was effectively speaking for Blair.

On Friday night he sat next to his new boss, Jack Straw, and listened as the foreign secretary tried, unconvincingly, to claim that the "cool it" warning was aimed at the media, who had

Department of Local Government, Transport & the Regions and Mandelson is exiled to Hartlepool.

The problem with the new post-election order is that it encourages the thought that there is a more clever plan afoot. The double-bluff theory is that

wider stability at risk."

Then it was the turn of Sir Eddie George, governor of the Bank of England. In the treading-on-eggshells world of the single currency, the language was significant. He said sterling's strength is "a real obstacle" to UK euro membership.

Blair does not intend bouncing the country into the euro.

In the aftermath of an election victory, Blair does not want people to think he has taken them for mugs and will now move to ushering the country into the single currency. That was one of the concerns of Rupert Murdoch, whose news-

not use a honeymoon period to usher in the euro hurriedly. Murdoch was back at Downing Street for a chat last Wednesday and the Guardian put two and two together and decided that the media mogul was cashing in his side of the bargain.

Too crude? Probably. The euro argument has entered a

That brings us to the second reason behind the lack of euro praises being sung. The message from sources in Gothenburg is that European partners have been told not to hassle Britain; the United Kingdom has a difficult referendum to win and will take its own time. Blair wants to concentrate on

period of retrenchment on the euro more acceptable. Euro notes and coins will be introduced next January. The Danish "no" to the euro was partly blamed on there being no currency in circulation. One theory has it that the government want Britons to feel the currency – on holidays to Europe

the House of Commons in April that an assessment will be made within two years of the election.

But for the moment, he is happy to alter the tune slightly. It suits the domestic climate to appear cautious, particularly when the likes of Treasury advisers and the Bank governor are doing your bidding.

Brown's five tests: does Britain's economy pass?

by Martin Essex
ECONOMICS EDITOR

HOW long is a piece of string? That was the reaction of many economists when, in a speech to the Royal Institute for International Affairs in July 1997, Gordon Brown set five economic tests to determine whether the UK should ditch the pound and adopt the euro.

Tim Congdon, of Lombard Street Research, says: "Critics of the tests say – very understandably – that they are vague to the point of being meaningless".

Brown, however, said that the "decision on a single currency must be determined by a hard-headed assessment of Britain's economic interests". He called for a national debate on the single currency.

More recently, Treasury officials have said that, when the time comes, they will assess the tests rigorously. And supporters of both the pound and the euro have called for an informed debate on the economic benefits and drawbacks of monetary union.

As a contribution to this debate, Sunday Business asked three leading City economists for their views.

Congdon and Gerard Lyons, of Standard Chartered Bank, are both members of the Council of Business For Sterling, the anti-euro pressure group. However, they take diametrically-opposed views.

Lyons believes that none of the tests has been passed, and one is invalid anyway. Congdon, despite being strongly opposed to UK membership of the euro zone, believes they have been passed.

We called on Stephen King of HSBC for a middle view.

Critics of the government believe it will take the final decision on whether to put the question of adopting the euro to the British people in a referendum on purely political grounds. If, however, it takes the economic tests seriously, the arguments set out here by Congdon, Lyons and King will determine the outcome.

Three City experts give their views

Tim Congdon
Managing director of Lombard Street Research

Gerard Lyons
Group head of global markets research at Standard Chartered Bank

Stephen King
Managing director, economics, at HSBC

Test 1: Are business cycles and economic structures compatible, so we could live with euro interest rates permanently?

YES THIS test has two dimensions that can be quantified: the levels of UK and euro-zone interest rates, and the stage of the business cycle in the two areas as measured by "output gaps" (the difference between actual and trend output). On the first, UK interest rates are higher at the short end, lower at the very long end, and about the same in the 10-to-20-year section of the yield curve. They are not identical, but are closer than they have been for decades. Although the comparison of output gaps is less exact, output is above trend in both the UK and the euro zone. The divergence between different euro-zone economies is greater than between the UK and the euro-zone average.

