

Political Science Resources: should Britain join the euro?



Compiled by **Richard Kimber and Brian W Jarvis.**

The latest version of the UK-Euro FAQ is available at: <http://www.politicsresources/docs/efaq.htm>. A pdf version is available [here](#). Please note that while Britain's membership is not a live political issue, some of the material below may not be applicable [22 July 2006].

This FAQ is intended to be impartial. What this means is that we have tried to include a fair statement of the arguments on both sides. It does not mean, however, that we have set out to secure an even balance in the BBC style. In life, some arguments are right and some are wrong; many are inconclusive. An even balance is unfair to the correct arguments. If you think there are aspects of the arguments that we have overlooked, or that are incorrect or unfair, please send us an [email](#).

UK-euro FAQ Contents

1. Introduction

- 1.1. What is the euro? And what denominations are there?
- 1.2. Are all the coins symmetrical?
- 1.3. What is it worth?
- 1.4. Which countries use the euro?
- 1.5. When did it become legal tender among the member countries?
- 1.6. At what values did the old currencies convert to the euro?
- 1.7. What problems arose when countries introduced the euro?
- 1.8. Can the euro be used in the UK?

2. The UK decision

- 2.1. Will the UK abolish the pound in favour of the euro?
- 2.2. Does that mean it would not take a decision just on political grounds?
- 2.3. What are the UK government's 5 criteria for joining the euro?
- 2.4. Is it just a matter of synchronising our economic cycle with that of the euro zone?
- 2.5. Will the UK need to devalue in order to join the euro?
- 2.6. Will the UK lose its ability to set its own taxes?
- 2.7. When will a UK referendum on the euro be held?
- 2.8. Will the referendum question be worded fairly?
- 2.9. Will the result of the referendum be definitive?
- 2.10. What is the current split in public opinion for and against joining the euro?
- 2.11. What are the policies of the political parties towards the euro?
- 2.12. How much would it cost to convert to the euro?

3. Arguments for and against

- 3.1. What sorts of arguments are there for and against the UK joining the euro?

- 3.2. What are the main constitutional arguments?
 1. Timing of entry
 2. Loss of independence
 3. Parliament binding successors
- 3.3. What are the main political arguments?
 1. Britain's influence
 2. Likelihood of war
 3. A check on the US
 4. Entry is inevitable
 5. Economic decision-making
- 3.4. What are the main economic arguments?
 1. Sterling volatility
 2. Unemployment
 3. Prices
 4. The City
 5. Investment
 6. Japanese investment
 7. Interest rates
 8. Business prospects
- 3.5. Other arguments
 1. Convenience
- 3.6. Which considerations are likely to influence ordinary people?
- 3.7. What about the American model? Does that not show the value of having a single currency?
- 3.8 What about the so-called 'pensions time-bomb'?
- 3.9 What is the Stability and Growth Pact, and how does it affect the euro?

4. The campaign

- 4.1. Which groups are involved in campaigning for the euro?
- 4.2. Which groups are involved in campaigning against the euro?
- 4.3. On which side of the argument do the various trade unions stand?
- 4.4. On which side of the argument do the various media interests stand?
- 4.5. How will the campaign be funded?

5. Other information

- 5.1. Where can I find news, links, and information about the euro?
-

1. Introduction

1.1. What is the euro? And what denominations are there?

The euro, €, is the common currency of 12 of the 25 EU nations, replacing the individual national currencies. There are seven different banknotes, printed on paper containing genetically modified cotton, and eight coins.

Banknotes:

€5, €10, €20, €50, €100, €200, €500

Coins:

1, 2, 5, 10, 20 and 50 cent, and €1, €2

UK-euro FAQ

One side of the coins is common to all the countries, the reverse is specific to each nation.

Approximately €14.89 billion banknotes and €51.629 billion coins were initially minted. This breaks down between the various countries as:-

Austria: €520m, Belgium: €530m, Finland: €219m, France: €2,570m, Germany: €4,342m, Greece: €581m, Ireland: €243m, Italy: €2,380m, Luxembourg: €46m, Netherlands: €655m, Portugal: €535m, Spain: €1,924m,

More information about the history, design, and other aspects of the euro may be found on the [ECB site](#).

1.2. Are all the coins symmetrical?

Probably not. Tests with a spinning Belgian euro have shown a tendency to fall down head upwards.

