Address given by John Major on Economic and Monetary Union (London, 2 November 1989)

Caption: On 2 November 1989, John Major, Chancellor of the Exchequer, gives an address in the House of Commons in which he sets out the United Kingdom’s position on Economic and Monetary Union (EMU).

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Speech by John Major on the Economic and Monetary Union (London, 2 November 1989)

I greatly welcome this opportunity for a debate on economic and monetary union in the European Community. This is an important occasion and one on which the Government are particularly keen to hear the views of the House. The idea of moving towards economic and monetary union in the Community is not new. It has a long history. As long ago as 1970, a report by Mr. Pierre Werner, then Prime Minister of Luxembourg, made detailed proposals for progressing to economic and monetary union. He proposed transferring major economic policy decisions to Community level, adopting a single currency and setting up a single central bank. The Community endorsed those proposals in 1972 and agreed that full EMU would be achieved by December 1980 at the latest. After that endorsement, other events intervened and nothing much came of the Werner proposals. They were, in practice, buried. Nevertheless throughout the 1970s the Community continued to endorse the principle of progressing towards economic and monetary union. It was reaffirmed again at the European Council in Brussels in 1977, and the objective of the progressive realisation of EMU is recalled also in the Single European Act of 1986. It has since been reaffirmed again at the European Councils of Hanover and Madrid. There is thus a long-standing commitment to the objective of the progressive realisation of EMU. But there is no universal view of what EMU means or what it entails; or when it should be achieved. That is the issue before us now.

One definition was offered in the Delors report, which was published in April this year. The Governor of the Bank of England, a member of the Delors committee, explained its approach to the Treasury and Civil Service Select Committee in May. It devoted itself

"very much to how economic and monetary union might be achieved, rather than whether or when. We took the view that whether or when was a matter for political leaders".

The Delors report--which was a report from a group of technical monetary experts--was considered by the European Council in Madrid in June. The Council agreed then to adopt the first stage of its proposals, and to set in hand further preparatory work on developments beyond that stage.

The Council of Finance Ministers and the General Affairs Council are now engaged in that further work. My right hon. Friend the Foreign Secretary will be attending a meeting of the General Affairs Council next Monday at which economic and monetary union will be on the agenda. It will then be the central subject for discussion at the ecofin Council on Monday 13 November, when I will present a paper setting out the British Government's view.

Copies of this have been placed in the Library of the House and put in the Vote Office. Following the ecofin discussion it will again be discussed in December at the European Council. So this debate is a timely opportunity for the House to express its views as we prepare for those important discussions.

As I said a moment ago, there is no agreed definition of what actually constitutes economic and monetary union, but there is a large measure of agreement among all member states about what we want to achieve. We seek price stability, and currency stability. We want to achieve a single market, with free movement of people, services, and goods, free movement of capital, and equal access to capital and financial services for all citizens and businesses in the Community. We want those things for practical reasons : because they will make our businesses and industries stronger and more flexible as they compete in world markets ; because they will enable our economies to grow ; and because they will bring higher living standards, and greater choice.

There is no real controversy about these objectives either in the Community or in the House. The disagreement lies elsewhere. It is about the means by which we move towards them.

There is a fundamental question that determines the positions in this debate. It is this : do we want to start moving towards a federal Europe, with all that implies, or do we instead concentrate on developing a yet closer partnership, of individual nation states, and achieve in that way the objectives upon which we are all agreed? It will be no surprise to the House that this Government favour the latter approach. It harnesses the strength of our national traditions and political structures. It builds on the policies--the liberal, free market policies--that we have followed both here and in Europe, and which have brought success ; and it respects both parliamentary accountability and the diversity of member states. In essence, it takes the sting and controversy out of moving to our shared aims. It is this approach that we have adopted to the debate on EMU, and the Delors report.

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There is certainly no intention to mislead. In essence, we are talking about significant changes which are proposed in the Delors report and which would have far wider significance than most of the previous ones. It is that issue, and the extent to which the House retains its control over monetary and economic matters, that concerns me and to which I shall turn in detail later.

We have already agreed to implement stage I of the Delors prescription. The elements of this are familiar to the House. They include establishing a genuinely single market in goods, services, and capital ; the strengthening of competition policy ; and the development of co-ordination of member states' economic and monetary policies. The Commission's proposals for revised co- ordination arrangements are among the documents listed for our debate today.

Stage 1 of course, also requires all Community currencies to join the exchange rate mechanism of the European monetary system on the same terms. This we shall do, as I told the House on Tuesday, when the level of United Kingdom inflation is significantly lower, when there is capital liberalisation in the Community, and when real progress has been made towards completion of the single market, freedom of financial services and strengthened competition policy. Our position on stage 1 is clear and constructive, and we are committed to it, but we part company with the Delors recipe on the next steps. Let us be clear at the outset what the report proposes : permanently fixed exchange rates ; a single Community currency ; binding central rules on national budgetary policies ; and a European system of central banks, with sole responsibility for formulating and implementing Community monetary and exchange rate policy. The Government--and, I suspect, the overwhelming majority of this House--have very great difficulty with these proposals.

We do not believe that Community rules on the use of national budget deficits are either necessary or desirable. They are unnecessary because monetary unions can and do tolerate diversity of budgetary positions. That is true in nearly all existing federal states. It is markets which impose a discipline and prevent deficits from getting too far out of line. On the desirability of binding rules, I can do no better than quote the conclusion of the Select Committee on the Treasury and Civil Service, chaired by my right hon. Friend the Member for Worthing (Mr. Higgins) :

"The power of the House of Commons over the centuries has depended fundamentally on the control of money, both taxation and expenditure. This would be jeopardised by the form of monetary union proposed by the Delors Report which would involve central undemocratic direction from within Europe of domestic budgetary policies."

