

Parliamentary debates in the House of Commons on the outcome of the Madrid European Council (29 June 1989)

Caption: On 29 June 1989, in London, commenting on the outcome of the Madrid European Council held on 26 and 27 June, British MPs debate the issue of Economic and Monetary Union (EMU) and criticise the April 1989 Delors Plan which provides for the implementation of EMU in three successive stages.

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European Council (Madrid)

3.31 pm

The Prime Minister (Mrs. Margaret Thatcher) : With permission, Mr. Speaker, I should like to make a statement about the meeting of the European Council in Madrid on 26 and 27 June which I attended with my right hon. and learned Friend the Secretary of State for Foreign and Commonwealth Affairs.

[...]

First, the objective of progressive realisation of economic and monetary union was reaffirmed. This objective was first set in 1972 before Britain joined the Community and has subsequently been reaffirmed on numerous occasions, including in the Single European Act passed by this House, but no definition of it was agreed in Madrid.

Second, the report of the Delors committee, which sets out an approach to economic and monetary union by stages, was accepted as a basis for further work, but not the only basis. It will be possible to bring in other ideas and other approaches.

Third, the Council agreed that the measures necessary to achieve the first stage of progressive realisation of economic and monetary union will be implemented from 1 July 1990. These include completion of the single market, abolition of all foreign exchange controls, a free market in financial services and strengthening of the Community's competition policy by reducing state aids. They are all matters for which the United Kingdom has campaigned strongly and where we are well ahead of the great majority of our European partners.

No decisions were reached on what should follow this first stage, and stages 2 and 3 of the Delors report were not endorsed. Indeed, several delegations--not only the United Kingdom--made clear that they had substantial difficulties with them.

Fourth, it was agreed to carry out the preparatory work for the organisation of an eventual intergovernmental conference to lay down subsequent stages, but such a conference would meet only after implementation of the first stage has begun and when there has been full and adequate preparation. Its decisions would have to be reached by unanimity and would require ratification by this House. In short, we made as much progress as can be made at this stage while leaving longer-term issues for further discussion by Finance Ministers and central bank workers over the months and years ahead. We have ensured that there is nothing automatic about the move to subsequent stages.

Very difficult issues remain to be resolved. As my right hon. Friend the Chancellor of the Exchequer has made clear, stages 2 and 3 of the Delors report would involve a massive transfer of sovereignty which I do not believe would be acceptable to this House. They would also mean, in practice, the creation of a federal Europe. The Government support the objective of closer monetary co-operation, but will work for solutions which leave crucial economic decisions in our own hands. Although Britain's membership of the exchange rate mechanism of the European monetary system was not an issue at this Council, I reaffirmed our intention to join the ERM, but we must first get our inflation down. We shall look for satisfactory implementation of other aspects of the first phase of the Delors report, including free movement of capital and abolition of foreign exchange control.

[...]

Mr. Neil Kinnock (Islwyn) : I am grateful to the Prime Minister for her statement.

On the important question of British participation in the exchange rate mechanism of the European monetary system, first, do the main conditions for entry into the exchange rate mechanism set down by the Prime Minister mean that she now accepts that exchange rate management must be the essential basis of monetary policy, as her Chancellor of the Exchequer believes?

Secondly, does she concur with her Chancellor's publicly stated view that he is

"certain that participation in the Exchange Rate Mechanism would strengthen both the stability of the pound and efforts to bring down inflation?"

If she does, would not membership of the ERM assist with efforts to bring down the present rate of inflation to European averages? Thirdly, does the Prime Minister agree with the view of some of her right hon. Friends that participation in the exchange rate mechanism and the exercise of constructive influence in any development of stages 2 and 3 of the Delors report are essential if London is to remain a major financial centre? Does she accept that Britain would be in a better position to modify or remove less acceptable features of stages 2 and 3 if the pound were put into the ERM at an early date?

Fourthly, are not the conditions that the Prime Minister has laid down for participation in the exchange rate mechanism, most notably the condition that British inflation must be at the European average, just her way of saying that under her policies the pound will never join the exchange rate mechanism?

[...]

The Prime Minister : On the exchange rate mechanism, our promise has been that we would go in when the time was right. I put conditions on that and made it much clearer that when those conditions were met we should be able to go in. One condition depends on us, which is that we get inflation well down, but some of the other conditions depend on the other members of the Community. Some of them belong to the exchange rate mechanism, but still protect their currencies by not having freedom of capital movements and by keeping foreign exchange control. It is quite different to stay in an exchange rate mechanism when one has foreign exchange control from when has abolished that foreign exchange control.

We shall see how the exchange rate mechanism holds up. I hope that it holds up reasonably well. The bands are very different for the particular currencies, but the abolition of foreign exchange controls will be a major event for the exchange rate mechanism.

On stages 2 and 3, many other people share our view that the--

[...]

The Prime Minister : Other people share our view that the stages set out in the Delors report are not the right stages.

