The Euro

Questions and Answers

Q: So what about the single currency then?

A: Its called the euro or in Greek the eypo!

Q: Ok, ok, who's in it?

A: Ireland, France, Spain, Portugal, Italy, the Netherlands, Germany, Luxembourg, Belgium, Greece, Finland and Austria.

Q: Is that it, or can anyone else join?

A: Yes, Britain and Denmark have opt outs, so we can always opt in! Also if other countries join the European Union, such as those in Eastern Europe, they will eligible to join the euro.

Q: So does the euro have a set up like the pound, with a central bank Like the Bank of England?

A: Yes. Unsurprisingly its name is the European Central Bank (ECB). It's based in Frankfurt and charged with running the euro and particularly keeping inflation low. There is a governing council and an executive board. The central bank of each Member State in the euro is represented on the ECB's governing council. The executive board is accountable to the European Parliament and the Member States choose the head of the ECB.

Q: Different question-when did the euro come into existence?

A: Legally on January 1st 1999. At that point there were no notes and coins. So although there were no more exchange rate movements between say, francs and marks, shoppers noticed no difference. Shoppers only encountered the euro when the notes and coins were introduced on January 1st 2002. The old currencies disappeared from the shops at the end of February 2002.

Q: So after Feb 2002 there'll be no national currency? Nothing like the Queen's head on the notes and coins?

A: In fact national symbols remain on the euro coins. On one side there is a common euro symbol, on the other there is a national symbol. In Spain, for example, King Juan Carlos has his head on all the Spanish one and two euro coins. If we adopt the euro we could have our own national symbols on our euro coins, such as the Queen's head. It is true that the notes are all the same with no national symbols-no choice on that-the security problems would have been a nightmare. However, for Britain we would be only going back to 1960. Before then there was no monarch's head on British notes.

Q: Ok, so what are the advantages of the euro then?

A: One major advantage for shoppers is lower prices.

Q: Lower Prices. How so?

The euro allows shoppers to spot more easily if they are being ripped off. If everything across the EU is priced in euros then the British shopper can quickly spot whether he or she can get a better deal elsewhere. What' s more this is getting easier to do with the internet. Increasingly we can check overseas websites for prices and with big ticket items like cars, order them from abroad. Meanwhile back home the threat of the great British public being easily able to make price comparisons and being able to use the net to order will ensure that prices are kept keen and low.

Q: Ok, lower prices. Anything else?

A: Cheaper mortgages. The European Central Bank has succeeded in delivering lower interest rates for the countries in the eurozone than interest rates in the UK. If we joined we would have those lower interest rates as well. Banks and building societies would then be able to cut rates across the board, bringing more savings to the British consumer.

Q: Any more advantages.

A: Being in the euro will make us more attractive to foreign investors-ensuring that more jobs are created in Britain. If we were in the euro foreign investors would not have to pay for conversion costs when they bought components in other EU states, nor face the hazards of currency fluctuations when they sold their British made goods in other EU states. Essentially the costs for foreign firms of Britain not being in the euro are increasingly likely to deter foreign investors from setting up here.

Q: All right, more attractive to foreign investors. What else?

A: The euro will help small businesses.

Q: Small businesses? How?

A: Bigger firms, although it costs them, can use fancy financial footwork, known as hedging, to get round a lot of the risk from currency movements. However, small firms cannot afford to hedge. The result is that although the European Single Market is theoretically open for their business for many small firms, the shifting exchange rates keep the door on the single market firmly closed to them. The major job point is that small firms generate most of the new jobs. If we were in the euro these small firms could generate a lot more of new jobs.

Q: Anything else?

A: One major advantage of being in the euro is that it creates a huge home market for British goods. Currently British firms can only be sure of the level of profits they can get from sales in the 60 million strong British market. Exchange rate movements mean that firms cannot be sure when they sell goods how much profit they are going to make if any. Joining the euro will mean that that the British 60 million home market expands to a European home market of 360 million (the entire population of the eurozone, plus Britain). In essence being in the euro would mean that British firms would have this huge market as their safe and stable home market. Firms could plan longer production runs in the knowledge that they could sell their product at a certain price and make a profit. This will mean more investment and more jobs in Britain.

Q: Ok, lower prices for shoppers, cheaper mortgages for homeowners, good for small businesses and it creates a huge and stable home market for British goods. Give me one more advantage!

A: Ok. No more commission payments when you change your holiday money. This is great for tourists and its also good news for jobs and business. Currently business loses

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£4.5 billion in converting money from pounds to euros.

Q: Ok, ok enough advantages whats the catch?

