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PRIME MINISTER

EUROPE: DELORS AND THE SOCIAL CHARTER

The Government response to the Delors Report is about far more than joining the ERM: it is closely tied up with the kind of Europe we wish to see.

The danger in this debate is that the real issues of where we are heading will not be faced up to and that the whole thing will become clouded by tactics.

Thatcherism versus Corporatism (let alone Socialism)

Even within the Conservative parties of Europe, (let alone between Conservative and Social Democratic or Socialist parties) there is a fundamental difference of approach to the way forward in Europe.

(a) Social Market Economy

This is best seen in the CDU in Germany, though there are others in Holland, France and Italy who take a similar approach. It is a continental conservatism rooted in a philosophy of solidarity and community, which has both secular and Catholic elements. Instead of placing the consumer and the individual at the centre of the stage, it starts by recognising the legitimate interests of trade unions and business as a whole, and finishes by being quite content to see a reduction in competition, the protection of worker interests, the promotion of co-determination through company law and the need for strong regulation. The social market economy is a combination of this corporatism and a strong welfare state, providing security for the average family.

Not surprisingly, such an economy lacks dynamism, flexibility and innovation. Hence the need to protect companies and workers from foreign competition and the need to develop a competitive edge through government promotion of R & D. (In

the case of Germany the promotion of a competitive edge is also helped by the EMS which permanently undervalues the DM, and the dual system for the training of skilled labour).

(b) Thatcherism

Your own policies were developed to help Britain escape from the results of corporatism (albeit of a socialist variety).

Popular capitalism (privatisation, wider share ownership, de-regulation, sale of council houses) has been enormously successful. In housing, education and health you have broken fresh ground by empowering people through greater choice and increased competition. You have sought to reform the welfare state by rejecting a universalist approach and targetting benefits on those who most need them.

All of this is a very different approach from that of continental colleagues.

Conclusion

Put perhaps somewhat dramatically, the key issue in responding to Delors is whether joining the ERM also requires this country to change from Thatcherism to European Corporatism.

The Foreign Secretary's and Chancellor's Approach

The crucial assertion which is implicit in the Foreign Secretary's and Chancellor's note is that the costs of joining a Community wide social market economy, even if tinged with a little corporatism, are less than the costs of being excluded from the first tier of a two-tier Europe. This momentous argument is set out in six paragraphs (15-21)

This judgment may be correct. But I believe they need to be pressed for answers to a number of questions - ideally on paper.

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(a) Thatcherite policies will in the medium-term produce a more dynamic and prosperous Britain that will outperform social market economies. If foreign investment will move to earn the most favourable rate of return on capital, then why should Britain lose out?

(b) If we do lose out, is it because we will be denied the benefits of the larger market? If we are not denied the larger market, why should we lose out?

(c) Or might we lose out because we would lack the clout which comes from being part of a larger group in, eg, trade negotiations? In which case, will our bargaining device be protectionism?

(d) If the Community is enlarged, and we find greater pressure to join from East European countries, is it not inevitable that we will have a multi-tiered Europe?

(e) By definition, a social market economy is costly for business: these costs will put us at a competitive disadvantage in the world economy: if we persist in this approach will we not inevitably be drawn into protectionism?

Conditions for joining the ERM

One way forward might be as follows:

1. Expand on the positive benefits which come from an enlarged market.
2. Accept the argument that greater monetary coordination which results in a convergence of inflation rates among EC countries thereby removes one element of currency instability.
3. Indicate the possibility of joining the ERM at some unspecified future date, subject to certain conditions being unspecified.

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met. These are of two kinds:

(a) those suggested by Alan Walters:

- (i) removal of foreign exchange controls;
- (ii) removal of capital controls;
- (iii) removal of protection against institutional or foreign ownership of domestic industry.

(b) It would also be crucial that two key aspects of Delors Stages II and III are rejected at the same time. These are:

- (i) the need for a massive increase in structural funds for balance of payments reasons;
- (ii) the ultimate goal of irrevocably fixed exchange rates or a common European currency.

(This means rejecting paragraph 26 of the Foreign Secretary and Chancellor's paper.)

The advantage of establishing such conditions is that they seriously undermine the ability of other EC countries to impose a social market economy on Britain.

Although membership of the ERM is not ideal, it can be tolerated providing the EMS develops into a Bretton-woods type monetary system. We lose certain freedoms, but we gain by being seen to be a permanent member of a larger market. As a result, we do not lose potential direct foreign investment.

Such a monetary system is at present a DM area. We could in future challenge this, providing we had a rate of inflation which was consistently less than that of Germany.

4. Following the suggestion at the last meeting of OD, you could develop in a positive way the case for member countries defining more clearly the concept of subsidiarity, and therefore containing the growth of the Commission.

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5. We need to do more to get the Commission to adopt certain aspects of Thatcherism. E.g. why not try and get them to issue a directive on privatisation or the abolition of minimum wages? Could not UK members of the EEC be used for this purpose?

Conclusion

An approach such as this would be perceived as a positive response to Europe: it would be tough and would start a major debate in certain areas, which is not taking place at present. It would also be positive rather than negative and would not be seen to compromise the achievements of the last ten years.

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