



Single Currency outs awaiting 'eurocreep'

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The governments of Britain, Denmark and Sweden will be as anxiously watching the introduction of euro notes and coins this January as the rest of Europe. For while these three euro 'outs' have chosen not directly to participate in the final stages of Economic and Monetary Union, they cannot avoid its economic and political impact. As Tony Blair, the British Prime Minister, made clear in a recent speech: "the euro's success is critical for us all".

The pro-euro stance of the leaders of these countries remains to a lesser or greater degree out of step with their sceptical electorates. However, each will be hoping that their voters will begin to warm to the single currency now that the euro has finally become a hard reality. In particular, there is a growing expectation that the euro will become a de facto second currency in all three countries — a process dubbed as "euro-creep".

The success, or failure, of the changeover will undoubtedly flavour the often fractious debate about euro membership for much of the coming year. The largely euro-sceptical British press has already begun to run scare stories about alleged problems with the changeover process. Those opposed to British EMU membership are keen to display the introduction of the new currency as a costly and cumbersome process. It seems certain that these negative stories will reach a crescendo in the first part of the New Year with newspapers packed with tales of counterfeiters, unscrupulous shopkeepers and little old ladies struggling to understand the new currency.

That there will be mistakes is inevitable. A transition as large and complex as the simultaneous introduction of the euro in twelve different countries has never been attempted before. Yet Britain's own experience of a currency switchover — the decimalisation of the pound in 1971 — gives grounds for optimism. The press reported many similar scare stories in the lead up to the changeover. In the event, however, the introduction of the new system proceeded smoothly. There was no real evidence that shopkeepers used the changeover as an excuse to inflate prices or exploit vulnerable consumers.

The governments of the three euro outs are clearly hopeful that the experience of decimalisation will be replicated with the introduction of euro notes and coins. For a relatively painless transition to a "hard" euro is emerging as a key element in their various plans to hold a referendum on euro membership.

Certainly the arrival of euro notes and coins is likely to prove a psychological watershed for their sceptical electorates. While the debate about whether these

countries should join the single currency has raged fiercely for almost a decade, it has been conducted purely in theoretical terms. Now, at last, the significant proportion of the British, Danish and Swedish population which takes its holidays in Continental Europe each year will have the opportunity to become accustomed to the new currency. British holidaymakers alone make around 40 million visits to euro-zone countries each year.

The belief is that the mundane reality of handling actual notes and coins will make the euro seem a touch less frightening. An analysis of the “no” vote in the Danish euro referendum suggests that opposition to the new currency is based as much on fear of change and a lack of understanding of the major issues, rather than an unyielding commitment to preserving national currencies. Pro-euro campaigners believe that it will be far easier to ground the euro debate in practical realities —and in particular convey what the euro ‘outs’ are missing by not being part of the euro-zone —once notes and coins are actually in circulation.

Almost as important to this process of ‘euro-creep’ will be the anticipated rapid spread of euro notes and coins within the euro ‘out’ countries themselves. In Britain, the euro will be accepted by companies as diverse as Harrods, petrol retailer BP and High Street store Marks & Spencer. Even Dixons, an electrical retailer run by prominent anti-euro campaigner Sir Stanley Kalms, has confirmed it will be happy to take the new currency. In fact, a recent survey suggested that as many as half of Britain’s retailers aim to be able to accept euros from the 13 million people who travel to the UK from euro-zone countries each year. In Sweden, major retailers and even some leisure companies have gone one step further and promised to provide dual pricing on goods and menus.

Many small businesses in the euro ‘out’ countries will also quickly have to learn to deal with the euro, even if they are not major exporters to the euro-zone. In Britain, for example, car manufacturers such as Vauxhall and Toyota have said they will in future pay all their suppliers in euros in order to reduce their own currency costs.

While this process of “euro creep” should help to reduce opposition to the single currency, it will not be sufficient alone to ensure Britain, Denmark and Sweden finally join the euro-zone. The governments in all three euro ‘out’ countries still face formidable political obstacles to euro membership. In Denmark, the new right of centre Prime Minister, Anders Fogh Rasmussen has said he will not hurry to hold a new referendum. Although opinion polls now suggest that Danes would narrowly vote in favour of euro membership, the bruising experience of the ‘no’ vote means the government is highly unlikely to move unless it is very confident of a positive response. There is a strong possibility that Denmark will now await the outcome of a referendum in Sweden or Britain before putting the single currency to the vote again.

In Sweden, opinion polls are becoming increasingly favourable and Goran Persson, the Prime Minister, has made noises about holding a euro referendum in 2003. Unlike the Danish currency, which is effectively locked into the single currency anyway, the Swedish krone has fallen heavily against the euro in the past year. However, there is still strong grass-roots opposition within Mr Persson’s Social Democratic Party to euro membership and the general election, scheduled for next autumn, could yet derail his referendum plans.

However, it is the British Prime Minister, Tony Blair, who faces the toughest challenge in persuading a sceptical electorate to vote in favour of euro membership. Although Mr Blair has made increasingly positive noises about the single currency in recent months, opinion polls show that a large majority would vote ‘no’ in a euro referendum. Unlike Denmark and Sweden, a significant proportion of the press, as well as the opposition Conservative Party, are against joining the single currency. Mr Blair’s powerful Chancellor, Gordon Brown, also remains unpersuaded of the merits of euro membership.

Pro-euro politicians in Britain fear that, despite the expected benefits of the arrival of euro notes and coins, the euro-zone itself could slide in recession during the next twelve months. The perceived underperformance of the euro-zone economy, especially in comparison with the United States, has been a key factor in colouring anti-euro sentiment in Britain. It will be extremely difficult to persuade the British electorate of the merits of euro membership if Europe continues to suffer economic woes.

The British government also has severe reservations about the ability of the euro-zone’s existing institutional structure to respond effectively to the economic downturn. In particular, it is increasingly concerned by the European Central Bank’s apparently slow response to the economic fallout from the September 11th crisis. The British Treasury is also highly critical of the terms of the EU’s Stability and Growth Pact, fearing that they may prove too restrictive in an economic slowdown. The Pact prescribes the actions that the EU’s Council of finance ministers may take against euro-zone governments which breach a 3 per cent budget deficit limit, including the possibility of fines. Ironically, Germany—which was instrumental in establishing the pact’s strict rules—is likely to run a deficit perilously close to this ceiling in 2002.

Some euro-zone countries, most notably France, share these concerns. However, as an euro ‘out’, Britain has little hope of being able to force reform. Instead, the government will be left sitting on the sidelines, praying that its euro referendum hopes are not scuppered by a euro-zone recession. For this reason, the British government will be hoping, above all, that consumers across Europe take to the new euro notes and coins sufficiently quickly to ensure the euro zone economy quickly returns to growth.