

PRIME MINISTER

YOUR PRESS CONFERENCE

THE PRESS CONFERENCE IS TO BE HELD IN A REASONABLY LARGE ROOM WITHIN THE COUNCIL COMPLEX AND THERE IS A SMALL ROOM AT THE REAR FOR RADIO AND TELEVISION INTERVIEWS AFTERWARDS.

I HAVE TENTATIVELY ARRANGED FOR YOU TO GIVE SIX INTERVIEWS:

- BBC RADIO (GRAHAM LEACH)
- BBC TV (JOHN SIMPSON)
- IRN
- CHANNEL 4/ITN (JON SNOW)
- TVAM (JERRY FOLEY)
- SKY TV (ADAM BOLTON)

I THINK IT IS IMPORTANT FOR YOU TO GIVE YOUR PRESS CONFERENCE AS EARLY AS POSSIBLE AFTER THE COUNCIL HAS ENDED. YOU NEED TO GET YOUR LINE OVER QUICKLY.

I TRIED TO PUT YOU IN A POSITIVE POSITION THIS MORNING BY:

- CONGRATULATING THE SPANISH PRESIDENCY, IE. ON A COMPETENT, PROFESSIONAL DRAFTING JOB OVERNIGHT;

- VIEWING THE EC AND FOREIGN AFFAIRS TEXTS AS PROVIDING THE BASIS FOR A SUCCESSFUL OUTCOME, SUBJECT TO CLARIFICATION OF THE PROCESS BEYOND STAGE I AND ENSURING THAT DECISIONS ON AN IGC DO NOT PRE-EMPT PROPER STUDY AND EVALUATION OF ALL OPTIONS;

- BY IMPLICATION, PUTTING THE RESPONSIBILITY FOR ANY OBSTRUCTION ON THE GERMANS AND THE FRENCH (MITTERRAND DESCRIBED YOU OVERNIGHT AS A BRAKE ON THE DEVELOPMENT OF THE EC - I RETORTED THAT YOUR FOOT WAS IN REALITY ON THE ACCELERATOR). /

THE PRESS CONFERENCE WILL BE INTERESTED IN:

- ESTABLISHING THE PROCESS BY WHICH YOU CAME TO EMBRACE EMU AND DEFINE CONDITIONS FOR MEMBERSHIP OF ERM

- THE SORT OF DATE YOU ENVISAGE FOR ENTRY INTO THE ERM
- IE. ARE YOU SERIOUS ABOUT IT? ARE YOU TRYING TO STAVE IT OFF AS LONG AS POSSIBLE? ARE YOU GENUINELY TRYING TO USE THE PROSPECT OF BRITISH MEMBERSHIP TO ACCELERATE COMPLETION OF THE SINGLE INTERNAL MARKET? (NB: I HAVE RESISTED ALL ATTEMPTS TO PUT IN APPROXIMATE DATE OF ENTRY BUT I HAVE SAID THAT THE COMMUNITY HAS AS MUCH A VESTED INTEREST IN COMPLETING THE SINGLE INTERNAL MARKET AS QUICKLY AS POSSIBLE AS WE HAVE IN GETTING INFLATION DOWN).

- THE EXTENT TO WHICH YOU HAVE OPENED UP BEYOND DELORS' IDEAS DISCUSSION OF THE FURTHER DEVELOPMENT OF EMU BEYOND STAGE I; BLOCKED THE AUTOMATIC NATURE OF PARAGRAPH 39; AND MADE ANY EVENTUAL IGC CONDITIONAL ON PROPER STUDY AND EVALUATION OF OPTIONS;

- HOW YOU SEE YOURSELF IN RELATION TO EUROPE IN THE LIGHT OF THE EURO ELECTIONS AND PRESSURES WITHIN YOUR OWN GOVERNMENT AND PARTY. (NB: I THINK THIS IS AN OCCASION FOR SOME SPELLING OUT OF YOUR POSITIVE EURO-CREDENTIALS IN BRINGING THE COMMUNITY TO ITS PRESENT STATE OF DEVELOPMENT - BRITISH CONTRIBUTION; CFP; CAP THEREBY SAVING THE COMMUNITY FROM IMPENDING BANKRUPTCY; DRIVING FORWARD THE SINGLE INTERNAL MARKET; AVOIDING FORTRESS EUROPE; AND DEVELOPING POLITICAL CO-OPERATION. YOU BELIEVE YOU HAVE MADE, AND INTEND TO CONTINUE TO MAKE, A SINGULAR CONTRIBUTION TO TRANSLATING OFTEN AIRY FAIRY IDEAS INTO PRACTICAL PROGRAMMES FOR PROGRESS.)

- HOW SERIOUSLY YOU TAKE RECURRING THREATS OF A TWO-SPEED 11:1 EUROPE.

HAVING SAID ALL THAT, THE SIMPLE STORY IS WHETHER YOU WON OR LOST; WHETHER YOU ARE WEAKER OR STRONGER POST 15 JUNE. A POSITIVE OUTCOME ON THE LINES OF THE PRESIDENCY'S DRAFT OVERNIGHT WILL BE SEEN AS A REAL SUCCESS FOR YOU.

YOU SHOULD PLAY IT NOT FOR ALL ITS WORTH, BUT TO DEMONSTRATE, CONTRARY TO ALL THE PETTY PROPAGANDA OF PEOPLE WHO SHOULD KNOW BETTER, THAT YOU REMAIN A POSITIVE, CONSTRUCTIVE FORCE IN EUROPE.

B.I.

B.I.

27.6.89

I attach an introductory
note for your press conference

E.D.I

DRAFT PRESS CONFERENCE STATEMENT

THIS COUNCIL HAS HAD TO GRAPPLE WITH SOME VERY DIFFICULT ISSUES AFFECTING THE FUTURE OF THE COMMUNITY.

BUT THERE HAS BEEN A WILL TO MAKE AS MUCH PROGRESS AS WE CAN AT THIS STAGE, WHILE LEAVING LONGER TERM ISSUES FOR FURTHER DISCUSSION.

AND WE HAVE THROUGHOUT THE LAST SIX MONTHS - AND PARTICULARLY AT THIS MEETING - HAD THE BENEFIT OF AN EXCELLENT SPANISH PRESIDENCY.

BRITAIN HAS PLAYED A VERY ACTIVE PART IN ARRIVING AT CONCLUSIONS WHICH WE CAN ALL ACCEPT - AND I CONSIDER THESE CONCLUSIONS FULLY SATISFACTORY.

LET ME TAKE YOU QUICKLY THROUGH THE MAIN ISSUES:

- WE HAVE A VERY GOOD REAFFIRMATION OF THE PRIORITY IMPORTANCE OF COMPLETING THE SINGLE MARKET, WITH THE EMPHASIS ON THE AREAS OF PARTICULAR INTEREST TO THE UNITED KINGDOM: FINANCIAL SERVICES, TECHNICAL STANDARDS, TRANSPORT, PUBLIC PURCHASING.

- IT IS ACCEPTED THAT THERE WILL NOT BE A WITHOLDING TAX, WHICH SOME HAD TRIED TO MAKE A CONDITION FOR THE ABOLITION OF FOREIGN EXCHANGE CONTROL. YOU WILL RECALL THAT ALL THE MAIN COUNTRIES ARE COMMITTED TO ABOLITION BY 1 JULY 1990

- WE HAVE MUCH WIDER ACCEPTANCE OF THE NEED TO KEEP CONTROLS AT FRONTIERS AGAINST DRUGS, TERRORISM AND CRIMINALS, EXPRESSED IN THE REPORT OF THE CO-ORDINATORS GROUP WHICH THE EUROPEAN COUNCIL ACCEPTED, WHILE MAKING FREE MOVEMENT FOR LAW-ABIDING CITIZENS A GREATER REALITY.

ON THE POLITICAL SIDE WE HAVE ALL EXPRESSED OUR UTTER CONDEMNATION OF WHAT HAS HAPPENED IN CHINA AND SET OUT A NUMBER OF MEASURES WHICH WE HAVE ALL AGREED TO TAKE. WE HAVE ALSO REACHED CONCLUSIONS ON THE MIDDLE EAST, INCLUDING LEBANON.

BUT OF COURSE THE MAIN ISSUES HAVE BEEN ECONOMIC AND MONETARY MATTERS AND THE SOCIAL DIMENSION.

ON ECONOMIC AND MONETARY MATTERS THE MAIN PRACTICAL ACHIEVEMENT OF THIS COUNCIL HAS BEEN TO AGREE ON THE EARLY IMPLEMENTATION OF STAGE I OF THE DELORS REPORT.

