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Spatial Economics Research Centre

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Taxing bank bonuses

Will taxing bank bonuses mean banks move away from the city of London?

It is highly unlikely. In 2004 Richard Baldwin and Paul Krugman provided an economic model which showed "that industrial concentration creates 'agglomeration rent.' The 'core' region can thus charge a higher tax rate without losing capital." More recent empirical tests suggests that the theory holds true in practice. One off taxes are just very unlikely to cause industrial concentrations (like the city of London) to unravel.

Or as [Robert Peston](#) puts it: "since the tax will last no longer than a year, it should not be sufficient to persuade the banks themselves to re-locate to Paris, Frankfurt or Geneva - which are still at a disadvantage to London in respect of skills and tech infrastructure."

Posted by [Prof Henry G. Overman](#) on [Thursday, December 10, 2009](#)

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