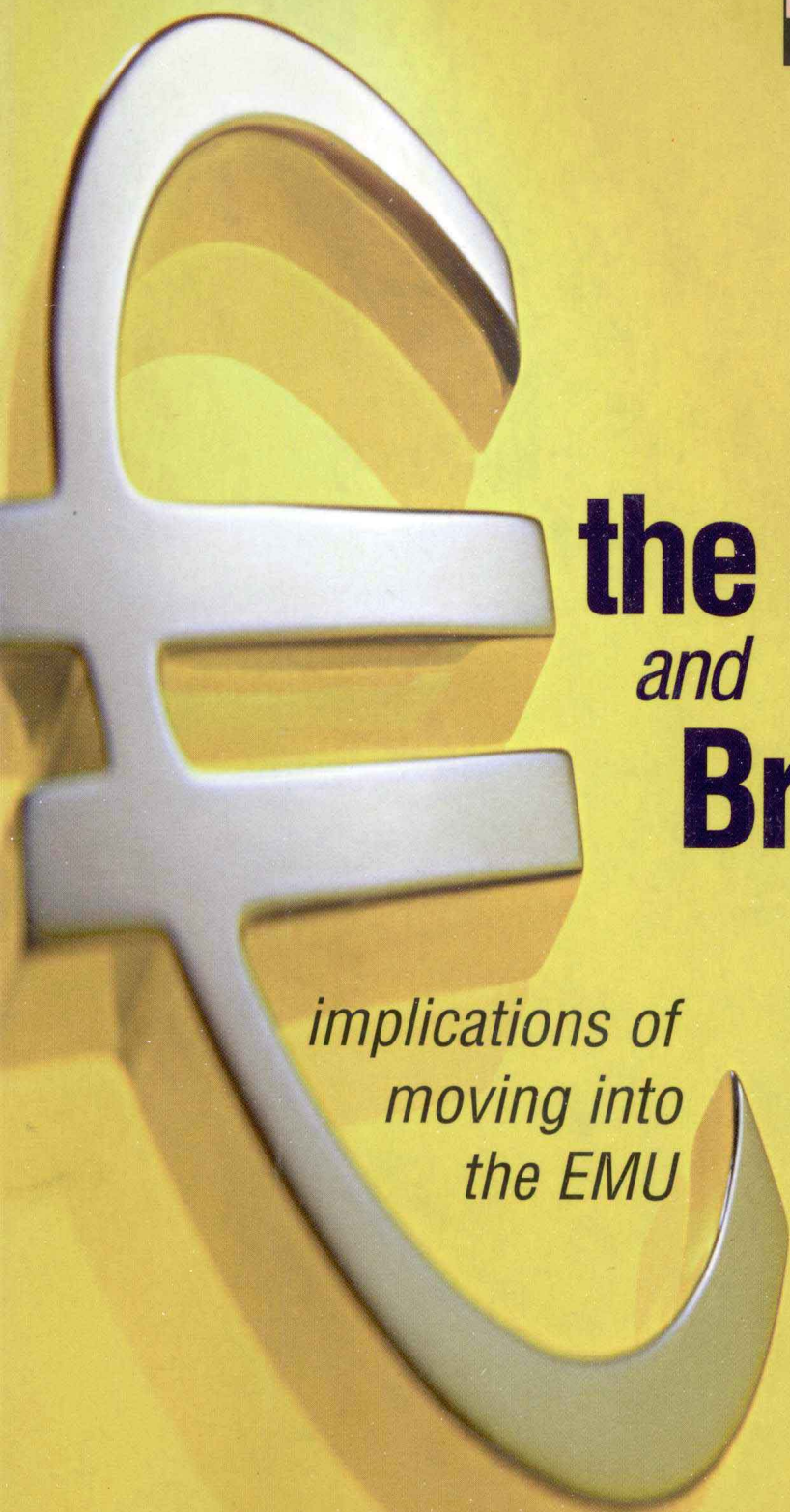




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the euro *and* **Britain**

*implications of
moving into
the EMU*

L I M . E L - A G R A A

The euro and Britain

Implications of
moving into the EMU

Editor

Ali M. El-Agraa

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Economic Thought, 8, 4, Winter 2001), 'Kalecki on imperfect competition, inflation and money' (*Cambridge Journal of Economics*, 25, 2, pp. 245–61) and (with P. Arestis and K. McCauley) 'An alternative stability pact for the European Union' (*Cambridge Journal of Economics*, 25, 1, pp. 113–30). His current research interests include the economics of the European single currency, conceptualizing the nature of barriers to full employment and the analysis of endogenous money.