NO **THIS test has never been met in the UK's recent economic history. This is unlikely to change any time soon. The British economy is structurally different from most of our continental partners. The timing of the UK economic cycle has been closer to that in the US, but no one suggests we adopt the dollar. In the euro we would burden ourselves with a one-size-fits-all interest-rate policy. The last time we linked our rates to Europe in the ERM, unemployment doubled and bankruptcies soared. There is no guarantee that the euro zone will be a success and the lack of convergence points to high risks for the UK.**

MAYBE THE UK cycle has recently moved more in line with the rest of Europe. However, this reflects the pursuit of different monetary policies. Interest rates in the UK have been higher and sterling has been strong. Without these constraints, the UK business cycle might have been less convergent with the continent. There are ways around this. The government could offset strong demand stemming from euro membership through domestic fiscal policy, via higher taxes or lower public spending. Alternatively, it could push for a European federal fiscal policy to smooth out growth rates across Europe. The key issue, therefore, could be the political price paid for compatibility.

Test 2: If problems emerge, is there sufficient flexibility to deal with them?

YES THIS test leaves ample scope for judgment. It is about the relative flexibility of labour and product markets in the UK and the euro zone. The fear is that UK adoption of the euro would end devaluation as a means of overcoming uncompetitiveness, so might lead to excessive unemployment. In October 1997 – when the tests were drafted – the Treasury opined that "the UK has not achieved sufficient flexibility to meet the challenges of Emu membership". As unemployment in this country then was much lower than the euro-zone average, it is difficult to know why the Treasury was so worried. In fact, UK labour markets are generally regarded as flexible by European standards.

NO **THIS test has not been met. Even the prime minister has admitted that "Europe needs fundamental reform in labour, product and capital markets". Such necessary reform takes time and is some way off. The euro zone has no shock absorbers when things go wrong. Contrast this with either the UK or the US, where there is monetary, fiscal and labour flexibility. Europe's labour market is rigid. This lack of flexibility will result in some very depressed regions across Europe – and across the UK – if we join. Outside the euro, we would have the freedom and flexibility to set policies to suit our needs.**

MAYBE FLEXIBILITY is a key issue, but a more important question is whether there will be more problems in the euro than out of it. For example, many of the UK's difficulties over the years have been related to sterling crises, which have generated sudden shifts in terms of interest rates. These "shocks" would be banished. In terms of flexibility, joining the euro means Britain would be signing up to Bundesbank-style stability policies which are pretty inflexible, at least relative to the Federal Reserve's pro-growth approach. But that might not matter if Britain's much-vaunted labour-market flexibility ensures an ongoing comparative advantage.

Test 3: Would joining Emu create better conditions for firms making decisions to invest in Britain?

YES ACCORDING to the Treasury: "Entering the single currency before we have achieved durable and sustainable convergence would discourage investment". Cynics might say that this test – like the "flexibility" one – is vacuous piffle and has only one purpose: to give chancellor Gordon Brown as much discretion as possible over whether or not the UK adopts the single currency. At any rate, with interest rates in the UK and the euro zone more or less convergent, no large and immediate change in interest rates would be implied by a British application to join, and no obvious and direct effect on investment seems to follow.

NO **DESPITE being outside the euro, Britain attracts the lion's share of inward investment into Europe. If the single currency was the key issue, this would have gone elsewhere. International firms view Britain as a great place to do business. This could be threatened if we enter the euro, by higher taxes and regulations and because the UK economy would underperform. Even if we stay out of the euro, we will remain in the EU and continue to be an attractive location for investment. Some firms might benefit from sterling/euro stability, but many would suffer from instability between the euro and the dollar.**

MAYBE MOST academic work suggests that the monetary environment should have little impact on a country's long-term economic performance. On that basis, this test may be largely irrelevant. The government could choose to make a positive case. At the moment, for example, companies may be put off locating in Britain because their sales are mostly in euros, whereas their costs are mostly in sterling. Remove this discrepancy and Britain could end up with more investment given the benefits of, for example, a flexible labour market. But this does not help to explain why foreign direct investment flows into Britain have been so strong since the euro's birth.

Test 4: Would Emu entry have a positive impact on the competitiveness of the UK's financial services industry?

YES IN October 1997, the Treasury was concerned that euro-zone membership should not undermine the competitive position of the UK's financial services sector, notably the City of London, a legitimate concern. If the euro were the UK's currency, the European Central Bank and other European agencies might impose new regulations on international banking and capital markets to the detriment of the UK. However, the UK has already signed up to EU treaties that erode national autonomy in financial regulation. Theoretically, these undermine the British government's ability to resist damaging EU directives and regulations, whether we have adopted the euro or not.

