Should Britain adopt the Euro?

Denmark, Sweden and Britain are the only three countries in the European Union to have said ‘no’ to Europe’s single currency, the euro. However, there has long been a debate in Britain as to whether the euro should be adopted. Many political leaders believe that the British economy would benefit from adopting the euro. In this essay, I will be arguing against Britain adopting the euro. There are many reasons as to why Britain still hasn’t adopted the euro. I will outline a few of the main reasons and suggest possible counter-arguments.

In 1997, Gordon Brown set out five economic tests which could be used to measure Britain’s readiness in adopting the euro. Each test examines whether Britain would benefit or suffer from the euro. These five tests assess convergence, the flexibility of businesses and the workforce, investment, financial services, and employment and growth. However, the first test set out by the treasury has already failed due to the housing market and interest rates in Britain. The euro zone’s interest rates do not meet the demands of the British economy. Joining the EMU (European Monetary Union) would have the consequence that Britain would lose control over monetary policy i.e. the ability to set interest rates. This would have a devastating effect on the housing market in particular. Britain is unique in that most Britons buy their houses, whereas most people rent their houses in Europe. Therefore, Britain has interest rates which suit its economy. Joining the EMU would mean that Britain would have to adopt Europe’s interest rate, which is decided in the ECB (European Central Bank). The ECB do not have Britain’s best interest at heart. This is seen as one of the biggest drawbacks to Britain adopting the Euro.

Furthermore, Britain has a lower unemployment rate than that of Europe. Although Britain is in a recession, one of their main tactics is to ‘spend their way’ out of the recession. This creates more jobs and therefore more money injected into the economy in the form of taxes. Britain has an unemployment rate of 7.9% compared with that in the euro zone of 9.9% due to Britain being able to inject money into the economy, despite being in a recession. If Britain adopted the euro, it would be impossible to follow this approach. The restrictive criteria set out for new members to adhere to rules out the approach Britain is taking. According to European rules, the budgetary deficit must be lower than 3% of national income. Britain does not fulfil this criterion and it’s hard to see how they would manage to cut back on public spending without bringing greater unemployment or increasing taxes. On the other hand, adopting the euro could bring further investment into Britain. Having a different currency to that of the rest of Europe has had its effect on Britain. If Britain adopted the euro, it would be easier to compare prices between countries, and the euro could therefore encourage investment. Moreover, investment could be boosted by the reduction of transaction costs and the uncertainty of exchange rates. However, before the British economy has sufficiently converged with that of the euro zone, the treasury has argued that the single currency would discourage investment. This is because the economy would not be stable.

1 http://news.bbc.co.uk/2/hi/uk_news/politics/2423783.stm
3 http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/
4 http://news.bbc.co.uk/2/hi/uk_news/politics/2423783.stm
Finally, one can question whether joining the euro zone really does bring about prosperity and growth. One can take The Republic of Ireland as an example. Ireland became a member of the European Union in 1973 and adopted the euro in 2002. During the 1990’s, Ireland enjoyed economic growth due to low corporate taxes, which attracted international investment. However, in 1999, the decision to adopt the euro was made. This meant that Ireland was forced to adopt the EU’s interest rate, which led to devastating effects. Interest rates were halved. This led to inflation, and in 2002, inflation rose to 4.7%. Today, Ireland has an inflation rate of -1.6%\(^5\). Furthermore, Unemployment now lies at 13.7%\(^6\). Ireland can be used an example to show that Britain’s conditions do not match those of the euro zone. It is better to stay out and avoid an economic crash rather than risking everything for a single currency which Britain essentially doesn’t really need. Britain is doing just fine as it is. Why risk shaking up the economy unnecessarily? Of course, adopting the euro doesn’t necessarily mean that the British economy will crash.

After looking at how the euro could affect the British economy, it is my opinion that Britain should not adopt the euro. Britain has a unique economy to them in the euro zone. Having the same interest rate as the rest of Europe would have a devastating effect on the economy. Furthermore, why allow other governments who do not have Britain’s best interest at heart to control Britain’s monetary policies? Surely Britain’s own government should have a say in how their economy is run.

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