LET ME JUST REMIND YOU WHAT THIS INVOLVES: COMPLETION OF THE SINGLE MARKET, ABOLITION OF ALL FOREIGN EXCHANGE CONTROLS, A FREE MARKET IN FINANCIAL SERVICES AND STRENGTHENING OF COMPETITOR POLICY (WHICH MEANS REDUCING SUBSIDIES). THESE ARE ALL THINGS FOR WHICH THE UNITED KINGDOM HAS CAMPAIGNED STRONGLY AND WHERE WE ARE WELL AHEAD OF OTHER MEMBERS OF THE COMMUNITY.

IT ALSO INCLUDES THE COMPLETION OF THE EXCHANGE RATE MECHANISM OF THE EMS. I MADE A STATEMENT ON THAT WHICH WAS RECEIVED POSITIVELY.

WE HAVE ALSO AGREED TO DO FURTHER WORK ON WHAT MIGHT EVENTUALLY FOLLOW STAGE I. BUT WE HAVE REACHED NO CONCLUSIONS ABOUT THAT. WE HAVE ACCEPTED THE DELORS REPORT AS A GOOD BASIS FOR THIS FURTHER WORK - BUT NOT THE ONLY BASIS.

IT WILL BE POSSIBLE TO BRING IN OTHER IDEAS AND OTHER APPROACHES TO ECONOMIC AND MONETARY UNION. BUT LET ME EMPHASISE THAT THERE IS ABSOLUTELY NOTHING AUTOMATIC ABOUT GOING BEYOND STAGE I. ALL THAT IS FOR FUTURE DECISION.

THIS FURTHER WORK WILL OF COURSE BE DIFFICULT: THERE ARE SUBSTANTIAL DIFFERENCES OF VIEW. BUT WE GO INTO IT IN GOOD FAITH AND WE SHALL OF COURSE SET OUT BRITAIN'S VIEWS CLEARLY AND VIGOROUSLY.

ON SOCIAL MATTERS, OF COURSE WE ACCEPT THAT THERE IS A SOCIAL DIMENSION TO THE SINGLE MARKET. THE CONCLUSIONS CONTAIN A VERY SATISFACTORY RECOGNITION THAT THE HIGHEST PRIORITY IS JOB CREATION. WE DO NOT BELIEVE THAT THE PROPOSED SOCIAL CHARTER WOULD HELP JOB CREATION, AND THAT IS WHY WE COULD NOT ACCEPT THE CONCLUSIONS OF THE JUNE SOCIAL AFFAIRS COUNCIL, AND HAVE CONFIRMED THAT REFUSAL HERE.

WE BELIEVE THAT BY IMPOSING EXTRA BURDENS ON BUSINESS IT WOULD MAKE THE COMMUNITY LESS COMPETITIVE. THERE ARE VERY DIFFERENT TRADITIONS OF HOW WE HANDLE THESE THINGS IN DIFFERENT MEMBER STATES AND WE DO NOT ACCEPT THE NEED TO HAVE IT ALL DETERMINED FROM THE CENTRE.

THE CONCLUSIONS DO BRING OUT A VERY IMPORTANT POINT, NAMELY THAT NATIONAL LEGISLATION AND COLLECTIVE BARGAINING HAVE JUST AS IMPORTANT A ROLE - WE WOULD SAY MORE IMPORTANT - THAN COMMUNITY LEGISLATION. WE SHALL BE PUTTING THIS POINT OF VIEW VERY STRONGLY IN THE FURTHER DISCUSSIONS WHICH ARE ENVISAGED.

TO SUM UP, WE HAVE AGREED AT THIS COUNCIL ON WHAT CAN BE DONE NOW AND WE HAVE SET THE SCENE FOR FURTHER DISCUSSION OF OTHER ISSUES OVER THE NEXT FEW MONTHS. YES, THERE ARE VERY DIFFICULT ISSUES TO BE RESOLVED ON WHICH VIEWS DIFFER WIDELY BUT LET ME JUST REMIND YOU JUST HOW MUCH BRITAIN HAS CONTRIBUTED TO SHAPING THE COMMUNITY OVER THE PAST FEW YEARS - REFORM OF THE CAP, ESTABLISHING THE SINGLE MARKET, AND GETTING THE BUDGET RIGHT. WE SHALL BE JUST AS ACTIVE AND JUST AS VIGOROUS IN FIGHTING BRITAIN'S CORNER IN FUTURE DISCUSSION.

NOW MAY I HAVE YOUR QUESTIONS.

11. July
(alternatives on ERM
for
Rehm)
C 100
207.

I reaffirm the United Kingdom's intention to join the ERM. I am sure, however, you would agree that this must be done in conditions which strengthen the ERM itself and provide assurance that an enlarged ERM could be sustained.

We are therefore ready to accept Stage 1 of the Delors Report, which specifies:

- completion of the internal market
- abolition of all foreign exchange controls and full implementation of a free market in financial services
- together with a strengthening of the Community's competition policy.

In those circumstances - and provided inflation in Britain has indeed been brought down significantly as expected - the conditions would exist for sterling to join the ERM.

I reaffirm the United Kingdom's intention to join the ERM. I am sure, however, you would agree that this must be done in conditions which strengthen the ERM itself and provide assurance that an enlarged ERM could be sustained.

We are therefore ready to agree to implementation of Stage I of Delors, starting in 1990 and being completed by [].

That specifies:

- completion of the internal market
- abolition of all foreign exchange controls and full implementation of a free market in financial services
- together with a strengthening of the EC's competition policy.

In those circumstances - and provided that inflation in Britain has indeed been brought down significantly as expected - the conditions would exist for sterling to join the ERM.

Optional final sentences

- Sterling would then be able to join

- Then we would be able to join

- That would enable us to join - Then it would be our intention to join

- Provided these conditions were met, we would join not later than the end of Stage I

- Although this must remain a sovereign decision for the UK as for others

SPEAKING NOTE

The Aim

- THE DEVELOPMENT OF GREATER MONETARY COOPERATION WITHIN THE COMMUNITY IS AN AIM WE SHARE.
- WHERE WE DIFFER FROM SOME OF OUR PARTNERS IS BECAUSE WE TEND TO BE CAUTIOUS - I WOULD SAY REALISTIC - ABOUT THE SENSIBLE PACE OF PROGRESS.

WE HAVE IN LONDON A MAJOR WORLD FINANCIAL MARKET, WHICH WE ARE DETERMINED TO SUSTAIN. ^{we} ~~we are determined to sustain.~~ ^{not to keep it, indeed expand it}

- ~~SO WE ARE CONCERNED NOT TO RUN UNNECESSARY RISKS.~~
- ^{so} ~~BUT~~ WE SUPPORT ALL PRACTICAL STEPS WHICH WILL MAKE THE COMMUNITY'S CAPITAL MARKETS, INCLUDING LONDON, WORK BETTER. ABOVE ALL WE SUPPORT GREATER LIBERALISATION.
- WE HAVE ~~FOSTERED~~ ^{ed} THE DEVELOPMENT OF THE EUROBOND MARKET. WE FAVOUR THE DEVELOPMENT OF THE ECU MARKET - AND HAVE IN THE LAST YEAR ACTIVELY ENCOURAGED IT THROUGH THE INNOVATION OF ISSUING ECU TREASURY BILLS.
- WE FAVOUR THE ABOLITION OF EXCHANGE CONTROLS - AND BLAZED THE TRAIL OURSELVES BY ABOLISHING ALL UK EXCHANGE CONTROLS WITHIN WEEKS OF TAKING OFFICE, 10 YEARS AGO.
- IN SHORT WE ARE FULLY BEHIND MOST OF THE PROPOSALS IN STAGE I OF THE DELORS REPORT - INDEED WE HAVE OURSELVES IMPLEMENTED MOST OF THEM.

The Delors Report

- AT HANOVER WE ASKED FOR A REPORT WHICH WOULD PROPOSE 'CONCRETE STAGES LEADING TOWARDS ' ECONOMIC AND MONETARY UNION.

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- IN DISCUSSING THE 'PROGRESSIVE REALISATION' OF EMU, IT IS IMPORTANT TO THINK IN CONCRETE, PRACTICAL TERMS.

- WE CAN ALL THANK PRESIDENT DELORS AND HIS COMMITTEE FOR THEIR REPORT. IT IS A VALUABLE ANALYSIS. IT RIGHTLY RECOMMENDS A STEP BY STEP APPROACH. IT SHOWS HOW MOMENTOUS SOME OF THE IMPLICATIONS ARE, PARTICULARLY IN STAGES 2 AND 3.

