The City of London Under Threat:

The EU and its attack on Britain's most successful industry

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The Bruges Group

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An essay based on a talk given to the Bruges Group in London on 26th October, 2009

Introduction

The purpose of this essay is to consider regulatory and fiscal threats to the prosperity of the City of London and, by extension, to the London and UK economies. Most of these threats now arise from the UK's membership of the European Union or at least have an important EU dimension to them.

The assumption throughout is that British public policy should serve Britain's national interest and, in particular, protect our way of life and living standards. The starting-point is to position the UK's current economic challenge – to remain a rich, successful and influential nation in the 21st century – in a larger historical context. Fortunately, trends in the structure of the economy suggest that the British people have made a good response – and, if left to themselves, would continue to make a good response – to that challenge. Unfortunately, this response has been subject to a variety of harmful and unsympathetic interventions from the EU. These interventions must be resisted if in coming decades Britain is to see the prosperity that it can achieve and deserves to enjoy.

The economic challenge of the early 21st century

Britain was the pioneer of the industrial revolution, in which factory-based production and employment superseded earlier types of production in farms and workshops. The debate about the UK's economic future continues to reflect nostalgia for its initial leadership in factory-based activity, with a recent collection of papers from the Civitas think-tank *Nations Choose Prosperity* advocating an explicit "industrial policy".[1] There were always several types of value creation within the factories. Routine, repetitive and structured tasks, which led to the mass manufacture of more or less identical tangible products, typically took place on the "shop floor". But factories also included other floors or slightly separate buildings, where each item of work was more individual and unpredictable, and required the exercise

1 Ruth Lea (ed.) *Nations Choose Prosperity: why Britain needs an industrial policy* (London: Civitas, 2009).

of judgement, responsibility and intelligence. The tasks included the design and marketing of products, the organization of finance and payments, the handling of legal and other disputes, and most important of all the overarching management function of integrating factors of production. These tasks were for “the bosses” or, in the vernacular, “the gaffers”. Of course, the bosses’ work was more interesting and better-paid than that of the shop-floor workers.

The industrial revolution began in Britain in the middle of the 18th century. Crucial to its success was the specialisation celebrated in Adam Smith’s 1776 *Wealth of Nations*. As is well-known, the *Wealth of Nations* argued that free trade would cause people and companies to concentrate on lines of production where they had an advantage, to sell the resulting outputs abroad and to buy from other countries products where these countries were particularly efficient. Industrialisation and specialisation have now spread across the globe, embracing even such huge nations as the formerly inward-looking and backward China and India. Whereas in the middle of the 19th century, the UK came first in a wide range of industries, including such iconic items as cotton and woollen goods, iron and coal, today there are hardly any traditional industrial activities in which it is a leader. With a mere 1 per cent of the world’s population, that is hardly surprising.

How, then, is Britain to remain a well-paid, successful and influential nation in the new context? The answer is that we should try to be the bosses – the gaffers – of the world economy in the 21st century. We need to specialise not on routine and repetitive types of production, dependent on low-level or medium-level technologies which are widely known and easily copied. As far as possible, we want people in the rest of the world to be doing the low-skill work in factories, mines and plantations, whereas we should be doing the complex tasks, the sort of work that used to be done away from the shop floor. We should be concentrating on such activities as financial services, marketing, design, advertising, legal work, accountancy, publishing, journalism, business information, the arts (music, drama, criticism, and the creation of a range of associated artefacts) and the various forms of management consultancy. We should also want the UK to be the headquarters centre for companies with production facilities across the globe.