I will name a person. I gladly respond to the hon. Gentleman's shouting. Karl Otto Poehl, the governor of the Bundesbank, in a speech on 22 June, said :

"I myself doubt whether the time has come for such a comprehensive renunciation of sovereignty, namely the transfer of monetary powers to supranational institutions. I can only repeat what I said a little while ago. Neither a single currency nor a European central bank is necessary for an economic and monetary union to function. What is more important is that the member states pursue a consistent policy."

That is a very effective demonstration.

[...]

Mr. Julian Amery (Brighton, Pavilion) : Does my right hon. Friend agree that one of the most important decisions taken at Madrid was that, in the preparations for the eventual intergovernmental conference, the Delors report, valuable though it is, would not be the only document considered?

Will my right hon. Friend instruct the Treasury and the Bank of England to carry out a detailed review of the operation of the sterling area between 1931 and the 1960s? Sterling was never a single currency ; it was a reserve currency. The Bank of England was its heart, but it was never its central bank. The Governments of other countries that were part of the sterling area continued to retain their own central banks and, of course, their own control of budgetary and fiscal policy. Is it not important that the Government should put forward proposals that reflect the British vision of a united Europe?

The Prime Minister : My right hon. Friend is absolutely right. The Delors report will not be the only document taken into account in considering how to come to closer monetary and economic union. We shall be able to put up alternative schemes. It is clear that the governor of the Bundesbank thought that there were alternative schemes.

Our way is to co-operate through voluntary action, which we believe will achieve the same objective. We will, of course, look at the sterling area, in which this country has unique experience, because it could be valuable in the next stage of the Community's deliberations. I am grateful to my right hon. Friend.

Mr. Paddy Ashdown (Yeovil) : The right hon. Lady would be amazed if the rest of us were so naive as to believe her description of events. Anyone who listened to it would be bound to take it with, to coin a phrase, a large "sackful of salt". When will the Prime Minister realise that Britain's long-term best interests will be served by Britain helping to shape and being part of European integration rather than always being seen to be a block and barrier to it? Is it not odd that the line on economic and monetary integration which she defended in Madrid is almost exactly the same little Englander line that was put forward in the Labour party's European manifesto?

The Prime Minister : I should have thought that the right hon. Gentleman could do better than that. Twelve nations signed the communique . The right hon. Gentleman seems to despise them all--nearly the whole of Europe.

Stage 1 of the Delors report is agreed. That is a quantum leap. It includes many other aspects of work that we must do in the Community, for example, on the internal market--which will be a quantum leap when it has been completed by 1992--the freedom of capital movement, abolition of foreign exchange controls and reduction of subsidies, so that there is much freer competition throughout the Community. That is a major step forward. I should have thought that the right hon. Gentleman could at least welcome it.

Sir Bernard Braine (Castle Point) : Will my right hon. Friend accept the warm congratulations of Conservative Members and, I suspect, many people elsewhere on her remarkable achievement in Madrid, especially on rallying the support of some member states which, like us, are not enamoured of the idea of a bureaucratically controlled Community which would reduce national Parliaments to rubber-stamping machines? Does not Britain now have an opportunity to shape the future economic and social patterns of the Community in accordance with the wishes of all the people?

The Prime Minister : My right hon. Friend is absolutely right. Several members of the Community are deeply disturbed by the transfer of sovereignty in stages 2 and 3, especially those whose Parliaments are central to their democratic processes. Parliaments have a varying significance to several nations of the Community. Many expressed doubts similar to those that we expressed ; others do not want to be under the domination of a German-French axis, and therefore wish to develop different mechanisms. We shall do exactly what my right hon. Friend said--develop a system that is right for all members of the Community so

that they can go forward on a voluntary and fully agreed basis which we can bring before the House for approval.

Dr. David Owen (Plymouth, Devonport) : Is the Prime Minister against any system of European central banks, especially a system that has the same anti-inflationary pressures as witnessed by the Bundesbank? Does she rule out even parallel currencies? If she is as anxious as many hon. Members about a creeping movement towards a federal Europe-- [Hon. Members-- : "Oh."] Yes, against a federal Europe. The central principle is to preserve the right of the House to fix rates of direct taxation and of the House and the Government to fix their own borrowing requirements.

The Prime Minister : Under stages 2 and 3 of the Delors report, we should lose some of the rights to which the right hon. Gentleman refers. That just would not be acceptable to the House, for which such rights are central to the control of Parliament over the Executive.

With regard to the other points which the right hon. Gentleman made, we look for a way forward by voluntary agreement and co-operation to which we can gladly give our support steadily to work together more closely. That is the way forward.

Mr. Teddy Taylor (Southend, East) : Is the Prime Minister aware that people of all opinions about the EEC greatly admire her courage in trying to make the Common Market more workable and sensible and less bureaucratic? Does she think that it is a tragedy for our democracy that a party that at one time claimed to represent working people, who gave their lives and guts to fight for democracy and for people to be able to control decisions, is now prepared to pass that to bureaucrats? That party is led by someone who is little more than a Jacques Delors stooge.

The Prime Minister : One of the most worrying features of following stages 2 and 3 of the Delors report would be that the Council of Twelve, or the central bank governors, would have the deciding say in the guidelines to which the rest of us would have to agree. Those central bank governors would not be democratically accountable in any way.

