompson



Despite such drawbacks, most cities would kill for a thriving financial sector that produced highly paid jobs and juicy tax revenues. Big financial firms have fanned out around the globe and are not shy about telling politicians exactly what they want. Many of the things they are looking for—from good infrastructure to low taxes—are helpful for businesses of all kinds, not just financial firms. Being able to attract the right talent is critical too.

It is the mix of all these factors that has kept New York and London so far ahead of the rest. They may be shockingly expensive places to live, but top financiers clearly think they are worth it. And there are plenty of lesser financial centres that aspire to become more like them.

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