WHY BRITAIN WILL NOT JOIN THE SINGLE CURRENCY

AND

A CRITIQUE OF THE TREASURY'S ASSESSMENT OF GORDON BROWN'S FIVE TESTS

ANTHONY SCHOLEFIELD

FUTURUS

Suite 414, 1 Olympic Way, Wembley, HA9 0NP

Tel and Fax: 0208 782 1135

First published in July 2002 by
FUTURUS
Suite 414, 1 Olympic Way,
Wembley, MIDDLESEX, HA9 0NP,

Views expressed in **FUTURUS** publications are those of the authors themselves, not those of Futurus.

ISBN 1-903672-02-3

Typeset by
Flux Design, London
TEL: 020 7737 6611 FAX: 020 7738 6410
www.fluxdesign.co.uk

Printed and Bound by
Sackville Printing Ltd, London

THE AUTHOR

Anthony Scholefield won a scholarship to Christ Church, Oxford. He has degrees in History from Oxford University and Economics and Statistics from London University. Subsequently he has been a teacher, chartered accountant and company executive. Since 1970 he has run his own business in Central London.

From 1997 to 2000 he was Secretary of the UK Independence Party.

CONTENTS

PREFACE

This study is a successor to 'Why Mr. Blair will not win a Euro Referendum', published in 2001.

That study gave a full background to the referendum process, with particular reference to the precedents of the 1975 referendum. It also contained a detailed examination of the basis of a fair 'question', and an examination of the likely voting results.

This present study is intended to focus more sharply on the referendum process and timetable, as the government's proposed pathway to join the single currency becomes somewhat less opaque.

INTRODUCTION

As the Blair government faces up to a decision if and when to hold a referendum on whether Britain should join the euro, the complexity of the referendum process is still hardly realized by the government and the media.

It is therefore appropriate to focus on examining, step–by–step, what is involved, what sort of referendum is to be held and the possible sequence of events before and after it.

In the national media, major broadcast editors and commentators still focus on a simple adding up of those who say they are for or against the proposition 'Should Britain join the euro?' but this is highly simplistic (see Appendix A). The process of how a referendum is to happen, what it is about, what is the question and when it should take place, is shrouded in mystery and confusion with many of the implications hardly discussed. However, the more it is examined, the more questions arise.

International finance clearly understood some of the problems the government face even before the 2001 election. Goldman Sachs told its clients then:

> 'Given all the hurdles on the way – ensuring economic convergence, winning a referendum, negotiating an acceptable entry rate – we judge the odds in favour of the UK joining the EMU in the lifetime of the next Parliament are still less than 50 percent, whatever the rights and wrongs of the issue in economic terms.'

AN ENABLING REFERENDUM

The first event which is necessary to even start the project rolling is the Treasury assessment of Gordon Brown's five tests, promised by the summer of 2003. It is quite possible that the whole process will stall at that point, either because the Treasury assessment is that joining the euro does not make sense to the Department after its evaluation of the five tests, or because the assessment is greeted with such disbelief among commentators, city and business opinion that the government decides not to go ahead with a referendum.

Then the government has to decide what sort of referendum it is to have. Is it to have some sort of enabling referendum which will ask a question like 'Should Britain join the euro?' or is it to negotiate the rate of entry and solve the question as to whether Britain should rejoin the ERM (Exchange Rate Mechanism of the European Monetary System) before it decides to put a question to the electorate?

I will consider the problems of getting a referendum question past Parliament and the Electoral Commission later in this study, together with the effects of the calendar.

It should be noted, however, that any referendum which is likely to be held on the euro is to some extent an enabling act since other countries will be able to join the euro after the U.K. While the situation at the time of a British referendum may contemplate a currency union with the twelve other countries currently in the euro zone, none of the three major parties have proposals to have future referendums should Britain join the euro and other countries seek to join at a later date, hence possibly upsetting the equilibrium of the euro zone.

The position of the three parties is, of course, quite illogical since some of the possible entrants such as Poland and Turkey are such large countries that their entry to the euro would lead to Britain being in a quite different currency union than would be voted on in 2003 or the few years after that. But that's what membership of the EU leads to.

There is also a major political problem the government would face should it win an enabling referendum and then find that it cannot reach agreement on the terms and conditions of British entry with the other fourteen EU governments and with the EU institutions, all of whom have to agree on British entry and the rate the £ sterling enters the euro.

IAIN DUNCAN SMITH

Fortunately for Mr. Blair, it does not seem that he will have to contend with any deep thinking on the euro referendum by the new Tory leader, Iain Duncan Smith.

On 20th January 2002 Mr. Duncan Smith sought to play the decent gentleman on the Frost programme; when he was asked whether he would accept the result of the euro referendum he replied:

> 'Obviously, whatever the case that comes up in terms of the referendum, we always have to accept what the public want just like we have to at general elections.'

While it would have been quite reasonable for him to have said he would accept the result of a free and fair referendum when all the facts were in the electorate's hands and where both sides had equal resources, it was an error to accept in advance a result to any biased question, framed in unknown conditions, with possible unbalanced and unfair resources, on a date which would not be acceptable to the Electoral Reform Society and which might be frustrated in negotiations by the other EU governments or by the EU institutions. In other words he bound himself in advance to a possibly biased referendum result.

The electorate is entitled to insist on the minimum conditions demanded by the NO campaign in its study 'The Economic Case against the Euro": 'This level [of the pound entering the euro] should be subject to a negotiated agreement with other member states and made public before any referendum so that the public votes knowing the entry rate of sterling. In addition, the precise situation regarding the exchange rate mechanism must be agreed and made public before a referendum.'

It is also entitled to a fair question in fair conditions which follow the recommendations of the 1996 Report of the Commission on the Conduct of Referendums, set up by the Electoral Reform Society and the Constitution Unit, and chaired by Sir Patrick Nairne. The relevant guidelines are printed in Appendix C.

PART ONE: THE FIVE BROWN TESTS

DECISION IN CONFUSION

How seriously should we take the five tests laid down by Gordon Brown?

Andrew Rawnsley's book *'Servants of the People'*[2] gives a dramatic version of the chaotic and manipulative scene in 1997 as New Labour's euro policy was established amid briefings and counter-briefings by the press aides of Tony Blair and Gordon Brown.

During those bizarre two weeks in October 1997, at one point, according to Rawnsley, Tony Blair was so much out of the loop of decision making that to find out what was going on, he had to drag Charlie Whelan, Gordon Brown's press aide, out of the Red Lion pub in Parliament Street:

> ' Rapidly the word spread that not only was the government executing a massive change in policy. Briefings on what Gordon Brown called 'the most important question the country was likely to face in a generation' were being conducted down a mobile phone outside a pub'

Brown decided to face Parliament and announce the new policy of warm words about the single currency: 'We are the first British government to declare for the principle of monetary union; the first to state that there is no overriding constitutional bar to membership'. He stressed the *'clear and unambiguous'* necessity of passing the five economic tests which he had laid down. This was an attempt to bring the dispute between him and Tony Blair to an end.

The *Financial Times* in 2002 reported that the tests were quickly put together by Gordon Brown and Ed Balls during a taxi ride.

According to Rawnsley:

> ' Eventually they ground out a compromise. Britain would not join the single currency before the next election 'barring some fundamental and unforeseen change in economic circumstances'. The door had been left open but only by a crack which time would turn into a victory

> for the Chancellor. Five 'tests' of economic convergence were refined to determine entry. There was nothing especially scientific about these tests, nor the number of them. It could have been three; it might have been seven. The number five – whether it be attached to pledges or tests – always seemed to have a mystical attraction for New Labour. The tests, originally taken to be conveniently elastic, would ironically come to be seen as serious hurdles.'

It is hard to have any respect for a euro policy which was so desperately improvised during those few days but 'rien dure comme le provisoire'. The policy put together in those few days has remained the shaky fence on which New Labour has sat ever since.

What the whole episode revealed was a complete lack of appreciation by New Labour of the complexities of the political situation they had now driven themselves into. They had cast adrift the certainties of the Maastricht process of joining the euro. They had set themselves more tests before entry while publicly presenting themselves as euro friendly, and they now had a complicated route to negotiate before a referendum could be called.

Tony Blair's New Year message in December 2001 assured the electorate that the Labour government was committed to Britain joining the euro provided that Gordon Brown's five economic tests were passed and that the British people agreed in a referendum.

So, at some point in the eighteen months before June 6th 2003, Gordon Brown will produce a further Treasury Assessment and give his opinion, and that of the Treasury, on whether the British economy passes the five tests he has set.

So it seems appropriate to re–visit the setting up of these five tests in 1997 and their then evaluation, to establish the basis underlying the judgement Gordon Brown and the Treasury will come to in 2002/3, whether this judgement has any validity and if it will have any political effect.

The 'No' Campaign has published an excellent detailed economic analysis of how the five Brown tests stood in their judgement in autumn 2001. This book, called *'The Economic Case Against The Euro'*[1] was edited by Janet Bush.

Although this present study is not an in–depth analysis of the five Brown tests like *'The Economic Case against the Euro'*, it touches on some of the more fundamental questions and, particularly, the careless and error–strewn way in which the Treasury Assessment of 1997 was put together.

The main purpose of this section is to focus on how the Treasury Assessment[3] examined the case for joining in 1997 and the adequacy of that examination.

The economic analysis of *'The Economic Case against the Euro'* holds the field at present with its in–depth economic examination of the euro issue with nothing comparable published by the pro–euro side or by the government.

SETTING THE SCENE

Like all British political discussions on the EU, the question of the single currency is dogged by the fact that continental EU leaders see the EU as a political project of which the euro is a building block. For example, Mr. Prodi said on 1st January 2002 in an interview with BBC 1, 'This is not economic. This is... a pure political process.' Numerous speeches by leading EU politicians constantly dwell on this. I will quote only one. Gerhard Schroder, the German Chancellor, in his address to the German Parliament on November 10th 1998, said: 'The European single currency is but a stepping stone to a political union.... We will only succeed in shaping a common Europe by developing further towards a political union'. On the contrary, all British pro–EU politicians see the euro and the EU as a supposed economic benefit. This view of EU membership as an economic benefit to Britain was clearly stated in the government leaflet recommending a YES vote in the 1975 Referendum. Gordon Brown put his position on the euro clearly on 27th October 1997: 'the determining factor as to whether Britain joins a single currency is the national economic interest'. Whether British politicians believe this or whether they share the other leaders' enthusiasm for the euro as a building block to political union is one of the great imponderables of British politics.

In his speech on 27th October 1997, when he said the government was 'the first to state there is no overriding constitutional bar to membership', Gordon Brown is also reported as saying: 'The decision on a single currency is probably the most important the country is likely to face in our generation'.

The importance of the decision facing the British people is acknowledged on all sides.

Andrew Rawnsley in *The Observer* on 30th December 2001 described it as: 'the most momentous choice any Prime Minister is likely to put to Britain in a generation'.

Charles Kennedy, an enthusiast for euro entry, introduced a discordant note among the enthusiasts by stating it was a constitutional matter: 'This is a constitutional issue and we are the party that has always promoted the need for a referendum' he said in an interview with ePolitix.com as reported in The *Daily Telegraph* on 29th December 2001.

