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Britain and the Single Currency

"[the euro project] is of course, an intensely political act…the euro cannot be conceived of except politically"

Rt Hon Tony Blair MP, statement to the House of Commons on EMU, 23rd February, 1999 (Hansard col. 181)

By IAN MILNE

What is the Single Currency for?

The Single Currency is a **political** project designed to hasten the creation of a **Single European State** in which nation-states like Britain would be provinces. Helmut Kohl and Jacques Delors have been saying so for years; Chancellor Schröder's new Government has now confirmed that to be the goal.1

In joining the Single Currency, a nation hands over control of its interest rate, exchange rate and gold and currency reserves, as well as control over tax and spending, to Brussels and Frankfurt. All of this is set out in the Maastricht Treaty which Britain signed in 1992, and in the Stability Pact which she signed in 1996.

The Single Currency is not about economics, though its economic consequences will be

The proportion of worldwide British exports (46%) going to the EU in 1997 was **smaller** than in 1992, the year before the Single Market came into operation.4

Britain has an on-going structural trade surplus with every continent on the planet, except one: Europe. She has an on-going structural trade surplus with the world's two biggest and technologically most advanced countries, the USA and Japan.4

Within Europe, British exports to non-EU countries are growing significantly faster than her exports to the EU.4

Less than one-fifth of inward investment from overseas comes from the EU, and less than one-fifth of British investment overseas goes to the EU.5

profound.

Britain in the Global Economy

There are over 200 nation-states in the world, almost all of them with their own currencies. Although 11 European Union countries ("Euroland") joined the "single" European currency on 1st January 1999, no nation-state anywhere else in the world plans to join any single currency.2

There are 43 nation-states in Europe, of which only 11 have joined the "single" European currency. Those 11 countries, unlike Britain, are in varying degrees economic satellites of Germany and France.

Of the world's 200-plus nation-states, **only three** - the USA, Japan and Germany - have economies that are significantly **bigger** than Britain's.

British exports to Euroland account for less than a fifth of British GDP. In other words, **more than four-fifths** of the British economy is **not involved**in trade with Euroland.3

British exports **outside** the EU continue to grow, but British exports to the EU are falling in absolute terms.4

Globally, British exports to English-speaking countries are growing almost **twice as fast** as her exports to non-English-speaking countries.4

More British exports (54% of all her visible 80% of the world's financial transactions and close on 60% of the world's commercial transactions are denominated in US Dollars.6

The British economy, and British interest rates and exchange rates, move in step with those of the US, our largest trading and investment partner, and **not** with those of the Continent.8

The Single Currency and Economics

The Single Currency is **not** an economic project. However, joining it would have profound consequences for British jobs, tax rates, growth, investment, mortgages, welfare and NHS spending.

The Removal of Safety Valves

A single currency eliminates the interest rate and exchange rate safety valves, which allow changing national economies to adjust to each other.

A single currency does not eliminate the need for adjustment. Instead, the strain has to be taken by the unemployment level - as can be seen in Germany and France, which have voluntarily locked their currencies together for the last 12 years.

Preparations for the "single" currency have already helped to cause mass unemployment in Germany, France and Italy, where real jobless rates are at least **three times**7 as high as in Britain. Many, including the CBI, the Bank of England and the Bundesbank, expect the single currency

and invisible exports) **go outside** the EU than **to** the EU, and the proportion going **outside** the EU is growing. Only 46% of British exports go to the EU; only 43% of British exports go to Euroland.4

to result in further job losses within Euroland.

The Single Interest Rate and the Single Exchange Rate

The "single" European currency means a **single interest rate** and a **single exchange rate** from Lapland to Gibraltar. Both will be set by the Frankfurt-based European Central Bank to suit the German and French economies (which account for well over half the combined output of the 11 Euroland countries) irrespective of the needs of the other 9 countries.

Most of the time, the **one-size-fits-all** interest rate and exchange rate does **not** suit the other countries, and will produce even more unemployment, as Britain found to her cost in 1990-1992 when the pound was locked to the German Mark in the Exchange Rate Mechanism (ERM).

If Britain joined, she would suffer disproportionately from the consequences of the **one-size-fits-all interest rate and exchange rate**, since there is deepening negative correlation between the German and British economic cycles.8

There is no evidence whatsoever, anywhere in the world, that removing the interest rate and exchange rate safety valves increases jobs, trade and investment within a single currency zone. Trade between Germany and France, for example, has grown more slowly

What should Britain do?

If Britain wants to continue as a self-governing nation, she should **not** join the Single Currency.

She should keep the pound, keep control over her own tax, spending and wage levels, and continue to trade successfully with the rest of the world.

If Britain wants to become a province governed from Brussels and Frankfurt, she should join the Single Currency.

The pound would be abolished and replaced by the Euro.

If the British people are asked to vote in a referendum on joining the Single Currency, the fundamental issue will be the **survival or extinction of Britain as a self-governing nation**.

Sources:

1. In, for example, Chancellor Schröder's inaugural address to the Bundestag, and Foreign Minister Fischer's address to the European Parliament on 12th

than trade between Germany and the rest of the world, and between France and the rest of the world.

Money-Changing Costs

The only unambiguous minor benefit from a single currency is that costs of changing money (for example from Francs to Marks) **within the single currency zone** are removed.

With the growing use of plastic cards by individuals, and of hedging by businesses, such costs are already shrinking. The costs of changing money with all the other 200 currencies in the world would not be affected by being inside or outside the "single" currency.

The costs of abolishing the pound and substituting the Euro (replacing notes, coins, cash registers, cash dispensing machines, slot machines, accounting systems etc etc) would be massive. Consumers would have to pay for those costs through higher prices and taxes. It would take years, perhaps decades, before the trivial savings on money-changing outweighed the costs of abolishing the pound and bringing in the Euro.

Tax, Spending and Labour Costs

With the start of the Single Currency, control over Euroland's tax and spending passes to the EU. Tax and spending levels will be "harmonised" – in other words made the same – throughout the single currency zone. In addition, Germany and France are already insisting that what they call "social

January 1999, in which he said: "…a common currency is not primarily an economic, but a sovereign, and thus eminently political act…political union must be our lodestar from now on".

2. Some currencies are however temporarily pegged to the dollar.
3. ONS: *Economic Trends*, December 1998 and ONS: *The Blue Book 1998*. Exports (visible and invisible) to Euroland in 1997 were £151 billion; British GDP in 1997 was £802 billion; thus exports to Euroland as a proportion of GDP=18.8%.
4. Office for National Statistics (ONS): *Economic Trends*, December 1998.
5. *The Facts about Foreign Direct Investment: eurofacts* Occasional Paper No 5: November 1998 (based on ONS data).
6. Interviews in the French magazine *Capital*, January and December 1998, with Yves Thibault de Silguy, the European Commissioner responsible for the single currency.
7. A recent report of the French Commissariat au Plan conservatively estimated real French unemployment at over 5 million, equivalent to a 20% unemployment rate. Comparable estimates exist for Germany and Italy.
8. HM Treasury, October 1997: *UK Membership of the Single Currency: An Assessment of the Five Economic Tests*, page 12

legislation" – including the cost of labour – be harmonised too.

Germany, France and other Euroland countries have far higher tax rates than Britain (and, mainly because their unemployment levels are so high, far higher levels of state spending than Britain). If Britain joins, British taxpayers will pay more and state spending will rise towards German and French levels. In addition, far more pensions in Germany, France and the other countries are provided by the state than in Britain. If Britain were to join the Single Currency, British taxpayers would automatically end up contributing to the state pensions of retired people in Germany, France and the rest of Euroland.