Britain and euro reivised

This paper looks at the definition euro, its origin, implications and reasons why it Britain should join it or not. There are benefits of Britain will gain by joining the euro rather greater than staying away. These include improved living standards, access to larger market, stabilization of prices, minimization of exchange risks and business risks, reduction of effect of investment loss and influence in the European Union. On the hand joining the euro may bring about difficulty in integrating to single currency, low flexibility in labor and migration movement as well as financial burden to be incurred when joining the euro.

Thus it is better to join than to avoid. THE EURO AND BRITAIN The euro is the official name of the single currency which became operational from January 1, 1999. Then it became the official currency for thirteen countries in Europe referred as Euro zone or Euro Area. The name " euro" was adopted in December 1995 at the European Union Council of Ministers meeting in Madrid. The symbol for the euro was derived from the Greek letter epsilon. First letter E refers to Europe while Greece represents the origin of European civilization. The horizontal parallel lines in the euro symbol stands for stability.

Banks started depositing cash in Euro currencies that is the euro time deposits of cash held outside the country of its origin in a banking system (Banking glossary 2006; European economic & monetary union, 2008 The introduction of the euro is of great significance to Europe because since the collapse of the Roman Empire there has been no common currency in Europe, trade with different currencies was difficult and travelers had additional fees when exchanging the currencies. There was a risk to the investors because there was unexpected profit that can turn into loss if the exchange rate fluctuated.

Hence, the need for a common currency which will facilitate trade in Europe (Mitropolitski, 2003) Common currency makes EU foreign investors reduce risks for their investments. The market enlarges and the regional price imbalances are rectified. Consumers will have common currency to measure the different goods and services and the people from the Euro area feel closer and build a common identity. They have demonstrated that people can come together without foreign influence. The Euro is then counterweight to the US dollar in foreign exchange (Mitropolitski, 2003)

The history of producing European currency as a financial pillar of EU is quite recent. In the Treaty of Rome (1957) that was the foundation of EU did not mention common currency. But subsequent Acts of 1986 and 1992 became the foundation of a single currency. From January 1, 1999 the Euro was introduced (Mitropolitski, 2003) The implication of changing to Euro is diverse as the benefits of joining it. By having a single currency, the European Economic Monetary Union (EMU) members aim at promoting a single European market, similar in the size to that of US market.

By combing these countries like Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain under one European market the economy is capable of growing at a faster rate. This means increased job opportunities and a higher standard of living. Bowman 1999 The nationals in the countries had to shift their loyalties to the euro. Since people are usually emotionally attached to theirmoneyand feelings of nationalism being involved this would differ from country to country in varying degrees (Bowman, 1999)

The businesses will have noticeable changes to the way they will conduct their business such that there should be transparent prices. Consumers will have easy choice to compare prices in different countries and businesses which used to exploit the difference in currency values through pricediscriminationwill have to contend pricing in euros. Businesses will have to restructure their pricing policies for a much wider markets (Bowman 1999). The euro will accelerate business efficiency; company costs will be reduced, consumers will enjoy low and stable price. Individual countries made specific adjustment in order to benefit e. g.

adjusting their expenditure and taxes. Germany had to take economic measures by limiting their fiscal stimulatory policy when economic growth was slow while unemployment rate increased. These measures were taken in order to harmonize their economies and make it less risky to function under one currency (Bowman 1999). There were complex logistical problems which Europeans had to overcome in adjusting to the euro such as the financial institutions had to change their systems and train staff. Prices had to be adjusted in euros when national currencies were still circulating for three more years after introduction of virtual currencies.

Parking meters, vending and cash machines had to be converted for the introduction of euro notes and coins (Bowman 1999). Other service sectors had changed their system operations e. g. Mail services printed new stamps and revenue collection and payment done new tax forms as well as inadvertisementcampaigns. However, it took more time before consumers and businesses had completely adjusted following their countries giving out authority on the exchange rate and monetary policies under one currency (Bowman 1999) For US companies doing business in Europe, the shift to euros brought many changes i.

e. Business operation became easier and cost-effective, especially those with branches in Europe. They now have a larger market, consumers and customers billed in dollars were least affected by the change but as the euro's role grows internationally, pressure may be put on US companies to start pricing in euros. Then they would have to start absorbing the exchange rate costs and risks that their customers had experienced. Although doing business in Europe by American companies’ became easier competition increased as well (Bowman 1999). There are arguments for and against Britain joining the euro.

We will first look at the reasons why the British should join. This is because in 1956 Britain failed to join the European Common Market and its economy failed to grow compared to other countries like France and Germany. When it later joined in 1973 the economy grew but did not close the gap between the Britain and those which entered earlier. The benefit of Britain joining the European market through the euro will be largely affected by the access in which it will enjoy of having large market and large economies of scale. In this case trade barriers are eliminated.