These are the kinds of production where the challenge varies from day to day, the response has to be personal and sometimes unique, and high-level skills, initiative and flair are called into play. They need people who can think hard, exercise judgement, take responsibility and demonstrate creativity. If Britain is to be rich in coming decades, if it is to enjoy the economic future that might be expected from its rather special past, its people need to specialise in high-value-added brain-work, not in the low-value-added making of things with our hands (which is the literal meaning of the word "manufacture"). Of course the markets for high-value-added brain-work – like the markets for mass-produced manufactures – are global. It follows that, if Britain is to be a prosperous country by world standards in the 21st century, it will specialize in a range of activities that I will call "international business services".[2]

(Let me state here – to avoid misunderstanding – that I am neither for nor against manufacturing, and neither for nor against services. I believe that, as far as possible, public policy should be neutral in its attitude towards different economic activities. I also believe that – on the whole – exports of business services are likely to generate higher valued added per person in the UK than exports of bob-basic manufactured goods. The important thing is to give people and companies the freedom to select the most profitable outlets for their energies and resources.)

Britain's recent pattern of specialisation

The British are notorious for self-denigration.[3] It may therefore come as a surprise to see how far their nation's pattern of specialisation has been moving in the right direction. But, first, how big is the UK's economy compared with the world's? Although the precise figure depends on the statistical conventions adopted, the UK at present accounts for between 3% and 4% of world output. The UK share of world output fell precipitously after the Second World War, but it has been more or less stable in the 3% – 4% area since the 1970s. However, it seems certain to decline sharply in coming decades as the importance of China, India, Brazil and so on in world output increases. Obviously – with 1% of the world's population – we continue to be relatively prosperous if our output is, say, 2 ½% or more of total world output.

Has the UK been concentrating on international business services, in line with the pattern of specialisation proposed here? It turns out that – in the last 20 years or so, the period in which our share of world output has not changed much – that is

2 Where do "international business services" begin and end? I have been guided by the data produced by the Office for National Statistics, with the categories devised by the official statisticians. One result is that international tourism and travel revenues, including – for example – foreigners' payments for UK hotel and restaurants are excluded. The industries inside my "international business services" are those represented in Chart No. 2 dividing line is perfect.

3 "Surely then, we British ought to feel more self-confident. One of the reasons that we do not is that we have developed the habit of continually running ourselves down." Clive Aslet *Anyone for England?: a search for British identity* (London: Little, Brown and Company, 1997), p. 240.

exactly what we have been doing. Chart 1 shows the UK's exports and imports of international business services since 1991, when the figures were first prepared in their current form and published in the annual *Pink Book* of UK balance-of-payments statistics.[4] In 1991 the UK's exports of international business services were just under £15.7bn and its imports were £6.1bn; in 2008 the corresponding figures were £119.3bn and £47.8bn Exports of these services had grown at a compound annual rate of 12.7% and imports of 12.9%. Because exports were and remain so much larger than imports, the UK's surplus on this type of international trade has widened despite the very slightly faster growth rate of imports. In 2008 the surplus was no less than £71.5bn

These are hugely encouraging numbers. Over the same 17-year period the UK's national output (which appears in the national accounts as "gross value added") advanced from £536.4bn to £1,296.3bn, which gives a compound annual rate of 5.3%. Whereas exports of international business services were under 3% of national output in 1991, they were over 9% of national output in 2008. Clearly, the UK's involvement in international business services – the types of activity that I argued earlier require judgement, flair and individual responsibility, and are correspondingly well-paid – has come to represent a much increased share of its total production. This is where Britain has been concentrating its resources of people, skills and capital. Crudely, we are good at these things.

Chart 1. The UK's trade in international business services, mostly located in London and the South-East

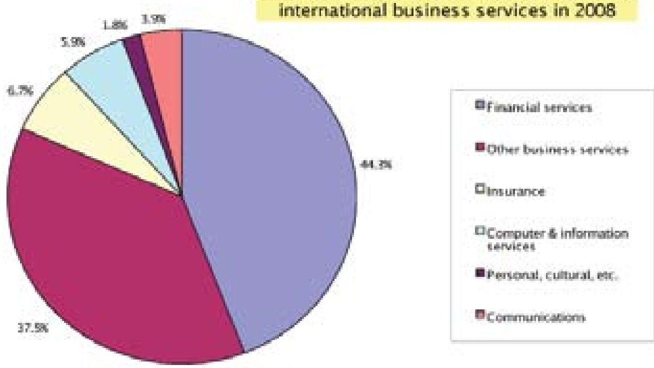
4 Office for National Statistics (Derek Vere [ed.]) *United Kingdom Balance of Payments: Pink Book* (Newport: ONS, 2009).