On the same day he is reported in The *Daily Telegraph* as saying he wanted Tony Blair to establish a Cabinet Committee jointly with Liberal Democrats and pro–EU Tories to promote the single currency: 'I have no difficulty with a [joint Cabinet Committee] in principle'.

Gordon Brown further said in his speech on 27th October 1997 after rejecting the idea that joining the euro was a constitutional matter: 'so we conclude, that the determining factor as to whether Britain joins a single currency is the national economic interest and whether the economic case for doing so is clear and unambiguous'.

His conclusion at that date was:

'British membership of a single currency in 1999 could not meet the tests and therefore is not in the country's economic interests', and

'There is no realistic prospect on having demonstrated before the end of this Parliament that we have achieved convergence which is sustained and settled'.

WHAT HAPPENED IN 1997?

The first strange thing to notice in the saga of the Brown five tests is that, after his speech on 27th October 1997 announcing that Britain did not meet the five tests, there was no outcry by the pro–euro enthusiasts that Brown was wrong or even that there was no need for the tests at all.

There was no explosion by Charles Kennedy or Kenneth Clarke as to why Britain needed to pass any tests set by Gordon Brown (after all, no other euro entrant had done so) nor was there any attempt to analyse the Brown tests, how they were conducted or any analysis to show that the conclusions were wrong. In line with the whole thrust of the pro–euro campaign, but contrary to the wishes of some of its supporters, far too often invective was used as a substitute for analysis. Charles Kennedy and Kenneth Clarke did not contest Gordon Brown's and the Treasury's analysis.

Of course the supporters of the £ sterling also did not make any sustained analysis of the Treasury Assessment at that time. They were happy that the case for joining the euro was put off for five years.

But little subsequent analysis of the five tests has been made from the pro–euro side at all. Indeed, apart from some mild editorialising the day after Brown's speech, the matter was regarded as closed and the Treasury analysis drifted downstream, unregarded and neglected until the 'No' Campaign published 'The Economic Case against the Euro'.

However in April 2002 the National Institute of Economic and Social Research Review published a series of articles of which one 'The UK and EMU: Choosing the Regime' by Ray Barrell stated that 'there appear to be no major problems associated with joining EMU (sic) at around 1.50 euros to the pound (66p), although there are risks to the UK if the euro appreciates against the dollar after we have entered'.

He also stated after a rather densely written paper that 'the Chancellor's five tests can be seen to be answered in the affirmative, and that the case for joining is clear'.

This was picked up by Michael Heseltine who used it to also support his contention that Gordon Brown's tests were passed.

This National Institute study considers the course of the British and EU economies since the 1950's but omits any mention of the demographic changes which are the most important determinant of GDP growth in the post–2000 era.

The intellectual prestige of the National Institute contributors is somewhat undermined by their apparent ignorance of the fact that Britain was already in the EMU. There were two other papers provided alongside Ray Barrell's article. Their conclusions were somewhat different from that of Ray Barrell.

Mary O'Mahony's study on productivity concluded: 'We might therefore argue that EMU entry may have small beneficial effect on UK productivity'.

Nigel Pain's study stated: 'Joining the euro at the current real exchange rate might be costly; joining at the current exchange rate and then seeing the euro appreciate against the dollar certainly would be...'

And finally concluded: 'But it is far from clear how big the net benefits might be or how soon they might start to appear'.

THE FIVE TESTS OF GORDON BROWN

These are:–

1. Are business cycles and economic structures compatible so that we and others could live comfortably with euro interest rates on a permanent basis?
2. If problems emerge is there sufficient flexibility to deal with them?
3. Would joining EMU create better conditions for firms making long–term decisions to invest in Britain?
4. What impact would entry into EMU have on the competitive position of the UK's financial services industry particularly the City's wholesale markets?
5. In summary, will joining EMU promote higher growth, stability and a lasting increase in jobs?

COMMENTS AFTER GORDON BROWN'S SPEECH OF 27TH OCTOBER 1997

' Only the first of these allows reasonably objective measurement. The rest read more like subject headings for a theoretical debate on monetary union. With the exception of the first, they need not have much influence on the timing of UK entry'.

Financial Times, 28th October 1997

'The last and most important question is 'will Britain's economy converge sufficiently with the rest of the EU?' This is likely to be a hard test to pass. The paper points out that Britain has more non–EU trade and more home loans made at variable interest rates than its partners and that it is the only oil exporter. These factors make it hard for Britain's economic cycle to match Europe's'.

The Economist, 29th October 1997

The bulk of political commentators, of which the above are a sample, concentrated on the political effect of postponement, which neutered the euro issue for at least five years. They were generally scathing about Brown's five tests as imprecise, self–selected and manipulable.

Once again the corporatist forces in the British economy revealed their consistent lack of prescience in matters to do with the EU:

' Delaying entry was dangerous'

John Monks of the TUC

'We agree with the government that entry in 1999 will not be appropriate for political reasons but would have preferred the government not to have excluded the possibility of entry by 2001 since we think it not impossible that entry may look attractive by that time'.

CBI Spokesman

HOW WILL THE FIVE TESTS BE ASSESSED IN THE MEDIA IN 2002 AND 2003

Let us assume that, once again, in 2002 or 2003 the Treasury judges that Britain's economy does not meet Brown's tests. Will there be a technical analysis by the euro enthusiasts to show the Treasury calculations were wrong and indeed will there be a pro–euro outcry as to why Britain is setting itself tests other euro–entrants did not take? When euro enthusiasts have been disappointed in the past, the disappointments have surfaced in the media, not in technical economic analysis, but in personality conflicts, the stirring of the Blair/Brown rivalry, etc. So this is what is likely to happen again.

Should Gordon Brown decide Britain has passed his tests, the euro enthusiasts will of course be delighted. The supporters of the pound are much more likely to react with an analysis to determine whether the tests have really been passed and the validity of them. This is not likely to create instant headlines but over the six months referendum period – and Blair can hardly fail to hold a referendum if Gordon Brown declares the tests passed (an inevitable decision which he confirmed to Jeremy Paxman on 'Newsnight' on 15th May 2002) – if the Treasury judgements and recommendations cannot stand up to outside analysis, it may have a serious effect on whatever business and city support Gordon Brown can muster for a decision to enter the euro. One presumes such responsible organisations as the CBI, TUC, the Chambers of Commerce, would conduct their own analysis of the Treasury judgement before rushing into a stance for or against joining the euro, although the history of 1997 does not give confidence that this will happen. In any event the CBI is reported on 14th April 2002 as stating it would not conduct any survey of its members' opinions until the government decided to call a referendum and has cancelled plans to hold a poll of its members in summer 2002.

WHY BRITAIN NEEDS TO PASS THE TESTS

As mentioned above, no other euro entrant has set itself any economic tests at all. They were and are content to simply pass the five monetary and currency tests laid down in the Maastricht Treaty.

One of the most baffling points of the analysis is how Mr. Blair and Mr. Brown succeeded in portraying themselves as euro enthusiasts when doubling the number of tests which had to be passed from the five in the Maastricht Treaty to a new total of ten tests. A cool assessment of this manoeuvre would be that it made it far harder for Britain to enter the euro.

THE MAASTRICHT TREATY

It is true that the Maastricht Treaty did refer to 'the convergence of economies'.

For example, in the preamble:

> ' Resolved to achieve the strengthening and the convergence of their economies and to establish an economic and monetary union, including, in accordance with the provisions of this Treaty, a single and stable currency'

and, Article 2:

> ' The Community shall have as its task, by establishing a common market and an economic and monetary union ..... to promote ..... a high degree of convergence of economic performance'.

Sharp–eyed readers will notice that in this paragraph the convergence comes after the establishment of monetary union. In Brown's five tests, on the contrary, the aim is to achieve convergence before monetary union.

Nor is there any clear definition of economic convergence laid down in the Treaty or any means to achieve this goal except the establishment of the Common Market and economic and monetary union. But in Brown's tests, convergence of the business cycle and of economic structures should happen before economic and monetary union is complete. Nevertheless there is a great deal of detail laid down in the Maastricht Treaty about monetary conversion criteria.

THE MAASTRICHT TESTS

As far as the EU institutions are concerned they could not care less about Gordon Brown's five tests.

Wim Duisenberg has made this plain:

> ' It is only the Maastricht criteria which I regard as relevant for eventual entry of the UK into monetary union. When the time is ripe it will be on these criteria that the ECB will write a conversion report'.

What are the EU's own five tests for a country to enter the single currency, as laid down in the Maastricht Treaty?

They are:

A That a government's budget deficit should be no more than 3% of GDP.

B That the outstanding stock of government debt be below 60% of GDP.

C That the inflation rate should not be more than 1.5% higher than the average of the 'best three' euro area countries.

D That the long–term bond yield should not be more than 2% above the average of these 'best three'.

E That the exchange rate must remain within the 'normal' fluctuation bounds of the ERM for at least two years prior to entry without any major problems.

These criteria have at least the merit of being clear targets even if there has been massaging to get some of the original euro entrants into the euro, especially on the outstanding stock of government debt. These criteria are very much of their time, conceived in a high inflation Europe in the 1970's and 1980's. For example, there is no downside limit to any of the first four tests. Plainly a deflating currency is not a suitable entrant to the euro.

However, from the immediate practical point of view, Britain easily passes the first four tests.

The question of the exchange rate is another matter and at this point the point to note is that maintaining a currency to a given rate within the ERM structure is quite a different matter to observing from outside that a floating currency remains in reasonable equilibrium with another. The National Institute Economic Review of April 2002 agreed with this view: 'We argue that this (dealing with problems associated with the rate of entry) has to be done with care as the sustainable real exchange rate inside EMU may differ from that outside it'. The reason is that once an ERM structure is imposed, the Central Bank must immediately discard the primacy of setting interest rates in accordance with domestic conditions and set it by reference to the ERM target. Gradually the domestic economy is pulled out of alignment in order to keep to the ERM target. In other words the driver for the Central Bank is the relationship of the currency to the ERM limits instead of the needs of the domestic economy.

It is important to make this point because the £–euro rate has been fairly steady for quite some time in a free float environment. If the currencies had operated in an ERM environment, it is unlikely this stability would have been achieved.

CLEAR AND UNAMBIGUOUS

It should be noted that the report is by HM Treasury and not by the Chancellor. The report is commissioned by the Chancellor but his own speech to Parliament in 1997 contained glosses on it.

The most important of these is setting the test, that 'the economic case for doing so [joining the single currency] is clear and unambiguous.'

Tony Blair himself is reported as saying on Breakfast with Frost, 13/1/02, recorded in the *Daily Telegraph* on 14/1/02:

'Obviously in principle we're in favour of Britain joining the single currency but the economic tests are not camouflage, they do have to be met. The question is, can we say that the case for Britain joining is clear and unambiguous? If it is, that's what the assessment finds, then we've already made the political decision as a government that we believe its right to recommend joining.'

A tall order!