- WE AGREE THAT THE COMMUNITY SHOULD MAKE PROGRESS. I AM READY TO AGREE HERE AND NOW THAT AN EARLY START SHOULD BE MADE ON THE MEASURES THEY SUGGEST FOR STAGE I.
STAGE I

- INDEED I AM CONTENT THAT STAGE I SHOULD START, AS THEY RECOMMEND, ON 1 JULY 1990.

- I AM CONTENT THAT ALL THE STAGE I ELEMENTS, ON WHICH THE COMMITTEE WERE IN AGREEMENT, SHOULD BE INCLUDED IN IT.

- I PARTICULARLY WELCOME THEIR CALL FOR THE ESTABLISHMENT DURING STAGE I OF A SINGLE COMMUNITY FINANCIAL AREA, IN WHICH 'ALL MONETARY AND FINANCIAL INSTRUMENTS CIRCULATE FREELY, AND BANKING, SECURITIES AND INSURANCE SERVICES ARE OFFERED UNIFORMLY'.

- AND, OF COURSE, THEIR CALL FOR THE COMPLETION OF THE SINGLE MARKET, TOGETHER WITH A 'STRENGTHENING OF COMMUNITY COMPETITION POLICY'.

- IN SOME PRACTICAL RESPECTS, I HOPE THAT THE COMMUNITY WILL GO FURTHER IN STAGE I THAN THE COMMITTEE HAVE RECOMMENDED. FOR EXAMPLE, IN RESPECT OF THE ECU, THE REPORT MAKES ONLY THE RATHER MODEST SUGGESTION THAT 'ALL IMPEDIMENTS TO THE PRIVATE USE OF THE ECU SHOULD BE REMOVED'. I AGREE; BUT I RATHER HOPE THAT IN ADDITION MORE MEMBER STATES WILL JOIN THE UK IN ACTIVELY PROMOTING THE PRIVATE ECU MARKET. AND HOLDING ECUS IN RESERVES. AND USING THE ECU AS A CURRENCY OF INTERVENTION.

ERM

- YOU WILL I KNOW EXPECT ME TO SAY SOMETHING ABOUT BRITAIN AND THE ERM.
- THE DELORS REPORT SAYS THAT IT WOULD BE IMPORTANT FOR ALL MEMBER STATES TO JOIN THE ERM DURING STAGE I. LET ME JUST REMIND YOU FOR A MOMENT OF THE REASONS WHY WE HAVE NOT JOINED SO FAR.
- BRITAIN HAS FROM THE START PARTICIPATED IN THE EMS. BUT THERE IS NO DOUBT THAT IF STERLING HAD BEEN WITHIN ITS EXCHANGE RATE MECHANISM AT THE TIME OF THE SECOND OIL SHOCK, OR INDEED THROUGHOUT THE PERIOD WHEN THE POUND WAS IN EFFECT A PETRO-CURRENCY, MOVING IN THE OPPOSITE DIRECTION TO THE DM IN RESPONSE TO ANY OIL PRICE MOVE, OR ANY DEVELOPMENT WHICH THE MARKETS THOUGHT MIGHT PRESAGE AN OIL PRICE MOVE, THE RESULT WOULD HAVE BEEN DAMAGING, NOT LEAST FOR ERM.
- WE DON'T KNOW WHAT THE FUTURE OF OIL PRICES WILL BE, NOR WHAT SUDDEN POLITICAL SHOCKS MAY TOUCH OFF ANOTHER INCREASE.
- OUR POSITION IS THAT WE HAVE ALWAYS SAID WE SHALL JOIN THE ERM WHEN THE TIME IS RIGHT.
- BUT PICKING THE RIGHT TIME IS A PRACTICAL MATTER OF WEIGHING RISKS AND BENEFITS. WE NEED TO GET IT RIGHT, FOR GETTING IT WRONG WOULD HARM BOTH BRITAIN AND THE COMMUNITY.
- THE PRECISE TIMING COULD NOT FOR OBVIOUS MARKET REASONS - AND AS M. DELORS SAID A FEW DAYS AGO - BE ANNOUNCED IN ADVANCE. AND JUDGING IT IS, OF COURSE, A MATTER FOR THE BRITISH GOVERNMENT ALONE.

- I REAFFIRM TODAY THE UNITED KINGDOM'S INTENTION TO JOIN THE ERM. I AM SURE, HOWEVER, YOU WOULD ALL AGREE THAT THIS MUST BE DONE IN CONDITIONS WHICH STRENGTHEN THE ERM ITSELF AND PROVIDE ASSURANCE THAT AN ENLARGED ERM COULD BE SUSTAINED.
- WE ARE THEREFORE READY TO ACCEPT STAGE I OF THE DELORS REPORT. YOU WILL RECALL THAT THIS SPECIFIES:
 - COMPLETION OF THE INTERNAL MARKET
 - ABOLITION OF ALL FOREIGN EXCHANGE CONTROLS AND FULL IMPLEMENTATION OF A FREE MARKET IN FINANCIAL SERVICES
 - TOGETHER WITH A STRENGTHENING OF THE COMMUNITY'S COMPETITION POLICY
- IN THOSE CIRCUMSTANCES - AND PROVIDED INFLATION IN BRITAIN HAS INDEED BEEN BROUGHT DOWN SIGNIFICANTLY AS EXPECTED - THE CONDITIONS WOULD CLEARLY EXIST FOR STERLING TO JOIN THE ERM.
- I HAVE CHOSEN MY WORDS CAREFULLY AND I THINK YOU WILL RECOGNISE THEIR IMPORTANCE.

LATER STAGES

- LET ME NOW TURN TO THE LATER STAGES OF EMU ENVISAGED IN THE DELORS REPORT. I HAVE SERIOUS DIFFICULTY WITH SOME ASPECTS OF IT. THE REPORT IS DESCRIPTIVE NOT PRESCRIPTIVE, AND IN A NUMBER OF RESPECTS IT IS MORE VISIONARY THAN PRACTICAL.
- THE REPORT IS GOOD IN SPELLING OUT THE FUNDAMENTAL NATURE OF ECONOMIC AND MONETARY UNION, AND THE TRANSFERS OF NATIONAL SOVEREIGNTY WHICH WOULD BE INVOLVED. THE REPORT SETS OUT THESE IMPLICATIONS. THEY WOULD INVOLVE A VERY SIGNIFICANT SHIFT IN THE CONTROL OF ECONOMIC AND FISCAL POLICY. IT WOULD BE IRRESPONSIBLE OF ME TO SIGN UP TO THOSE PROPOSALS KNOWING THAT THEY COULD NOT COMMAND THE SUPPORT OF THE BRITISH PARLIAMENT. I WOULD BE SURPRISED IF SOME OTHERS WERE NOT IN FACT IN A SIMILAR POSITION.

- THE REPORT IS LESS GOOD IN ITS TREATMENT OF FISCAL POLICY. IT ASSERTS THAT BINDING RULES FOR THE BUDGETARY POLICIES OF THE VARIOUS MEMBER STATES WOULD BE ESSENTIAL TO SUPPORTING MONETARY UNION. I FIND THAT VERY QUESTIONABLE: EVEN IN FEDERATIONS, CONTROLS OVER THE BUDGETS OF COMPONENT STATES ARE THE EXCEPTION RATHER THAN THE RULE.
- I QUESTION TOO THE REPORT'S ASSERTION OF THE NEED FOR MASSIVE SUBSIDIES TO PERIPHERAL REGIONS. I SHOULD HAVE THOUGHT THAT A BETTER ANSWER WOULD BE TO ENCOURAGE GREATER FREEDOM FOR MARKET FORCES SO AS TO GET RID OF DIFFERENCES IN COMPETITIVENESS.
- WE HAVE ALL, IN OUR NATIONAL ECONOMIES, LEARNED TO BE SCEPTICAL ABOUT CENTRAL GOVERNMENTS' ABILITY TO BRING ABOUT THE BEST ALLOCATION OF RESOURCES, THROUGH INTERVENTIONIST INDUSTRIAL AND REGIONAL POLICIES. MARKETS, AND ENTERPRISE, DO THE JOB BETTER. AND ECONOMIC UNION WHICH COULD ONLY BE SUSTAINED BY THE KIND OF POLICIES - AND ARTIFICIAL RESOURCE TRANSFERS - WHICH WE HAVE RIGHTLY REJECTED ON A NATIONAL SCALE, WOULD BE BOUND TO FAIL.
- MORE FUNDAMENTALLY, I QUESTION THE ACCEPTABILITY, TO COMMUNITY PUBLIC OPINION, OF ARRANGEMENTS AS LACKING IN DEMOCRATIC ACCOUNTABILITY AS THE REPORT DESCRIBES. THE SUGGESTED EUROPEAN SYSTEM OF CENTRAL BANKS WOULD BE LESS ACCOUNTABLE THAN THE MOST INDEPENDENT OF OUR PRESENT CENTRAL BANKS - THE BUNDESBANK.
- I RAISE THESE QUESTIONS NOW NOT BECAUSE I SEEK ANSWERS NOW BUT RATHER AS ILLUSTRATIONS OF THE KIND OF ISSUES WHICH WILL HAVE TO BE ADDRESSED IN DUE COURSE IN THE FURTHER WORK ON STAGES II AND III WHICH OUR FINANCE MINISTERS ENVISAGE. IN PARTICULAR WE SHALL NEED TO LOOK AND SEE WHETHER THERE ARE OTHER MODELS WHICH WARRANT CONSIDERATION.