Financial services within the overall pattern of specialisation

The phrase "international business services" is useful in understanding an important trend towards specialisation in the UK economy in the last two decades, but a multitude of smaller specialisations are embraced within it. The pie in Chart 2 shows the relative size in 2008 of the various "industries" within the larger group. Exports of financial services totalled £52.8bn and constituted getting on for half (44.2%) the total of £119.3bn So-called "other business services" – legal work, medical work, accountancy, advertising, consultancy and so on – were the next category, with £44.7bn or 37.5% of the total. Insurance exports – largely consisting of "unearned" premiums – were £8.0bn, although the figure is complicated by reinsurance payments between UK and foreign insurers.[5] Smaller categories were "communications" (mostly the overseas receipts of the UK's telecommunications companies) of £4.6bn, and "personal and cultural" of £2.1bn

So – in summary, with insurance included – exports of financial services were about half the total exports of international business services in the last year for which full data are available. Further, exports of financial services constituted a remarkable 4% – 4 ½% of national output. Without doubt a significant chunk – perhaps as

Chart 2. Composition of the UK's exports of international business services in 2008



5 The measurement of the "insurance" items in international payments statistics is extraordinarily difficult. I understand that – to keep matters simple – the official statisticians often take cash flow numbers, as anything else is too problematic. So the insurance numbers in the text here do not correspond to the usual economic understanding of "value added" and are not on a national accounts basis.

much as half – of this 4% figure came from "the City of London" in the precise geographical sense of the Square Mile. But nowadays a high proportion of City-type employment is outside the Square Mile, although within London. The Square Mile has simply been too cramped to accommodate all the growth that might have occurred within it. I will revert to this spill-over effect later in this essay.[6]

In the 17 years to 2008 growth of the UK's financial services exports was even faster than that of its business services exports overall. As exports of financial services were £4.9bn in 1991, the compound annual rate of growth to 2008 was a staggering 15.0% a year. While there are conceptual problems putting a UK-calculated, sterling-based number on the same basis as world output, there is little question that the growth rate of the UK's financial services activities has been about double that of world output over the last two decades. The City's various activities have been a spectacular boom area in an economy that is relatively slow-growing by world standards. Isn't it obvious that we should be specialising here? Financial services are likely to remain both dynamic and characterised by high-value-added per person throughout the 21st century.

The message for London's economy

A constant refrain in the recessions of the early 1980s and early 1990s was "where will the jobs come from?". The jeremiahs about the UK's economic performance could not imagine a world of strong employment growth and sharply reduced unemployment. Chart 3 shows the growth rate of employment in London's "banking, insurance and finance" (as this category is measured in the relevant official statistics) since the mid-1990s.[7] The compound annual rate of growth of this kind of employment was just under 3%, but in some years the figure was an extraordinary 7% – 8% a year.

The material I am presenting may appear to glorify London, its economy and its pre-eminence as a centre for international business services. Let me emphasize that I am not against manufacturing and would strongly deprecate official policies

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6 I first discussed this spill-over effect in a Lombard Street Research report on *Growth Prospects of City Industries* for the Corporation of London in April 1998. See *Growth Prospects of City Industries* (Corporation of London, 1998), pp. 19 – 20.