This requirement for the economic case to be 'clear and unambiguous' requires that the Treasury assessment itself must judge that the economic case is 'clear and unambiguous' and also that the Treasury assessment has taken all matters into account to judge the economic case. The 1997 assessment did not take all matters into account, in particular the rate of entry, the costs of entry and the demographic future of the EU.

But the Blair/Brown requirement for 'the economic case to be clear and unambiguous' is contradicted by Jack Straw who is reported as saying on *Newsnight* on 21/2/02:

'If the choice is a very tricky one and there is ambiguity in it, then you will spend time, and of course there is a point where there has to be a political decision, but it's a decision informed by an economic assessment.'

PART TWO: THE TREASURY ASSESSMENT, OCTOBER 1997

GENERAL

It is the thesis of this study that the Treasury Assessment of 1997, although it was one of the most important State papers ever published by a British government, was a deeply flawed document.

There are four general points to make at the beginning:

JOINING EMU

There is considerable confusion in the report between joining EMU and joining the single currency. One expects confusion in the public mind but to set five tests, three of which postulate 'joining EMU' is a deeply disturbing error when set against the facts.

The facts are that EMU took place in three stages:

- Stage One started in July 1990 and ended on 31st December 1993. The main feature was the removal of barriers to free capital movements within the EU.
- Stage Two began on 1st January 1994 with the European Monetary Institute established. Article 109F of the Maastricht Treaty stated: 'At the start of the Second Stage, the European Monetary Institute shall be established and take up its duties'.
- Stage Three began on 1st January 1999 with the launch of the euro.
  A Protocol annexed to the Treaty stated clearly:
  'The High Contracting Parties
  Declare the irreversible character of the Community's movement to the third stage of Economic and Monetary Union by signing the new Treaty Provisions on Economic and Monetary Union.'
  and...
  'If by the end of 1997 the date of the beginning of the third stage has not been

set, the Member States concerned, the Community institutions and other bodies involved shall expedite all preparatory work during 1998, in order to enable the Community to enter the third stage irrevocably on 1st January 1999 and to enable the ECB and ESCB to start their full functioning from this date.'

That the Treasury assessment continually refers to 'joining EMU', when Britain had been in EMU for over six years at the time the report was written, certainly undermines the intellectual quality of the Report.

It is also unclear when 'joining EMU' is mentioned whether this is what is really meant or whether it refers to joining the third stage of EMU or whether it refers to 'joining' the single currency.

This confusion occurs in almost every page of the Report.

Many people will argue that the economic consequences of EMU are at least as important as the consequences of joining the single currency. It is both Economic and Monetary Union. The economic chapters of the Maastricht Treaty fully apply to the U.K. For example, let us turn to some of the principal articles of the Treaty:

Article 2:

'The Community shall have as its task, by establishing a common market and an economic and monetary union and by implementing the common policies or activities referred to in Articles 3 and 3a, to promote throughout the Community a harmonious and balanced development of economic activities, sustainable and non-inflationary growth respecting the environment, a high degree of convergence of economic performance, a high level of employment and of social protection, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States.'

Article 3a:

'For the purposes set out in Article 2, the activities of the Member States and the Community shall include, as provided in this Treaty and in accordance with the timetable set out therein, the adoption of an economic policy which is based on the close co-ordination of Member States' economic policies, on the internal market and on the definition of common objectives, and conducted in accordance with the principle of an open market economy with free competition.'

Article 102a:

'Member states shall conduct their economic policies with a view to contributing to the objectives of the Community as defined in Article 2 and in the context of the Council guidelines referred to in Article 103(2). The member states and the Community shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources, and in compliance with the principle set out in Article 3A.'

Article 103:

'Member states shall regard their economic policies as a matter of common concern and shall co-ordinate them within the Council, in accordance with the provisions of Article 102a.

The Council shall, acting by a qualified majority on a recommendation from the Commission, formulate a draft for the broad guidelines of the economic policies of the Member States and of the Community, and shall report its findings to the European Council.

The European Council shall, acting on the basis of the report from the Council, discuss a conclusion on the broad guidelines of the economic policies of the Member States and of the Community. On the basis of this conclusion, the Council shall, acting by a qualified majority, adopt a recommendation setting out these broad guidelines. The Council shall inform the European Parliament of its recommendations.'

For an example of the pressure to be put on Britain because of economic union, one can turn to the communiqué issued by the French Ministry for Employment on 19th February 2002 commenting on the meeting of Mr. Blair and Mr. Berlusconi:

' The Italian–British statement advocates establishing a less regulated labour market particularly as regards employment contracts, and proposes giving employers more flexibility, to the detriment of improving job security.

This approach does not respect the balance between economic competitiveness and social progress defined by the Heads of State and Government in Luxembourg, Lisbon and Nice.

France will continue to defend these principles at the forthcoming European Council' or, to take a sample of many other statements:

"We clearly cannot have a single market, a single currency, the determination to liberalize public services – as we are being asked to do – without having regulations in the tax sphere"

Jacques Chirac, June 20th 2000.

At the time the Treasury Assessment was written it was unclear, when the report referred to 'joining EMU', whether the writers thought it meant:

- Joining EMU at all
- Joining the 3rd stage of EMU which started on 1st January 1999 when certain provisions came into force
- Joining the single currency

So the conclusion must be as follows:

How much confidence can the voter put in this analysis that cannot distinguish between EMU and the single currency?

A SUCCESSFUL SINGLE CURRENCY

The second general defect in the Treasury Assessment is the use of the phrase *'a successful single currency'* throughout the Treasury Report. What is the definition of a *'successful single currency'?*

A currency traditionally has two roles: to act as a store of value and a medium of exchange.

Plainly at the end of 2001, the euro was a complete disaster in the first role with the store of value of the euro land citizen's wealth being eroded by some 25% if compared with the dollar and some 15% vis–à–vis the pound sterling and depreciating substantially against all other major currencies such as the Yen and Swiss Franc.

However, the Treasury Report speculates on all sorts of benefits that might flow from a single currency. These include:

- 'a stable framework in which firms can plan and invest'
- 'boosting competition'
- 'reduce transaction costs'
- 'make prices more transparent'
- 'enhance both growth and employment prospects'
- 'intensity of competition'
- 'new trading opportunities'

Some of the Treasury Report's possible benefits are far removed from the foundations of classical monetary theory.

THE EXCHANGE RATE

An examination of the Brown tests shows that four of them, all except the 'flexibility' test, are dependent on the rate of exchange of the pound to the euro prevailing during the period which the assessment covers. This is the third general defect.

Clearly to take the employment test and then measure it against the experience of the years 1990 to 1992, *'joining EMU'* (as the Treasury calls it, though 'joining the single currency' is the correct definition) at one rate will have a considerable effect on unemployment if sterling joins it at too high a rate. This is starkly demonstrated by the current position in Germany.

But the joining rate is also a vital condition in considering three of the other four tests.

To ask the question 'would joining EMU create better conditions for firms making long–term decisions to invest in Britain?' is to ask for the riposte – 'joining EMU, at what rate?'.

Similarly the two economies converging their economic cycles at one exchange rate will rapidly show signs of divergence at another rate.

So the missing test, what is the rate at which the pound joins the euro? – undermines all the other tests. At the proof stage of this study, Ed Balls confirmed the above, as reported on 20th June, 2002, to the Foreign Press Association that the exchange rate 'is integral to arrivng at each of the five tests.'

As I pointed out in *'Why Mr. Blair will not win a Euro Referendum'*[4], the question of the rate of entry is purely a matter for the European Commission to propose after consultation with the European Central Bank and is subject to the unanimous agreement of all fifteen EU states. So, the only British citizen who has any input into this momentous decision is the Chancellor of the Exchequer, who has no role whatsoever in initiation but only the power of veto along with all his EU colleagues.

It is staggering how often pro–euro British business leaders talk about the rate at which they want the pound to enter the euro without apparently realizing this simple fact. They also appear to think the other fourteen EU states will give Britain an easy ride and allow the pound to enter at a really competitive rate for British industry.

But the strategy which the Blair government has appeared to adopt, of trying to go for an enabling referendum without setting the rate of entry in advance, is likely to deliver British industry as a trussed chicken. If Blair won an enabling referendum, he would open negotiations in a very weak position, knowing that if he did not agree to the rate of entry and conditions on offer, he would have to go back to the British people and inform them that the project was off and that the referendum was worthless.

It is worth pointing out that no attempt can be made to devalue the pound against the euro only. The pound–euro rate is a cross rate influenced by the much greater flows of the pound–dollar rate and the euro–dollar rates. So the devaluation would be against all currencies, pushing all British import costs up drastically and unnecessarily.

It is unclear whether business supporters of the euro, such as Dr. Bryan Jackson of Toyota UK Ltd., who appear on the news media, appreciate this point. Toyota may reduce its selling prices if the pound was devalued but it would also pay more for its imported car parts which come from outside the euro zone.

On the subject of the exchange rate such supporters of British entry as Dr. Bryan Jackson and Kenneth Clarke, have gone on record in the last few months as stating that Britain could not join the euro at the present exchange rate.

Dr. Bryan Jackson said on the BBC Programme World At One on 2nd January 2002, that it would be '...very dangerous for British industry to enter euro at current rate' and he added further that the appropriate entry rate was between 1.38 and 1.43 euros to the pound (in recent weeks the euro has been trading at between 1.60 and 1.62 to the pound, around 15% higher than the rate proposed by Dr. Jackson).

Kenneth Clarke also said on Question Time on 5th July 2001 that he was not in favour of entering the euro now:

'Present exchange rate is the killer argument', he said, and again

We 'Could not join at present rate or anything like it'.

Should the pound go through a period of weakness on the foreign exchange markets and fall against the euro, this would logically require a re–examination of the convergence data since all the Treasury tests, i.e. interest rates, output gaps, growth rates and inflation, would be affected by a drop in the value of the pound, as Ed Balls has indicated.

BANK OF ENGLAND ACT 1998

Getting the pound to the right rate and then keeping it there for the approximately three years of transition will mean that the government will have to alter the Bank of England Act 1998. At present this states that the objective of the Bank of England's monetary policy is to maintain price stability. Subject to that it is to support the government's economic policy but price stability is the prime objective. Targeting the exchange rate or possibly trying to target inflation and the exchange rate together is a recipe for disaster. The alteration of the Bank of England Act, which would need a new Act of Parliament to redefine its monetary policy objective, would be a retreat from what is generally considered Labour's most successful action in the economic field. In such conditions, the euro's popularity could fall and the government's reputation for competence could disappear. Eddie George, Governor of the Bank of England, was reported in the *Observer* on 17th June 2001 replying to 'Whether he would have to put up interest rates which would take our interest rates further away from Europe', said: 'Absolutely! That would be an obstacle to early entry.'

Ed Balls, the Treasury's chief economic adviser, is reported in *The Times* on 13th June 2001 saying: 'Any short-term attempt to manipulate the exchange rate overtly or covertly, would put the inflation target and wider stability at risk.'

