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**The European Single Currency  
Attitudes Towards UK Participation in the Eurozone**

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## Abstract

This paper discusses research proposals aimed at building a clearer understanding of the UK population's attitude towards Britain's possible future adoption of the Euro.

In the run-up to the June-2001 general election, the debate about the UK's future participation in the Eurozone focussed on issues relating to the loss of national sovereignty and political identity. The Labour Party's neutral, "wait and see" stance on the adoption of the Euro contrasted sharply with the Conservative Party's strong, anti-Euro policy. Many of the Conservative Party's arguments were echoed by both academics and by organs of the media claiming to represent UK popular opinion.

The business community's attitude towards possible future UK Eurozone membership is frequently explored and expressed by such institutions as the Confederation of British Industry. However, the June-2001 general election was seen by many as the first real opportunity to measure the attitude towards the Euro of the UK population as a whole.

The Conservative Party's heavy defeat in the 1997 general election suggests that the population may be much less antipathetic towards the Euro than both many academics and as previously implied by the media. Nevertheless, it could be several years (and more than one parliamentary cycle ahead) before the Government decides that its five conditions for UK membership of the Euro have been met and then implements its promise to test the population's opinion about UK adoption of the Euro by referendum. This paper outlines research proposals designed to elicit a clearer understanding, ahead of any such referendum, of the population's attitude towards future UK Eurozone participation.

The paper acknowledges the limited value of secondary research, and the researcher's associated subjective attempts to measure the relative importance of economic arguments for and against Euro adoption. Far more useful is primary data about the population's perception of crucial issues in the Euro debate. The paper explains the planned primary research investigation, and discusses the extent to which the research outcomes may be a useful predictive tool for the outcome of a future Euro referendum.

## Introduction

The introduction of a single currency, the Euro, amongst the members of the European Union (EU) has been the most dramatic step so far in the process of European integration. It is far more revolutionary than earlier moves in this direction such as the harmonisation of regulations or the ending of exchange controls. Furthermore, it is not intended to be just another incremental step forward, but rather as a complete transformation of the EU's financial (and possibly political) structures and systems.

The driving force behind the introduction of the Euro was not popular dissatisfaction with existing currency arrangements, but rather the integrationist ambitions of key members of the EU elite, notably the German Chancellor, the French President and the President of the European Commission. These ambitions, which have been largely unaffected by changes in the individuals who hold the elitist positions, have their roots in both economics and politics. The economic challenges and benefits of European integration are clearly described and analysed by Cecchini (1988) whilst political arguments, focussing on visions of Economic and Monetary Union (EMU) as a preventative of future wars in Europe, have been put forward by many EU leaders, notably Chancellor Kohl.

Twelve of the EU's fifteen members have so far been persuaded by the arguments in favour of a single currency. Eleven of these countries (Germany, France, Italy, the Netherlands, Ireland, Spain, Portugal, Belgium, Luxembourg, Austria and Finland) have participated in the Euro from its outset (January 1999) with Greece joining the Eurozone in January 2001.

So far, the UK national debate about possible future participation in the Eurozone has focussed mainly on issues relating to the loss of national sovereignty and political identity. Although surveys by the Confederation of British Industry and the Institute of Directors show that UK businesses appear to be in favour of Euro adoption by a margin of around 3 to 1, the dominant tone of popular debate has been negative, with the Conservative Party putting considerable emphasis on its anti-Euro stance in the run-up to the June-2001 general election. The Conservative Party's negative view of UK prospective Euro adoption has been mirrored by the many organs of the popular media, and by many leading economists and other academics.

The heavy defeat at the June-2001 general election of the anti-Euro Conservative Party, and the landslide victory by the Euro-neutral Labour Party (the latter's stance towards the Euro has since been described by the Chancellor of the Exchequer as "pro-Euro realism"), suggest that the population's attitude towards the UK's possible future adoption of the Euro is less negative than has been assumed by the Conservative Party and implied by the popular media. They also suggest that there is a paucity of reliable information concerning public opinion about future UK participation in the Eurozone. This is in sharp contrast to the abundance of information about the business community's attitude towards the Euro, made available from regular surveys conducted by organisations such as the Confederation of British Industry and the Institute of Directors. It is, of course, the view of the UK electorate rather than the view of the business community that will determine the outcome of any future Euro referendum.

It is likely that the Government will, during the current parliamentary cycle, explicitly seek the electorate's opinion about UK Euro adoption through a referendum. A pre-

requisite for an official decision to hold a referendum, seeking popular approval for Euro adoption, will be the Government's perception that there are satisfactory answers to the following five tests, detailed in the Outline National Changeover Plans (1999 and 2000):

Would joining the EMU create better conditions for firms making long-term decisions to invest in the UK?

