Economical arguments

For the euro:

- In recent decades many EU countries such as Germany have proved to be successful at controlling inflation. The powerful influence of the German economic model across the eurozone will result in lower inflation throughout the region, vital for achieving long-term economic growth. Since participating countries have been (and will continue to be) required to follow disciplined economic policies in order to meet the euro convergence criteria, the conditions exist to ensure the best chance of keeping stability and long-term growth across the entire eurozone.

- Although countries will lose the ability to adjust interest rates to control the effects of over-heating or recession in their economies, it can be argued that this freedom has too often been abused in the past. Decisions have been made to suit the short-term political goals of the political party in power rather than the long-term health of the national economy. By handing control of economic policy to economic experts in the European Central Bank who will have the interests of the entire region at heart, there is far more chance that policies will be followed which will lead to more long-term growth and prosperity. In any case, because of the requirements of countries to meet the convergence criteria before joining, a uniformly disciplined approach to economic management has been applied in all of the eurozone countries, which will tend to harmonise their economies.

- Too much is made of the power which countries possess to control their economies through the setting of interest rates. Lowering interest rates to bring about short-term relief often leads only to higher inflation further down the road and the perpetuation of the boom & bust cycle. In any case, most of the influences dictating the economic conditions in any country are beyond its control. Far better, through membership of the euro, to be part of a larger, more stable economy which is less vulnerable to suffering shocks from the outside

Against:

- Britain is currently enjoying a period of sustained economic growth and stability, which has been achieved by being able to adopt the economic policies appropriate to her circumstances. In particular, the setting of interest rates to a level appropriate to each phase of the economic cycle have imposed the necessary brake or impetus to keep the economy on track. By joining the single currency Britain would lose the ability to set her own interest rates and in future could have to endure rates quite inappropriate to her phase in the economic cycle (too high in times of recession or too low in times of boom). The constraints placed on eurozone countries by the one-size-fits-all interest rate policy and the requirement of complying with the stability and growth pact will remove their freedom to react to changes in economic circumstances at a national level. Participating countries may be congratulating themselves now on the relatively smooth introduction of euro notes and coins but the real test of the currency will come when the economies of two or more countries diverge significantly.

- Since the responsibility for setting interest rates in the UK now rests in the hand of the Bank of England and not the government, the setting of rates is now dictated by long-term economic goals, and not for political gain.

- The strength of the euro was supposed to be guaranteed by ensuring that the economies of all the participating countries were in a healthy state and had significantly converged at the time of joining by insisting that they met strict entrance criteria. In reality most of the countries failed to meet the stipulated targets (especially in respect to achieving the required budget deficit figure of 3% of GDP) but with the exception of Greece (initially), were allowed to join anyway due to the fudging of the convergence criteria. The subsequent poor performance of the euro on the international currency market is testimony to its inherent weakness. Giving up the pound for the euro could only damage Britain's current economic strength.

- There are inherent differences between the British and eurozone economies, which suggest that closer integration with other euro countries is neither advisable nor practicable. For example:
  - The British economy is invariably out of phase with other European countries, entering recession and recovery at different times to that of most of her EU partners.
  - The British economy has a higher sensitivity to interest rate changes because of Britain's high proportion of mortgage owners, in particular those with variable rate mortgages.
  - Britain's rates of unemployment, public sector spending and taxation levels are markedly lower than most euro countries.
  - Britain's high overseas investment levels are testimony to the economic ties, which she enjoys with the world beyond Europe.
  - High levels of pension fund assets mean that Britain is less exposed to the high levels of pension liabilities, which face many other EU countries in the years to come.

