How the City of London lost at Brexit: a historical perspective

Helen Thompson
Department of Politics and International Studies
Alison Richard Building
7 West Road
University of Cambridge
Cambridge
CB3 9DT
United Kingdom

het20@cam.ac.uk
01223 767264

Abstract

The nature of the City of London as an offshore financial centre has long made London dependent on the British state providing protection from external political regulation, even as London's foreign currency business separated its interests from British governments' economic policy pre-occupations. Since the 2008 crash and the onset of the euro zone crisis, London has faced threats to both its autonomy from external regulatory demands and to its offshore business interests at the same time as the long-standing external statecraft of British governments around EU membership has broken down. The Cameron governments' efforts to protect the City within the EU under political conditions that were transformed by the euro zone crisis exposed the limits of Britain's position as a member of the European Union. When David Cameron then tried to resolve the problem of EU membership through a referendum he made it extremely difficult to defend the City's broader commercial interests in the Single European Market because freedom of movement issues weighed significantly more in British domestic politics than financial services.

Keywords: City of London; Brexit; Cameron government; euro zone crisis; offshore trading.

Author notes
Helen Thompson is a Professor of Political Economy at the University of Cambridge. Her research on the 2007-8 financial crisis and the euro zone crisis has been published in New Political Economy and the British Journal of Politics and International Relations. Her most recent book, China and the mortgaging of America: the domestic politics of interdependence, was published by Palgrave in 2010. She is presently working on a book on oil and the western economic crisis.

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As an international financial centre with significant offshore interests, the City of London has long occupied a complex political position. Since the 1950s the City has been dependent on the protection of British governments against external political interference from states in whose currencies the City is doing business whilst simultaneously posing a potential political problem for British governments whose own political interests are inherently tied to national democratic politics. This tension has often proved perfectly manageable from the City's perspective because of the external policies pursued by British governments. As Jim Bulpitt (2008) argued, British governments have long deployed a statecraft by which they have relied on an external economic support structure to try to realise their own political goals whilst attempting to minimize external penetration from that structure into domestic affairs. Moreover, since the late 1970s British governments have actively deployed this statecraft in ways that have advanced the City's position as an international financial centre. However, the 2008 crash and, in particular, the euro zone crisis have proved very awkward in their consequences for the City's political position both because they have politicised the City's offshore business abroad and damaged the ability of British governments to maintain their existing external statecraft. In the fallout the City has suffered its most significant political defeat since the 1930s over Britain's membership of the European Union.

This paper seeks to analyse the City's political problems in relation to Britain's membership of the EU from a historical perspective in relation to the City's offshore currency interests. Analytically, it situates these problems in the context of the perennial external and domestic political dilemmas faced by British politicians governing Britain as a democratic polity, using the conceptual language of statecraft deployed by Bulpitt (1986; 2008). The paper is divided into three sections. The first offers a schematic history of developments in the relationship between the City's currency interests and the statecraft deployed by British governments in relation to the changing international economic and political environment from the end of the First World War to 2007. The second section analyses the fall-out of the 2008 financial crash and the euro zone crisis for the City's position as an offshore dollar and euro centre, culminating in the fallout for the City of the 2016 referendum on Britain's membership of the European Union. The final section draws some conclusions.

British statecraft and the City 1919-2007

From the middle of the nineteenth century until 1914 Britain possessed in sterling the world's premier currency and the City of London was the world's undisputed financial centre. During this era the City prospered in its internationally-focused commercial operations through sterling business (Ingham, 1984). When, however, British monetary dominance was ended by the First World War and the dollar became the dominant international currency, the City began to lose its status as the world's premier international financial centre. Thereafter, London's capacity as a financial centre depended on integrating itself into increasingly dollar-based international financial markets, which were shaped by financial corporations in New York. To this end, the City was aided by the policies of British governments during the 1920s. As the City turned towards American markets, British governments looked to construct a statecraft in which they could deal with the domestic political problems generated by relative British economic decline through an external support structure centred in significant part on a monetary, financial and political relationship with the United States (US) (Bulpitt, 2008, p. 122).

