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opinion

Britain and the euro: how to reap the benefits

By Katinka Barysch

★ The British government predicts that joining the euro would boost domestic investment, employment and growth – provided the economic conditions are right. It has promised to implement measures to ensure that Britain will benefit from the euro.

★ Yet the government's strategy remains vague. Continued uncertainty entails costs. By setting a target date for eurozone entry, the government could still minimise the costs of delay.

★ If the Treasury re-examines the economic case for entry, it should reverse the burden of proof – only if new economic problems have emerged should the referendum be postponed further.

The main thrust of the government's euro announcement on June 9th surprised hardly anyone. Britain, the government concludes, would gain from eurozone entry in the medium to long-term, but is not quite ready to do so. Further reforms are necessary. The referendum has been postponed. The government still insists that its verdict is based on the economic pros and cons of British euro membership. Gordon Brown's speech in the Commons on June 9th was backed up by 18 economic studies, amounting to almost 2,000 pages. And yet, few people believe that the government's decision was based entirely, or even predominantly, on the outcome of the studies.

Economic data are rarely 'clear and unambiguous'. Economists and officials have to interpret the figures if they are to serve as the basis for forward-looking policy decisions. Inevitably, economists, journalists and politicians disagree about the interpretation of the Treasury's background studies.

The Treasury concludes that two of its five economic tests have not been met. Coincidentally, these are the two tests that really matter, namely whether Britain has sufficiently converged with the eurozone to allow it to live comfortably with the interest rates of the European Central Bank (ECB); and whether the economy is flexible enough to deal with economic shocks that are not shared by its European partners. The Treasury's assessment of the other economic tests – whether the euro would be good for investment, growth and employment – hinges on its verdict on the first two: only if there is sustainable convergence and sufficient flexiblity will Britain's economy flourish within the euro area. The last test – whether the City would do better with the euro than without – was already met in 1997, and that assessment has not changed.

The Treasury's argument that the British economy has not yet sufficiently converged with that of the eurozone is difficult to reconcile with the political imperative to leave the door open for a euro referendum during this parliament. According to the Treasury, the lack of convergence is caused by deep-rooted, structural differences between Britain and the continental European economies, rather than by short-term economic fluctuations. It is therefore not something that can be remedied in the short-term – not even by the policy measures that the government will now implement to support convergence. Although the Treasury has promised to look at the economics of eurozone entry again in next year's budget, it is unlikely to conclude that fundamental change has taken place. A referendum in this parliament therefore looks rather unlikely.

However, the government's assessment and political commitment to entry is strong enough to allow for a referendum soon after the next election, which will probably take place in spring 2005. Gordon Brown clearly spelled out that Britain would gain from adopting the euro. Trade and investment would rise, growth would be faster and more jobs would be created. But he warned that Britain's economy could only reap these benefits once it has met the convergence and flexibility tests. The Treasury did not, however, provide a yardstick against which to measure progress on these tests. As explained below, many independent economists think that the tests have already been met. But this does not mean that there are no risks associated with early eurozone membership. Most of these risks, however, are short-term, including:

★ sterling's recent fall proves to be temporary and the currency returns to a level that most economists see as overvalued;

★ the UK housing price bubble bursts, which could force Britain to join the single currency with a deflated and lacklustre economy;

★ the German economy slips back into recession, making it easier for the anti-European press to claim – wrongly – that the euro is strangling the European economy;

★ lingering political divisions between Britain and its European neighbours over Iraq might complicate Britain's euro entry;

★ the UK's public finances deteriorate further and the budget deficit breaches 3 per cent of GDP in 2004. While the assessment of fiscal policy under the Stability and Growth Pact involves a large degree of political discretion, the same does not hold true for the eurozone entry criteria. The EU's Maastricht treaty (as agreed and ratified by the UK) says that only countries with deficits below 3 per cent of GDP may join the euro.

★ and, most importantly, the government may lose an early referendum on the euro.

In view of these risks, the government is understandably cautious about an early entry date. But it cannot justify sitting on the fence any longer. Britain would gain from eurozone membership in the medium- to long run while it would lose from continued uncertainty. The best strategy for maximising the gains and minimising the losses would have been for the government to set a target date for eurozone entry, and clearly lay out what needs to be done in order to be ready by that date.