7 The data used here were obtained from the Nomis database in the Office for National Statistics website. The database gives numbers for employment in various industrial categories in all the UK's local authorities. The industrial categories in the Nomis employment data cannot be matched up precisely with the categories in the official balance-of-payments data. This is a nuisance, but there are limits to what official statisticians can do.

to discriminate against it. (I would also strongly deprecate policies to discriminate against services.)[8] Similarly, I'm not against Britain outside London. Of course not. However, the truth is that most of the UK's international business service activities are based in London. If I am going to talk about the international business services sector, I will inescapably be talking mostly about London.

8 The 1964 – 70 Labour government imposed a Selective Employment Tax on service industries, in a deliberate attempt to promote manufacturing. The case for the SET was made by the Cambridge economist, Nicholas Kaldor, who showed that the growth of productivity (i.e., output per person) was faster in manufacturing than in services. Kaldor overlooked an obvious possibility, that the faster growth of productivity would lead to a cheapening of manufactured products relative to the products of the service industries. In the period under consideration here (i.e., the 1990s and opening years of the 21st century) the UK enjoyed continuous and systematic gains in its international terms of trade. To simplify a complex topic, it charged more for the services it sold to other countries, while the unit value of the exports of these other countries (i.e., our imports, often manufactured in the Far East) declined. Physical measures of productivity can be very misleading as a guide to policy, in a world where relative prices are moving dramatically. In essence, over the last 20 or 30 years the UK's people and companies have taken clever decisions to pull out of industries characterised by rapid growth of physical productivity, because they foresaw that this productivity growth would undermine the industries' ability to maintain prices and increase true value added per person. SET was an administrative nightmare, which was deeply unpopular. It lasted only five years and was scrapped by the Conservative government in 1971. The episode was a warning against official attempts, by means of the tax system, to steer the allocation of resources away from that chosen by private, profit-motivated agents.

The first point is that the industries within the "international business services" group are not self-contained and unlinked to the rest of the UK economy. They rely on massive inputs of information technology, with a high resulting demand for software (i.e., people at the end of the day). The programmers and technicians may live in Greater London or they may commute from outside. At any rate, there is a knock-on effect to activities which may be some distance from international business services, purely defined, and from the City of London or the West End in terms of geography.

Further, employment in international business services is mostly in offices. The offices have to be built and maintained, and then refurbished and re-equipped, all of which boosts the regional and national demand for labour. The cost of keeping the London office stock in good condition may be of the order of £2bn – £3bn a year, resulting in thousands of jobs over and above those in international business services as such. A striking feature of the distribution of office space by borough is that nowadays much of it is outside the traditional locations in the City of London and the City of Westminster. The boom has spread prosperity to other boroughs. If the boom were to continue, that spreading would ultimately be to the UK as a whole.

Pay differentials, London and its boroughs compared with national average in 2007

All figures in £s	London	Great Britain	City of London	Westminster, City of
Gross weekly pay	676.5	523.5	1075.5	734.7
Hourly pay	17.04	12.69	28.77	19.33

	Tower Hamlets	Camden	Hackney
Gross weekly pay	958.2	732.3	690.2
Hourly pay	24.62	19.31	16.5

Source: ONS annual business inquiry employee analysis

The second point is that – because of the long boom in these activities, the apparent difficulty of fully meeting the international demand for them and the very high value added per person – incomes in London are well above the national average. While the City of London is exceptional in this respect, even boroughs regarded as relatively poor and downmarket within the London framework are in fact rich by UK standards. What we see here is the spill-over of prosperity in one possibly quite small area (i.e., "the City of London" in the sense of the Square Mile) to neighbouring areas. In practice, if these successful industries are allowed to grow and flourish, the spill-over benefits ought to spread to the UK as a whole.

At present the media are furious with bankers for their allegedly excessive bonuses. But do we want to live in a nation with many rich people, who pay a lot of tax and help to cover the cost of the social services and benefits received by the less well-off, or do we want to live in a nation only of poor people? Surely living in a nation with many rich people is better. Roughly speaking, international business services (i.e., both financial and non-financial services) employ about 4% of the UK's working population and produce perhaps 8% of its national output, with most of that output exported. Continued growth of these activities at above the growth rate of output as a whole would be positive for the UK's average living standards, as more people acquire the skills necessary to participate in high-value-added sectors.

