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The City of London and the Euro

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von

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THE CITY OF LONDON AND THE EURO

Analyzing the attitude of the City of London towards the euro can seem a bit strange today, at a time when Great Britain has still not joined the eurozone and even tries to organize a referendum about Britain's EU membership. One should not forget that in January 2013 Prime Minister David Cameron promised he would hold such a referendum if the Conservatives were re-elected in 2015.

Nevertheless, examining the attitude of the City remains interesting insofar as it reflects the difficult relations between Britain and Europe / Britain and European monetary initiatives. As mentioned by Tony Blair in July 1999: "Yet, we always come back to the same dilemma: in or out of Europe. To be in or not to be in, that is the question. In the end, we have always chosen to be in" (Speech to the London Business School). Furthermore, one can wonder whether the City, which is one of the main business and financial centres in the world and the largest financial centre in Europe, has been much affected by Blair's decision not to join the euro in 1999. Focusing on the City seems all the more interesting today since the Cameron-Clegg government has increasingly tried to protect London's financial centre over the past European summits.

Consequently, the purpose of this article is to study the impact of the euro on the City so as to examine whether London's position as a financial centre has been threatened since the late 1990s. It will also try to determine if the City has been influenced by the less and less constructive attitude of the Cameron-Clegg government towards the euro and the European Union (EU).

INHALTSVERZEICHNIS

1 INTRODUCTION

As it is quite well known, European monetary initiatives have been problematic and divisive issues in Britain. British governments have always been reluctant to adhere to them, hesitating a lot and generally refusing to join them at the outset, as exemplified by Britain's entry into the Exchange Rate Mechanism of the European Monetary System in 1990, 11 years after its birth. Today, Britain has still not adhered to the single currency although the latter was launched in 1999.

Since May 2010 the relations between the UK, the City of London and the eurozone even seem to have become more difficult because of the policy followed by the new Cameron-Clegg government. Indeed, although the previous Blair and Brown governments (1997-2007/2007-2010) had adopted a cautious attitude towards Britain joining the euro, they had maintained a positive discourse, insisting on the meeting of five economic tests, and done their best to help the eurozone countries to solve their economic problems. Five tests had to be respected: there should be sustainable convergence between the business cycles and economic structures of the UK and the rest of the eurozone countries; there should be sufficient flexibility in the UK and in continental Europe to adapt to change and other unexpected events; joining EMU (European Monetary Union) should create better conditions for businesses to make long-term decisions to invest in Britain; it should have a beneficial effect upon Britain's financial services industry; it should promote higher growth, stability, and a lasting increase in jobs. Since May 2010 the new coalition government has adopted quite a different policy and clearly behaved as an "awkward partner" during European summits, thus creating difficult relationships with the other European countries. Besides, they have clearly said that their government would "not join or prepare to join the Euro in this Parliament" (HM Government 2010).

From the start, the City of London has played a special role in the debate over Britain joining the euro. First, a great number of opinions about Britain's membership of the euro have been associated with London's pre-eminence as a financial centre. Second, the City of London was ONE of the five economic tests defined by Chancellor of the Exchequer Gordon Brown to assess whether Britain could join the euro (during the Blair and Brown governments). Indeed, as mentioned in test N°4, it was important to ensure that entry into EMU would "have a beneficial effect upon Britain's financial services industry", i. e. the City (Brown 1997). The special status of the City has also been confirmed by the attitude of the new coalition government which has tried to protect the financial center as much as possible over the past few years.

The importance given to the City is quite understandable since London has been a major financial center for more than three centuries.

At the end of the 1990s the City was one of the main business and financial centers in the world and the largest financial centre in Europe, with more than 500 international banks located in this area of London. It was the most important place for the global foreign exchange – with a share of more than 30% of worldwide daily turnover (Jung & Oestreich 2005). The financial services sector employed about 230,000 people in London and it was one of the largest contributors to the British economy.

Consequently, this paper will first try to analyze the reactions brought about by the launch of the euro in 1999 concerning the status of the City. Second, we will study the impact of the introduction of the euro on the City so as to examine whether London's position as a financial centre has been threatened and we will try to understand why. Third, we will focus on the main factors which threaten the City today so as to understand the measures which have recently been taken by the Cameron-Clegg government to protect London's financial centre. Finally, we will try to determine if the City has been influenced by the less and less constructive attitude of the British government towards the euro and the EU and we will analyse the viewpoints of senior City executives on these issues today.