*we should not
assume all stages II & III central
a monopoly of wisdom. and with wisdom
on the subject*

in stages II and III are fundamental

these matters)

- ~~THEY ARE FUNDAMENTAL ISSUES~~, BUT THEIR RESOLUTION IS NOT URGENT, FOR I THINK WE ALL RECOGNISE THAT DECISIONS ON ~~STAGES II AND III~~ ARE SIMPLY NOT ON THE CURRENT AGENDA. WE MUST STICK TO THE PRACTICAL: FIRST THINGS FIRST SHOULD BE THE RULE.
- THE RECENT SUCCESS OF THE COMMUNITY OWES A GREAT DEAL TO THE FACT THAT WE WERE NOT OVER-AMBITIOUS. THE SINGLE EUROPEAN ACT IS THE BEST EXAMPLE. IT WAS LESS THAN MANY HAD ADVOCATED. BUT ~~NO ONE CAN NOW DOUBT ITS FAR-REACHING IMPACT.~~ WE AGREED ON SOMETHING WHICH WAS CAPABLE OF BEING IMPLEMENTED ON A REALISTIC TIMESCALE. ~~AND WHOSE IMPORTANCE AND VALUE ORDINARY PEOPLE COULD JUDGE FOR THEMSELVES.~~

CONCLUSIONS

- OUR FINANCE MINISTERS DEFINED PREPARING FOR STAGE I AS THE PRIORITY TASK WHEN THEY CONSIDERED THE REPORT AT THEIR MEETING IN SPAIN LAST MONTH. I AM SURE THAT THEY WERE RIGHT, AND THAT WE SHOULD TODAY ENDORSE THEIR VIEW.
- THEY SUGGESTED THAT THE WORK SHOULD BE DONE 'AS A MATTER OF URGENCY'. I AGREE.
- IN SHORT, I BELIEVE WE SHOULD TODAY DECIDE THAT:
 - THE WORK OF THE DELORS COMMITTEE HAS BEEN VALUABLE;
 - THEIR DESCRIPTION OF POSSIBLE LONG-TERM ARRANGEMENTS REQUIRES MUCH FURTHER, LONGER-TERM, STUDY; BUT
 - THEIR RECOMMENDATIONS FOR EARLY ACTION ARE RIGHT, AND SHOULD BE IMPLEMENTED FORTHWITH AND IN FULL.

taking in other alternatives as well

SPEAKING NOTE

THE AIM

- THE DEVELOPMENT OF GREATER MONETARY COOPERATION WITHIN THE COMMUNITY IS AN AIM WE SHARE.
- WE HAVE IN LONDON A MAJOR WORLD FINANCIAL MARKET. WE WANT TO KEEP IT, INDEED EXPAND IT.
- SO WE SUPPORT ALL PRACTICAL STEPS WHICH WILL MAKE THE COMMUNITY'S CAPITAL MARKETS, INCLUDING LONDON, WORK BETTER. ABOVE ALL WE SUPPORT GREATER LIBERALISATION.
- WE HAVE DEVELOPED THE EUROBOND MARKET. WE FAVOUR THE DEVELOPMENT OF THE ECU MARKET - AND HAVE IN THE LAST YEAR ACTIVELY ENCOURAGED IT THROUGH THE INNOVATION OF ISSUING ECU TREASURY BILLS.
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THE DELORS REPORT

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- THE REPORT IS GOOD IN SPELLING OUT THE FUNDAMENTAL NATURE OF ECONOMIC AND MONETARY UNION, AND THE TRANSFERS OF NATIONAL SOVEREIGNTY WHICH WOULD BE INVOLVED. THE REPORT SETS OUT THESE IMPLICATIONS. THEY WOULD INVOLVE A VERY SIGNIFICANT SHIFT IN THE CONTROL OF ECONOMIC AND FISCAL POLICY. IT WOULD BE IRRESPONSIBLE OF ME TO SIGN UP TO THOSE PROPOSALS KNOWING THAT THEY COULD NOT COMMAND THE SUPPORT OF THE BRITISH PARLIAMENT. I WOULD BE SURPRISED IF SOME OTHERS WERE NOT IN FACT IN A SIMILAR POSITION.

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- I QUESTION TOO THE REPORT'S ASSERTION OF THE NEED FOR MASSIVE SUBSIDIES TO PERIPHERAL REGIONS. I SHOULD HAVE THOUGHT THAT A BETTER ANSWER WOULD BE TO ENCOURAGE GREATER FREEDOM FOR MARKET FORCES SO AS TO GET RID OF DIFFERENCES IN COMPETITIVENESS.

- WE HAVE ALL, IN OUR NATIONAL ECONOMIES, LEARNED TO BE SCEPTICAL ABOUT CENTRAL GOVERNMENTS' ABILITY TO BRING ABOUT THE BEST ALLOCATION OF RESOURCES, THROUGH INTERVENTIONIST INDUSTRIAL AND REGIONAL POLICIES. MARKETS, AND ENTERPRISE, DO THE JOB BETTER. AND ECONOMIC UNION WHICH COULD ONLY BE SUSTAINED BY THE KIND OF POLICIES - AND ARTIFICIAL RESOURCE TRANSFERS - WHICH WE HAVE RIGHTLY REJECTED ON A NATIONAL SCALE, WOULD BE BOUND TO FAIL.

- MORE FUNDAMENTALLY, I QUESTION THE ACCEPTABILITY, TO COMMUNITY PUBLIC OPINION, OF ARRANGEMENTS AS LACKING IN DEMOCRATIC ACCOUNTABILITY AS THE REPORT DESCRIBES. THE SUGGESTED EUROPEAN SYSTEM OF CENTRAL BANKS WOULD BE LESS ACCOUNTABLE THAN THE MOST INDEPENDENT OF OUR PRESENT CENTRAL BANKS - THE BUNDESBANK.

- I RAISE THESE QUESTIONS NOW NOT BECAUSE I SEEK ANSWERS NOW BUT RATHER AS ILLUSTRATIONS OF THE KIND OF ISSUES WHICH WILL HAVE TO BE ADDRESSED IN DUE COURSE IN THE FURTHER WORK ON STAGES II AND III WHICH OUR FINANCE MINISTERS ENVISAGE.

- IN PARTICULAR WE SHALL NEED TO LOOK AND SEE WHETHER THERE ARE OTHER MODELS WHICH WARRANT CONSIDERATION. WE SHOULD NOT ASSUME THAT STAGES II AND III CONTAIN A MONOPOLY OF WISDOM ON THE SUBJECT.

- THE ISSUES IN STAGES II AND III ARE FUNDAMENTAL, BUT THEIR RESOLUTION IS NOT URGENT, FOR I THINK WE ALL RECOGNISE THAT DECISIONS ON THESE MATTERS ARE SIMPLY NOT ON THE CURRENT AGENDA. WE MUST STICK TO THE PRACTICAL: FIRST THINGS FIRST SHOULD BE THE RULE.
- THE RECENT SUCCESS OF THE COMMUNITY OWES A GREAT DEAL TO THE FACT THAT WE WERE NOT OVER-AMBITIOUS. THE SINGLE EUROPEAN ACT IS THE BEST EXAMPLE. IT WAS LESS THAN MANY HAD ADVOCATED. BUT IT HAS HAD A FAR-REACHING IMPACT. WE AGREED ON SOMETHING WHICH WAS CAPABLE OF BEING IMPLEMENTED ON A REALISTIC TIMESCALE.