BUSINESS AND TRADE ARGUMENTS

FOR:

- By joining the single currency British businesses will enjoy the benefit of a fixed exchange rate with Britain's biggest single trading partner i.e. the eurozone. The benefit of a fixed exchange rate is that it provides companies with the ability to plan and budget for future activity and expansion since:
  a) It becomes possible to more accurately predict the future costs of producing goods in the UK for European markets by removing the factor of a potentially volatile exchange rate between the pound and the euro.
  b) The value of a transaction will not have changed due to currency fluctuations during the time that elapses between the signing of a deal and the receipt of payment. At present, a British company selling goods or services to a eurozone customer runs the risk of eventually receiving payment in a currency, which has subsequently devalued against the pound.

Obviously these factors can work both ways, but what companies really seek, and what will inspire business confidence, is predictability and stability. Fixed exchange rates will deliver that stability, increasing the confidence that will in turn lead to more investment and jobs. By staying out of the euro Britain will be at a great disadvantage to competitors in the eurozone who can already trade with each other using the same currency.

- Several large multi-national companies have expressed misgivings about the prospect of Britain staying out of the euro and have stated that it could affect future decisions to invest in British jobs. These companies want to know that the value of services or goods which they are selling from the UK will not decrease due to fluctuations in the exchange rate between Britain and the European countries being sold to, and that the cost of British labour will not rise significantly due to a strengthening pound. Although inward investment in Britain has not yet been adversely affected by Britain's non-membership of the euro, it will be a different matter if Britain states categorically that she does not intend to join. There is then a real risk that companies will shift their operations away from Britain.

- The development of most of western Europe as a free trade area (under the EU) since the early 1950's has contributed enormously to a prolonged period of economic prosperity across the region, consolidating the strong positions of the wealthier nations and helping to bring the poorer nations more stability and economic success. The introduction of a single currency removes one of the final barriers to free trade i.e. the transaction costs and the uncertainty involved in currency conversion.

- The removal of separate national currencies across Europe will encourage cross-border investment since the traditional reluctance of many investors to move their money into a currency other than their own will no longer be a factor. Businesses across the eurozone will therefore be able to attract more investors from other eurozone countries, and investment will be based on the competitiveness of a business rather than its nationality. This will increase the pressure on uncompetitive businesses to improve their efficiency. An increase in cross-border mergers and acquisitions will also lead to more streamlined and efficient businesses across the eurozone.

AGAINST:

- The debate about joining the euro should not be confused with an argument about whether increased trade with Europe is a good thing. Britain's rights to enjoy free trade with other EU countries are enshrined in the treaties of the EU and are not dependent on her adoption of the single currency. Since Britain is a net importer from the eurozone it would hardly be in the collective interests of other EU countries to reduce their trade with Britain were she to stay out.

- Much is made by the pro-euro lobby of the importance to Britain's exporters of having currency stability with their international markets. Yet most of Britain' international trade is carried out in US dollars, a currency against which the pound has enjoyed far more stability than has the euro. The fact that the pound has risen so much against the euro since the euro's launch is a sign of the euro's weakness, not a reason for joining.

- The costs of a changeover to the euro would have to be borne by all businesses in the UK, whether or not they trade with eurozone countries. Most British companies, especially smaller ones, survive by selling to local markets. These firms would still incur the costs of conversion e.g. to new accounting and payroll systems, but would not see any benefit from the removal of currency transaction costs. While admittedly there would be a saving to be made from the absence of currency transactions for exporters to the eurozone, these would be offset by the significant costs incurred during the changeover.

- Although there may have been fears that inward investment in British based industry would suffer as a result of staying out of the euro, the reality has been very different. In June 2001 the Office of National Statistics reported that inward investment in Britain for the 2000/2001 financial year was £341 billion (the euro was launched in January 1999), an increase of 36 percent over the previous year. American, Asian and other foreign companies favour the UK as a base for their European operations because of factors such as culture, language, a de-regulated, business friendly environment, and low levels of taxation and corruption.

Britain's future success will not be determined by whether or not she is part of a larger currency zone, but rather on her ability to produce competitively priced goods and services, which the world, across the eurozone and beyond, wants to buy.