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FORWARD WITH THE EURO - AND THE POUND

by

James Robertson

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FOREWORD

Policy analysts distinguish between 'Rational Comprehensive' and 'Incrementalist' processes in reaching policy conclusions. The former process envisions a clean slate where previous decisions can be ignored and a grand 'optimal plan' can be found, whilst the latter sees a coming decision as but one more step in a series where the aim is to move cautiously to take account of current perceived pressures. They do not always lead to similar results – indeed a 'Rational Comprehensive' approach is much closer to radicalism (perhaps revolution) and 'Incrementalism' is often more conservative (perhaps evolutionary).

Britain's relationship to the euro has so far been seen merely in a 'Rational Comprehensive' light. 'Stop! Look! Weigh the pros and cons!': this is what the protagonists urge. Then, make the big decision – by leadership or plebiscite. And then jump – whichever way.

Which is in fact what the existing users of this single currency have done. And as with so many momentous events on the Continent of Europe in the past, we in Britain gasp, we watch – and we hope sincerely that all will be well.

A 'Rational Comprehensive' approach to the question of whether Britain should abandon its own currency and adopt euros is more complex than the question posed for France, Germany and the other existing euro users. Here there is less to be gained in terms of daily money changing, there is much more to be lost in terms of constitutional compromise. Here there is a greater likelihood of 'asymmetric shocks'. But at the same time there is a genuine willingness to make sacrifices in the interests of national security. Each one of us will find it a tough challenge to weigh so many factors. ... But do we really need to?

James Robertson's mind is working in a different mode – in 'Incrementalism'. He asks himself questions such as: 'What contributions have already been made?' 'What gains and losses have so far materialised?' 'Can we identify unintended and unanticipated benefits and costs?' 'What step now might be advantageous?' 'How are circumstances changing?' 'Why should the result necessarily be full adoption or rejection?' and 'Why not (for goodness sake!) have *both* the pound *and* the euro?'

The use of the euro as a COMMON rather than a SINGLE currency has crossed our minds before – in 1989. But that was theory. Now we have something emerging as fact.

If now a grand decision can continue to evade us we might just arrive, step by step, and quite unpredictably, at an accommodation with the euro advantageous both to ourselves and to our continental neighbours. If this is the destination not yet visible on the horizon, then James Robertson is most timely in reporting his perceptions.

Jim Bourlet

Hon. Secretary, Economic Research Council

Reader in Business Studies, London Metropolitan University

September 2002

INTRODUCTION¹

Should Britain replace the pound with the euro? That is the question? The normal phrasing "Should Britain *join the euro*?" risks conveying a false sense of a forward-looking "Yes" and a backward-looking "No."

In fact, to people of a forward-looking and progressive cast of mind the debate has so far lacked vision on both sides. It has assumed that the benefits of using the euro must necessarily mean giving up the pound. Encouraged by media "bias against understanding" and preference for confrontation, this focus on *Either/Or* has presented a picture of "Yes" supporters eager to jump on the bandwagon of economic centralisation and corporate globalisation, and "No" supporters as nostalgic anti-Europeans emotionally tied to the pound. There has been little discussion about what "joining" the euro could have meant and could still mean, and about whether countries like Britain could keep their own currencies and benefit from the euro's availability. Who decided, and why, that "joining the euro" meant compulsion to use it *instead* of the national currency, and that people should not be offered the choice of using *whichever of the two* was better and more convenient for different purposes?

In this paper I suggest that *Both/And* is both a more pragmatic and more forward-looking approach to Britain's decision about the euro than *Either/Or*. We should decide *both* to make good use of the euro *and* to keep the pound. That will allow us to choose which to use for different purposes, rather than compelling us to use the euro for everything. Giving up the pound would mean compulsion. Keeping the pound and also being able to use the euro will give us choice.

Compulsion or choice? This is the simple question underlying Britain's decision on the euro.

Summaries of conclusions and recommendations follow. The main text, consisting of nine questions and answers, comes after them.

¹ I would like to express my thanks to Dick Body of the Centre for European Studies for inspiring me to write this paper and suggesting its title.