One final comment may be offered on the UK's recent pattern of specialisation. Whatever the resentments which seem to be widely held about high incomes in London's services industries, these industries have a further important merit. They are environmentally far "cleaner" than manufacturing. Let me repeat that I am not against manufacturing. However, if we have to accept that the modern world is one where public policy will impose penalties on any kind of greenhouse gas and chemical emission, then logically we should concentrate on economic activities that are relatively "green" in their environmental impact. If we want to live in Blake's fabled New Jerusalem, if we want to make our country "a green and pleasant land", it is more sensible to endorse specialisation on international business services than to promote artificially old and dirty manufacturing. (Does it need to be added that the UK's chemicals industry – like that of other European countries – has in any case been undermined by EU environmental legislation, which has resulted in a large-scale transfer of production to the Gulf, and particularly to Saudi Arabia and the United Arab Emirates?)

The need to be able to set the rules

In general international treaties, and the arrangements between nations which reflect those treaties, try to be impartial and non-discriminatory. However, all kinds of cross-border trade and finance are subject to rules, laws and regulations, and the blunt truth is that the wording of these rules, laws and regulations affects some nations differently from others. In the various bear gardens of international relations a nation is fortunate if its own views and preferences are major inputs into the rule-making machinery. A great advantage that Britain gained from its empire was that a whole mass of legal principles and regulatory structures across the globe conformed to patterns that were familiar to people who had never left the British Isles. We initially joined the European "construction", then in the form of the Common Market (or the "European Economic Community") back in 1973. At that stage we ceded control over the setting of rules to Brussels in only two areas, external trade (i.e., the common external tariff) and primary production (farming and fisheries). From the early 1970s until the end of the 20th century the regulatory and legal environment for UK financial services continued to be largely a matter for this country. The long and spectacular boom in exports of international financial services began and continued when the UK's own central bank, regulators and legislature were in charge of that environment.

The position today is very different. As I write (early November 2009) the Lisbon Treaty has just been finalised. It specifies 50 new "competences" (i.e., areas of activity, usually economic activity, subject to official diktat of various kinds) in which qualified majority voting is to apply. In other words, where the EU is "competent" an individual nation cannot block the "legislation" (i.e., the Directives and Regulations) emanating from the EU. (Such legislation is initiated by the European Commission, agreed in the Council of Ministers, sometimes together with the European Parliament.) Clearly, in the sphere of activity defined by the 50 new competences the UK cannot set the rules. In many cases the new rules, laws and regulations will be relevant to the international financial services in which the UK has traditionally been so successful.

How dangerous is the situation that is now emerging? In September the European Commission submitted new and sweeping proposals for a European Systemic Risk Board. This is to include the so-called "European Banking Authority", which is to have far-reaching powers. These powers are to be determined by qualified majority voting, so that the UK has no veto. According to the proposals, if the Commission considers that a national supervisory authority is not compliant with guidelines, the Board of Supervisors may adopt an individual decision addressed to an offending financial institution to require "necessary" action. Such action could include compliance under community law, to the point that a particular organization – a bank, an insurance company or whatever – might be closed down. More specifically, if the European Banking Authority disapproves of conduct by – say – Barclays Bank, it could close it down, regardless of the views of the UK's own regulatory authorities. (I have been sent a private e-mail by a German economics professor, which says that the European Commission had been responding here to "suggestions" from the French government. Indeed, public statements have been made this year by French ministers which are blatant in their hostility to the City of London, even though they also betray an obvious wish for the wealth and employment associated with international financial services to relocate to Paris.[9])

In other words, if the UK does nothing about this encroachment on its sovereignty, the UK would have lost to the EU the power both to authorize financial institutions and to close them down. It would have lost this power even if the financial institutions under consideration had mostly UK owners and operate predominantly in the UK. It would be difficult to imagine a more comprehensive abandonment of rule-making authority and capacity.