The post-First World War strategies of both the City and British governments were dealt a sharp blow in the 1930s by demise of the Gold Standard and the subsequent shift across the world towards economic nationalism. For the City, there was simply less international financial business to compete for in a world in which capital flowed much less freely and where under President Franklin Roosevelt the American government deemed an internationally-oriented financial sector a hindrance to American economic recovery. For British governments, Britain's exit from the Gold Standard in 1931 and the American shift from 1933 towards more confrontational economic relationships with other states precipitated a turn towards the construction of an imperial economic bloc, which effectively discriminated against American goods and capital. Under this more imperial statecraft, the City's interests were secondary. Indeed, the National governments that governed Britain for much of the 1930s deployed exchange controls that directly discouraged the City from the international financial activity on which it had premised its post-war operations (Michie, 2005, p. 25).

This imperial statecraft did not survive the Second World War. Britain's financial dependency on the US to fight the war ensured that the Roosevelt administration could demand that Britain participate in an American-led multilateral post-war economic order. Meanwhile, the City began the post-war world in a clearly subordinate position as an international financial centre to New York and tied to a weak domestic economy subject to capital flight. The response of the war-time and Attlee governments to the post-war international economic order and the City's predicament within it was Janus-facing. On the one hand British governments in the 1940s sought to construct a new external support structure around the re-established relationship with the US and in doing so welcomed the monetary autonomy provided by the restrictive international financial order that the Roosevelt administration established at the Bretton Woods conference. On the other, British governments tried to salvage some kind of international role for sterling as a reserve currency within what had been the old imperial economic bloc, even after it proved impossible to maintain sterling convertibility for more than six weeks in the summer of 1947 and sterling was devalued in 1949 (Thompson 2008, pp 78-98).

This complex approach towards exchange rate matters in post-war statecraft has created some historiographical difficulty in conceptualising the relationship between the City and the British state. Some scholars have seen the commitment of British governments to maintain the value and status of sterling through the 1950s and most of the 1960s as clear evidence of the City's entrenched political position within the state through a nexus that connected the City to the Treasury and Bank of England (Cain and Hopkins, 2001; Ingham, 1984; Burn, 1999). However, this interpretation of the economic commitments of post-war British governments runs into two difficulties. First, British governments had a quite different and significantly stronger incentive to maintain sterling's position in the 1950s and 1960s, namely to lessen the financial burden of oil imports. Quite simply, so long as there were oil companies operating in Britain's remaining imperial protectorates in the Gulf willing to sell oil in sterling, the British economy required fewer dollar earnings to support oil imports (Galpern, 2009). Second, sterling was simply far too weak a currency for City to re-launch around international commercial operations in sterling.

In reality for the first part of the post-war period the City's interests developed independently from sterling. The City's recreation of itself as an international financial centre depended on the City detaching from sterling business and shifting to dollar business (Jones, 1993, pp. 248-87). Most significantly, London created an offshore euro-dollar market by which foreign currency deposits that were exempt from the Britain's capital and exchange controls could be lent through banks' offices in London (Baker & Collins, 2005). With this market in place, the City was able to showcase the contrast between the informal supervision of the Bank of England and the post Glass-Steagall regulatory environment in the United States to attract a significant number foreign banks to locate in London through the 1960s (Cottrell, 2005, p. 177; Moran, 1990, pp. 56, 85).

Certainly, London's move towards recreating itself as an offshore dollar centre came with political support from the Conservative governments of the 1950s (Schenk, 1998; Green, 2016). In this sense the City did reassert a strong political claim on British governments after its essential defeat in the 1930s. Nonetheless, British governments in the 1950s and, especially, the 1960s could not entirely embrace the City's offshore orientation as part of their own statecraft. Their primary economic interest was the defence of sterling both to reduce dollar expenditure on oil and, through the 1960s, to maintain American support as financial pressure mounted on the post-war Bretton Woods order. Indeed, in this context, the presence of the euro-dollar market in London as an outlet for international capital flows made their macro-economic management in relation to sterling's weakness more difficult.

By the end of the 1960s, the external support structure that post-war British governments had constructed around the remnants of the imperial economic bloc and the Atlantic relationship was collapsing even as increasing numbers of American banks arrived in London (Bulpitt, 2008, p.144). In November 1967, the Wilson government finally gave into the devaluation of sterling, and, shortly after, announced a withdrawal of Britain's military involvement east of Suez including the Gulf protectorates, leaving the Johnson administration in both instances infuriated. Consequently, when the Bretton Woods order began to disintegrate in the 1970s British governments had virtually no influence in Washington, symbolised by the Nixon administration's entirely unilateral decision to end dollar-gold convertibility and effectively rip up the whole basis of the Bretton Woods order. After the subsequent collapse of the multilateral fixed exchange rate regime in March 1973 and the first American moves towards financial liberalisation a year later, British governments were left to manage sterling without any external financial and political support. When this proved impossible in 1976 the Callaghan government had to turn to the International Monetary Fund for loans that came with significant fiscal conditionality, nullifying one of the two primary purposes of the previous external support structure, namely to minimize external penetration into domestic British affairs (Bulpitt 2008, p. 144).