Trade could rise by 70 per cent

Anti-euro campaigners often argue that Britain should concentrate on its special relationship with the US, rather than tying its fate to the eurozone economy. In fact, the British economy is already inexorably and profitably linked to the rest of Europe. Last year, Britain sent 59 per cent of its exports to the EU. The US, on the other hand, took only 15 per cent of UK exports. Similarly, Britain imports far more from the eurozone than from the US. Joining the euro would remove the exchange rate risk for almost 60 per cent of British trade.

If Britain joined the eurozone, it is likely to replicate the experience of the existing members and enjoy a rapid increase in trade. Eurozone members, including France and Germany, have seen their trade with each other rise significantly since the introduction of the euro – on average, the increase amounted to 3 per cent of GDP in 1999-2001. Britain's trade with the EU, meanwhile, shrank from 23.2 per cent of national output in 1998 to 22.8 per cent in 2001. According to one recent study, the level of trade between the current euro 'ins' has risen by 29 per cent since the single currency was introduced.[1] Since the UK has historically suffered from higher exchange rate volatility than the continental European countries, it stands to gain even more. The Treasury thinks that the euro could boost British trade by as much as 50 per cent over 30 years.

[1] *David Begg et al: 'The consequences of saying no', Britain in Europe, May 2003.*

Joining the euro would provide a major boost to the British export sector. But would the interest rates set by the European Central Bank (ECB) be right for the British economy as a whole? If rates were set too high, they could choke off domestic demand. If they were too low, they could fuel an unsustainable economic boom.

Convergence: sink and swim together

This is why the Chancellor has made durable and sustainable economic convergence between Britain and the eurozone one of the key conditions for euro entry. This test has two parts. It asks whether the British business cycle is aligned with that of the rest of Europe. If the UK economy is out of sync with those in the eurozone, ECB interest rates are less likely to suit UK economic needs. The test also asks whether – irrespective of fluctuations in growth rates – ECB interest rates would have a similar impact in the UK and the other eurozone economies; in other words, whether there has been structural convergence between Britain and the eurozone.

On the first question, the answer is quite clearly yes. Britain has been gradually moving closer to the rest of Europe in recent decades. Business cycles moved out of step in the early 1990s as the UK dropped out of the exchange rate mechanism (ERM) and Germany boomed in the immediate aftermath of reunification. But over the last five years, UK growth has risen and fallen in unison with the eurozone. The correlation would be close to perfect if it were not for Germany's lacklustre performance. Germany is still nurturing a severe hangover from its reunification party in the early 1990s. But reunification – and the economic blow this dealt to the traditionally strong German economy – was a one-off event. It does not reflect long-term trends.

The proportion of spare capacity in the UK and the eurozone economies is now very similar. This matters because inflation is less likely to pick up in an economy that has a lot of slack than in one that is already using all its resources. This cyclical convergence is reflected in the rapid narrowing of the interest rate gap between the UK and the eurozone,until recently. Although the gap has been widening again in 2003, this is mainly due to the pound's fall against the euro and higher house price inflation in Britain than on the continent. Financial markets, meanwhile, appear to believe in convergence – as shown by the fact that UK long-term interest rates are already identical to those in the eurozone.

The Treasury agrees that there has been significant progress with cyclical convergence. But it has doubts whether this is sustainable, given the remaining structural differences between the UK economy and those of continental Europe. Is the UK economy – with its large services sector, its preference for owner-occupied housing and North Sea oil reserves – not utterly different from those of the eurozone? It is true that Britain relies a little less on manufacturing than Germany, and its public sector is smaller than that of France. But these differences are not as important as the similarities. Indicators for consumption, investment, industrial production and financial sector development are similar for all the large EU economies. EU integration – in particular the internal market programme – has itself played a crucial role in making these economies converge.

The way Britain borrows

The Treasury is mainly worried that the British economy is more sensitive to interest rate changes than those in the current eurozone. ECB decisions would, so the argument goes, have much more serious repercussions for the British economy than, say, the French one. But the evidence on this is not conclusive. Studies by the Bank for International Settlements, the US Federal Reserve, the Bank of England and the European Commission have found only limited evidence that the monetary transmission mechanism in Britain works differently from Germany, Italy or France. In any case, these findings are rapidly becoming out of date. In the past, eurozone companies relied heavily on bank lending to finance investment. As a result, interest rate changes often had a large impact on investment demand. Since the creation of the euro – and with it a large and liquid market for corporate bonds – German and Italian companies have progressively moved towards borrowing more in capital markets than from banks. The financing structure has therefore become more like that in the UK.