Two immediate threats

Two immediate threats to the City of London's prosperity and dynamism must be discussed.

The first is the proposed Directive on Alternative Investment Fund Managers, which, in practice, means managers of hedge funds and private equity funds. The directive is interventionist and prescriptive. Superficially, much of its content is about the level of information which alternative investment managers have to provide to regulators and investors. In practice, requests for information may evolve into expressions of approval or disapproval for certain business practices. The directive does impose, in particular, a limit on the degree of leverage of funds with capital of over 500mn euros. On the face of it such funds must restrict their borrowing to the amount of their equity capital, regardless of the amount of risk in their assets. (They would be subject to the limit on leverage, even if the assets acquired with borrowed money were very safe.) This constraint on leverage would undoubtedly cramp the investment operations of alternative investment managers who have long records of good performance.

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9 On 4th June 2009 the Euronews agency interviewed the French finance minister, Christine Lagarde. The Euronews interviewer began by making a statement and then asking a question, "There is no absolute agreement in Europe on financial questions. What role does the Berlin-Paris relationship have?". Lagarde's reply was not to dispute that there was a special "Berlin-Paris relationship". Instead she said, "Not all Europeans agree on everything at the same time. And the task for those Europeans convinced that they can play a real role on a regional level, is to manage to convince other partners. In this respect the Franco-German axis works well in staying firm on the matter of tax havens, rating agencies, speculative funds and European supervision. It's not really surprising that not everyone agrees because you have on one hand the members of the eurozone and on the other those that are outside of the eurozone. In particular there is Great Britain, which is directly concerned since it is a traditional hub of the financial services industry and it is not in the eurozone." Statements along these lines, with clear hostility to the UK's financial services sector, have become more open and frequent in the last year or two.

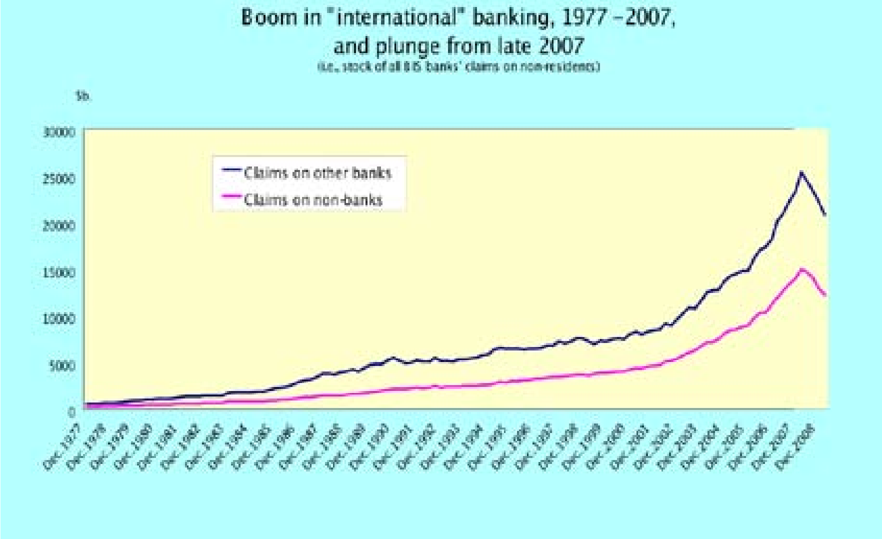
Even the European Central Bank has said that the directive goes too far. Of course highly leveraged businesses can be a menace to the stability of the banking industry. Nevertheless, the restrictions in the directive are disproportionate to the risks posed to the banking system by the alternative investment industry. Since most alternative investment management companies have been based in London, many observers felt that the motivation – coming from the French and being channelled via the Commission – is to undermine a significant source of value added in our capital city.