2 City Split over Britain joining the Euro: Two diffent Types of Fears

It is rather difficult to determine precisely the proportion of London bankers who feared that the launch of the euro would threaten London's pre-eminence as a financial centre. Nevertheless, such fears existed in the late 1990s. When Chancellor of the Exchequer Gordon Brown announced in October 1997 that Britain could not join the single currency right away because the five tests had not been met, a great number of bankers from the City of London worried about the economic consequences of such a decision and called for Britain to join the euro as soon as possible. This was exemplified by several newspaper articles published at the time.

First, the financial community feared that the competitive position of the City would be undermined at the global and European levels if Britain refused to join the euro. London would become a less attractive place to invest since currency instability would still exist in the UK. Big banks – European banks but also the great US and Japanese financial institutions –, could consequently decide to invest in other countries, such as Paris and Frankfurt, which would be more stable thanks to irrevocably fixed exchange rates (Bessin 1997).

Second, they insisted that the City would not be able to influence the decisions taken by eurozone countries any longer. Britain would thus lose political and economic influence in shaping future European economic integration and it would be marginalized.

Third, bankers claimed that eurozone member states, particularly France and Germany, could take measures against the non-eurozone countries, particularly Britain which had refused to join the single currency. Refering to the governing body of the financial destrict Michael Cassidy of the Corporation of London said, for example, that the French and Germans would conspire to launch a eurozone aimed at making it more expensive to trade in euros from Britain than euro member states. This would allow them to make the City less attractive and to destroy it (Cassidy 1996). This was all the more likely as the 12 eurozone countries had a majority of votes in the Council of Ministers. They could consequently take decisions even if Britain did not agree.

One should note that the financial community was divided and not everybody supported joining the euro – even if most of them did (Bessin 1997). Indeed, a number of bankers considered that euro entry would be quite expensive. According to retail banks, such as Lloyds Bank or Natwest, the cost of introducing the single currency could amount to £1 billion in order to make the necessary changes – educating customers, training staff or changing computer software, for example (Raulin 1997). Some financiers also insisted that the cancellation of 12 national currencies would mean a loss of business in the foreign-exchange and derivative markets, which could undermine banking activity. Last but not least, they warned that the EMU would mean new constraints for London, i. e., increased regulation and tax harmonization – which could be dangerous insofar as the success of the City was based on flexibility and low taxation (Buerkle 1999).

These divisions were particularly noticeable in 2000 and 2001 when the Blair government seemed almost ready to join the single currency and the financial community tried to encourage them to do so. Thus, a group including some big City of London firms as well as leading financiers was set up in 2001 to campaign for Britain's membership of the single currency. Their main arguments were that "euro membership would give Britain greater influence in the negotiations for the completion of the single market in financial services [...] would boost both foreign trade and investment, [which] would undoubtedly lead to increased demand for the services provided by the Square Mile " which refers to the city of London (Brittan 2001). Yet, another group of business leaders opposed to joining the euro, Business for Sterling, was also taking an active part in the debate at that time. In 1999 they decided to launch a "City team" so as to lobby against Britain joining the euro and convince the financial community that the single currency could harm London's financial centre because of the constraints it would imply (Business for Sterling 1999). These divisions were taken quite seriously at the time since the City of London was expected to play a crucial role in the debate over the euro if a referendum was held – the Labour governments knew most of the financial community would be part of the pro-euro campaign and would encourage people to vote for Britain's membership.

Has London succeeded in retaining its position as one of the main financial centres in Europe and the world? What have been the consequences of non-membership of the euro for the City?