In the *Observer* on 2nd September 2001, Ed Balls further underlined this in precise, brutal language: 'The clear lesson of the late-80's boom is that trying to deliver an exchange rate target can only be done at the expense of wider instability – in both manufacturing and services.'

WHO CONVERGES WITH WHOM – THE FOURTH DEFECT

The fourth general defect on the Treasury Assessment is that success is defined as follows: 'It means the British economy:

- has converged with Europe *(sic)*
- can demonstrably be shown to have converged'

This wording does not seem to contemplate a scenario where Europe's *(sic)* economy is not worth converging with. Taken literally, success could mean adjusting the superior performance of the UK economy on growth, employment and inflation to the worse performance of the euro zone. This is an incredible benchmark to offer and is examined later in this study.

INACCURATE WORDING OF THE TREASURY ASSESSMENT

A further general point is the slack and inaccurate wording of the Treasury Assessment. Europe, the EU, the euro zone and even the 'continent' are used carelessly and interchangeably. For example:

A. On page 5: 'It means that the British economy has converged with Europe'. Really, do they include the whole of Europe?

B. On page 8: 'But Britain's economic cycle is not currently converged with Continental Europe'. This is a further strange concept, apparently ignoring Ireland, Iceland, Sicily, Sardinia and other islands but including Europe outside the euro zone. Or is this really what it meant?

C. On page 19: 'In Europe today, 18 million people are unemployed'. Do they mean the EU, the euro zone, the 'continent' or the whole of Europe?

D. On page 37: 'At present the UK economy is not synchronized with the rest of Europe'.

It is difficult to have respect for a report which is littered with these errors. In some cases it is possible mentally to correct the report by reading the context in which the imprecise language is used but this is not always possible.

EXAMINATION OF THE FIVE TESTS

TEST ONE: Are business cycles and economic structures compatible so that we and others could live comfortably with euro interest rates on a permanent basis? This is really two tests in one.

These are:

1. Sustainable and durable convergence of the business cycle.

2. Sustainable and durable convergence of the economic structure.

1. The Business Cycle

This test is regarded quite mistakenly by the *Financial Times*, *The Economist* and other commentators as the most important. As we have seen convergence in 'economic performance' is seen by the authors of Maastricht as a product of the single currency not a necessary condition for joining it.

There are certain general problems with this concept of convergence as outlined in the Treasury Assessment. Among them are:

1. Is the idea of convergence of business cycles of all the major European economies a good one in principle?
2. Why should Britain do the convergence? The Treasury assessment defines a success as: 'The British economy has converged with Europe'? (sic). This lack of precision really will not do if it is the euro zone one presumes is referred to.
3. If Britain has a more robust business cycle with lower unemployment, interest rates and higher growth, why should it converge on the euro zone if those countries are falling behind Britain on these and other counts?
4. As mentioned earlier, why have this test at all when the other euro entrants did not set this for themselves?
5. Why is Britain trying to converge before entry when the Maastricht Treaty specifically states that a single currency will encourage the converging of 'economic performance' after countries join the euro?
6. Have the euro countries converged? On what tests have they converged? Is it convergence of the business cycle, convergence of economic structures or convergence of economic performance? At present, the inflationary pressures in Ireland, the public finance problems on Portugal and the standstill in Germany suggest that, under the pressures of the single currency, the economies of the euro zone countries may be diverging.
7. What is the point of converging with the euro zone when 12 other countries are going to join the EU and the euro who do not have to pass the Brown convergence test?

Some of the questions do not need extended treatment, as they are unanswerable.

However, let us look at whether it is a good idea in principle for the British economy to converge with the euro zone. The Treasury assessment states 'sustainable and durable convergence' is the touchstone and this is, for example, the criteria of Britain in Europe's campaign. Their position is to wait until sterling reaches a rate which reflects substantial convergence (the criteria are not defined) with the euro zone. Britain in Europe's Council will determine when this is said to have occurred.

Many observers, including this writer, think that the whole idea of convergence of the business cycle is a false one, that it will result in accentuating booms and busts and that a varied pattern of economic development is safer and will lead to a better position of long–term growth.

And, indeed, the Treasury assessment half agrees:

> ' It is, of course, the case that not every country's economic cycle needs to be in line all of the time. Indeed that could cause difficulties of its own. But successful convergence requires being – and confident about staying – within tolerable limits.'

So the Treasury Assessment is: convergence is the Holy Grail, but not too much of it please. And what are tolerable limits?

And further:

> ' Participation in a monetary union does not require that all Member States are perfectly in line... There may be, in fact, some advantages to cycles being slightly out of phase, in that if one country is growing rapidly while another is growing sluggishly, they may help to stabilize each other.'

'Rapid growth' and 'sluggish growth' do not seem to be 'slightly out of phase', they seem to be very different things from convergence.

This is all a very peculiar analysis especially when coupled with the fact that the other EU entrants and the European Central Bank could not care less about 'sustainable and durable convergence'. All they are interested in is the monetary convergence criteria laid down in the Maastricht Treaty.

The Treasury Assessment on convergence gives some statistical analysis although without any sources quoted. This concludes:

> ' The U.K. became increasingly out of step with Germany during the 1980's, while the U.S. and U.K. cycles have been relatively synchronized.'

' The correlation coefficients reported in Table 1.2 show that the timing of the U.K. economic cycle has been closer to that in the U.S.'

This raises another question not dealt with in the Treasury Assessment. There is a great difference between the U.K. selecting the euro zone to converge on when it was not in convergence with another economic area and what is now proposed which is that the U.K. should forcibly remove itself from 'relatively synchronized cycles with the U.S.' and realign itself with the euro zone. In fact, I would suggest that it is an amazing idea to even contemplate uncoupling from the world's biggest and most dynamic economy with a population shortly about to overtake that of the EU (less the U.K.) and attempt convergence with another economic zone. Yet, according to Tony Blair and Gordon Brown, the British government has taken the decision to carry out a kind of economic 'heart transplant'.

The Treasury has used as its tests of cyclical convergence the following:

1. interest rates
2. output gaps
3. growth rates
4. inflation

Not everybody would agree with these but it is quite clear that in 2000, both output gaps and growth rate were seriously different between the euro zone and the U.K. and that the U.K. cycle has remained linked closely to the U.S.A. since 1997.

To say the test of cyclical convergence had been passed the Treasury would have to show both that the synchronization and correlation with the U.S., which it found existed in 1997, no longer existed and that the U.K. was synchronizing and correlating with the euro zone.

2: Economic Structures

The Treasury Assessment identified certain structural differences between the U.K. and euro zone economies.

The principal one is that the UK's proportion of trade with the other EU states is much below the EU average. This has not changed. What has to be taken on board more seriously is the impact of future population loss in most of the EU (except France and Ireland), which means the EU will inevitably become a smaller market in the future.

Nor have there been any significant change in the other areas identified by the Treasury, house ownership patterns, household holding of shares, corporate borrowing and the U.K. oil sector.

So there has been no sign of convergence of economic structures between Britain and the euro zone countries since 1997 and indications of considerable future divergence. One of the failures of the Treasury Assessment is its overlooking of the dynamic nature of all economies. The EU is not an immovable object. Its principal future feature is population loss on such a scale that in the EU countries except Britain, France and Ireland, there will be increasing difficulties to maintain GDP at current levels.

TEST TWO: Flexibility: If problems emerge is there sufficient flexibility to deal with them?

This is again a two–part question.

Is there sufficient flexibility in the UK economy? Is there sufficient flexibility in the euro zone economy?

The Treasury Assessment does give a reasonably fair and detailed assessment of the flexibility of the U.K. economy.

However, it falls down badly in its analysis of the flexibility of the euro zone. The analysis is derisorily sketchy.

Chapter 2.7 says: 'Governments across Europe are introducing structural reforms to make their labour markets more successful at adapting to economic change.'

Chapter 2.25: 'We need to work further to ensure .... the EU economy as a whole is able to create jobs and respond to structural change as needed.'

In practice there is no evidence that major EU governments are introducing structural reforms. Germany and France are both hobbled by electoral considerations in 2002 and, in Italy, labour reform proposals have led to the assassination of the labour reform adviser to the government, followed by a general strike in April 2002.

As put by the Labour Euro Safeguards campaign in March 2002:

> 'The single biggest problem, buttressed by the Growth and Stability Pact with all its baleful consequences, is the power of the European Central Bank. This institution, modelled on the former Bundesbank, is secretive, virtually immune to democratic pressure, and obsessed – in line with its remit under the Maastricht Treaty – with keeping inflation down to between 0% and 2%, if necessarily at the expense of all other economic objectives. The deflationary conditions thus generated, with low investment and high levels of both unemployment and taxation, much of which is used to finance the cost of having so many people out of work, are just the opposite to those conducive to the restructuring which most of the EU economies badly need.'

TEST THREE: Would joining EMU create better conditions for firms making long–term decisions to invest in Britain?

This contains a remarkably confused paragraph 3.8:

> ' Some studies have looked more specifically at the implications of exchange rate volatility for domestic and foreign direct investment. The conclusion tends to be that aggregate investment is higher under fixed rate exchange rate regimes. Furthermore, within flexible exchange rate regimes, increased exchange rate volatility tends to reduce investment, although the evidence is not conclusive. However, it has to be recognized that flexible exchange rates can help ameliorate the impact of certain kinds of shock. Fixed exchange rates do not, by themselves, guarantee a more favourable environment for businesses. And there can be benefits from exchange rate adjustments when economic cycles are out of line.'

How U.S. investors, who are the overwhelming largest foreign investors in the U.K., will react to this may only be guessed at.

However, they can work out that the assertion in paragraph 3.15: 'there would be a credibility gain for the U.K. from joining EMU' is a meaningless remark since the U.K. would abandon control over its monetary policy on joining the single currency.

Perhaps they might find it easier to unravel the assertions in chapters 3.26: 'Recently inward investment has risen to record levels at a time when many investors are already assuming that the U.K. will opt out of the first move.'

And Chapter 3.27: 'Over the long term, if the U.K. remained outside a successful EMU there is the opposite danger that inward investment decisions at the margin would move against the U.K. as companies look increasingly favourably on the euro area.'

'Clear and unambiguous' it is not.

The facts on inward investment are that, despite a fall in investment worldwide in 2001, investment in the UK fell less than most and, according to UNCTAD at $72 billion it remained significantly larger than France's $38 billion and Germany's $25 billion combined.

Indeed, Invest UK's Chief Executive, William Pedder, in March 2002 stated the following: 'The UK attracts more inward investment than any other country in Europe. It has maintained its leading position because of underlying stability in the economy, its low tax base, lack of bureaucracy and high productivity. UNCTAD's World Investment Report 2002 confirms the UK's standing.'

Not a mention of the benefits of the euro, nor does William Pedder attribute any advantage to the benefits of EU membership.

TEST FIVE: In summary, will joining EMU promote higher growth, stability and a lasting increase in jobs?

The Treasury announcement stated that 'sustainable and durable convergence with Europe' is the touchstone.

Yet, surprisingly, in the examination of Test Five, it is stated that 'the fundamental test is whether joining EMU (that word again) would overall be good for growth and jobs.'

