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Contents Page no.

	Page no.
Commentary on the economic situation	1
Summary of research paper	2
Research paper - Topic: Some consequences of a single European currency	3
Statistics this month - Calendar of UK and US release dates	*Outside back cover*

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Commentary on the economic situation

ERM rumours should not distract attention from better monetary trends

Excessive monetary growth would undermine the pound in the EMS

UK financial markets have become so obsessed by rumours of early entry into the exchange rate mechanism of the EMS that they have been ignoring domestic monetary trends. This neglect is unfortunate. If interest rates were cut after ERM entry but before domestic monetary conditions were under control, there would be a danger of accelerating credit expansion and faster monetary growth. Faster monetary growth would re-ignite inflationary pressures and ultimately prove incompatible with a stable exchange rate between the pound and other European currencies.

But domestic monetary conditions are improving

Happily, domestic monetary conditions are coming under control. The increases in broad money over annual periods, which receive some attention in the press, remain very high. M4 was up by 17.1% in the year to May. But a twelve-month figure is very misleading as a guide to behaviour in recent months, which is better measured by annualising the growth rates of the last three or six months. In the three months to both April and May the annualised growth rate of M4 was 13 1/4%. This figure is clearly lower than the 16% - 18% band which came to be regarded as "normal" during the Lawson boom. Perhaps more important still the growth of lending is slowing down and is likely to moderate further in coming quarters. Since the growth of bank and building society credit is the dominant causal influence behind the growth of M4, the prospect is for a continuing decline in broad money growth.

Lending growth is moderating

The first item of evidence on credit trends is the monthly lending figure itself. If six-monthly rates of increases are annualised from the beginning of 1987 to mid-1989, the figures were always above 25% and the peak (in the first half of 1988) was 29.8%. By contrast, in the second half of 1989 lending grew at an annualised rate of 21.4% and in the first five months of 1990 at just under 20%. Of course, 20% is still too high. It remains above the 18.3% average annual increase in the three years to end-1986. But the fall from the virtual 30% annualised rate of increase two years ago is well-defined and a move in the right direction. Moreover, series such as mortgage commitments and the *Euromoney* list of syndicated credits suggest that credit expansion in the second half of 1990 will be slower than in recent quarters.

If the annual growth rate of lending could be cut to 15% and overfunding (even on a modest scale) resumed, broad money growth could be held to the 11% - 13% band which was compatible, between 1982 and 1986, with 5% inflation over the medium term. That would be above the European average, but not by much, and would help keep the pound stable in the EMS for a few years.

Professor Tim Congdon 28th June, 1990

Summary of paper on

'Some consequences of a single European currency'

Purpose of the paper Pressure on the British Government to make a meaningful contribution to the debate on European Monetary Union has intensified, with other European countries apparently likely to commit themselves to a single European currency at the Inter- Governmental Conference in December. In his speech at the Federal Trust conference on 24th May, Sir Leon Brittan set out the case for a single European currency with particular force. This paper critically examines Brittan's argument, particularly its advocacy of a deliberate, once-for-all shift to a single currency rather than the parallel-currency approach favoured by the British Government.

Main points

* **Three approaches to European economic and monetary union have been proposed - competing currencies; a parallel currency; and a deliberate, imposed, once-for-all change. The proposals for competing and parallel currencies have been supported by the UK, but are opposed by other European countries.**

* **Contrary to claims in Brittan's speech, the third option - with a possible "Year of the ECU" when the ECU would be imposed as legal tender across the European Community - would have heavy transitional costs. These costs would include the need to revise contracts (particularly contracts with interest-rate terms), difficulties in harmonizing monetary control procedures and uncertainties about the right level of the money supply in a new single-currency environment.**

* **A move to European-style monetary control arrangements, with a high reserve asset ratio, would undermine the international competitiveness of British banks and the City of London.**

* **But, ultimately, the debate about a single European currency is about politics, not economics. A single European currency would lead to an erosion of national economic autonomy so extensive that the UK would no longer be a sovereign and independent nation state.**

This paper was written by Professor Tim Congdon. It is also to be published shortly, with some additions, in a pamphlet from the Centre for Policy Studies.