3 IMPACT OF THE LAUNCH OF THE EURO ON THE CITY

3.1 Impact following the introduction of the single currency (1999-2003)

Fears that the City would lose out to other continental centres because of the introduction of the single currency did not materialize: between 1999 and 2003 there was no evidence that the euro had undermined London's predominance as a financial centre. Not only had the City remained one of the most important financial centres in the world, but it had also consolidated its position as the leading financial centre in Europe, outperforming Frankfurt and Paris. In reports and bulletins published in late 2000, the Bank of England clearly said that London had fully maintained its market share and that the number of foreign institutions in London had grown over the past few months (Bank of England 2000). This was later confirmed by several memorandums published by the Treasury Select Committee (Treasury Select Committee 2003a, Treasury Select Committee 2003b), that is appointed by the House of Commons to examine the expenditure, administration and policy of HM Treasury, HM Revenue & Customs, and associated public bodies, including the Bank of England and the Financial Conduct Authority.

In 2003 the City of London was still home to a great number of foreign banks, which confirmed London's role as an international financial centre – there were nearly 500 foreign banks with deposits of $2.6 trillion. Most of these banks were EU banks, with assets of over 1 trillion euros. It was quite obvious that the City had become the most important centre for euro trading: 40% of all stocks on the London Stock Exchange were denominated in euro, London dominated trading in the euro bond markets, and the euro was the second largest traded currency after the dollar (Finch 2003).

Several reasons could explain why London had succeeded in retaining its position as one of the main financial centres in Europe and the world at that time. First, the City had done its best to be well prepared for the introduction of the euro in January 1999 and systems changes had been made to use the new currency. The whole conversion process had been monitored by the Bank of England so that the City should be able to trade euro from the very start and be a competitive place for euro business (Clementi 2001).

Second, the City remained much attractive to foreign banks. The latter were still interested in investing in the City because of its cosmopolitan status, its huge pool of talented workers and support services in law, accountancy, tax, property and communications, its efficient financial infrastructure as well as labour flexibility, low taxation and regulation. Foreign banks also highlighted that it was easy for them to do business in London since English was the language of international finance and London was located in a convenient time-zone, allowing market firms to trade with Asia in the morning and New York in the afternoon.

Third, two of the City of London's major strengths were its flexibility and its independence – compared to other European financial centres. On the one hand, it was characterized by a liberalized finance system. This went back to the late 1950s when big City bankers had decided to create a Eurodollar market in London – with the help of the Bank of England (Kynaston 2012). The traditional definition of a Eurodollar is a dollar deposited in a bank outside the United States. This first step had been the foundation stone of today's global finance, as exemplified by Gary Burn:

> *Yet, the finer details of the Bretton Woods agreement are, effectively, irrelevant, as even before the Bretton Woods system proper came into operation in 1958, it had already been circumvented by an event that had taken place in Britain. To be precise, by the creation of a new, some would say 'natural', international money market: the Eurodollar market. An unregulated, international 'offshore' money market trading in US dollars, created, apparently spontaneously by merchants and overseas bankers based in London. For this parochial event led not only to the restoration of the City as the world's leading international financial centre, but much more significantly, to a restructuring of the global economy*
>
> (Gary Burn, The Re-Emergence of Global Finance, 2006, p. 4).

In 1986 the impact of this first step had been reinforced by the liberalization of the City of London and the opening up of its financial markets – reforms carried out by the Thatcher governments (Big Bang). On the other hand, the City of London did not have to respect the same rules as eurozone countries. It had a flexible regulatory framework and a low tax regime, as already mentioned. The Centre for the Study of Financial Innovation thus claimed in 2003 that the main strengths of the City would be threatened by the membership of the euro:

> *There is a strong likelihood that the independence [of the City] would be compromised by membership of the euro, a deeply political project. Membership would heighten the clash between the "Anglo-Saxon" and Continental forms of finance, the first being strongly market driven, the second opaque and manipulated. If, as also seems likely, the current controversy over the Growth and Stability Pact leads to a requirement for greater fiscal harmonisation and regulation, membership of the euro would ensnare the City in a regime that was inhospitable to its markets*
>
> (The City and the Euro, Minutes of Evidence, Treasury Select Committee London, 12 February 2003).

This viewpoint should yet be qualified since the UK is affected by a number of European regulations whether or not it is part of the eurozone.