The products of British companies will be able to reach a wide selection of clientele and operate in large scale. This will contribute to producing goods more efficiently as seen in United States. The companies will restructure and merge in order to benefit from single market and single currency. The large market will also make it easier for medium sized companies to get cheaper intermediate goods and raw materials from a wide range of suppliers (Layard et al. , 2002). Although Britain joined the free trade market it really did not make a single market because of different currencies used by those countries.

Hence, prices of goods varied considerably between and within countries. For example, United Sates and Canada have a common language andculturebut they have different currencies. Prices of goods vary significantly in US and Canada than between provinces in Canada. This makes the markets of these two countries significantly different mainly due to currencies (Layard et al. , 2002). When Britain joins the single currency market its nationals and companies will enjoy wide variety of goods and services at cheaper value. The living standards of consumers will improve.

For an economy to grow of such nature like that of Britain there is need of single currency. This is because Britain has high tradable sector to European market. The single currency will have great effect on its economy. For example, before the introduction of euro in 1999, in the previous year, Britain had high percentage trading between countries of Euro Area. However, after the other counties joined the trade exchange of Britain decreased by -1% between 1998 and 2001 while those of countries in the Euro Area increased by 20%.

See the table below (Layard et al. , 2002). Single currency is quite significant in trade and productivity because it leads to absence in currency fluctuation. Companies are able to restructure their systems so that they can achieve maximum efficiency and improve their productivity. Also single currency will ensure there is price transparency. Companies will have to change the price of their goods across all countries which may be relatively stable. Otherwise customers of business and consumers will cross the border for buying and shopping their merchandise.

This will result in public outcry and a response will be inevitable. Thus, it will stimulate productivity of companies (Layard et al. , 2002). In joining the euro, capital market integration will occur and barriers between capital markets will breakdown. This is different from where previously companies within individual countries will hold their assets and liquidity in the same currency. But with the introduction of euro companies can invest across EU countries which will definitely stimulate productivity (Layard et al.

, 2002). The floating pound poses a disadvantage to British companies since the pound will fluctuate against the euro. This will make businesses lose profit and may later degenerate into bankruptcy. Their profitability will fluctuate with fluctuation of exchange rate thereby increasing business risk for exporters and importers. The companies cannot insure their companies against such risks in case they would want to invest in other EU countries where there is uncertainty in quantities and prices of goods to be sold.

Therefore British companies will have to sell its goods in euro rather than in pounds (Layard et al. , 2002). The uncertainty in exchange rate deters the formation of unified market and investment. This is because of arbitrary fluctuation of exchange rates over a period of time against the allowable adjustment margin. This brings about economic shock where the independent exchange rate cannot offset. The dysfunctional movement of exchange rate will impact negatively on the economy because of large tradable sector compared to a large economy (Layard et al.

, 2002). The disadvantage of floating exchange rate may escalate making it unattractive of which it will continue to do so as a result of capital markets being integrated and more liquid. Optimal currency size is a reflection of balance between the benefit of independent interest rates and exchange rates in economic adjustment. But the danger lies in the flexibility of exchange rate which may induce economic shock or the larger financial markets integrating and becoming more liquid (Layard et al. , 2002).

Britain has to join the euro because it trades more with it than any other country in the world. For example it trades three times more than in USA which is the second largest trading partner. See the table below showing trading shares in percentage for year 2000 It also necessary for Britain to join because of the currency for which goods and services traded is invoiced. For instance 44% are invoiced in pounds, 32% in US dollars and 20% in euros. Therefore to minimize exchange rate risks it will be important to join the euro rather than the dollar (Layard et al. , 2002).

Britain stands to lose it investment from foreign investors who not only target sales in Britain but also Euro zone. Most companies will want to avoid currency risk associated with exchange rate e. g. Toyota and Nissan companies have intended to relocate to Euro area. The risk of London as a hub of business transaction associated with its dominance in bonds, mergers and acquisition will be experienced if they do not join because the European Central Bank located in Frankfurt in whichFinanceministers from Euro countries make decision that affect the whole of EU members can do so in their favor (Layard et al.

, 2002). Britain also stands to lose its influence in European economic decisions if it opts to stay out of the euro. This is because they view US influence to EU through Britain will be lost. But the fact remains that they can only influence more when they are inside than out. Layard et al (2002) explains a number of reasons for not joining the euro. These are; by joining euro, Britain will not fit well since its economy is more related to US than the rest of Europe. The single currency will require enormous European budget.

The labor market will respond differently than the present because it will be less flexible and migration will be lower. Britain will lose the economic importance of exporting oil to European market. The euro will link Britain to a failing economy because it will be surpassed by other countries. The tax policy of Britain will be altered and that the British financial system is different from the rest of Europe hence making single currency policy difficult. Lastly, Europe's pension liabilities which are unfunded will be borne by Britain is unnecessary. CONCLUSION

The above discussion gives elaborate reasons for which Britain will have to join rather than avoid. Since the world economy is going through transformation, the European Union economy has great impact to Britain economy. So it will be of best interest for Britain to join the euro. REFERENCES Banking glossary. Definition. 2006. 16 April 2008 Banking glossary. Euro currencies. 2006. 16 April 2008

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