

Should britain join the euro



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One of the primary arguments against joining is that there are severe structural differences between the members' economies. These may well undermine the success of the project, meaning Britain would do well to stay out. There is no guarantee that the Euro will be successful, and this is a key issue to consider when assessing whether or not Britain should join at this stage. Britain has already had her fingers burnt by the disastrous entry into the doomed European Exchange Rate Mechanism, the previous attempt to fix European currencies against each other which collapsed, plunging Britain into recession.

Another key argument against entry is the loss of economic independence that would be seen from Euro membership. If Britain were to join the Euro, our interest rates, currently the tool used for control of inflation by the Bank of England, would be set by the European Central Bank (ECB). Since being given independence the Bank of England has been successful in controlling inflation in this way. Problems could well arise if Britain loses interest rates as a tool for its own economic objectives. The past few decades have shown we need all the measures we can to keep control of the economy!

To illustrate this problem, let us suppose that there are inflationary fears in Germany and France, two influential member countries, but not in Britain. In response the ECB is likely to set high interest rates to dampen economic activity and curb inflation. However, in Britain this dampening of activity is not needed as there is little inflationary pressure. The high interest rates set by the ECB merely serve to slow down the British economy. This problem may be aggravated by the fact that Britain is very sensitive to interest rate

changes. This is due to a large percentage of variable-rate mortgages, and companies being heavily reliant on debt finance for investment.

Fiscal policy would also be lost, to a certain extent, as a tool for economic management, due to the fiscal stability pact which limits national budget deficits to 3%. So the government cannot spend its way out of trouble.

Some argue that the 'menu costs', ie. the costs to businesses of having to change all prices to Euros, will be significant. This may hit small to medium sized businesses very hard. However this is very short-termist and I don't feel it is a significant argument against joining.

The main argument for membership is that of the benefits that removing exchange rate uncertainty will bring. If there was a common currency within Europe, businesses could be more confident about investment, as they wouldn't need to worry about what effects fluctuating exchange rates would have on them. This should lead to greater investment in the Euro area and flourishing intra-European trade. A single currency also allows freer movement of labour between member states. This, again, should lead to greater investment and trade in the Euro region and greater overall European prosperity.

By getting in early Britain can have greater political and economic influence in the creation and inevitable modification of the Euro zone. This would allow that the terms of the system are made as beneficial to her as possible. There is a danger that if Britain is not actively involved and committed at this early stage, other nations will benefit from having created the terms of the union in their favour. This could leave Britain straggling behind if the union is a

success, and marginalise her influence within Europe. Joining later, having sat out until the success of the project could be guaranteed, is a lower risk option, but would undoubtedly bring less benefits than the more risky early membership.

Although early signs are not good, the Euro has the potential to become a major global currency to rival the dollar, benefitting those within the Euro area. A resilient, strong currency would benefit all member countries, including Britain.

Recent evidence has arisen which is claimed to prove the contrary, but Britain may well stand to lose out on a lot of foreign investment if she remains outside the Euro, harming her economic interests. I believe this will be the case if Britain does not join the single currency, and feel the aforementioned evidence does not disprove this. I am sure that businesses wanting to trade within Europe will be more likely to locate on the continent if they don't have to worry about exchange rates.

It is important to value and treasure our heritage, as that cannot be replaced. However, whether this should stand in the way of such a big issue I really doubt. I believe our culture to be strong enough to retain a real identity without the pound. Britain has many strengths, economically and culturally, that should enable her to grow and become more prosperous. But this would undoubtedly be made easier by membership in a successful Euro zone. However, whether or not this is attainable is really the issue - can the differences between the member's economies be overcome? Is convergence possible? Will the Euro be successful? I would tentatively suggest that the

answer to these questions is, in the long term, yes. On this basis I suggest that it is best for Britain to join soon. There is a real risk of failure and there will undoubtedly be problems in the short to medium term, but I feel it is worth the risk.

In short, I think in principle Britain should join, but only when measures have been taken to ensure convergence and economic stability.

I think the idea of tests before entry is a sound one, but unfortunately it seems they have been designed for use as a political tool. I can only hope that Gordon Brown and Tony Blair fully appreciate how much more important this decision is than whether or not Labour are re-elected.