CONCLUSIONS

- OUR FINANCE MINISTERS DEFINED PREPARING FOR STAGE I AS THE PRIORITY TASK WHEN THEY CONSIDERED THE REPORT AT THEIR MEETING IN SPAIN LAST MONTH. I AM SURE THAT THEY WERE RIGHT, AND THAT WE SHOULD TODAY ENDORSE THEIR VIEW.
- THEY SUGGESTED THAT THE WORK SHOULD BE DONE 'AS A MATTER OF URGENCY'. I AGREE.
- IN SHORT, I BELIEVE WE SHOULD TODAY DECIDE THAT:
 - THE WORK OF THE DELORS COMMITTEE HAS BEEN VALUABLE;
 - THEIR DESCRIPTION OF POSSIBLE LONG-TERM ARRANGEMENTS REQUIRES MUCH FURTHER, LONGER-TERM, STUDY TAKING IN OTHER ALTERNATIVES AS WELL: BUT
 - THEIR RECOMMENDATIONS FOR EARLY ACTION ARE RIGHT, AND SHOULD BE IMPLEMENTED FORTHWITH AND IN FULL.



SPEAKING NOTE

Prime Minister;
Speaking Note at the
European Council in
Rohrdt. Please file.

- THE DEVELOPMENT OF GREATER MONETARY COOPERATION WITHIN THE COMMUNITY IS AN AIM WE SHARE. CDP
29/6
- WE HAVE IN LONDON A MAJOR WORLD FINANCIAL MARKET. WE WANT TO KEEP IT, INDEED EXPAND IT.
- SO WE SUPPORT ALL PRACTICAL STEPS WHICH WILL MAKE THE COMMUNITY'S CAPITAL MARKETS, INCLUDING LONDON, WORK BETTER. ABOVE ALL WE SUPPORT GREATER LIBERALISATION.
- WE HAVE DEVELOPED THE EUROBOND MARKET. WE FAVOUR THE DEVELOPMENT OF THE ECU MARKET - AND HAVE IN THE LAST YEAR ACTIVELY ENCOURAGED IT THROUGH THE INNOVATION OF ISSUING ECU TREASURY BILLS.
- WE FAVOUR THE ABOLITION OF EXCHANGE CONTROLS - AND BLAZED THE TRAIL OURSELVES BY ABOLISHING ALL UK EXCHANGE CONTROLS WITHIN WEEKS OF TAKING OFFICE, 10 YEARS AGO.
- IN SHORT WE ARE FULLY BEHIND MOST OF THE PROPOSALS IN STAGE I OF THE DELORS REPORT - INDEED WE HAVE OURSELVES IMPLEMENTED MOST OF THEM.

THE DELORS REPORT

- AT HANOVER WE ASKED FOR A REPORT WHICH WOULD PROPOSE 'CONCRETE STAGES LEADING TOWARDS ' ECONOMIC AND MONETARY UNION.
- IN DISCUSSING THE 'PROGRESSIVE REALISATION' OF EMU, IT IS IMPORTANT TO THINK IN CONCRETE, PRACTICAL TERMS.

- WE CAN ALL THANK PRESIDENT DELORS AND HIS COMMITTEE FOR THEIR REPORT. IT IS A VALUABLE ANALYSIS. IT RIGHTLY RECOMMENDS A STEP BY STEP APPROACH. IT SHOWS HOW ^{momentous} MOMENTOUS SOME OF THE IMPLICATIONS ARE, PARTICULARLY IN STAGES 2 AND 3.
- WE AGREE THAT THE COMMUNITY SHOULD MAKE PROGRESS. I AM READY TO AGREE HERE AND NOW THAT AN EARLY START SHOULD BE MADE ON THE MEASURES THEY SUGGEST FOR STAGE I.

STAGE I

- INDEED I AM CONTENT THAT STAGE I SHOULD START, AS THEY RECOMMEND, ON 1 JULY 1990.
- I PARTICULARLY WELCOME THEIR CALL FOR THE ESTABLISHMENT DURING STAGE I OF A SINGLE COMMUNITY FINANCIAL AREA, IN WHICH 'ALL MONETARY AND FINANCIAL INSTRUMENTS CIRCULATE FREELY, AND BANKING, SECURITIES AND INSURANCE SERVICES ARE OFFERED UNIFORMLY'.
- AND, OF COURSE, THEIR CALL FOR THE COMPLETION OF THE SINGLE MARKET, TOGETHER WITH A 'STRENGTHENING OF COMMUNITY COMPETITION POLICY'.
- IN SOME PRACTICAL RESPECTS, I HOPE THAT THE COMMUNITY WILL GO FURTHER IN STAGE I THAN THE COMMITTEE HAVE RECOMMENDED. FOR EXAMPLE, IN RESPECT OF THE ECU, THE REPORT MAKES ONLY THE RATHER MODEST SUGGESTION THAT 'ALL IMPEDIMENTS TO THE PRIVATE USE OF THE ECU SHOULD BE REMOVED'. I AGREE; BUT I RATHER HOPE THAT IN ADDITION MORE MEMBER STATES WILL JOIN THE UK IN ACTIVELY PROMOTING THE PRIVATE ECU MARKET. AND HOLDING ECUS IN RESERVES. AND USING THE ECU AS A CURRENCY OF INTERVENTION.

ERM

- YOU WILL I KNOW EXPECT ME TO SAY SOMETHING ABOUT BRITAIN AND THE ERM.
- THE DELORS REPORT SAYS THAT IT WOULD BE IMPORTANT FOR ALL MEMBER STATES TO JOIN THE ERM DURING STAGE I. LET ME JUST REMIND YOU FOR A MOMENT OF THE REASONS WHY WE HAVE NOT JOINED SO FAR.
- BRITAIN HAS FROM THE START PARTICIPATED IN THE EMS. BUT THERE IS NO DOUBT THAT IF STERLING HAD BEEN WITHIN ITS EXCHANGE RATE MECHANISM AT THE TIME OF THE SECOND OIL SHOCK, OR INDEED THROUGHOUT THE PERIOD WHEN THE POUND WAS IN EFFECT A PETRO-CURRENCY, MOVING IN THE OPPOSITE DIRECTION TO THE DM IN RESPONSE TO ANY OIL PRICE MOVE, OR ANY DEVELOPMENT WHICH THE MARKETS THOUGHT MIGHT PRESAGE AN OIL PRICE MOVE, THE RESULT WOULD HAVE BEEN DAMAGING, NOT LEAST FOR ERM.
- WE DON'T KNOW WHAT THE FUTURE OF OIL PRICES WILL BE, NOR WHAT SUDDEN POLITICAL SHOCKS MAY TOUCH OFF ANOTHER INCREASE.
- OUR POSITION IS THAT WE HAVE ALWAYS SAID WE SHALL JOIN THE ERM WHEN THE TIME IS RIGHT.
- BUT PICKING THE RIGHT TIME IS A PRACTICAL MATTER OF WEIGHING RISKS AND BENEFITS. WE NEED TO GET IT RIGHT, FOR GETTING IT WRONG WOULD HARM BOTH BRITAIN AND THE COMMUNITY.
- AS M. DELORS SAID A FEW DAYS AGO, THE PRECISE TIMING COULD NOT FOR OBVIOUS MONEY MARKET REASONS BE ANNOUNCED IN ADVANCE. AND JUDGING IT IS, OF COURSE, A MATTER FOR THE BRITISH GOVERNMENT ALONE.

- I REAFFIRM TODAY THE UNITED KINGDOM'S INTENTION TO JOIN THE ERM. AND I AM SURE YOU WOULD ALL AGREE THAT THIS MUST BE DONE IN CONDITIONS WHICH STRENGTHEN THE ERM ITSELF AND PROVIDE ASSURANCE THAT AN ENLARGED ERM COULD BE SUSTAINED.

- WHAT ARE THESE CONDITIONS?

- THEY ARE IN FACT SPECIFIED IN STAGE I OF THE DELORS REPORT. THAT PROVIDES FOR:
 - COMPLETION OF THE INTERNAL MARKET
 - ABOLITION OF ALL FOREIGN EXCHANGE CONTROLS AND FULL IMPLEMENTATION OF A FREE MARKET IN FINANCIAL SERVICES
 - AND A STRENGTHENING OF THE COMMUNITY'S COMPETITION POLICY

- IN THOSE CIRCUMSTANCES - AND PROVIDED INFLATION IN BRITAIN HAS INDEED BEEN BROUGHT DOWN SIGNIFICANTLY AS WE INTEND - THE CONDITIONS WOULD CLEARLY EXIST FOR STERLING TO JOIN THE ERM.

- I HOPE THIS POSITIVE STATEMENT WILL BE WELCOME TO YOU.

LATER STAGES

- LET ME NOW TURN TO THE LATER STAGES OF EMU ENVISAGED IN THE DELORS REPORT. I HAVE SERIOUS DIFFICULTY WITH SOME ASPECTS OF IT.

