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The European Single Currency Bad For Britain



1. What is Economic and Monetary Union?

EMU is the process whereby member countries of the European Union abolish their own national currencies in favor of the European Single Currency, the euro. The euro is controlled by the European Central Bank in Frankfurt. This process is 'irrevocable'; there is no official mechanism for leaving EMU should participating countries wish to do so in years to come.

2. Will monetary union lead to political union?

Yes, that's the point. There are no sound economic reasons for introducing EMU and the euro. It has been done for purely political purposes: to merge the member states of the EU into a, 'United States of Europe'. Continental European politicians are open and more honest about this than British politicians. Ex-EU Commission President Romano Prodi said, "This is not about economics, it is all about politics".

3. Are there any benefits to the euro?

Only one that is agreed by everyone: the abolition of 'transaction costs', i.e. the cost of

changing money from one currency to another within the euro-zone. However no precise value can be put upon this, and whilst the end of currency transaction costs might initially seem like an attractive option for tourists, travellers and some businesses, it could prove of small benefit if the wider economic disadvantages of EMU cause unemployment, recession and cuts in public spending. It has to be remembered that only about 10% of British businesses trade with Europe, 90% of British businesses do not. Some big international corporations may benefit from the end of transaction costs but the overwhelming number of ordinary businesses will not.

4. Does it matter if interest rates are the same in every European country?

The single most important thing wrong with the euro is the one-size-fits-all interest rate. The setting of interest rates is a key lever of economic control open to governments. During a recession a government may want to lower interest rates to encourage spending and ease the burden on businesses and mortgage payers. During periods of economic boom

or inflation the government may want to increase interest rates to dampen down demand and rein back the economy. Inside the euro these options are no longer open to national governments. A single euro-zone interest rate can never be right for all the different European national economies at the same time. It is economic nonsense.

5. Would Britain lose control of her economy if she joined the euro?

If Britain joins the euro then she must abolish the pound forever. Many people do not seem to understand what this would mean.

- The issuing of bank notes and coins would come under the authority of the European Central Bank in Frankfurt.
- The ECB sets the interest rate for the whole of the euro-zone. Britain could no longer set a rate that the Bank of England and the Chancellor of the Exchequer believed to be right for Britain.
- Britain would lose any influence or control over its international exchange rate – something very important for a globally trading nation like Britain.

- Ownership and possession of Britain's gold and foreign currency reserves would have to be transferred from the Bank of England to the European Central Bank in Frankfurt.
- It would be illegal for the British government or the Bank of England to make representations to the European Central Bank even in times of economic or financial crisis.
- The European Central Bank would set the limits on Britain's public spending requirements, which could affect our public services.
- If Britain fails to comply with the instructions of the ECB then we can be fined millions of euros.

It has to be understood that if Britain joins the euro then she hands over control of her currency and her economy to the European Central Bank, permanently.

6. What is wrong with the euro?

- It is a project driven by political ideology and not economics.
- There have never been convincing economic arguments for creating European Monetary Union and the euro in the first place.
- The savings on transaction costs are small compared to the economic costs of the euro.
- There is no evidence that the euro has produced any significant increase in trade or competition.
- The history of previous attempts to lock European currencies together, i.e. the Snake and the ERM,

already showed that the euro would be most likely to produce deflation, slow growth and increased unemployment. This has proved to be the case.

- The European Union lacks the key requirements for a single currency area to work: it does not have reasonably homogeneous standards of living and competitiveness across its regions; it lacks redistributive budgets that would enable it to give subsidies to under-performing areas (not that these would be likely to be successful anyway); labour cannot move easily within Europe to seek new employment because of language, custom and market rigidities; it lacks a common language and legal system.
- The European Central Bank is charged with pursuing purely deflationary policies under the terms of its creation.
- National governments will have surrendered effective control of their economies.

7. Are there any benefits to Britain staying outside the euro?

Yes. Britain's economy differs radically from those on the continent.

- Much more of Britain's trade is done with countries outside the European Union than in it.
- Britain is a more open economy than her European counterparts. Britain enjoys more inward investment from the rest of the world as a percentage of Gross Domestic Product than any other continental economy.
- Britain has much more invested

outside the EU than in it, i.e. more than £1.4 trillion. Britain derives more of her direct investment earnings and income from Commonwealth and developing countries than from EU countries.

- Britain's economy and her business cycles are much more in tune with those of the USA than Europe.
- Britain is a net oil producer whereas all other EU countries are net oil consumers.
- The proportion of home mortgage owners is much higher in Britain than is general in Europe, and their susceptibility to suffer from changes in the interest rate is therefore much higher.
- Britain's tax levels are considerably lower than the EU average.
- Britain's labour force is much more flexible, with a substantial competitive advantage. This is reflected in levels of unemployment that are much lower than those on the continent. Britain has everything to gain from staying outside the euro and everything to lose by going in.

8. How would British membership of the euro effect job prospects?

Look at the continent to see. The euro zone has been a disaster zone for jobs and employment. Rates of unemployment in Europe have been steadily rising and are much higher across Europe than compared to Britain. If Britain joins the euro and submits her economy and monetary policy to the control to the European Central Bank then every indication

is that levels of unemployment will rise to European levels.

