

The world after the Euro by Robert Henderson

Amidst all the gnashing of liberal internationalist teeth and prophecies of doom if the Euro collapses a question goes unasked in the mainstream media: could the collapse of the Euro leave Britain in a better position than if the currency survives or could its failure even be positively beneficial for Britain? Sounds mad? Well, consider this, Britain may be far better placed to survive the shock than any Eurozone country because of two things: the fact that we have our own currency and our position as a world financial centre.

The Euro's collapse would cause a good deal of economic riot within the Eurozone because of the difficulties of assigning values to the newly formed marks, francs, drachmas and so on, both in terms of establishing the new currencies and the adjustment of contracts, loans and other financial instruments which are drawn up in Euro values. Most of the contracts and loans in the Eurozone countries will require adjustment. That will involve a massive administrative cost and make Eurozone countries less competitive.

Britain will have none of the costs and disruption of re-establishing a currency. She will be affected where British contracts and loans have been drawn up with the Euro as the unit of value or financial instruments are denominated in Euros, but unlike the Eurozone members that will affect only a small minority of British financial agreements because most of British economic activity is within and for the British domestic market. The lesser costs will make British business more competitive relative to the Eurozone countries.

In addition, while the administrative changes and the task of valuing the re-established currencies in terms of the value of the Euro is proceeding, those wishing to enter into contracts

from outside the Eurozone may be reluctant to do so with Eurozone countries until the currencies are fully re-established. This could drive non-Eurozone foreign contracts to Britain which might otherwise have been placed with Eurozone businesses.

While the turmoil of changing from the Euro to the re-established old currencies continues, there would almost certainly be a reluctance to buy the sovereign debt of even the likes of Germany at reasonable rates of interest. That would make British issued bonds more attractive and keep the rate of interest paid on them low. The difficulty in raising finance would also affect non-governmental corporate bodies such as companies, charities and other not-for-profit organisations.

There is of course the possibility of a substantial diminution of Britain's trade with the Eurozone during the initial upheaval when old currencies are re-established and values assigned to contracts and so on; a much lesser chance of lost trade with rest of the EU which remains outside the Eurozone (and like Britain retains national currencies) during the period of adjustment and a lesser chance still of disrupted trade with members of the European Economic Area (EEA) such as Norway and Switzerland.

How much might Britain lose? Claims of Britain having 50% of its exports going to the EU are misleading because they are inflated by "...two quite separate effects. The first, the Rotterdam- Antwerp Effect, relates to exports of goods and commercial services to Holland and Belgium. About two thirds of these pass through the two biggest ports in Europe, Rotterdam in Holland and Antwerp in Belgium, on their way somewhere else – some to other EU countries, the rest outside the EU.

"The second, the Netherlands Distortion, relates to Income. This often flows through Dutch "brass-plate" holding companies

which offer tax advantages. As a result, much of the investment and income flows recorded in the British statistics as going to or coming from Holland in fact go to come from somewhere else, very often outside the EU altogether."

(<http://www.globalbritain.org/B00/HowDependant.htm>)

How much of an inflation of UK exports to the EU it is difficult to say, but it would probably be reasonable to knock the amount of our exports which go to the EU overall down to 40%.

Would Britain be ruined if the Euro collapsed? It is worth remembering that only around 18% of UK GDP is devoted to exports. UK GDP in in the financial year 2009/10 was £1453 billion

(http://www.ukpublicspending.co.uk/downchart_ukgs.php?title=UK%20Gross%20Domestic%20Product&year=1950_2010&chart=#ukgs303) and exports of goods and service came to £260 billion (http://www.economywatch.com/world_economy/united-kingdom/export-import.html) or 18% of GDP. If only 40% of UK exports go to the EU (or strictly the European Economic Area), that would mean around 7% of the UK total economic activity would be at risk.

Of course, no such wholesale loss would occur because stricken or not the Eurozone countries (and even more so the other continental EU countries not in the Eurozone) would not suddenly lose most of their economic activity. Moreover, it is conceivable that the re-establishment of national currencies could stimulate the economies of those involved remarkably quickly because it would allow them to trade on reasonable terms.

It is also probable that the UK financial sector would pick up much of the business involved in the break-up of the Euro as companies and governments both in the Eurozone and the wider world look to the financial expertise of the UK to help

unravel the mess.

The problem of the Euro as a reserve currency

It is one thing to be a currency which is a national currency and little else: quite another to be the second largest reserve currency in the world which is the fate of the Euro. Extremely problematic questions arise from that status most pressingly, what will the holders of the Euro as a reserve currency receive if the Euro collapses??

The conversion of Euros to new national currencies of the Eurozone is in principle (but not in practice) straightforward, because the Euro holdings within the Eurozone could be converted to whatever the exchange rate of the each new currency is deemed to be, for example, a one to one parity for the Euro and a new German Mark and three to one parity for the Euro and a new Drachma (the conversion ratios could be achieved either by negotiation within the Eurozone members or by allowing the new currencies to float for a few months and then using their market valuations).

The position of the holders of the Euro as a reserve currency who are not Eurozone members is completely different for they will not have a new currency to which to convert. All would want the new Mark and none the new Drachma. I suppose that they could be offered a basket of all the new currencies with the contribution of each weighted to a criterion such as the population of each Eurozone member. However, that would be tantamount to a substantial devaluation of their Euro holdings.

Running parallel to the position of the reserve currency holders is the status of private individuals and organisations outside of the Eurozone holding Euros. How will they be treated if the Euro ceases to be?

These are all questions which wait to be addressed. They are capable of causing immense tensions not merely in the EU but

worldwide as holders of the Euro face massive losses.

Will the Euro survive?

The intense desire of the EU elites to preserve the Euro to provide the glue to maintain the greatly expanded union and as a platform for further federalisation is not at issue. A collapse of the Euro would both reduce to rubble the EU's attempt to project itself as a superpower and leave the EU subject to economic sanctions by countries outside the EU which had lost out through the Euro's collapse. That alone would provide the most pressing reason for the Eurozone elites to maintain the currency, even to the point of engaging in large capital transfers from richer to poorer Eurozone members.

But the will of elites cannot keep a political system in place if the fundamentals are wrong. In the Eurozone they are wrong both in terms of the vicious absurdity of the Euro and the profound lack of democratic control. Ironically, the agent of immediate destruction will be a god of the Western elites own creation, globalisation, which has allowed that most truly supra-national of entities, the financial markets, to come into being.

If the Euro does fall, it could herald the end of the EU. That would be a savage irony because the Eurofantatics would have destroyed that which they most desired by feeding it on too rich a political fare.