Speech by Peter Shore on the Delors Report (Bruges, 24 July 1990)

Caption: Invited by the Bruges Group to give an talk on Economic and Monetary Union (EMU), Labour MP Peter Shore harshly criticises the Delors Report for European monetary unification.

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Speech by Peter Shore (Bruges, 24 July 1990)

Members of the Bruges Group, thank you for inviting me to address you this evening.

This is an unusual occasion because, although your Group is designed to be an 'All Party Forum', its speakers have been overwhelmingly drawn from the Conservative Party, though I understand that its officers are truly independent.

I am a Labour politician whose localities and perspectives remain firmly based in the Party of which I am a member.

But, on this issue of Europe and Britain's future, I believe we are united on at least three major propositions. First, the shared belief in the continuing capacity of the British people for successful self-government. Second, in our conviction that the European Community which we wish to see is one that is based upon the willing co-operation of sovereign states, and not upon the creation of a European super-state; and third, a strong belief that the boundaries of the European Community should not be confined to the present 12 but should extend to embrace, if such be their wish, those Eastern and Central European countries recently liberated from Soviet rule, as well as the democratic nations in the European Free Trade Area.

All three objectives are under threat from the present headlong rush into Economic and Monetary and Political union. If the Delors version of EMU comes into effect, we shall say good-bye to democratic self-government, for we shall no longer be able to make the key economic decisions that affect our national life. That power will pass to a Euro-Fed Bank, a Committee of Governors of Central Banks and the European Commission – and a giant step would have been taken towards a federal or supra-national Europe. At the same time, EMU, like the CAP, will erect a high wall around the 12 West European nations that will be very difficult for other European countries ever to climb.

LABOUR OPPOSITION TO EMU

I am strongly opposed to Economic and Monetary Union. More important, so is the Labour Party. We now oppose it not only because of the abandonment of the democratic rights of people and Parliament that it entails, but because EMU will have a massive deflationary effect upon the British economy. Yes, we have a higher rate of inflation than Germany. We have, too, a lower rate of growth and productivity because the Germans have invested much more sensibly than we have over the past 30 years.

If our exchange rates are locked – if we are denied in future the necessary periodic adjustments that devaluation and revaluation allow – then we shall suffer ever-increased unemployment and a massive disruption of our industrial relations, as British firms are compelled to cut back the real incomes of their workforce.

It would be just as stupid and damaging to lock the pound to the D-Mark as it would be to lock the pound to the Yen. It would be just as stupid and unthinkable for the USA to lock the dollar to the Yen or the Mark.

All of us are properly concerned to defeat inflation. But that is not the sole objective of economic policy. Equally important are the growth of the economy and the creation of jobs. The greatest economic blunder during my lifetime was when Winston Churchill, then Chancellor of the Exchequer, put Britain on the Gold Standard in 1925. We ceased to be competitive; massive damage was done to our export trade and unemployment soared to the terrible peaks of 1931 when the Labour Government of Ramsay MacDonald found itself utterly helpless to control events.

No Labour Government will repeat that experience ever again. But unlike the Gold Standard in 1931, the locked exchange rates and single currency plans of EMU has no escape clause. As the 1930s developed, the revival of the British economy was only possible because we abandoned the Gold Standard and floated the pound. No Labour Government will ever allow itself to be locked into a fixed exchange rate or a single currency.

In a little noted part of Nicholas Ridley's outburst in the *Spectator,* he said this:

can you imagine me going to Jarrow in 1930 and saying ‘look boys, there is a general election coming up, I know half of you are unemployed and starving and the soup kitchen's down the road. But we are not going to talk about these things, because they are for Herr Pöhl and the Bundesbank. Its his fault; he controls that; if you want to protest you better get on to Herr Pöhl.’

The danger to jobs is very real; and it is one of the extraordinary features of this now prolonged debate that a virtual silence has shrouded the issue. True, Mr. Major has, under interrogation, admitted that unemployment would rise but he – and others – have preferred to speak in such generalities as ‘you cannot have monetary convergence without economic convergence’.

