

Too Scared to pop the question? Blair's Britain and the euro

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“We should only be part of the single currency if the economic conditions are met. They are not window-dressing for a political decision. They are fundamental. But if they are met, we should join and if met in this Parliament, we should have the courage of our argument to ask the British people for their consent in the Parliament” Tony Blair’s speech to the Labour Party Conference, October 2 2001.

“Too scared to pop the question?” I actually penned the title to this speech before Prime Minister Tony Blair made his annual speech to the Labour Party Conference at the beginning of this month. Since then the question I pose has become even more pertinent. For that reason, I make no apologies in quoting the passage in full. For more than any other political pronouncement in recent years, it goes to the heart of the debate about the euro in the UK.

QUOTE

To those uninitiated in the leaks, counter-leaks, spin and opaque policy statements that constitute the British euro “debate”, this latest contribution will probably appear a trifle unimpressive. The Prime Minister, in fact, devoted just two minutes of his hour long speech to the euro. Not surprisingly, the bulk of his speech was spent discussing the implications of the terrorist attacks on America. He talked as much of poverty in Africa as he did directly on the euro.

Nor does this short passage represent a stark change in official policy. Mr Blair is careful to emphasise, as he has consistently during the last four years, that before he can hold a euro referendum, five economic ‘tests’ must be met. Assessing the tests is a task which remains the prerogative of his political ally, chief rival and distinctly less euro positive finance minister, Gordon Brown. I will spare you the detail of the tests, other than to say that they aim to reassure voters that the country is ready for, and will benefit from, the single currency. And if that sounds a touch vague, don’t believe the actual tests are any more precise. When and how the tests are met will always be a matter of judgement not science.

Putting politics back into the euro

However, a closer analysis suggests the Prime Minister has actually made two significant departures from previous policy pronouncements. Firstly, he is attempting to describe the benefits of euro membership for Britain in starkly political terms. Within the speech, the Prime Minister draws a clear link between the need for a coordinated international response to the terrorist attacks of September 11th with the need for Britain to join the single currency in order to play its full role in the European Union. It is the manifesto of a convinced internationalist, one that stresses nation states will only be able to fulfill their potential by joining together to tackle the world's problems.

This is not entirely a new departure, the government has always insisted that Britain should take its "rightful" place heart at its heart of Europe. But the events of September 11th appear to have greatly increased the scale of Prime Minister's ambition. As some critics have pointed out, Mr Blair wants to declare war on not just terrorism but also poverty, disease and famine. In this context, British membership of the euro - which has been one of the most divisive issues in British politics during the last few years - appears to be almost a minor side issue.

Until now, the euro debate in the UK has taken place almost entirely in economic terms. Each new set of inward investment figures or survey of mergers and acquisitions activity is carefully scrutinised for evidence of the impact of the euro on Britain's economy.

Let me cite you a recent example. Earlier this month the Bank for International Settlements published a survey of foreign exchange and derivatives market activity. What the survey actually showed was that during the three year period between 1998 and 2001, the City of London recorded a very modest decline in its share of foreign exchange trading from 32.5 per cent to 31.1 per cent - although it remains the largest currency trading centre in the world. Elsewhere in Europe, only Frankfurt recorded an increase in trading: from 4.8 per cent to 5.4 per cent.

Over a three year period, these are hardly startling figures. Nor should currency trading in isolation have much significance to the wider euro debate. It is a high volume, low margin business, employing relatively few traders. Even if the City of London lost all the currency business tomorrow, the impact on Britain's GDP would be negligible.

Not that you would know this from the reaction of pro and anti euro campaigners to the data. For euro-sceptics, the figures were evidence that Britain had prospered outside the euro-zone, coupled with a dark hint that should Britain join the single currency its competitiveness would be undermined. On the other hand, pro-euro campaigners were quick to point out that the volume of currency trading conducted in London had actually fallen for the first time since this survey began in 1989. In contrast, trading in Frankfurt recorded a gain, all be it one of less than a full percentage point. Clear evidence then that Britain's absence from the euro was beginning to hurt the City of London.

Not surprisingly, conducting the debate in such terms has done little to excite the electorate. A full analysis of public opinion surveys reveal that - while there is a hard-core of around 20 per cent implacably opposed to the euro and a similar proportion strongly in favour - the vast majority of the population have no firm views. For the moment, the majority are inclined against joining the euro but most readily admit they do not really understand the arguments.

This is not, of course, to say that the economics does not matter. There are few, even amongst the most ardent pro-Europeans, who believe that the UK economy was ready to join the euro in 1997. Clearly, economic convergence is vital in ensuring the Britain prospers when, and if, it finally joins the single currency. What it does imply, however, is that economics alone will never provide a definitive answer about the pros and cons of single currency membership let alone persuade voters one way or another. Mr Blair appears to have finally woken up to this fact and decided to inject some pure politics into the debate.

Adding courage to pro-euro convictions

Which brings me to the second major shift in the government's approach to the euro signaled in Mr Blair's conference speech. The Prime Minister has explicitly recognised that it will take courage to call and win a euro referendum. Until now the assumption has been that Mr Blair would not call a euro referendum unless he was certain of victory. The Prime Minister has consistently displayed conservative - with a small c - instincts on matters of domestic policy. With the opinion polls and much of the British press running against him on the euro question, Mr Blair has repeatedly shied away from taking his case to the country. Just a month ago, the Prime Minister appeared to have his hands full with the terrorism crisis. Most observers believed that the Prime Minister would be too scared to waste his political capital on a battle he was unlikely to be able to win.