One would have thought that the determination of this test would have been made before the political decision to join the euro. If the government is not sure about the answer to this question one must wonder why it has made 'the political decision' to join the euro.

But, in any case, the test of being good 'for growth and jobs' is quite different from 'sustainable and durable convergence with Europe' (sic) so one must ask which is the 'touchstone'.

To make a political decision to subsume one's currency in another, without finding out in advance whether or not it would promote growth, stability and jobs, seems to be getting the question back to front. What were the reasons the government took the political decision to join the euro?

For what is described as the fundamental test, the Treasury devotes one side of paper to discussing the issues as whether joining EMU would be good for growth and jobs.

Unemployment rates one part of a page. The analysis is sketchy to the point of insulting. Its chief point is: 'By giving a boost to the Single Market, and improving price transparency, EMU could help to create the conditions in which structural unemployment falls.'

As for the Treasury discussion on growth, the most important economic point of all, this takes up the grand total of three lines and is worth reading in full:

> '5.4. Growth and investment should also be encouraged by EMU. For example, the level of inter–European trade can be expected to increase as a result of increased transparency and reduced transaction costs.'

These are tiny factors in increasing growth and investment. While trade is one engine of growth what about productivity, entrepreneurial skill, improvement in the performance of low growth regions, deregulation, education, demographic change?

For example, Britain's biggest export to the EU is oil and gas products. How will these be increased by 'increased transparency and reduced transaction costs' when they are denominated in dollars anyway? Do Shell, BP and Total really need 'increased transparency' to carry out their oil business?

An analysis by Eurofacts in December 2001 of Customs & Excise figures of the currency of invoicing of UK goods only trade in 2000 shows that some 15% of UK trade exports and imports with the EU was conducted in US dollars. Thus a considerable minority of UK–EU trade would be completely unaffected as there would be no 'reduced transaction costs'. There are no figures for the currency of invoicing for services but it is generally thought that the dollar percentage is higher than for goods invoicing.

THE TREASURY ASSESSMENT

In common with the whole EU process, the Treasury assessment is backward looking. There is certainly a need to establish the historical record and the clear economic facts of the past. However, in the case of the EU and the euro, there is one overwhelming item which was not present before 1975 which will totally dominate the Europe of the period 2000–2050 and affects profoundly convergence, flexibility, growth and employment–demographics.

The magnitude of the demographic crisis, which is now upon us, is one both of declining and ageing population and has, of course, political effects far beyond the euro. What is extraordinary is that this total change of the European economic landscape is not mentioned in the Treasury assessment.

However, from the point of view of the euro, there are five factors to consider:

- The simple decline of the EU countries as markets.
- The decline in the labour force of the EU countries.
- The pensions issue.
- The crisis in state finance.
- The disparity in rate of population loss which will engender disharmonisation and divergence.

Alain Cotta, Professor at Paris Dauphine University, writing in 'La Veillissement Demographique de l'Europe' (Revue de l'Institute International de Géopolitique Juin 2001) pointed out that, in addition to the depressing economic effects of an ageing population and the problems of immigration, the disparity in the demographic crisis between the different EU countries is itself a disintegrating factor in the EU because of different responses to immigration, pensions and encouragement of births.

The effects of this demographic crisis are gradually being understood, with the workforces in much of the Continental EU projected to fall by up to 40% over the next fifty years. Also the increasing inheritances coming to the next generations as the population falls will inevitably depress demand especially in the housing sector.

In a book aimed at pension fund investors, *The Demographic Investor*[5], Richard Cragg pointed out:

> ' A whole range of consumer-based industries and retailers is likely to be ground between the millstones of falling populations that are saving more, and a rising availability of bequeathed consumer goods. It should in part be seen as the reverse of the multiplier effect that results from a housing boom. Falling demand for homes indirectly impinges on not only construction and building materials but also everything from carpets to curtains, and furniture to fitted kitchens and bathrooms, as well as white goods. In addition, there will be a direct impact on demand for food, drinks and clothing, books and newspapers, and those who supply them will be severely affected.
>
> Retailers, pubs and restaurants will be the most vulnerable, since they are both labour- and property-intensive and furthermore cannot reposition themselves to go for a new customer base, or attack export markets. The closure of major store chains will become widespread throughout Europe from 2010 onwards, and those investing in retail property, or lending money against the security of retail property should stay alert.'

This scenario is reinforced by the work of Professor Tim Congdon of Lombard Street Research who made a special study on depopulation and equity returns in their November 2001 newsletter. The conclusion was 'the combination of adverse demographics and low productivity growth leads to virtual stagnation in living standards in Germany and Italy over a thirty–year period.'[6]

The Treasury's failure to even consider the future demographic shape of the EU and its effect on the EU economy is unacceptable and reflects a backward–looking view of the whole project.

After all, in its recent examination of the Public Finances in EMU 2001 (No. 3.2001), even the European Commission Directorate for Economic and Financial Affairs pointed out in an article on 'The Sustainability of Public Finances in EMU' that the effects of population decline would, other things being equal, deflate EU GDP per head by 15% by 2050[7]. (Note, it is not total GDP but GDP per head, the implications of deflating GDP per head in a declining total population). It also pointed out the impact of pensions and health expenditure to support an ageing population. The implications of the Commission's study quite correctly draws attention to the fact that, other things being equal, a falling population would lead to a fall in total GDP as well as a further fall in GDP per head among the future population. This was after allowing for 33 million immigrant workers to enter the EU by then. In an obscure footnote it also conceded that the demographic projections it was working on then could themselves be far too optimistic both in over–estimating births and underestimating longevity. This was in the context of getting member states to reduce public debt and improve their budgetary positions (see appendix F).

Yet while the EU Commission is at last stirring itself to look into the economic implications of a declining and ageing population, this does not feature in the Treasury Assessment.

As things stand then the objective of the Treasury assessment is to converge with countries which are inevitably going to stagnate economically for most of the next fifty years.

It is explicitly stated in the Treasury document that Britain should do the converging with 'Europe' and that is 'the touchstone'. In view of the poor performance of the euro zone economies and their future depression by the demographic time bomb, this is now a bizarre idea.

Should Britain increase its unemployment so its 'output gap' converges with that of the euro zone at a much higher unemployment rate?

Should Britain subdue its growth rate so it becomes that of Germany, i.e. 1% or less?

INITIAL CAPITAL COST

The Treasury assessment also fails to address one further major point which is the cost of conversion. According to the House of Commons Trade and Industry Committee a reasonable estimate of this would be £30 billion or £2,000 for every family in the UK. A more detailed survey by Chantrey Vellacot DFK estimated the cost at £34.4 billion to £36.2 billion.

This was made up as follows:

Private Sector	£ Billion		
Large companies	(5000+ employees)	10.0	
Large companies	Others	2.0	
Banking sector		2.5	
Retail sector		3.5	-5.0
Utilities		0.3	-0.4
Medium firms		3.6	
Small firms		9.3	
Total Private Sector		**31.2**	**-32.8**
Public Sector			
Central government		3.0	
Local government		0.2	-0.4
Total Public Sector		**3.2**	**-3.4**
Overall cost		**34.4**	**-36.2**

This does not include the cost of diverted effort.

The government has not put forward its own estimate and the public sector costs are very difficult to quantify. Chantrey Vellacot's figures look far too low for the public sector.

GAME THEORY

Andrew Hughes–Hallett, Professor of Macroeconomics at Strathclyde University, used to work for the European Commission and is at present working on another EU project. In his book, 'Britain and the Euro, a Study in Reluctance', which was reviewed in *Scotland on Sunday* on 24th February, 2002, he said:

> ' Britain's reluctance to face joining the euro can also be traced to her experience that staying out did not damage the British economy. The fact that much of the pro–euro debate had argued that Britain could not afford to stay out, when it now appears the opposite may have been true, has certainly done a lot to undermine the credibility of the euro with the British public.'

Getting to the heart of the argument, he argues the Groucho Marx test for membership:

> ' Given the need to have market flexibility to allow markets to adjust and absorb shocks, you would never want to join a monetary union where markets are less flexible than your own – for if you do, you will end up making all the necessary adjustments for yourself and everyone else as well. So the incentive for the U.K. is to stay out.'

> ' But the reverse side of this coin for existing members is for countries with more flexible economies like the U.K. [to be encouraged] to join.'

He drily concludes in line with Groucho's famous joke about club membership: 'That led many to suspect that they would not like to join the union that is prepared to have them as a member.'

ECONOMIC SNAPSHOT YEAR 2000

	U.K.	Euro zone
Economic growth	3.1%	2.7%
Inflation	1.5%	2.75%

Unemployment	5.5%	9.5%
Public Budget Deficit	NIL	2.0%

SUMMARY OF THE TREASURY ASSESSMENT

I have gone into considerable depth in discussing the 1997 Assessment because next time if there is a positive report it will be examined more closely than the negative report produced in 1997. Certainly the Treasury cannot afford to make the simple mistakes and apply the inadequate coverage which marred the 1997 report. This should be one of the major State papers to be produced by any British government and should be magisterial and authoritative.

PART THREE: THE EURO STEEPLECHASE

THE NEXT HURDLE: GETTING THE REFERENDUM BILL THROUGH PARLIAMENT

If the Treasury Assessment is that its five tests are passed, the government can hardly not call a referendum. After all the emphasis placed on the government's desire to join the euro and, having taken the political decision to join, it would be completely bizarre to announce that the Brown tests had been passed, but that the government had no immediate intention of holding a referendum and starting negotiations to join the euro forthwith.

Should the government decide to have an enabling referendum, it will introduce a bill to pass through Parliament laying out the process, the timetable and the question. Some of the necessary framework has been laid down in the Political Parties Elections and Referendums Act 2000 (PPERA) but this only covers some of the necessary parliamentary action to be taken.

In examining the PPERA there is evidence that considerable thought has gone into laying down regulations as to how certain different sorts of elections, that is European, parliamentary and local, will be combined. But what is evident is that the authors did not anticipate a referendum being held at the same time as parliamentary elections or even, if David Trimble has his way, more than one referendum on the same day.

It is worth noting that no British referendum has ever been held on the same day as elections and that this is in line with the recommendations of the Nairne report. It is also very rare for the combination of referendum and election to be held on the same day in any other country.

The reasons are twofold. Governments do not want bad referendum decisions to tarnish the governing party. Also the very reason referendums are held is because they address a cross party or constitutional issue which it is wished to be taken out of the party political arena.

But this leads to a big problem. Will this Parliamentary Bill be in line with Labour's manifesto pledge?

Labour's election manifesto said 'If the government and Parliament recommended entry, the British people will have the final say in a referendum'. Clearly, while the government and Parliament could recommend beginning negotiations at fairly short notice, they could not recommend 'entry to the single currency' before a period of substantial negotiation lasting over many months to resolve issues including the rate of entry and the ERM problem. To ask the British people to decide in a referendum before such negotiations to give up their currency without knowing what they were going to get for their currency and without the terms and conditions of entry being known, would go against their election manifesto pledge. The pledge is on 'entry to the single currency' not 'entry to negotiations which might lead to Britain being in the single currency'. What does the *'Final say"* mean other than to approve or reject completed negotiations?

