Britain and the pan-European space

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I am delighted to speak here today in such illustrious company and thank the Federation FeBAF and AFME for the invitation. I would like to turn my attention to the political sphere, for we are just three days away from a UK general election. I am not a politician. In no way do I represent the government.

I can tell you that I will be casting my vote for the Liberal Democrats on Thursday in the safe and somewhat reassuring assumption that they will get nowhere near power. One of the British characteristics as you know is supporting the underdog.

I would like to devote my speech to the theme of the opening session, which is how financial developments can support growth and stability not only within the EU but also in the wider pan-European space. Britain is going to leave the EU but it will remain part of the pan-European space. Indeed, we will be fully fledged, enthusiastic members of this space.

For reasons of culture, history, geography, the UK has always been – also during the time when we have actually been members of the European Community or Union – the odd man out in the EU. Churchill said in the 1930s that Britain is 'with Europe but not in it, linked but not compromised, interested and associated but not absorbed.' And that remains to this day a rather good description.

I would like to talk about three things: Britain and Europe, Britain and the euro area and Britain and Italy.

<u>To start with the overall European picture</u>. You might find what I am going to say difficult to believe: I forecast that Britain outside the EU will become more

European, albeit from a low starting base, than Britain in the EU. Why is this? it is because we will no longer have the EU to blame for all our ills. If we carry out the wrong policies, or get things generally wrong, it will be because of our own politics, our own prime minister, our own House of Commons, our own governor of the Bank of England. We will no longer be able to blame people in Berlin or Frankfurt or Paris or Berlin. It will be nobody's fault but our own.

This will introduce a new spirit of responsibility into British politics. The relationship with the rest of Europe will become less antagonistic, less brittle, more grown up and in some ways possibly more ambitious. There are many elements that bind us, and I will attempt to name some of them in this short speech.

Second, Britain and the euro area. The UK did not join the euro in 1999 and stayed out of the exchange rate mechanism for most of the period of its development, joining only late (in 1990), at the wrong time and for the wrong reasons. But for a period of time – while we were making up our mind whether to join the ERM and also for a while after we left – British chancellors of the exchequer – I am referring in particular to Geoffrey Howe, Nigel Lawson and Kenneth Clarke – were respected sources of advice to countries inside the currency bloc.

Thirty years later there is no reason why the UK should not still have a constructive relationship with the euro area, from a position outside the EU.

The euro area is and will remain by a large margin the UK's most important trade partner. The issue is relevant because some advice may well be necessary in dealing with some of the problems of the euro area. I do not believe that all the points were completely wise in the recent 'non paper' by Olaf Scholz , the German finance minister, on developing banking union within monetary union. The paper has already been mentioned today by Mr Gualtieri.

I do not know why the Germans have brought back again the idea of non-zero capital weighting on banks' holdings of government bonds. This seems to me a distraction from the main elements of a plan for a Europe-wide banking deposit risk insurance (or reinsurance) scheme.

If the capital weightings proposal was designed as a condition for pan-European deposit insurance, then one might think it was a device for preventing it from happening.

I also believe it would have been wise for the German minister at least to have mentioned the idea of a European 'safe asset' which is surely needed to make monetary union work properly . The German view that one does not need financial engineering to resolve this issue, and that a 'safe portfolio' is the best approach, surely does not go far enough. There is a genuine need within a monetary union for a form of risk-sharing through a common-purpose finance instrument that is bound to contain some elements of conditionality.

Third, Britain and Italy. There are many issues that unite us, particularly – but not only – in the field of banking and finance. The two countries share strands of common analysis about Europe's problems and how they can be resolved.

Neither the UK (as the euro area's main trading partner) nor Italy (as an important economy within it) desire that the euro area should become a region of permanently low growth stymied by excessive savings and an unduly export-orientated growth model.

This make the region excessively dependent on demand from the rest if the world and vulnerable to external shocks, as the last 12 months have shown. EMU finds itself in a position that is precisely the opposite of what was supposed to happen when monetary union was being planned in the 1980s and 1990s.

Britain like Italy opposes the constant repetition of faded mantra about increasing Europe's competitiveness and economic progress when these perfectly reasonable aspirations fail to be achieved.

Britain like Italy is against voicing self-inflicted doubts and imposing self-inflicted wounds of the sort that Mr Gentiloni mentioned, opening up a vicious cycle of near–intractable interlinked political and economic problems.

We have a common interest in boosting European growth – especially in getting investment going again, this conference's main theme. This can lift countries and regions out of long cycles of unemployment and restore hope to communities.

Britain and Italy have a common interest in buttressing the importance in European trade and investment of specialised fields of manufacturing and many forms of services – going well beyond financial service.

And Britain and Italy have a common interest in enhancing the importance of the dynamic, creative, imaginative industries and sectors that will form the backbone to our future prosperity and stability. These are all areas in which both our countries have much expertise and they include elements of the 'green economy'.

With this agenda, inspired by this common interest and on this path, I am convinced that Italy and Britain – one country from within and the other from outside the European Union – can go forward together.