EU membership and financial liberalization

The exhaustion of this post-World-War-Two external support structure eventually opened up the possibility of a new statecraft that proved more directly complementary to the interests of the City. First, in 1973 the Heath government procured Britain's accession to the European Economic Community (EEC) with open access to EEC markets offering the eventual prospect of an integrated financial services market that London was in a strong position to dominate. Second, in October 1979, the first Thatcher government abolished capital and exchange controls. This move made the Britain the first state after the US to embrace financial liberalisation and gave London significant commercial advantages over European competitors. Finally, the second Thatcher government pushed the Big Bang reforms to the London Stock Exchange with the aim of re-launching London as a distinctive international financial centre without restrictive practices privileging domestic firms in securities and merchant and retail banking (Moran, 1990). In outcome, Big Bang transformed the structure of various financial markets, produced foreign takeovers of old City firms, led foreign financial corporations to increase their presence in London just as the European Community was moving towards completion of the Single European Market (SEM). Consequently, by the second half of the 1980s, London was in a position to dominate the increasingly integrated EC financial markets and, facing both westwards and eastwards, challenge New York once again as the world's premier international financial centre. For British governments the City's re-launch was also a domestic boon since as manufacturing decline continued it left the British economy with a financial sector with rising comparative advantages.

Yet this new EC-shaped external economic support structure that advanced the City's European turn also produced a number of statecraft difficulties. Most significantly, the European Community came with much greater risk of domestic penetration than Bretton Woods, particularly on monetary matters. In 1978, the Callaghan government decided to stay out of the Exchange Rate Mechanism (ERM) for fear of the macro-economic restriction imposed by membership of a fixed exchange rate regime. Unable to resolve the conflict between the clear constraints that would be imposed by ERM membership and the ongoing sterling problems of the 1980s, the Thatcher government became increasingly bitterly divided over the direction of economic policy, gradually shredding the Conservative party's reputation for governing competence (Thompson, 1996).

These statecraft problems were deepened by the arrival in 1988 of the euro on the European Community's agenda. Joining the proposed monetary union would have entailed sacrificing the national currency and accepting deep penetration of British economic policy by external institutional agents. Yet from the perspective of the City's position in the new statecraft any political choice that simply eschewed monetary union contained obvious risks. In a scenario in which monetary union occurred and Britain remained outside the currency zone, London appeared to risk losing out to Frankfurt as the primary centre of cross-border European financial activity and Britain's political influence within the European Community would diminish. Whilst opinion in the City was far from unanimous that London needed euro membership, some in the Conservative Cabinet, supported by the Bank of England, made the argument that the option of entry had to be preserved for the sake of the City (Thompson, 1996, pp. 136-138). Indeed, when, in November 1990, Mrs Thatcher dismissed the whole notion of Britain participating in any form of monetary union her Cabinet colleagues removed her from office.

In this sense the arrival of monetary union from the onset exposed the limits of a European-shaped external support structure. The European Community, or the European Union as it became after the Maastricht Treaty, was useful for British governments so long as it extended market opportunities, not least for the City. But as a site of political decision-making it was extremely difficult to influence in ways that suited British governments' ongoing desire for a large degree of autonomy in domestic politics (Bulpitt, 1996). Consequently, EU membership by the early 1990s appeared to force a choice for British politicians between acquiescing to the end of national monetary sovereignty or accepting the development of a potentially hostile political bloc within the SEM with quite possibly deleterious consequences for the City. The difficulty of that strategic choice was then compounded by the fragility of sterling, which simultaneously made the undertaking of joining a rules-based monetary union an even greater risk and the prospect of staying out of it a likely renewed source of currency weakness (Thompson 1996, pp 181-214). Having dispensed with Mrs Thatcher, the Conservative government under John Major's leadership eventually responded to this dilemma by buying Britain's politicians more time to decide through an arrangement in the Maastricht treaty whereby Britain secured an opt-out of the third stage of monetary union that could be turned into an opt-in at a later date. However, Major's Maastricht compromise quickly disintegrated under the weight of sterling's exit from the ERM in September 1992. With Major's government never managing to recover from the political fallout of the ignominy of the ERM failure and its destruction of the last shreds of the Conservative party's reputation for governing competence, no Conservative Prime Minister could contemplate trying to turn the opt-out of monetary union into an opt-in (Thompson, 1996, pp 198-214).