NO **THIS test is not valid. The City is Europe's leading financial centre and will remain so whether the UK joins the euro or not. The success of the City is not dependent on the currency we use. It is dependent on the skills, competitiveness, flexibility and adaptability of the firms and people who work there. The City succeeds because of its global outlook. More than half of Britain's trade in goods and services is with countries outside the euro. New technology and the growth of the internet will make currency blocs such as the euro irrelevant for the City and for Britain's economic success in the 21st century.**

MAYBE THIS is not even a test, it is simply a question. Again, it is not possible to give a clear-cut answer. To date, it does not look as though the euro's creation has led to any significant damage to the City. The feared exodus of business to Frankfurt or Paris appears not to have taken place. In the longer term, the key issue is more likely to be the extent to which financial-market business grows across Europe as a whole. Many commentators hope, for example, that the continent will provide a rapidly-growing equity culture. The UK's financial services industry will benefit hugely from this process, regardless of whether Britain is in the euro zone or not.

Test 5: In summary, will joining Emu promote higher growth, stability and a lasting increase in jobs?

YES THE government of 1997 made a fuss about the need for "real convergence" (ie, satisfactory performance on employment and growth) to accompany the "financial convergence" (similarity of interest rates and inflation) specified in the Maastricht treaty. Implicitly, the UK should not join the euro zone at an over-valued exchange rate. An argument could now be made that the pound is over-valued. But UK growth and employment this year should be good by European standards and it is difficult to see how this bars Britain from joining. It is one thing to say this test is as close to being met as is ever likely. It is another to say an application to join is the best policy for the UK.

NO **THIS test has not been met. The benefits of the euro are small, but the costs are high. Growth, stability and jobs are the central objectives for policy. The UK's good economic performance and jobs record over the last decade is in sharp contrast to the bulk of the euro zone. Europe's jobs record is dismal, with unemployment blackspots for women, young people, skilled workers and older men. Even if some of these issues are tackled, the UK would do better outside the euro zone. Britain needs a strong economy for the government to invest money in health and education. In the euro, our economy would suffer.**

MAYBE AS purely a shift in the monetary regime, it is doubtful that joining the euro would provide much additional growth. The currency has built-in stabilisers, notably the commitment to price stability and the fiscal pact. The UK would still be vulnerable to shocks, but these could be dealt with through, for example, greater labour-market flexibility. As for jobs, Britain is already close to full employment. On balance, the tests simply prove what we have always known: the possible breadth of interpretation means the Treasury can choose to pass or fail them. The tests emphasise that euro membership is a political, not an economic, decision.

CM K

Blair cools on euro as

With the election won, many believe Tony Blair is playing a double bluff to win support for joining the single currency

by Andrew Porter
POLITICAL EDITOR

TONY BLAIR was supposed to play down the single currency during the election campaign then start making encouraging europhile noises when the second term was in the bag. It has not quite happened that way. Indeed, during the past week, it has become apparent that the reverse is true.

Two weeks before polling, the prime minister was talking up the single currency, saying that a referendum could be won despite public hostility. The pro-euro community remarked that this was the sort of talk they wanted to hear. But since Blair was returned to office 10 days ago, the signals coming out of Downing Street – and we are talking about both 10 and 11 – have been less positive.

That was certainly the case this weekend when Britain's new foreign office team descended on Gothenburg for a European Union summit. Everyone thought New Labour had ditched the word "cool" when Cool Britannia attracted derision after their 1997 election victory. Not so. In the last 48 hours is has often been used to describe Britain's stance on the euro.

Peter Hain, the new Europe minister, was first out of the blocks issuing a "cool it" warning to the gathering in Sweden's second city. His words had been cleared by Downing Street and were therefore significant; he was effectively speaking for Blair.

On Friday night he sat next to his new boss, Jack Straw, and listened as the foreign secretary tried, unconvincingly, to claim that the "cool it" warning was aimed at the media, who had taken to over-interpreting statements on the single currency. That over-interpretation included, we are supposed to believe, the appointment of Straw and Hain – both eurosceptics. But the only message that could be taken from Blair's reshuffle was that there was to be a new mood on the euro.

Robin Cook's demotion from the Foreign Office was a rap across the knuckles for promoting the euro. Cook pushed the case for joining and – with former trade secretary Stephen Byers plus, before he had to resign, Peter Mandelson – was

> Europe's 'stagflation' threatens integration
> BILL JAMIESON, page 19

the minister most positive about the single currency.

