

It will be even harder next time around

Contrary to received wisdom postponing a referendum will make it even harder for the Government to get Britain into the euro

By Anthony Scholefield

Extraordinarily, the Prime Minister didn't even use the words "euro" or "referendum" in his speech to the City on 11th November. The Queen made only perfunctory reference to the subject when opening Parliament. Together with Robert Worcester's recent suggestion that a referendum is simply too risky to hold during the present Parliament, this has encouraged the view that it will be put back until the next.

It is taken for granted by Worcester, Labour's favourite pollster and Harold Wilson's mentor during the 1975 referendum - as well by many others - that the Government's task will be easier if it does so. **The chances are that it will be far more difficult.** None of the problems which the Government now faces are likely to have been resolved in three or four years' time (see *eurofacts* for 16th November 2001).

Moreover, two factors will increasingly work against entry to the single currency. By 2006/7 Britain will have remained outside the euro for seven or eight years. It will consequently be hard to argue that it is necessary or inevitable for Britain to join in the way that could have been done in the years following 1999 - especially if, as presently is the case, sterling is the more stable of the two currencies.

Worcester, however, still seems to regard "inevitability" as the strongest

psychological argument. He does not recognise that it is an argument that will grow steadily weaker the longer Britain keeps the pound. An understanding of the economic difficulties in the eurozone reflected in the accumulation of statistics showing lower growth, higher unemployment and higher inflation relative to Britain and other European countries outside the eurozone, are at long last penetrating public consciousness. The electorate's opinion on public policy issues changes at a snail's pace, often lagging behind reality by many years. But the old view about the superiority of the continental economies has plainly gone for good.

Monetary stimulus

Meanwhile, the economic difficulties faced by the eurozone are likely to worsen because of the inherent weakness of the single currency. As a result of the ECB's commitment to low inflation, economies where the currency is overvalued such as Germany will teeter on the brink of deflation as the Bank is forced to take into account conditions in states such as Spain, Portugal and Ireland where inflation is far higher. But without significant monetary stimulus, Germany is likely to display increased fiscal instability.

A further four years of this process will put enormous strains on euro-land.

The drama of tying the economic health of the EU to a constitutional and political project will unfold with all the inevitability of a Greek tragedy, the optimism and hubris of the opening act leading step by step to the final consummation on a stage full of economic corpses.

In Britain the weakness of the eurozone economies will be correctly traced to hyper-regulation, to inward-looking economic arrangements as members are encouraged to trade with one another rather than the world at large, to a decline in the economically active population and to a sharp increase in those of pensionable age. With populations elsewhere rising even members of the Labour Party may ask themselves a very simple question: *"Do we wish to commit ourselves to a shrinking European market, or an expanding global one."*

Britain in Europe seems to have cottoned on to some of this. In its most recent publication, *Why Britain should join the euro*, it admitted: *'it [Asia] will therefore absorb a rising share of our trade.'* It follows that the EU's share of our trade must therefore diminish. These realities will eat away at the main plank of the pro-euro platform, as more and more people come to realise that to become more closely enmeshed in the EU leads to lower living standards and increasing political discontent.

The plain truth of the matter

I have long thought that if we want to make headway with building Europe, there has to be a dynamic agreement between Germany and France. If this agreement exists, things move forward. This is borne out by the whole history of [of Europe], ever since the creation of the six-member community. If this agreement exists, then Europe

functions. If it doesn't, it grinds to a halt...And when at times this is forgotten, reality sharply calls us to order. This is a conviction shared by the Chancellor. It's because we firmly believe this that we sought an agreement in the economic and financial sphere. This conviction must lead us to have a common position in

the Convention on the reform of the institutions. I wouldn't want to prejudge things, but I'm convinced that we shall have a common position on the different points concerning the reform of the institutions." Jacques Chirac, President of France speaking at a press conference on 25th October, 2002.