9. Will foreign countries stop investing in Britain if she doesn't join the euro?

Historically Britain enjoys a very high level of foreign investment. Countries choose to invest in Britain for a variety of reasons e.g.: the use of English as a world business language; lower levels of taxation; the adoption throughout the English speaking world of accounting practices and business models that have their roots in Britain; the reliability and quality of the workforce; the relatively lower level of regulation and corruption compared to Europe; the pre-eminence of the City of London as a financial centre; and a whole host of other reasons. Britain is still one of the most popular locations for foreign investment in the world - this is in spite of Britain's membership of the EU and not because of it. Britain's economy has continued to thrive outside the euro-zone.

10. Will Britain lose influence in the world if she stays outside the euro?

What does this mean? Would Britain lose influence in the European Union? The European Central Bank has already been set up, the bankers have been appointed, the decisions have been taken, and the policies have been set. The ECB is independent of national governments. Only the President and Members of the Board can make decisions – indeed it is illegal under EU treaties for them to be influenced by national governments. There is no influence worth having to lose. To

claim to have influence is to claim to be able to do the illegal.

Would Britain lose influence in the world? Britain is the fourth largest economy in the world; only America, Japan and Germany are bigger. Britain has its own place at the table of the International Monetary Fund and the G8 meetings of the world's top economies. The European Union would like to eliminate all representation from its individual member countries and put an EU representative in their place. If Britain joins the euro her influence in the world would be greatly diminished.

11. What can we learn from past experiences of single currency areas?

The European Single Currency is not the first example of a single currency area. There are other historical examples of European single currency areas made up of nation states. The late nineteenth century saw the Latin Union, a single currency area comprising France, Belgium, Switzerland, and Italy. The late nineteenth and early 20th century saw Scandinavian Monetary Union. Both systems failed.

Within the EU itself there were two distinct periods when the currencies of member states were locked together. These were the currency Snake between 1970 and 1975, and the Exchange Rate Mechanism of 1979 to 1993. Both succumbed to economic failure, triggering a combination of political and speculative pressures that led to their collapse. Anyone

in Britain who remembers Black Wednesday in 1993 will recall the financial and economic pain caused by Britain's participation in the ERM, in terms of high interest rates, crippling mortgage repayments, bankruptcies, loss of jobs, and increased unemployment. The ERM fiasco was the single biggest reason for the subsequent demise in the electoral fortunes of the Conservative Party.

In all the above cases the arguments for currency stability were very similar to those heard today for the euro. History is therefore full of warnings about the likely outcome of the current experiment in European Monetary Union.

12. How many currencies are there in the world today?

There are over 200 independent countries in the world today. As soon as any country gains its independence it establishes its own currency, as demonstrated by the break up of the former Soviet Union. Outside the European Union there is no country that plans to give up its currency. Countries with their own currency are made up of rich, poor, big, small, successful economies, unsuccessful economies, democracies, communist tyrannies, right-wing dictatorships, and every form of government that exists. Some are nations with relatively small populations living right next door to nations with large populations, for example Canada and the USA. But none of them feel the urge to abolish their currencies in favour of someone

else's. All of them know that to control their own currency is vital to having control of their own economic destiny to the greatest possible degree. If it is not right for Canada to adopt the US dollar when both nations use the same language, and both use currencies called the dollar, then why is it right for Britain to adopt the euro?

13. What are the advantages of having your own currency?

The main advantage is that no country can have sovereignty or democracy within its own borders unless it controls its own currency and monetary and economic policy. Once such control has gone elsewhere then real power has gone too and can no longer be subject to democratic control. Every independent country wants its own currency. Having its own currency and monetary policy enables a country to make choices about public finances, taxation, and expenditure. By changing the exchange rate for example, a country may better, ride through a rough economic period caused by unexpected world events, difference rates of inflation, or other unforeseeable troubles, without growth rates going down and unemployment rising.

14. What are the five economic tests?

The five tests were designed by Chancellor Gordon Brown to avoid the question of Britain's entry to the euro during the Labour government's first years of office

when they knew they could not win a referendum on this issue. They have subsequently served the purpose of keeping the issue of British entry on the back-burner. The five tests are:

- I. Whether there can be sustainable convergence between Britain and the single currency economies.
- II. Whether there is sufficient flexibility to cope with economic change.
- III. The effect on investment.
- IV. The impact on Britain's financial services generally.
- V. Whether it is good for employment.

The problem with these tests is that they are all subjective and the Chancellor of the day could decide they have all been met while other economic commentators could equally decide that they have not. The euro is a political project and the decision to join or not will be a political one.

15. Isn't membership of the euro now a non-issue for Britain?

Labour and the Lib-Dems support British entry of the euro in principle. The Conservatives are undecided, characteristically dishonest, and cannot make up their minds on just how long they want to preserve the pound. The European Union intends to implement large sections of the Constitution despite its rejection in the Dutch and French referendums. The Constitution

clearly stated that, 'The currency of the Union shall be the euro' (Title I, Article 1-8). So long as Britain is a member of the European Union, and the euro continues to exist, there is a danger that Britain could join. This can be opposed by joining, supporting, or voting for, The UK Independence Party.

Five years on – How is the Euro-zone performing?

The euro is not fulfilling the promises made by politicians and central bankers.

- The economies of the 15 Euro-zone countries are diverging rather than converging. Growth differentials among Euro-zone member states continue to widen, putting intense pressure on the Central Bank's one-size-fits-all interest rate.
- Growth rates are lower, and unemployment rates higher, for Euro-zone members than for those countries that stayed outside, i.e. Britain, Denmark and Sweden.
- The economic situation in Italy is sufficiently bad for some politicians to call for a referendum on continued membership of the euro. It is rumoured that in Germany banks have drawn up contingency plans to meet a collapse of the euro.

Many people now think that the disintegration of the euro is inevitable.

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