The same is not true for the financing structure of private consumption. Contrary to widespread perceptions, Britain is not unique in having a high degree of home ownership. Most people in Greece, Ireland and Spain also live in their own property. Nor does Britain's high levels of outstanding mortgage debt provide a reason against eurozone membership. The Dutch, for example, have more mortgage debt as a share of GDP than the British. Yet they live comfortably within the eurozone.

What is unusual in Britain is the way house purchases are financed, namely through flexible-rate mortgages. This preference for short-term, flexible finance is partly a result of Britain's chequered history of economic policy making. For decades successive governments used the budget and the Bank of England to stimulate the economy ahead of national elections – only to choke off growth afterwards to avoid overheating. Accustomed to boom and bust, British consumers preferred to hedge their bets by borrowing at flexible rates. Germans, on the other hand, trusted the stability-oriented policies of the Bundesbank and bought their properties using long-term, fixed rate loans. The second reason why Britain relies more heavily on short-term, variable rate finance is that banks and building societies tend to rely on retail deposits, which savers can withdraw at short notice. German banks, on the other hand, issue long-term securities (so-called Pfandbriefe) to finance fixed-rate mortgage loans of up to 30 years.

These differences are not set in stone. The UK market for fixed-rate mortgages has grown rapidly since the Bank of England gained independence. Nevertheless, 60 per cent of all outstanding UK mortgages are variable rate, while most fixed rate mortgages are only available for limited periods of time. The Treasury is now – somewhat belatedly – looking at how this institutional barrier to eurozone entry could be overcome. Economists have suggested that both Britain and the continental European countries could do with a shake-up of their mortgage markets, irrespective of whether they are members of the euro. One possible solution is the creation of a mortgage market similar to that in the US. Banks would provide long-term, fixed-rate mortgages to households and then sell these assets into a secondary market (which in the US is maintained by the formerly state-owned mortgage lender, Fannie Mae). Since long-term borrowing rates in the eurozone and the UK are already identical, euro entry would have few repercussions for consumption if UK mortgages were moved to long-term, fixed-rate financing.

Another British concern is that the ECB's inflation target could be too tight for the British economy. The ECB has so far aimed to keep average eurozone inflation below 2 per cent. In theory, this is stricter than the Bank of England's own inflation target of 2.5 per cent – although exact comparisons are complicated by the fact that the Bank of England uses a different measure of inflation (RPIX) from the ECB. In practice, the ECB has taken a rather more relaxed attitude. It has continued cutting interest rates even though inflation remained stubbornly above 2 per cent. In May 2003, the ECB brought its official target more in line with its monetary policy by announcing that it would henceforth target a rate of "close to 2 per cent". It also reassured its critics that it would not let inflation fall towards zero, which entails the risk of letting parts of the eurozone economy slip into damaging deflation. But Brown is right to call for a more thorough re-definition of the ECB's targets.

Flexibility: nimbler than most

Economic convergence makes it unlikely that the UK would suffer from an external economic blow while the rest of the eurozone continued to grow. But one cannot rule it out altogether. Therefore, the Chancellor has made flexibility the second economic test for euro membership. Flexible economies find it much easier to adjust to changed circumstances than rigid ones, even in the absence of traditional shock absorbers such as the exchange rate and an independent monetary policy.

The UK scores as one of Europe's most nimble economies. Its labour markets do not suffer from the rigidities that are frequent on the continent. Wages are flexible, hiring and firing restrictions are minimal and workers change jobs frequently. The UK has also liberalised its markets for goods and services to a greater extent than most other EU countries. The fact that the UK economy has continued growing in recent years, despite the overvalued pound, is a sign of just how flexible and adjustable British businesses and workers have become.

Nevertheless, the Treasury worries about flexibility in the British economy, in particular rigidities in regional wage bargainings. Brown therefore announced that the Treasury would henceforth publish regional inflation figures so that wages can be set with regional conditions in mind. From an economic perspective, this is of course highly desirable. But it will also show that the British economy – just like the eurozone economy – includes fast-growing areas as well as sluggish ones, and that differences in inflation persist despite (or because of) a single interest interest rate.

While few people doubt that the British economy is well equipped to live within the eurozone, many worry about the inflexibility of Germany, France and other continental European economies. However, it is not immediately obvious why this should matter for the British decision. If Britain scores better on flexibility than its neighbours, that simply means that British businesses will have a competitive advantage in the eurozone.