1.3. What is it worth?

Naturally, this will fluctuate over time. On 2nd January 2002, €1 = 62p (UK) = 90¢ (US)

For current values, see: [OzForex Currency Converter](#). It is also possible to examine the euro's stability by [charting the currency over time](#).

1.4. Which countries use the euro?

12 of the 15 EU countries use the euro (listed above). Those that do not are Denmark, Sweden, and the UK. Sweden will hold a referendum in September 2003.

1.5. When did it become legal tender among the member countries?

The euro began life on January 1st 1999, but notes and coins were not introduced until January 1st 2002. Countries varied as to the date by which the old currency was phased out.

Austria, Belgium, Finland, Germany, Greece, Italy, Luxembourg, Portugal, and Spain ceased to use their old currencies on 28th February 2002. The Netherlands changed over on 27th January; Ireland on 9th February, and France on 17th February 2002. After February, the euro zone banks will mostly exchange currency free of charge, as will the UK Post office, until the end of June 2002. Many charities will accept donations in old currency.

1.6. At what values did the old currencies convert to the euro?

Old Currency	Value of € 1
Austria: Schilling	13.760300
Belgium: Franc	40.339900
Finland: Markka	5.945730
France: Franc	6.559570
Germany: Deutsche Mark	1.955830
Greece: Drachma	340.750000
Ireland: Pound	0.787564
Italy: Lira	1936.270000
Luxembourg: Franc	40.339900
Netherlands: Guilder	2.203710
Portugal: Escudo	200.482000
Spain: Peseta	166.386000
Vatican: Lira	1936.270000

1.7. What problems arose when countries introduced the euro?

The introduction of the euro was generally thought by the participating countries to have been successful. Even so, quite a small proportion of transactions (20% on average) were done in euros on the first day (10% in Italy). By 18th January this had risen to an average of 85%. The main problems were the failure of cash machines in Austria, lack of preparation by the Italian banks, and a general tendency across Europe to take advantage of the situation by increasing prices. In May, the German Minister of Finance admitted that the euro transition forced up prices. In June, a Commission survey of 12,700 people across the euro zone found that 68.5% (80% in Spain) thought that prices had risen as a result of the single currency. Cafes and restaurants were thought to be the worst offenders (meal prices up by 10%). French consumer organisations estimated a 10% increase in prices. In September, the Greek Government supported a consumer strike in protest over prices increases, estimated to be 10-12% on some basic food items like olive oil. Some forgeries were detected in the first few days. There are concerns about the allergenic nature of the nickel element in some coins, and there is increasing irritation in several countries about the small size of the 1 and 2 cent coins. If the latter remain in circulation, considerable rounding to the nearest 5 cents is likely. Coin machines remain a problem with coins from one country not always being accepted in the machines of another. Also Thai coins (worth 8x less) work in many vending machines. Copyright problems seem to have arisen over the map used on euro notes; if the legal claims are upheld, either the notes will have to be withdrawn, or (more likely) a very large compensation payment will have to be agreed. Some banknotes have been discovered in circulation without their security hologram. Six months after the introduction of the new notes and coins the euro had still had not been fully accepted: the euro coins of one country were often refused in the bars and shops of another, and people with euro-denominated travellers cheques were being charged up to five times the level of commission than cheques denominated in sterling or US dollars. In Oct 2003, polls in Germany and France suggested that, if they had the opportunity, voters would vote to bring back the previous currencies. In June 2005, Italy's Northern League party launched a campaign to revive the Lira.

1.8. Can the euro be used in the UK?

Some shops accept the euro notes, but give change in sterling. Most of these charge a commission for doing this.

2. The UK decision

2.1. Will the UK abolish the pound in favour of the euro?

This is ultimately the government's decision. The government is in principle in favour of entry. It has said that it would hold a vote in Parliament followed by a referendum, and that it would do this if it seemed clearly in the country's economic interests to join, on the basis of five economic criteria. The summary of the government's position on the Treasury website has been removed.

2.2. Does that mean it would not take a decision just on political grounds?

At least one Treasury official seems to have admitted that the five tests cannot be met unambiguously, and that any decision will ultimately be made on political grounds and not economic ones. In any public debate, the boundaries between political and economic reasons for joining are likely to be blurred, and also mixed up with general reasons for belonging to the EU (of which the UK is already a member). It is likely that the outcome will be determined more by the relative effectiveness of the two public campaigns waged by the two side's supporters, each of whom has an emotional commitment for or against (i.e. a commitment regardless of

the correctness of the arguments). The Blair government seems to be broadly pro-euro and will probably try to argue that the five tests have been met, however inconclusive the outcome of the Treasury study. There is some polling evidence that suggests this might be an effective tactic, and the Chairman of the Labour Party has indicated that he thinks they should seek to join the euro even if the arguments are only "50-50".