SUMMARY OF CONCLUSIONS

(a) For the time being at least, it would be unwise and irresponsible to replace the pound with the euro. We should set about making best use of the euro as a parallel currency, which we will find more convenient than the pound for certain purposes.

(b) We are fortunate to be able to do this, unlike citizens of the Eurozone who have allowed their currencies to be replaced by the euro.

(c) The economic disadvantages and risks for the UK of replacing the pound with the euro outweigh the foreseeable advantages.

(d) In any case, it is not possible to disentangle the economic arguments from the political and constitutional arguments.

(e) For that reason among others, while the government's economic tests may support the case for keeping the pound, they cannot provide a justification for replacing it with the euro. That would have to be based on broader political grounds.

(f) But the broader political balance of argument is also against it, at least in the euro's present form. The risks and disadvantages of committing ourselves irretrievably to the Eurozone are clearly greater than the advantages it would bring if we decided in favour of it now.

(g) An important factor is the euro's "democratic deficit". Replacing the pound with the euro would immediately reduce the democratic control we now have over monetary policy.

(h) For the longer-term, keeping our monetary independence will enable the UK to continue to play a leading role in democratic monetary reform and innovation. Replacing the pound with the euro, and acquiring a fifteenth share of virtually no political control over the European Central Bank (ECB), would make that very much more difficult.

(i) This is very important, assuming we want to be in a position to help to shape a more equitable, sustainable and democratically regulated global economy in response to growing worldwide pressures for it.

(j) The role of alternative currencies at the local level, co-existing with the euro in the Eurozone and with national currencies elsewhere, is growing. This points towards the future evolution of a multi-level system of parallel currencies - in tune with the increasingly supra-national and increasingly devolved features of 21st-century society. In addition to its immediate benefits, experience of using the euro as a parallel currency alongside the pound will help to keep the UK at the forefront of monetary advance.

RECOMMENDATIONS

(1) At least for the present, we should press the UK government to accept that the pound should not be replaced by the euro. Denmark and Sweden will also be well advised to treat the euro as a parallel currency.

(2) Meanwhile, as UK citizens and businesses, we should take advantage of the euro as a parallel currency alongside the pound and make best use of both. We should press for keener inter-bank competition to provide euro accounts and facilitate euro transactions.

(3) We should press the government to ask the Treasury and the Bank of England, and other monetary experts,

- to report whether, as a continuing arrangement for the longer term, it will make good sense for British citizens and British businesses to use the euro as a parallel currency alongside the pound,
- to identify any problems that might need to be resolved, and
- to advise on any measures needed to deal with them.

The government should publish the results and encourage public discussion of them.

(4) The government should also commission and publish studies on pressures for national and international monetary innovation and reform likely to arise over the next ten or twenty years. The aim will be to determine whether Britain will be in a better position to respond constructively if we keep the pound than if we replace it with the euro.

NINE QUESTIONS AND ANSWERS

Question 1. Did a European common currency have to be a single currency?

No.

A single currency is only one possible kind of common currency. Because the euro has been introduced as a single currency, the peoples of the Eurozone are compelled to use it. Their national currencies have been scrapped.

A common European currency might have been introduced *in parallel* with existing national currencies. That kind of euro would have provided a choice. It would have enabled people to choose to use whichever of the two currencies best suited the different types of monetary transactions they make. People and businesses in the Eurozone could then have used the euro for European travel and trade outside their own countries, while continuing to use their own currencies for most transactions within their own national boundaries. Perhaps over the years they might have found it convenient to use the euro for more and more domestic transactions. The euro could then have evolved painlessly towards a single currency – by choice, not compulsion.² Perhaps, on the other hand, the continuing co-existence of parallel currencies at national level and European level would have come to be accepted as a feature of the 21st-century world economy.

As things are now, the irony is that, whereas the citizens of the Eurozone are compelled to use the euro, we in Britain - along with our fellow EU citizens in Denmark and Sweden - are free to use it as a convenient common currency for foreign travel and trading in Europe, without having to give up our own currency and the monetary control it gives us over our national economy. So obviously, for a few years longer at the very least, it makes sense for us to keep the pound. We will then be in a similar position vis-à-vis the euro to the position of many non-Americans, including ourselves, vis-à-vis the US dollar when we use it for foreign travel and trade outside the USA.