A: The most serious argument raised against the euro is the 'one size fits all' argument. This is that the ECB has to set interest rates for the whole of the European economy, for snowy northern Finland to sunny southern Greece, from Berlin to Dundalk. The argument is that all these areas are too different to have one interest rate applied to them. If for example, Germany needs a low interest rate to get the economy moving and Ireland needs a high one to stop inflation, then some economies are going to end up being damaged. The point is also made that what happens if a single national economy suffers a sudden shock. The ECB has to consider the overall state of the European economy; it will find it difficult to assist just that one economy.

Q: So, not so good then?

A: Well, it's undeniable that the EU economy differs. Central Paris is much, much richer than northern Greece. However, there is good evidence that the single market programme has brought about a tremendous degree of integration of the national economies. They are not as different as they once were. What's more even the US has huge differences. There is a massive economic gap between Arkansas, the poorest state in the US and Manhattan. The point is that setting interest rates always creates this problem, whether it is the US central bank, the ECB or indeed the Bank of England. In fact at the moment the Bank of England is struggling to set an interest rate, which helps both our manufacturing and service sectors. We also have a similar problem with different parts of the country. The South-East needs higher interest rates to stop inflation and the north needing lower rates to stimulate economic activity in their poorer areas.

Q: Hmmm, all right, any more problems?

A: Briefly there are two. One is the Stability and Growth Pact. Essentially this is an agreement among the Eurozone states to not go overboard on debt and public spending following the introduction of the euro. In principle this is a good idea. The euro could be destabilised if the Member States went off on a mega-spending spree. However, there has been some concern that the Stability and Growth Pact has been too strictly interpreted. The effect of too strict an interpretation of the Pact would be to restrict legitimate and necessary public expenditure on transport, hospitals and schools.

Q: So this is a major problem.

A: Not really. Essentially it's a political agreement which requires the Member States to condemn and fine other States for breaching the Pact. This is unlikely. The major point is that with Britain in the Euro we would be able to work with other countries to ensure that the Pact is interpreted in such a way that it ensured that all states remained financially responsible but gave enough room to spend when we need to, for example, to improve the health service or during a recession.

Q: And the second brief problem?

A: Yes. Transparency and accountability. Essentially a lot of people in an out of the eurozone are not exactly happy with the way the ECB operates, for example it does not publish as much information as the Bank of England on how it sets interest rates. Some commentators argue it could do a better job in answering questions to the European Parliament.

Q: So what should be done about this?

A: Well, it should be pointed out that this criticism does not entirely stand up to close examination. The ECB is far more accountable to European Parliament than is the Bank of England to the House of Commons. However, there are grounds for saying that the ECB is not as open as the Bank of England. It does not publish the details of how it arrives at its decisions on interest rates, like the Bank of England does. One solution to this problem is for Britain to join the euro. Given that we are such a big beast on the European scene, if we are in the euro we can sort these transparency and accountability problems out.

Q: Ok, the 64,000 euro question: Sovereignty: What about that then! Surely the euro threatens our sovereignty and identity?

A: What is sovereignty? Traditionally it is the power to act independently of other states. Through NATO Britain already has given up a considerable amount of that sovereignty in the interests of collective defence with British forces at the disposal of an American supreme military commander. We have done this for good reason. By pooling defence sovereignty with other states we were able to deter a Soviet invasion. National sovereignty in modern times is often going to be exercised collectively. We can get more out of pooled, collective sovereignty than out of traditional stand-alone sovereignty. Equally, the EU is an exercise in pooled collective sovereignty. Britain gets better trade deals with the rest of the world by negotiating as part of the largest trade bloc on the planet than we would negotiating on our own. Now look at the euro. Without it we would have 15 relatively small currencies in relation to the dollar or the yen, which bob up and down on the international currency exchanges at the mercy of currency speculators. What real sovereignty do we have then? With the euro the speculators cannot attack our currencies as before and we are part of the largest single currency zone on the planet. Consequently we have real and effective piece of economic sovereignty, which we then exercise collectively through the EU and the ECB.

Q: What about identity?

A: Does different coloured notes and the existence of the European Central Bank threaten our national identity? The French, probably the most nationalistic nation in Europe doesn't see the euro as a threat to national identity. Why should we? Are we really saying that British identity is so weak that the euro threatens its existence?

Q: So on balance you think we should join?

A: Fundamentally it's an issue of balancing the advantages and disadvantages. On balance the advantages, lower prices, cheaper mortgages, more foreign investment and jobs, plus a bigger and more stable market for British goods outweigh the disadvantages, such as the one size fits all interest rates. Anyhow you make up your own mind.

Q: Don't worry I will!

A: And remember when the referendum is called you'll have the final say. We won't go in without a yes vote from the British people.