- THE REPORT SPELLS OUT THE FUNDAMENTAL NATURE OF ECONOMIC AND MONETARY UNION, AND THE TRANSFERS OF NATIONAL SOVEREIGNTY WHICH WOULD BE INVOLVED. THE REPORT SETS OUT THESE IMPLICATIONS. THEY WOULD INVOLVE AN ENORMOUS SHIFT IN THE CONTROL OF ECONOMIC AND FISCAL POLICY. INDEED AS THEY ARE NOW, THEY WOULD NOT COMMAND THE SUPPORT OF THE BRITISH PARLIAMENT. I WOULD BE SURPRISED IF SOME OTHERS WERE NOT IN FACT IN A SIMILAR POSITION.

- I ALSO HAVE GREAT DIFFICULTY WITH THE REPORT'S TREATMENT OF FISCAL POLICY. IT ASSERTS THAT BINDING RULES FOR THE BUDGETARY POLICIES OF THE VARIOUS MEMBER STATES WOULD BE ESSENTIAL TO SUPPORTING MONETARY UNION. I FIND THAT VERY QUESTIONABLE: EVEN IN FEDERATIONS, CONTROLS OVER THE BUDGETS OF COMPONENT STATES ARE THE EXCEPTION RATHER THAN THE RULE.

- I QUESTION TOO THE REPORT'S ASSERTION OF THE NEED FOR MASSIVE SUBSIDIES TO PERIPHERAL REGIONS. I SHOULD HAVE THOUGHT THAT A BETTER ANSWER WOULD BE TO ENCOURAGE GREATER FREEDOM FOR MARKET FORCES SO AS TO GET RID OF DIFFERENCES IN COMPETITIVENESS.

- I ALSO QUESTION THE ACCEPTABILITY TO COMMUNITY PUBLIC OPINION OF ARRANGEMENTS AS LACKING IN DEMOCRATIC ACCOUNTABILITY AS THE REPORT DESCRIBES. THE SUGGESTED EUROPEAN SYSTEM OF CENTRAL BANKS WOULD BE LESS ACCOUNTABLE THAN THE MOST INDEPENDENT OF OUR PRESENT CENTRAL BANKS - THE BUNDESBANK.

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- IN PARTICULAR WE SHALL NEED TO LOOK AND SEE WHETHER THERE ARE OTHER MODELS OF ECONOMIC AND MONETARY UNION WHICH WARRANT CONSIDERATION. WE SHOULD NOT ASSUME THAT STAGES II AND III CONTAIN A MONOPOLY OF WISDOM ON THE SUBJECT.

- THE ISSUES IN STAGES II AND III ARE FUNDAMENTAL, BUT I THINK WE ALL RECOGNISE THAT DECISIONS ON THESE MATTERS ARE SIMPLY NOT ON THE CURRENT AGENDA. WE MUST STICK TO THE PRACTICAL AND GO FORWARD ~~INTO~~ ^{WITH} WHAT NEEDS TO BE DONE NOW.

CONCLUSIONS

- OUR FINANCE MINISTERS DEFINED PREPARING FOR STAGE I AS THE PRIORITY TASK WHEN THEY CONSIDERED THE REPORT AT THEIR MEETING IN SPAIN LAST MONTH. I AM SURE THAT THEY WERE RIGHT, AND THAT WE SHOULD TODAY ENDORSE THEIR VIEW.
- THEY SUGGESTED THAT THE WORK SHOULD BE DONE 'AS A MATTER OF URGENCY'. I AGREE.
- IN SHORT, I BELIEVE WE SHOULD TODAY DECIDE THAT:
 - THE WORK OF THE DELORS COMMITTEE HAS BEEN VALUABLE;
 - THEIR DESCRIPTION OF POSSIBLE LONG-TERM ARRANGEMENTS REQUIRES MUCH FURTHER, LONGER-TERM, STUDY TAKING IN OTHER ALTERNATIVES AS WELL; BUT
 - THEIR RECOMMENDATIONS FOR EARLY ACTION ARE RIGHT, AND SHOULD BE IMPLEMENTED.



CR

- The development of greater monetary cooperation within the Community is an aim we ~~all~~ share. ~~And one which we in the UK regard as particularly important.~~
 - ~~Let there be no misunderstanding about this. The British approach is practical and pragmatic. We favour step by step progress, and don't want any leap in the dark. but we do want progress.~~
 - Where we differ from some of our partners is because we tend to be cautious - I would say realistic - about the sensible pace of progress. We have in London a major world financial market, which we are determined to sustain. Since the City is a major Community asset, it is in the Community's interest that we succeed.
- So we are concerned not to run unnecessary risks.
- ~~But we support all practical steps which will make the Community's capital markets, including London, work better. So we support their greater liberalisation. We support their greater integration.~~
 - We have fostered the development of the Eurobond market. We favour the development of the ecu market - and have in the last year actively encouraged it through the innovation of issuing ECU Treasury ~~Bills~~ ^{Bills}.
 - We favour the abolition of exchange controls - and blazed the trail ourselves by abolishing all UK exchange controls within weeks of taking office, 10 years ago.



- But in monetary matters our experience is that it is wise not to let the heart over-rule the head.

For example Britain has from the start participated in the EMS. But there is no doubt that if sterling had been within its Exchange Rate Mechanism at the time of the second oil shock, or indeed throughout the period when the pound was in effect a petro-currency, moving in the opposite direction to the DM in response to any oil price move, or any development which the markets thought might presage an oil price move, the result would have been damaging, not least for ERM.

We don't know what the future of oil prices will be, nor what
- ~~That period is now over. So one can now foresee the sudden political shocks may push off another ~~the~~ increase in circumstances in which it would be right for sterling to join the ERM.~~ We have always said we shall join ^{the ERM} when the time is right.

But Picking the right time is a practical matter of weighing risks and benefits. We need to get it right, for getting it wrong would harm both Britain and the Community.

The precise timing ^{Could not} ~~cannot~~ for obvious market reasons, be announced in advance. And judging it is, of course, a matter for the British Government alone.

- We shall be guided by practical, market concerns and by our firm commitment to full membership - and not by any conflicting dogma or doctrine.

- It is in that spirit that I agreed last year, at Hanover, to the establishment of the Committee, headed by President Delors and consisting primarily of bankers, to



propose "concrete stages leading towards" Economic and Monetary Union.

- In discussing the "progressive realisation" of EMU, it is important to think in concrete, practical terms.
- I believe that we all have reason to thank President Delors and his Committee for their report. It is a valuable analysis. It rightly recommends a step by step approach.
- Let me make clear again that the UK agrees that the Community should indeed make progress. And that the UK is ready to agree here and now that an early start should be made on the measures they suggest for Stage I.
- I am content that Stage I should start, as they recommend, on 1 July 1990.

I am content that all the Stage I elements, on which the Committee were in agreement, should be included in it.

I particularly welcome their call for the establishment during Stage I of a single Community financial area, in which "all monetary and financial instruments circulate freely, and banking, securities and insurance services are offered uniformly".

- And, of course, their call for the completion of the Single Market, together with a "strengthening of Community competition policy".



- And - as I have I hope made clear - I do not disagree on the inclusion of all Community currencies in the EMS Exchange Rate Mechanism ~~during Stage I.~~
- In some practical respects, I hope that the Community will go further in Stage I than the Committee have recommended. For example, in respect of the ecu, the report makes only the rather modest suggestion that "all impediments to the private use of the ecu should be removed". I agree; but I rather hope that in addition more member states will join the UK in actively promoting the private ecu market. And holding ecus in reserves. And using the ecu as a currency of intervention.
- I do, on the other hand, have serious difficulty with some aspects of the Delors Report's discussion of the later stages. It is descriptive not prescriptive, and in a number of respects it is more visionary than practical.
- The Report is good in spelling out the fundamental nature of economic and monetary union, and the transfers of national sovereignty which would be involved. But I doubt if many of us regard these as practical politics now: certainly the UK Parliament would not.

The Report is less good in its treatment of fiscal policy. It asserts that binding rules for the budgetary policies of the various member states would be essential to supporting monetary union. I find that very questionable: even in federations, controls over the budgets of component states are the exception rather than the rule.



- I question too the Report's assertion of the need for massive subsidies to peripheral regions. I should have thought that a better answer would be to encourage greater flexibility in market mechanisms to eliminate differences in competitiveness.

- We have all, in our national economies, learned to be sceptical about central governments' ability to contrive optimal allocation of resources, through interventionist industrial and regional policies. Markets, and enterprise, do the job better. And economic union which could only be sustained by the kind of policies - and artificial resource transfers - from which we have rightly drawn back on a national scale, would plainly be premature. And doomed to fail.

- More fundamentally, I question the acceptability, to Community public opinion, of arrangements as lacking in democratic accountability as the Report describes. The suggested European System of Central Banks would be less accountable than the most independent of our present Central Banks - the Bundesbank.