Yet for all the manner in which EU monetary matters wrecked the Thatcher and Major government's statecraft, by the second half of the 1990s the whole economic and political context in which British politicians could contemplate the external economic and political landscape was transformed. First, in the middle of 1995, sterling de-coupled from the movements of the European currencies around the

Deutschmark and started to float upwards with the dollar. Extraordinarily, after a succession of sterling crises had bedevilled British economic policy for seven decades, sterling weakness effectively disappeared from 1995 as an external constraint on British governments and would not reappear until the very different circumstances of 2008. Second, after 1992 and sterling's exit from the ERM Britain's relative economic performance improved, meaning that for much of the next fifteen years the British economy grew more rapidly than the other large European economies. Third, after the introduction of monetary union in 1999, London quickly emerged as the most important centre for euro-denominated trading with large financial corporations concentrating their euro foreign exchange dealing and non-sovereign euro denominated business in London (Roberts, 2005, p. 309).

As monetary union turned from a potential threat to the City's European business to another offshore opportunity so these developments from the mid-1990s created the chance for British politicians to restructure a statecraft around the SEM part of EU membership and the relative national macro-economic autonomy created by retaining a national currency. The New Labour government was able to double down on the advantages of the SEM, particularly as they pertained to London's position as an international financial centre, and to pursue a macro-economic policy unconstrained either by monetary union or sterling weakness. More than any of its predecessors, the New Labour government emphatically embraced a financially open international economy in which the City could prosper. As Brown put it to the Institute of Directors in 2005: 'globalisation was made for Britain' (Quoted in Shaw, 2012, p. 238). Unsurprising the City's offshore business strongly benefitted from the New Labour government regularly touting the 'light-touch' regulation practiced by the Financial Services Authority to encourage international business to leave New York for London, especially after the Sarbanes-Oxley Act tightened US company accounting regulation. Having already seen off the euro threat from Frankfurt, the City was able to cement a position as the world's leading financial centre, enjoying by 2007 the biggest share of international bond markets, over-the-counter derivatives, foreign exchange turnover, and cross-border bank lending (Talani, 2013, pp. 22-3) and do so precisely under conditions premised on minimal interference from the British state.

In sum, by the early 2000s British politicians, in part by strategic decision-making and in part by good fortune, had established a statecraft in regard to EU membership that took advantage of the macro-economic autonomy that non-membership of the euro offered and via the SEM allowed the City to flourish as the offshore financial centre of the euro in addition to its longer-standing commercial activities around dollar business. In this domestic and external environment, the City enjoyed considerable autonomy from both British regulatory authorities and the external regulatory bodies governing the two principal foreign currencies in which it traded, as well as political protection from a settled external statecraft.

The statecraft cannot hold: the road to Brexit

The 2008 financial crash and the euro zone crisis began a serious disruption to this state of affairs. From the onset of the crises London's reputation as the beneficiary of 'light-touch regulation' left the City open to external political attack. On the US side, politicians and regulators, with an interest in explaining away the problems of American financial corporations, repeatedly criticized London as the epicentre of reckless risk taking. For example, in Congressional hearings in 2012, the Chairman of the US Commodity Future Trading Commission, Gary Gensler, declared that the large US investment banks had used their London branches as an offshore centre because of lax British regulation only for the problem to 'come right back here, crashing to our shores' (quoted in Jones, 2012). Moreover, the US regulatory authorities become significantly more interventionist after 2008 in relation to foreign banks. Much of their attention focused on British banks. In 2009, Lloyds TSB agreed to pay fines totalling more than $500 million for breaches of US banking rules about Iran and Sudan. Subsequently, US regulators financed Barclays, the Royal Bank of Scotland, HSBC and Standard Chartered for breaking anti-money-laundering rules and Barclays and Lloyds for LIBOR offences. The fines for Standard Chartered and HSBC totalled $2.6 billion. Meanwhile, the US Senate Permanent Sub-Committee on Investigations made HSBC an exemplary case study of the US' vulnerability to money laundering and drug and terrorist financing. In outcome, these moves have damaged the City's reputation and advanced New York's. In 2014, the Global Financial Centres Index rated London behind New York as the world's top financial centre for the first time since the index began in 2007 (Pickford, 2014).