The Liberal Democrats' manifesto also said: 'We will create a competitive and sound economy enabling British euro entry subject to the decision of the British people in a referendum. Membership of the euro at a competitive and sustainable rate would offer Britain considerable benefits.'

The point about the two parties' manifestoes is important because, while the Electoral Commission has to assess the intelligibility (and fairness) of the question in a referendum, the government still has to get House of Lords' (and House of Commons') approval for its referendum question and process. If the referendum was squarely based within Labour's election manifesto, convention would mean the Lords would be unlikely to vote against it. But an enabling referendum proposal, asking for authority to begin negotiations, while not allowing the electorate to vote on or have the 'final say' on entry, would not fall within Labour's election manifesto (nor that of the Liberal Democrats). There is, therefore, a considerable problem for the government to get the referendum legislation through the House of Lords as things stand.

It is also worth noting that in the National Changeover Plan scenario and the Labour Party manifesto scenario, the House of Lords could derail the process by voting against the principle of entry.

In Denmark, the only other country to have a euro referendum, the electorate was not asked an enabling question at the beginning of negotiations, but was indeed asked for its 'final say' on completed negotiations when all the terms and conditions of entry were embodied in the Folketing law put to the people.

Because of the mystery and confusion surrounding the referendum process, it is worth laying out the rival timetables in tabular form so that the contradictions can be clearly exposed.

THE REFERENDUM PROCESS – MYSTERY AND CONFUSION

National Changeover Plan	**Assumptions of Politicians and Media**	**Labour Party Manifesto**
Government decision to join	Government decision to join	Government decision to join
Referendum (on subject unknown – terms of notification not passed Parliament. N.B. In National Changeover Plan, referendum comes before Parliamentary approval.)	Both Houses of Parliament approve/decline terms of notification (N.B. In Labour's manifesto Parliament decides on entry *before* the referundum.)	Both Houses of Parliament approve/decline terms of notification
Both Houses of Parliament approve/decline terms of notification	Referendum (subject possibly is terms of notification? – British government's opening negotiating position)	
Negotiations with EU	Negotiations with EU	Negotiations with EU
EU Commission proposes or declines to propose British membership and rate of entry	EU Commission proposes or declines to propose British membership and rate of entry	EU Commission proposes or declines to propose British membership and rate of entry
ECOFIN decision	ECOFIN decision	ECOFIN decision
All Euro governments approve	All Euro governments approve	All Euro governments approve
Both Houses of Parliament then approve/decline final terms and rate of entry. (this is not in National Changeover Plan, but essential)	Both Houses of Parliament then approve/decline final terms and rate of entry	British government decision to recommend entry
		Both Houses of Parliament then approve terms and rate of entry
Final say?	Final say ?	Referendum – British people have final say

CAN AN ENABLING REFERENDUM BE HELD

Some of the points which are bound to emerge during a referendum campaign are the requirements to join the ERM and the need to agree a rate of entry.

It would be an unbelievably difficult task for the government to try and win a referendum campaign unless exchange rate stability had been achieved so negotiations to join could start. To have a position where the government would urge a YES vote but would admit that the Britain had not reached sustainable convergence and that they could not say what rate the pound would enter the euro is simply unbelievable. Also they could not start a campaign when they did not know whether Britain would be forced back into the ERM.

As Kenneth Clarke has said during the election for the Conservative Party Leadership:

> ' The government has decided that it will only call a referendum when they have decided the exchange rate is sustainable and competitive. I would have preferred the referendum to be held on the issue of principle with the timing and details having been left to government and Parliament to decide. I think that Tony Blair has effectively sold the pass on that and that in practice any referendum will not be held until most of the details have been settled.'

Moreover in this scenario the pro–euro politicians cannot guarantee the rate of entry. They can only make suggestions as to the rate they wish to go in. As laid out in the Maastricht Treaty, a decision on whether the UK had achieved a high degree of sustainable convergence (of which one of the tests is exchange rate stability) would be taken by the ECOFIN Council before deciding the rate at which it would be fixed irrevocably. This in itself would be contradictory if the two rates were different.

An enabling referendum scenario is a disempowering process with the electorate not knowing the basic facts on which they will vote. It should be contrasted with the Danish situation where the referendum came at the end of detailed negotiations when all the facts were in the hands of the electorate, the Krone was in the ERM and the EU and other governments had given advance consent.

THE ELECTORAL COMMISSION

The Electoral Commission has a statutory role to comment on the intelligibility of any question to be put in a referendum as well as to supervise the actual referendum the broadcasting and the expenditure.

The Chairman of the Commission, Sam Younger, said on the BBC Breakfast with Frost programme 'I think we've got to comment on the fairness'.

It is hard to see how an enabling question, or indeed any question, which did not refer especially to the rate of entry, could pass the intelligibility, let alone the fairness, test. While some voters will vote to join the euro at any rate and some would stay out at any rate, it is reasonable to expect a wide spectrum who will be influenced to vote YES or NO by the exact terms. A voter who held the view that he would be in favour of entering the euro at one rate and not another would not be able to find the question intelligible. So it is impossible to see how an intelligible question could be framed unless the government included in it, its precise proposed rate of entry.

Even if the government indicated the rate at which Britain should join there would be no certainty about it, since the locking together with the euro would happen some two years after the referendum. Nor would the government's indicated rate necessarily be accepted by the EU or the fourteen other governments. Also there might be conditions attached during the negotiations.

After all the government has repeatedly insisted on the importance of the terms of entry and it will make up its mind with full knowledge of these. Why should it expect the voter to do any less?

According to Goldman Sachs, reported in the *Daily Telegraph*: 'the British people cannot be expected to vote to give up the pound when they have no idea how many euros they will get in return.'

THE HUMAN RIGHTS ACT

To call an enabling referendum may breach the Human Rights Act 1998, which incorporates into UK law the provisions of the European Convention on Human Rights. The main challenge would be that freedom of expression under Article

10 must include the corollary requirement to have adequate and unbiased information to make a decision. Plainly the electorate would not have adequate information to make a free expression of opinion in an enabling referendum.

CALENDAR DIFFICULTIES

It is generally taken as read that there will be no euro or any other referendums from 1st November to late March and from July to mid September because of the calendar. This is particularly important in Scotland where polls indicate strongest support for the euro. Most Scottish and other British politicians would only consider a referendum either from late March to late June (3 months) or from early September to mid October (1½ months) so straight away two thirds of the year is off limits. In fact more than that because of the campaign itself which would last 4–6 weeks and would make the autumn period virtually inoperative with only a tiny window in the last three weeks of October.

Clearly the area for manoeuvre is the three months run in spring and early summer but in 2003 the Scottish Parliament elections and the Welsh and Northern Ireland Assembly elections are on 1st May. Moreover in 2004 there is the London Mayoral and Assembly elections in May and the European elections in June. One must remember that the Report of the Commission on the Conduct of Referendums, chaired by Sir Patrick Nairne in 1996, said: 'Referendums should normally be held separately from general elections, European Parliament elections or local government elections'.

LEGAL DIFFICULTIES OF SPRING AND SUMMER REFERENDUMS – BROADCASTING

In the Wilson Case in 1979 it was held by the Court of Appeal in Scotland that the IBA failed to maintain a proper balance in its proposed referendum broadcasts in the then Scottish Referendum.

In particular Lord Ross said (P358 S.C. 1979):

'In my opinion, the sub section would also require inter alia a proper balance to be maintained in relation to programmes on any subject matter. The Scottish Referendum is in itself a subject matter and in my opinion 2(2) (b) places on the respondents a duty to ensure that programmes broadcast by them on the subject of the Referendum maintain a proper balance.'

Should there be a referendum on May 1st 2003, it passes belief that on this occasion the question of the euro which has been described by the Chancellor of the Exchequer as 'the most important the country is likely to face in our generation' will not play a major, probably the major, role in the elections to the Assemblies and the Parliament.

This will have two effects: Where there are elections in areas covering some 18% of the total U.K. population, they will share a political debate over the euro with a whole range of other issues. Plainly this will put the areas on a different and unequal footing to England which will only have one subject to contemplate except for local elections. Further, the euro debate, which will necessarily spill over into programmes and broadcasts dealing with elections, will become biased or impossible to administer with fairness, since the broadcasters will be faced with determining a balanced representation when a majority of the political parties contesting the elections may all veer to one side in the euro debate depending on which Assembly or Parliament is being contested.

Further, on 4th April 1995, the Scottish Court of Appeal upheld a provisional injunction banning a Panorama programme featuring John Major to be broadcast three days before Scottish local elections. It was held that, even though this was a programme on national issues, it could give the Conservatives an unfair advantage in Scottish local elections.

Clearly the two judgements imply that each set of elections or referendums should be treated by the broadcasters as separate subject matters, as Lord Ross said.

In 1995, the result of the Scottish Court of Appeal decision led to the Panorama programme not being shown in Northern Ireland or the North of

England because of 'transmitter shadow'. In effect, this 'transmitter shadow' would mean that the complications would extend into parts of England who would not be interested in what the political parties in Scotland may say about Scottish issues but would be influenced by what they might say on the euro on which English electors had to make a decision.

As for the allocation and interaction of electoral party political broadcasts and referendum broadcasts, this would be even more difficult to sort out unless the question of the euro was banned from party political broadcasts in the areas holding elections. Nothing would further devalue these Assemblies and Parliament and enhance their 'toy town' status than banning election broadcasts on far and away the most important issue affecting the electors.

Beyond the question of the broadcasters' fairness, both in political election and referendum broadcasts, as well as general programmes, there is also the importance of maintaining intelligibility so that the voters know what, when and why they are voting. The scenario of simultaneous events on May 1st does not make for intelligibility.

For this reason Nairne recommended: 'Party political broadcasts should not normally be transmitted during the Referendum campaign'.

LEGAL DIFFICULTIES BEYOND BROADCASTING

There is the principle of equality of treatment of the electorate. This equality of treatment cannot be maintained if some 18% of the electorate are considering other issues than the euro and, following Lord Ross' train of thought, the euro referendum is clearly a subject matter requiring separate and proper balance.

Nairne also raised the question of accounts for expenditure on referendums. These have been laid down in remarkable detail in the PPERA. Once again the holding of elections and referendum on the same day would cause great difficulties in enforcing the provisions of this Act.

So the government could face legal problems if it tried to hold referendums at or around the date of the May 2003 elections or the May and June 1994 elections even if the Election Commission had not rejected this timing for reasons of lack of intelligibility, fairness, broadcasting balance and administrative difficulties

OTHER DATES IN THE SPRING/SUMMER

If May 1st itself be unacceptable what would be acceptable? On the basis of the Irish experience in 2002, a minimum of eight weeks should separate elections and a referendum to allow for proper recuperation by the politicians and, far more important, to give the electorate some time to focus, discuss and determine their voting considerations whether it is on Assembly or Parliament elections or a euro referendum. Indeed, this may be far too short a period to overcome voter fatigue. A markedly lower turnout on either occasion would undermine the validity of either process.