- I raise these questions now not because I seek answers now but rather as illustrations of the kind of issues which will have to be addressed in due course in the further work on Stages II and III which our Finance Ministers envisage.

- They are fundamental issues, but their resolution is not urgent, for I think we all recognise that decisions on Stages II and III are simply not on the current agenda. We must stick to the practical: first things first should



be rule.

- Our Finance Ministers defined preparing for Stage I as the priority task when they considered the Report at their meeting in Spain last month. I am sure that they were right, and that we should today endorse their view.
- They suggested that the work should be done "as a matter of urgency". I agree.
- In short, I believe we should today decide that:
 - the work of the Delors Committee has been valuable;
 - their description of possible long-term arrangements requires much further, longer-term, study: but
 - their recommendations for early action are right, and should be implemented forthwith and in full.



cm

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- Some colleagues have expressed doubt about our commitment to the future development of the Community. I can assure them there is no doubt about our commitment to the success of this unique enterprise.

- ~~It is for that reason that~~ I believe it essential to be absolutely clear about the full implications of what is proposed on economic and monetary union.

- The Delors Committee Report sets out these implications. They would involve a very significant shift in the control of economic and fiscal policy. It would be irresponsible of me to sign up to those proposals knowing that they could not command the support of the British Parliament. I would be surprised if some others were not in fact in a similar position.

- No-one questions the goal of the progressive realisation of economic and monetary union laid down in the Treaty. But we should not take on specific commitments unless we are confident that we have the will and command the support to carry them through.

- The recent success of the Community owes a great deal to the fact that we were not over-ambitious. The Single European Act is the best example. It was less than many had advocated. But no-one can now doubt its far-reaching impact. We agreed on something which was capable of being implemented on a realistic timescale. And whose importance and value ordinary people could judge for themselves.



- That is why we can ~~and do~~ commit ourselves to Stage One of the Delors Committee Report while reserving our position on stages 2 and 3. [Of course, those colleagues who feel they can already take a clear line on the later stages will want to know that real progress is being made. Some have suggested a target date by which all member states should join the exchange rate mechanism of the EMS.

- Our position has always been that we shall join when the time is right. That is our firm intention. There are now just two major factors which will determine the time of our decision.

- We, for our part, must get the UK inflation rate coming down. And we shall. And it is obviously essential that the major states of the Community should have abolished all exchange controls in accordance with the approach agreed in the Capital Liberalisation Directive.

- ~~If those conditions are fulfilled, I am confident that we could take the decision to bring the pound into the ERM by the end of 1992.~~ I would hope to be able to do so sooner than that. But colleagues will understand the market reasons which make it impossible to be more precise than that.

10 DOWNING STREET

LONDON SW1A 2AA

Prime Minister

You will obviously want to suspend judgement until you see the conclusions written down.

There seem three key aspects to the four points:

- the Delors Report cannot be the only basis for further work. It can be a basis or a contribution. But it must be possible to bring in other thoughts, material etc.
- others may see the whole thing as a single process. But there is no automaticity about the move to, or the timing, or the content of stage 2. Decisions will have to be taken at the time in the light of progress
- there is no point in an IGC now before there is any agreement on the form, shape or content of stage 2.

C.

Charles

This may all be
old hat by now.



COMPTON AND FREDDIE TRUEMAN TO OPEN!"

SQUADDIES BLAST 'PAY TO DIE' RENTS PLAN

By JON SMITH

FURIOUS squaddies lashed out last night at plans to make them PAY for serving in Northern Ireland.

Their anger erupted after it was disclosed the Treasury was considering charging £18 a week board and lodging.

All soldiers currently in Ulster are reckoned to be serving in

"field" conditions and pay nothing for accommodation or food.

But Whitehall officials are believed to argue that troops not stationed in front-line posts — such as the border "bandit country" of South Armagh or IRA strongholds, like West Belfast — should be charged.

One soldier, on his third tour of duty in the Province, said: "Every time I come to Northern Ireland, I become an IRA target."

"There's no way I am going to pay for the privilege of being killed while serving in the defence of my country."

WS++NEWS++NEWS
BOATS KO|Israelis kill

THE SUN SAYS

Keep up the fight, Mrs T!

EVER since she became Prime Minister, it has been Margaret Thatcher versus the Rest of Europe.

But even she should not be made to fight her own side at the same time.

As the Prime Minister flies to the Madrid Summit, she is followed and battered by pleas to give in to the Europeans and join the common monetary system.

Sacrifice

The people urging this course are willing to sacrifice Britain's independent control over her economy as well as her currency.

This would effectively mean the end of sterling's role as a reserve currency.

It would mean forfeiting the unique role of the City of London in the financial markets that have been a source of strength and opportunity for this country over the centuries.

In time it would even mean that we lose independent control over our taxes and levels of State spending.

Instincts

There are suggestions from Madrid that Mrs Thatcher is willing to compromise and eventually give the Europeans and her critics what they want.

We hope she does no such thing.

Our prayer is that she stands by her judgment and her instincts which have served this country so well in the past.

In remaining firm on defence of Britain's real interest, she can be sure of at least one thing.

The gratitude and support of the mass of the British people.

They do not wish to be sold short to foreigners in Europe or anywhere else.

England sinks

THERE was a time when cricketers would give their eye teeth to play for their country.

If a Bradman or a Hammond or a Hutton was facing defeat in a Test and maybe the loss of a series, he would have had his team

Why Lawson's black mark means 'no' to the EMS

The year from March 1987 to March 1988, when the pound was informally tied to the West German mark at the 5-3 level, was a disaster for British economic management. It was in those 12 months that credit growth ran out of control, sowing the seeds for the drastic deterioration in the balance of payments from mid-1988 and the intensification of inflationary pressure.

Although the Cabinet nowadays appears to have an almost institutional aversion to agreement on any economic issue, there ought to be a ministerial consensus that the mistakes of the year must not be repeated. But there is no such consensus. Although Mrs Thatcher and Mr Lawson have tried to patch up their disagreements ahead of the Madrid EC summit, they are known to have very different views of what wrong two years ago and of what needs to be put right now. According to Mr Lawson, the excessive credit growth was the result of the tax privileges of mortgage borrowing and deregulation of the financial system. According to Mrs Thatcher, it was due to Britain's formal link with the European Monetary System, since this interfered with domestic mone-

tary control. Mr Lawson is still pressing for full membership of the EMS, suggesting that by late 1990 the time would be "ripe".

There is an obvious need to diagnose the causes of the credit boom. Was the tax system responsible, as Mr Lawson has claimed, or was it attributable in a systematic way to the pound-mark link?

Although credit growth had been rapid for most of the early 1980s, there was a pronounced acceleration in 1987 and 1988. This was particularly dramatic in mortgage lending, with net housing advances up by an astonishing 77 per cent between the second quarters of 1987 and 1988. The acceleration in credit growth was particular to those two years and was clearly cyclical in nature.

By contrast, the tax deductibility of mortgage interest, so much criticized by Mr Lawson, is a long-standing, structural charac-

teristic of the tax system, while financial deregulation has been under way for more than 15 years. Indeed, the real value of mortgage interest relief in 1987 and 1988 was sharply less than it used to be, because the maximum loan eligible for relief had been increased only once (from £25,000 to £30,000 in 1983) since the mid-1970s despite a several-fold increase in the level of house prices. A cyclical surge in credit cannot be explained by structural features of the tax system. Mr Lawson's argument does not stand up.

Instead the credit boom has to be related to interest rate changes. In 1985 clearing bank base rates averaged 12.25 per cent, in 1986 10.9 per cent and in 1987 9.74 per cent. In the first quarter of 1988 they were down to 8.75 per cent and in the second quarter to 8.15 per cent. Of course, there are many reasons why the amount of credit

fluctuates over time. But it is surely plausible that one reason people borrowed more in early 1988 than in early 1987 was that it was cheaper to do so.

Why were interest rates cut so heavily? Here we come to the central importance of the link between the pound and the mark, and Mr Lawson's shadowing of the EMS. Between March 1987 and March 1988 the foreign exchanges thought that Britain's commitment to a quasi-fixed exchange rate precluded early and significant exchange rate depreciation, and were enthusiastic about Britain's economic performance.

But interest rates were much higher in Britain than elsewhere in Europe. Easy profits could be made by borrowing marks (at, say, 4 or 5 per cent) and buying sterling (where the money would earn 8 per cent or more).

The consequent upward pressure on sterling threatened to

drive the pound above the precious 3DM level. With the Government reluctant to intervene on the foreign exchanges, the only way for the monetary authorities to fend off the unwelcome capital inflows was to reduce interest rates.

