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Brexit for finance? Structural interdependence as a source of financial political power within UK-EU withdrawal negotiations

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ABSTRACT

For most analysts, Brexit reveals the highly contingent power of finance and the clear limits to its ability to influence crucial policymaking outcomes. By contrast, I contend that UK-EU negotiations demonstrate the unique capacity of finance to secure substantial commercial protections relative to all other business sectors and that the structural sources of the City's political power remain exceptionally robust. Elaborating a notion of 'structural interdependence', the paper demonstrates how policy officials on both sides came to perceive that the future prosperity and stability of their economies relied upon maintaining open trading relations in financial services. This necessitated broad continuity in access to London's deep financial markets for EU firms and preservation of the City's leading role in the UK growth regime. In establishing these claims empirically, I document an extensive range of contingency measures designed throughout December 2018-April 2019 that would function to protect the financial industry from economic disruption in the event of a no-deal Brexit. The outcome illustrates how finance benefits from a form of structural power that does not require instrumental mobilisation, but rather shapes policy decisions on the basis of deeply entrenched and commercially vital cross-border financial entanglements.

KEYWORDS

Brexit; City of London; European Union; financial political power; structural interdependence; structural power; United Kingdom

Introduction

Conventional wisdom concerning the ongoing Brexit process interprets a major loss for the UK financial sector, thus demonstrating the inability of financial firms to skew vital policymaking outcomes towards their favour. This perspective is pervasive among authors who contend that British policymakers have downgraded the interests of the City in favour of strategic electoral considerations, party management and/or nationalistic ambitions (James & Quaglia, 2019; Toporowski, 2017).

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These priorities are said to endanger the status of London as the dominant provider of financial services across Europe and will allow alternative EU-based financial centres to pick up fleeing business investments from the UK (Howarth & Quaglia, 2018). Similar understandings prevail within journalistic commentary, with high profile figures condemning the unwillingness of political leaders to 'defend' such a crucial sector to the British economy (e.g. Johnson, 2019) and compulsive reporting on the potential flow of jobs and investments out of London and into competing financial hubs. In short, the Brexit process ostensibly illustrates the clear limitations to financial political power and the diminished role of prominent business groups in the face of alternative domestic forces.

This paper challenges that narrative. It does so by contesting its underlying reasoning in several respects and by presenting empirical evidence showing that, in fact, the financial industry has been the recipient of exceptional protections not afforded to any other economic sector. A core claim is that the prevailing interpretation of the 'highly contingent' power of finance is premised upon a conceptual misunderstanding of how financial political influence is generated and manifest. In particular, I contend that the structural power of finance does not necessarily require instrumental amplification by private actors to be effective. Instead, all that is needed is a clear recognition by policymakers of the complex 'structural interdependencies' that exist between their economies in order for them to proactively pursue safeguards for that sector. This scenario of structural interdependence between the UK financial system and the European economy provides the economic rationale for why policymakers are reluctant to voluntarily risk injuring a sector like finance and explains the political logic for how financial actors are able to extract major policy concessions without engaging in overt mobilisation. This recognition can be reinforced by private lobbying (Fairfield, 2015, pp. 49–50), but it is developed in the first instance through the relatively autonomous articulation of primary growth drivers by governing officials and the standard economic planning arrangements of state technocrats (e.g. impact assessments, market response monitoring, contingency preparations, etc.).

In the case of recent Brexit negotiations, I show that UK policymakers were well aware of the centrality of finance to their consumption-led growth strategy and the related priority of maintaining London as the preeminent financial hub of Europe. This awareness compelled the UK to push for a special carve-out for finance—a goal that was directly at odds with EU resistance to 'cherry-picking' among the four freedoms. Nevertheless, a parallel dependence of EU economic activity on continuing access to UK financial services was also acutely realised by European officials and regulatory authorities. Crucially, these services could not be easily replicated by and/or transferred to alternative European financial centres, and hence, without ongoing access to London, would limit the operational capacity of major European firms, stymie growth, and threaten EU-wide financial stability. As a way out of this bind, a plethora of national and supranational contingency agreements were established between the chief regulatory/supervisory agencies of the UK, the EU, and individual member states—effectively guaranteeing the continuation of pre-Brexit financial relations in the event of a no-deal Brexit.

The paper proceeds as follows. The first section reviews recent arguments concerning the diminished political-economic status of the financial sector. The second section unpacks the theoretical foundations of such an analysis and challenges the underlying claim that the political power of finance is highly contingent. The third section, elaborating a notion of (complex) structural interdependence, specifies the deep interconnections between the financial sector, the UK growth model, and in particular, the functional dependence of the EU economy on access to the City's unique financial ecosystem. The fourth section then demonstrates empirically how both UK and EU policymakers recognised these complex interdependencies, thus determining a privileged position for finance within withdrawal negotiations. Through an examination of the period December 2018-April 2019, when the possibility of a 'disorderly' no-deal Brexit was at its highest point, I document a drive by UK-EU policymakers to protect the financial sector through a range of reciprocal legislative/regulatory contingency agreements. The final section concludes with salient implications for the topic of financial political power.

The Brexit threat

For many, the Brexit referendum is a clear case of politics trumping economics—the rationale being that the British public sacrificed economic stability and long-standing trade relations in favour of independence, cultural nationalism, and repudiation of political and economic elites (Toporowski, 2017). Those economic elites are best represented by the UK financial sector, based primarily in the City of London, and recognised to be among the most influential private actors over state policymaking. Conceptually, their political clout rests upon high levels of instrumental and structural power (Bell & Hindmoor, 2017). The first involves the (strategic) capacity to mobilise resources in order to lobby and persuade public officials to adopt their policy preferences. By contrast, structural power rests upon the perceived benefits for the economy from a thriving financial sector—GDP contribution, well-remunerated employment, credit provision, financial exports—which (automatically) predisposes policymakers to align with pro-finance policy objectives. As a result of these mechanisms, the City[1] maintains a privileged political position vis-à-vis the British state and one that has only become more pronounced over recent decades of financialisation.

Despite these advantages, however, the financial sector became a focal point of popular resentment after the 2007-08 financial crash. This provided a crucial background to the Leave decision in the 2016 Brexit referendum, throughout which City firms overwhelmingly supported a vote to remain. As such, authors have turned their attention towards the threat to the City of an impending exit from the EU Single Market, generally identifying the potential for alternative financial hubs to pick off business from the UK (Lavery et al., 2019, Howarth & Quaglia, 2018; cf. Ringe, 2018). A corollary argument—and the one which is the core focus of this paper—is that the UK financial sector has been *politically* ineffective in warding off threats to their material interests. This is deemed puzzling due to the disproportionate influence over British state policies usually accorded to UK finance. However, the emerging wisdom is that Brexit has abruptly disturbed financial actors' privileged position and left the sector struggling to steer public policymaking towards its own preferences.

This perspective is captured powerfully in a *Financial Times* editorial by Jo Johnson—a former Minister of Theresa May's cabinet before resigning in protest in November 2018—who claimed that within Brexit negotiations 'the UK's only globally competitive sector is being thrown under a bus'. According to Johnson, there has been 'near silence from the City of London', despite the fact that they stand to suffer major losses from an EU exit, and is the direct result of a 'UK political class that has never been clearer about wanting finance less proud' and 'a government prepared to lay waste to the UK's most productive sector'. As such, UK finance 'lacks the self-confidence to speak up for itself' for fear it will be seen as attempting to 'sabotage[e] Brexit' or 'provoke another round of banker-bashing' similar to that after the 2008 crash (Johnson, 2019).