Some consequences of a single European currency

An analysis of recent statements on EMU, particularly Sir Leon Brittan's speech to the Federal Trust conference on 24th May

Effects of single European currency unclear

European Monetary Union, culminating in the introduction of a single European currency, is a venture into the unknown. The political intention behind EMU, to bind the members of the European Community closer together and so promote eventual political union, is clear. But the economic effects are very uncertain. In principle the whole enterprise is based on the three stages set out in the Delors Report, but the Report was vague about the practical problems of implementation and so about the likely consequences. Despite this woolliness, European heads of state will attend an Inter-Governmental Conference in December to discuss the treaty changes needed to make EMU a reality.

The outcome of the IGC cannot be forecast at this stage. Karl Otto Pohl, president of the Bundesbank, has mentioned the possibility that France, Germany and the Benelux countries will proceed with a European Central Banking System ahead of other EC members, including Britain. Such a system would presumably manage a single currency, although - as so often with this subject - the precise meaning of words has not been spelt out in the newspaper reports. There is a widely-held view in this country that the UK must not be left out. In his speech to the Federal Trust conference on 24th May, Sir Leon Brittan, vice-president of the European Commission, set out the case for a single European currency before a British audience. The speech was enthusiastic, almost visionary, in tone. In Brittan's words, "when we have had one currency in Europe for a few years the only question of interest people will ask is why it took us so long to get there...I hope the UK will play a leading role in this achievement".

Brittan's speech under-estimated economic costs of transition

This paper will review critically both the economics and politics of EMU, to see whether Brittan's assessment is right. It will conclude that he has seriously under-estimated the economic costs of transition to EMU and that he has been less than frank about the implications of a single European currency for the UK's political independence. But, before we proceed to develop these points, it is necessary to narrow down the subject under discussion.

Proposals for competing currencies and parallel currency are being dropped

The debate in recent months has begun to eliminate certain alternatives which were once under active consideration. It is clear, for example, that the Treasury's proposal for competing currencies has made no headway with our EC partners and cannot be taken further. It is also clear that proposals for a parallel currency are being resisted by governments and central banks in other European countries, including the West German Bundesbank. This is more unexpected, since on some interpretations stages two and three of Delors were all about the promotion of a parallel currency which would gradually supplant the existing

national currencies. In a speech on 20th June John Major, the Chancellor of the Exchequer, spoke in favour of a parallel-currency scheme (the "hard ECU" plan) worked out by Paul Richards of Samuel Montagu & Co. Although the "hard ECU" plan skillfully and cleverly reconciles the British Government's key objectives in the current negotiations with the Delors programme, it is unlikely to persuade the Bundesbank. For this reason it will not be discussed further here. (The plan also fails to answer the objections to parallel-currency proposals made in the February *Gerrard & National Monthly Economic Review*.)

Instead move to single currency likely to be once-for-all and quite sudden, like Big Bang in the City

Instead the move to a single currency is increasingly being seen as a once-for-all replacement of existing national currencies by a new pan-European currency. As envisaged in the Ernst & Young/National Institute report on *A Strategy for the ECU* there will be a "Year of the ECU", when the crucial changes are made and "prices should be quoted in ECU wherever practical". Presumably on one day the pound, franc, deutschemark and so on will be the sole legal tender within national borders, but on the next the new European currency will be legal tender across the EC. (Comparisons with Big Bang in October 1986 are tempting.) Pohl has implicitly indicated his support for this route, describing a slow process of replacement as "wishy-washy" and claiming that "you cannot create a central bank in stages". Pohl seems here to have rejected the stage-like evolution prescribed by the Delors Report. (See report in *Wall Street Journal*, European edition, 17th May.)

Although Pohl's view may appear contrary to the spirit of much of the previous EMU negotiations, it is probably the only sensible way forward. A money is accepted as such because it serves as a common standard of value and medium of exchange in a particular area. Proposals which explicitly envisaged a plurality

A proposed timetable for a single European currency

Below are the dates proposed by the Ernst & Young/NIESR report for key stages in the establishment of the ECU as the single European currency.