After they had complained in private that Brown was stifling debate, all three last year wrung a concession out of Blair that they would be allowed to speak out on the euro. Now all of them are in areas where they can do little damage on an important subject: Cook is leader of the House of Commons, Byers has been moved to the Department of Local Government, Transport & the Regions and Mandelson is exiled to Hartlepool.

The problem with the new post-election order is that it encourages the thought that there is a more clever plan afoot. The double-bluff theory is that for pro-euro Blair to convince the British public to scrap the pound he needs to show that he has converted his own sceptics. If Straw and Hain, two euro-cautious men, can be brought round – and both are pragmatic enough to be persuaded – it gives the campaign greater credence.

But Straw's argument that there has been no change on the euro does not hold true. And it is not only him and his junior who have been making symbolic statements. The Treasury and the Bank of England have employed a pincer movement designed to crush the expectations of those who hoped that a prime minister with a clear endorsement from the electorate might seek the mandate to join the euro. Some think he should have asked for that in the afterglow of May 1997.

Ed Balls, Gordon Brown's chief economic adviser, was the first to move. From the man who is effectively one half of the chancellor's brain, it was a significant speech. He said the Treasury will not drive down the value of the pound ahead of entry into the single currency.

Any "manipulation" would have disastrous consequences, he opined. He may have been restating government policy, but was doing it in a way that sent out a clear message. Balls told an audience in Oxford: "Any short-term attempt to manipulate the exchange rate, overtly or covertly, would put both the inflation target and wider stability at risk."

Then it was the turn of Sir Eddie George, governor of the Bank of England. In the treading-on-eggshells world of the single currency, the language was significant. He said sterling's strength is "a real obstacle" to UK euro membership.

ADAM BUTLER/AP

What's on the menu and how shall we serve it? New foreign secretary Jack Straw with Tony Blair at a working lunch in Gothenburg yesterday

The message from George and Balls was spelling out the "five-economic tests" argument that Britain will not join unless it is the country's economic interests to so so. Repeating the message was designed to show Blair does not intend bouncing the country into the euro.

In the aftermath of an election victory, Blair does not want people to think he has taken them for mugs and will now move to ushering the country into the single currency. That was one of the concerns of Rupert Murdoch, whose newspapers supported Blair's campaign but expressed hostility to the euro.

Sunday Business revealed in January that Murdoch elicited a tacit agreement from Blair that the prime minister would not use a honeymoon period to usher in the euro hurriedly. Murdoch was back at Downing Street for a chat last Wednesday and the Guardian put two and two together and decided that the media mogul was cashing in his side of the bargain.

Too crude? Probably. The euro argument has entered a delicate and crucial phase and how Blair handles it will define both his second term and his political legacy. It is the biggest constitutional decision since Britain entered the Common Market in 1972.

That brings us to the second reason behind the lack of euro praises being sung. The message from sources in Gothenburg is that European partners have been told not to hassle Britain; the United Kingdom has a difficult referendum to win and will take its own time. Blair wants to concentrate on this week's Queen's Speech – in which he will set out the first tranche of Labour's second-term reforming agenda.

He knows that the public needs to be cajoled. There are other factors that make this period of retrenchment on the euro more acceptable. Euro notes and coins will be introduced next January. The Danish "no" to the euro was partly blamed on there being no currency in circulation. One theory has it that the government want Britons to feel the currency – on holidays to Europe next summer – before trying to persuade them to join.

Blair left fellow leaders in Gothenburg unsure of how keen he is about the euro. The reality is that he is likely to be as keen as he was when he told the House of Commons in April that an assessment will be made within two years of the election.

But for the moment, he is happy to alter the tune slightly. It suits the domestic climate to appear cautious, particularly when the likes of Treasury advisers and the Bank governor are doing your bidding.

Brown's five tests: does Britain's economy pass?

by Martin Essex
ECONOMICS EDITOR

HOW long is a piece of string? That was the reaction of many economists when, in a speech to the Royal Institute for International Affairs in July 1997, Gordon Brown set five economic tests to determine whether the UK should ditch the pound and adopt the euro.

Tim Congdon, of Lombard Street Research, says: "Critics of the tests say – very understandably – that they are vague to the point of being meaningless".

Brown, however, said that the "decision on a single currency must be determined by a hard-headed assessment of Britain's economic interests". He called for a national debate on the single currency.

More recently, Treasury officials have said that, when the time comes, they will assess the tests rigorously. And supporters of both the pound and the euro have called for an informed debate on the economic benefits and drawbacks of monetary union.

