

Arguments for and against joining the euro



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A briefing document to provide arguments for and against the UK joining the Euro. The single European currency was established in 1999 and since then the topic of whether the UK should join the Euro has been at the centre of many debates. This document will look at the arguments both for and against membership of the single currency and then provide a critical analysis on whether the UK should join the single currency.

Arguments for and against joining the Euro

Arguments for joining

- Joining the Euro would improve costs to businesses that trade with Europe as there would be no exchange rate costs, this would also benefit tourists to the UK and overseas.
- The European Central Bank (ECB) sets the interest rates for the whole euro zone. Enable businesses to more clearly understand their profit and losses as there would be no fluctuations in exchange rates.
- to stop the euro collapsing and maintain stability.
- Trade between Euro zone countries has increased 20% faster than the UK.
- The UK is extremely sensitive to interest rates as many people have mortgages.

Any slight change in these rates could either cause a housing boom or a crash around the same level as GDP.

Arguments against joining the Euro

- Joining the Euro could ensure a stable exchange rate and provide a stable platform on which to trade.
- The threat of peak oil will have an adverse affect on the euro zone as countries like France who are net importers whereas the UK and Norway are net exporters.
- Price Transparency, it would be much cheaper to purchase goods as in Norway.

export and could be less affected. | | all prices will be in Euro's and it will be much easier to compare. Asymmetric shocks also pose a threat to the Euro zone. | | | The changing of currency would cost the UK a considerable sum on | | The transparency of prices may increase the likeliness of business | money, not only to the government but also to businesses. | | improving manufacturing processes as they could face competition | The risk of inflation if the change happened as companies look to | | from a wider area. This could improve manufacturing, research and | hide cost increases.

Ireland saw a 4% rise in inflation. | | development and ultimately the account balance. | The UK would be required to bailout any country that threatens to | | The euro could attract more foreign business as there would be no | weaken the euro. This would reduce the UK's ability to strengthen | | difference in currency, fiscal or monetary policies. | its own economy due to insufficient funds. | A critical assessment on whether the UK should join the Euro based on the arguments above

Within the Euro there is a wide variety of economies that are governed by one central bank the ECB, this was supposed to ensure that the Euro would be a stable economy due to the size and variation in the member countries by spreading any affects over many countries. This has not been the case as Greece, Italy, Spain, Portugal and Ireland have all received financial aid. If the UK joined the Euro they would no longer have control of their Monetary or Fiscal policies thus prohibiting them to borrow money above the GDP limit set by the ECB and could lower or raise interest rates.

They would also be required to offer financial aid to any struggling countries to help stabilise the Euro. The UK's currently using quantitative easing measures to help the economy, they have been injecting money into the economy to reduce the exchange rate to make exports cheaper to buy. Asymmetric shocks pose a threat to any country within the Euro as a single country would not be able to make changes to its fiscal or monetary policies so the chance of a recovery could be hindered or adversely affect another country. The UK has a high proportion of home owners and a centralised monetary policy could see interest rates being lowered to far which could start a property boom or if they were too high they could reduce the amount of disposable income each home owner has which in turn would reduce spending. The fiscal policy set by the ECB could help the UK in finding other ways of improving their economy as limits would be set to a percentage of GDP. Joining the Euro would increase price transparency by enabling consumers to search for products throughout Europe without having to pay exchange rate charges.

This could also force UK businesses into improving their manufacturing methods to reduce the cost of their products and invest in research and development as there would be greater competition. The single currency would also allow UK businesses to predict profit and losses a lot clearer as there would be no exchange rate thus enabling them to manage their business more efficiently, the single currency would also allow businesses to trade with other countries far easier and with reduced costs.

The Euro could eliminate the problems the UK has faced before in terms of its currency, in 1992 – 2002 the UK manufacturing sector was suffering due

to the high value of the pound and the Euro should ensure a more stable currency for which to build upon. The UK's financial sector would suffer slightly as it trades mainly with the US and the pound has fared more favourably with the Dollar than the Euro, but as over 50% of our exports are with Europe this would greatly improve profitability.

Since the single currency has been established trade between the Euro zone countries has increased 20% above GDP where as the UK as hovered around GDP, this shows that joining the single currency should increase the trade between the UK and the other countries within the EU. The UK should not join the Euro at the moment due to the current situation with many of its countries as this could adversely affect the UK in terms of interest rates, bailout funds and the ECB fiscal policy.

If the situation is resolved the benefits from a single currency out weigh the negatives and the UK may then be able to bridge the manufacturing gap between Germany and France which has caused a slower than predicted recovery from the recession. Bibliography Huhne, Chris (2004) Ideg. org. Online at <http://ldg.org/en/article/2004/097392/12-reasons-for-joining-the-euro> [accessed 02 December 2011] Layard, R. Buiter, W. Huhne, C. Hutton, W. Kenen, P. Turner, A. (2002) Why should Britain join the Euro.

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