Nor is it just a question of the UK being forced to achieve a German level of inflation. Unless and until we achieve a German level of productivity, our unit costs of output would continue to be higher, thus undermining our competitive position. We need not look back as far as the Gold Standard of the 1920s/30s to illustrate the consequence of an uncompetitive exchange rate. Between 1979 and 1982, when the pound was driven sky-high by the sudden perception of sterling as a petro-currency, we lost 2 million jobs and 20% of our entire manufacturing capacity.

The freedom to change our exchange rate is more important to us now than it has ever been. For the Treaty of Rome, together with the Single European Act, have already largely outlawed interventions in the economy by nation-states.

We cannot control our trade, exports or imports. We cannot control the movement of capital in or out of our country. We have abandoned to Brussels decisions on large, cross-frontier mergers and take-over bids. Aid to industry and the regions are being progressively outlawed, except within limits laid down by the Brussels Commission. The pressure to harmonise indirect taxes immobilises a large part of our fiscal policy.

These developments take us much further than it is in our interest to go. But they also make it absolutely impossible for Labour to accept the transfer of the remaining strategic powers over the economy – monetary policy and exchange rate policy – to a European Central Bank.

LABOUR AND THE EXCHANGE RATE MECHANISM

For Labour, no less than the Government, ERM – let alone EMU – poses severe difficulties. That is why we have laid down major conditions that would have to be met before entry.
These are:

(a) that the deflationary bias of the mechanism be removed and that equivalent obligations be imposed on debtors and creditors;

(b) that it includes an EC-wide trade policy which would contribute to individual members' balance of payments stability;

(c) that it is a part of an EC-wide growth policy;

(d) that there should be a powerful, compensatory regional policy; and finally,

(e) that the pound enters at a competitive rate that would enable British goods to be and remain competitive.

One does need to be a prophet to realise that there is little likelihood of these conditions being met at the present time. Moreover, since Labour first committed itself to join the ERM – subject to the conditions outlined – the European Community has committed itself to EMU in which membership of the ERM is only the first stage in the Delors plan. Exchange rates have been frozen in the ERM for the past 3½ years and there is now powerful resistance to any further change in exchange rates before the permanently locked system of the EMU comes into place.

The essential condition that Labour has laid down for entry, namely, that further changes in the exchange rate of the pound should be allowed, is now directly challenged.

On top of these difficulties, two major new problems have emerged: problems that must worry the Government, just as much as the Opposition.

First, there is the extent of our current account deficit. Last year we had a record deficit of over £19 billion, and the deficit this year is running at roughly the same level. This is unsustainably large and will have to be rectified. But to what extent does this deficit reflect not only an excess of domestic demand but a lack of competitiveness in international trade?

Second, there is the unsustainably high level of the pound that market anticipations of early ERM entry and our currently high interest rates have achieved. Does anyone seriously believe that UK industry is, or can remain, competitive at 3 D-Marks to the pound?

THE DRIVE TO EUROPEAN UNION

I have long been convinced that the real drive behind Economic and Monetary Union has little or nothing to do with economics, but is primarily politically motivated. European federalists will pursue any objective provided that it achieves two basic aims: it weakens the powers of the elected governments of nation-states and it strengthens the powers of the European institutions, whether elected or not.

Their long-term political endeavour has been much boosted by the anxieties that many countries feel at the present German economic supremacy in Europe and the further strength that the absorption of the GDR into the Federal Republic will shortly give to a united Germany. They believe that the best way to tether a powerful Germany is to take us all into EMU – and a Political Union.

They are quite wrong. If there is one thing guaranteed to increase the relative power of the German economy in Europe, it is EMU.

Nevertheless, to bulldoze the UK into acceptance of European Union is a prime objective. That was what Leon Brittan was about when he spoke to you last Thursday, when he tried to limit our options to the impossible question: ‘whether we want to be part of a European monetary zone which we can influence or part of a D-Mark zone which we cannot’.