How would being part of the single currency affect the UK financial services sector? Are business cycles compatible so that the UK and others in the Eurozone could live comfortably with Euro interest rates on a permanent basis?

If problems do emerge, does the UK economy have sufficient flexibility to deal with them?

Will joining EMU help to promote, in the UK, higher growth, stability, and a lasting increase in jobs?

The aim of this paper is to outline research proposals designed to elicit a clearer understanding, ahead of any Euro referendum, of the population's attitude towards future UK Eurozone participation, and thus a clearer understanding of whether or not sterling is, in the future, likely to participate in the European Single Currency arrangements. The paper outlines the main arguments for and against UK participation in the Eurozone. It then explains the limited value of secondary research as a means of gauging the population's attitude towards the UK's adoption of the Euro. Much more useful is likely to be data emanating from primary research on the population's perception of crucial issues in the Euro debate. The paper outlines the methodology and methods of primary research proposals, and discusses the extent to which the research outcomes may be a valid predictive tool for the outcome of a future Euro referendum.

## Principal Arguments for and against UK adoption of the Euro

The adoption of the Euro has both potential advantages and disadvantages. The arguments in favour of Euro participation can be easily summarised as:

- savings on transaction costs;
- greater price transparency and price stability;
- and increased economic and financial integration that will increase trade and investment.

The arguments against are equally easily summarised as:

- the problems of a "one size for all" monetary policy;
- the risks of abandoning flexible exchange rates;
- the need for flexible labour markets;
- the dangers of possible tax harmonisation;
- and further political integration leading to a European state.

Lamont (2001) stresses that while *The Economist* (April 1999, p.32) contained essays by a number of British academic economists that stressed the microeconomic benefits stemming from the UK's adoption of the Euro. Johnson's essay (drawn from Duff et al, 1998) focused on the savings that would be made on foreign-exchange transactions costs, estimated as being equivalent to around 0.3%

of GDP annually. This annual saving was equivalent to the estimated once-off costs of initially changing over to the Euro.

Lyons' essay (the Economist, April 1999) cited price transparency as a major benefit of UK membership of the Eurozone. Such transparency will make it *"harder for companies to hold up prices by segmenting the market; it will be immediately obvious if prices are higher in one country than another"*. Lyons concludes that this transparency will increase competition, raise efficiency and bring prices down. Layard et al (2000) also stress the benefits of price transparency, arguing that companies will be able to conduct business in a much larger market and that consumers will have much greater real choice by being able to easily compare products and prices across different countries. Business for Sterling (2000) challenges the price transparency argument. It claims that the benefits of increased transparency are a *"mirage"* because *"the internet either duplicates the positive effects (e.g. through instant currency converters) or dwarfs them (e.g. through intelligent agents)"*. However, no account is taken of the fact (the Economist, April 1999) that just one-third of the UK population is currently linked to the internet or that all of those with internet access may not be in a position to identify the lowest price because of the time and effort involved.

The argument that UK trade will be stimulated by participation in the Eurozone focuses on the elimination of exchange rate risk from UK intra-Eurozone transactions. Around 50% of UK visible trade is currently conducted with Eurozone countries. This figure is smaller if invisible transactions on current account of balance of payments are included, but some 97% of UK industry's capital transactions (mainly in Eurodollars) is currently conducted with Eurozone countries. Bradley and Whittaker (2000) and Business for Sterling (2000) counter this argument, highlighting that 50% of UK trade is currently with countries outside of the Eurozone, with the US\$ the predominant currency. Miles (1998) points out that the proportion of UK trade conducted with Eurozone countries has recently been below average because the UK economic cycle has been out of line with that on the Continent.

The Economist (April 1999) argues that participating in the Eurozone will enhance the UK's status as an EU gateway for Foreign Direct Investment (FDI) because it will eliminate transaction and translation risks on intra-Eurozone transactions. Statements from a number of foreign companies operating in the UK support this view. The Economist (May 2000) highlights statements from Honda, Nissan and Toyota in the UK which have warned the British Government that they *"will find it difficult to sustain British investment and production in the long term unless Britain joins the single currency"*. Business for Sterling (2000) counters this argument to some extent by showing that since the introduction of the Euro, there has been no reduction of FDI into the UK. But since the full introduction of the Euro, insufficient time has elapsed to measure, with any degree of confidence, any impact on FDI inflows into the UK of sterling's non-participation in the euro.