² Readers may recognise that that would be an "Evolutionary Approach to Economic and Monetary Union" reminiscent of the one proposed in a Treasury document with that title in November 1989, when John Major was Chancellor of the Exchequer. Later, as Prime Minister, Major dropped the proposal when it was clear that, with an eye to future political as well as economic integration, other European leaders were set on a single currency.

Use of the euro for transactions within the UK has already started to spread. It has been called "Eurocreep". That may not sound very nice, but it can be useful for British travellers and businesses. Already branches of British retail stores like Marks and Spencer's and Harrods are accepting euro notes and coins at stations, ports, airports, major shopping centres like Oxford Street, and so on, from foreign visitors and British holiday-makers and business people returning from abroad. Many punters from Ireland come across for the annual Spring Festival Race Meeting at Cheltenham. This year quite a number of Cheltenham restaurants and shops were prepared to take cash in euros.

Computerised bank accounts and payments services can make it easy for individuals and businesses to use different bank accounts for handling payments in different currencies. If keener competition can be achieved in the banking industry British (and Danish and Swedish) bank customers will be able to make low-cost use of the euro for transactions where that is convenient, while continuing to use their own currencies for other transactions.

As today's Eurozone citizens become increasingly aware of the advantages (including those discussed in the following sections) to non-Eurozone countries of being able to keep our own currencies and also use the euro when convenient, they are likely to ask why the leaders of their countries committed them to the euro as a single currency. Why did they fail to explore the parallel-currency alternative and put it forward for public debate? Did they want to bounce their peoples unaware into a centralised European super-state? Did they reject giving people the choice of parallel currencies as too progressive?

Today's leaders in Britain and Denmark and Sweden will be well advised to avoid a similar failure. Before deciding in favour of replacing their own currencies with the euro, they should:

- commission their central banks and finance ministries, together with other monetary experts, to study and advise on the feasibility and relative merits of the two kinds of common currency, single and parallel;
- encourage informed public discussion and political debate about which of the two would be preferable for their countries; and
- provide opportunities for their peoples to decide democratically which kind of common currency, so far as they are concerned, the euro shall be.

Question 2. Will the economic advantages for Britain of replacing the pound with the euro outweigh the economic disadvantages and risks of doing so?

No.

That is not to say that nobody in Britain will benefit from it. The effect of replacing the pound with the euro will be a further step in the centralisation of power and wealth brought by the economic globalisation of recent decades. It will widen the gap between richer and poorer places and richer and poorer sections of society. So, while it will damage the prosperity and economic security of many people, it will increase the wealth and power of the economic and political elites most closely associated with big government, big finance and big business. Is that an acceptable prospect? That is a political and ethical question, not a strictly economic one.

Among the main economic advantages claimed for the single currency are that it will:

- eliminate the transaction costs of currency exchange between member countries;
- eliminate risks and uncertainties of exchange-rate fluctuations between member countries; and
- stimulate competition by making it easier to compare the prices of the same things in different member countries.

However, those results can be largely achieved by using the euro as a parallel currency - see Question 1. Moreover, as I heard in France in July this year from friends in business, banks are still imposing foreign exchange charges on interbank transfers of euros between one Eurozone country and another. And many British holiday visitors to the Eurozone this summer seem to have found that euro notes and coins mean higher prices in the shops.

Turning to the economic disadvantages of the euro as a single currency, one major disadvantage is generally acknowledged and will become clearer as time passes. Eurozone countries will continue to have different levels of prosperity, and their economic cycles will often be out of step with one another – with some being at risk of inflation when others are at risk of recession. So uniform interest rates imposed by the European Central Bank (ECB) as a single European monetary authority will be too high for the countries that need the stimulus of low interest rates, and too low for those that need the restraint of high ones. At the time of writing it is generally agreed

that the interest rate set by the ECB is too low for Ireland and Portugal and too high for Germany.