This perspective finds academic backing. According to Hall and Wójcik (2018), the Brexit process provides 'clear indications that the financial services sector will not be afforded the special privileges it has previously enjoyed from the UK Government as a strategically important national economic sector'—the logic being that the government needs to secure legitimacy in relation to Brexit from outside the confines of London and, thus, cannot be seen as capitulating to the interests of the City. In a similar vein, Toporowski conceives of the Brexit process as one in which a 'traditional ruling elite' is voluntarily relinquishing its 'link with modernity' and contemporary 'haute finance' (2019, p. 43).

Thompson (2017) maintains that recent economic unrest engendered a series of dilemmas resulting in the City 'losing' at Brexit. In particular, the 2008 crash left the industry vulnerable to attack from continental leaders quick to blame Anglo-Saxon financial capitalism. In this context, British officials were put on the defensive, fighting a range of EU regulatory initiatives and an attempt by the ECB to bring Euro-clearing services under their control. At the same time, the Cameron government came under domestic pressure over immigration policy and a rising political challenge from UKIP and Eurosceptic backbenchers. Caught between these forces, Cameron made a tactical gambit to renegotiate the UK-EU relationship and deliver an in-out referendum—a manoeuvre that inadvertently exposed the interests of the City to national democratic politics (2017, p. 225). Culminating in the shock result of 2016, UK finance suddenly found itself facing the political challenge of Brexit negotiations, with the relatively uncertain backing of the British state.

Johal, Moran, and Williams (2014) provide a more conceptual analysis, arguing that in the post crisis era, the policy priorities of the British state were re-evaluated by officials no longer under the sway of internalised neoliberal governance norms (see also, Bell & Hindmoor, 2017). The authors contend that this expired form of financial 'capillary' power has been replaced with more direct instrumental power, forcing financial actors to champion their cause through the mobilisation of resources and more explicit (and contestable) lobbying efforts. As such, the authors hold the widely shared view that UK financial political power has become 'increasingly precarious', with policy battles occurring on unfamiliar terrain and with highly uncertain outcomes (2014, p. 409).

While the prospect of exiting the Single Market poses a real economic threat to financial sector material interests, it remains to be seen whether or not the Brexit negotiations, as they have played out over the last several years, convincingly demonstrate that the political power of finance has truly declined. Certainly, as Cameron's referendum decision was largely an effort to satisfy (and neutralise) Eurosceptic elements within his party, these nationalist forces played a causal role in the uncertainty now faced by finance, and indeed, UK business more generally. Nevertheless, Cameron was also partially motivated by the desire to secure a better deal for the City with regards to EU regulations, and so, the plan should be interpreted more as a strategic miscalculation that backfired rather than a fundamental downgrading of financial sector concerns. Moreover, the Leave result was, at least in part, a popular revolt against vast swathes of the British establishment: the state, parties, politicians, elements of the media, experts, business, and finance included. In this context, how can one stipulate that the financial sector, specifically, is any less powerful vis-à-vis the British state, or indeed, any other political authority? Instead, the currently challenging political environment should be conceived as the perfect testing ground for such a proposition.

To this end, a recent study by James and Quaglia (2019) provides the most robust analysis of diminished financial power as it relates directly to *post-referendum* Brexit negotiations. It also offers the most elaborated reasoning for why and how the political power of finance is highly variable—a key underlying claim of the authors discussed above. Hence, the study functions as a representative foil against which this paper focuses its argument and develops an alternative account of the influence of finance over the Brexit process. The analysis is briefly outlined in the next section, followed by a critical assessment of its theoretical and empirical propositions.

The contingent political power of finance

According to James & Quaglia, Brexit negotiations illustrate the 'highly contingent nature' of financial political power 'which can change suddenly and unexpectedly in response to electoral considerations' (2019, p. 259). The core claim is that, while the City held a considerable amount of potential structural power, this influence remained 'latent' because of several 'scope conditions' that prevented finance from asserting their power through strategic activity. In this conceptual formulation, the authors contend that the structural dimension of power can only be effectively realised through an initial strategic assertion of instrumental power: for example, by purposefully invoking the threat of disinvestment through lobbying, or by deliberately opening up new routes of capital flight which could dissuade policymakers from taking decisions unfavourable to the industry (2019, pp. 259–260). In essence, they posit a mediated relationship between instrumental and structural power, whereby the latter only becomes consequential when it is activated by means of the former. As such, the impact of structural power is rendered conditional on the specific policymaking environment facing financial actors at any given moment, thus introducing a strong notion of variation in political outcomes.

In the case of Brexit negotiations, the authors highlight three 'scope conditions' that they claim ultimately blocked financial actors from exercising effective political influence over the process. The first is political statecraft, whereby the Conservative government prioritised appealing to the electorate and consolidating party unity over listening to the financial sector. This is demonstrated by May's (initial) hardline Brexit stance to appease Conservative Eurosceptics and avoid the public impression of being beholden to elite business interests. Second is the institutional context, whereby financial actors were unable to rely upon longstanding cooperative relationships with the Treasury, the Bank of England (BoE), and other regulatory departments, to further their policy agenda. Instead, the Brexit negotiation strategy was centralised in the new Department for Exiting the European Union

(DExEU) over which firms had less instrumental sway. The third condition is heterogeneity in financial sector interests. In this respect, it is claimed that the industry was significantly divided, with large wholesale banks and clearing providers vigorously supportive of the preservation of UK-EU trade relations, while more domestic-oriented, retail banks, as well as various hedge funds, were either ambivalent or hostile towards remaining within the Single Market (2019, pp. 262–267).

Combining these three contingencies, the authors claim that the City was 'surprisingly' ineffective at exercising its influence over the May government's 'hard' Brexit stance, a fact that is illustrative of the broader decline in the City's political clout since the financial crisis. Indeed, considering the theoretical foundations upon which financial political power is understood to be sourced and manifest, the authors make a more generalised claim regarding the 'considerable autonomy' that governments have to resist corporate pressure, including pressures that are rooted in the apparent structural dependence of the state on business activities (2019, pp. 267–268).

There are good reasons to adopt a sceptical stance towards these conclusions regarding the contingent power of finance generally, and the diminished power of UK finance in particular. First, and most importantly, at a conceptual level, their argument is premised upon a crucial modification of recent literature on financial political power. The authors cite the work of Culpepper and Reinke (2014), noting the distinction made between the sources (instrumental & structural) and the kinds of mobilisation (strategic & automatic) of business power, and the 'mutual dependency' of different forms of political influence. Leveraging this argument, James & Quaglia postulate that 'structural power *has to be asserted strategically* through costly instrumental political action [emphasis added]' (2019, p. 259). However, while it is true that Culpepper & Reinke develop a way to examine the strategic use of structural power, their paper makes no claim that this is *always* the way in which structural power operates. Instead, Culpepper & Reinke explicitly acknowledge the presence of automatic forms of structural power:

> Although structural power *can certainly work automatically*, it can *also* be deployed deliberately, with strategic intent … Automatic capacities require no action on the part of business. They work through the anticipation of the object of possible action: in this case, policymakers, who fear the possibility of disinvestment and change policy spontaneously [emphasis added] (2014, p. 431).