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Preface and acknowledgements

British Prime Minister Tony Blair was certain to stay at the helm after the 7 June 2001 general election since he was expected to lead his Labour Party to a second victory, if not by a landslide of equal magnitude to that of 1997, at least by a wide margin and, indeed, that is precisely what he managed to accomplish. He has avowed that he will take a decision on whether or not Britain should adopt the euro within the first half of his second term as Prime Minister, i.e. within the first two years in office. Also, that if his decision, based on the five tests announced by Gordon Brown, Chancellor of the Exchequer, in October 1997, is positive, he will ask the British people, through a referendum, to vote for his recommendation for euro adoption and hence for the UK to become a full member of the Economic and Monetary Union (EMU) of the European Union (EU).

Before the general election, however, the then leader of the opposition and Conservative Party, William Hague, had declared that the replacing of sterling by the euro would transform Britain into an alien country and declared that the general election would be the last chance for the UK to survive as a sovereign nation. He stuck to his guns, thinking that the election campaign would provide a bloody battleground for the euro. But it did not since Tony Blair kept reminding the electorate that they will have their say when voting in the referendum, at a time when the opinion polls were increasingly clearly indicating that the adequate provision of public and social services was uppermost in the minds of the voters. Indeed, the battle was so one-sided that William Hague had to vacate the leadership of his party in the swiftest of fashions.

When the Labour Party promised in its manifesto for the 1983 general election to take Britain out of the European Communities (EC) if returned to power, I decided that the issue of whether or not membership of the EC had been disastrous should be debated in an informed manner and edited the book *Britain Within the European Community: The Way Forward* for that purpose. Since I deem the euro debate to be far reaching and hence much more serious relative to the question of withdrawal, I felt it essential that a book on the issue should be edited and timely published, and invited recognized authorities on the subject to contribute to it; hence this current venture.

The book is in three main parts. Part I provides a general background, with Chapter 1 explaining in detail the need for this book and why it is not necessary to write a new edition of the 1983 book. However, due to the fact that there are still those who continue to claim that EU membership has been disastrous for the UK, the chapter also tackles pertinent aspects of the costs and benefits for the UK from EU membership and Chapter 12 supplements this by examining in detail how British trade with the EU and inward foreign direct investment have fared; thus the two chapters together go a long way towards updating the main part of that book. Chapter 12 is not placed after Chapter 1 because it deals mainly with the consequences of euro adoption or otherwise. Chapter 2 provides a general perspective on the EU, paying special attention to its historical development, since those not conversant with the subject should be aware of why the EU needs EMU and the euro, and those in the know need to be reminded, otherwise the discussion would be vacuous. This section is therefore essential for a *proper* understanding of EMU, the euro and the British attitude towards it; the impatient reader can skip it, of course, but it would be at a cost.

Part II, comprising five chapters, concentrates on EMU, the euro and the European Central Bank (ECB), which issues and controls it (Chapter 3), with specific chapters being devoted to the global historical experience with EMUs (Chapter 4), the policy co-ordination and economic adjustment in EMU (Chapter 5) and the development and progress of the euro since its official introduction on 1 January 1999 (Chapters 6 and 7).

Part III, containing six chapters, is devoted to built-in problems concerning the system of operating EMU and the euro within the specific context of the UK, with Chapter 8 setting the scene by discussing pertinent issues relating to the 'optimum currency area' criteria and Britain's reluctance regarding euro adoption and Chapter 9 raising important macroeconomic considerations that need tackling if Britain is to apply for membership of the eurozone. Chapter 10 tackles the UK banking and other financial services since this is the sector that most analysts expect euro adoption would have a great impact on. There is also a chapter on the EU general budget (Chapter 11) since a number of chapters deal with various aspects of it; the chapter clearly demonstrates, as did the *MacDougall Report of the Study Group on the Role of Public Finance in European Integration* (published by the European Commission in 1977), that it should play an essential role in a successful EMU. I should draw attention to the fact that Chapters 8

and 9 could also fit in nicely in Part II, since large sections of them belong there. Chapter 12 deals with the scantily studied consequences for UK trade from British adoption or otherwise of the euro. Chapter 13 tackles the most important question regarding whether Britain would adopt the euro and is therefore in the nature of a concluding chapter.

This book would not have been possible in its present form without the contributions by my distinguished collaborators. A mere glance at the positions held by those in the list of contributors and their input to the subject would immediately reveal their standing in this area, and those who are specialists in the field would, I am sure, find their own preferences greatly overlapping with those in my list. Because of this and the number involved, I shall abstain from the usual courtesy of mentioning them individually, but I take this opportunity to thank them all for their excellent contributions and perseverance with my editorial demands.

Finally, I should add that the book has, on the whole, been written in a fairly non-technical manner so that it can be read by the intelligent layperson. This is deliberate since, given the importance of the subject, the aim is to reach the widest possible audience. Moreover, and naturally, if and when the time comes for a referendum on the euro, it would be that kind of reader who will be looking for such a book.

Ali M. El-Agraa
Fukuoka, Japan

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