3.2 Evolution since 2003

Since 2003 the City of London has extended its lead over Frankfurt and Paris. A Corporation of London study published in November 2005 even showed that London and New York were the only two "genuinely global financial centres at present" (Z/Yen Limited 2005), that was defined as one "where a business is conducted between organisations from all over the world using financial instruments from all over the world (Z/Yen Limited 2005). In 2006 Ed Balls, Economic Secretary to the Treasury and City Minister, confirmed London's position in Europe and the world:

> *As expected, monetary union has driven growth in and the integration of Euro-denominated financial markets. But far from weakening London's role, the establishment of the Euro has seen London increase its lead over Frankfurt, Paris and other markets. London now accounts for over two-thirds of the global market in international bonds. It is by far the largest global market for foreign exchange trading, with about one-third of all transactions*
>
> (Ed Balls, The City as the global finance centre: risks & opportunities, Bloomberg, 4 August 2006).

Figure 1: The world's top international financial centres

Rank	Centre	Z/Yen rating*
1	London	775
2	New York	769
3	Hong Kong	759
4	Singapore	722
5	Shanghai	694
5=	Tokyo	694
7	Chicago	673
8	Zurich	665
9	Geneva	659
10=	Sydney	658
10=	Toronto	658

*Ratings combine scores on the factors that contribute to a financial centre's global competitiveness and the results of a survey of almost 2,000 international financial services professionals.

Source: City of London Corporation, An indispensable industry. Financial services in the UK, September 2011, p. 13.

At the beginning of the 21st century London's status did not seem to have changed. London was still ranked first in the Z/Yen Group's 2011 Global Financial Centres Index – as it had been since the Index was launched in 2007. It was one of the three global financial centres, alongside New York and Hong Kong (Figure 1).

Indeed, the City of London was still home to many of the world's leading markets: the London Stock Exchange (shares and bonds), London International Financial Futures and Options Exchange (LIFFE: today LIFFE is part of NYSE Euronext following its takeover by Euronext in 2002 and Euronext´s takeover by New York Stock Exchange in 2007), Lloyd's of London (insurance), London Metal Exchange (non-ferrous metals market), ICE Futures Europe (energy futures and options).

Figure 2: City – Key Facts

Banking

The UK banking sector originates more cross-border bank lending than any other country – 18% of the world total in 2010. Around a half of European investment banking activity is conducted in London.

Insurance

London is the world's largest international insurance market. It is also the leading centre globally for aviation and marine insurance and the main skill centre for world reinsurance. The UK insurance industry, predominantly London-based, is the largest in Europe and second largest in the world, with gross premium income of $450bn in 2010.

Foreign Exchange

The London foreign exchange market is the largest in the world, with average daily turnover of $3.1trn in 2010. This represented 36% of global turnover, more than New York and Tokyo combined.

Fund management

London is one of the two largest fund management centres along with New York. Assets managed in the UK on behalf of domestic and overseas clients totaled nearly £3,7trn in 2010. London is Europe's leading centre for hedge funds. The UK has an 18% share of global hedge fund assets.

Securities market

The London Stock Exchange has a higher number of foreign listed companies than any other exchange and is one of the leading centres for foreign equity trading.
London accounts for 70% of trading in the international bond market.

Derivatives

London is the biggest market in the world for derivatives traded over-the-counter with 43% of global turnover in 2010. It is also the second largest after Chicago for exchanged traded futures and options.

Sources: International Financial Services London, Key Facts about the City of London, November 2009.
City of London, Key facts about the City of London and the 'Square Mile', 2010.

London has consequently retained its position as one of the main financial centres in Europe (Figure 2) and the world since the launch of the single currency in 1999. Nevertheless, it has been increasingly threatened by measures taken by governments following the economic and financial crisis (since 2008) as well as by the policy followed by the new coalition government towards Europe since November 2011.