Investment: losing out already?

The Chancellor's third economic test – whether joining the eurozone would be good for investment – is closely related to the first two. If the UK economy does well within the eurozone, it is likely to be an attractive place to do business and invest in. The investment test has several related facets, namely the effect of the euro on private investment from within the UK, the attractiveness of the UK as a foreign investment location, and its implications for the government's public investment plans.

Private businesses within the UK would obviously like to be able to borrow at low and stable interest rates. They would also like to have access to the large and growing pool of euro-denominated savings without having to worry about exchange rate risks. Moreover, eurozone entry would open up new business opportunities in the internal market and thus raise the return on future investments. Together, these factors should help to boost the UK's investment rate towards the higher levels already recorded in Germany and France.

Foreign businesses, too, tend to like the euro since most of them now operate on a pan-European basis. The single currency would not only eliminate exchange rate risks for transactions between different countries, it would also allow them to operate in a more unified, deeply integrated market of more than 300 million consumers. There is some evidence that the UK's decision not to join the euro in the first wave has already made it a less attractive location for foreign businesses. Whether measured in terms of money flows or numbers of projects, foreign direct investment (FDI) in the UK has fallen sharply in recent years. In large part, this may be related to a more adverse economic climate and the sharp drop in the number of cross-border mergers and acquisitions (M&A) that nowadays account for a large share of FDI. But the eurozone economies have not seen the same drop in FDI. As a result, the UK's share of total FDI coming into the EU has fallen from a peak of 60 per cent in the late 1990s to less than 25 per cent in 2001 and probably even lower thereafter.

Since FDI flows tend to fluctuate wildly and are often distorted by large M&A deals, recent trends may not be a good guide to the future. However, surveys suggest businesses may be finding Britain a less attractive destination for FDI. In a recent Financial Times poll among 40 large foreign companies active in Britain, 61 per cent said they would reconsider their investments if the government failed to make up its mind on the euro.

The euro and the NHS

Lastly, the government fears that the euro may have implications for public investment, in particular its efforts to improve public services. Britain has traditionally spent much less on public investment than the continental European countries, some of which therefore enjoy better public transport, healthcare and education systems. Although public investment spending in the UK is now growing at more than 10 per cent a year, it still only accounts for 1.4 per cent of GDP, compared with shares of closer to 3 per cent in some other EU countries. The Treasury wants to make sure that EU fiscal rules – enshrined in the Stability and Growth Pact – do not get in the way of further budget increases for the NHS, education and other public services.

Unlike the Treasury's own fiscal rules, the EU's pact does not generally allow governments to borrow for investment. It also requires member-states to keep their budget deficits below 3 per cent of GDP – although EU countries have a certain amount of discretion when they assess whether a deficit is 'excessive'. Since the UK budget deficit is already rising fast – the European Commission expects it to reach 2.5 per cent of GDP this year – Britain fears that the EU could try to limit its room for future borrowing.

However, this fear should not be exaggerated. The European Commission, which monitors EU budgets, has shown a great deal of understanding for Britain's efforts to raise the standard of its public services. More importantly, the EU is currently reviewing its fiscal rules. EU leaders adopted some modifications to the Stability Pact that are very much in the UK's interest at their summit in March 2003. The EU will henceforth pay more attention to cyclical swings in budget revenue and expenditure, to make sure the pact does not force governments to tighten fiscal policy at times of slowing economic growth. This is important because countries that no longer set their own interest rates may want to rely more on their state budgets to stabilise economic output. Moreover, EU budget surveillance will move away from a narrow focus on numerical targets and towards the 'quality of public finances'. In other words, the EU may well allow low-debt countries, such as the UK, to borrow more if they spend the money on growth-boosting investments. These modifications are an important first step towards a more sensible fiscal framework for the eurozone. With Germany, France and Portugal all in breach of the Pact's rules, further reform looks highly likely.

The City: no grounds for complacency

The Treasury's fourth economic test is the impact of euro membership on the UK's financial services sector. Already in its 1997 assessment, the Treasury predicted that the City would benefit from the introduction of the euro, irrespective of whether Britain joined it. But it also acknowledged that City banks and firms would find it easier to exploit new opportunities from within the eurozone.