2.3. What are the UK government's 5 criteria for joining the euro?

1. Sustainable convergence between Britain and the economies of a single currency;

including:

- ◆ monetary transmission mechanisms
- ◆ the housing market
- ◆ national business cycles
- ◆ sustainable real exchange rate

2. Whether there is sufficient flexibility to cope with economic change;

including:

- ◆ labour markets
- ◆ adjustment mechanisms
- ◆ fiscal policy as an economic stabiliser

3. The effect on investment;

including:

- ◆ the cost of capital
- ◆ the impact of joining on different economic sectors

4. The impact on our financial services industry;

including:

- ◆ why financial services companies are located in cities like London and Edinburgh

5. Whether it is good for employment;

including:

- ◆ the euro's impact on external trade
- ◆ lessons from American monetary union
- ◆ the stability and growth pact
- ◆ price differentials in the euro zone

The Treasury and the Bank of England had about 30 officials undertaking an assessment of the five tests. They published their conclusions in June 2003. On 9th June 2003, the Chancellor announced that only one of the five tests (no 4) had been met, and that there would be no early entry into the EMU. He said that the situation would be reviewed in the following year's Budget. Even this is probably well before any potential problems due to the single currency could surface. A really adequate assessment would need to cover the working of the euro over the whole economic cycle, and consider the effect on the system of other new members joining it.

2.4. Is it just a matter of synchronising our economic cycle with that of the euro zone?

No. The UK's relative prosperity, with higher growth and lower unemployment, has been the result of government policies, including interest rates and taxation regimes, and not just an accident of the economic cycle. Ken Clarke, Gordon Brown, and Eddie George can reasonably claim some of the credit for this. Also, the willingness of New Labour to continue in much the same direction as the previous Conservative government gave an important element of stability.

2.5. Will the UK need to devalue in order to join the euro?

UK-euro FAQ

Very probably. Indeed, although sterling's level is not one of the five tests as such, it seems that the level will have to play an important part in the decision. There are suggestions that there would need to be a fall of about 30% against the euro. Though there would also be a fall against the dollar (in which most commodities are priced). There would then be a risk of inflation, and we would not be able to use interest rates as a corrective, unless by chance the EU bank thought that what was necessary to correct our particular situation was also suitable for the rest of the euro zone. The best situation would be for the euro to strengthen while the pound retains its value against foreign currencies. If the fall in sterling took place prior to joining, the necessary measures to deal with the resulting inflation would move Britain further away from the euro zone average.

2.6. Will the UK lose its ability to set its own taxes?

Good economic management requires coordination between monetary and fiscal management. There is currently no common fiscal management across the euro countries. It seems very likely, if not inevitable, therefore that pressure will arise for a common tax system, and some European politicians have already called for this. Wim Duisenberg, ECB, says he believes it will happen. Under such an arrangement, it is likely that national governments would retain some limited powers on taxes, as do states in the US, but for a common tax system to be effective the main taxation powers would have to be exercised centrally. Even before there is a common system in place, the German Finance Minister has made it clear that the UK would have to agree to coordinate its tax policies with its EU partners, and that there would be (unspecified) adverse effects if it did not (*Daily Telegraph interview, 17-1-2002*). Britain would have a veto over tax harmonisation, but once inside the euro zone it is not clear why a British government would exercise such a veto - given the need for monetary and fiscal co-ordination.

In Sept 2004, EU finance ministers agreed to examine ways of harmonising the method for working out company taxes.

2.7. When will a UK referendum on the euro be held?

Speculations vary a great deal, especially in the light of Sweden's 'No' vote in the Sept 2003 referendum. It is suggested that the earliest date would be 2006. This date, if there is a successful outcome, would imply a UK entry of 2009. The decision of 9th June 2003 that the tests for entry had not been met also makes a referendum before the next General Election unlikely. A draft referendum Bill is, however, being prepared. There has been speculation that the government might try to obscure the issues by holding the referendum on the same day as a general election. In Sept '02, 37 Labour MPs and 62 local councillors wrote to *The Times* arguing that the euro should not be a priority in the current Parliament.