4 DIFFICULT CONTEXT FOR THE CITY SINCE 2008

4.1 A tougher regulatory framework

Despite the City's strengths above mentioned, one should note that since 2008 the City has been increasingly affected by a greater number of rules in the UK, which means that "the UK's regulatory environment for financial services has become more 'continental' than it used to be", owing to the financial crisis (Whyte 2012). Thus, the UK's regulatory framework has become much tougher to react to the problems banks had faced during the crisis – some of them had had to be rescued with taxpayer money. More precisely, the new rules are aimed at compelling banks to meet stricter capital and liquidity requirements and to draw up recovery and resolution plans explaining how they can be restructured if they run into trouble. The Financial Services Authority (FSA), which had been set up in 1997 to regulate the financial services industry in the UK and was considered as too flexible, was also abolished in 2013. Its responsibilities are now split between two new agencies (the Prudential Regulation Authority and the Financial Conduct Authority) and the Bank of England so as to ensure a more stable financial system. Finally, the UK financial sector has been targeted by changes in the tax system:

> *The previous government introduced a one-off tax on bank bonuses, raised the top rate of income tax from 40 per cent to 50 per cent, and introduced a levy on bank debt (in effect, an ex-ante tax on the risk that banks pose to financial stability). Britain's current government did not renew the tax on bonuses and recently reduced the top rate of income tax to 45 per cent. It has also strongly opposed EU proposals for financial transactions tax (FTT). Set against this, however, the coalition government has kept – and increased – the levy on bank debt*
>
> (Philip Whyte, Britain, Europe and the City of London, 2012, p. 3).

All this means that since 2008 a great number of new rules have been imposed on the City by the British government, which followed the same type of policy as eurozone countries to react to the financial crisis. The fears of EU overregulation, brought about by Britain's membership of the euro, have consequently been exaggerated. The increasingly Eurosceptic discourse of the British coalition government has also generated much unease in the City of London.

4.2 An increasingly Eurosceptic coalition government

Indeed, since November-December 2011 the Cameron-Clegg government has increasingly tried to protect British interests and adopted a much less constructive discourse. This was particularly exemplified by David Cameron's attitude at the EU summit in

Brussels in early December 2011: the British Prime Minister decided to use his veto to block treaty changes so as to protect Britain's financial services. Although the 26 other member states of the EU had agreed to enforce new austerity measures and tougher budget rules across Europe to solve their economic difficulties, David Cameron blocked these changes because his demands for greater protection of the City of London had been rejected. The Prime Minister had insisted on a protocol excluding the City from the effects of new measures taken by the EU to regulate a number of financial practices: he wanted the right to impose higher capital ratios on banks than the 9% target sought for the eurozone – which showed that he did not want more flexible rules, keep the European Banking Authority in London, kill off proposals that euro-nominated financial transactions might only be allowed in eurozone markets and ensure that the City was not hit by the proposed financial transactions tax (Gow, Treanor & Collinson 2011). The City was consequently given a crucial role in the negotiations over treaty changes – David Cameron said the finance industry was a "key national interest".

This attitude has been confirmed ever since and Britain has kept strengthening its rhetoric over Europe and opposed more integration, focusing on Britain's financial sector. Thus, in June 2012 David Cameron and Chancellor of the Exchequer George Osborne made it quite clear that they would never be part of any eurozone banking union aimed at helping European leaders to tackle the eurozone crisis. The British government even warned that they were ready to wield their veto in Brussels if there was an attempt to impose fresh controls on British banks (Cameron 2012). In February 2013 they also opposed the EU agreement to cap bankers' bonuses, arguing such rules would drive away talent and restrict growth in the financial sector – and certainly thinking that they wanted to make their own decisions and not to be subject to a regime set up in Brussels (Traynor 2013).

What is paradoxical though is that the City does not seem to have been consulted on these issues and has not asked for any kind of special treatment. As mentioned by Philip Whyte: "Some in the Square Mile loudly welcomed Cameron's [veto at the EU summit of December 2011]. But many others were quietly furious at having been turned into poster children for British euroscepticism and feared this would weaken their influence in Brussels" (Whyte 2012). We can consequently wonder why the government has decided to focus on this issue.

Several factors can explain the less constructive attitude of the coalition government. First, David Cameron has had to face a growing discontent of Tory backbenchers on Europe over the past few years. Above all, Tory backbenchers, who consider that the Prime minister has failed to do enough to protect British interests, want to use the negotiations over treaty changes to secure concessions, calling, for example, for the repatriation of social and employment laws from Brussels or for an opt-out from EU rules that harm the City of London.