Culpepper & Reinke emphasise the strategic manifestation of structural power because it is a critical point of distinction directly relevant to their chosen comparative case of the 2008 US & UK bailouts. In that scenario, the use of strategic structural power (by the British bank, HSBC) does most of the work in explaining the variation in policy outcomes. However, the authors hold no absolute predetermination that automatic structural power cannot operate in the absence of strategic action. The occurrence of automatic and/or strategic forms of financial political power is ultimately an empirical matter to be discovered through case examination. By contrast, James & Quaglia's narrowly formulated conception of financial political power—namely, that structural power must always be 'translated' (2019, p. 260) and made effective through instrumental action—is an illegitimate theoretical constraint on the potential political influence of finance, and one that involves an exaggerated notion of state/government autonomy.

Second, it is not especially telling that finance was unable to dictate a 'soft' Brexit (i.e. EEA membership) approach. The 2016 referendum result sent shock-waves throughout the British political class and delivered a major boost to pro-exit factions. As such, a newly elected Prime Minister was highly unlikely to survive on a platform of keeping the UK tied to the Single Market and all of the obligations (e.g. free movement of labour) that come with it. Additionally, a soft Brexit approach would render the City a permanent rule taker in EU financial regulations, whereas an equivalence settlement offered the UK government more leverage to advance a 'a credible threat' of selective regulatory divergence in any future informal negotiations (Armour, 2017).

Given these incentives, combined with the fact that the UK government faced an EU bloc motivated to resist 'cherry-picking' of sector-specific protections and Single Market privileges, it was never feasible that the financial industry would be able to attain its *maximal* political preferences throughout Brexit negotiations. However, as I will demonstrate in section 4, financial services were still clearly prioritised by both sides as an exceptional area of compromise, and explicitly framed by senior officials throughout negotiations as uniquely important to preserving stability. More specifically, it was the high level of 'structural interdependence' between UK and EU markets that induced negotiators to implement exceptional and wide-ranging contingency plans for finance when faced with the prospect of a disruptive, no-deal exit. This, I claim, represents a genuine manifestation of structural power, and one that does not exclusively depend upon active financial actor mobilisation.

Third, the authors repeatedly stress that the financial industry *perceived* itself to be locked out of the DExEU and felt that they did not get a fair hearing from government officials. Several observations are pertinent here: first, it is dubious to rely heavily on the testimony of financial representatives who, if their preferences are not catered for entirely, are very likely to overstate how little they are being listened to by policymakers (Lindblom, 1978, pp. 5–6). Second, the contention that the DExEU was unavailable to special pleading from the financial sector is simply not reflected in the empirical record of meetings with outside groups. In the nine months between October 2016 and June 2017, DExEU held 56 private consultations with firms and representatives from financial services, including multiple meetings with the chief lobbying bodies, TheCityUK and the British Bankers Association (Corporate European Observatory, 2017). Representing almost 20% of all consultations, financial services were by far the business sector most engaged with by the Department. Third, even if it were true that finance was unable to leverage their instrumental power to directly influence policymakers, this would not speak in any meaningful way to the potential indirect sway of the industry through their structural power—a form of influence that commonly manifests itself through the voluntary protection of the sector by state officials.

Based on the above, it is clear that the conventional wisdom on Brexit and the purported contingent power of finance requires further interrogation. In particular, searching for evidence of whether finance was catered for under every circumstance is a red herring: obviously, financial political power—whether instrumental or structural—has a particular scope as well as limitations. As such, the relevant issues in assessing the political influence of finance is to evaluate to what lengths were policymakers willing to go to avoid harming the industry, what were the key motivating factors behind policymakers' concrete actions, and how did this activity compare with dealings in other sectors of the business community. In the section that follows, I contend that a salient motivating factor for UK and EU policymakers is the fact that both of their economies are structurally dependent on the role of the finance in contributing to growth and economic dynamism, and in ways that make both jurisdictions reciprocally dependent upon one another.

UK-EU financial relations and structural interdependence

Processes of financialisation establish finance as uniquely central to the everyday functioning of economies, whereby retaining access to and good standing within the global financial system is a salient concern for all economic agents. The upshot is a distinct and growing asymmetry between finance and other business sectors. Thus, while agriculture, education, energy, health, telecommunications, etc., are clearly important in their own right, they are of somewhat less *systemic* importance to the general operation of individual economies, and the world economy as a whole. As demonstrated by the 2007-08 crash, disruption to the primary sources of capital (e.g. bond markets) can bring entire economies to a halt. Similarly, when banks and other financial institutions are suddenly deprived of key liquidity flows (e.g. short-term money markets) this can transmit disastrous ripple and contagion effects throughout regions.

A recent theoretical angle on this transformation, particularly relevant to Brexit negotiations, is the New Interdependence Approach, which starts with the basic premise of a global economy radically altered by decades of trade liberalisation, extensive cross-border activity, and the entanglement of domestic and international spheres of governance. The essential structural features of such a system are 'interdependence' and 'complexity', which combine to produce a range of uncertain and complicated political economy dilemmas (Farrell & Newman, 2016, 2014; Kahler, 2016). Financial markets epitomise these structural characteristics: by drawing multiple countries into their orbit, they magnify the amount of 'rule overlaps' with which market participants and policymakers must contend. Moreover, as financial markets compel actors to navigate an ambiguous terrain of opportunities and risks, they fundamentally re-shape political and material interests and create distinct power asymmetries.

One prominent asymmetry of financial interdependence stems from the hierarchical structure upon which the global financial system is based. In this arena, only a handful of nations have developed truly global financial centres, i.e. major hubs that are distinguished by their unique role in intermediating capital flows and providing key services to market participants across the globe. From one perspective, this is systemically beneficial, as all external economic agents are advantaged by 'exploit[ing] their connections' to financial centres in a world of trade openness. From another perspective, however, these complex interconnections tend to increase risk, as 'stable' and 'persistent' patterns of cross-border engagement can be abruptly shook by the occurrence of 'black swan' events, be they economic (e.g. the 2007 sub-prime crisis) or political (e.g. the 2016 Brexit result) (Oatley, 2019, pp. 1–5; see also, Oatley, Winecoff, Pennock, & Danzman, 2013).

These observations apply clearly to the dynamics of Brexit financial negotiations. By all accounts, the City of London benefits significantly from the mass provision of financial services across Europe. Conversely, London offers EU-based firms access to essential financial products at the cheapest cost, which in turn facilitates commercial flexibility, efficiency, and competitiveness. As such, the prospect of immediately severing trade in financial services presents a serious challenge to both UK and EU policymakers. In this situation, the City holds a unique political advantage, precisely because of the complex entanglements that *pre-exist* within the pan-European financial system and the new-found centrality of financial operations to modern economies.

These entanglements—what I term here 'structural interdependence' (of the UK & EU economies as they relate to finance)—exist as a salient material fact, and impose certain limits on the decisions we might reasonably expect policymakers to take within Brexit negotiations. Obviously, to the extent that UK and EU policymakers anticipate that the disturbance of these interrelations will damage future economic fortunes, they will be less inclined to pursue such a path. It is in this sense that 'structural interdependence' operates as an automatic form of structural political power—that is to say, a type of influence that is manifest not through the active mobilisation of financiers and their representatives, but that nevertheless constrains policy choices as a result of prior commitments to open financial relations between multiple national units. To put it in slightly different terms, finance wields an unconscious, non-strategic, yet potentially extremely effective influence over policy considerations and decisions, by virtue of a path dependency in financial trade integration that is challenging and painful for policymakers to roll back.