Lamont (2001) argues that the European Central Bank's one-size-fits-all monetary policy has led to inappropriate interest rate levels in some Eurozone countries, notably Ireland and (since January 2001) Greece. These countries have been forced to significantly lower interest rates at a time when, because of inflationary pressures, their rates should have been rising; the result (exacerbated by the weak Euro) been inflation at its highest level for a decade. The Euro was intended to

bring about monetary stability. Ironically, the initial convergence of inflation to the levels required by the Maastricht Treaty was brought about by different Eurozone countries having different interest rates. However, the consequence of the single interest rate across the Eurozone may be to widen inflation differentials and to simultaneously remove from individual countries the means to smooth out these divergences. Since January 1999, both the rate of Eurozone inflation and the standard deviation of the 12 Eurozone inflation rates have increased (see Appendix 1)

Membership of the Eurozone removes, from individual countries, both the interest and exchange rate as tools of economic management, leaving only fiscal policy as a means of independent economic adjustment. Ireland has recently adjusted its fiscal policy to encourage domestic savings and wage restraint, and to slow the pace of economic activity. However, the Governor of the Bank of Ireland has stated that what is really needed is higher interest rates which the Bank cannot implement. Furthermore, there is increasing pressure (led by Germany) within the Eurozone for the harmonisation of fiscal policy, a prerequisite for political union and a single European government (Browne, 2001).

The cause of the weakness of the Euro since its inception is unclear. The ECB argues that the performance of the Euro has not reflected relative economic fundamentals, while many economists argue that the weak performance reflects large differences in profitability and productivity between the USA and the Eurozone, implying an urgent need for European structural reform. There is a growing body of opinion that attributes Euro weakness to the absence of European political union. Lamont (2001) argues that the Euro's problem is the lack of a Government behind it; in particular, the ECB has no political counterpart that could, for example, initiate European-wide labour market reform. The argument that political union (and by implication a European government) is a prerequisite for a strong single currency was first put forward by the Bundesbank in 1990; Chancellor Kohl, just a few weeks before ratification of the Maastricht Treaty, threatened that Germany would not give up the Deutschemark unless there was a commitment to political union in Europe.

## Research Methodology and Methods

The UK business community's attitude towards Euro adoption is well documented. The aim of this research is to build a clearer understanding of private individuals' attitudes towards future Eurozone participation. The arguments for and against the Euro are complex and it is very difficult to objectively measure the relative strength of these arguments. It is possible that the attitudes of individuals are highly subjective, influenced by variables such as individuals' membership of different demographic, geographic, psychographic and behavioural groups.

The research methodology and methods are, therefore, underpinned by the phenomenological paradigm (Hussey and Hussey, 1996). This framework for research produces qualitative data and assumes that reality (in this case, individuals' attitude towards UK participation in the Eurozone) is both subjective and multiple, as seen by the participants in the research study. Although the researcher will interact directly with those being researched through a process of participative enquiry, it is important that at the reporting stage the researcher's own views are isolated from the views of those being researched (Marguiles and Rala, 1972).

The methodological process is inductive and will examine small samples of the total population. Focus groups, questionnaires and individual interviews are the methods best suited to this type of enquiry. Given the highly subjective and emotive nature of the Euro debate, focus groups have been selected as the initial method that is most likely to elicit a clearer understanding of what people really think about the issues under investigation (Stewart and Shamdasani, 1990). The focus groups will, because of resource constraints, be selected from residents of the county of Essex and be structured around a range of interest groups in the county (for example, political parties, trade unions, single-issue pressure groups, women's organisations, and the Workers Educational Association). The samples will reflect the diversity of demographic, geographic, psychographic and behavioural groups resident within Essex. The advantages and disadvantages of focus groups as a method of enquiry are summarised in Appendix 2. Questionnaires will be used to identify the socio-economic characteristics of focus-group members. At a later stage, questionnaires may also be used to triangulate the results of the focus-group enquiry, using the database of the Strategic Planning Institute for sample selection.

It is planned to form around ten focus groups, each comprising 6-10 people. Each focus group session will last for up to two hours, during which the participants will be encouraged to discuss the following Euro-related issues:

- potential savings on intra-Eurozone transaction costs;
- potential gains in UK price transparency, stability and competitiveness;
- potential gains in UK trade and inward investment;
- potential problems of the loss of control over domestic interest rates;
- potential risks in abandoning flexible exchange rates;
- potential risks of a harmonised Eurozone fiscal policy;
- potential political integration leading to a European state and a common European defence policy .

