

## Britain, the lone ranger

By delaying a referendum on joining the euro, it will be the only European Union country outside the euro-area by the end of the decade

By MATTHEW SALTMARSH FOR THE STRAITS TIMES

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BRUSSELS - The British decision to delay holding a referendum on joining the euro could mean that by the end of the decade, it will be the only European Union (EU) country still outside the euro-area, facing 24 members on the inside.

EU analysts and officials are greeting that prospect with dismay.

Most argue that, as a result, Britain will be sidelined in the coming debate on reforming European economic structures.

British Chancellor Gordon Brown is expected to tell Parliament on Monday that his five economic tests, set in 1997 as a condition of joining the euro, have not yet been passed and the government will not call a referendum before the next general election.

This is expected to be held in 2005 or 2006.

Mr Daniel Gros, director of the Centre for European Policy Studies, said Mr Brown's five tests are a charade that institutionalise his political veto over euro entry.

Many others here agree.

Mr Graham Watson, leader of the Liberal Democrat group in the European Parliament, suggested that ducking the issue indefinitely smacked of political cowardice.

On the real tests of convergence - the five so-called Maastricht criteria - Britain is more ready than many members of the eurozone.

Mr Gros said: 'In Brussels, most people are betting that nearly all of the 10 candidate countries will be in the euro before the UK.'

Even the Scandinavian euro exiles, Denmark and Sweden, are expected to join in the next few years. Stockholm has scheduled a referendum for September.

Analysts warn that Britain's voice in the debate on reforming European economic governance will become weaker in the years ahead.

As a eurozone outsider, London's voice will be far from pervasive in the debate on changes to the EU's rigid fiscal rules and the way the European Central Bank (ECB) works.

Mr Jean-Paul Fitoussi, director of the French think-tank Observatoire Francais des Conjonctures Economiques, noted that Mr Brown's decision was 'context-dependent' and the time was not ripe.

Unlike Britain, eurozone economies are barely growing.

There is also a risk of deflation and structural reforms are lagging.

He also noted that by joining the euro-area, Britain might boost the single currency's lofty exchange rate, creating more problems on the continent.

But for the longer term, he said, both Britain and the eurozone would lose out from the veto of a referendum.

With Britain inside the eurozone, there would be a much better chance of breaking down the restrictive elements of the EU's Stability and Growth Pact, while the ECB would be forced to become more accountable and, perhaps, more growth-oriented.

'Because the rules are so ill-designed now,' he said, 'Europe is blamed when growth is slow and national governments can take the praise when things are going well.'

European External Affairs Commissioner Chris Patten, however, has slammed Mr Brown and Prime Minister Tony Blair for treating the euro 'as a private matter to be resolved between Downing Street's neighbours - a wink from No 10 provokes a nod from next door'.

'The notion that Gordon Brown's 'five tests' represent absolute economic truth, unsullied and Olympian, is drivel,' he fumed in a newspaper opinion piece.

Euro-area finance ministers have also bemoaned the fact that Britain will delay its decision.

'It's definitely in Ireland's interest for the UK to join - this minute,' said Mr Charlie McCreevy, Finance Minister of Ireland, whose largest trading partner is Britain.

Gordon Brown's 5 tests

The five economic tests on British entry to the euro as outlined by The Treasury in 1997:

Convergence: Are business cycles and economic structures compatible so all can live comfortably with euro interest rates on a permanent basis?

Flexibility: If problems emerge, is there sufficient flexibility to deal with them?

Investment: Would joining the Economic and Monetary Union (EMU) create better conditions for firms making long-term decisions to invest in Britain?

Financial services: What impact would entry into EMU have on the competitive position of Britain's financial-services industry?

Employment and growth: Will joining EMU promote higher growth, stability and a lasting increase in jobs?