To be clear, these interdependencies in no way *guarantee* that finance will secure its policy preferences; as the post-crisis literature on business power establishes, an overly deterministic and rigid conception of structural power has little explanatory value (Culpepper, 2015). Instead, for analytical purposes, what is required is a careful specification of how such a mechanism of structural influence is generated, followed by a detailed evaluation of how it interacts with and impacts upon complex political scenarios. In the end, then, the precise effects of financial structural power are a matter for empirical adjudication. As I will show in section 4, in the event of faltering Brexit negotiations, financial structural power certainly does emerge as a crucial determinant of policy choices, as policymakers on both sides faced particularly severe and complicated trade-offs in managing the regions' deep-rooted financial interdependencies.

In getting a handle on the nature and extent of these interdependencies, the rest of this section maps the core links between these economies and finance, both in terms of the dependence of the UK on a thriving national financial sector, and especially with regards to the dependence of the EU on services provided by the City. The exposition functions as an empirically-centred and logical proposition as to why one might expect policymakers to engage in concerted political efforts to preserve relatively open and tight UK-EU financial relations.

UK dependence on finance

The extent to which the UK economy is dependent on finance is difficult to overestimate. Taking financial services together with closely related professional services, it accounted for roughly 11% of GDP and 7.3% of employment in 2018 (one in fourteen of the working population). These are exceptionally high paying jobs, with an average yearly salary of £62,500 and thus, contribute significantly to overall consumption and tax generation. In total, the industry generated £75 billion in taxes for the year 2017/18, almost 11% of UK government receipts. The sector is also a primary motor of productivity: in 2017, the output per financial industry job was £1,19,013 more than twice the average (£54,843) for all other industries. Crucially, financial services provided to the EU account for 23% (approximately £45bn) of the industry's total revenue, and thus, any disruption of these exports would constitute a significant blow to the City (TheCityUK, 2019; Magnus, Margerit, & Mesnard, 2016).

The sectors' multifaceted activities also integrate and enable the proper functioning of the wider UK growth model. Variously described as 'Anglo-liberal', 'Privatised Keynesianism', or 'consumption-led' (Baccaro & Pontusson, 2016; Crouch, 2009; Hay, 2011), this regime is characterised by fuelling consumption through access to easy credit and rising property prices, with the City as a central node in these operations. Retail banks and building societies tap global markets to develop high-leverage practises and offer generous mortgage lending, equity release, credit cards, overdrafts, personal contract plans, etc. Similarly, the pre-crisis mortgage explosion was, in part, both a cause and consequence of the notorious 'originate and distribute' intermediation model, with loans repackaged, tranched, and sold-off by London's investment banks (Hay, 2011). Moreover, the demand side of securitisation was catered for by the vast asset management industry, including pension, mutual, and hedge funds (Lysandrou, 2011). Despite the 2007-08 financial crash, modest attempts to 'rebalance' this model over the last decade have largely failed (Berry & Hay, 2016; Lavery, 2019).

Importantly, this model draws EU countries into the orbit of British financial activity. To a substantial degree, the widening UK trade deficit is a direct result of British deindustrialisation and the shift to a service-dominated economy against which leading EU countries maintain large trade surpluses. Overall, EU states have amassed a trade surplus in goods to the tune of £138bn with the UK, offset somewhat by the UK's large (and 'price-insensitive') financial and business service exports (Baccaro & Pontusson, 2016: 17). In 2017, for instance, financial services generated a surplus of £75.1bn (£60bn financial, £15bn professional) which roughly matched the amount generated by all other surplus producing UK export sectors combined. Furthermore, lower savings and higher debt are a corollary to sustained current account deficits, largely facilitated through an abundance of foreign capital flows into the City (Perraton & Spreafico, 2019).

Against this backdrop, London has emerged as the de facto banker of Europe. However, the bulk of commentary on Brexit negotiations focuses almost exclusively on the British side of this relationship, while systematically neglecting the threat that a separation poses to EU firms, governments, households, and indeed, the operation of individual member states' own growth regimes (Stockhammer & Ali, 2018, p. 6). The following corrects for this deficiency by examining the key aspects of EU dependence on the City and the dangers posed by future estrangement.

EU dependence on the City of London

As trading volume is a prime determinant of costs for capital and services, the foundational advantage of the City over alternative locations is its unparalleled size, market depth, and liquidity. This generates an important reinforcement dynamic in that, by offering the largest markets and best prices, London draws together diverse financial participants, developing in the process a unique clustering of interactive firms. Over time, these firms' multifaceted and interconnected service provision benefits and attracts even more market participants and clients, leading to higher trading volumes still, lower costs, and so on the process repeats (Lysandrou, Nesvetailova, & Palan, 2017, pp. 172–173).

Another factor relates to physical infrastructure: in particular, thousands of miles of submarine fibre-optic cables that connect the east coast of England with trading data from New York. This information is relayed to multiple, state-of-the-art data farms based around the City, offering a crucial competitive advantage over EU-based centres (Stafford, 2017). This is especially relevant for electronic and high frequency trading, and increases London's global share of foreign exchange (FX) turnover by almost a third (Eichengreen, Lafarguette, & Mehl, 2016). As the ECB concedes, investing in a similar network on the continent would be an extremely costly and time-consuming process (Stafford & Blitz, 2017). Additionally, as one of only two English-speaking countries within the EU, the City is a key hub for international business dealings and an attractive destination for global talent. There is also no shortage of home grown employees emerging from London's top business schools that have the explicit aim of developing human capital for the City. Finally, the UK legal system is the most highly regarded and trusted by international investors, increasing the demand for products covered by English-law.

For these core reasons, London continuously battles with New York for the number one spot as the best global financial centre, while rivals such as Frankfurt & Paris rank far behind at number 15 and 17, respectively (Long Finance, 2019). Hence, whatever the ambitions of European policymakers in poaching business, it is an enormous uphill battle to replicate the scale and ecosystem advantages possessed by the City. This is the precisely why predictions of a mass movement of financial firms, investment, trading activity, and jobs after Brexit have not materialised.[2] Indeed, even if alternative centres were successful at attracting parts of UK financial business, these services (and providers) would remain *separated from one another across multiple locations*; unlike London, no one European centre excels in every financial sub-sector and areas of competitiveness (i.e. human capital, reputation, infrastructure, development level, business environment) (Long Finance, 2019, pp. 9–11).

The specific commercial links that make London the EU's main provider of capital and essential financial services can be disaggregated across the sub-sectors of banking, market infrastructure, and asset management.[3] In banking, London is a major conduit for intra-European capital flows and, according to the ECB Chief Economist, plays a 'special role … as an international financial centre, with high two-way flows vis-à-vis the euro area' (Lane, 2013, p. 5). In 2016, for instance, loans issued by UK-based banks to Europe amounted to an enormous £1.62 trillion while lending in the opposite direction was £1.63 trillion. For major countries such as France and Germany, 14.2% and 12.3% of their total foreign lending comes from UK-headquartered banks, while nations such as Malta, Ireland and the Netherlands derive 37.8%, 24.7%, and 21.3%, respectively (PwC, 2018a, pp. 6–7).

London is also responsible for 60% of all EU capital markets-related activity. From 2011-2016, UK-based banks facilitated €400bn worth of debt and equity issuance for EU companies (two-thirds of total EU issuance) (PwC, 2018a, p. 8). The London Stock Exchange (LSE) group handles 25% of all EU share trading, with the daily share turnover at the exchange amounting to $17bn compared to just $7.8bn at Euronext and $5.8bn at Deutsche Börse. The LSE also dominates in Initial Public Offerings: for example, taking 82 companies public in 2018 compared to just 17 in Deutsche Börse (Kaya, Schildbach, & Lakhani, 2018, p. 11; PwC, 2018b).

