

The Case for Keeping the Pound

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So, the Wall Street Journal Europe thinks Britain should adopt the euro (“Answering Thatcher,” May 25). Well sterlingphiles like me disagree. So far, too much attention has been focused on the failure of the euro to achieve stability on the foreign-exchange markets.

It is more relevant to look at the performance of the British pound.

Over the last century, Britain has taken almost every wrong direction in monetary policy. Broadly speaking, this involved fixed or targeted exchange rates, and the prioritizing of growth and employment over low inflation.

However, since sterling was thrown out of the EU’s exchange-rate mechanism in 1992, there has emerged a consensus that inflation can be controlled with short-term interest rates, and that low inflation is a prerequisite for growth and employment. Since then, the economy has blossomed magnificently. No one could dispute that over the last 10 years, British growth, employment and monetary stability have easily outperformed Britain’s European counterparts. Moreover, the Bank of England has a level of professionalism, insight and transparency that puts the European Central Bank in the shade.

Britain needs a currency that is neither wholly European nor American. Some 85% of the UK economy is not dependent on exports to the EU. And for the 15% that is, one can safely assume that the Euroland countries would not agree to Britain joining where most British exporters like Rover would like it, at 2.5 marks to the pound. The reality is probably closer to 3.4 marks. That sterling has appreciated against a weak euro and stagnant European economy, but depreciated over the last year against the mighty dollar, suggests that we have the right balance through monetary independence.

Our future will never be with one continent, but with the world. Only a floating exchange rate and an interest rate set to preserve monetary stability in Britain can safely steer the UK through the uncertainties of the global economy. It’s time for the Wall Street Journal Europe to reconsider its view on Britain and the euro.

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