ACTA UNIVERSITATIS LODZIENSIS
FOLIA OECONOMICA 239, 2010

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GREAT BRITAIN AND THE EURO ZONE

1. Introduction

Great Britain joined the European Economic Community on 1st January 1973. As one of the two EU 15 countries (the so called „old" European Union) it refused to participate in the process of advancing economic integration taking place within EU and it refused to join the Economic-Monetary Union. Despite the passage of time, Great Britain's stand on this matter has not changed, although the last worldwide economic crisis and its consequences intensified discussion whether from Great Britain's point of view it is worth considering possibilities of joining the euro zone.

The aim of the herein paper is to present determinants of functioning of Great Britain in the European Union and an analysis of possible opportunities and threats which are connected with its accession to the single-currency area.

2. Great Britain with regard to the process of European integration

It must be stated in the beginning, that the attitude of Great Britain towards the processes of integration taking place in the European continent has always been ambiguous. Due to geographical situation as well as because of social-political factors, Great Britain has not been interested in having close interrelations with other European countries.

The first factor has a mainly symbolic dimension – Great Britain is situated on the islands which are not in a natural way joined with the continental Europe. Depending on circumstances this location may be both a disadvantage (any contacts with the land must be conducted by air or by the sea), and also advantage (it is more difficult to attack the 'island' country, which was proved by the II World War experience).

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Social-political factors are strictly connected with historical determinants. The British Empire in the time of its full bloom (the turn of XIX and XX centuries) embraced almost ¼ of the world area inhabited by about ¼ of its population. Economic relations of Great Britain were directed mostly beyond the European countries. It is proved by the data concerning e.g. locations of British, German and French investments realized in 1913–1914 (compare: table1).

Table 1 Geographical layout of investments of Great Britain, Germany and France, 1913–1914, (%)

Location of investment	Great Britain	France	Germany
Eastern Europe	3,6	35,5	27,5
Western Europe	1,7	14,9	12,7
Europe (other countries)	0,5	3,3	5,1
Europe altogether	*5,8*	*53,8*	*45,5*
Latin America	20,1	13,3	16,2
North America i Australasia	44,8	4,4	15,7
Other countries of New World	2,8	0,0	2,1
New World altogether	*67,7*	*17,7*	*34,0*
Asia i Africa	26,5	28,4	20,5
TOTAL	100,0	100,0	100,0

Source: M.A. Clemens, J.G. Williamson „Where Did British Foreign Capital Go? Fundamentals, Failures and the Lucas Paradox 1870–1913" NBER Working Paper No. 8028, December 2000, str. 36

What clearly results from them is that there is just under 5,8% of Great Britain's investments towards 50% of investments from Germany or about 45% coming from France in the European Continent. Great Britain's economic relations with Europe in the period of its economic bloom were not so strong as with territories of the so called New World. That fact obviously must have had some bearing on the country's later approach towards the European integration processes.

The economic and political situation of Great Britain changed together with the demise of empire (the name "British Empire" was finally abandoned in 1931) and the outbreak of II World War. With the end of the war, Great Britain definitely lost the position of the leader of world economy in favour of the United States. Due to mainly political reasons Great Britain refused to join the created in 1951 European Coal and Steel Community, and also the activated in 1957 European Economic Community. In 1960 Great Britain initiated European Free Trade Zone, which assumed a lot more casual form of cooperation between member states. Functioning outside the main current of European integration (what EEC appeared to be) was not however in accordance with British interests. Great Britain wanted to realize in an autonomous way its policy towards the countries of Community of Nations, but it also wanted to participate in the European policy. In 1963 the country decided to put forward a proposal of its membership in EEC. The proposal however was opposed by France which perceived Great Britain as a country too strongly connected politically with the United States. Great Britain (and Ireland) joined the EEC only in January 1973. It is worth mentioning however, that acceptance of GB's membership in the EEC coincided with the realization of the so called Werner's Plan, assuming the realization of economic and monetary union in 10 years (1971–1980) within the EEC countries. What is interesting is the fact that as early as a year after its accession to EEC, to be precise in 1974, Great Britain expressed its objections as for the possibility of creating the economic-monetary union in the assumed period, and next the country distanced itself from those plans[1]. In fact Great Britain joined the created in 1979 European Monetary System, nevertheless when the EMS was being created, it was not yet perceived as a part of a concrete plan of deepening integration operations. In 1990 the Prime Minister Margaret Thatcher acted definitely against the plans of creating EMU declaring, that the currency of the United Kingdom (sterling) is an expression of its sovereignty[2]. That stand was reflected in Great Britain's opposition towards the specified resolutions concerning EMU in the Treaty about European Union. Finally in 1991 Great Britain negotiated being assigned an "opt-out" clause, which allows it to remain outside the EMU. Until today (2010) Great Britain has not applied for membership in the euro zone.