I agree unreservedly with that judgment by the Select Committee, and I hope that our partners in Europe recognise the seriousness of this issue to us. It is fundamental to our parliamentary constitution and practice, and is not a matter which can be bargained away or cast aside.

The Delors proposals for increased regional and structural aid also seem to us to be misconceived. There must, of course, be greater opportunities for the living standards of the less prosperous regions to rise. No one denies that. Indeed, the Community's structural funds are already being doubled in the five years between 1988 and 1993 for precisely that reason. But there is no reason whatever to believe that a route to economic and monetary union that relies primarily on the operation of the market--rather than primarily on Government intervention--would harm the less prosperous areas. I believe the reverse to be the case.

Thirdly, the Delors report's proposals on monetary union are unacceptable, for monetary policy is at the very heart of macroeconomic policy and the proposals in the report make no provision for accountability for monetary policy to national Governments or national Parliaments. Yet the electorate would still hold Governments and national authorities responsible for their economic well-being, and rightly so.

Moreover, there would be no effective means of bringing the central banking system to account for any failings--and there can be no guarantees that it would pursue successful anti-inflationary policies, whatever the treaty might require. Indeed, by eliminating competition between monetary policies, it seems likely that the proposals would lead to harmonisation not on the best inflation performance but on the average.

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In short, the Government's fundamental objection to the Delors approach beyond stage 1 is that its prescription for economic and monetary union centralises power. It relies on administrative fiat and institutional change. It skates over vital issues of political accountability. Changes in economic and monetary arrangements must reflect real changes in economic behaviour in the market place and they must work with the grain of the market and not against it. In our view, the Delors route is quite simply the wrong way for the future development of Europe. But there is a better way to meet our agreed objectives.

The better way is set out in the paper that I laid before the House earlier today. It proposes an alternative approach, an evolutionary approach, to economic and monetary union. It represents the contribution that we promised to the debate within the Community. We start from three principles : first, the overriding objective of price stability--that is clearly desirable ; secondly, increasing the influence of markets and competition, which builds directly on the single market proposals already accepted throughout the Community ; and thirdly, retaining national control over economic policy-making to the maximum extent possible, which fully reflects the principle of subsidiarity to which the Community rightly attaches such importance.

Recent debate in Europe seems to leap over the main work that we currently face to contemplate the many steps necessary for stage 1 of the Delors report. That is unwise, because stage 1 is a massive enterprise in itself. It will have very far-reaching consequences for all our economies and a profound effect on monetary policy and it will give a significant impulse to economic convergence.

Stage 1 means establishing a genuinely single market in capital movements and removing all exchange controls. A timetable has been agreed, starting with France and Italy by next summer. We of course are 10 years down that track. We welcome the commitment by others to follow suit, and the sooner the better.

Secondly, stage 1 means completing the single market. That is a huge task, and it is the dominant priority for the Community between now and 1992. Nearly half the legislative programme has been agreed, and the United Kingdom's influence in formulating that programme has been very great indeed. But there are tough issues still to be resolved, and, of course, all member states must then implement the directives agreed. On this, the record of this country is significantly better than that of many of the proponents of a great leap forward on monetary union. By any standard, we have one of the best records in Europe- -and we should never be afraid to say so.

Thirdly, stage 1 means strengthening Community competition policy. A single market must necessarily have a level playing field. That patently does not exist when one large member state gives about eight times as much subsidy to manufacturing industry as does the United Kingdom. The Commission has powers to tackle this. It must use them, and not delay doing so.

More generally, the completion of the single market will progressively increase freedom of trade in all goods and services, and freedom of movement of capital and labour. Regulations and technical barriers will be drastically reduced ; industries will be restructured ; businesses will become more efficient and consumers will benefit. So while we consider the Delors prescription for what should happen after stage 1, let us not overlook the crucial importance of stage 1 itself, and the firm and enduring United Kingdom commitment to its early implementation.

All this has a particular importance for monetary policy, for stage 1 will create powerful pressures on member states to adopt low-inflation policies. With the removal of exchange controls and the creation of a single financial area, the capital markets will react more speedily and directly when they fear that a country is not operating sufficiently sound monetary policies. That will prove to be a powerful discipline. Greater stability of prices will in turn lead inevitably to greater stability of exchange rates. All this will be achieved not through centralised regulation and direction, but directly through the market. It achieves the desirable aims of the Delors report without the Delors apparatus.

We need to build on this. Our paper proposes that we should take the market approach of stage 1 forward to its logical conclusion rather than switching in mid-stream to a bureaucratic and centralised plan. Even after the current single market programme is complete, market forces will be muted by a number of unnecessary restrictions. For example, some countries control too strictly the investments of their savings institutions, or forbid the issues of foreign currency debt by their residents, or the purchase of their Government debt by overseas residents. Our proposal is that, as a priority after 1992, all restrictions of this kind should be examined and, where possible, removed, so that the competition between currencies and, therefore, between monetary policies is further sharpened.

This is not, as some people suggest, a matter of paying for a pint of beer at one's local with Italian lira or Greek drachma. Such a parody is to trivialise an important debate. The proposal is quite straightforward and entirely practical. It is to do away with unnecessary restrictions on individuals or firms doing business in whatever currency best suits the two parties. It is not a matter of compelling either party to use a particular currency : the aim is to reduce restrictions limiting their joint freedom of choice, thus enabling currencies to compete.

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