2.8. Will the referendum question be worded fairly?

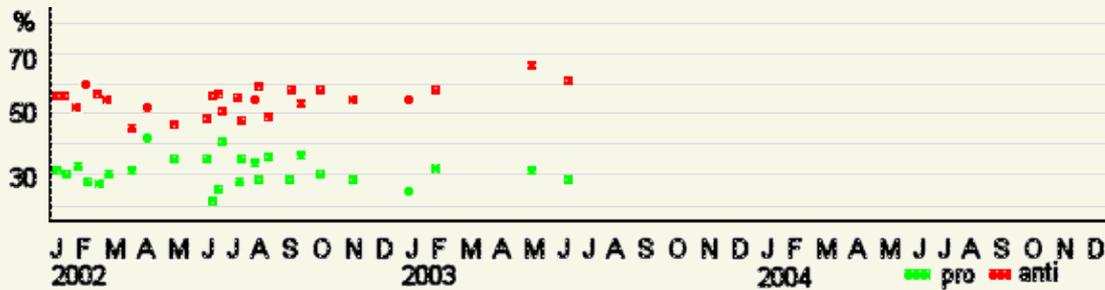
This remains to be seen. However, the Electoral Commission has said that it will make an independent assessment of the referendum question when it is published, and will speak out if it judges the wording to be unacceptable.

2.9. Will the result of the referendum be definitive?

That depends on what "definitive" means here. It is unlikely that an overall "NO" result in the referendum would give rise to an early entry. However, nothing is for ever in politics, and it is likely that the pro-euro lobby would push for a further referendum after a period (perhaps in the subsequent parliament). It is also possible that, after losing a referendum very narrowly, and after arguing that circumstances had changed, the government might later seek entry without a further referendum, especially if it had fought and won a general election. Much depends on the political situation at the time, and the perceived success of the euro zone. It is not yet clear whether the government will allow any referendum figures to be broken down by country: there

is, of course, the possibility that in the context of an overall "NO", Wales and Scotland might vote "YES", a result that could create a somewhat difficult political situation.

2.10. What is the current split in public opinion for and against joining the euro?



Since the euro is not currently a central issue in British politics, the above graph is not currently being updated (14-10-04).

In an *ITV poll* (10-3-02) nearly 60% of MPs supported the euro in principle, but only 46% would have voted for it in a vote taken at the time.

2.11. What are the policies of the political parties towards the euro?

Conservatives:

Opposed to the single currency

Greens:

The Green Party is opposed to EMU and the single currency

Labour:

In favour of joining, subject to the five economic tests being met and approval in a referendum

Liberal:

Are opposed to joining the euro

Liberal Democrats:

Are in favour of joining the euro, subject to approval in a referendum

Plaid Cymru:

Supports joining the euro when the exchange rate with the pound is appropriate.

Social and Democratic Labour Party:

In favour of joining the euro.

Scottish National Party:

Wants to join as soon as possible, but at a competitive rate of exchange and after approval in a referendum

UK Independence Party:

Opposed to the single currency.

Ulster Unionists:

Opposed to the single currency.

2.12. How much would it cost to convert to the euro?

So far, the government has refused to give any indication of the likely cost. Some independent estimates put the figure as high as £50 billion.

The British Bankers Association has estimated that it would cost the banks themselves about £1bn if we joined the euro zone, and that the banks would lose many millions of pounds if there were to be a negative vote in the referendum - because of the preparations for joining that they would have already started to make in order to meet the government's timetable.

3. Arguments for and against

3.1. What sorts of arguments are there for and against the UK joining the euro?

The main arguments for and against joining the euro have largely constitutional, political, and economic aspects. We have listed below some of the main issues and the kinds of arguments advanced by people in the pro-euro and anti-euro camps.

3.2. What are the main constitutional arguments?

Issue	For	Against
1. Timing of entry	The UK should not delay entry. Countries that enter the euro late will find that the rules have already been set and will have no influence over them.	Of course, if there is a case for joining, it should be done sooner rather than later. But whether there is such a case is what is at issue.
2. Loss of independence	In order to get the full benefits of a single currency, countries will have to be prepared to sacrifice some economic independence and harmonise taxes. Hans Eichel (German Finance Minister) has argued that national eccentricity would be an obstacle to Europe becoming the most dynamic economic area in the world.	Yes, for it to work properly some independence would need to be sacrificed. In the view of some, especially German, proponents the long term goal is the abolition of the individual nation state.
3. Parliament binding successors	Entry into the euro is not reversible The 'constitution' is just a loose set of conventions that change over time. A referendum could be interpreted as changing the constitution by empowering the government to enter into a binding arrangement.	It is a principle of our constitution that no Parliament can bind its successors. Entry into an irreversible arrangement is, therefore, unconstitutional. Of course, by the same token, the process could be reversed.