1990/91	Credible announcement to be made that ECU will be single European currency
1992	Central bank co-operation on ECU-dominated government bond issues ECU life insurance policies
1993	Companies to issue shares and hold deposits in ECU
1994	Discriminatory legislation against ECU to be removed
1995	Companies to pay tax in ECU
1996	"The Year of the ECU" ECU to become legal tender
1997	ECU should become single currency

of standards of value and media of exchange, such as those for competing and parallel currencies, always lacked credibility. To say that there will be one "Year of the ECU", on which the existing national currencies lose their separate existences, is not to deny that there could be a timetable of anticipatory events which could stretch over several years. One such event could be the irrevocable fixing of exchange rates, in accordance with Delors' stage two. But it is to deny that the final act of introducing the ECU would be gradual and voluntary. It would have to be fairly abrupt and there would be an element of compulsion.

Introduction of single currency as legal tender implies an element of compulsion

The reference to "compulsion" may raise hackles, but it cannot be avoided. Its meaning is simply that, on a particular day, the ECU, the liability of a European central-banking institution, would become legal tender, whereas the pound, franc, deutschemark and so on, which were the former liabilities respectively of the Bank of England, Banque de France, the Bundesbank and other national central banks, would lose their legal-tender status. As legal tender, the ECU could not be refused in payment without breaking the law. Its use would therefore be compulsory.

All legal tenders involve compulsion, in the sense that everyone must obey the law

Mention of "compulsion" may seem a cheap polemical point, but it is not intended as such. In every country of the modern world legal-tender monies are mere scraps of paper and have no value in their own right; they are accepted in payment only because they have the backing of the state. Although we British may like to think that we choose to take pounds in payment, in fact we are obliged to do so. (As are the French to take francs, Germans deutschemarks and so on.) A new European currency would be no different in this respect from the existing national currencies, except, of course, that it would have the backing of the European Community as a whole, not of the nations which now comprise it.

Imposition of new currency necessary if options of competing currencies and a parallel currency are excluded

The requirement to impose the new currency follows logically once the options of competing currencies and a parallel currency have been closed. Brittan seems to understand this. In his speech he rejects competing currencies on the same grounds as the Delors Committee, that "it is a potentially anarchic way to lessen the role of national currencies". He also doubts the value of a parallel currency, noting that this "would not provide any greater genuine flexibility for national monetary authorities". His conclusion is that, "If we are to make the move to a single money, it is better to do it with our eyes open through deliberate political decision than with our eyes closed through a parallel currency route". Although Brittan does not spell it out, "a deliberate political decision" involves laws and treaty changes to alter the legal-tender status of currencies. It would entail a "Year of the ECU" or something like it and, hence, the extinction of existing national currencies on a particular date or in a short space of time. If there is to be no parallel currency, the existing national currencies would have to suffer a quick death on a pre-announced date.

But the imposition of a new currency will require extensive revisions to contracts

This would create a practical problem which Brittan notices, but quickly dismisses. Many millions of contracts are expressed in terms of the existing national currencies. Won't it be necessary to convert these contracts from the national currencies into the ECU? In Brittan's words, "It has been suggested that all contracts will somehow have to be changed. *This is simply not the case.* Just as the change from fixed to floating exchange rates had no direct effects on contracts, so the move back to irrevocably fixed exchange rates and then to a common currency need not interfere in any way with existing contractual obligations." *[our italics]*

He then moves on to consider what he terms "the more sophisticated version of this argument". In this version the attainment of price stability in ECUs, which Brittan takes for granted, affects the real burden of servicing fixed-interest obligations. Companies which had issued such obligations in high-inflation, high-interest-rate currencies would suffer a real loss if the terms of such obligations were converted into ECUs. Brittan is not much bothered by this. In his view, "those who take out high fixed-interest obligations are aware of the risk that governments will succeed in doing what they are constantly telling people is their objective and reduce inflation to low and stable levels."

The first point to make in answer to Brittan has to be a straight contradiction: *contracts will have to be changed.* Surely, that is what moving to a different currency means and is unavoidable. So Brittan's sentence "This is not the case" is difficult to understand. What can he have meant?