The above short description of determinants of Great Britain functioning in the EEC/EU clearly shows that the country has been from the very beginning distanced from the integration processes taking place formerly in the Western Europe and currently in Europe.

It probably is largely a result of historical reasons (the British Empire over which "there is no sunset ever") and in consequence an ambiguous vision of British people as for their place in the European continent. It is hard to deny an impression that Great Britain distances itself from the continental Europe, defying the goals set by the countries which are "the driving force" of integrational operations.

What is also undoubtedly essential is the current political leadership in Great Britain, Conservative Party is against the accession to the euro zone, whereas the Labour Party favours the integration, which does not mean however,

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[1] DiCecio R., Nelson E. „Euro Membership As a U.K. Monetary Policy Option: Results From a Structural Model", NBER Working Paper No. 14894, April 2009, p. 2

[2] Ibidem, p. 3

that they are determined to obtain EMU membership[3]. What also matters is also the stand of British society in that issue. The British did not want in the past and do not want now[4] their country to accept euro currency losing at the same time "the national identity" and the real influence on the shaping of economic policy in monetary aspects.

The decision about the accession to the economic and monetary union is mostly a political decision. The country then decides to resign from an essential part of its autonomy in the economic field. Taking under consideration political and economic relations of Great Britain in the past (territorial range of the British Empire) as well as presently (leaning towards the United States), lack of clear vision of cooperation with the leading countries of the continental Europe (Germany, France) in the political field and also the stand of the British society, one may have serious doubts whether at this point of its history, Great Britain is really politically ready for the accession to the single-currency area.

3. Economic aspects of British membership in EMU.

In 1997 the government of Tony Blair presented five requirements referring to the British economy which must be fulfilled to be able to consider the accession of Great Britain to EMU from economic point of view. They are the following[5]:

- a degree of permanent economic similarity between Great Britain and the countries of the euro zone measured with the degree of synchronization of economic cycles,
- sufficient flexibility of British economy in the range of opposing the consequences of changes evoked by economic shocks,
- an influence of euro acceptance on foreign investments made in Great Britain,
- an influence of euro acceptance on the British sector of financial services,
- an influence of euro acceptance on economic growth, the level of employment and stability in Great Britain.

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[3] Further information on that subject: D. Howarth „Explaining British Policy on the Euro", European Integration online Papers, Vol. 8 (2004) No. 17, http://eiop.or.at/eiop/texte/2004-017a.htm

[4] That unfavourable change of moods began after the so called „black Wednesday", when in September 1992 sterling had to leave the European Exchange Rate Mechanism (ERM). Research conducted in 2003 showed that only 24% of British people would like to join the EMU, whereas 63% were against.Ibidem, str. 8

[5] DiCecio R., Nelson E. „Euro Membership As a U.K. Monetary Policy Option…", op.cit., p. 3–4

A research done in 2000 by OECD showed, that Great Britain is better prepared in economic aspect to the membership in the euro zone than part of the countries that have already joined it[6]. Meanwhile in 2003 the British government presented a totally different opinion concluding that only one of the criteria was met (the one concerning the financial services sector), whereas all the others are still not fulfilled, although there is visible progress in this field[7]. One may assume that the opinion was first of all a derivative of a very balanced, or even restrained attitude of the British government towards the process of deepening of integration.

Generally speaking one may distinguish two approaches studying the country's readiness for the accession to the euro zone:

– a study based on the theory of optimal monetary area (oma),

According to the originally formulated theory by R. Mundell[8], the optimal monetary area is a territory where[9]:

- there circulate different currencies connected with rigid or irreversible exchange rates or a common currency;
- there is a common monetary policy (alternatively there is one central bank),
- there exists a high degree of mobility of production factors and the lack of it in reference to the rest of the world,
- the effectiveness of economic policy is higher, which allows to achieve a stable level of prices, low unemployment rate and external balance.

The convergence criteria involve the shaping of concrete economic factors i.e. inflation level, level of long-term interests rate, value of national debt and budget deficit in reference to GDP and also stability of the exchange rate towards euro.

It should be added here that those two approaches should not be considered as separate. It is undoubtedly easier to make analysis of a country's preparation to the participation in the single-currency area using the convergence criteria, due to the fact that what is examined is shaping of concrete values. Nevertheless what is equally important is examination of the level of synchronization of economic cycles between the country aspiring for the membership in EMU and the euro zone countries (which indicates whether the aims and tools of common monetary policy will be profitable for that country), and also an answer to the

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[6] OECD (2000) "Economic survey of the United Kingdom", June 2000, recommendation za: D. Howarth „Explaining British Policy on the Euro", op.cit., p. 3

[7] Ibidem

[8] Following economists who examined the issue of creating and operating of optimal currency area also pointed at the necessity of occurence of convergent inflation levels and convergent economic cycles.

[9] J. Bilski „Międzynarodowy system walutowy", PWE, Warszawa 2006, p. 144

question whether the accession of a given country to the single-currency area is profitable for that country?

In other words – does the accession to EMU bring about perspectives of reaching higher economic effectiveness in comparison with that which would be achieved if it remained outside the zone? One may however imagine a situation when the country meets the nominal convergence criteria, but it does not want to join the single-currency area recognizing that such a solution would not be beneficial for its economy. An example of such a EU country is Sweden (Denmark also possesses an "opt-out" clause), however a country not belonging to EU which negotiated membership conditions and resigned from the accession to EU is Norway.

In the context of the above discussion, a question arises – what does preparation of Great Britain to the membership in EMU look like, considering the conclusions coming from the oma theory as well as the convergence criteria?

The first question was examined by M. Artis. He pointed out that, considering the oma theory, there are no strong arguments in favour of GB's accession to the EMU, but, as he himself emphasized, it is not equal with a statement that Great Britain should remain beyond the euro zone[10]. An analysis of similarities of economic cycles showed, that if we take Germany as a reference point for the shaping of "European cycle" (it is difficult to explicitly identify such a cycle), it is clearly visible that the convergence of the cycle of Great Britain towards the German cycle is clearly lower than the convergence of German cycle towards other countries participating once in European Currency System (ECS). However, what is interesting, there is to be seen exactly reverse relationship if we take the United States as a reference point. Then the degree of correlation of economic cycle of Great Britain with the USA cycle is high, whereas the degree of correlation of the USA cycle with cycles of ECS countries is visibly diminishing[11]. That conclusion is very essential, since it may point at inadequacy of monetary policy conducted by the European Central Bank towards the requirements of the British economy, and therefore at rising fears as for the expected growth of effectiveness of that economy after an accession to EMU. M. Artis drew attention to yet another essential aspect of discussion about a possible British membership in EMU: placing as one of five conditions of GB's accession to the euro zone – the influence of that fact on the British financial sector. Although the condition cannot be examined in categories of the oma theory, nonetheless the consequences brought about by the acceptance of the common currency for the City of London due to the importance of financial sector in the British economy are an essential argument for or against the membership in

[10] M.J. Artis „The UK and the EMU", Robert Schumann Centre for Advanced Studies, European University Institute Badia Fiesolana, RSC No. 2000/67, pp. 6–7

[11] Ibidem, p. 9

EMU. M. Artis points at two contradictory trends connected with that issue[12]: on one hand – London financial centre fears more severe regulations that may be imposed after the accession to the EMU and the consequences resulting from the fact of joining an area of uniform monetary policy; on the other hand it fears the consequences of remaining outside the euro zone and a resulting possibility of moving the interest of part of investors to other countries of the euro zone.

It seems that the fear concerning the growth of restrictions is rather exaggerated. Great Britain as a member state of the EU is encompassed with all the legal regulations in the range of functioning of uniform financial market. The market involves however all the EU countries regardless of their belonging to the EMU (the more that all the EU countries belong to the EMU, but part of them has a status of a country with derogation). In such a situation there are no real obstacles which from the point of view of the City would justify GB's remaining outside the euro zone.

The other considered category refers to the shaping of convergence criteria. First of all we should look at shaping of economic indicators in Great Britain in 1997, which were considered in an evaluation of the degree of preparation of member states to the creation of EMU in 1999.

Table 2 Realization of convergence criteria, Great Britain, 1997

criterion	Value in Great Britain	Base value
Annual inflation rate %	1,8	3,2
Budget deficit % GDP	1,9	3,0
National debt % GDP	53,4	60,0
Long-term interest rate, % GDP	7,0	7,7
Membership in ERM	no	yes

Source: A. Marszałek (red.) „Integracja europejska", PWE Warszawa 2004, str. 329

The data contained in table 2 clearly prove that in 1997 Great Britain fulfilled four out of five criteria. The only not fulfilled criterion was the participation of British pound in ERM. It should be mentioned however that the British pound was earlier introduced to ERM in 1990, however it left the system two years later (in 1992) after a successful speculative attack conducted by G. Soros. Great Britain not only introduced its currency into stabilization system exceptionally late, but it had to withdraw it from the system very quickly. The successful speculative attack on the stability of the exchange rate of the pound is until today quoted as one of the main elements contributing to the crisis of the

[12] Ibidem, pp. 14–15

European Currency System from 1992–1993, but also as an example of a victorious attack of private speculative capital on national currency – of a country counted into the leaders of the world economy. Great Britain suffered as a result of that event not only economically, but also prestigiously. For the time being there are no plans of introducing of pound to the successor of ERM, that is ERM II, and without meeting that criterion the accession of the country to EMU is out of the question. An analysis of the other four convergence criteria does not leave any doubts that in 1997 Great Britain, from the point of view of economic situation, was ready to join the EMU[13].

As was earlier pointed out, an accession of a country to EMU should be considered in a much broader context than an examination of convergence criteria. That study conducted in 1997 shows that Great Britain in a large degree did meet the criteria (except for the exchange rate criterion). Meanwhile considering the question of synchronization of economic cycles, in 1997 Great Britain found itself in a peak stage of an economic cycle, whereas the economic situation in the leading countries of continental Europe was only improving[14]. It is hard to explicitly claim that a possible accession of Great Britain to EMU would not have aroused tension in its economy.

Presently, as far as the shaping of convergence indicators are concerned, the situation has definitely changed. It is demonstrated by the data in table 3.

Table 3 Realization of convergence criteria, Great Britain, June 2010

Criterion	Value in Great Britain	Base value
Annual inflation rate, %	2,6	3,5
Budget deficit, % GDP	12,0	3,0
National debt, % GDP	78,9	60,0
Long-term interest rate, % GDP	3,6	6,3
Membership in ERM	no	yes

Source: „PF – Monitor konwergencji nominalnej w UE 27", Ministerstwo Finansów, Departament Polityki Finansowej, Analiz i Statystyki, Biuro Pełnomocnika Rządu ds. Wprowadzenia Euro przez Rzeczpospolitą Polską, nr 8/2010

The biggest problem of Great Britain in 2010 is an intensively growing budget deficit. The value of that indicator is at the moment the largest one for that country (the following EU country – Ireland has that indicator at the level of

[13] For the sake of reminding, it must be denoted that EMU qualified also countries which in 1997 did not fulfill all the required criteria as for example Belgium, Holland or Spain.

[14] A. Królikowska „Czy warto być poza Unią Monetarną – studium przypadku Wielkiej Brytanii, Danii i Szwecji", „Bank i Kredyt" nr 4/2008, dodatek Europejska integracja monetarna od A do Z, p. 14

11,7% and the other countries have one-digit number). It is undoubtedly to a large extent, a result of the world economic crisis, nonetheless it is still unclear in what way Great Britain is going to deal with that problem. It is out of the question, however, that with such a value of budget deficit the country has no chance of joining EMU, even if it changed the stand on that matter. Great Britain does not meet the criterion of national debt either, but this criterion is treated less rigorously by the EMU countries (definite majority of the countries had not met that criterion when joining the EMU, part of them still do not fulfill it). Great Britain still has not introduced its currency to ERM II, nonetheless currently it would not seem justified due to the situation in the world financial markets. The changeability of exchange rate of a pound towards euro was presented in table 4. For the sake of comparison there are data illustrating changeability of exchange rates of other EU member states.

Table 4 Changeability of exchange rates of currencies of EU countries towards euro – ERV

Country	Quarterly – VII 2010	Monthly – VII 2010
Czech Republic	7,5	5,2
Denmark	0,3	0,3
Latvia	0,7	0,6
Poland	15,4	8,8
Romania	5,9	5,4
Sweden	8,0	6,6
Hungary	18,6	16,5
Great Britain	11,0	7,8

Source: as above under table 3, p. 7.

Considering the fact that Great Britain is a highly developed country, it seems that the changeability of exchange rate of a pound towards euro is relatively high. Until recently a significant changeability of exchange rates was regarded as a feature of developing economies with small and shallow currency markets. Meanwhile, as can be seen, the changeability may rise also in developed economies, especially in a situation when the stability of their internal markets is unsettled. Since the crisis in world markets has not yet ended, and Great Britain itself is in an unfavorable economic situation (very high level of budget deficit), then the introduction of a pound into the mechanism of stabilization of exchange rates at the moment would be a fairly risky move and an unjustified one due to the lack of declarations of the country's willingness to join the euro zone.

The examination of Great Britain's readiness from the point of view of the convergence criteria comes out negatively at present – out of the five nominal criteria, Great Britain does not meet three of them. It is hard to see the political will to deepen monetary integration, although there are social groups which express their approval for the introduction of euro (e.g. large entrepreneurs). In such a situation there is a lack of justification for Great Britain making at the moment a decision about initiating preparations to join EMU.

4. Potential costs and benefits connected with the accession of Great Britain to EMU

As was indicated above, it is difficult to claim that Great Britain is ready for acceptance of euro both in a political and economic aspect. Nevertheless it does not mean, as M. Artis noticed, that for the British it is beneficial to remain outside the euro zone. There is research carried out whether in the case of Great Britain the potential benefits of joining the euro zone would really exceed the expected costs, since only in such a case the accession would be justified. We obviously must have in mind the fact that such discussion must be treated as purely theoretical ones. Verification of those conclusions will only be possible once the pound is replaced by euro.

When it comes to the costs connected with an accession to the euro zone, what is the most frequently listed is resignation from autonomous monetary policy and internal exchange rate policy. Both those policies are assumed to act as an absorber of external shocks.

From the point of view of Great Britain's interests the resignation from the possibilities of conducting autonomous monetary policy does not seem to be a desirable solution. First of all, due to the lack of synchronization of economic cycles between Great Britain and the euro zone there exists fear concerning the adequacy of monetary policy conducted at the cross-national level to the economic situation occurring in Great Britain. Moreover Great Britain is a country which maintains an Anglo-Saxon model of financial system, which means, taking it briefly, a domination of the capital market economy over the banking system. Great Britain, to be precise its capital city – London, is also one of the world financial centres. In such a situation any change of short-term interest rates causes concrete consequences on the British financial market, so therefore it is important for the British people to have influence on them. Moreover, as A. Królikowska points out, British economy features a higher level of households debts than an average in the entire EU, therefore the sovereignty of determining interest rates affecting the cost of service of loans taken out by the society is for Great Britain an important argument against the accession to the monetary union.[15]

[15] Królikowska A. „Czy warto być poza Unią Monetarną…", op.cit., p. 15

As for the possessing of own currency accommodating on assumption the consequences of unfavourable changes in external economic relations of a given country, the issue is not clearly unequivocal. According to a theory, a liquid exchange rate should enable restoring of balance in the current turnover (and to be precise – in the balance of trade turnover) in a situation when a surplus appears (through appreciation of national currency) or a deficit appears (its depreciation). That is an approach presented by advocates of GB remaining outside the EMU, who at the same time perceive the necessity to resign from their own currency as a cost incurred in case of the accession to the euro zone. As it is however noticed by W. Buiter, in the times of freedom of capital flows, a liquid exchange rate may itself become a source of disturbances in a situation when its level is indicated as a result of a game of demand and supply forces, and both the demand and supply shape the rapidly transferred masses of financial capital between the financial markets of different countries.[16] In that situation the exchange rate will not play the function of an absorber of external disturbances, but it may itself contribute to the explosion or intensification of those. It is particularly import ant in the case of countries which have liberalized capital flows[17] (and Great Britain may be one of those). According to the paradigm of "impossible triangle" a country cannot realize three goals at the same time: lead an active monetary policy, stabilize exchange rate and maintain entirely free capital flows. Most countries are aiming at the stability of exchange rate relations, since in the opinion of economic subjects it is the instability of those relations and not the exchange rate level that is the source of the biggest problems in their functioning in relations with the external environment. If, however, a country decides to stabilize the exchange rate, it then keeps an autonomy of monetary policy only in theory. According to the condition of parity of interest rates, the change of a national interest rate is at once reflected in the change of exchange rate relation between the national currency and foreign currencies.

In that situation the statement, that a country with liberalized capital flows must resign from the conduct of two independent policies: monetary and exchange policies, is not justified. In fact, the country resigns from a conduct of one independent policy in a given moment, although it indeed can make a choice whether to lead independent monetary policy and accept the changeability of the exchange rate or to stabilize the exchange rate and adapt the monetary policy to

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[16] Buiter W.H. „Optimal Currency Areas: Why Does Exchange Rate Regime Matter? With an Application to UK Membership in EMU", Centre for Economic Performance, London School of Economics and Political Science, London, July 2000

[17] It is also discussed by M. Bordo i H. James referring to the opinion of R. Mundell. Por. M.D. Bordo, H. James "A Long Time Perspective on the Euro", NBER Working Paper No. 13815, February 2008, p. 14

the policy conducted by a country emitting a currency that is a reference point for determining exchange rate relations. By joining the monetary union the country loses flexibility of operations – it does not have any influence neither on the exchange rate nor on the monetary policy.

Besides, as it was interestingly captured by W. Buiter, "estimation of an exchange rate of fundamental balance (in this case pound towards euro) is more difficult than an estimation of the age of the universe"[18]. That statement explicitly shows the scale of difficulty faced by economists who want to determine, especially in the case of such economy as the British one, a target rate of exchange of the national currency for euro. It can also be counted among the potential costs assuming that we are not able to mark out an optimal exchange rate from the point of view of a broadly understood interest of the entire economy of the exchange rate.

There are undoubtedly also other costs to be incurred when remaining outside the monetary union – they are costs connected with using one's own currency involving the presence of exchange rate risk and the necessity to protect oneself against that risk. An essential argument supporting the decision about remaining outside the euro zone is a fact that the British pound is an international currency and by resignation from it, Great Britain at the same time resigns from the benefits coming from its possessing.

As for the benefits coming from the accession to the euro zone, first of all we should mention the growth of trade exchange with the countries of a zone that is a derivative of a disappearance of exchange rate risk and the costs thus entailed. In 2009, about 60% of British exports went to the EU countries, mainly to Germany, France, Holland, Ireland, Belgium, Spain and Italy, that is to countries of the euro zone (it should be added that the biggest recipient of the British exports are the United States). At the same time about 50% of British export was coming from the EU countries, especially from Germany, Holland, France, Belgium, Ireland, Italy and Spain, which means also from the euro zone countries (although the USA were on the second place, and China – on the third). One may undoubtedly assume that together with the acceptance of euro by Great Britain, the participation of trade exchange of that country with other EMU countries will rise. What is also expected is a growth of investments connected with the fall of the capital cost.

An argument in favour of GB's accession to the euro zone is also an integration of the British financial market with the financial market of the zone. As it was already indicated, legal regulations establishing the uniform

[18] Buiter W.H. „Optimal Currency Areas: Why Does Exchange Rate Regime Matter? …, op.cit., str. 34

financial market of the EU embrace all the EU countries. In that field GB entering the euro zone will hardly change anything (at most there will be a need for implementation of a really small part of regulations referring to the countries where euro is already in effect). An essential change will be however a leveling of exchange rate risk in the case of investments made in euro, which may draw more investors into the British market. Nonetheless that seems to be a debatable argument – The London Stock Exchange is the biggest one in EU and one of the biggest in the world. London is still the world financial centre, thus also the centre of euromarket. The British financial market is entered by capital denominated in different currencies, not only euro. At the time when euro zone was being created, there was a mention of an expected decrease of the role of the British financial market facing the future development of the financial centre of the euro zone when Frankfurt was going to become a seat of the European Central Bank. At the moment it is clear that GB remaining outside the euro zone has not negatively influenced the British financial market, what is more, it is sometimes claimed that Great Britain is a liaison between the euro zone financial market and the financial markets of the other countries of the world economy. Therefore in the case of Great Britain there is no saying about the growth of its credibility in the world economy connected with joining the EMU, since that country does not have to confirm and strengthen its position in the international arena by introducing euro.

Another potential benefit resulting from the participation in the euro zone is the growth of economic stability of the member states of the zone. The experience of Greece have however verified those views. Incoherent economic policy leads to the financial crisis, regardless whether the country belongs to the euro zone or not. As a benefit of the participation in the zone may be, however, a fact that a problem of one member state becomes a problem of the whole zone due to the credibility of economic policy in the zone and stability of euro exchange rate towards other currencies. The countries of the zone, at least for this moment, are not endangered with a currency crisis.

The accession of Great Britain to the euro zone is also supported by a political aspect – remaining outside the zone Great Britain will have a very limited influence on the decisions made by the euro zone countries. Great Britain may have a problem with accepting such a fact due to its own conviction about its role and position in Europe.

Other arguments in favour of Great Britain's accession to the euro zone are similar to those as in case of other countries: growth of price transparency and thus entailed intensification of competition or the generally understood growth of prosperity measured usually by the growth of GDP.

5. Final note

As D. Miles points out, Great Britain could have chosen one of three possible strategies towards EMU[19]:

- Make a quick decision about the accession within a few years,
- Wait and see,
- Decide not to join.

D. Miles' opinion on the potential relations Great Britain – euro zone emerged in 1997. As early as then it was known that Great Britain will not be among the group of countries founders of EMU initiating a new stage in economic history in 1999. At the moment we also know that the first possible strategy was not realized – Great Britain did not decide to join the euro zone a few years after its initiation. It is however difficult to distinguish between the other two strategies – one may declare the choice of the second one and wait for ages, or a choice of the third one and suddenly change one's mind.

To my surprise, at least on the basis of the information included in the herein paper, I infer a conclusion contradictory to the common opinion about the economic reasons underlying the necessity of accession of all the EU countries to the euro zone (leaving aside the legal aspect which does not refer to Great Britain). In the case of Great Britain, the issue is not at all so obvious. Great Britain is a country with a „straddle position" between Europe and other continents. They were ones dependent territories and colonies with which it was connected economically and politically. Now they are mainly United States, with which it still has strong ties of political and economic cooperation. Great Britain has Anglo-Saxon financial system, similar to the USA, correlation of its economic cycle is higher with the USA than with the European countries, trade exchange (both export and import) also in a large extent embraces the United States. Great Britain has never wanted to participate in a highly advanced currency and economic integration in the European continent. Its accession to EMU/EU was largely a derivative of a fear of marginalization in Europe than an expression of actual will to deepen political and economic relations with the countries of continental Europe. Great Britain is still one of the leading countries in the world economy, country that has one of the best developed financial markets, its currency is international money. It does not have to legitimize its position in Europe by tightening integration ties, the more that it is clearly visible that the country does not simply want it. Obviously remaining outside EMU brings about also losses including lower than expected investments or lower level of trade exchange. However there is lack of explicit evidence confirming that for Great Britain the potential benefits are higher than the

[19] Miles D. „Dylematy stojące przed Wielką Brytanią" w: P. Temperton (red.), „Euro – wspólna waluta", Wydawnictwo Felberg SJA, Warszawa 2001, p. 79

potential costs. Besides presently Great Britain does not meet the required convergence criteria.

Looking at the history of Great Britain, one may have an impression that what is more important for that country is keeping independence and remaining a "world" economy than turning the potential benefits to its advantage at the cost of resignation form independence and degradation to the role of a "European" country. Especially that the current economic crisis has revealed the weaknesses of the euro zone and proved that the zone as a whole has not worked out proper mechanisms of operating in a crisis situation, and its members when facing a real danger, care mainly about their own interests not thinking in community categories. At present Great Britain is not ready for the accession to the euro zone, but also the euro zone is not ready for the reception of Great Britain.

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(Summary)

Great Britain is one of the two EU 15 countries which refused to join the Economic-Monetary Union. Despite the passage of time, Great Britain's stand on this matter has not changed, although the last worldwide economic crisis and its consequences intensified discussion whether from Great Britain's point of view it is worth considering possibilities of joining the euro zone. The aim of the paper is to present determinants of functioning of Great Britain in the European Union and an analysis of possible opportunities and threats which are connected with its accession to the single-currency area. Looking at the history of Great Britain, one may have an impression that what is more important for that country is keeping independence and remaining a "world" economy than turning the potential benefits to its advantage at the cost of resignation form independence and degradation to the role of a "European" country. Especially that the current economic crisis has revealed the weaknesses of the euro zone and proved that the zone as a whole has not worked out proper mechanisms of operating in a crisis situation.