

The joys of life outside the Eurozone!

This week has seen the release of economic data from both the UK and the Eurozone and the stories they tell could not be greater. UK Gross Domestic Product – the total value of goods and services produced by a country – grew at an annualised rate of 3.2% in the second quarter of 2014, slightly higher than the original 3.1% estimate. Across the water, the economy in the 18-nation single currency bloc did not grow at all. Of course, this is an aggregate figure for 18 different countries some of which managed to achieve modest growth – Portugal and Spain, for instance, both grew at an annualised rate of nearly 2½% with the Netherlands not far behind at 2%.

The biggest shock was the contraction of the German economy, which shrank by 0.2% in the second quarter. France's economy failed to grow at all, while Italy entered a "triple dip" recession, recording two consecutive quarters of GDP contraction. Greece, of course, has not had a triple-dip or even a double-dip recession. It has yet to exit a downturn which began in 2008 and which has seen its economy contract by over 25% during this period.

These figures come on top of monetary data showing that deflation affected five Eurozone nations in July – Spain, Portugal, Slovakia, Greece and Cyprus. Prices have been falling continuously for 18 months in Greece, which may sound good news for hard-pressed shoppers but is not so good for manufacturers and retailers, as consumers delay purchasing big-ticket items in the hope that they will become cheaper. Deflation is also bad news for heavily-indebted governments as the reduction in tax revenue it makes it harder to pay off the money they have borrowed. Ambrose Evans-Pritchard, the Daily Telegraph's International Business Editor, recently argued that in Italy, where inflation is nudging close to zero, the

government may have considerable difficulties in ever paying off its debts unless it returns to the Lira.

With the recently-imposed sanctions on Russia still to bite, the picture could get even worse in the coming months. However, Mr Putin cannot really be blamed for the Eurozone's woes. The issues go back to the very start of the single currency. Like the EU itself, it was a political project disguised as an economic project. The political objectives were simple enough – to further European integration. However, the economic objective – a convergence of the economies of the participating nations – hasn't happened. There were design faults with the Euro right from the start and while many of these are of a complex and technical nature, the bottom line is that the classic approach to an economic downturn in countries like Italy – currency devaluation – is now out of bounds. This is no surprise given the dominance of Germany, where memories of the 1923 hyper-inflation still linger. The Bundesbank has always supported a strong currency and even now the German members of the board of the European Central Bank (ECB) show little sign of sympathy towards the struggling economies of the Eurozone periphery.

Mario Draghi, the ECB governor, is not short of advice on how to deal with this unfortunate situation, with many economists predicting he will eventually follow the lead of the central banks in the UK, the USA and Japan launch some form of Quantitative Easing or asset purchase programme. This would face strong opposition from Germany, even though the downturn of their economy has caused some German economists to soften their stance in recent months.

Meanwhile we in the UK can observe these problems from a distance. We're not by any means totally detached, thanks our considerable trade with the EU, but at least we have control of our own currency. This has unquestionably been a factor in the UK being able to recover from the downturn quicker than the Eurozone. What is remarkable is that our relative success

has not caused any serious debate across the single currency area as to whether these countries too might be better off outside of the Euro straightjacket.

However, this is only part of the story. It is obvious that we have benefitted by keeping the pound and not joining the single currency. It is equally obvious, and not just to observers from this country, that we would have benefitted even more if we were subject to even less interference in our country's affairs. Given the obvious advantage of our opt-out from the Euro, it is hard to imagine the other member states agreeing to David Cameron unilaterally repatriating powers to the UK as this would only increase our competitive edge. If we therefore wish further to improve our advantage, we must withdraw from the EU completely. Who knows? In so doing, our success may encourage other countries to follow our example and bring this sorry, failing institution to an end.

Photo by Alex Guibord 