Need to distinguish between nominally-affected and substantively-affected contracts

Perhaps his underlying intention is best elucidated if we distinguish between two types of contract, those where the impact of the change to a single currency is nominal and does not affect the distribution of real returns between the parties, and those where it is substantive and the distribution of real returns is altered. It is clear that changing the price lists of groceries, re-calibrating taximeters and one-armed bandits, and amending other such "contracts", are nominal changes, like those caused by decimalisation and metrication. They have a cost, but this is trivial as a fraction of national output and nothing important is affected.

Substantively-affected contracts are those with an interest-rate term

The distinguishing feature of contracts affected substantively by the adoption of a single currency is that they have an interest-rate term. Contracts with two particular characteristics are most vulnerable. These two characteristics are:

1. Long-term in nature, e.g., in the case of a bond or insurance policy, with a redemption date or terminal date after the "Year of the ECU" or, in the case of supply contracts, where goods are to be delivered or work completed again after the "Year of the ECU", and

2. Fixed in terms of nominal prices or interest rates expressed in the existing national currencies, e.g., for a bond, redemption value and interest coupons; for

an insurance policy and certain types of pension plan, the terminal value and benefits; for a supply contract, the prices of equipment.

The reason that such contracts are substantively changed by the introduction of a single currency is straightforward. If there is a single currency, there must also be a single interest rate, yield curve and inflation rate. But at present - and, indeed, at those times in the past when the contracts were agreed - there were several national currencies, and so several interest rates, yield curves and inflation rates. The conversion of long-term, fixed-sum contracts from the existing national currencies to a single currency would therefore constitute a radical change from the environment in which the contracts were drawn up. Real returns would differ from those originally expected. For example, borrowers who incurred debt in currencies with interest rates higher than ECU rates would lose out, while lenders in such currencies would gain; and vice versa for borrowers and lenders in currencies with interest rates lower than ECU rates. The ability of companies and financial institutions to pay pensions and meet other commitments would be altered. Perhaps there is an argument for not converting the terms of substantively-affected contracts at the fixed exchange rates between the ECU and national currencies, but for adjusting the terms to restore the original intentions of the parties.

Brittan would treat substantively-affected contracts the same way as nominally-affected contracts

When he says "This is not the case" Brittan is rejecting this argument. Instead he would convert the terms of all contracts at the fixed exchange rate and regard substantively-affected contracts in the same way as nominally-affected contracts. (It is difficult to see what else he can have had in mind.) He would not be much fussed about the redistributions of real returns which would follow the adoption of a single currency, even though these redistributions (affecting pensions and insurance policies) could be large, unforeseen and essentially arbitrary. He would not judge that long-term, fixed-sum contracts deserved any special legislative provisions or compensatory arrangements.

But this would create uncertainty for the private sector

Perhaps Brittan's position is fair enough, since many government decisions involve a certain amount of rough justice. But it is important to point out some implications. Consider, for example, the consequences for privately-issued fixed-interest sterling bond issues. The issuers of such bonds would obviously have suffered a real loss relative to their initial expectations and the holders would have captured a real gain. Both issuers and investors of existing bonds ought to be aware of these potential consequences today, before the announcement of a single currency. But what of future bond issues? Doesn't the same problem apply to them? Until a clear-cut statement on a single currency has been made, corporate treasurers will be discouraged from issuing more sterling fixed-interest bonds.

Would EC governments react by limiting future bond issues to an ECU denomination?

A new kind of contractual uncertainty has been created. The difficulty is quite general and applies to government debt as well as private debt. Indeed, if the Governments of the EC are serious about a single European currency, they should stop issuing debt denominated in their national currencies and instead issue debt only in ECU. They should take this step as soon as their commitment to a single currency is final. Thus, if Pohl's inner core of Germany, France and the Benelux countries do pledge themselves to introduce a single currency in the mid-1990s at the December IGC, new issues of deutschemark bunds, French franc government bonds and so on should cease sometime next year.

Variable-rate contracts, such as bank loans and mortgages, also difficult

Long-term, fixed-sum contracts have been examined in detail, because they are a particularly awkward illustration of the problems of contractual revision. But it would be wrong to give the impression that contracts with variable-interest-rate terms will be easy to handle. Such contracts include mortgages, bank loans and bank deposits. There is a view that, as the credibility of EMU increases, inflation expectations and nominal interest rates will converge across Europe and that changing variable-interest-rate contracts from the national currencies to ECU would leave all parties in much the same underlying position.