Second, the rise of the UK Independence Party (UKIP), which would like Britain to withdraw from the EU as soon as possible, has forced the Conservative leadership to adopt more Eurosceptic policies. Since 2012 UKIP's popularity in opinion polls has increased. According to a Guardian/ICM poll carried out in May 2013 (ICM 2013), UKIP had even overtaken the Liberal Democrats for third place – support for UKIP had reached 18% (11% for the Lib Dems) at that time.

Third, the eurozone crisis has made Britain more Eurosceptic, particularly as the British government has repeatedly blamed economic woes in the eurozone for Britain's economic difficulties. The prospect of eurozone rescue plans which would threaten Britain's sovereignty, lead to further European integration – a tighter political or fiscal union – and jeopardize the EU's single market, has also aroused the fears of Tory Eurosceptics.

Responding to these political pressures, David Cameron decided to make a speech on 23 January 2013 and promised he would hold an in/out referendum on membership of the European Union during the next parliament. Thus, British people would be able to decide whether Britain should remain in the EU by the end of 2017 if the Tories won the 2015 General Election. The importance given to the City in the negotiations over treaty changes might consequently be a way for David Cameron to try to put an end to tensions within Conservative ranks. Protecting the City seems indeed quite convincing owing to its value to the UK economy. London´s financial sector accounts for about 9.7% of the total national income of Great Britain. Besides, the financial services trade surplus with the rest of the EU is £17.6bn.

How has the City reacted to such a policy? Has it changed its attitude towards the euro since its launch?

5 THE CITY´S ATTITUDES TOWARDS THE EURO TODAY

5.1 A City toughening its stance (2000-2008)

Since there had been no evidence that the introduction of the euro had undermined London's predominance as a financial centre, the attitude of the financial community towards the euro toughened a bit between 2000 and 2008. Two opinion polls carried out among senior City executives thus showed that there was a smaller proportion of senior City executives favouring the euro in 2003 than in 2000: 41% in 2003 (compared with 44% in 2000) considered that it would be in the City's best interest to join the single currency while 40% disagreed (38% in 2000). Furthermore, the financial community was still divided on this issue (IPSOS-MORI 2001, MORI 2003).

Nevertheless, the proportion of senior City executives supporting the euro was still higher than that noticeable among British people: about 35% of voters supported Britain's membership of the euro at that time and about 55 per cent opposed it (IPSOS-MORI 2003). One should also note that there was a high proportion of senior City executives who neither agreed nor disagreed – which means that they had still not made up their minds: in the 2000 opinion poll, this proportion amounted to 13% of voters. As mentioned in a report published by the House of Commons Treasury Committee in 2003, the main concern of the City at that time was not joining the single currency but the threat of a link between the EU and "over-regulation ... [as well as] over-taxation" (Treasury Select Committee 2003c).

All this shows that it is rather difficult to study the opinion of the financial community, in particular because few polls have been carried out on this issue and financiers have remained silent on the euro. According to a report published by the Treasury Select Committee in 2003, this stance could be explained by the following reasons: the silence of the government on this issue; the reluctance among City people to speak out publicly on the euro to avoid controversy; the City which kept prospering outside the euro; and a large proportion of City people who were not British or worked for non-British institutions – and wished to stay out of British affairs (Treasury Select Committee 2003b).

Generally speaking, it seems that most of the financiers remained pro-euro – at least, according to the newspaper articles and reports published at that time. This analysis can be confirmed by the attitude of the Blair government which (until 2003-2004) still expected the City to be part of a pro-euro campaign if they decided to hold a referendum on this issue. Nevertheless, from 2004 onwards neither the governments of Tony Blair (1997-2007) nor that of Gordon Brown (2007-2010) decided to launch a debate on the euro and remained quite cautious, partly because of the Iraq war.

5.2 Evolution since 2008

Since 2008 the euro has been mentioned a bit more because of the economic and financial crises and the economic difficulties of the eurozone countries. Even if the City has remained rather cautious, it has sometimes called for Britain to join the euro. Thus, in late 2008, following Iceland's political and economic crisis which led to the collapse of the three major privately owned commercial banks of the country, several bankers and economists wondered whether Britain should not join the euro right now since it could be threatened by a sovereign debt crisis very soon. They explained that a floating exchange rate could enhance financial instability in nations, such as Britain, which had big banking sectors relative to GDP, and considered that being part of the euro would provide protection from lasting damage to the UK economy (Guetta 2008, Warner 2009, Stevens 2009).