Importantly, the scaling back of European investment banking since the crisis has led to a growing share of EU capital markets being managed by US firms based within London (Bank of America Merrill Lynch, Citigroup, Goldman Sachs, JP Morgan, and Morgan Stanley). These firms' share of the EU market climbed from 35 percent in 2011 to 45 percent in 2015, with roughly 80% of their EMEA revenues (Europe, Middle East, and Africa) generated from UK headquarters. As such, the prospect of being forced to rely upon banking-dominated financial systems on the continent is a competitive loss for EU corporates (Goodhart & Schoenmaker, 2016, pp. 2–8). A similar threat is posed to EU governments in sovereign bond trading, again dominated by London-based (US & UK) investment banks. These 'primary dealers' facilitate the large majority of European bond transactions and thus, any retreat from such markets will almost certainly increase borrowing costs, a particularly destabilising outcome for periphery countries (Allen & Stafford, 2019).

Of all the areas that could negatively impact the EU after Brexit, the prospect of losing access to London's market infrastructure services has perhaps generated the most concern. Such services are provided by London-based central counterparty clearing firms (CCPs) and dealers that prevail across a range of crucial transactions, including FX, interest rate derivatives (IRD), agricultural and energy derivatives, credit default swaps, and repurchase agreements. For instance, London handles 78% of all FX trading executed within the EU, 69% of (EU-based) euro currency trading, and 43% of (global) euro foreign transactions (ECB, 2017, p. 29). To put this in context, London trades twice as many euros than all Eurozone countries combined. Similarly, UK CCPs handle approximately 82% of all EU-related IRDs and clears a full 70% of Euro-denominated trades (PwC, 2018a, p. 7). This latter figure compares with French clearing of 11% and German clearing of just 7% (European Parliament, 2017, p. 47).

These 'plumbing' services are vital to the everyday operations of EU corporates who require flexible investment/hedging strategies. For example, FX swaps protect Eurozone banks against currency exposure due to the inordinately high level of US dollar-denominated bonds on their balance sheets. Similarly, since the crisis, FX swaps play a crucial role in allowing banks to use a foreign currency (i.e. the dollar) as a 'substitute type' of repurchase agreement for short term interbank borrowing. Not only does the City trade more dollars than New York, it also provides the most liquid market in the world for FX swaps (Lysandrou et al., 2017, pp. 170–171). Moreover, locking out UK CCPs and dealers would complicate the implementation ECB monetary policy given their central engagement in the vast repo operations of Eurozone banks.

IRD's are also uniquely important for EU insurers and pension funds who contend with asset/liability management and balancing return-risk profiles in response to interest rate fluctuations. Due to the City's dense clustering of broker-dealer networks, CCPs, legal firms, and institutional investors, it has a unique capacity to offer highly customised OTC instruments—as opposed to standardised, exchange-traded derivatives—that can be tailored to the idiosyncratic requirements of different clients (Lysandrou et al., 2017, p. 171). Finally, several important markets are yet to be developed within Europe: London is the sole location offering clearing services in Brent crude futures, while EU-based clearing houses are not licensed for trades handled daily by the London Metal Exchange (Stafford, 2018a).

In asset management, London controls 35% (£8.1 trillion) market share of the EU28—double the size of France (17%) and almost four times Germany (9%). Of this, £1.3 trillion are non-UK European assets spread across retail and institutional clients. Moreover, UK market access offers EU investment funds the opportunity to service a wide variety of wealthy individuals and prominent institutional investors who are disproportionately located within London (PwC, 2018a, p. 9; EFAMA, 2018). The City is also the primary gateway for EU-based portfolio managers who, by the end of 2015, were invested in $1.6 trillion worth of UK-traded equity and debt securities (TheCityUK, 2016, p. 7). Crucially, the City is an 'established centre of talent' for leading portfolio managers who are 'delegated' business from funds that are domiciled in alternative EU centres for tax advantages and back office tasks (e.g. administration, payments, etc.) (PwC, 2018a, pp. 9–10). In total, approximately 90% of assets under management within the EU utilise the delegation model, the majority of which diverts portfolio decision-making back to London (Mooney & Thompson, 2017). Hence, Brexit threatens to fragment the intricate cross-border division of labour that characterises the European asset management industry. Finally, 85% of all European hedge fund assets are managed in London, while roughly half of all private equity (PE) funds raised in London go to EU27 companies (TheCityUK, 2016, p. 3).

While the preceding analysis demonstrates the high level of structural interdependence that exists between the UK and the EU in financial trade, its political relevance emerged from the clear *recognition* of this mutual dependency by policymakers and, even more importantly, the *concrete action* taken to protect such relations in the event of a disorderly Brexit. Accordingly, these political dimensions are the focus of the next section.

UK-EU negotiations

Recognising interdependence

The centrality of financial services to the UK made securing a deal for finance an obvious priority for the UK authorities, a fact demonstrated by numerous statements by senior officials throughout negotiations. Speaking in front of financial participants at a UBS-organised event, the UK's chief Brexit negotiator, David Davis, stressed that avoiding financial fragmentation should be a 'priority' for both sides and that 'protecting the City … is a responsibility not just for the UK, but for Europe as a whole'. Proposing several mechanisms for ongoing cooperation and regulatory alignment, the DExEU chief argued that these plans offered a 'solid foundation for a continuation of cross border financial services' (Davis, 2017).[4] TheCityUK chief, Miles Cedric, congratulated Davis for making 'clear that the government is listening to the industry, understands its value and the need to secure a deal which allows us to ensure continuity of service to customers and clients'. (TheCityUK, 2017).

Chancellor Philip Hammond also articulated UK-EU interdependencies in front of a financial audience (HSBC, London), arguing that 'the UK financial services hub is not just a British asset, but a European asset too: supporting businesses … and serving the whole of our continent'. Leveraging a key area of EU dependence, he underlined that clearing house relocation 'would increase costs to EU27 firms by around $25 billion … fragmenting the market and losing the efficiency of 'offsetting' between trades' (Hammond, 2018). Hammond also allayed the fears of EU partners by insisting that post Brexit UK regulations would not be torn up, a point that chimed with assurances by the FCA's Director of Strategy and Competition that there would be no future 'bonfire of regulations' (Woolard, 2017).

The widely respected BoE chief Mark Carney also emphasised the City-EU regulatory entanglements, indicating that London is 'Europe's 'investment banker', framing the City as a 'global public good', and warning that fragmentation risked both European and global financial stability. Outlining the 'tight linkages' in UK-EU financial relations, Carney cautioned that contagion risks from 'complex … [and] inherently risky' markets travel rapidly and that the only way to prevent economic damage was to share information openly and cooperatively' (Carney, 2017).

Early on, EU negotiators appeared cautiously reciprocal to compromise. According to leaked minutes of a meeting between EU chief negotiator Michel Barnier and senior MEP's in Parliament, Barnier advocated for a 'special relationship' in finance to protect against financial stability risks (Rankin, 2017). As the former Commissioner for Internal Market and Services, Barnier was well aware of the commercial dependence of EU corporates on services from the City. Although Barnier later claimed that his remarks were taken out of context, they aligned closely with forthright statements by another senior European official, Wolfgang Schäuble. The influential German finance minister made his concerns surrounding financial interdependence explicit, as well as his readiness for pragmatism in negotiations:

> London's financial centre serves the whole European economy … [and] offers a quality of financial services that are not to be found on the continent. That would change a bit after a separation, but *we have to find reasonable rules here* with Britain [emphasis added] (quoted in Carrel, 2017).

