

**S**HOULD the UK leave the European Union or remain within it? As a Private Member's Bill starts its progress through the Commons, the question may be put to the nation: the Conservatives are committed to an in/out referendum if they win a majority at the next election. Now is the time to start the debate on what staying or leaving would mean for the City and for London, the motor of the nation's economy.

First, we should ignore the siren voices who say it will be doom and gloom if we do not stay. Back in 1999 when the euro came into existence, the debate was whether Britain should replace the pound. We were warned by business and political heavyweights that London, the City and the UK would suffer if we did not join the euro. The good thing is that after a debate that focused on the issues – including Chancellor Gordon Brown's five economic tests – we made the right decision: to stay out of the euro.

Today the most important point is to recognise that the world economy is changing. The global economic cake is getting bigger and more of this growth will be driven by the emerging economies and by a revitalised US. The UK and EU must position themselves to compete. London has much to gain if this happens.

One of the most important immediate issues is whether the UK can renegotiate the terms of its relationship with the EU before a referendum, to make it work better for us. The Prime Minister seems to think we can. Trouble is, no one quite knows how – especially as the French have said we cannot have an "à la carte" menu, choosing only the bits we like. To get a better deal we probably need the Germans on our side. To begin with, we may adopt a unilateral approach and opt out of laws covering different areas.

The City is keen to remain in the EU. Even then, one big future challenge is the decision-making relationship between those countries that are in the euro and those outside – and who calls the shots. Regardless of the EU membership debate, the UK is not going to join the euro and so will remain in the minority.

But even if the UK were to leave the EU, I can't see another centre in Europe displacing London as its financial centre.

London and the South-East provides one-third of Britain's gross value added. Although the City and financial sector is the dominant industry, London's economy is diversified, with pockets of strength in areas such as science, culture and the creative arts, media and sport, technology in many different guises and higher education.

The vast bulk of London's firms are micro, small and medium-sized. For them the big issue in the EU debate is about reducing the regulatory burden. We must lessen that burden – both at home and from Europe.

The industries in which these firms operate are global. We attract tourists, students, demand and business from everywhere. Yet in many areas the biggest challenges are not to do with the EU but with Westminster – visas being the current hot topic. So we can't blame the EU for everything. But in any debate with the EU it is about ensuring London and the UK can compete globally.

The pro-EU camp worries that the UK economy will look less attractive if we are outside the EU. That could mean less inward investment into London, as there would be less incentive for firms to have their European or global head offices here. They also argue that



A place in the sun: the City of London is keen to stay in the European Union to keep the UK attractive

# Staying in the EU? It depends what's good for London

The capital and the City are key to Britain's economy, so the European debate must start with the issues for both

Gerard Lyons



the UK's bargaining position by itself would be less strong – such as in trade deals like the one currently being negotiated between the EU and US. We would also no longer be able to influence EU regulations – but could still be impacted by them.

Yet at the heart of the referendum debate is the Single Market. There have been three big developments in Europe's post-war integration: the euro, the Single Market and EU expansion to include Eastern Europe. Britain has been a key supporter of the last two.

The pro-EU group says the biggest benefit from staying is to make the single market work properly. The anti-EU group would argue that if it hasn't worked yet, why will it in the future?

The Single Market is meant to end constraints on people moving freely within the EU to get jobs, allow people and firms to invest their money across the region and end barriers to both the trade of goods and services within Europe. One area where it does not work properly is services. These account for about 70 per cent of the

EU's output but about 23 per cent of its trade. As a service sector economy, London would have more to gain than most from correcting this. It represents a huge amount of untapped potential growth and jobs. And if the Single Market doesn't work properly, then why should we stay?

The future cost of EU membership also needs to be addressed, as the recent problems over its budget reflect. Yet the main challenge is at the national level: as Chancellor Merkel pointed out recently, Europe has seven per cent of the world's population and 20 per cent of its output but accounts for 50 per cent of the world's welfare spending.

If Europe behaves like a prison that keeps us trapped, then we should be outside. If, however, it is like a fortress – a beacon of strength in a changing world economy – then we should be in. Our renegotiation with Europe will help determine which it is, though regardless of which way any vote goes, there are many things London will have to continue to do anyway – investing in its infrastructure and people – to remain the world's greatest city.

■ Dr Gerard Lyons is chief economic adviser to Mayor Boris Johnson. The Evening Standard is holding a major debate on London and Europe on Monday September 9. Ticketing information to be announced soon.

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