The distinguished American economist Jane Jacobs pointed out nearly twenty years ago that compelling everyone to use a single currency is in line with the impulse of powerful elites to centralise economic power and decision making: "Today we take it for granted that the elimination of multitudinous currencies in favour of fewer national or imperial currencies represents economic progress and promotes the stability of economic life. But this conventional belief is still worth questioning... National or imperial currencies give faulty or destructive feedback to city economies and this in turn leads to profound structural flaws in those economies, some of which cannot be overcome, however hard we try".³

In Britain in recent years the Governor of the Bank of England has often been the target of complaints that national monetary policy tailored to high levels of economic activity in the South has been damaging to the more depressed economies of Tyneside, Merseyside and other parts of the North. At national level, this is an inevitable failing of the uniform interest rates that go with a single currency and a one-size-fits-all monetary policy. At supranational level it is all the more serious.

In fact, Jane Jacobs' insight applies not only to urban local economies. All local and regional economies within nations suffer from the same problem to some extent. Whenever a local or regional economy, urban or rural, has to depend on a national currency as the only medium of exchange to facilitate economic activity within its own area, declining local ability to compete in the national and international economy inevitably results in too little money coming into local circulation even to support entirely local transactions. Local unemployment then rises, local land and other physical assets lie unused, and local needs remain unmet - all for want of enough money circulating locally to facilitate local exchange. The monetary policies appropriate for a national economy at any particular time are bound to be inappropriate for many places within it. More flexibility is needed. And this applies with even greater force when a supranational group of countries becomes dependent on a single currency and a uniform monetary policy.

The European Commission recognises that a single monetary policy for the Eurozone will widen the gap between rich and poor areas and

³ Jane Jacobs: *Cities and the Wealth of Nations*, Penguin Books, 1986, p.158

worsen the problems of “economic crisis regions”. It hopes to correct this by making big financial transfers to those regions - confirming that a single currency, unlike a common currency existing in parallel with national currencies, cannot function without higher levels of centralised public spending and taxes, and thus further centralisation of economic and political power.

Advocates of the single currency sometimes ask why the Eurozone should experience more serious problems with a single currency than the USA. The answer is simple. Being more unified politically, economically, socially and culturally, the USA can respond more flexibly to internal economic divergences and fluctuations as they occur. Not only is there greater mobility of labour between various parts of the USA than between EU countries, but also public spending and taxation is much more centralised. The federal government’s budget is roughly twice the total of all the US states’. So, as economic prosperity rises and falls in different states, federal taxes from them and federal social spending in them rise and fall, automatically cushioning the effects of the changes. By contrast, the EU’s present spending and taxing is only a small fraction of its member nations’. It will not have that automatic capacity for stabilisation unless and until the scale of its centralised taxing and spending grows towards that of a unified state. That will mean that, without being able to rely on exchange rate adjustments to deal with the economic divergences that will arise between Eurozone member nations from time to time, divisive political crises will arise about the management of the unified monetary policy. These will be very difficult to resolve, particularly because the ECB is outside democratic political control - see Question 6 below.

Question 3. Is it possible to separate the economic arguments from the political and constitutional arguments for and against replacing the pound with the euro?

No.

The proportion of a member country's taxation and public spending which is centrally managed from Brussels will clearly have to rise in order to maintain economic stability within the single-currency Eurozone. That is obviously a political as well as an economic matter. Moreover, it is not the only aspect of British control over fiscal policy that would be affected if we replaced the pound with the euro.

Another is that, following the introduction of a single currency, all Eurozone members will be under increasing pressure to move toward tax harmonisation and a common taxation policy. Britain has already had to resist pressure to harmonise a savings tax - the so-called 'withholding' tax - with other EU countries. A recent claim that the introduction of the euro has no relevance to tax harmonisation, although it "has had its occasional maverick supporter", and that the euro may even stimulate tax competition between Eurozone member states, relied on the curious argument that, having agreed to give up their currencies and control of their monetary policies, no Eurozone nation would dream of acceding to a single tax system and so "erode its national identity as part of the union of nation states that is the EU".⁴