This assessment has changed little. UK financial services have done well since the euro was introduced in 1999, especially in the wholesale markets that are the mainstay of the City. For example, UK-based banks (primarily American or European owned) have captured a large chunk of the market of euro-denominated corporate bonds that has thrived since 1999. The City retains a clear competitive advantage by drawing together so many different businesses, back-up services and experts into what economists term a cluster. It is therefore unlikely that the City will lose its leading role in investment banking or foreign exchange trading in the near future. In other areas, such as derivatives trading, Frankfurt has taken the lead, although it is unclear how far this is the result of Germany's eurozone membership.

Nevertheless, the UK's financial services sector cannot be complacent. While the City dominates wholesale financial markets in Europe, the same is not true of the retail sector, where cross-border integration is at an early stage. The dismantling of national regulatory restrictions, combined with the absence of currency risk and access to a huge pool of euro-denominated savings, could give eurozone high-street banks a head-start over their UK rivals.

Regulatory change, in particular the EU's Financial Services Action Plan, is a major driving force for European financial market integration. So far, the UK has managed to make its voice heard. But Britain's influence in European financial services regulation could suffer if it was perceived as a permanent outsider to the eurozone.

Growth and jobs: a European future

It is odd that the government has made a special entry test for financial services but not for other sectors. Financial services account for 6 per cent of UK GDP while the manufacturing sector is responsible for 20 per cent. Manufacturing's share, however, is declining, not least because the sector has suffered greatly from sterling's strength against the euro in recent years. Industrial production has fallen for three years running. Rates of profitability are among the lowest in Europe. Investment spending in the manufacturing sector was contracting at double-digit rates in 2002.

The pound's depreciation since the beginning of the year has alleviated many of these problems. At around 70 pence to the euro, the pound is now close to what most economists think is a viable entry rate. However, there is no guarantee that this rate will be sustained until Britain eventually joins. The pound has traditionally been among the most volatile European currencies. Continued uncertainty about Britain's eurozone entry itself could lead to further volatility. On the other hand, if the government announced a target date for entry, together with a desired entry rate, it would be more likely to stabilise the currency. The manufacturing sector would certainly breathe a sigh of relief.

The fate of the manufacturing sector is crucial for the Treasury's final economic test, namely whether euro membership would be good for economic growth and job creation. While the other four tests are vague, the last one is clearly impossible to answer with any degree of precision. However, since available evidence suggests that the UK economy has converged, is highly flexible and now benefits from a more competitive exchange rate, it is unlikely to suffer great damage from joining the euro. As discussed above, eurozone membership is likely to boost foreign trade and deepen Britain's integration with the single market, thus intensifying competition and improving the conditions for higher investment and productivity growth.

No one can predict with certainty the UK's economic performance after entering the eurozone. However, staying outside is by no means a safe option. The costs of delaying eurozone membership, or even putting it off indefinitely, could be considerable. The apparent diversion of foreign investment towards the eurozone already shows that the Britain cannot rely on the status quo. The euro is boosting trade, investment and competitiveness in the eurozone. So far, the euro has not done Britain any major damage (economists think that British exports may even have benefited from the additional demand the euro has created on the continent). But by staying outside, Britain foregoes the much more substantial benefits that would be available within the eurozone.

Together with its assessment on June 9th, the government has promised a step-change in its approach to the euro. But its strategy remains ambiguous. This will exacerbate the existing confusion among the British people, its European neighbours, local and foreign businesses and the financial markets. The government should have admitted that the economic case for the euro could never be completely proven. The decision is between the risks of joining and the likely costs of staying out. On balance, the medium and long-term economic benefits of euro entry outweigh the short-term economic and political risks. Thus the government should have had the courage to set a target date for entry. By setting a prospective entry date, the government would:

★ stem the loss of foreign investment. Foreign businesses could rest assured that Britain will remain a good location from which to supply a growing European market.

★ maintain Britain's influence in the EU. The fact that Britain is refusing to participate in two of the EU's most important ventures – the euro and passport-free travel under the Schengen arrangement – is weakening its credibility. By confirming its commitment to future eurozone entry, the UK could fortify its position ahead of crucial EU negotiations, for example on the EU constitution and the next budget.