This is an absurd way of posing the choices. First, as the discussions of the proposed Euro-Fed have made quite clear, it will be modelled on the existing Bundesbank, committed to stable prices as the highest economic priority and made statutorily independent of member states. Their influence will be confined to receiving reports and making suggestions.

Second, the existing member states of the ERM are indeed part of a D-Mark zone – and they have very little influence in it. That is why some of them have been persuaded, wrongly, that they will have more say in a Euro-Fed bank than over the present Bundesbank.

Third, it leaves out the other main option: that we should join neither the ERM nor the EMU.

One of the most sedulously propagated myths in public life today is that we in Britain have no control over our interest rates. The evidence for this, it is alleged, is that the Bank of England last raised its interest rates within 20 minutes of the Bundesbank putting up its own interest rates. Yes, we did. And that may or may not have been the sensible thing to do, in the circumstances then prevailing. But there should be no doubt at all that there was an alternative. If we had maintained our then existing interest rates, the effect would have been a minor depreciation of the pound. According to your view of the relative importance of competitiveness and inflation, it could well have been a sensible alternative. What of course was true was that the existing members of the ERM had no choice at all but to raise their interest rates.

For they are committed to defending their existing parities – and could not have changed them without embarking upon all the difficulties and disruptions of reaching agreement with their ERM partners. Of course Euro-enthusiasts love to dwell upon the alleged 20 minutes of sovereignty that the UK enjoyed! But then, it is a crucial part of their campaign of persuasion to depict the United Kingdom as being helpless, inside or outside of the European Community, and *marginalised* when it refuses to go along with the absurdities of the Brussels machine.

The last point of Mr Brittan's speech that I wish to comment on is his extraordinary statement: ‘we have for more than a decade resisted a system which works in practice for fear that it might not work in theory’.

It is true that, after years of tribulation, the member states of the ERM have gained the objective of greater exchange rate stability. But at what cost?

At the loss of exchange rate competitiveness. The cost of maintaining parities against the D-Mark has been high. From 1983 to date, the GDP growth in ERM countries has been only 2.7% per annum: in Britain it has been 3.4% per annum. Unemployment has remained higher in all the ERM countries (except Germany) than in Britain. And of course there have been dire consequences in current account trading with Germany. Between 1978 and 1983, when depreciations were large and often, the German trade surplus with the rest of the EC was less than $7 500 million. But from 1983 to 1987 it soared to $34 845 million; to $46 257 million in 1988; and to over $50 000 million in 1989. The figures for the supposed crowning glory of the ERM tells a corresponding story; although there has been a sharp fall in the rate of inflation in ERM countries, there has been a similar fall in non-ERM countries – including, of course, the UK until last year. As Gavyn Davies, himself a proponent of entry, summed up the ERM experience: ‘The reduction in inflation achieved by EMS countries has aligned with the international average, but output losses have been greater as have increases in unemployment.’

I know that it is dangerous to speak ill of Brussels Commissioners. But I thought that Britain's speech was just the kind of mixture of ignorance, arrogance and Euro-propaganda that we can expect from unelected men in positions of great power.

CONCLUSION

The momentum behind the drive for European Union is going to be very hard to resist. Between now and January, the Italians occupy the Presidency of the European Community. If you have not already seen it, I advise you to read the speech by Mr De Michelis, the Italian Foreign Minister, when he presented the programme of the Italian Presidency to the European Parliament on 12 July. It is an openly federalist programme and the drive is now on to accelerate the advance towards EMU and Political Union even faster, so that the two Inter-governmental Conferences – when they open in December – will need virtually only to ratify what has already been agreed.

We shall be subjected to a barrage of insults about our insularity and threats about the terrible consequences that await us if we dare to say No. We shall withstand it. More, we must be ready to explain and inform, to argue and to expose.

Above all, those of us in Parliament, regardless of Party, must be resolute in the defence of our people, our nation and our democracy.