As a contribution to this debate, Sunday Business asked three leading City economists for their views.

Congdon and Gerard Lyons, of Standard Chartered Bank, are both members of the council of Business For Sterling, the anti-euro pressure group. However, they take diametrically-opposed views.

Lyons believes that none of the tests has been passed, and one is invalid anyway. Congdon, despite being strongly opposed to UK membership of the euro zone, believes they have been passed.

We called on Stephen King of HSBC for a middle view.

Critics of the government believe it will take the final decision on whether to put the question of adopting the euro to the British people in a referendum on purely political grounds. If, however, it takes the economic tests seriously, the arguments set out here by Congdon, Lyons and King will determine the outcome.

Three City experts give their views

Tim Congdon
Managing director of Lombard Street Research

Gerard Lyons
Group head of global markets research at Standard Chartered Bank

Stephen King
Managing director, economics, at HSBC

Test 1: Are business cycles and economic structures compatible, so we could live with euro interest rates permanently?

YES THIS test has two dimensions that can be quantified: the levels of UK and euro-zone interest rates, and the stage of the business cycle in the two areas as measured by "output gaps" (the difference between actual and trend output). On the first, UK interest rates are higher at the short end, lower at the very long end, and about the same in the 10- to 20-year section of the yield curve. They are not identical, but are closer than they have been for decades. Although the comparison of output gaps is less exact, output is above trend in both the UK and the euro zone. The divergence between different euro-zone economies is greater than between the UK and the euro-zone average.

NO **THIS test has never been met in the UK's recent economic history. This is unlikely to change any time soon. The British economy is structurally different from most of our continental partners. The timing of the UK economic cycle has been closer to that in the US, but no one suggests we adopt the dollar. In the euro we would burden ourselves with a one-size-fits-all interest-rate policy. The last time we linked our rates to Europe in the ERM, unemployment doubled and bankruptcies soared. There is no guarantee that the euro zone will be a success and the lack of convergence points to high risks for the UK.**

MAYBE THE UK cycle has recently moved more in line with the rest of Europe. However, this reflects the pursuit of different monetary policies. Interest rates in the UK have been higher and sterling has been strong. Without these constraints, the UK business cycle might have been less convergent with the continent. There are ways around this. The government could offset strong demand stemming from euro membership through domestic fiscal policy, via higher taxes or lower public spending. Alternatively, it could push for a European federal fiscal policy to smooth out growth rates across Europe. The key issue, therefore, could be the political price paid for compatibility.

Test 2: If problems emerge, is there sufficient flexibility to deal with them?

YES THIS test leaves ample scope for judgment. It is about the relative flexibility of labour and product markets in the UK and the euro zone. The fear is that UK adoption of the euro would end devaluation as a means of overcoming uncompetitiveness, so might lead to excessive unemployment. In October 1997 – when the tests were drafted – the Treasury opined that "the UK has not achieved sufficient flexibility to meet the challenges of Emu membership". As unemployment in this country then was much lower than the euro-zone average, it is difficult to know why the Treasury was so worried. In fact, UK labour markets are generally regarded as flexible by European standards.

NO **THIS test has not been met. Even the prime minister has admitted that "Europe needs fundamental reform in labour, product and capital markets". Such necessary reform takes time and is some way off. The euro zone has no shock absorbers when things go wrong. Contrast this with either the UK or the US, where there is monetary, fiscal and labour flexibility. Europe's labour market is rigid. This lack of flexibility will result in some very depressed regions across Europe – and across the UK – if we join. Outside the euro, we would have the freedom and flexibility to set policies to suit our needs.**

MAYBE FLEXIBILITY is a key issue but a more important question is whether there will be more problems in the euro than out of it. For example, many of the UK's difficulties over the years have been related to sterling crises, which have generated sudden shifts in terms of interest rates. These "shocks" would be banished. In terms of flexibility, joining the euro means Britain would be signing up to Bundesbank-style stability policies which are pretty inflexible, at least relative to the Federal Reserve's pro-growth approach. But that might not matter if Britain's much-vaunted labour-market flexibility ensures an ongoing comparative advantage.

Test 3: Would joining Emu create better conditions for firms making decisions to invest in Britain?