Certainly, British banks were not alone in facing the ire of US regulators. In June 2014, BNP Paribas agreed to pay a $9 billion fine to the US Justice Department for violating US sanctions and accepted a year long ban on it engaging in certain dollar transactions (Barrett, Matthews, & Johnson, 2014). This fine prompted French President, François Hollande, to try to construct a common EU front towards the United States over its treatment of European banks (Carnegy, Arnold, & Scannell, 2014). Yet even in doing so Hollande did not depart from the French government's insistence from 2008 that Britain was more a problem in regard to finance rather than part of any solution. After the financial crash the French government regularly deployed confrontational rhetoric towards London, accusing Britain of being part of the very Anglo-American approach to finance that it saw as responsible for the crisis. For example, when Michel Barnier, a French politician, was appointed EU Commissioner for Internal Market and Services in 2009, President Sarkozy declared it ‘a defeat for Anglo-Saxon capitalism’ (quoted in Waterfield, 2009) and said ‘the English are the big losers in this business’ (quoted in Munchau, 2009). Indeed, once the euro crisis began, a situation in which in the words of Springford and Whyte (2014, p. 6) ‘the City of London is at the core of Europe’s financial system, but sits outside the euro zone’ became unacceptable to many in the French governing class.

In this new political context, the euro zone authorities and a coalition of other European Union states after 2009 proposed or enacted a series of measures with a direct or disproportionate effect on London as a financial centre. By early 2009, the Bank of France was pushing for the euro zone states to create a clearing house inside the euro zone for credit default swaps to challenge London’s clearing house, LCH.Clearnet, engaging in this business (Grant, 2009). In July 2011, the ECB issued an initial policy paper stating that clearing houses handling more than five per cent of euro-denominated product should be located within the euro zone that was then followed by a number of practical proposals. Since London’s clearing houses do more euro business than any other financial centre in the European Union, this ‘locational policy’, as it became known, could only result in London losing business to Frankfurt and Paris (Fleming, 2014). Meanwhile, the EU member states passed new legislation on a number of financial services issues. In October 2011, the EU member-states and the European Parliament reached a final agreement, against the opposition of the British government, authorising the European Securities and Market Authority to ban short selling in emergencies. Most significantly, in 2011 the European Commission proposed a financial transactions’ tax with revenues shared between the European Union and member states. On the Commission’s estimates 62 per cent of the revenue from the tax were to come from financial transactions in Britain (Seely, 2014, p. 13). In a House of Lords debate on the issue, the Commercial Secretary to the Treasury, Lord Sassoon, proclaimed that since the directive required unanimity in the Council of Ministers Britain would have a veto (Seely, 2014, p. 18). However, in October 2012 11 EU states, led by France and Germany, agreed in principle to move ahead with the tax under the procedure of ‘enhanced co-operation’, a process rarely used before and in recent years only in relation to divorce and patent law (PWC, 2012).

The consequences of these hostile developments were accentuated by the opportunities the euro zone crisis gave the large euro zone states to build winning coalitions within the wider European Union. For example, there was no initial majority within the EU for the financial transactions' tax. Indeed, in June 2012, the EU finance ministers agreed to put all discussion of the matter on hold (Seely, 2014, p. 20). Yet, in September 2012, the German and French government reopened the issue. Initially they had the support of only six other states to act under 'enhanced co-operation procedure when the rules required a total of nine participating states, with both Italy and Spain, as the two largest members of the euro zone periphery, wanting concessions on euro zone matters to join (Spiegel, 2012). But by the end of the session 11 states had agreed in principle to the tax (EUrActiv, 2012). Then in January 2013 the EU Finance Ministers under QMV rules formally supported the use of the enhanced co-operation to advance the tax, leaving Britain and other opponents with no vote on the future shape of the tax even though transactions executed by a British bank in London on behalf of a company of a participating member would be liable (Barker, 2013).