But this view is not quite right, for two reasons. The first is that real interest rates vary across Europe, being particularly high at present in the UK. The move to a single nominal interest rate would imply a single real interest rate as well. Obviously, to move from a Europe with a wide diversity of real interest rates to a Europe with a single real interest rate would be a substantive change. Secondly, the present levels of personal indebtedness and company gearing across the EC reflect expectations of the future cash flows available to meet interest payments. Even if real interest rates were to be the same with the ECU as our currency rather than the pound, the cash-flow strain of meeting debt obligations would almost certainly be different because of a changed level of nominal interest rates. A new time-profile of real cash-flow obligations would also be a substantive change.

Large effects, for example, on mortgage interest payments

This point on cash flows may sound a little abstract, but its significance is easily shown by an example. At present homeowners in the UK pay mortgage interest rates of about 15% and mortgage interest payments can take a big slice out of income. The 15% rate is in line with expectations of a medium-term rate of house price inflation of, say, 10% a year. If the ECU were our currency, mortgage rates might be 10% and the medium-term rate of house price inflation 5%. In one sense the real situation is as before. But the ratio of mortgage payments to income would clearly be lower in an ECU environment, which would be a substantive change affecting millions of people.

Our argument on the extent of contractual revision may have seemed technical and nit-picking, and an evasion of the central issues. In fact, it is basic. We have

begun to mention politically-sensitive words like "pensions", "mortgages", "insurance policies" and "bank loans" because such contracts would inevitably be affected by the adoption of a new currency. They are not only the stuff of financial markets, but are also of concern far beyond the City and the banking system. In the end they affect everyone.

Brittan's comment on contracts extraordinary and overlooks new uncertainties

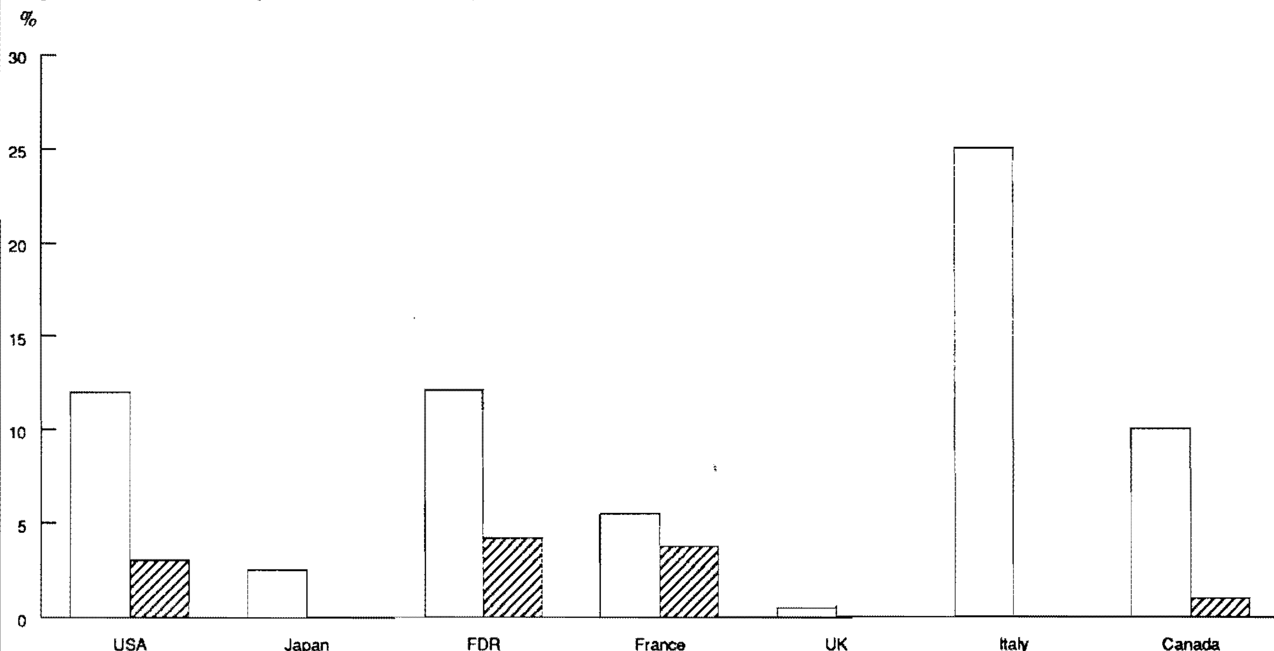
Brittan's comment on contractual revision - that it "is simply not the case" that a common currency need "interfere in any way with existing contractual obligations" - must be judged extraordinary. If it were true, one might well ask what was the purpose of the whole exercise. But, of course, it is not true. The interference with existing contractual obligations, and the disturbance to the expectations which lay behind those obligations, would be drastic. In this respect the costs of transition to a single currency would be much higher than Brittan seems to appreciate.