Individuals will be offered incentives (through gift vouchers and/or donations to charities of their choice) to participate in the focus groups. The researcher will ensure that all focus-group members understand the meaning of each of these issues before any discussions commence on participants' perceived implications, relative to these issues, of sterling's possible future membership of the euro. The researcher will create a permissive and nurturing environment that encourages the expression of different perceptions and points of view, without pressurising participants to vote, plan or reach consensus (Krueger 1988). Careful and systematic analysis of discussions will provide clues and insights as to how UK adoption of the Euro is perceived by individuals.

The data emerging from focus group sessions will be examined and reported at three levels: *raw data* which presents statements as stated by focus group participants; *descriptive statements* that summarise participants' comments and provide illustrative examples using raw data; and *interpretation* which builds on the descriptive process by providing or presenting the meaning of the data rather than simply summarising the data. The aim of the investigation is to provide qualitative analysis of different perceptions that emerge from the data, to understand these different perceptions and to look for patterns which may or may not be repeated in other similar situations. It is not intended to try and construct models that explain different perceptions of UK Euro participation.

It is intended that focus group sessions will each pass through three phases. The first phase will aim to explain the meaning of the eight issues mentioned above and then to seek participants' *prima facie* view on these issues. The second phase will be to educate participants in the rational *pros and cons* of UK membership of the Euro and to separate these rational considerations from those driven by irrationality and emotion. The final phase will seek to identify and explain any changes in participants' views stemming from the second phase. It is intended to keep this inquiry live by subsequently identifying and explaining, through questionnaires and meetings, any changes in the views of focus group participants.

It is unlikely that the qualitative research findings will be reliable in a positivist sense (i.e. the results are unlikely to be exactly replicated by each focus group or by different methods of investigation). Under a phenomenological paradigm, this positivist criterion of reliability is not important; instead, reliability concerns the probability of similarity of observations and interpretations made on different occasions and/or by different observers and methods.

The validity of this investigation will be determined by the extent to which the research findings accurately represent what individuals really think about the prospect of UK participation in the Euro. The phenomenological paradigm aims to extract qualitative data which is rich in its explanation and analysis and which captures the essence of the issue under investigation. The researcher's aim is to gain full access to the knowledge and understanding of those involved in the investigation in order to ensure that the results have a high degree of validity (Farley Templeton, 1994).

The generalisability of the investigation concerns the extent to which the research results can be applied to a population beyond those samples examined in the focus group sessions. Gummesson (1991) supports the view of Normann (1970) who argues that in a phenomenological study, it is valid to apply the findings emerging from very few (focus group) cases to a wider population, provided that the sample closely reflects the socio-economic structure of the entire population; and that the analysis has comprehensively captured and understood the interactions, perceptions and behaviours of those that have been studied. Hence, the research outcomes will only be used as a predictive tool for the result of a future UK Euro referendum if the aforementioned criteria are clearly fulfilled. In order to develop a reliable predictive tool, it may be necessary to repeat the focus group exercise over wider geographical areas and socio-economic groups, and to triangulate the focus group results using alternative methods of investigation.

## Conclusion

This paper outlines research proposals that aim to gain a clearer understanding of what individuals really think about the UK's prospective adoption of the Euro. The likelihood that individual attitudes on this issue will be highly subjective and emotive implies a methodology that is underpinned by the phenomenological or qualitative paradigm. Small samples of the total population will be examined, initially through a series of focus group sessions. The reliability of the research outcomes will be high provided that there is a similarity (but not replication) of observations and interpretations from one focus group to another. The validity of the research will also be high if it succeeds in gaining a full understanding of what individuals really