By contrast, the British government's efforts to try to use the euro zone crisis as a political bargaining tool to achieve its own objectives came to naught. After the Commission's first proposal in September 2011 for a Financial Transactions' Tax applying to all member states, the British Prime Minister, David Cameron, sought to tie Britain's agreement to treaty reform to produce new fiscal rules for the euro zone states to a protocol with safeguards to protect the City from new regulation for which Britain had not voted. Yet the threat of a British veto at the Brussels summit in December 2011 did not yield the effective opt-out for Britain on financial services Cameron sought. For the German government Cameron's concerns were simply secondary to what it saw as the absolute need for new fiscal rules to sustain German domestic support for financial support for the periphery and they it resented what it saw as Cameron's opportunism in using the euro zone crisis to try to achieve singular British ends (Beach, 2013, p .118). Moreover, Cameron in practice had no leverage. He could not in fact veto a new fiscal agreement since the other member-states were willing to sign an inter-governmental pact outside the formal EU treaties, even as they included the EU's institutions in the political mechanisms created in the agreement. Indeed, since the German government, which was the keenest among the member states for a new treaty in principle, could not in practice risk Britain agreeing to one since British ratification would have been dependent on a referendum that would almost certainly have been lost, it is not clear what Cameron could ever have achieved from the negotiating strategy he adopted beyond bolstering his Euro-sceptic credentials at home. Just as importantly, the other non-euro states, with the temporary exception of the Czech Republic, did not take Britain's side. Again, since Cameron made his stand in terms of the singular threat to the City from euro-zone driven regulation, there were no states with which Britain could ally. In this sense, the 2011 Brussels summit demonstrated that British preferences had become largely irrelevant to euro zone members when the euro zone's entire existence was in jeopardy and were, as a consequence of the City's position, unaligned with those of other non-euro states. In this political context, it is probably not surprising that the Coalition government subsequently made no effort, as Waultraud Schelkle (2016, pp. 159-60) has noted, to oppose the banking union agreed by the European Council in June 2012, even as it implied the creation of two tiers of financial services within the SEM.

Having failed to make the old 'opt-out' strategy of European Union membership work under the new conditions of the euro zone crisis, the British government was left to mount a series of legal challenges in the European Court of Justice (ECJ) to try to protect the City's position. In September 2013, the British government filed a case at the ECJ on the EU's cap on bankers' bonuses, which had been agreed in early 2013 and which the British government argued was agreed without legal authority. In January 2014, the ECJ threw out Britain's challenge to the legal basis of the discretionary power given to the European Securities and Markets Authority (Barker, 2014a). In April 2014, the Court also rejected Britain's challenge to the use of the enhanced co-operation procedure to establish the financial transactions tax for the eleven participating members (Barker, 2014b). Only on the ECB's locational policy did the British government enjoy any legal success when in March 2015 the ECJ ruled that the ECB did not have the authority to regulate clearing house activities. Yet even in this case, the Court refused to rule on the overriding claim of EU principle on which the British government had made its challenge, namely that the ECB had violated the freedoms enshrined in the SEM (Barker and Stafford, 2015).

The implications of these problems were certainly not lost on the City. In March 2014, the main financial services sector lobby group, TheCityUK, published a report calling for the government to be more 'muscular' in its defence of the City's interests and warned that there was a 'credible threat' that the new euro zone banking authorities would damage London's ability to serve its non-domestic client base (Jenkins and Jones, 2014). Nonetheless, there was no clear articulation from interests within the City as to what they thought a more 'muscular' political strategy could be or should have involved. Whilst some within the City argued that the SEM should be privileged over sovereignty in financial services regulations, others disagreed and were not prepared to accept defeat on the regulatory issues because of the consequences for the non-euro aspects of London's international business (Levitt, 2012). Strikingly, despite the obvious problems exit from the European Union would cause for the City, there was no serious argument made from within the City that Britain should join the euro even though such arguments were made in the late 1980s and early 1990s when the issue of the compatibility of benefiting from the SEM and staying out of the euro first arose.

The referendum promise and the renegotiations

Under the conditions of the euro zone crisis, the statecraft by which British governments had dealt with the problem of Britain's relative political weakness within the European Union through procuring opt-outs on any issue that posed particular difficulties of internal penetration was becoming bankrupt. In the wake of this failing external statecraft, the Cameron government's problems with internal Conservative party management over the EU intensified at the same as concerns about rising immigration from within the European Union – itself in significant part a result of the euro zone crisis – was increasing the popularity of UKIP.

