commentary

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HAS CAMERON DELIVERED FOR THE CITY OF LONDON?

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The deal reached between British Prime Minister David Cameron and his colleagues on the European Council last week was supposed to transform the relationship between the United Kingdom and the European Union on four dimensions – economic governance, competitiveness, sovereignty and immigration. Three of these issues are largely symbolic. No declaration or agreement is going to ensure 'better regulation' either in Brussels or in Westminster; British sovereignty was never seriously under threat from the vague aspiration to achieve an 'ever closer union'; and while immigration is a vital issue, few experts on cross-border labour imagine it turns on access to 'in-work benefits' or can be deterred by the indexation of child support. By contrast, economic governance is a vital national interest both for the British people and for the City of London. The question is whether Cameron has managed to improve that aspect of Britain's relationship with the rest of Europe.

The short answer is that this agreement has not delivered on Cameron's promise to redefine economic governance to the benefit of the United Kingdom. The longer answer is that the City of London is probably better off with the existing arrangement than it would have been with any reasonable alternative. It is certainly better off under Britain's current relations with the European Union than it would be if the British people were to vote in favour of an exit.

The reason that Cameron has not delivered is that very little has changed as a result of the agreement. The text of the declaration notes a number of things that were already taken for granted. Some of these have been written (long ago) into protocols appended to the European Treaties. The United Kingdom does not have to aspire to join Europe's economic and monetary union; by implication, the British people will use a separate national currency; any attempt to give different treatment to UK citizens because they use the pound sterling and for no other 'objective reason' would be inconsistent with the functioning of the internal market. As if there were any doubt on that point about discrimination, the European Court of Justice decision to overrule a decision by the European Central Bank that all euro-denominated clearing should take place within the euro area should have put that to rest.

Other aspects of the agreement touch on new institutional lines of development and yet only serve to confirm tendencies already in existence. British banks will not fall under the supervision of the ECB as the euro area's Single Supervisory Mechanism and neither will they be subject to the Single Resolution Mechanism used to wind up failed banks. Nevertheless, they will be required to

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follow the single rulebook of European banking regulations (and any UK-owned subsidiaries operating in the euro area will be under the authority of the banking union, full stop). The Bank of England and other British regulatory authorities may have greater scope to interpret this rulebook than the governments of the euro area may tolerate amongst themselves – but it remains to be seen just how much uniformity the euro area member states are willing to accept. Given the ongoing fight between Italian Prime Minister Matteo Renzi and his German counterparts, it is easy to imagine that a wide diversity of opinions within the euro area will persist.

Finally, British taxpayers will not be liable to finance bailouts in the euro area without some positive act of Parliament (any more than European taxpayers will be liable to bailout British banks). What is not mentioned in the agreement is that everyone participating in the single market will have an interest in contributing to the stability of the European financial system. That was the lesson of the recent crisis, where Britain was affected as much as any other membership – if not, at least initially, to a greater extent. Moreover, this interest in European financial stability extends beyond British contributions to emergency bailout funds to the swap agreements from the ECB to the Bank of England that underwrite euro-denominated clearing in the City of London. Interdependence works both ways.

The alternatives to the arrangement that Britain has with Europe would all be unfavourable to the City of London. The common rule-book is inconvenient because of some of the rules it contains and not because those rules are common to the whole of Europe. If anything, The City would like more say in how financial regulations are set for the single market. The City also benefits from anything that underwrites European bailouts, whether those are common funds, swap agreements, or some other kind of insurance. What threatens The City is the prospect of even more stringent bail-in requirements and other types of 'private sector involvement', whether that is for individual banks or the sovereigns that support them. Yet such private sector involvement is precisely what many European leaders – including Eurogroup President Jeroen Dijsselbloem and German Finance Minister Wolfgang Schäuble – seem to want. Any arrangement where the rules of the internal market are set without British influence is likely to go against the interests of The City in that respect. That battle over private sector involvement remains to be fought. The British government should make sure it does not exit the European Union prematurely or The City will suffer the consequences.