Agreement will be needed to harmonize banking regulations, notably reserve ratios

The burden of contractual revision will be particularly heavy on the banking system. But this is not necessarily the most unwelcome new problem that banks will face. At present the various European countries manage their banking systems in very different ways. Each has its own mechanisms of monetary control, its own procedures for prudential supervision and its own arrangements for lender-of-last-resort assistance. If there is to be a single currency, it would be necessary to harmonize all these aspects of banking.

Minimum reserve ratios in major countries

Reserve ratios for bank liabilities subject to highest reserve requirement unshaded; reserve ratios for bank liabilities subject to lowest reserve requirement shaded. In Italy minimum reserves carry interest; in UK uniform reserve ratio with no monetary control purpose.



Source: *Monthly Report of the Deutsche Bundesbank*, March 1990

What would the harmonization of regulation mean for British banks? One key dimension of monetary management is the proportion of cash the banks are required to hold with the central bank as a reserve. Cash is an unprofitable asset to hold, since it is non-interest-bearing. In Britain the Bank of England obliges all banks to keep a balance with it equal to 1/2% of their eligible liabilities. But otherwise the banks are free to decide the appropriate figure. In practice, only the clearers maintain extra balances and these, intended to meet cheque-clearing commitments and purely operational in character, represent a tiny fraction of total assets. The effect of these arrangements is that the cost of the cash reserve for British banks is modest. Banking charges for the general public are held down and the international competitiveness of the financial system as a whole is strengthened.

Possible adverse effects on competitiveness of UK banks

Elsewhere in Europe the position is very different. In Germany reserve requirements vary from 4.15% of savings deposits to 12.1% on certain kinds of sight deposit. In Italy and Spain the central bank forces banks to leave a substantial proportion of total assets - exceeding 20% - with it and then lends these funds to the government. The system provides finance cheaply to the Italian and Spanish governments, but - by the same token - reduces bank profits. The banks have to recoup this by charging their customers more. This is an important reason that Italy and Spain have uncompetitive and inflexible financial systems. If there is to be a single European currency, which will dominate, the UK or the Mediterranean approach towards bank reserves? Clearly, if British banks are forced to adopt Mediterranean-type reserve ratios, they would lose one of their main advantages in international competition. However, it is unlikely that other European countries would readily accept a move to the British system. Although Germany and France do not regard high reserve ratios as a means of funding the government in the Mediterranean fashion, they do consider minimum reserve ratios a key instrument in monetary control. An important debating area is opened up.

Problem of attaining right level of money balances after EMU

A further danger needs to be highlighted. It is that, partly because of the difficulties of merging different systems of monetary control, the citizens of Europe would probably have excess or deficient ECU money balances after EMU. This possibility has been very obvious in German economic and monetary union, with financial markets worried in recent months that a low ostmark- deutschemark exchange rate would result in excess East Germany money balances and higher German inflation.

If money balances are excessive, either the excess will be eliminated by inflation or monetary policy will have to be tightened; if they are deficient, either Europe will suffer deflationary pressures or monetary policy will have to be relaxed. How are governments and central banks to ensure, in advance of the event, that money balances are broadly appropriate to the new pan-European ECU price level? Isn't there a risk that people's and companies' attitudes towards their

recently-converted ECU money balances will be very different from their attitudes towards previous holdings of sterling, deutschemark, French francs and so on? And how will monetary policy be conducted in the new environment?