The second threat is more general. To a large extent, it can be viewed as a by-product of the financial crisis through which we have been passing rather than as a challenge arising particularly from the UK's membership of the EU. As is well-known, banks need capital to protect their depositors from risks in their loan books. Since mid-2007 banks are widely deemed to have operated on too low capital/asset ratios. Regulatory pressure has arisen for an increase in capital/asset ratios, so that banks are in a better position to anticipate weakness in asset markets, and the resulting higher levels of personal and corporate failure.

But there is a problem. Of course banks need a buffer of capital. But the higher the buffer relative to the risks in their loan portfolios, the more they must charge in order to deliver a particular rate of return on capital. A safe, risk-averse banking system is also an expensive one for potential borrowers. The tension here – the tension between risk and return, and between safety and opportunity – is very important to the UK because the UK is big in international banking. International banking is very competitive and nowadays covers the globe. It may be difficult to imagine, but all convertible currencies can be traded in any financial centre.

In practice, every convertible currency is traded, to a greater or lesser extent, in London. There are – for example – inter-bank lines between banks in London, and banks in Riyadh, Saudi Arabia, and in Bangkok, Thailand. Moreover, the banks in London carrying out business in dozens of currencies, some of rather exotic, are for the most part not British. The worry for us is that this cosmopolitan and exciting market is threatened by large increases in capital adequacy requirements. The pricing of loans between banks, as well as the pricing of loans to non-banks, depends partly on the capital rules to which banks are subject.

Chart 4



The accompanying Chart 4 above shows how international inter-bank lending has boomed since its early days. It started as recently as the 1960s and even in the 1970s it was quite small. But at its peak in early 2007 the value of international inter-bank loans was about half that of the world's GDP. Employment is relatively small, running perhaps into a few tens of thousands in London, but each dealer transacts in enormous sums of money. The profit margins are very thin, but – because the volumes traded are so enormous – value added is high compared with other employment. As the chart shows, the international inter-bank market continued to boom to mid-2007, but has since declined.

Admittedly, the pressure for more capital in the banking business does not come exclusively from the EU and its institutions. There is similar pressure in the USA, Japan and elsewhere, as part of a global effort to make banks safe. Even so the EU on behalf of its members is one of the key players. Once again, increasingly we in Britain are not setting the rules and instead they are being set for us in Brussels and Frankfurt. Frankly, the EU officials involved in this process do not have the UK's national interests at heart and indeed often do not much like us. If that seems overstated, let me remind you of the proposed Directive on Alternative Investment Fund Managers and the motivations of its authors.

How many people will be affected by continuing retrenchment in the international inter-bank market? Probably total employment in international financial services in London is 400,000 – 500,000 people, although much depends on how such employment is defined. There may be about 250,000 in the Square Mile itself. I would conjecture that about 20% – 25% a quarter of these totals are affected, directly or indirectly, by officialdom's demands for more capital in the banking industry. If the banking industry goes into decline, we are talking about the potential loss of tens of thousands of well-paid jobs. Almost certainly these jobs – like jobs in manufacturing – will go not to elsewhere in Europe, but to Asia.

What can we do?

The British stumbled into the creation of the world's largest empire, and spread their language, their law and their culture across the globe. That remains their most spectacular achievement as a nation. Because of this achievement, our country is ideally equipped to become the provider of high-value-added services to businesses across the globe and for us to be "the gaffers" of the world economy. Let other countries concentrate on low-value-added mass production of basic products and manufactured goods. In the 21st century we should specialise on complex service activities that demand knowledge, responsibility, judgement and individual flair, and we should sell our skills in these areas to the world as a whole. The world market for such services will undoubtedly become increasingly important relative to the European market as the century progresses. Over time the world market for international business services will become a multiple of the European market.

