Boris, Brexit and the City

Boris Johnson, the Mayor of London, has recently made some upbeat statements about the prospects for the UK outside the EU. As with the statements of many senior Conservative politicians, there is the inevitable caveat. His preference is still for the UK to renegotiate its membership terms and remain a member of the EU. If such a renegotiation were to be successful, Johnson would be campaigning for us to stay in. However, if not, then, we would be better off out. In his words, “we have nothing to be afraid of in going for an alternative future, a Britain open not just to the rest of Europe but to the world, where we have historic ties and markets with vast potential.”

It would be easy to dismiss these words as posturing, but there is some substance behind the Mayor’s remarks. His senior economics advisor, Gerard Lyons, has just produced a report evaluating the prospects of different political scenarios for the City of London and its conclusions are most interesting.

Currently, London’s economy is worth £350 billion per year. If Brexit were handles badly, the report suggests the London economy would only grow to £430 billion by 2034, a tiny increase over 20 years, and see a shedding of about 1.2 million jobs. If we left on amicable terms with outward-looking policies, then the London economy would grow to £615 billion and see an additional 900,000 jobs created over the next 20 years. Dr Lyons suggests membership of EFTA as a possible option, but his calculations are based on the assumption that’s we will be outside the EEA – i.e., he is not proposing we take the “Norway Option”. Staying in on the present terms would, according to the report, be better than a bungled exit as an extra 200,000 jobs wold be created but the preferred scenario would be for the UK to remain in a reformed EU, which would see London’s economy grow to £640 billion with one million jobs being created.

So the difference for London between a well-handled Brexit and the UK remaining within a reformed EU amounts to 10% of the projected job growth and about 9% of GDP growth. This, of course, assumes that the EU will reform, which looks to be a bit of a long shot. The report also only considers London, which is only one part of the UK economy albeit a very important one. In 2011, the financial services industry, which is largely situated in the City of London, amounted to 9.6% of UK GDP.

However, even if Mr Lyons' predictions are correct, there are plenty of other factors which would tip the balance in favour of withdrawal. Staying within a reformed EU would still leave us forced to accept free movement of people, the jurisdiction of the European Court of Justice and the impotence of our Parliament to have the ultimate say in matters of legislation, Even if the regulatory burden were to be reduced, the direct costs of EU membership are unlikely to fall below £10 billion per year. Multiply this conservative estimate by 20 to reflect the timescale envisaged in Mr. Lyons' report and the resulting savings for the UK as a whole from withdrawal would be **eight times** the supposed reduction income growth for London resulting from withdrawal rather than staying in a reformed EU, and this is without taking other drains on the economy such as the CAP and the CFP into account.

So if we can believe Dr Lyons, Boris Johnson is quite right to say that we have nothing to be afraid of life outside the EU. Indeed, the economic prospects look pretty rosy.

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