3.3. What are the main political arguments?

Issue	For	Against
1. Britain's influence	The concept of absolute sovereignty is now an illusion. Globalisation means that	This is unlikely. It is unlikely that entry would result in significantly greater

UK-euro FAQ

economic activities that were once controlled by local and national government are now, in part, run, regulated, or controlled by inter-national bodies. Consequently Britain has an interdependent relationship with her neighbours.

By joining the Euro Britain would gain a greater share in the influence over economic matters, that an economically united Europe would enjoy. Britain would have more influence as a nation by being part of the euro. Its role would be diminished by non-entry.

influence, either in Europe or around the world. World influence depends in part on a country's historic role, world perceptions of the current leadership, the inclination of a PM to try to influence matters, and the opportunity to exercise influence such as presented itself after Sept 11 2001.

Of course the UK would have no influence over matters that just related to the euro. Even if it suffered some short term general loss of influence in the EU, the UK's right to participate in general EU matters means that this could not persist. Britain being in a position different from the "core" countries is not new for the EU. In any case, influence comes ultimately from the ability to build coalitions using voting strength for or against a variety of EU issues.

The influence of every country will decline a little as membership of the EU is enlarged.

German Chancellor Gerhard Schröder said in a D. Telegraph interview [20th June 2002] "Britain has shown itself to be an absolutely reliable partner in Europe. That is independent of membership of the euro. That is independent of whether or not Britain holds a referendum".

Strangely, it is part of the Maastricht treaty that governments will not seek to influence the ECB's decision-making.

2. Likelihood of war The likelihood of war in Europe would be much less if Europe was united with a single currency, and there would be less likelihood of a return to fascist totalitarianism.

For many, especially Germans, the single currency is a means of binding previously warring nations together.

EMU has an important part to play in keeping the peace in Europe. Inter-state co-operation has transformed Europe politically. By placing 'industries of war' under supranational control, European economies have become interdependent to the extent that war between member states is now impractical. EMU would further bind the economies of member states together, making war impossible.

This is a bizarre argument. It's proponents do not say which country they think is likely to become totalitarian, but there seems to be an implication that it is the UK, Denmark or Sweden, since these are the only countries not already in the euro. Other countries already have the "protection", if such it be, of a single currency. Nor do they explain why being a general member of the EU will not prevent totalitarianism while sharing a single currency will.

The argument about war seems to be of the rather dubious "it's happened before, it can happen again" variety. But this completely overlooks the changes that have taken place both within and between european countries since the last war. The

development of NATO and other forms of cooperation, together with social and cultural changes, have already made a war between countries in the EU extremely unlikely.

- | | | |
|---|---|---|
| <p>3. A check on the US</p> | <p>It is important for global security that the world has political checks and balances. Currently there is only one Super Power - the USA. A European Union, with a population of 320 million, strengthened by a single currency, could become a potential rival of the USA.</p> <p>It would also mean that Europe would be able to control its own 'back yard', for example resolving the crisis in Yugoslavia, without depending on the USA.</p> <p>Thus a united Europe can act as a check to US global hegemony, and frees european countries from undue US influence.</p> | <p>Like the war argument, above, this is not a reason for adopting a single currency <i>per se</i>, and is likely to appeal mainly to those who are anti-American. The reference to influence is vague: many influences transcend politics and economics and will exist regardless of the european arrangements. Trade will continue, single currency or not. Military cooperation will continue - if it does not, that surely is a disadvantage. It is hard to specify any area in which the US will be controlled in this way, or the mechanism by which it will happen. Also, Europe has yet to show that it can act quickly, decisively, and effectively in foreign affairs. The UK being in the euro zone is unlikely to alter this.</p> |
| <p>4. Entry is inevitable</p> | <p>UK membership is inevitable. We cannot stay outside the euro for ever. Historically Britain has always chosen Europe above all over interests. In 1914, 1939 and 1971 Britain chose to support her european interest at the expense of imperial and commonwealth ones. Britain is now an integral part of the european project. Procrastination will only diminish her influence over important monetary issues, that she will sooner or later have to play a part in.</p> | <p>Membership of the euro zone <i>per se</i> is not inevitable. It depends on people being persuaded that it is a good idea. We have already chosen Europe by joining the EU.</p> |
| <p>5. Economic decision-making</p> | <p>Interest rates will be set by the ECB, and other decisions will be taken by the EU through the normal processes</p> | <p>Economic decisions over taxes and interest rates will be subject to bargaining between the various countries, the outcome of which will not necessarily be in the UK's interests. Sensible economic policies are likely to be overridden by political considerations, as with the German deficit (see below).</p> |