What about Charles Kennedy's proposal of a Euro Referendum on June 6th 2003? Let us consider the position of the Scottish, Welsh and Northern Irish going to the polls on May 1st and then immediately ~~after~~ being plunged into the euro referendum campaign. Apart from the lack of time, it must be regarded as inevitable that there would be a very poor turnout in the areas that had already had elections which would devalue the referendum as well as being intrinsically unfair to the electorate in Scotland, Wales and Northern Ireland.

The Nairne Report's recommendations on referenda, before the PPERA was passed were:

> ' It is essential to allow enough time... for full debate and an adequate public understanding of the issue.'

The first acknowledgement of the calendar difficulties surfaced in the national press in the *Daily Mail* on 3rd April 2002. David Hughes, the political editor, reported that broadcasters had warned the government of the difficulty of combining a referendum with elections and that 'it would be challenged in the courts'. He also reported the Electoral Commission 'had already signalled that having what amounts to three separate elections on the same day would be a logistical nightmare'.

A final point to consider is that there could be a political crisis if England voted against joining the euro but there was an overall UK majority in favour.

PART FOUR

AN ENABLING REFERENDUM WON – WHAT NEXT?

Let us now summarize what the government has to do if it is to win a referendum of the enabling type.

- Gordon Brown has to announce that the Treasury Assessment concludes that the five tests are passed.
- The new Treasury Assessment is reasonably acceptable to business, the City and commentators. It avoids the mistakes of the 1997 assessment.
- It gets the Referendum Bill through the Houses of Parliament.
- It fights off criticism that it has broken Labour's election pledges and that the voters will not have the 'final say'.
- It convinces the Electoral Commission that the question is fair and intelligible. (For a discussion of 'the question' please see our publication 'Why Mr. Blair will not win a Euro Referendum')[4]
- It fights off any legal challenges under the Human Rights Act or to the Electoral Commission for approving unintelligible questions.
- It manages to find a date in the calendar which does not clash with other Parliament or Assembly elections and which satisfies the Electoral Commission and the Courts.
- It actually wins the referendum despite the almost 2:1 majority against it on the polls and with the public not knowing the rate of entry or the terms and conditions of entry. In this case it overturns the history of most referendums in democratic countries which show a move to the status quo during the actual campaign (see Appendix B).

It now has to approach the EU institutions, that is to say, the European Central Bank, the European Commission and the European Parliament, and the other fourteen EU governments, to get their consent for British entry.

The Treaty of Maastricht makes it plain that the decision as to whether Britain has fulfilled the necessary conditions to join the euro, and what is the appropriate entry rate to the euro, barely involves any British citizen. They are matters for proposals from the European Commission which will need to be passed by the ECOFIN Council, by qualified majority voting in the case of consent to entry and by unanimity in the case of the entry rate.

The degree to which British entry needs the permission of the EU institutions and the other fourteen governments will very likely itself become a factor in the euro referendum campaign – since the role of the EU institutions is barely known at present. The opposition to entry will no doubt continuously harp on the fact that the decision of the British electorate can be overridden by unelected EU institutions and the other EU governments and that the British electorate is effectively disempowered. This is hardly attractive campaigning ground for the government.

So the government cannot guarantee that a YES vote will be translated into Britain actually joining the euro, since the rate of entry has first to be proposed by the EU Commission, next commented on by the European Parliament and finally be endorsed by the ECB and the other fourteen governments. If they decide on a rate of entry that is unsuitable to the British government, Labour will be put on the horns of a very painful dilemma. Should it accept the wrong rate and conditions, for which it will be blamed almost indefinitely, or should it come back to the British electorate and tell them that the referendum vote was a waste of time?

It is held by some of both supporters and opponents that Britain's entry into the euro will be smoothly facilitated by the EU and the other fourteen governments. Indeed some opponents of entry believe the EU will do anything to get Britain to enter in order to facilitate the move towards a United States of Europe and to bring Britain's oil and pension assets into economic and monetary union. Even granted this may be the case, and that they give every help mainly by keeping quiet during the process of the referendum, it is likely their attitude will change if there is a YES vote.

A British government approaching the negotiating tables with a positive referendum result, and being dependent on the agreement of the EU and the member states, puts itself in an extremely weak position. The other euro zone countries and the EU institutions will be able to harden their terms, especially on the entry rate, and the British government, if it disagreed with the terms, would be faced with the politically damaging position of either agreeing or going back to the British people and saying the project was off and the referendum vote was worthless.

CONCLUSION

When one considers the hurdles to the government getting Britain into the euro by an enabling referendum, therefore, one must conclude that they are insuperable.

The damaging facts which would emerge during an enabling referendum, both about the disempowering of the electorate by not allowing them to know the key fact on the proposed rate of entry, and the uncertainty over ERM membership, as well as the subordination of the British referendum to the final determination by the un–elected EU institutions and the other fourteen governments, could be devastating for the government and even for the future of Britain in the EU.

Another problem for the government is that in a referendum campaign, ministers cannot take a detached stand. To have any hope of winning they have to be euro enthusiasts and they are likely to be forced into a position where they claim that Britain's entire future depends on a 'YES' vote in a referendum. This is the natural end to which such a campaign inevitably leads.

Political developments in the spring of 2002 have also turned against the euro campaign.

The foundation of LATE (Labour against the Euro) by a group of Labour MP's with close links with the trade unions is an ominous sign for the government. Britain's largest union, UNISON, has begun to campaign against the euro, by distributing a leaflet pointing out that control of public spending would be ceded to the European Central Bank.

There has also been a good deal of movement among those who used to think the EU and the euro were the natural goal of the 'decent, modern and progressive' and the pound supporters were 'old fashioned and reactionary'. The fall from grace of the German economy has been a real shock to those who wish to be thought of as progressive. Above all they do not want to be stranded on the wrong side and if the icon of 'modern and progressive' thought shows signs of leaving the pro–euro camp there could be a rush to change sides. Recent articles in the citadels of pro–EU support, the *Guardian* and the *Financial Times*, showed the trend where Michael White and Martin Wolf, their respective star political commentators, both focused on the uncertainties of the timetable and the huge dangers for the government. While it is still early days there is a definite cultural shift going on with a steady erosion of 'progressive' support for the euro.

Taking into account the present state of public opinion with its consistent 2:1 majority against entry as well as the general history of referendums worldwide showing a strong tendency to revert to the status quo during the actual referendum campaign, it seems that the likely results for a referendum result vary from a bad loss for the government to a catastrophic rejection by possibly a 3:1, or even higher, majority. Contemplating this risk, which could lead to the collapse and resignation of the Blair government, must concern every Labour MP and Labour supporter throughout the country.

APPENDICES

APPENDIX A
HOW THE MEDIA MISLEADS – BBC PROGRAMME SUNDAY 17TH MARCH 2002 – EURO DEBATE

A debate was held on Panorama on the question 'Should Britain join the euro?'. The audience was balanced between those who said they were in favour and those against and the result was a slight negative majority.

It is a mystery why the BBC should hold such a programme. One can only conclude that the programme makers were ignorant of the referendum process.

Representations to the BBC included the following points:

1) The question on the Panorama programme was biased.
   In 1975 NOP constructed a list of possible questions on a scale of bias. The question 'Should the United Kingdom stay in the Common Market?' clearly elicited a greater positive response than a negative response to 'Should the United Kingdom come out of the Common Market?'. The Electoral Commission is aware of the importance of 'yea–saying' in determining the fairness and intelligibility of the question.
2) It would not pass the Electoral Commission's test of intelligibility. To ask the British electorate to give up their currency without knowing the rate of entry or the terms and conditions is to set the electorate an unintelligible question. Nor did it make clear that the pound would be abolished.
3) Such an enabling question would not meet Labour's manifesto pledge. This was not a pledge to consult the electorate before entering negotiations which might lead to Britain's entry into the single currency but the pledge was 'If the government and Parliament recommended entry, the British people will have the final say in a referendum'. Clearly the government could begin negotiations, but it could not recommend 'entry to the single currency' without resolving outstanding issues such as the ERM and the rate of entry. What does the 'final say' mean other than to approve or reject completed negotiations in the same way as the Danish people were invited to endorse

completed negotiations embodied in a Folketing law.

4) Kenneth Clarke, during the Tory Party leadership contest in summer 2001, stated: 'I believe we should only enter the euro when economic conditions are right. I do not believe they have been right so far and I would not join at the present time".

   Similarly the Liberal Democrats have stated Britain could only join at a competitive exchange rate. Charles Kennedy said in a speech to the Federation of Small Business on the 22nd March 2002 'I believe that, so long as we go in at the right exchange rate, Britain would be better off in the euro'. No British politician wishes to enter the euro at the present exchange rate and it was pretty clear from the programme that many of the 'YES' speakers would only enter at a more competitive rate – another bias.

   Taking the question literally, Kenneth Clarke and Charles Kennedy would have had to take the NO side.

5) The question of Britain joining the euro is ultimately not one for the British people. There are two decisions – whether Britain can join and at what rate. In both cases the initiative is with the European Commission. The decision on the Commission's proposal is, in the case of joining, taken by Qualified Majority voting in the EcoFin Council. In the case of the vote on the rate of entry, unanimity is required. It is, therefore, highly misleading to suggest to the audience that it is their decision.

A referendum on an enabling question, as put on the Panorama programme, would not empower the electorate as they would not have the facts (unlike Denmark) to make a decision. The question is, in summary, biased, breaks Labour's election manifesto pledge and is unanswerable unless the voter knows the terms and conditions of entry.

APPENDIX B

From 'How to Lose a Referendum on the Euro' by Nigel Smith,
Chair of the all Party campaign for a 'YES' vote in the 1997 Scottish Devolution Referendum:

> 'The euro–lobby argue that once the Government leads a 'great national debate' and the issues are 'explained', undecided voters will settle for the Government's position. This defies the evidence presented by previous referendum campaigns.'

During referendums the swing tends to be against change

Referendums offer the electorate a choice between 'change' and the 'status quo'. The study of previous referendum campaigns demonstrate a marked conservative trend in opinion during the two or three months usually devoted to a referendum. As voters learn more about the change option and the motives of those proposing it, they become more cautious. What might have initially seemed like a good idea is, during the closer scrutiny of a referendum campaign, seen to carry risks and so the electorate's natural preference for the status quo prevails.

Look at the table below. Only a quarter of these change campaigns managed to increase their support during the official referendum campaign and then only by an average of 10%. Three times as many change campaigns saw support swing away from them and by a much more powerful average of 20%.