Lower interest rates then stimulated credit demand and aggravated the difficulties of domestic monetary control. There was a deep-seated tension between external and domestic objectives in monetary management. It follows that Mr Lawson's policy of shadowing the DM did cause the excessive credit growth of 1987 and 1988, and is responsible for the current inflation worries.

The problem is quite general. If participation in a currency area is intended to be a meaningful, long-term relationship, interest rates must be similar in all member countries. But, at the same interest rate, the demand

for credit may be far more buoyant in one country (Britain) than in others (the present members of the EMS).

The requirements of domestic credit restraint and exchange rate stability are in conflict, and the various countries (Britain and the rest of Europe), far from associating in a stable and integrated monetary union, suffer from a deep-seated financial incompatibility.

There is little likelihood that by late 1990 — or indeed by late 1992 after the next general election — British monetary conditions will be any closer to those in the rest of Europe than they were in 1987/early 1988. On the contrary, the gap between British and European inflation performance, and the divergence in expectations about future inflation, will probably be wider than they were a year or two ago.

If Mrs Thatcher is to be pressed to join the EMS at Madrid her European counterparts need to explain why the next attempt to couple sterling with other European currencies will differ from the previous unsatisfactory liaison.

Tim Congdon

Economic adviser to Gerrard & National.

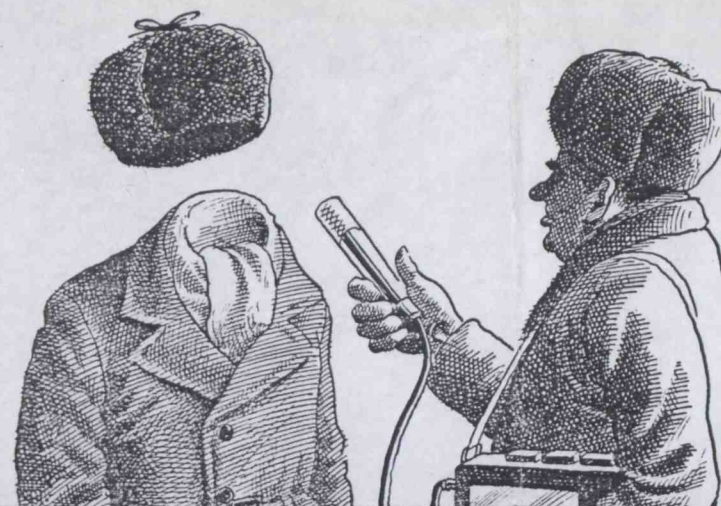
Bernard Levin celebrates a beacon of knowledge in the Soviet void

Stalin's unpersons restored to life

Not long ago there was a thud from my office so loud that only instant recourse to the Hot Line by President Bush averted the outbreak of the Third World War.

accused of imaginary and impossible crimes, and shot for them after a show trial more falsified than anything else in the entire mad world of Stalin's degenerate rule. It followed that whoever had praised one of the newly-

citizen, and Vladimir Chugueva decided to compile a trustworthy and comprehensive Soviet *DNB*, and took nearly 20 years to complete it. That is the book which so nearly precipitated catastrophe: its title is *A Bio-*



There are a few surprising omissions; Poskrebyshev, for instance, Stalin's evil gofer, and — much more serious — Surkov, boss of the Soviet Writers' Union. There is perhaps a tangential and anonymous mention of him in the entry for his musical equivalent, Tikhon Khrennikov, dictator of the Composers' Union, and the man who Stalinized the Soviet musical world. In 1988 he was denounced, and "defended himself by stating that he did not send members of his union to the Gulag, as the leaders of the Union of Writers did".

They did indeed; Surkov, when the

26.6.84

DRAFT SPEAKING NOTE FOR LUXEMBOURG

Introduction

- British Government firmly believes there must be a social dimension to the Single European Market
- But that social dimension should be concerned with creating new jobs, reducing unemployment and improving real standards of living
- These objectives already set out in Employment Growth Resolution of 1986 which had unanimous support of all member states
- Question we now have to consider: does this Social Charter help to achieve the objectives of creating jobs, reducing unemployment and raising real living standards.

How to get new jobs

- Important to remember: new jobs are created by expanding business not by imposing new regulations
- Misleading to draw a sharp distinction between what is in the interest of business and what is in the interest of citizens: the paramount social need is to create new jobs and new jobs can be created only if businesses are allowed to grow
- British experience shows that removing unnecessary regulations and barriers to employment is crucial to creating new jobs
- Nearly 3 million new jobs created in UK over last six years: more than in rest of Community put together

- More people now in jobs in UK than ever before
- Unemployment in UK has fallen for 33 successive months to lowest level for eight years: now well below Community average
- Over last two years unemployment has fallen faster in UK than in any other major industrialised country
- UK has achieved this by sweeping away unnecessary burdens on business and releasing the energy and flair of our people.

The Social Charter

- British Government's approach is to ask: will new regulations help to create jobs? Will new regulations help to bring down barriers within the Single Market? Or will they get in the way of the aims of the Single Market and hinder job creation?
- The draft charter consists of a long shopping list of items covering a wide range of issues on which practice varies greatly from member state to member state
- Essence of our objection to Social Charter: being asked to sign "blank cheque": being asked to agree to set of so called rights before there has been any discussion of them individually and before anyone has defined what they mean
- Let me give a few examples: para 9 says "a decent wage shall be established": who is to decide what is a "decent wage"; how is it to be decided and when?
- Again, para 14 says "every citizen shall have a right to adequate social protection": what constitutes "adequate social protection"; what mechanism will determine what is adequate and what is not?

- Has the Commission made any estimate of the cost of implementing the Social Charter for employers, for individual member countries and for Community programmes? Has any estimate been made of the effect on jobs and unemployment? Would we be faced with demands for further, massive increases in the Social Fund and other Community programmes to enable all member states to reach the standard of provision laid down in the charter? These questions are fundamental but we have no answers
- Quite wrong for the Commission to expect member states to sign up to the generalities in the Charter before anyone knows what they mean and what effects they would have: that is not the way any member country would behave in deciding its internal affairs
- Some of the so called rights in the Charter are clearly contrary to the aims of the Single Market: for example, the requirement in para 6 that workers from one country working under sub-contract in another country must be paid at the rates prevailing in the host country: nothing would be more likely to prevent the free movement of labour
- Some items in the Charter are outside the competence of the Community: for example, the "right to social protection" set out in para 14, the references to retirement pensions in paras 28 and 29 and the "right to strike" mentioned in para 17
- British Government finds it difficult to understand what purpose a Charter of this kind could possibly serve
- Many of its items already covered by Council of Europe Declaration: repetition in purely declaratory Community document would serve no purpose

We place more emphasis on
~~financial~~ financial participation
of employees.

Positive Points

- British Government is fully committed to action to harmonise arrangements which are clearly within the competence of the Community: for example, health and safety at work where remarkable progress has been made on the new directive
- British Government also fully committed to progress on free movement within the Community and on issues like mutual recognition of qualifications and equal treatment
- British Government has given very high priority to training including annual investment of some £3 billion in publicly funded training programmes
- We fully support efforts to promote easier access to training by workers within member states
- We have agreed to the doubling of the Structural Funds, including the Social Fund, only last year

The importance of national traditions: worker participation

- On other issues British traditions require a different approach from that of other member states
- But this should not be taken to mean that they are accorded a lower priority in the UK: clearest example is worker participation
- British Government fully committed to making progress on worker participation but different national traditions require different approaches
- In Britain great progress has been made in extending share ownership by employees and in developing profit related pay

- No more effective way of involving employees directly in the running of a company than for employees themselves to own shares in the company: clearest example is National Freight Corporation which is wholly owned by its own employees
- Profit related pay gives employees a direct stake in the performance and future growth of the company which employs them
- British Government also supports other forms of worker participation which provide for direct consultations with all employees
- What British Government will not accept is imposition of a legal straitjacket which would be alien to British traditions and would damage established arrangements and practices in the UK

Fortress Europe

- We must avoid the danger of "fortress Europe": Europe must not become inward looking and pre-occupied with experiments in social engineering at a time when it needs to concentrate on ensuring that it can compete with the fast growing economies of the Far East and the Pacific

Verdict on Social Charter

- Will the Charter help to remove barriers to the Single Market and increase the number of jobs in Europe? Answer must be "no"
- British Government believes Charter points in wrong direction, to a Europe of greater and unnecessary regulation which would hinder the creation of new jobs

- Britain therefore opposes the draft Charter and sees no need for any "Social Charter"

- Instead member countries and the Commission should concentrate on practical measures to create new jobs and reduce unemployment across Europe on the lines agreed by all member states in the Employment Growth Resolution of 1986.