LONDON, THE EURO AND THE INTERNATIONAL ROLE OF THE EUROPEAN FINANCIAL SYSTEM

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THREE CORE QUESTIONS

• Is there a common European interest in a more extensive international role in finance?
  • While sufficiently respecting national preferences
• What can (or should) be done for Europe to become a more powerful global finance actor?
  • Rationale, methods, feasibility and enabling conditions
  • By when?
• How does Brexit affect these aspirations and can its consequences be optimally managed?
THE BREXIT REGULATORY QUANDARY

LIKELY END OF PASSPORTING

AMBIGUITY ABOUT NATURE OF EQUIVALENCE

BUSINESS AND FINANCE

EMERGING INTERNATIONAL OBLIGATIONS

OVERLAID BY LONDON’S DISTINCTIVE CAPABILITIES AS FINANCIAL CENTRE
INTERNATIONALISING THE €URO

• Rationale of countering dollar dominance
  • €uro distant second as reserve currency
  • Negligible in invoicing and as transaction currency

• Shift of tone from Commission and ECB

• Needs prior completion of EMU and MS push
  • Banking union; fiscal stabilisation; maybe also CMU
  • Creation of safe asset

• Likely resistance from US, Chinese competition

• Costs of global obligations prone to be ignored
TOWARDS A GLOBAL ROLE: IDEAL WAY

- Internal reforms strengthen € governance
- Policy stance on international role vindicated
- € becomes attractive relative to global rivals
- More extensive use of € globally
...BUT POTENTIAL FOR INCOHERENCE

NATIONAL PRIORITIES CONTINUE TO DOMINATE APPROACHES TO EURO GOVERNANCE

DIVERGENCES IN MEMBER STATE ECONOMIC TRENDS INHIBIT COMMON ACTION

RISK-SHARING <> RISK-REDUCTION DILEMMA REMAINS UNRESOLVED

COMPLIANCE WITH RULES AND PROCESSES UNSATISFACTORY

CONDITIONS FOR INTERNATIONALISATION OF € NOT EASILY ATTAINED
POSSIBLE INFLUENCE OF GDPR

GDPR
• EU as global leader
• Forces others to comply

DATA CONCERNS
• Threats to privacy
• Secondary sanctions
• Power of US tech firms
• Breaches of security
• Tyranny of algorithms

IMPLICATIONS FOR FINANCE
• EU as standard setter
  • Applies European norms
  • Extends influence on data
  • Protects users
  • Offsets corporate power
• Impetus to EU providers
  • Competitive advantage?
  • Underpins ICT/AI sectors
CONCLUDING COMMENTS

• The political economy of reaching agreement
  – What are most pressing concerns of policy-makers?
    • How to resolve national differences
• Expectations (or aspirations) <-> capability gap
  – U vd Leyen ambitions for a geo-political Commission
    • Think of trickiness of banking union, let alone fiscal union
• Distinctive stakeholder priorities
  • Partly reflected in national preferences positions
• Co-habitation with the City: good for the EU?
“To support our economic sovereignty, I want you to develop proposals to ensure Europe is more resilient to extraterritorial sanctions by third countries”

Ursula von der Leyen, Mission Letter to Valdis Dombrovskis