

PRIME MINISTER

EMU

I think you need to study carefully the speech John Smith made in yesterday's debate. Most of it was devoted not to ERM but to EMU. He has compared a number of the statements made by the Government and is clearly looking for discrepancies, difference of nuance. His aim, shared we believe by some press commentators, is to establish a division between you and the Chancellor which can be presented as a re-run of difficulties with his predecessor.

The various formulations the Chancellor has used have avoided ruling out EMU in the sense of single currency on grounds of principle and as something to be resisted at all costs. He clearly leaves open the possibility that it could come about in the distant future if the British people have come to want it. Your statements are seen as root and branch opposition.

You will be pressed on these differences at Questions tomorrow and in the Debate on the Address. I believe it is possible to set out a position to which you and the Chancellor can subscribe. The argument could run as follows.

"Cannot foretell what future Parliaments will decide. In 1950 would not have foreseen degree of unity and co-operation now existing in Europe. But it is clear that adoption of a single currency in the foreseeable future would be extremely damaging economically and highly divisive politically. The degree of convergence in our economies required to make it success is far from being achieved, and feelings of nationhood and sovereignty are too strong for the federal Europe which a single currency implies to be acceptable.

Community should concentrate on goals which are achievable, e.g.

- further development after 1992 of a genuine Single Market
- further improvement leading to convergence at a high standard of living
- development of closer links with the half of Europe which is outside the Community.

Wrong to set goal of single currency, still less to prescribe a timetable, when conditions necessary for it to work are so far from realisation.

We have set out a different approach. Our hard ecu idea is evolutionary, but where change is driven by choice and markets, not by arbitrary timetables. It does not preclude those who want to adopt it in substitution for their own national currency from doing so but I doubt if that is a step that this Parliament would want to take."

You could be asked, as Mr Lamont was, how the hard ecu can be evolutionary if you do not know what it evolves to. But that is the difference between evolution and transition. Evolution is a process of continuous adaptation to the environment to an unknown destination. Delors is talking about a transition process, determining an outcome and deriving the steps to reach it from where we are now.

In addition to strengthening the Government's position, you need to attack the evasions in the Opposition's. Mr Kinnock said at one point that the other eleven would go ahead but failed to say whether, in his view, the UK should join them. He implied that it should be subject to four conditions

- joint growth strategies
- fiscal co-ordination
- regional policies on an unprecedented scale
- a European Central Bank that is accountable.

The first two are re-runs of their conditions for ERM entry and serve to destroy the anti-inflationary bias that most of those who support EMU see as its main attraction. If by regional policies he means the UK's old regional policies or the current structural funds of the Community the new schemes are no more likely to be successful than the old. If he means income transfer through revenue pooling or a common social security system as operate within the UK at present, the likelihood is that the UK would be a net loser.

But the main point of attack should be the last. How can a federal central bank be accountable to national parliaments? Accountability only makes sense at the federal level. The US Fed is not accountable to State Governments but to Congress. This must imply a transfer of the responsibility for monetary policy from national ministers and national parliaments to Community institutions.

AT

Andrew Turnbull

24 October 1990

c: EMU (MJ)

what was going on in the Community in competition policy and liberalisation of capital movements had been met, but that the United Kingdom monetary aggregates were giving the right signals about a declining trend in inflation. Both sterling M0 and sterling M4 were giving those signals, which induced a feeling of confidence that we would be moving in at the right time and that the discipline imposed by the exchange rate would reinforce the downward inflationary curve. That strikes me as right and proper, and, in my view, disposes of the Opposition's attempt to launch a bogus dispute about whether the Madrid conditions had been fulfilled.

For those who do not support ERM entry, the real question is, what would have happened if we had not joined? In fact, most of the horrors with which they have taxed us now that we are in the system would have existed in considerably greater magnitude had we stayed outside. Strangely enough, the loss of sovereignty that is generally considered to be a consequence of ERM membership is far greater if rates are allowed to float freely: in those circumstances, the Government's domestic fiscal and monetary policies would be constantly undermined. We should do better to accept that a firm discipline provides better guidelines.

What are the next steps? Without question, we must continue to urge on our European partners the Government's plan for a hard ecu. There is far too much divergence within the Community for any single currency system to be imposed. The hard ecu, reinforced by the European monetary fund, will provide member Governments with a benchmark discipline; economies may then converge and we shall have a chance to establish whether the ultimate use of the ecu will provide a common currency—one day, perhaps, a single currency.

We must not allow the Delors option to be imposed on us; we must allow the market to impose its own solution, with the widest possible use of a new, hard ecu. I urge the Government to continue to press that argument in all quarters within the Community.

9 pm

Mr. John Smith (Monklands, East): We have had a most interesting debate. At times, I reflected that we had heard some of the arguments on other occasions over the past 20 years when we have debated European Community matters: some Conservative Members saw the Community as a model of newfangled socialism come to torment them in the future, while some of my right hon. and hon. Friends detected the brutalities of the market place at their worst, to be reinforced by our own participation.