Macroeconomic consequences very difficult to predict

These questions are vital to assessing the macroeconomic repercussions of EMU. In the 1980s financial deregulation in many European countries had a powerful effect on both financial institutions' ability to extend credit, and the private sector's demand for credit and willingness to hold money balances. These effects were very difficult to predict beforehand and, in some countries (notably the UK), they weakened the intellectual case for broad money targets. But the adoption of a single European currency across the entire Continent would be a far more drastic upheaval than the various measures of financial liberalization seen in individual countries over the past decade.

Heavy *economic* costs of transition to a single European currency

Enough has been said to illustrate the economic difficulties of transition from the present national currencies to a single European currency. The costs of transition are far higher than Brittan has recognised. These costs relate partly to the need to revise contracts, but they also arise from conflicts between different national styles of monetary control. If mishandled, the negotiations on EMU could damage the international competitive position of the UK's financial industries, which at present is undoubtedly very strong. It is not enough - as Brittan and the European Commission believes - to point to the reductions in cross-border transactions costs as an overwhelming argument for a single currency. Instead it is necessary to show that the benefits from such cost reductions outweigh the substantial losses involved in transition to the new system.

But *politics* are ultimately more crucial

But, in the end, the debate about EMU will not resolved solely by an appeal to economic costs or benefits. Ultimately EMU is all about politics. Moreover, "politics" is not to be understood here in a narrow party sense, but in the larger sense of how people, communities and nations live together and relate to each other. It is not about the election of particular governments and politicians, but about the constitutional arrangements which every government must respect. Indeed, it is about the very definition of the "nations" to which the constitutional arrangements apply.

Euro-Fed would imply dilution of British Parliament's fiscal prerogative

Monetary and political authority are closely intertwined. If an organization such as the Euro-Fed can print bits of paper, call them ECU bank-notes and have the governments of Europe give them the status of legal tender, it can require people to surrender real things (which are valuable) for the bits of paper (which have no intrinsic worth). In effect, the bank notes are equivalent to tax demands and the central bank can levy taxes. It follows that, if the power to issue money is transferred from national central banks to a pan-European central bank or Euro-Fed, the power to raise taxes would be shared between the Euro-Fed and

national parliaments. The fiscal prerogative would no longer be exercised only at the national level.

Ability to determine macroeconomic outcomes moved to a European centre

An equally fundamental result of a single European currency would be the removal of the ability to influence inflation and unemployment from the governments of nation states. At present UK interest rates are set by the Bank of England, taking instructions from the Treasury; in future, they could be decided by the Euro-Fed (or whatever), acting on its own supposedly non-political initiative. This element in the political debate, which is now central to party rivalries at Westminster, would be re-located to a European centre, probably Frankfurt but perhaps with strong influence from Brussels.

and would end the UK's national independence

A single European currency, with all its accompanying rules and regulations, would invade and quickly dominate the financial sector of the UK economy. From there the effects would spread throughout industry and commerce, and eventually affect people's everyday lives. Without control over its own currency, the UK would no longer be an independent nation. It would be merely a region in a pan-European state. There is no way of knowing in advance what the precise division of powers, obligations and rights would be between the British Parliament and the central authority in a pan-European state. Moreover, Parliament's ability to control that division would be constrained by its condition of monetary vassalage. The project to introduce a single European currency sometime in the coming decade is a project to end the independent existence of the European Community's member states, including the UK. In the words of Nigel Lawson, the former Chancellor of the Exchequer, "It is clear that EMU implies nothing less than European government - albeit a federal one - and political union: the United States of Europe".

Loss of national sovereignty more important than economic costs

Even if it could be demonstrated that the UK would reap enormous gains in economic efficiency from participating in a move to a single European currency, the larger and more important question would be its meaning for our political independence. In his speech to the Federal Trust conference Sir Leon Brittan was regrettably cavalier in his analysis of the costs of transition to a single European currency. Present monetary arrangements, with well-established national currencies, undoubtedly work; a single European currency is remote and hypothetical, and may prove unworkable. But that is only a matter of pounds and pence or, at any rate, of ECU (and something or other). The loss of national sovereignty would be far more fundamental and serious in its possible results. There would be no excuse if British politicians were also cavalier about that.