3.4. What are the main economic arguments?

Issue	For	Against
<p>1. Sterling volatility</p>	<p>Outside the euro, sterling will be volatile and subject to wild fluctuations as long as it is trapped between the euro and the</p>	<p>This is just speculation. No reasons are given why this must be so. It is just as likely that the euro will be unstable.</p>

UK-euro FAQ

- dollar. This will adversely affect business, and consequently unemployment. Sterling cannot survive outside the single currency.
2. Unemployment The jobs of roughly 12.5% of the British workforce, or up to three and a half million people, depend on our ability to export to the European Union. Weakening our links with Europe puts these jobs at risk. A company's ability to compete in export markets is affected by the strength of sterling
3. Prices Prices in the UK will be driven lower once we are in the euro zone because of price transparency.
- There is some evidence that major companies in the euro zone are starting to charge a uniform price across the zone (*The Times*, 11-3-02).
4. The City The City could lose its role as Europe's leading financial centre if Britain is permanently excluded from the euro.
- Unemployment is rising in Germany and the economy is weakening. This could lead to a fall in the euro.
- Of course, being a member of the euro zone removes that aspect of uncompetitiveness in the EU that is purely due to currency value. The long term value of the pound is a consequence of long term economic management: if sterling becomes weak in relation to the euro, some companies may acquire an advantageous position. The figure of 12.5% implies, of course, that some 87.5% of jobs are largely unaffected by sterling's value against the euro.
- There are significant price differences between different parts of the UK, despite price transparency in the UK. There is no reason to think that being in the euro will alter this, or will alter the differentials between the UK and other countries. Prices are not just a function of currency and transparency but result from a variety of factors, including labour, materials, energy, transportation, taxation, bureaucratic costs, and so on. EU competition policy is just as likely to bring prices into line. There is also evidence that retailers would take advantage of the transition to raise prices ([see above](#)). A report in Oct 2003 showed that prices in the Euro zone were not converging, and in December [EUobserver.com](#) reported a survey showing that shoppers in the euro zone were not taking advantage of huge price differences between countries to snap up bargains. Only 12 percent of consumers had bought goods located in another EU country in the previous year.
- This is speculative. The City has a long-established position in international markets. There will, of course, be a loss in trading among european currencies, as for other financial centres. It remains to be seen where euro trading will be mainly based. If it is in the euro zone, it may already be too late, and so that part of the argument becomes irrelevant. The long-term future of the City depends on its global position and its competitiveness.

5. Investment	The euro will encourage inward investment. This will decline if the UK remains outside the euro.	Alan Greenspan, Chairman of the US Fed., has said (Sept '02) that the City was thriving outside the euro and that there was no overall tendency for trading to move from London to Frankfurt. Reports (Nov '02) suggest that the London Stock Exchange is getting 75% of new european listings.
6. Japanese investment	According to Britain's Ambassador to Japan, if we stay out of the euro, Japanese companies will abandon Britain. They are struggling to import profitably into the eurozone.	Britain is second to the US in inward investment, and attracts more than France and Germany combined. The 2004 UN <u>World Investment Report</u> report concludes that, so far, there is no evidence that the EMU has increased foreign direct investment in the eurozone. The Ambassador is simply relaying the self-interested concerns of the Japanese manufacturers. Their real problem is flagging demand in the core euro countries, especially in the car market. Since then, Nissan have announced (Nov '02) that they are moving their design team from Munich to London. An EU Commission survey (Nov '02) found that less than half of firms in Europe felt they had benefitted from membership of the single currency.
7. Interest rates	Interest rates for the euro-zone will be set by the European Central Bank	A single interest rate across the whole euro-zone cannot be appropriate for the diverse economies involved. Even in the UK, the Bank of England has been criticised for ignoring the needs of some regions in setting its interest rates.
8. Business prospects	Business prospects will be improved by joining the euro.	In an NTC survey (Aug 2003) only 45% of British manufacturers polled believe that joining the single currency would be good for business.