This is clearly no longer the case. The Prime Minister has at last found a clear political argument with which to do battle in favour of the euro. And he is prepared to use his own personal standing - currently close to record highs in the opinion polls - in order to sell his vision to the country.

An anti-euro opposition can aid the government's cause

The government has also been greatly encouraged by the election of a new leader of the right-wing opposition Conservative Party, Iain Duncan-Smith. Mr Duncan Smith has made little effort to disguise his strongly anti-European stance and has promoted a number of fierce euro-sceptics to key posts. There is now a significant element within the Conservative Party which does not just oppose euro membership but wants Britain to withdraw from the EU all together. This will make it easier for the government to portray euro opponents as "little Englanders" - isolationist and even xenophobic in outlook.

The lesson from the Danish euro referendum and more recently from the Irish vote against the Nice Treaty, is that it is actually imperative to have a real opposition on EU issues within the political 'establishment'. While the British debate was never going to be as one-way as that in Denmark - a significant proportion of the press and even senior business figures are opposed to euro membership - there was concern that voters might still feel they were being denied a real choice. British euro-sceptics have long played on grass-root fears that the European project is merely an elitist conspiracy to strip the country of its sovereignty.

This has also been the clear message from some long-term in-depth polling work conducted by pro-Euro groups. To their surprise, they found that pro-business euro arguments found little favour with voters. Despite years of business positive rhetoric, from both Conservative and Labour governments, there is still a deep-seated mistrust about the real motives of senior business figures. Suddenly having a divided corporate sector no longer seems such a handicap.

Tackling the awkward Mr Brown

But let me now return to the question I posed at the start of the speech. I now believe that the Blair government will finally pop the long-awaited question, probably sometime in 2003. And this is not just because the Prime Minister is now finding the courage to face down a hostile press and Conservative Party. It is also a willingness to tackle arguably the biggest obstacle of all to a euro referendum success, Gordon Brown.

In the immediate aftermath of the British election in June, Mr Brown's political stock was extremely high. After all, this was the first Labour Chancellor to successfully steer the party clear of any serious financial crisis during government. Although the economy was clearly slowing down, there were hopes that Britain would for once avoid an outright recession despite the problems in America. The government had also promised to focus its post-election efforts on reviving the country's ailing public services. Mr Brown's role in this project would be pivotal.

The Chancellor's team, including his distinctly euro-sceptical chief economic adviser, Ed Balls, wasted little time in stressing that the euro would have to wait. There would be no quickfire assessment of the five economic tests. Indeed it seemed likely that the Treasury would be able to prevaricate sufficiently to again rule out the possibility of holding a referendum in this Parliament.

But the events of September 11th have radically altered the British political landscape. While Mr Blair has milked his role as chief coalition builder for all its worth, Mr Brown has been left with the unenviable task of contingency planning for a possible recession. There appears little doubt that Mr Blair is now prepared to forego his instinctively cautious political stance and gamble his personal standing on a short, sharp referendum campaign. Mr Brown will have little choice but to agree, perhaps consoling himself with the thought that, win or lose, a referendum may finally hasten Mr

Blair's departure from the top job in British politics. And after nearly a decade festering at the heart of British politics, there is a compelling logic that the euro question should finally be settled once and for all.

This is not to say that Prime Minister's strategy will not unravel almost as quickly as he has been able to revise it in the last few months. It would only take a mis-guided campaign in Afghanistan for his personal standing to evaporate. Equally, events across the rest of Europe could undermine the Prime Minister's new found courage. The anti-EU but strongly pro-US British press has been desperately trying to drive a wedge between Britain and the rest of Europe over the response to September 11th, so far without success.

Just as importantly, the euro-zone itself could also stumble into recession. Its relative under-performance, certainly when compared to the super-strong US economy in the late 90s, has been a problem for British pro-euro campaigners in recent years. While the UK will undoubtedly also feel the pain, it will be difficult to persuade the electorate of the benefits of joining an economic zone with superficially worse problems than our own. Yet for all this, pro-euro campaigners have good cause to be optimistic about the prospects for British membership of the euro.

Lessons for other euro 'outs'?

But what, if anything, does the British debate on the euro mean for Poland and the other Accession countries. Much of my speech has been devoted to an analysis of the finer points of domestic British political opinion. On the surface there are few parallels. When Poland does finally join the EU, it will have no euro opt-out. It is not the world's fourth largest economy, a member of the Group of Seven or possess a currency that still echoes of past Empire. There is a world of difference between the euro scepticism of the pro-US, superficially neo-liberal British right and that of conservative Catholicism in this country.

But Mr Blair's attempt to frame the British euro question in the language of internationalism will resonate across the rest of the continent. This is particularly true of countries that, like Britain, wish to be truly global rather than simply European in outlook. Mr Blair is arguing that Britain needs Europe and the euro, not as an end in itself, but as a means to ensuring it can play a full role on the world stage.

The Prime Minister has long struggled to articulate a clear political philosophy for his post-Socialist Labour party. Now he has found one - one that pits those who believe nation-states can best tackle the major political questions only through international co-operation and those that believe nation-states should primarily act alone. In the case of the euro, the Prime Minister is suggesting that Britain cannot adopt a pick'n'mix approach to multilateralism. Britain will only matter if it pulls its weight in all the international forums open to it, whether they be military, political or economic in nature.

It is this broader debate which is likely to be replicated elsewhere in Europe and especially in countries such as Poland which are not yet full actors on the European and international stage. And whether you agree with the need for euro membership or not, Mr Blair is correct in one aspect at least. It is a debate worth having.

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