Two convincing responses followed within days. First, it was pointed out that in the single month of March 2002 Jacques Chirac, the French President, had called for "genuine fiscal harmonisation in Europe"; Gerhard Schroeder, the German Chancellor, for "the Europeanisation of everything to do with economic and financial policy"; Lionel Jospin, the then French Prime Minister, for the harmonisation of corporate taxation; and Pascal Lamy, the EU trade commissioner, for "the creation of a European corporate income tax".⁵ Second, "Without a single fiscal policy to accompany a single monetary policy, the single currency project is doomed to ultimate failure... Unless a monetary and fiscal policy marriage is arranged, a single currency cannot survive. The promoters of the euro project are entirely aware of this, but it is the economic fact that cannot speak its name, because the people are not yet ready to give up their right to vote for their taxes".⁶

We have already experienced another euro-related erosion of national fiscal autonomy. The EMU (economic and monetary union) Growth and Stability Pact prohibits national governments from incurring a fiscal deficit of more than 3% of GDP. This encourages Brussels to interfere in the tax and spending policies not only of Eurozone but also other EU member states. Not very long ago Ireland, deprived of

⁴ Edward Troup, "The myth of the eurotax", *Financial Times*, 26th March 2002, introducing publication by Britain in Europe of *A Red Herring: Tax Competition, not Tax Harmonisation, is the Future in Europe*.

⁵ George Eustice, Business for Sterling, "More than a few 'mavericks' support tax harmonisation", *Financial Times*, 28th March 2002.

⁶ Stanislas Yassukovich, "Euro is doomed without a single fiscal policy", *Financial Times*, 1st April 2002. In view of the statements of French and German leaders, "the economic fact that dare not speak its name" presumably referred to the situation in Britain.

control over monetary policy, received a formal demand that it should cut its public spending or increase its taxation in order to control inflation. A similar formal demand was in the pipeline to Germany, but was toned down at the last minute in recognition that cutting public spending and raising taxation would worsen the problem there, which was deflation and not inflation. Brussels even made warning noises to UK Chancellor Gordon Brown, suggesting that the government's planned spending on public services might be too high, although Britain is not a Eurozone member and its economy is currently in a stronger position than other EU economies. The warning was loud and clear: allowing the pound to be replaced by the euro will deprive us, not only of our control of monetary policy but also of our freedom to decide on our use of taxation, public spending and public borrowing as instruments of our political priorities.

Question 4. Are the government's economic tests as crucial as the government has suggested?⁷

No. The specific economic issues which the tests cover are very important. But we should constantly remind ourselves that the key factor in deciding whether to replace the pound with the euro is "not the economy, stupid".⁸ And we should make sure the government knows we know it.

In 1997 the government said that, in broad principle, it favoured replacing the pound with the euro and ceding control of Britain's monetary policy to the ECB. The actual decision is to be made by the British people in a referendum, and the government will only call the referendum if its economic tests are met "clearly and unambiguously".

The five tests are:

- a) whether sustainable convergence has been reached between the British and Eurozone economies;
- b) whether there is enough flexibility to deal with economic changes;
- c) whether the effects on British investment will be acceptable;
- d) whether the impact on the British financial services industry will be acceptable; and
- e) whether the impact on British employment will be acceptable.

⁷ This question is more fully dealt with in "Questions and Answers on whether Britain should join the euro", in the excellent March 2002 Bulletin from the Labour Euro-Safeguards Campaign, 72 Albert Street, London, NW1 7NR: <<http://www.lesc.org.uk>>.

⁸ Hamish McRae, *Independent on Sunday*, 6 January 2002.

To these original five tests has been added a further consideration:

- f) whether Britain will be able to negotiate a satisfactory exchange rate at which to replace the pound with the euro?

It seemed to follow from this that the government's economic assessment would be crucial: if the tests were not met, the referendum would not go ahead; if they were met, it would go ahead and would probably back replacing the pound with the euro.

However, many economists believe these tests can never be met conclusively. In general, as the senior Treasury official⁹ in charge of the assessment pointed out in an undergraduate recruitment seminar late last year, economics is not an objective science capable of delivering clear and unambiguous conclusions on questions of this kind. Moreover, in this particular case it is widely agreed that the tests are not defined clearly and unambiguously enough to allow clear and unambiguous conclusions to be drawn from them. The assessment, though supposedly economic, is bound to be influenced by non-economic considerations.