Country	'Change' proposed	Swing
Russia	1993 Q2 support	+29%
New Zealand	1992 Change electoral system1	+16%
Norway	1994 European union	+7%
Austria	1994 European union	+6%
Finland	1994 European union	+5%
Quebec	1995 Sovereignty	+3%
Sweden	1994 European union	+1%

Sweden	1980 Nuclear power2	–1%
Scotland	1997 Scottish Parliament	–4%
New Zealand	1993 Preferred PR system	–9%
Northern Ireland	1998 Good Friday agreement	–9%
Denmark	1993 Edinburgh agreement	–10%
Denmark	1992 Maastricht treaty	–11%
Uruguay	1996 Electoral system	–14%
Wales	1997 Devolution	–15%
Australia	1999 Republic	–18%
Ireland	1995 Divorce amendment	–19%
Quebec	1980 Sovereignty association	–22%
Ireland	1992 Maastricht treaty	–22%
Canada	1992 Charlottetown agreement	–22%
Ireland	1986 Divorce amendment	–24%
France	1992 Maastricht treaty	–27%
Ireland	1992 Abortion restriction	–32%
Australia	1988 Rights and freedoms	–40%
Uruguay	1994 Electoral system	–49%

These results, with the exception of Scotland, Wales, Northern Ireland and Quebec, are taken from the Comparative Referendums Project. The initial poll of public opinion is usually dated 2 or 3 months before referendum day but in a few cases is earlier or later.

1 New Zealand multi–option

2 There were three options – in effect the choice was staying nuclear or going non–nuclear.

Changing opinion takes time – look at devolution

One lesson is clear: change ought to be in the lead before a referendum is called. Unless it is about liberty like the referendums in South Africa or East Timor, campaigns proposing less popular or more complicated change need to have conducted long 'pre–campaigns' and won sufficient public support before the referendum is called to allow for the probable swing towards the status quo during the campaign.

In Northern Ireland support for change was won gradually in the two years it took to negotiate the Good Friday Agreement rather than the few weeks of the referendum. In Scotland, opinion moved in favour of the Scottish Parliament over the many years of the Convention.

The Government doesn't have time to win a referendum this Parliament

Support for change is won over many months if not years, not in a few weeks. Electorates react particularly adversely when political elites spring change on them in referendums. Nonetheless, euro enthusiasts like Peter Mandelson have convinced themselves that a 'snap campaign' can turn around public opinion on the euro, despite the evidence of past referendums. This optimism also ignores the existence of an effective, cross–party and well financed campaign which argues for a double status quo: 'Europe yes, euro no'.

I believe the Government would need a very long 'pre–campaign' to move public opinion before it could approach a referendum with any degree of confidence.'

APPENDIX C

Guidelines recommended by the Report on the Commission on the Conduct of Referendums (part only in some cases)

#

9. Wording of the Question

The wording of the question should be short and simple and should not be open to either legal or political challenge after the result is known. Its significance should be *fully* understood and it should, therefore, emerge from a thorough process of Parliamentary and public consultation and media discussion. The exact character of the consultation will depend on the substance of the issue, but the final decision on the wording can best emerge in the context of Parliamentary debate on the legislation which includes the text of the ballot paper. [emphasis added]

11 Notice of a referendum should allow sufficient time for an effective information campaign, for adequate public debate, and for practical arrangements to be made.

It will be necessary to define a formal start to the campaign period (for example, for accounts of expenditure, allocation of campaign broadcasts).

17 A balance should be maintained between the YES and NO viewpoints rather than between different political parties... Party political broadcasts should not normally be transmitted during the Referendum campaign.

18. The date chosen for referendums will turn on political factors. It should allow for full public debate of the issues raised. Referendums should normally be held separately from general elections, European Parliament elections or local government elections.

APPENDIX D

Extracts from the Labour Party and the Liberal Democrat General Election Manifestoes 2001:

LABOUR

'Labour's position on the single currency was set out by the Chancellor in October 1997 and reiterated by the Prime Minister in February 1999. We have made it clear that, provided economic conditions are met, membership of a successful Euro would bring benefits to Britain in terms of jobs, investment and trade. So in principle, we are in favour of joining a successful single currency. But, in practice, the five economic tests we have set out must be met before the government would recommend entry to the single currency. An assessment of the tests will be carried out early in the next Parliament. If the government and Parliament recommended entry, the British people will have the final say in a referendum.

So the choice is between a Conservative Party which will deny the people of Britain the chance to join even if it is in our national interest to do so – and the Labour Party which says that, if it is in our national economic interest, the decision should be made by the British people in a referendum.'

LIBERAL DEMOCRATS

'Labour has been timid over the euro, leaving manufacturing, farming and tourism to suffer the effects of an uncompetitively high value of the pound.

We will create a competitive and sound economy, enabling British euro entry subject to the decision of the British people in a referendum. Membership of the euro at a competitive and sustainable rate would offer Britain considerable benefits. It would end the exchange rate instability which has destroyed many thousands of jobs, safeguard the investment of hundreds of thousands of further jobs by overseas firms and reduce the costs of trade with the rest of the EU. Unlike the Conservatives, we believe the British people deserve the opportunity to have their say in a referendum.'

APPENDIX E

Extracts from 'The National Changeover Plan', by H.M. Treasury

THE TREATY PROCESS FOR JOINING THE SINGLE CURRENCY

The process that would need to be followed with our EU partners to join the single currency is set out in the Maastricht Treaty and the European Communities (Amendment) Act 1993. There are four key stages to this process:– notification, assessment, decision, and adoption of an entry rate for sterling.

Following a positive result in a referendum and Parliamentary endorsement of the terms of the notification, the Government would need to notify the Council of Ministers of the UK's decision to proceed to Stage Three of EMU. The European Commission and the European Central Bank would then report to the EU Council of finance Ministers (ECOFIN) on whether the UK had achieved a high degree of sustainable convergence with the euro area by reference to the following criteria: price stability, sustainable public finances, convergence of long–term interest rates, and exchange rate stability against the euro. The reports would also examine the compatibility of UK legislation, including the legislation governing the Bank of England, with the requirements of the Maastricht Treaty.

A decision on whether the UK fulfilled the necessary conditions to join the single currency would be taken by the ECOFIN Council in the light of these reports and on the basis of a proposal from the European Commission. The final decision would require a qualified majority in the Council. The decision would be taken following discussion among Heads of State or Government and after consulting the European Parliament.

In the event of a positive decision, the ECOFIN Council, acting on a proposal from the European Commission and, after consulting the European Central Bank, would adopt the rate at which sterling would be fixed irrevocably against the euro. The rate would require the unanimous agreement of the participating Member States and the UK. The Council, acting under the same procedure, would also take the other measures necessary for the introduction of the euro in the UK.

A TIMETABLE FOR CHANGEOVER

6. The key stages in the changeover would be:

(i) a Government decision to join the single currency;

(ii) a referendum;

(iii) joining (when sterling would be irrevocably fixed against the euro);

(iv) the introduction of euro notes and coins;

(v) the end of the changeover when sterling would be withdrawn.

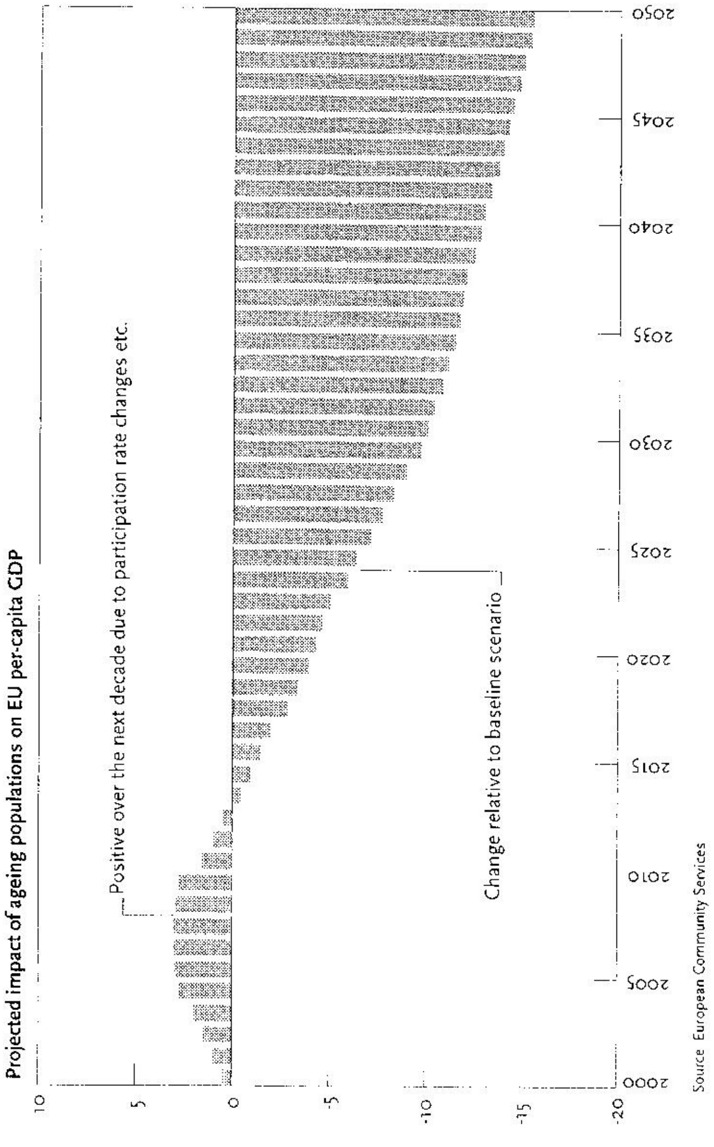
8. The Government believes that the entire changeover, from a Government decision to join right up to the withdrawal of sterling, could be achieved in 40 months or less.

Decision	Referendum	UK Joins	Euro Cash	End
4 months		24–30 months		6 months
		40 months		

9. The period of 4 months from a decision to a referendum would depend on how quickly the practical arrangements for a referendum could be put in place.

10. Before the UK could join, the European Commission and the European Central Bank would need to report to the Council on whether the UK economy had achieved a high degree of sustainable convergence with the euro area. These reports would form the basis of a Council decision on whether or not the UK met the necessary conditions to join. The Council would also need to take other decisions necessary to enable the UK to join the single currency.

APPENDIX F



Projected impact of ageing populations on EU per-capita GDP
Positive over the next decade due to participation rate changes etc.
Change relative to baseline scenario
10
5
0
-5
-10
-15
-20
2000
2005
2010
2015
2020
2025
2030
2035
2040
2045
2050
Source European Community Services

REFERENCES

1. The 'No' Campaign: *'The Economic Case Against the Euro'*, (edited by Janet Bush), London: New Europe, 2001
2. Rawnsley, Andrew: *'Servants of the People'*, London: Penguin, 2001
3. H.M. Treasury: *'UK Membership of the Single Currency. An Assessment of the Five Economic Tests'*: H.M. Treasury 1997 (available free of charge, from the Public Enquiry Unit)
4. Scholefield, Anthony: *'Why Mr. Blair will not win a Euro Referendum'*, London: Futurus, 2001
5. Cragg, Richard: *'The Demographic Investor'*, London: *Financial Times* Management, 1998
6. Lombard Street Research Ltd., *'Monthly Review'*, November 2001
7. Public Finances in EMU 2001 (No. 3.2001), European Commission Directorate for Economic and Financial Affairs

PAST PUBLICATIONS

01 The Death of Europe
How demographic decline will destroy the European Union
ISBN 1-903672-007 .... £3·95

02 Why Mr. Blair will not win a Euro-referendum
ISBN 1-903672-015 .... £3·95