We have heard a series of interesting speeches about the effect on our industrial economy of ERM membership, and about what is likely to happen in the difficult circumstances in which we find ourselves after 11 years of Conservative Government. Perhaps the most notable feature of the debate, however, was not to be observed in any of the speeches—some of them excellent—that we heard from hon. Members on both sides of the House. What was most notable, surely, was the absence of a speech from one right hon. Member who has signally declined every suggestion, invitation and exhortation to address the House; it was the absence of a speech from a head of Government who was unwilling to account to

Parliament, in this important debate, for policies in which she had been involved more intimately and more directly than any other member of her Administration.

The right hon. Member for Blaby (Mr. Lawson) is more obviously aware of that than anyone else. The right hon. Gentleman chose not to accept an intervention from me—I do not think that he has ever done that before—but that, perhaps, was just as well, because he must have known what I was going to ask him: I was going to ask who stood in the way of the policies that he advocated for so many years, thinking that they would be advantageous to the country. He knows the answer; the answer is the missing Prime Minister, who will not come to the House to give us her explanation.

My point is not merely that we are discussing what many hon. Members have agreed is a momentous decision, and that it would be appropriate for the head of Government to come and tell us about it. The Prime Minister was so closely involved that she lost not only a Chancellor but a Foreign Secretary, as well as a family friend, as a result of the issue. No doubt the right hon. Member for Blaby is scribbling his account of five years of her Government in his memoirs day by day. I understand that he will not publish them before the next general election, and I expect that that will come as a great relief. It is not my task to act as an advertising agent for the right hon. Gentleman—who seems to be quite good at acquiring jobs for himself without any assistance from my good self—but he must be able to hear the sounds of enthusiasm emanating from the Benches behind me. My hon. Friends are keen for him to advance the date of publication. Indeed, may I suggest—using a word with which the Chancellor is very familiar—that he publish them in “prospective” serial form, to titillate the nation and, perhaps, inform us a little before the time comes for the next election?

I was very sad when the right hon. Gentleman announced that soon he would no longer be with us. Having been locked in combat with him for so many years, I have almost a feeling of affection for him. Now and again, one must allow one's better instincts to come to the surface. I assure my right hon. and hon. Friends that I do not intend to make that a habit, but I was genuinely sad when I heard that the right hon. Gentleman had decided to leave us. We shall miss him in our deliberations.

Having listened to what the right hon. Gentleman said today—and he has made explosive speeches undermining the Government, from whom he has departed, on more than one occasion—perhaps some of his right hon. and hon. Friends wished that he had applied for the Chiltern Hundreds rather than taken the City thousands—*[Interruption.]* One hon. Member suggests the right hon. Gentleman should call his new house “Unassailable”.

The right hon. Gentleman's main purpose in this debate was to tell the Government something that the markets already knew—that there is cynicism about the reasons behind the Government's actions. In view of the importance of that, would not it have been all the more appropriate for the Prime Minister to come to the debate and settle the question of credibility and, by a stout and resolute performance, settle the worries and the fears about the motives behind Britain's entry into the ERM?

It is felt—and this is not unique to the Opposition as it is felt in all quarters—that the final decision to join the ERM was taken for blatantly political reasons. That was in character with the history of previous Government

[Mr. John Smith]

actions. The Prime Minister wanted to reduce the burden on industry before the Conservative party conference. She discovered that that could not be done without joining the ERM because otherwise there would be pressure on Britain's currency, so the deed was done. That is wholly in keeping with the right hon. Lady's confused, irresolute, highly partisan and politically opportunist technique of dealing with affairs of state. Few people have found her explanations convincing. The right hon. Member for Blaby gave it away, and if he is convinced that the operation was cynical, it must have been so. I think that he knows quite a bit about that sort of operation.

At the beginning of his speech the Chancellor sought to throw away the Madrid conditions as though they had never been uttered. Indeed, one Conservative Member suggested that it was almost in bad taste to reiterate them. Let me remind the House of them. They were not forced on the Prime Minister by the other members of the European Community in some late-night haggle in Luxembourg, Strasbourg or somewhere else in Europe. They were not even the subject of negotiation between the Prime Minister and other member states. They were negotiated between the Prime Minister and the members of her Cabinet. The Madrid conditions were, first, that Britain would not enter the ERM until inflation had come down. It was not whether it might come down, whether it would come down or whether it was likely to come down; it was whether it had come down. Right hon. and hon. Members have reminded us of the detail of that and other conditions.

The Prime Minister described prescribed other conditions that required action by others. I seem to remember that during the famous Walden interview she invented a new condition as each minute passed, until the programme was littered with new conditions. However, as she said rather disarmingly during Prime Minister's Question Time recently, "We had all these conditions, and they have all been fulfilled except one." The interesting point is that all those other conditions had to be fulfilled by other people, and they were. Only one had to be fulfilled by the right hon. Lady, but it was not. The right hon. Lady thought it to be some sort of victory—a triumph over the conditions that had been set, as a result of which she could, boldly go forward into the ERM.