In short, the eventual decision whether to keep the pound or to replace it with the euro will inevitably be one in which strictly economic issues are subordinated to wider political considerations. As British citizens we cannot leave the decision to expert professional economists. We must exercise the responsibility of influencing it in accordance with our own political, constitutional, and ethical values.

Question 5. Do the main political arguments for replacing the pound with the euro outweigh those against?

No.

An important argument, in the eyes of many of the euro's European supporters, has been that it would be a crucial step toward a United States of Europe, which would put an end to wars between Europe's peoples and be strong enough to stand up to the USA and the former Soviet Union. Now that the prospect of war in Europe has become more remote and the Soviet Union has broken up, the force of that argument has diminished. As the readiness of people in Britain to accept more control from Brussels over our national affairs has also

⁹ Gus O'Donnell, who became Permanent Secretary to the Treasury in September 2002.

diminished, euro supporters have played down the political and constitutional significance of replacing the pound with the euro, and have claimed that the case for it is almost entirely economic. That claim does not stand up - see Question 4.

The political case today for replacing the pound with the euro, is on the following lines.

- The EU will play an increasingly important part in world affairs.
- Britain should play a central part in its decision-making.
- We shall not be able to, unless we replace the pound with the euro.

But there are serious questions.

- Is the euro definitely here to stay? In January 2002 the then Italian Defence Minister said, "There are big risks that the experiment with the euro will end in failure". History offers no example of a single fiat currency serving twelve or more separate nation states that has survived for any length of time. We must hope, of course, that the euro will survive. But, unless the urgency of replacing the pound with the euro is overwhelming, we will obviously be wise to wait and see how it fares.
- Will failing to replace the pound with the euro really reduce Britain's influence in EU decision-making? Will Eurozone members want to risk alienating us from the EU, when an increasing number of us already seem prepared to consider leaving it?
- Monetary independence now gives Britain a degree of international influence. Will we get a good bargain by giving that up in exchange for a problematic increase of influence within the EU as a Eurozone member? It is not unknown for the Scandinavian EU countries to find that Norway, which has stayed independent from the EU, provides a more effective channel of communication to the UN and other international organisations than is provided by the EU itself.
- Can we be sure that the EU's global influence will grow? It is not yet a foregone conclusion.

Another consideration should not be ignored. Further political and economic centralisation in Europe might offer wider career prospects on the international stage for some high-flying politicians and public officials from the UK, as well as offering opportunities for greater power and wealth to some business and financial leaders. Nonetheless, the balance of mainstream political argument clearly

supports keeping the pound and our monetary independence, at least for the time being. There are also more progressive political reasons for doing so.

Question 6. Would replacing the pound with the euro help to improve democratic control over monetary policy in Britain?

No. Quite the reverse. It would reduce the power of British people to influence monetary policy through their elected representatives.

First, decisions made in Frankfurt instead of London would be more remote.

Second - see Question 2 - losing the flexibility of floating exchange rates, and accepting the one-size-fits-all monetary policies of the ECB, would compel us to live with inappropriate interest rates some of the time, if not most of it. That would be experienced as a serious loss of democracy.

Third, the constitution of the euro and the ECB puts monetary policy firmly outside democratic control. The ECB's objectives and targets are not decided by elected representatives of the Eurozone peoples but by itself; it is not subject to political accountability. The contrast with the situation in Britain is crucial. The Bank of England is an operationally independent central monetary authority, like the ECB; its management of monetary policy is free from political interference. But, unlike the ECB, it is responsible for achieving published monetary policy objectives drawn up by elected ministers and approved by Parliament, and it has to account to ministers and Parliament for its success or failure in meeting those objectives. Supporters of monetary reform may not accept that the present methods of monetary management fully meet the needs of a democratic society in the information age, but we cannot deny that they are on a more democratic footing in Britain than in the Eurozone.

Question 7. Will keeping the pound put Britain in a stronger position to initiate desirable future monetary reforms, than if we replace the pound with the euro?

At last we can answer "Yes".

The constitution of the euro and the ECB, and their relationship to the twelve member governments of the Eurozone, will make it very difficult and frustrating to reach agreement on changes in the way they work, and to get the changes implemented.