YES ACCORDING to the Treasury: "Entering the single currency before we have achieved durable and sustainable convergence would discourage investment". Cynics might say that this test – like the "flexibility" one – is vacuous piffle and has only one purpose: to give chancellor Gordon Brown as much discretion as possible over whether or not the UK adopts the single currency. At any rate, with interest rates in the UK and the euro zone more or less convergent, no large and immediate change in interest rates would be implied by a British application to join, and no obvious and direct effect on investment seems to follow.

NO **DESPITE being outside the euro, Britain attracts the lion's share of inward investment into Europe. If the single currency was the key issue, this would have gone elsewhere. International firms view Britain as a great place to do business. This could be threatened if we enter the euro, by higher taxes and regulations and because the UK economy would underperform. Even if we stay out of the euro, we will remain in the EU and continue to be an attractive location for investment. Some firms might benefit from sterling/euro stability, but many would suffer from instability between the euro and the dollar.**

MAYBE MOST academic work suggests that the monetary environment should have little impact on a country's long-term economic performance. On that basis, this test may be largely irrelevant. The government could choose to make a positive case. At the moment, for example, companies may be put off locating in Britain because their sales are mostly in euros, whereas their costs are mostly in sterling. Remove this discrepancy and Britain could end up with more investment given the benefits of, for example, a flexible labour market. But this does not help to explain why foreign direct investment flows into Britain have been so strong since the euro's birth.

Test 4: Would Emu entry have a positive impact on the competitiveness of the UK's financial services industry?

YES IN October 1997, the Treasury was concerned that euro-zone membership should not undermine the competitive position of the UK's financial services sector, notably the City of London, a legitimate concern. If the euro were the UK's currency, the European Central Bank and other European agencies might impose new regulations on international banking and capital markets to the detriment of the UK. However, the UK has already signed up to EU treaties that erode national autonomy in financial regulation. Theoretically, these undermine the British government's ability to resist damaging EU directives and regulations, whether we have adopted the euro or not.

NO **THIS test is not valid. The City is Europe's leading financial centre and will remain so whether the UK joins the euro or not. The success of the City is not dependent on the currency we use. It is dependent on the skills, competitiveness, flexibility and adaptability of the firms and people who work there. The City succeeds because of its global outlook. More than half of Britain's trade in goods and services is with countries outside the euro. New technology and the growth of the internet will make currency blocs such as the euro irrelevant for the City and for Britain's economic success in the 21st century.**

MAYBE THIS is not even a test. It is simply a question. Again, it is not possible to give a clear-cut answer. To date, it does not look as though the euro's creation has led to any significant damage to the City. The feared exodus of business to Frankfurt or Paris appears not to have taken place. In the longer term, the key issue is more likely to be the extent to which financial-market business grows across Europe as a whole. Many commentators hope, for example, that the continent will provide a rapidly-growing equity culture. The UK's financial services industry will benefit hugely from this process, regardless of whether Britain is in the euro zone or not.

Test 5: In summary, will joining Emu promote higher growth, stability and a lasting increase in jobs?

YES THE government of 1997 made a fuss about the need for "real convergence" (ie, satisfactory performance on employment and growth) to accompany the "financial convergence" (similarity of interest rates and inflation) specified in the Maastricht treaty. Implicitly, the UK should not join the euro zone at an over-valued exchange rate. An argument could now be made that the pound is over-valued. But UK growth and employment this year should be good by European standards and it is difficult to see how this bars Britain from joining. It is one thing to say this test is as close to being met as is ever likely. It is another to say an application to join is the best policy for the UK.

NO **THIS test has not been met. The benefits of the euro are small, but the costs are high. Growth, stability and jobs are the central objectives for policy. The UK's good economic performance and jobs record over the last decade is in sharp contrast to the bulk of the euro zone. Europe's jobs record is dismal, with unemployment blackspots for women, young people, skilled workers and older men. Even if some of these issues are tackled, the UK would do better outside the euro zone. Britain needs a strong economy for the government to invest money in health and education. In the euro, our economy would suffer.**

MAYBE AS purely a shift in the monetary regime, it is doubtful that joining the euro would provide much additional growth. The currency has built-in stabilisers, notably the commitment to price stability and the fiscal pact. The UK would still be vulnerable to shocks, but these could be dealt with through, for example, greater labour-market flexibility. As for jobs, Britain is already close to full employment. On balance, the tests simply prove what we have always known: the possible breadth of interpretation means the Treasury can choose to pass or fail them. The tests emphasise that euro membership is a political, not an economic, decision.