

Norway shows Britain that domestic policies work

What does Norway have that we do not? The answer is confidence. Even though it is only a small country Norway does not feel it is necessary to give up its economic independence and join the European Union.

Instead, Norway has voted twice to stay outside and thus it continues to pursue domestically orientated policies. Now, at a time when Continental Europe is mired in a deflationary time warp, with permanently high unemployment, Norway is booming. Norway has huge gas reserves but this is not the explanation. The lesson from Norway is not to be isolationist but by following domestically orientated policies and developing global trading ties, an economy can do well.

Britain has to look after its own best economic interests as well as realising the role it has to play in global economic issues. Like an individual, it must be a part of the community. It is important for the major economies, including Britain, to participate in global policy co-ordination when appropriate. Such policy co-ordination can sometimes be effective, as has been the case in reducing trade imbalances.

But the main impact on policy, whether it is the US, Japan, Germany or Britain has to be domestic factors. If not, economic problems could mount. It is no good for Britain to join something if we will suffer as a result, as was the case with the Exchange Rate Mechanism (ERM).

As the debate about EMU intensifies, the question Britain and other countries should be asking is, "What is best for people, jobs and prosperity in Europe?" It is good if we can rely on other European countries to come to our aid and help us in times of trouble. Such co-operation is important, whether it be on defence, social or economic issues. It can also help UK exporters if Europe, our major trading bloc, is growing strongly.

But things are unlikely to work like this. EMU is a straight-jacket, forcing Europe to pursue policies that are not in its best interests. It is counter-productive. Instead of bringing us together it could tear Europe apart, by creating permanently high pockets of unemployment and the very conditions in which nationalist tendencies come to the fore.

How then can we proceed? In a letter to the *Financial Times* last Thursday fifteen leaders of British companies argued that it would be, "deeply damaging" to decide to stay outside EMU now. They argue it will leave British firms, "at a competitive disadvantage for years to come".

These industrialists are right to say that much of the detail about EMU needs to be worked out. That is partly because the process has been rushed unnecessarily, based on a political timetable that wants EMU to happen as soon as possible, rather than an economic timetable that says if countries are to converge it will happen naturally and slowly.

France and Germany are setting the timetable. At a meeting last weekend Chancellor Kohl and President Chirac reiterated their commitment to EMU starting on time.

By continuing to participate in the EMU process, Britain will be able to contribute to many of the technical aspects.

This will be useful, but it is hard to imagine that France and Germany will allow the UK to decide key aspects of EMU if we are still keeping open the option of staying out.

The main process and the aims of EMU are already well established and these are the problem.

There are two general misconceptions about EMU. First, is the general assumption that if it goes ahead it will be successful and we will miss out on something by staying outside. I do not share this view.

The deflationary policies that are currently evident on the Continent are likely to persist. And without a flexible labour market and an effective regional fiscal policy this will point to weak growth with high unemployment.

Second is the general assumption that the UK will isolate itself by staying outside. The industrialists, for instance, fear we will be excluded from the European market. The only way that could happen is if EMU becomes a protectionist trading area, blocking our exports.

But if that were the case, then why should we want to enter a protectionist trading bloc? It is hard to imagine

Europe benefiting from protectionism at a time when global markets are being integrated and central and eastern Europe are still opening up.

Britain will certainly not be at a competitive disadvantage by remaining outside EMU. Britain's costs are at a very low level. Furthermore, there have been recent gains in productivity. All this has encouraged inward investment, which has arrived here despite our caution about EMU. But we still need to do more. Whether we join EMU or not we need to invest more.

Many British industrialists pressed for sterling to enter the ERM in 1990. When we did it helped those companies with close ties with Europe, but at the expense of the rest of the economy, which suffered from inappropriate policies.

Dr Gerard Lyons is Chief Economist of Dai-ichi Kangyo Bank (DKB) International

Britain has a key role to play in global issues but must avoid the straight-jacket of EMU, says Gerard Lyons

ECONOMICS WEEK