Compare that with the situation in Britain. When New Labour won the UK general election in 1997, one of its very first acts was to change the functions of the Bank of England and the procedures for deciding and managing monetary policy. The Bank became an operationally independent central monetary authority, responsible for achieving published monetary policy objectives drawn up by elected ministers and approved by Parliament, and obliged to account to ministers and Parliament for its performance in meeting those objectives. These arrangements are generally agreed to have been an important advance on the previous ones, in terms of both economic efficiency and democratic supervision. Having prepared the change while in opposition, New Labour was able to introduce it immediately on coming to power. Such a reform could hardly have been proposed, let alone put into practice, if the Eurozone had then existed and the UK had been a member of it.

In early 2002, the then French Prime Minister, Lionel Jospin commissioned a report on the record and future of the ECB.¹⁰ It is expected to recommend that the objectives of the ECB's monetary policy and the openness of its decision-making should be brought more closely into line with those of the Bank of England. It will be interesting to see precisely what the recommendations are and how they fare. If they are thwarted by the complexities of Eurozone negotiations or the NIH¹¹ syndrome, the argument for UK monetary independence will be clear; if the Bank of England model is eventually adopted by the ECB, the argument for UK monetary independence will be confirmed!

¹⁰ *Financial Times*, February 9, 2002.

¹¹ Not Invented Here.

Question 8. Does the euro's democratic deficit seriously matter?

Yes, it does. It affects the lives of Eurozone citizens. It could also have a negative influence on the future shape of political economy worldwide.

Although political democracy has spread round much of the world in the 20th century, financial democracy has not accompanied it. Unless today's monetary and financial institutions are reformed, political democracy will come to seem increasingly irrelevant. That has probably started to happen already, at least in some of the more "highly developed" countries.

The nature of the money system greatly influences the nature of wealth and power, and its distribution. As this understanding spreads, the effects of the money system as it operates today are increasingly seen as perverse - in terms of economic efficiency, social justice and environmental sustainability. Growing numbers of people in the so-called anti-globalisation movement are protesting that the existing system of money and finance:

- is unjust ;
- is regulated by rich and powerful people and nations in their own interests;
- damages the well-being of billions of people worldwide and deprives them of freedom to manage their lives;
- serves the interests of corporate power, backed by rich-country governments and international institutions like the International Monetary Fund (IMF), World Bank and World Trade Organisation (WTO); and thus
- gives the lie to Western lip service to democratic values.

The need for global monetary and financial reform is increasingly being expressed, not only in negative protest but also in constructive proposals for change. Examples include:

- a tax on foreign exchange transactions known as a "Tobin tax", designed to reduce the destabilising and damaging effects of today's speculative international capital flows, and to provide a new source of public revenue;¹²
- increasing awareness that most of the money in the world is created and put into circulation as debt in the form of profit-

¹² James Tobin, who died in March 2002, was the Nobel-prize-winning economist who first proposed this tax in the 1970s.

- making loans by commercial banks to their customers, that this is an important contributory cause of worldwide indebtedness, and that possibilities for national and global reform should be examined seriously;¹³ and
- the emergence in many countries of parallel alternative currencies of various kinds such as Local Exchange Trading Systems (LETS) and Time Dollars, to provide a means of enabling people to exchange goods and services within their local communities, when centralised national currencies fail to meet their needs.¹⁴

This paper is not about the rights and wrongs of these perceptions, their possible connection with the causes of global terrorism, or the relative merits of particular proposals for monetary reform. The relevant point is that pressures for further monetary reform will grow over the next ten or twenty years; and the question is whether Britain will be better placed to respond constructively to these pressures if we keep our monetary independence. The answer is clearly "Yes".

Question 9. Is the emergence of local community currencies relevant to deciding whether to keep the pound?

Yes.

Parallel alternative currencies of various kinds like LETS and Time Dollars have been emerging in many countries, to provide a medium of exchange in local communities when centralised national currencies fail to do so. A foreseeable consequence of the euro is that it will reduce the economic viability of many local communities within the Eurozone. The European Commission has been supporting pilot projects on local alternative currency systems, which could moderate some of the damaging local impacts expected from the euro. One example is the Barataria Exchange Project, piloting alternative local exchange systems in rural Scotland, rural Ireland and the cities of Amsterdam and Madrid.¹⁵

This development of alternative currencies and quasi-currencies at the local level, co-existing in parallel with the euro in the Eurozone and

¹³ See, for example, Joseph Huber and James Robertson: *Creating New Money: A Monetary Reform for the Information Age*, New Economics Foundation, London, 2000.

