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Britain and the euro blame game

For a non-member of the single currency, Britain is enjoying a vigorous debate about the eurozone. George Osborne, chancellor, is fighting both the opposition and his own backbenches over how much of the UK's own double-dip recession can be blamed on the currency bloc's economic woes.

The stakes are above all political. Ed Balls, the Labour shadow chancellor, misses no opportunity to jeer at a "recession made in Downing Street". Mr Osborne says a recovery is "being killed off by the crisis on our doorstep".

What is the truth? It is that the truth is hard to come by. There are three obvious routes by which the eurozone's sickliness affects the UK's economic health: trade, bank financing, and confidence. In each case, a "eurozone effect" is probably present, but it is not alone.

The forecasts made by the independent Office for Budget Responsibility in 2010 have proved embarrassingly optimistic. The growth that never materialised was partly expected to flow from trade rebalancing, with net trade forecast to add almost 1 percentage point to annual growth in 2012-2015. The OBR has slashed this growth forecast by more than half. But not all of this will come from underperforming exports (which can be blamed on the eurozone). Some is due to persistent demand for imports (which cannot). And lacklustre growth in 2011 – 1.5 percentage points less than forecast – was no fault of net trade, which came in better than expected.

British households and smaller businesses reserve more venom for UK banks than for the eurozone. Tight credit conditions, despite aggressive monetary policy, are blocking growth. Is this caused by the European banking crisis? Perhaps: UK and eurozone interbank rates crept up steadily in the past two years. But since Frankfurt opened the liquidity floodgates in December, euro rates have fallen while UK rates remain in place.

The most elusive effect is the contamination of UK confidence by the inability of the eurozone to put out its financial fires. It would be odd in the extreme if businesses and consumers did not put purchases on hold while pondering the uncertainties that a Greek euro exit would unleash. But how can this be measured?

In part, the debate is academic. Eurozone woes surely make things worse. UK spending cuts, taken by themselves, are a drag on growth too, as are high commodity prices. None of this suffices to conclude an argument about the best policy to pursue. Politicians should not pretend that it does.

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