The technocratic work of core EU institutions also signalled a potential compromise. In a leaked report by the Committee on Economic and Monetary Affairs, EU officials made the case for negotiating a 'workable' deal based on an assessment of the 'damage' that could be caused due to EU's specific dependence on the UK's capital markets and asset management industry. The report stated that 'the exclusion of the main European financial centre … could have consequences in terms of jobs and growth in the EU' and thus, it is in the interest of both sides 'to have an open discussion on this point' (Boffey, 2017). Several other Parliament reports also clearly documented the extent of financial interdependencies between the EU and London, and the economic rationale for compromise (Cherednychenko, 2017; European Parliament, 2017; Magnus et al., 2016). Behind the scenes, the BoE and

ECB were tasked with forming a technical working group, conducting a risk assessment, and reporting regularly to the European Commission and the UK Treasury on the difficulties associated with severing financial relations. Importantly, such dangers would be articulated by influential central bank officials who are particularly sensitive to disruptions within the financial system, and whose job is made more difficult when markets fall prey to bouts of contagion and fragmentation.

With talks in their final stages in late 2018, the willingness of the EU to make financial relations a priority became more concrete. First, the joint 'political declaration' spoke to future trading relations, and dedicated a specific section to financial services. The statement included key phrases that gestured towards a future UK-EU agreement on salient issues: 1) to '[assess] equivalence … as soon as possible' (facilitating passport-like access), 2) to maintain 'close and structured cooperation on regulatory and supervisory matters' (ensuring governance collaboration), 3) to reserve the 'ability to adopt or maintain any measure where necessary for prudential reasons' (enabling emergency adoption of contingency measures), and 4) a commitment to 'transparency and appropriate consultation … at both political and technical levels' (mitigating the concern that equivalence rights would be revoked on an ad-hoc basis) (Political Declaration, 2018). As such, the agreement was strongly backed by TheCityUK, with the association's CEO stating that the '[financial] sector is hardwired into the future negotiations' (TheCityUK, 2018). Certainly, the specification of attending to financial services was given priority over other sectors, as the negotiators 'state of play' report highlighted that both parties had 'converged' on an agreement for 'a close relationship on services and investment, including on financial services'. This stood in stark contrast to discussions concerning 'trade in goods' which was identified by negotiators as 'particularly challenging' (Joint statement, 2018).

No-deal contingency planning

Decisive evidence supporting the claim of a politically privileged financial sector within Brexit negotiations came in the form of contingency plans constructed when the threat of 'no-deal' suddenly became imminent. This scenario arose from December 2018-April 2019, as it became increasingly clear that Theresa May did not have enough support to get the Withdrawal agreement passed in Parliament. While suffering three successive voting defeats, the prospect of Britain 'crashing out' of the EU became—for the first time—a very likely occurrence. This timeframe thus presents a crucial test period, allowing one to evaluate the kinds of action policymakers were willing to take when faced with a disorderly Brexit, and to gain traction on their core priorities.[5]

The first move came from the European Commission by announcing on December 18th that it would grant full equivalence to UK CCPs to avoid disruption in the ongoing trading of derivatives and securities—markets central to the functioning of EU corporates and recognised as the primary 'cliff-edge risk' to the financial sector (European Commission, 2018). The decision to grant equivalence was not unexpected, as the Commission—in collaboration with the ECB and the European Securities and Markets Authority (ESMA)—had long deliberated over a no-deal scenario in this specific market. In fact, UK CCPs purposely held off from communicating to their mainland clients of a need to close out derivative positions due to being ‘sensitive to the symbolism of formal notification at a delicate point of negotiations’ (Stafford & Brunsden, 2018). From the perspective of CCPs, then, industry strong-arming was not necessarily conducive to policymaker action.

Importantly, the equivalence measure was designed to last for 12 months after the 29th March deadline, ostensibly to give corporates breathing space to shift their trading arrangements to European CCPs, while negotiations on a more permanent trading relationship would likely begin. However, any expectation that this time-limit might instigate a relocation of clearing business from the UK to EU quickly disappeared. From January-May 2019, and despite officials urging the private sector to prepare for a permanent change in commercial relations, the London Clearing House achieved ‘record volumes’ of clearing activity and beat out mainland competitors with ‘no discernible change to customers’ use’ of derivatives and other securities transactions (Hussain & Jones, 2019).[6]

The Commission/ESMA also granted equivalence to UK central securities depositaries (CDSs) for two years. This action was taken to protect the settlement of securities within Ireland—the only EU country without its own settlement infrastructure, and thus, entirely dependent on the UK-based CREST depository. As such, EU authorities had little option but to maintain recognition of UK CSDs to ensure continuity in Irish settlements—especially as the large majority of settlements are transacted in British pounds and US dollars rather than euro.

If non-recognition of CCPs was the most salient risk, then the issue of asset management ‘delegation’ ran a close second, with the prospect of London’s portfolio managers being prevented from trading on behalf of funds domiciled across the EU a source of major industry concern (Mooney & Smith, 2018). Although the temptation existed to encourage migration of this growing sub-sector to mainland EU financial centres, there were several difficulties with this strategic prospect. First, as mentioned previously, major EU institutional investors rely heavily on UK-based funds due to the fact that London offers exclusive access to the most important, cost-effective, and diverse securities in the region. As such, the entire European asset management industry strongly supported ongoing UK delegation (EFAMA, 2019). Second, portfolio managers based in London are cream-of-the-crop talent who would not be easily drawn away from their UK residence, thus ensuring that EU funds would be deprived of the most skilled managers (Oakley & Newlands, 2014). Third, and perhaps most importantly, the delegation model is also utilised by US and Asian asset managers who conduct business with the EU (Smith, 2018). Given that the UK is already perfectly aligned with EU investment regulations—far more than American or Asian funds—there was no legitimate, rules-oriented basis to deny delegation rights to London-based managers. By contrast, any nakedly political manoeuvre to deny UK delegation access could generate a negative reaction from these key trading partners and put foreign managers on notice that the EU delegation model was an unreliable line of business.

In light of these considerations, on February 1st, the UK Financial Conduct Authority (FCA) signed a Memorandum of Understanding (MoU) with the ESMA, and a Multilateral MoU with National Competent Authorities (NCAs) (FCA, 2019). The agreement specified collaboration on various technical issues including enforcement and information exchange between EU, UK, and member state regulators, as well as co-ordinated supervision of credit rating agencies (CRA) and trade repositories. In turn, these agreements permitted the ongoing use of delegation for

EU-domiciled firms diverting business back to the UK and shielded the complex cross-border configuration of European asset management from disruption in the event of a no-deal Brexit.