In a recent interview in *Prospect* magazine Adair Turner, chairman of the Financial Services Authority, remarked that much financial services activity is "socially useless".[10] He implied that the UK could see much of its financial services sector contract without any loss to the wider economy and society. This is nonsense. As has been shown here, the bulk of the value added in London-based financial services is sold to the rest of the world. Production of these services therefore pays – £ for £, $ for $ and euro for euro – for our imports. If our exports of financial services were to fall, we would either have to import less or to export more of other goods and services. Those other exports would of course have a resource cost. Turner's contention that UK financial services are in some sense "too large" is quite wrong. Of course, exports of £60b. are very big for the UK, since the UK's GDP

10 Adair Turner roundtable 'How to tame global finance', pp. 34 – 8, *Prospect*, September 2009.

is under £1,500bn But we account for little more than 3% of world GDP. The UK specialist, wholesale financial services sector may be almost 5% of the UK's GDP, but it is roughly 0.1% – 0.15% of world output. In a global context the notion that these services are disproportionately large is preposterous.

In this essay I have shown that Britain's pattern of specialisation in the last 20 years has been towards the supply of business services to other countries. Our exports of international business services – and particularly of financial services – have boomed. But it is vital in these areas – where so much depends on laws and regulations, and their fair interpretation – that our government continues to be able to endorse rules and regulations that it likes, and to oppose that it dislikes. The more that law-making and the enforcement of regulations passes to Brussels and Frankfurt, the less will the UK be able to defend its interests.

There have already been many examples of EU interventions in our economy which have directly harmed people's businesses and livelihoods. It is naïve to imagine that the volume and intensity of these interventions will decline in coming years. On the contrary, the centralizing impulse in the EU is remorseless. (I have not much discussed in this essay the role of Neelie Kroes, the EU Competition Commissioner, in various UK banking problems from Northern Rock in late 2007 to RBS two years later. My space is limited. But it cannot be overlooked that Ms. Kroes has interfered in the internal management of a British-headquartered and largely British-owned business, RBS, specifying maximum bonuses for staff. A case can certainly be argued that this intervention has arisen for spurious reasons that have nothing to do with our own national interest.[11])

If we remain in the European Union on the present terms, it will become increasingly difficult for Britain to further its role as the world's leading centre for international business services. International financial services – in which the UK has excelled in the last two decades – are particularly at risk. If our government is further subordinated to European institutions because of the Lisbon Treaty, the prosperity of London's key industries will become yet more vulnerable to the whims of legislators and regulators from other countries.

Although it is late in the day, we must do everything we can to put pressure on our politicians to hold a referendum on the Lisbon Treaty after the forthcoming general election.

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11 See the report 'RBS braced for savage cuts as Neelie Kroes spells out true cost of state bail-out' in *The Scotsman*, 3rd November 2009. For more on interventions in UK banks originating from EU competition issues, see my *Northern Rock and the European Union* (London: Global Vision, June 2008).

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The Bruges Group is an independent all–party think tank. Set up in February 1989, its aim was to promote the idea of a less centralised European structure than that emerging in Brussels. Its inspiration was Margaret Thatcher's Bruges speech in September 1988, in which she remarked that "We have not successfully rolled back the frontiers of the state in Britain, only to see them re–imposed at a European level…". The Bruges Group has had a major effect on public opinion and forged links with Members of Parliament as well as with similarly minded groups in other countries.
The Bruges Group spearheads the intellectual battle against the notion of "ever–closer Union" in Europe. Through its ground–breaking publications and wide–ranging discussions it will continue its fight against further integration and, above all, against British involvement in a single European state.

WHO WE ARE

BRUGES GROUP MEETINGS

The Bruges Group holds regular high–profile public meetings, seminars, debates and conferences. These enable influential speakers to contribute to the European debate. Speakers are selected purely by the contribution they can make to enhance the debate.

For further information about the Bruges Group, to attend our meetings, or join and receive our publications, please see the membership form at the end of this paper. Alternatively, you can visit our website www.brugesgroup.com or contact us at info@brugesgroup.com.

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