3.5. Other arguments

Issue	For	Against
1. Convenience	Travelling around Europe will be much more convenient when money does not have to be changed.	This is true, up to a point; though, with the extensive use of credit cards, a single currency is less of a gain in convenience than is often claimed.

3.6. Which considerations are likely to influence ordinary people?

Most people are more likely to be swayed by factors that relate directly to their own lives, for example the suggestion that it will be more convenient when they go on holiday, and perhaps by a general view that joining is 'inevitable'. Added to this, the 'pro' lobby is likely to try to create a feeling of uncertainty about a

future outside the euro. Sadly, the most important issues are about the more difficult and complex long term factors, and these are less likely to influence the majority of people, because they will not become apparent before we have to make our decision.

3.7. What about the American model? Does that not show the value of having a single currency?

This is a poor analogy because in America political and economic union came first. One crucial factor that enabled the US to succeed was the willingness and ability of its workforce to move from depressed areas to those where labour was needed. What about taxation? Although local areas can raise some taxes in the US, they are inhibited in the extent of this by the mobility of labour. People would tend to move to cheaper states. Thus the main thrust of taxation (about 75%) is effectively set at the federal level.

This essential mobility of labour does not exist in the EU. According to Commission figures, less than 2% of EU nationals are mobile. Whatever formal regulations there may be allowing movement, the differences of language and culture, along with political pressures, strongly inhibit large scale movement. The German Chancellor is quoted as saying "With 4.3 million unemployed, we can't have more foreign workers coming to Germany"

Also, the history of the EU has been to provide incentives to support the status quo. The CAP, for example, protected small inefficient farms, especially in France and Germany. The UK contributed large sums to the CAP, despite its more efficient agricultural sector: a sort of tax on efficiency. Another problem for the EU has been that individual countries have had general elections at quite different times. This has often meant that reforming negotiations have been handicapped by the need to take into account the political sensitivities of whichever country had an up-coming election. It is hard to see that this problem could ever go away. Indeed, it seems that the EU's decision not to reprimand the German government for its budget deficit was heavily influenced by the approaching German elections in September 2002. This clearly shows how political factors can undermine a mechanism even as fundamental as the Stability and Growth Pact.

3.8. What about the so-called 'pensions time-bomb'?

The problem here is that some countries, particularly Germany and Italy, have enormous 'hidden' debt because of future unfunded pensions liabilities. This debt is not shown in the official national debt figures. The main reasons for this situation compared to the UK are the differing levels of public pensions, different participation rates in the workforce, and demography. Pro-euro campaigners argue that this is not a problem because the EU treaty specifically rules out one state being held liable for the pension problems of another, and that such problems can be solved by changes in retirement ages, and if growth is faster than expected. Against this, it is not clear that retirement ages will actually be changed, or that faster-than-expected growth can be relied upon. One obvious way to solve the problem is through increased taxation. However, this will adversely affect growth. It is argued that a slow down could be experienced, even on optimistic assumptions, as early as 2010. Also, it is not clear how much the point about the EU treaty would be worth if tax harmonisation were to come about. You cannot, at one and the same time, have tax harmonisation *and* individual states setting taxes appropriate to their pensions liabilities. The demography is fixed. By 2050, Italy will have 0.9 workers for every over-65, compared with today's 2.3

3.9. What is the Stability and Growth Pact, and how does it affect the euro?

The Stability and Growth Pact (SGP) was introduced, with strong German support, in 1997 to deal with concerns that value of the euro could be undermined by uncontrolled government debt in some countries. The pact requires governments to keep budget deficits below 3% of GDP, and to balance their budgets in the medium term. It gives the EU power to penalise governments that exceed this limit. Initially, the 'medium term' was seen as meaning 'by 2004'. In June '02, the EU diluted its commitment to achieve balanced budgets

by 2004 by granting France the right to ignore the pact if its economic growth fell short of 3%, and by agreeing to bring national deficits "close" to zero by that date. It began to appear that the Commission might take action against Portugal because its budget deficit was over the limit of 3% of GDP (3.9%) - this would have meant Portugal losing effective control over its own tax and spending policies. However, in September '02, in the face of increasing economic problems in several countries (notably also Germany) the EU proposed an extension to the deadline until 2006, thereby angering other member states and undermining the credibility of the SGP.