Another transnational move taken to protect finance related to the problem of 'contract continuity' within the insurance sector and the ambiguous status of outstanding cross-border contracts: namely, £27bn worth of liabilities across 10 million policyholders in the UK, and £55bn worth of liabilities across 38 million policyholders in the EEA (Bailey, 2018). On the UK side, a concessionary national legislative measure (discussed further below) took care of EU insurers passporting into the UK. However, EU authorities refused to reciprocate this measure throughout 2018, much to the 'exasperation' of the UK's Association of British Insurers (ABI, 2018). Nevertheless, in a familiar pattern, officials backed away from this hard-line position as the threat of a disorderly Brexit loomed. This took the form of an intervention by the European Insurance and Occupational Pensions Authority (EIOPA) in mid-February, with a series of 'recommendations' for NCAs (EIOPA, 2019a). According to Clifford Chance, the EIOPA was prompted into action 'only … after some national governments, including Germany, France, Spain, Italy and Ireland, began to put their own laws in motion and started to deviate from the tightly controlled Brexit withdrawal negotiation process'. In this context, the EIOPA stepped in to avoid a disjointed approach to contract continuity across the EU (Clifford Chance, 2019).

The guidelines give a good insight into how the EIOPA envisaged future relations with the UK and the priority for ongoing close interaction. First, the EOIPA encouraged NCAs to 'minimise the detriment to policyholders' by allowing UK insurers to honour claims in a manner similar to that of the UK's Financial Services Contract Regime (allowing a 15 year 'run off' period for contracts becoming 'unauthorised' under a no-deal Brexit). As such, EU officials were 'reciprocating' special UK concessions (Clifford Chance, 2019: 1). Second, the EOIPA recommended that, when considering authorisation of third-country UK branches, NCAs should recognise that the UK is fully compliant with Solvency II regulatory requirements. As such, the EIOPA was pre-figuring a future decision of equivalence for UK insurers. Moreover, even where no provision for regulatory equivalence exists—namely, the Insurance Distribution Directive, relating to brokers and agents—the EOIPA acknowledged the capacity of member states to 'introduce special provisions … for third country intermediaries' (Clifford Chance, 2019, p. 3).

Other actions illustrate how officials attended in a comprehensive manner to risks emerging from the financial sector. For instance, in a no-deal scenario there was approximately €100bn of European bank debt issued under English law that would fall foul of the Banking Union's 'minimum requirement for own funds and eligible liabilities (MREL)' (Smith, 2018). This problem illustrated the broader concern that investors might shy away from bonds covered by EU countries with a weak legal reputation and still struggling since the crisis. As such, the Single Resolution Board indicated that it could provide 'transitional periods for banks having MREL shortfalls as a consequence of ineligibility of the issuances governed by the law of the UK' (SRB, 2018). Similarly, the EU took action to allow the recognition of ratings from the three main CRAs—Standard & Poor's, Moody's, and Fitch. Combined, these firms control 93% of European rating revenues, with the large majority of their business run out of UK-based offices, employing 1,400 people (Binham, 2017). In the event of a no-deal, then, Europe would be estranged from all CRA decisions coming from London. However, in March 2019, under a mechanism known as 'endorsement', the ESMA gave notification that ratings from all UK CRAs would be 'usable for regulatory purposes in both jurisdictions' once they were supported ('endorsed') by an alternative EU27 CRA (ESMA, 2019a).

Another climbdown related to ESMA's initial decision to prohibit EU27 investors engaging in the trading of corporate stocks on UK exchanges. This stance was seen as 'land grab' of UK share trading and sparked considerable ire among asset managers and brokers, as well as the FCA. However, it soon became clear that this strategic move would harm European equity markets just as much—if not more—than the UK's. This is because fourteen of those stocks were leading blue chip UK corporates—including household names such as Vodafone, BP, Shell, and GlaxoSmithKline—which investors overwhelmingly trade in London due to greater market volume. According to the EFAMA, expulsion of EU27 investors from UK exchanges would lead to a 'fire sale of securities', destabilising markets, while also encouraging the relocation of fund managers/brokers *into* London to secure the best prices for their clients (Stafford, 2019). In acknowledgement of this, ESMA abandoned their intended 'trading obligation for shares' for these fourteen 'dual-listed' corporations, seeking to 'minimise any… risk of disruption in the interest of orderly markets' (ESMA, 2019b).

In the area of supervisory cooperation, UK and EU regulators had been quietly collaborating with one another behind the scenes of negotiations, formulating a range of 'surveillance and information sharing' mechanisms to limit no-deal market disruptions. However, while political sensitivities had prevented them from taking more concrete steps (Stafford, 2018b), this changed during the December to April period. Besides action connected to the agreements above, regulatory officials began to implement a series of other protections. For instance, a MoU between the EIOPA and the UK Prudential Regulation Authority (PRA) agreed to provide a 'reciprocal flow' of information to facilitate supervision of (re)insurance establishments, special purpose vehicles, and any other 'cross-border groups' (EIOPA, 2019b). The PRA and FCA also agreed on a template with the European Banking Authority for future MoUs between the UK and member states, thus establishing orderly procedures and expectations regarding supervisory planning. Additionally, the BoE and the ECB formally agreed upon emergency swap lines to combat any potential liquidity problems following a disorderly Brexit (ECB, 2019).

Special contingency measures were also designed at the national level to mitigate a rupture in financial operations, as there remained various gaps that could cause damage to individual economies. For instance, in retail banking—with no available mechanism for regulatory equivalence—UK firms passporting within EU member states would be immediately cut-off from their clients. Similarly, in the absence of a special transition deal, many European firms would be blocked from operating inside the UK jurisdiction.

The prime example of national contingency planning is the UK's Temporary Permissions Regime (TPR) which the British government devised early on as a means for managing continuity within financial markets if no deal emerged. The measure allowed EU firms currently passporting into the UK to continue their business under present conditions for a period of three years (with the possibility of extending this by one year). This action represented a hugely generous protection for UK-inbound passporting firms, effectively mirroring the envisaged 'implementation period'[7] and providing time for firms to pursue full and permanent authorisation with UK authorities. The transitional period would also give officials time to resume negotiations for a separate financial trade deal based on equivalence, or at the very least, a managed winding down period.

The political strategy was to coax the EU into offering a reciprocal transition regime. Yet, illustrating their more mixed incentives, EU negotiators declined to respond in kind to such an all-encompassing protection policy, instead choosing a piecemeal approach in the assortment of concessions detailed above. This was a distinctively transnational approach, with EU officials attempting to project a tough, unified stance on negotiations. However, as the threat of no-deal drew closer in late 2018/early 2019, this stance was undermined by a range of unilateral transition regimes designed by states to protect their own particular financial systems.[8]

At the liberal end of the spectrum, the German contingency measure—Brexit StSG—permitted UK firms to continue business operations for a period of up to 21 months following a no-deal Brexit. This applied to all banks, investment firms, insurers, payment institutions and trading facilities. As such, the bill largely corresponded to the UK's TPR, with the notable exception that any new business undertakings (i.e. beyond currently existing contracts) would be restricted until firms received full licences, or a specific exemption by German authorities. To this end, the StSG indicated that other activities 'closely connected' to contracts existing at the time of withdrawal would be permitted, although did not specify the precise criteria for this evaluation (Clifford Chance, 2018). Nevertheless, Germany granted their regulator considerable flexibility and discretion regarding the future scope and rules of the regime. Generous transition arrangements were similarly prepared in Italy, Spain, and Luxembourg, with varying duration periods (See Norton Rose Fulbright, 2019).