[...]

Mr. Cranley Onslow (Woking) : Is my right hon. Friend aware that there will be as warm a welcome in the country as there has been in this House for her reaffirmation that any transfer of sovereignty to implement Delors stages 2 and 3 would be totally unacceptable? There will also be a welcome for what she said about progress in Europe not depending on EEC directives alone. May I congratulate my right hon. Friend on one particular achievement out of many in Madrid, and that is her skill in succeeding in getting the French Government to commit themselves unequivocally and unconditionally to the objectives for 1990 which we have supported for so long.

The Prime Minister : The communique makes it quite clear that stage 1 of the Delors report must begin to be implemented by July 1990. We have already done many of those things, and when we are arguing in Europe one of our great strengths is that in practical terms we are way ahead of many of our European partners in what we have actually done as distinct from what we say. We keep our promises. We have freedom of capital movement and we have abolished exchange controls. We actually deal in the ecu and we have issued securities in the ecu. We are quite prepared to have--and indeed have--various European currencies in our reserve. That is way ahead of many countries.

Mr. Peter Shore (Bethnal Green and Stepney) : There is uncertainty and anxiety about what precisely the Prime Minister agreed to in Madrid. Will she confirm that her conditional acceptance of stage 1 in no way commits us to acceptance of stage 2 or stage 3? Will she also pledge herself to oppose strenuously any proposal for economic or monetary union, as the Delors plan envisages, which would transfer from Britain and its Parliament powers that are essential to economic self-government?

The Prime Minister : I thought that I had made it clear in my statement, although it is a complicated

statement because we were dealing with a very complicated subject, that we have accepted stage 1 of the Delors report, which will not surprise the right hon. Gentleman. He knows that we accept the completion of the single market in any event. We accept abolition of foreign exchange controls--indeed, we have already done it-- and we have been the first in seeking to get subsidies reduced across Europe. We have accepted all of those and are starting to implement them. That is stage 1. We have not accepted stage 2 or stage 3. I was the only one really to refer to paragraph 39 in the Delors report--the hon. Gentleman will realise the significance of that--because I said that we did not accept that. Paragraph 39 attempted to say that, if one accepts any part of the report, one must be taken as accepting the whole. We totally and utterly rejected that, and so did the final communique. It was just an attempt to coerce us, and we would have nothing of it.

I hope that I also indicated that major derogations of national sovereignty of the kind in the Delors report, in which we give up fundamental functions with regard to monetary, fiscal economic policy to a group of central bank governors who are not democratically accountable, would not be acceptable to this House or to me in any way. I hope, therefore, that we can get further by co-operation. What matters is following consistent policies and not handing over responsibility to other bodies.

[...]

Mr. Win Griffiths (Bridgend) : Can the Prime Minister confirm that anyone who read the full text of the declaration of economic and monetary union and the conclusions of the presidency will find that, along with the 11 other Heads of Government, she agreed that the Delors report was a good basis for further work on economic and monetary union, that it fulfilled the obligations laid down at Hanover, that it agreed that stage 1 should be launched on 1 July 1990 and that there would subsequently be an intergovernmental agreement to carry on with the second and third stages? Can the Prime Minister rebut the press reports of her comments that she would vote against such a conference and that the move to the second and third stages was not automatic?

The Prime Minister : As I said in my statement, the Delors report is one basis for further work, but not the only basis. That was recognised, and that is why it was put into the communique in such a way. We fully agree that stage 1 should start on 1 July 1990. As the hon. Gentleman knows, we are already well ahead and already operating a good deal of the Delors report.

The preamble of the Single European Act refers to the original "objective of the progressive realization of Economic and Monetary Union," which goes right back to the conference in Paris on 19 to 21 October 1972. We are not talking just about economic and monetary union ; we are talking about its progressive realisation, which allows a much more measured time so that we get each stage right before we go on the next.

Later in the Single European Act--passed by this House--there is a heading :

"Co-operation in Economic and Monetary policy (Economic and Monetary Union)".

That seems to indicate that economic and monetary union consists of co- operation in economic and monetary policy, which suggest that there will be ways of achieving it other than the one in the Delors report.

[...]

Sir Anthony Meyer (Clwyd, North-West) : The Liverpool Daily Post on Monday carried a headline saying

"PM into battle with Europe."

Will my right hon. Friend take this opportunity to make it plain that it was not in that spirit that she set out in Madrid to advance British interests in the Community?

The Prime Minister : My right hon. Friends and I had spent a considerable time studying the Delors report. The Chancellor of the Exchequer had set out his views extremely clearly in two speeches, one at Chatham house and one to the Institute of Directors. We went there to do as much as we could to try to get our viewpoint over to others and to try to get them along with us. Right at the beginning we had some people with us, and between us we convinced others that it would not be right to accept stages 2 and 3 of the Delors report. Nor would it be right just to consider that as one way only towards monetary and economic union. It was by steady study of the report and by steady and consistent argument that we won the day, and we have, as a result, the communique.

[...]