★ give Britain the opportunity to help reform the EU's fiscal and monetary framework. Paradoxically, Britain is ideally suited to play a major part in reform debates about the ECB and the Stability and Growth Pact. But outside the euro is in danger of losing the political clout to do so. Britain can offer viable alternatives, in the form of its own rules for monetary policy and the budget. And – unlike Germany, France and Italy – it could put forward radical reform proposals without being accused of being self-serving. However, while Britain's contribution would be valuable, it also risks being devalued if other European countries perceive Britain as a perpetual waverer. Much of the reform debate takes place in the informal euro group, which comprises only eurozone finance ministers.

★ negotiate favourable entry conditions. Britain's European partners have thus far shown a great deal of understanding over the government's euro dilemma. But their patience may be running out. Britain needs the co-operation and goodwill of the other eurozone countries to negotiate favourable entry conditions, in particular a low and competitive entry rate for the pound and an opt-out from the requirement to join the ERM II, the EU's revamped exchange rate mechanism, ahead of eurozone entry. Britain may find it easier to get agreement on these issues now, than in 2006, when it would be negotiating entry at the same time as some of the new EU member-states from Central and Eastern Europe.

★ help the British people get accustomed to the thought of living with the euro. The government's own prevarications (not to speak of internal splits) have left the British public with the feeling that there is something dangerously wrong with the euro. The government claims that it cannot have a political strategy for entry as long as the economics are unclear. The Treasury, meanwhile, kept its economic analysis firmly locked up until decision day. This approach stifled well-informed public debate. Instead of arguing the case for eurozone membership, the government acted as if it was a disinterested party. The government's euro strategy suffers from a chicken and egg problem. Politicians do not dare support the euro unless public oppinion improves. But the public will remain cautious until there is political leadership.

Don't mention the euro

The government should muster the political courage to set a target date for eurozone entry. In line with its cautious approach towards euro entry, the government may want to set that date several years in the future. It could, for example, announce its intention to join the euro by, say, 2008. The question of when the government should hold the referendum on euro entry should be separate from this political commitment. There is nothing undemocratic about this. The government provides leadership while leaving the final say to the people. No one questions the right of the new EU member-states to sign their accession treaties, before holding referenda on EU membership.

Once the government announced a target date, the exact timing of the referendum would depend on two considerations:

★ the practical question of how much time the economy needs to prepare for the euro once the referendum has taken place. The government currently assumes that the private sector will need around 30 months to prepare for the currency swap. Most large banks and firms are already well advanced in their preparations for the euro (some of Britain's largest companies already run their books in euros). But they may well put them on hold if the government further postpones a decision on euro entry. A political commitment to euro entry would allow these preparations to continue. Meanwhile, the government could do much more to help smaller companies to get ready.

★ the political question of when a euro referendum would stand the best chance of being won. Once the government has made a political decision in favour of euro entry, it could deploy officials, economists, spin-doctors and industry contacts to make the case for accession. Whether this will be before or after the next general election is a matter of political judgement.

The path into euroland

With the political decision on euro entry out of the way, the government could concentrate fully on its strategy for eurozone accession. The government has promised practical steps to help the economy prepare for eurozone membership, such as supporting a widespread switch to fixed-rate mortgages, and adopting the statistical measure of inflation used in the eurozone, the HIPC, in the next year's budget. The government has also published an updated version of its euro changeover plan designed to help businesses and consumers to prepare for the euro.

Britain could benefit from being a latecomer to the euro, because it could learn from the changeover preparations of the existing eurozone members. In most countries, the changeover was remarkably smooth, so there is no reason to assume that the UK would face any insurmountable obstacles. The government may also consider establishing a 'euro strategy group', an idea first put forward by Lord Radice.[2] This body – chaired by the prime minister and encompassing the Chancellor and other senior cabinet ministers – would provide guidance for euro entry preparations.

[2] *Giles Radice: 'How to join the euro', Foreign Policy Centre, February 2003.*

What the government should not do is to re-run the assessment of the five economic tests. The available evidence suggests that – while there can never be absolute certainty – Britain's euro entry can be justified on economic grounds. The current behind-the-scenes wrangling between the prime minister and the Chancellor has discredited the notion that an objective economic assessment can somehow be independent of the politics of entry.

The Treasury will certainly want to have another look at the economics of entry before the planned referendum. In that case, the burden of proof should be reversed. The assumption should be that Britain would join the euro, unless unforeseen economic developments have greatly raised the risks of membership. In other words, the next economic assessment should be a safety mechanism, not a prolonged, secretive and politically charged exercise.

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