Seen in statecraft terms, Cameron's 2013 promise to renegotiate Britain's membership of the European Union and then hold a referendum represented an attempt to reconstruct British influence within the union whilst simultaneously re-securing domestic political support for the fundamental principle of membership as the details of it jeopardized support for it within the Conservative party and sections of the electorate. Cameron appeared to hope that an opportunity would arise to pursue this re-negotiated settlement in the context of treaty reform, whereby he could, among other things, construct an effective *de facto* opt out for the City from new EU rules in exchange for supporting a new EU treaty (Shipman 2016, loc 2324). In practice, this opportunity was not forthcoming. Without new treaty negotiations the strategy had to rest on making a credible threat to other EU states to leave the EU. This approach, however, was always fraught with danger even if treaty reform had materialized. First, the incentives for others to make concessions to keep Britain inside the EU were not overwhelming. Second, any British government would struggle to use successfully arguments about the City to re-legitimate democratic consent to membership of the European Union Third, Britain's membership of the European Union was still an important component of the Atlantic relationship. Immediately after his Bloomberg speech in January 2013 when

Cameron vowed that a Conservative government would renegotiate the terms of Britain's membership and then hold an in-out referendum no later than the end of 2017, the Obama administration warned the Prime Minister that it would take a dim view of Britain becoming politically bogged down in negotiations and a possible exit (Borger, Traynor & Watt, 2013). In this sense Cameron's referendum tactic risked not only membership of the European Union itself, which the Prime Minister wished to preserve, but a potentially much larger crisis of the security components of external support structure premised before anything else on the Atlantic relationship.

For the City the referendum promise exposed its interests directly to national democratic politics even though in terms of the concessions he sought Cameron demanded in 2014 what he called 'cast-iron' legal protections for the City against the euro zone members acting as a caucus to impose financial services legislation on Britain (Watt, 2014). Whatever Cameron initially decided to prioritise for his confrontation with the European Union, and he initially did choose the City, the pressure from voters for change lay elsewhere. Soon UKIP's success in the elections to the European Parliament in June 2014 and two by-elections to the House of Commons in the autumn of the same year pushed the centre of euro-sceptic gravity in the parliamentary Conservative party further towards the issue of immigration and away from the City Indeed, by the end of 2014, Cameron's own rhetoric on changing the terms of Britain's membership had become primarily focused on the free movement of labour within the European Union at the expense of the City (Shipman 2016, loc 556-631). Whether this language reflected anything more than an effort to prop up the Conservatives' vote against UKIP in the 2015 general election is not easy to tell. Yet Cameron's effective embrace of the freedom of movement issue in the run up to the general election undoubtedly had consequences when the Conservatives' victory in June 2015 meant that the Prime Minister had to redeem his promise of a referendum. Whilst freedom of movement had not featured in Cameron's 2013 Bloomberg speech, Cameron was left after the general election committed to renegotiating the terms of Britain's membership of the European Union under domestic political conditions where the constitutionally guaranteed freedom of movement provisions of the EU treaties were highly politicised. In this political context the City's offshore interests and their relationship to the SEM became at best a secondary consideration for the British government. Indeed, when in November 2015 Cameron announced the government's priorities for the renegotiation protecting the City from a voting-bloc of euro zone states was only one of four aims and his letter to European Council President, Donald Tusk, explicitly ruled out seeking any new opt out covering financial services, which had been the Prime Minister’s earlier aim (Parker, Pickard, Noble & Barker, 2015).

Even within these limited objectives, the British government’s negotiating capacity was always weak. Cameron’s aim was, as set out in his letter to Tusk to achieve ‘legally binding principles’ on a number of issues that included the ‘integrity of the SEM’ such that ‘there should be no discrimination and no disadvantage for any business on the basis of the currency of their country’ and that ‘any issues that affect all Member States must be discussed and decided by all Member States’ (Cameron, 2015). His strategy to realise these ends had to rest on making an explicit argument that the European Union was now clearly divided into those states inside the euro zone and those outside it even as denial of that reality remained important to the Union’s self-presentation and other non-euro members had joined at least one of the Fiscal Compact or the Banking Union since the euro zone crisis began (Schelke, 2016, pp. 158-160). Consequently, in trying to align Britain’s interests with those of the other eight non-euro states, this strategy had to dodge the singularity of Britain’s position. Unlike other non-euro members, Britain possessed a Tier-1 financial centre, which served as the offshore centre of the euro zone. Meanwhile the other EU states had clear incentives to insist, against British preferences, on locating the system risks from euro clearing houses within the euro zone itself where they could be managed by euro zone authorities.

