FINANCIAL MARKETS AND THE ROLE OF THE UNITED KINGDOM IN THE EU

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That Cameron speech

- Difficult objectives, well reconciled
  - Subduing euro-sceptics
  - Appearing constructive to EU partners
  - Well-received in Berlin, but in Paris??

- The referendum promise: more problematic

Balance of competences review

The Juncker débacle

- And the budget payment sleight of hand

Attempts to define a renegotiation agenda
IT’S THE POLITICS, STUPID

- The rise of UKIP: impact on mainstream
  - Pulls other parties to less EU-friendly stance
  - Exacerbated by news groups hostile to EU

- Paradox that it is low salience issue
  - Economy the core of 2015 election
  - And, as always, the UK’s religion: the NHS

- UK perception that the EU is not working

- Cameron’s poor reading of EU politics
  - Not least the Bundeskanzlerin
BEFORE ONE OF YOU ASKS....

... no, the UK will not be joining the euro in the foreseeable future
# UK PREFERENCES

## BROADLY ACCEPTED
- **ABOVE ALL:** the single market (but…)
- Trade
- Certain foreign and security policies

## OPT OUT / REFUSED
- **ABOVE ALL:** the €
- Schengen
- Certain justice and internal policies
- TSCG
- Stability mechanism

## CURRENT AGENDA
- INSTINCTIVE ‘NOs’
  - Banking union
  - Fiscal union
  - Political union
  - New fiscal capacities

## BROADLY SUPPORTED
- Defence cooperation
  - Mainly with France
- Global Europe policies
  - Suits Germany

## WHAT’S LEFT FOR CAMERON…
- Over enthusiastic regulations
  - ‘Our’ kind of single market
- The vexatious working time directive
- ….and some crumbs on migrants
THE ECONOMIC CAMPS

CITY OF LONDON

- 84% of CEOs favour remaining in EU
- But quiet on GEMU/€
- City will do well, in or out
- UK has to engage more

BIG EXPORTERS

- Concerned about the single market
- Want €zone to work
- Worries centre on fears of new, damaging rules

SMALLER/DOMESTIC

- Objections to excessive Brussels interference
  - Employment rules
- Note EU trade surplus
- Want harder line on EU

GOVERNMENT/TAX-PAYERS

- Support euro area reform
- Will resist any direct or indirect financial burden
- Europe in world perspective
- Treaty changes required
AUTOMOBILE INDUSTRY

Those well-known British brands!
- BMW
- Nissan
- Toyota

Companies see EU as key export market
- Also note extent of supply chain integration
- And scope for skills flexibility across EU

Most SMMT members say exit would hurt
But they also support calls for EU reforms
Access to the single market in financial services and the Free Movement of Capital provides significant benefits for the UK financial services industry and for consumers

UK Government ‘Balance of Competences Review’
BUT......

- Worries about over-zealous regulation
  - City of London sees itself as a global centre
  - Regulation therefore has to reflect this

- ...and the much derided FTT
  - Seen as impractical only in EU
  - Imposes burden in UK to collect, despite no expectation that UK would participate
  - Still expected not to happen

- Hence UK Commissioner seen as a 'result'
SOME BASIC DATA

8% of UK GDP – double German share
  – Comparatively high productivity

UK’s large shares of EU financial activity
  78% of FOREX trading
  50% of funds managed
  2:1 € traded in London as in rest of EU

EU accounts for a third of FS trade surplus
  – Worth £15 billion in 2013

2.1 million jobs: UK finance & professions
  15% of jobs in London and 23% of GVA
SCOTLAND: 18/9/2014

Vote with no formal constitutional status…
  – …but absolute political weight

Outcome was 55/45 for a no vote, but:
  – Nationalists may hold balance of power in 2015
  – New forms of devolution promised

Nothing settled on how divorce would occur
  – Currency a major source of division
  – Public finances; public services

A precursor to an EU vote?
THE UNDERLYING DILEMMA

DEEPER INTEGRATION

EURO AREA 19

CZ + FISCAL COMPACT 7

UK

SHALLOWER INTEGRATION
CONCLUDING COMMENTS

Probability of ‘BREXIT’ growing
- Domestic ‘anti’ forces winning and credible
- But limits of differentiation increasingly clear
  >> Maybe now 40% chance by 2020

Paradox of emerging federalism debate in UK
‘I leave Messina happy, because even if you keep on meeting you will not agree; even if you agree nothing will result; and if anything results it will be a disaster’

Russell Bretherton, UK negotiator, 1956