A contrasting approach came from the French government through their 'Ordinance no. 2019-75′ in early February—legislation that did *not* offer a broad continuity regime for UK firms. Instead, regulatory authorities devised a small number of targeted concessions especially relevant to the French economy (insurance, derivatives, UK inter-bank settlements, etc.) (Allen & Overy, 2019). As such, France was the one major country willing to accept the consequences of a no-deal Brexit and maintain a hard-line negotiation stance (excepting, of course, the array of EU-level protections already agreed). Other countries such as Ireland, Sweden, and the Netherlands adopted a mid-way position, not explicitly providing for a broad transition regime, yet providing extensive transitional provisions for UK firms in investment services—in particular, UCITS and MiFid-related business which is central to those economies and constitutes the bulk of UK financial business in these jurisdictions.

As it transpired, none of these plans came into effect, as a last-minute extension was agreed by negotiators to push back the Brexit deadline to October 2019. The sheer variety and scope of these plans, however, illustrate the exceptional protection offered to the financial sector when the true prospect of a no-deal Brexit began to crystallise. In a strikingly frank reflection, the German finance minister, Olaf

Scholz, articulated his confidence in the measures, as well as the contrasting treatment of other sectors:

> Everyone in the financial market is totally calm [about a no-deal Brexit] … because they know it's well done, well prepared and well thought through and it will work somehow. For the transport of goods, it will be more complicated. (quoted in Brush & Weber, 2019)

Even from a critical perspective, precisely the same interpretation was voiced by the Labour Party's Shadow Chancellor, John McDonnell. Commenting on BoE contingency evaluations in March 2019, McDonnell stated that:

> the financial policy committee are confident that the banking sector will survive intact if Britain crashes out of the EU. But what about the fate of other British industries? What about carmakers or the food sector? Why is there no solution for them? (quoted in Inman, 2019).

These remarks from both sides of the political spectrum underscore the clear priority given to finance over other business sectors. There was no corresponding protection provided for firms trading in major imports/exports such as automobiles, petroleum, industrial/electrical machinery, pharmaceuticals, food, or other services such as telecommunications, computing, and information. All of these businesses would immediately face tariffs in the event of a no-deal, and be subject to severe border delays (Wright, 2019), while virtually all financial subsectors would continue their operations with minimal disruption. Other contingency measures—whether unilateral or co-ordinated—related to practical health and security issues (e.g. ensuring medicinal supplies), transport relations (air traffic, road and rail connectivity) or issues such as citizens' visa rights. In this context, it is impossible to square such highly asymmetric commercial protections with the notion of a financial sector diminished in political influence.

Conclusion

Based upon the evidence presented, there are three salient takeaways relevant to the matter of financial political power.

First, there is little doubt that policymakers went to exceptional lengths to protect the financial sector from disruption in the event of a no-deal Brexit. UK officials were clearly disposed to a carve-out deal for finance as demonstrated by their efforts to make EU counterparts aware of interdependencies, their reflexive reciprocation of EU contingency plans, and the highly concessionary TPR policy. Nevertheless, it is the action of European policymakers that underscores the potency of financial power. Despite having incentives to resist special trade concessions—which would undermine their tough negotiating stance and indulge British 'cherry picking'—when the moment of truth arrived, they capitulated on a vast array of items including clearing house access, portfolio delegation, CRAs, contract continuity, share trading, and a plethora of national transition regimes. The competing incentive that won out was the goal of mitigating serious harm to an already fragile European economy and, in particular, preserving the vital finance-related operations of EU corporates. Such findings provide significant evidence against the proposition that the political power of finance is 'highly contingent' and subject to large variation. Quite the contrary, the foregoing investigation suggests that even in the most challenging of circumstances, financial sector interests remain a prime determinant of policy choices.

Second, while financial political power remains salient, this does not imply that the sector is always *maximally* successful. While it is true that major concessions were secured, not all of the outcomes were entirely satisfactory and a no-deal Brexit would still have imposed (differential) burdens on the industry. For example, equivalence decisions and transition regimes were time-limited, partial, and discretionary. Moreover, the uncertainty arising from political 'brinksmanship'—exemplified by Tory 'hard Brexiters' who refused to approve May's withdrawal agreement—has required firms to invest in their own market workarounds and expensive contingency plans.[9] Undoubtedly, the vast majority of the financial sector would have preferred an early and all-inclusive special carve out, or indeed, that the Brexit process be halted entirety. In this regard, the frequently antagonistic role of nationalism and its Eurosceptic supporters to the preferences of the financial sector must be readily acknowledged: for example, initiating the referendum debate, walling off the EEA/soft Brexit option, and advocating a WTO-terms partnership. Yet, in the context of multiple opposing interests and bitter political negotiations, finance definitively emerged as the most privileged economic sector. It is this stark *asymmetry* of treatment vis-à-vis all other business groups that is a key marker of political influence and demonstrates the primacy of financial concerns in the modern economy.

The third major conclusion relates to the conceptual mode of operation driving financial political power within the Brexit process. In this regard, it is clear that the complex interdependencies of the City with the proper economic functioning of both the UK and EU economies was a key structural fact that was explicitly recognised by senior policymakers. Time and again, elected officials, chief negotiators, regulators, and other technocratic bodies highlighted the priority for compromise in financial relations and acted upon this perspective. Moreover, the interpretation of these close financial entanglements is not merely ideological or duplicitous, but is rooted in an *accurate* assessment of key economic dependencies that have developed over the last two decades, as financial activity has become the primary motor of UK growth and London has become the dominant provider of core services to European corporates. These (inter-)dependencies locate the operative source of financial influence as primarily structural, and one that automatically—rather than strategically—imposes strong constraints on policymakers. As noted, the operation of such power does not preclude the instrumental promotion of these structural interdependencies in order to persuade policymakers; potentially, financial actor mobilisation can be a key reinforcement mechanism to influence policy choices. Nevertheless, policy officials were already well aware of the structural threats to their economic fortunes on the basis of multiple impact assessments, working group reports, contingency planning, and similar administrative measures. Ultimately, it was this more prosaic and conventional bureaucratic knowledge that convinced policymakers of the need to compromise on and defend the vital economic domain of finance.

Notes

1. Throughout the paper I will follow convention by using the term "the City" to represent the entire UK financial services sector.
2. See, for example, Finch, Warren, and Hadfield (2019); Wilkes and Chatterjee (2019); The Economist (2019). For a competing analysis, see, Wright, Benson, and Hamre (2019).
3. One other sub-sector of interdependence worth mentioning is insurance. For instance, one third of all premiums originating within the UK are sold by EU firms under passporting rights, while UK-based insurers export approximately 28% of their products to other European nations (PwC, 2018a: 8; Scarpetta & Booth, 2016, p. 25).
4. At a later point, the May government charged Stephen Barclay with leading the DExEU—an ex-London banker and FCA official highly sympathetic to the financial sector (Jenkins, 2017).
5. This can be seen as a "push-comes-to-shove" moment of truth when the strategic façade of negotiations is somewhat lowered and the analyst can make more confident claims regarding policymaker intentions.
6. Similarly, in the enormous foreign exchange market (which involves the clearing of vital FX swap derivatives), the City has significantly increased its share of daily trading volumes since Brexit, from 37% in 2016, to 43% in late 2019 (Wilkes & Chatterjee, 2019).
7. The implementation period would be triggered in the event of a successful deal and run for approximately two years after an official UK exit. During this time, the current UK-EU trading arrangements would stay in place while the future economic relationship would be worked out in greater detail.
8. For a comprehensive technical overview of all country arrangements see Norton Rose Fulbright (2019).
9. Early on, many of the large UK banks identified a wide variety of loopholes to circumvent any potential future restrictions to UK passporting into EU countries (Arnold, 2017).

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