‘He wouldn't say yes…' from The Guardian (28 October 1997)

Caption: On 28 October 1997, the British left-wing newspaper The Guardian describes the attitude of the Chancellor of the Exchequer, Gordon Brown, to UK adoption of the single European currency.

Source: The Guardian. 28.10.1997, n° 47 006. Manchester: The Manchester Guardian and Evening News Ltd.

URL: http://www.cvce.eu/obj/he_wouldn_t_say_yes_from_the_guardian_28_october_1997-en-08f6fbd9-873a-4d4d-8108-7db00fb7c945.html

Publication date: 15/09/2012

He wouldn't say yes...

But Mr Brown was wise to hedge his options

IT WAS a tragedy not of his making that Gordon Brown's attempt to reassure the markets about monetary union coincided with a meltdown on Wall Street which forced trading to be suspended for half an hour. Back home the best way to make sense of Mr Brown's statement is to presume that the mood music is more important than the words. He was expected to make his stance on monetary union unambiguous even to such experts in ambiguity as the Opposition. But he neither definitively ruled out joining EMU during the current parliamentary session nor definitively ruled it in during the next one. Yesterday, however, may yet turn out to be a defining moment in Britain's on-off romance with EMU. Mr Brown not only made it clear that the Government wants to join as early as possible during the next parliament (as long as the economic conditions allow it) but he is also taking steps to ensure that companies are ready for the change. Plans include setting up a strong committee to help business prepare for full membership and to encourage acceptance of euros in the UK in advance.

The surprise in Mr Brown's statement was not that he kept his options open for the next parliament – an entirely sensible precaution given the huge downside risks of premature membership – but that he didn't rule membership out before the next election if only to give unambiguous signals to the markets. Given the unpopularity of the project in the country-at-large, the publication of yesterday's gloomy short-term prognosis by the Treasury and the need to hold a referendum first, it is difficult to see what conjunction of unforseeable circumstances could lead to earlier entry. At what stage we join in future will depend on how far the economy passes five tests set for it by the Treasury. The first of these – sustainable convergence between the UK and other EMU economies is crucial. It would be a disaster if the proposed European Central Bank put up interest rates because the rest of Europe was booming while Britain required much lower rates to get out of recession. At present the UK is several years further up the business cycle than other EMU applicant countries (which is why interest rates are seven per cent here and only three per cent in France and Germany). It may take many years to achieve convergence, though optimists think that if the UK joined in a few years' time when it was facing a downswing, it could hitch itself to a booming Euro-recovery.

The Treasury is right to emphasise employment as one of the tests, but it must be added that concern for employment is not one of the criteria that the proposed Euro Central Bank (unlike the Federal Reserve in New York) is statutorily bound to take into consideration when it changes interest rates. And on what scale of priorities does the Treasury make the impact of EMU on financial services one of its five criteria but not manufacturing? If this means that it will be prepared to enter EMU at an exchange rate that the City can live with but which could strangle manufacturing then that is a very worrying prospect indeed.

That apart, the general thrust of the policy is right: an unambiguous enthusiasm to join when it is looks as though the UK economy could reap benefits from membership while accelerating business preparations for the coming of the euro. This will be useful even if we don't join because the euro will be a fact of life in Britain either way. Companies like Marks & Spencer have already said they will accept payment in euros. EMU may prove a success but the economic risks attached to premature entry still outweigh the political benefits of joining from the start.