Unsurprisingly in this political context the final agreement in February 2016 on new terms for Britain’s membership would have provided in the event of a Remain vote little protection for the City from future euro-zone generated regulation if and when a clear political will emerged within the euro zone to confront the City’s position. The agreement stated that ‘legal acts … directly linked to the functioning of the euro area shall respect the internal market … and shall not constitute a barrier to or discrimination in trade between Member states’ (European Union, 2016). But no robust political mechanism for guaranteeing how that principle would be upheld was identified since the agreement only allowed Britain unilaterally to escalate any issue pertaining to the principle to the European Council for discussion. Without granting Britain a veto, the agreement offered no effective safeguard for its minority position.

More generally, the Cameron government’s negotiations with the other EU states acutely exposed the City’s political vulnerability in the post-2008 financial and political world. On the one hand inside or outside the European Union there was a significant risk that London could be increasingly closed out of its euro business. On the other, Cameron's failure in the renegotiations to secure meaningful concessions on what had become the crucial political issue of freedom of movement increased the likelihood that voters would choose Brexit over ongoing membership, risking leaving the City outside the SEM. Quite simply, in a referendum campaign where immigration would become a central issue the City lacked political influence. Within the City the loudest Remain voices were the CEOs of international banks, like JP Morgan, who were left to make arguments that Brexit would cost banking jobs in London in an atmosphere in which the distributional costs and benefits of a highly internationalised economy were being contested in democratic politics for the first time in three or four decades. In this sense Cameron was unable to protect the City from his own government's political inability within the EU to separate the freedom of movement issue from other parts of the SEM when freedom of movement started to threaten Britain's ongoing membership of the European Union. Circumstances before 2008, which if they had still prevailed might have required concessions from other member-states on this issue, had been replaced by political conditions in which Britain's membership of the European Union had less value to other states.

Conclusions

Although it can seem that the City of London has long enjoyed effective political protection from British governments, the history of the relationship between the City's offshore interests and the external strategies deployed by British governments in their statecraft is complex. Whilst at times the City's interests and those of British governments have been aligned at other times the City's offshore business has proved a significant statecraft predicament. For a long time, the City was fortunate that its offshore currency interests were not significantly contested abroad and the strength of the statecraft commitment was not put to a decisive test. In particular, successive US administrations accepted the Eurodollar market and the importance of London to US banks. Meanwhile London's emergence as the offshore financial centre of the euro was not predicted by the euro zone states when the British government secured an opt-out of monetary union in the 1990s.

By contrast, the City's offshore position was almost threatened immediately by the 2008 financial crash and in particular the euro zone crisis. The euro zone crisis also created a set of profound problems for the statecraft of British governments around the EU that has now deepened the threat to the City's offshore euro business and put at risk the City's participation in the SEM. Most significantly, the euro zone crisis rendered it impossible for British governments to secure more opt-outs to prevent significant penetration of the European Union into domestic issues deemed of fundamental importance either to British economic interests, or national democratic politics. Under the imperative to move towards further fiscal and banking integration, the most powerful EU states, in particularly Germany, lost the incentive to accommodate British preferences on opt-outs. Meanwhile the Cameron governments' determination to defend the City from new regulation, not least that directed specifically against London's offshore currency interests, made constructing a non-euro bloc to oppose new financial policies extremely difficult. Whilst the Cameron governments endeavoured to preserve the singular integrity of the SEM in regard to financial services, they lacked the bargaining power to separate out the issue of the freedom of movement from the other components of the SEM once freedom of movement became acutely politicized in British domestic politics.

In pursuing the referendum strategy when, as George Osborne reportedly said to his Treasury team 'Britain h[eld very few of the cards' (Shipman, 2016 loc 2994), the post-2015 Cameron government could only through attempting to renegotiate the terms of Britain's EU membership demonstrate in practice the acute limits of Britain's political influence inside the union. When in 2016 Cameron put Britain's membership of the European Union on the line, there nothing was offer to save it. If, as Bulpitt (2008, p. 143) argued, the effect of the long-standing statecraft of British government has been 'to avoid problems, not solve them' then Cameron's referendum gambit did what previous government had sought to avoid on the European Union, letting loose 'a Pandora's box of trouble' that had been 'waiting to get out'. The consequences of this fundamental disruption to the statecraft of British governments have pushed the City into a very difficult position not only in relation to protecting its offshore euro position, but its whole relationship to the SEM and the commercial opportunities it brings.

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