A further problem in this area is that some governments (especially Italy, Portugal, and Spain) have been accused of returning false deficit figures to the EU.

However, in January 2004, the European Commission decided to ask the European Court of Justice to rule on a finance ministers' procedure designed to avoid disciplinary action being taken against France and Germany for their persistent breaking of the euro rules.

In October 2004 the Economics and Monetary Affairs Commissioner said that the single currency has brought economic stability to the euro zone, but had failed to deliver growth.

4. The campaign

4.1. Which groups, in addition to the parties, are involved in campaigning *for* the euro?

- [Britain in Europe](#)
- [Conservative Group for Europe](#)
- [European Commission \(UK\)](#)
- [Euro Information Centre](#)
- [European Movement](#)
- [Federal Union](#)
- [Labour Movement for Europe](#)
- [Liberal Democrat European Group](#)
- [Tory Europe Network](#)
- [Yes campaign](#)

4.2. Which groups, in addition to the parties, are involved in campaigning *against* the euro?

- [Bruges Group](#)
- [Campaign against Euro-federalism](#)
- [Campaign for an Independent Britain](#)
- [Congress for Democracy](#)
- [The Democracy Movement](#)
- [euro know](#)
- [European Foundation](#)
- [eurosceptic.com](#)
- [Global Britain](#)
- ["Keep the £" campaign](#)
- [Keep The Pound!](#)
- [Labour Against The Euro](#)
- [Labour Euro-Safeguards Campaign](#)
- [The Magna Carta Society](#) argues that membership of the EU is illegal
- [New Alliance](#)

- [TEAM: The European Anti-Maastricht Alliance](#)
- [Witney in Sovereign Britain](#)
- [Youth for a Free Europe](#)

4.3. On which side of the argument do the various trade unions stand?

For	Members	Against	Members	Other	Members
AMICUS	1.10m	TGWU	0.85m	CWU <i>undecided</i>	0.28m
GMB	0.69m	UNISON	1.30m	NUT <i>neutral</i>	0.22m
GPMU	0.20m				
PCS	0.28m				
UNIFI	0.16m				
USDAW	0.31m				
<i>Total for: <u>2.74m</u></i>		<i>Total against: <u>2.15m</u></i>		<i>Total: <u>0.50m</u></i>	

4.4. On which side of the argument do the various media interests stand?

For	Circulation	Against	Circulation
Financial Times	480,904	The Daily Mail	2,480,374
The Guardian	416,066	The Daily Telegraph	1,021,851
The Independent	231,083	The Sun	3,469,196
The Mirror	<u>2,179,236</u>	The Times	<u>721,838</u>
<i>Total for: <u>3,307,289</u></i>		<i>Total against: <u>7,693,259</u></i>	

* Circulation figures are average daily sales and relate to August 2001 - January 2002

4.5. How will the campaign be funded?

The campaign will be subject to the [Political Parties, Elections and Referendums Act 2000](#). The No campaign has complained that this gives the Government an advantage in that the latter's spending will only be restricted for the 28 days prior to a poll, whereas other campaigners will face restrictions for a much longer period. The No campaigners are planning to sue under the European Convention for the Protection of Human Rights, claiming that the government's referendum legislation violates European human rights law.

5. Other information

5.1. Where can I find news, links, and information about the euro?

- [CBI policy on EMU](#)
- [Centre for European Reform](#)
- [Economic and Monetary Unions in the Past](#)
- [EUobserver](#)
- [European Central Bank](#)
- [The Euro - Europe's Single Common Currency](#)
- [Eurobilltracker](#)
- [EuroFaq](#), links to sceptical information
- The European University Institute [Euro Homepage](#)
- [EuroTracer](#)
- [Financial Times euro page](#)

UK-euro FAQ

- [Foreign Office: Britain and the EU](#)
- [Glossary of key euro pact terms](#)
- [Local Authorities Euro Preparations Guidance](#) 🚩
- [History of Sterling compared to continental currencies](#)
- [Homepage on European Monetary Union and the Euro](#)
- [myEuro.info](#)
- [Nott Commission report](#)
- [Official euro site](#)
- [Single European Currency, the case against, by Rt Hon. David Heathcoat-Amory](#)
- [These Tides](#)
- [TheSingleCurrency.net](#)
- [EIRO comment on UK trade unions and the euro](#)
- [Treasury euro site](#)



© Richard Kimber and Brian W Jarvis

Last Modified: