

Decision day nears on the Euro, as Cabinet members struggle to comprehend the Treasury's erudite 2,500 page assessment of the famous five tests of convergence. Opinion and speculation proliferate about what might happen to Britain if we do not join.

But we need not gaze into the crystal ball and guess about the future. The Euro has been in existence since 1999, so we can see what its effects have actually been..

Euro fanatics have issued all sorts of dire threats and warnings about what might happen if the UK stays out (for example, Peter Mandelson, 22 May). But they are four years behind the times. Since 1999 Britain has continued to do well

economically – far better than the Eurozone's largest economy, Germany. The UK is a very large and powerful economy. The evidence of the past four years shows we are quite capable of surviving and prospering outside the Euro zone.

Even more importantly, the Euro has not been good for Europe itself. The plight of the German economy is a serious warning to us all. The latest information merely confirms the trends of the last few years. The economy is stagnating, unemployment is rising to the 5 million level, and public services are under threat. The weakness of Germany is holding the rest of the EU back. Germany casts a blight on progressive policies throughout the European Union.

The effects of the traditional instruments of economic policy available to a government are understood only imperfectly. But they can and do make a difference. A crucial one is the level of the exchange rate. If the rate is too high, as it is in Germany, the economy can be devastated. Britain went in to the Exchange Rate Mechanism, the forerunner of the Euro, at a rate which was too high. As a result, unemployment soared in the early 1990s. The brutal ejection of sterling from the ERM in 1992 was a liberation, and the British economy boomed for the rest of the decade. Unemployment fell from 3 million to 1 million.

Another policy lever is the level of interest rates. Here, the Bank of England Monetary Policy Committee has the freedom to set the rate judged appropriate to the

British economy. The Committee may make mistakes, but this important aspect of policy is not only under our own control, it is subject to guidance by the democratically elected Chancellor.

In Europe, Germany is in a serious recession. The appropriate thing to do is to have very low interest rates, exactly as the Americans have done to stave off an economic slump. An interest rate of 1 per cent or even less is not guaranteed to revive the German economy, but at least it would stand a chance of success.

But the Germans cannot set their own rates. This is done by the European Central Bank (ECB), which must take into account the different situations in all the member states of the Euro. Germany cannot choose the rate it needs.

The rules of the Euro club further tie the hands of central banks and governments. There are strict regulations about the level of borrowing which a government can carry out. Borrowing which is thought to be excessive can lead to a country being fined by the European Commission.

The Commission has already emitted growls in Gordon Brown's direction about his level of borrowing. Joining the Euro could mean less, not more, public spending.

The European Union has been in many ways a force for good. Living standards in the 'fringe' economies of Spain, Portugal, Greece and Ireland were far behind those of the rest of the EU when they joined. Economic integration gave them a chance to catch up. EU membership guaranteed democracy and political stability in these countries. Rising prosperity and the end of isolation has eased the transition to modern democracy.

But these countries joined the EU when Europe felt confident about itself. They were given fair terms of access. A greater challenge now faced by Europe is the integration of the much poorer countries of Eastern Europe, themselves with histories of dictatorship and repression.

The economic problems brought about by the Euro mean that the terms of entry into the EU for these new members are far less generous. A terrible meanness of spirit has pervaded the negotiations with them. Little wonder that they approach Europe with trepidation and look to keep their links with America in favourable shape.

European integration is about free movement of products and people, but all sorts of petty restrictions have been forced upon the candidate members from the East. Within the existing EU members, people are free to work where they want. But this will not apply to the new Eastern members.

Germany, with its 5 million unemployed, simply does not want people from Poland moving in and trying to get jobs. Germany has enforced a policy of crude nationalism, almost a form of apartheid. Brits, French, Spaniards can all move there, but Poles cannot. They are second class citizens from the outset.

Further afield, the economic problems caused by the Euro make EU members even more reluctant to bring down tariff barriers on exports from developing countries. Narrow, national interests prevail. It is much easier to be generous when things are going well and electorates feel content. But generosity to the developing world is now more important than ever, as we seek their co-operation in the fight against global terrorism.

Within Europe itself, the Euro brings with it its very own democratic deficit. It is by no means clear that the electorates of Western Europe would have gone ahead with the Euro project if it had been submitted to referenda. The vast majority of European governments have simply not dared to put the question before their electorates

The lack of democratic validation is a potentially serious problem for the Euro. Across Western Europe, we have already seen the growth of parties outside the political mainstream in many of the member states. Discontent with the remoteness

of the European Commission appears to be a common feature of the otherwise widely disparate platforms of such parties.

The creation of the Euro has reinforced centralising tendencies within the EU, taking decisions away from national electorates and national governments, and vesting power in the European Central Bank.

Europe faces many serious challenges, from the integration of its Eastern half, to alleviating world poverty, and strengthening democracy within its frontiers. The Euro is at best a diversion and at worst a serious distraction from these issues. Let's say yes to Europe, and no to the Euro.

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