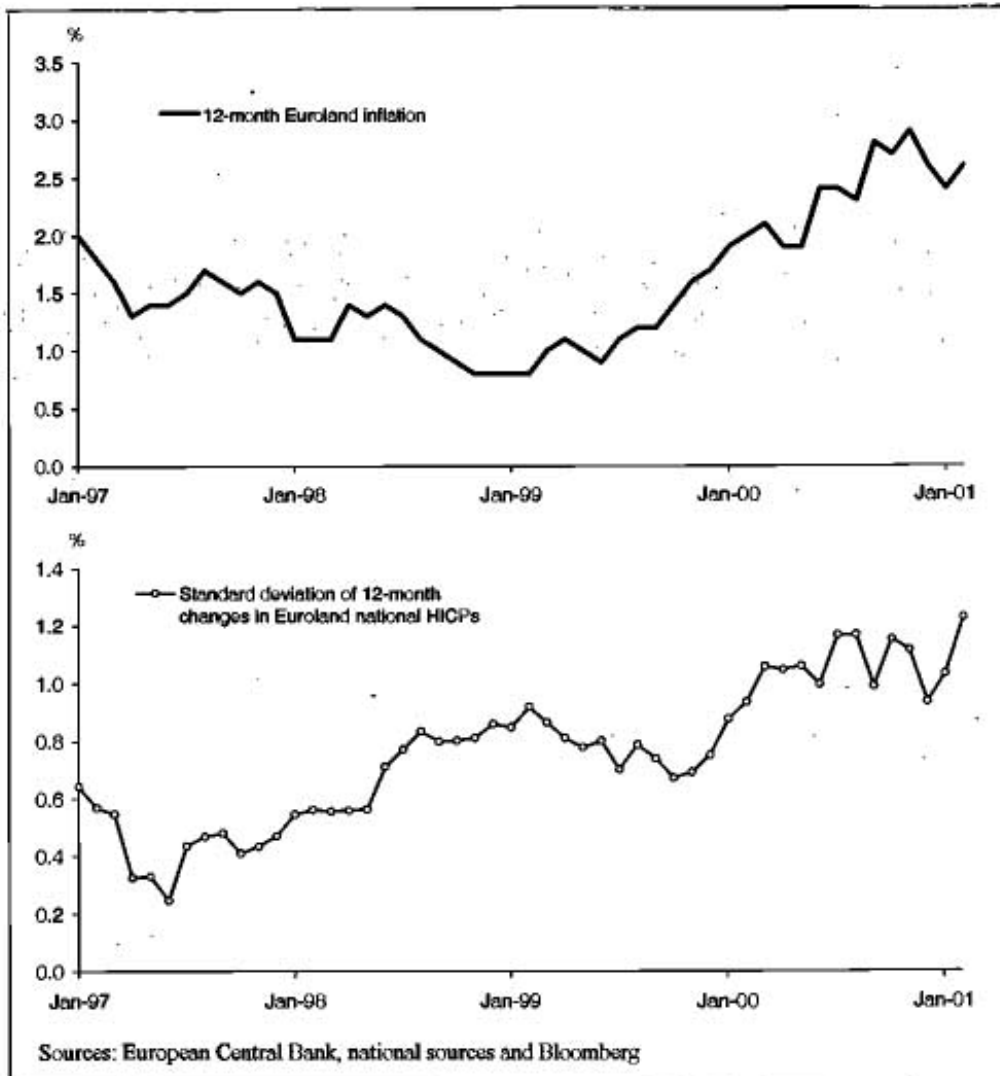
think about UK membership of the Eurozone. It will be possible to use the focus group data as a basis for generalising about the wider population's attitude towards the Euro only if the focus group sample is a close reflection of the population's socio-economic structure and if the research elicits a comprehensive understanding of individual perceptions on the Euro issue. It may, therefore, be desirable to later widen the scope of the enquiry in terms of both those being investigated and the methods of investigation. The results of the enquiry will initially appear as a paper in the Discussion Series of the Essex Research Group at the Ashcroft International Business School

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**Appendix 1**

**Is the One-Size-for-All Monetary Policy Working?**



## Appendix 2

### Advantages and Disadvantages of using Focus Groups as a method of research enquiry

#### Advantages

Takes advantage of the fact that people naturally interact and are influenced by others.

May be one of the few research tools available for obtaining data from individuals who are not especially literate.

Provides data more quickly and at a lower cost than if individuals are interviewed separately; groups can be assembled at shorter notice than for a more systematic survey.

The researcher can interact directly with respondents (this allows clarification, follow-up questions, probing) and gain information from non-verbal responses to supplement (or even contradict) verbal responses.

Data uses the respondents' own words and can obtain deeper levels of meaning, make important connections and identify subtle nuances.

Results are easy to understand and are more accessible to "lay" audiences or decision-makers than complex statistical analyses of survey data.

#### Disadvantages

The researcher has less control over the group and is less able to control what information will be produced.

Groups produce relatively chaotic data, making data analysis more difficult.

Small numbers and convenience sampling may limit the ability to generalise about larger populations

The researcher may knowingly or unknowingly bias results by providing cues about what types of responses are desirable.

Uncertainty about the accuracy of what group participants say. Results may be biased by the presence of a very dominant or opinionated member; or by more reserved members who are hesitant to talk.

Source: Kreuger R A (1988), Focus Groups: A Practical Guide for Applied Research