¹⁴ See, for example, David Boyle: *Funny Money*, Harper Collins, London, 1999.

¹⁵ See <<http://www.barataria.org/eurobarter.htm>> for information about this project.

with national currencies in non-Eurozone countries, highlights a possibility for the future. We should be prepared for the possible emergence of a worldwide pattern of co-existing parallel currencies at different levels - supra-national (including global, in due course), national, and local. As a feature of world development over the coming decades, this will be in tune with the increasingly global *and* increasingly local character of 21st-century life. It will reflect a preference for an organic rather than a mechanistic, one-size-fits-all approach to monetary progress. It is a possibility that is already helping to shape thinking about democratic monetary development in Europe and the rest of the world.

Important questions will arise about relationships between the co-existing currencies at different levels, including questions about monetary control, the definition of legal tender, and which currencies should be accepted for payment of taxes and other charges at various levels. Keeping the pound and also learning to use the euro to best advantage in the next few years will help us and the rest of the world to develop and manage a multi-level network of currencies of that kind.

CONCLUSION

Detailed conclusions and recommendations have been summarised at the beginning of this pamphlet, just after the Introduction.

The overall conclusion for people of a realistic, but forward-looking and democratic cast of mind has to be that, at least for the present, Britain should opt for choice rather than compulsion. We should keep the pound. We should be able to choose to use the euro when it suits us better – both as a means of economic advantage and convenience for ourselves and as one of the many positive ways of taking part in the development of European economic life. A competitive banking industry in the ‘information age’ should be able to provide the low-cost payments services and other banking services needed to give us that choice.

Realistic analysis makes it clear that, on economic and political grounds alike, the balance of advantage against disadvantage, and the balance of risk against risk, come out strongly in favour of keeping the pound. What most people in Britain would lose by giving up the pound would clearly outweigh what they would gain.

Forward-looking, progressive political insight strongly reinforces that conclusion.

- It recognises the need, demonstrated by the growing strength of the so-called anti-globalisation movement, to respond constructively to worldwide pressure to reform and democratise monetary and financial institutions.
- It recognises increasing signs that people's support for mainstream democratic political institutions may be declining, and that failure to bring the corporate power of multinational money and finance within a more effective framework of democratic control is likely to hasten that decline.
- It recognises that a more effective framework of democratic control will almost certainly not mean more remote and more centralised arrangements than we have now, compelling everyone to use a single currency and to submit to one-size-fits-all monetary policies.
- It recognises that a more democratic approach may well mean allowing a more pluralistic monetary system to evolve – by organic development of different currencies operating in parallel with one another at local to global levels, as and when the people concerned find it necessary, convenient or useful to use them.
- It recognises that Britain will be much better placed to help Europe and the world to pioneer democratic monetary innovation and reform on those lines if we keep our own currency than if we exchange our monetary independence for a fifteenth share of virtually no control over the European Central Bank.

Supporters of giving up the pound and replacing it with the euro appear to recognise none of those things. If they do recognise them, they should not dismiss them as unimportant.

Biographical Note

James Robertson spent three years in the Cabinet Office and five years directing an Inter-bank Research Organisation for the big British banks. During that time he led a team reporting on the future of London as a financial centre, and was a specialist adviser to the House of Commons Procedure Committee on parliamentary scrutiny of public expenditure and taxation. He is now an independent writer and speaker.

In the mid-1980s he co-founded The Other Economic Summit (TOES) and the New Economics Foundation. His recent books include:

The Transformation of Economic Life, Green Books, 1998 - also in Russian and Japanese editions,

The New Economics of Sustainable Development (a Briefing for Policy Makers written for the European Commission), Kogan Page, 1999 - also in a French edition, and

Creating New Money: A Monetary Reform for the Information Age (with Prof. Joseph Huber of Berlin), New Economics Foundation, 2000 - also in a Japanese edition.

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