Today, the main topic, on which the City can express its opinion, is no longer membership of the euro, but membership of the EU owing to the policy followed by the British government. Concerning Europe, the financial community is divided: after the EU summit of December 2011 some in the City welcomed the UK's isolation but others criticized David Cameron's veto which had been motivated by political reasons. They mostly feared that the Prime Minister's decision would marginalize Britain and the City in the EU and would significantly weaken the country's negotiating position over future directives, as exemplified by Hugh Savill, director of prudential regulation at the Association of British Insurers (ABI):

> *A financial transaction tax would be bad for British consumers, and the consequences of closer fiscal harmonization are not understood, but the immediate challenge for us will be exerting influence over EU regulations that will affect the UK financial services industry and its customers*
>
> (City fears over EU isolation as UK misses out on bank talks, The Guardian, 9 December 2011).

This was confirmed in 2013 by the City of London's reaction to David Cameron's promise to hold an in/out referendum if the Tories were re-elected in 2015. Although some financiers, influenced by the less and less constructive attitude of the government, criticized the new EU regulations such as the cap on bankers' bonuses, which could undermine the City and make it less competitive, most of the financial community considered it would be madness for the City to leave the EU. They insisted that the latter had clearly benefited from membership – since the City had become the main financial centre in Europe and attracted many of the biggest banks and the brightest financiers from Europe and all over the world – and were worried about a risk of growing isolation for Britain and the City. Thus, they warned that leaving the EU could force big banks, located in London today to have access to the EU market, to relocate their headquarters elsewhere in Europe (Wright 2013). The head of one big US bank even said that "if the UK leaves the EU, the City is dead" (Thornhill & Jenkins 2013).

Consequently, the City is not as Eurosceptic as the government. Most of the financial community does not call for Britain to leave the EU but wants the government "to promote London's capital markets to help solve the problems of the EU banking system" (Wright 2013). A great number of financiers even seem to be disconcerted by the Eurosceptic policy followed by the British government: for example, they do not understand why David Cameron used his veto in December 2011, claiming he wanted to protect the City, although he could have tried to protect the financial centre by remaining at the negotiating table (Thornhill & Jenkins 2013).

6 SUMMARY

From the start, the euro has been a divisive issue for the City. Even though the latter was split on this issue in the late 1990s, most of the financiers supported Britain's membership of the euro, fearing that: the competitive position of the City would be undermined at the global and European levels if Britain refused to join, the City would not be able to influence the decisions taken by eurozone countries any longer, and eurozone members would pass regulations that would discriminate against the City.

Contrary to what was expected, the fears about the impact of the introduction of the euro on the City have not materialized. Britain has not joined the euro but the City of London has retained its position as one of the main financial centres in Europe and the world. Besides, it is still home to many of the world's leading markets.

Paradoxically enough, the two factors which have mostly weakened the City since 2008 have come from the UK, i. e. the tougher regulatory framework imposed to British banks following the economic and financial crises, as well as the increasingly Eurosceptic discourse of the coalition government, mainly motivated by political reasons.

Today, the financial community has, of course, become a bit more reluctant to join the euro and been silent on the euro owing the economic difficulties of the eurozone and the attitude of the British government. The main question is whether or not Britain will remain part of the EU. Obviously, most of the financiers are pro-EU, fearing a risk of growing isolation for Britain and the City if Britain leaves the EU.

Consequently, the future of the City will mainly depend on the prospect of the in/out referendum, and on the following factors which could influence such a decision: the evolution of economic problems in the eurozone and the measures taken to solve them – it is quite clear Britain will never be part of a banking union, a middle-way has consequently to be found; the attitude of Tory Eurosceptics in the UK and whether or not they will compel the Cameron-Clegg government to adopt a more Eurosceptic attitude; the relationships between the British government and its European partners which are quite difficult right now. Maybe these problems would be solved if the British government decided to introduce a strategy selling the City of London as part of the solution to Europe's problems, as suggested by Hugo Dixon in May 2013 (Dixon 2013)?

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