Underlying all that, and at the heart of the credibility question, is the right hon. Lady's well-known aversion to joining the ERM. Why else, during the revealing Walden interview, would she have described it as the "higgledy-piggledy set of rules"?

I do not profess to know quite what she meant by that, but generally such an expression is not meant to be favourable. It has what might be called a marginally pejorative tone about it. We certainly did not feel that she was straining at the leash to join the ERM. But there we are, strange things happen. Opportunities and pressures are such that the Prime Minister will do almost anything to keep power and to oblige the narrow party political interests of her party. Inflation was to be the major condition.

The Chancellor was not quite as brass-necked as that. He tried to find a way out. I shall be drawing the attention of the House to the way in which the Chancellor uses words. Before the Treasury and Civil Service Select Committee in April, he said that the Government were looking for approximate rate of inflation between

ourselves and the Community. I think that he went on to define what he meant by approximate, saying that Dr. Johnson had described it as meaning "near to".

I do not know whether the members of the Committee needed such education. They seemed pretty educated to me. My hon. Friend the Member for Hackney, South and Shoreditch (Mr. Sedgemore), who made an extremely skilful speech, did not need such education.

By September the same year, in his speech to the IMF, the Chancellor had further refined his choice of words. He realised that not only would the Government not get anywhere near the rate of inflation; they would not even get proximately near it, so they had to change the time scale. Therefore, he said that what matters was the prospective movement. The Chancellor, not quite so brazen as the Prime Minister, gradually sought to wriggle out from his commitments; she just threw them aside.

Whatever the Prime Minister did, this was a humiliating u-turn for a Prime Minister who had set her face in another direction. She abandoned commitments and, in the process, displayed an underlying lack of conviction, which has worked its way through into the market place.

The decision having been taken, we are now in the difficulty that the Prime Minister's economic policies have left Britain in a weaker position than other member countries, less well able to face the opportunities and challenges that the single market offers, especially now that it is to be operated within the confines of membership of the ERM.

In this debate, and in debates that we shall have in the months to come, we must consider what has to be done now; what policies should be adopted. The Opposition never believed for one moment that it would be enough to enter the ERM. That has to be accompanied by a strong supply side policy directed to building a strong economy.

Before I consider the matters at the heart of the debate, we need, as the Chancellor did, to look at what is proposed for the next steps in the consideration of European economic and monetary affairs.

Mr. Norman Tebbit (Chingford): The right hon. and learned Gentleman has been dealing with the conditions set out by the Prime Minister at Madrid some time ago, but he will recollect that this afternoon the right hon. Member for Bethnal Green and Stepney (Mr. Shore) asked how many of the conditions set out by the right hon. and learned Gentleman in his Labour party policy document 12 months ago had been satisfied. Does not he think that he should reply to his right hon. Friend?

Mr. Smith: If the right hon. Gentleman will forgive me, I shall make my speech in my own way. But he must understand one thing. We advocated entry into the ERM and we said that it should be accompanied by Government negotiation on certain conditions. I did not conduct the negotiations; they were conducted by the Government. That point must be evident. It is evident to me, to the right hon. Member for Chingford (Mr. Tebbit) and, I am sure, to my right hon. Friend the Member for Bethnal Green and Stepney (Mr. Shore)—I made the point last Monday in the House, but I do not know whether the right hon. Member for Chingford was present; he has been here only intermittently today—that the regional policy conditions have not been fulfilled. The Government made no attempt

to strengthen our European regional policy. I shall go on because what I have to say might interest the right hon. Gentleman and he should pay particular attention to it.

We have not heard much from the Chancellor about the central banking system. My right hon. Friend the Leader of the Opposition argued clearly the need for political accountability. Nor did the Chancellor say much about the single currency and the arguments that there will be about that. No doubt the Chief Secretary will deal with that in his reply. All those matters are brought together conveniently by the Government under the so-called hard ecu proposal. That is the Government's new response. It may help the House to know what the Government have been saying about the hard ecu, how they have moved in respect of the ERM, and the techniques that they have used in the manipulation of language.

Before I do so, I am bound to be asked what the Opposition's view is on a central bank and a single currency. My right hon. Friend the Leader of the Opposition made clear our belief that a system of central banks must be politically accountable. At this time, when the gap between Britain's performance and that of other members of the Community is so wide, it would not be prudent to commit ourselves to an irrevocable exchange rate or to a single currency. We want to play an active, participative role in the European Community. We are already in the single market and have advocated membership of the ERM. We shall now work for a stronger regional policy.

Conservative Members are as foolish about regional policy at home as they are about it within the Community, but such a policy is vital in building a strong Community that operates fairly in respect of all its member states. We shall work to support the social action programme, which is vital to the balance between economic success and social cohesion. The need for that is understood by many countries in the Community, but not by Conservative Members—[*Interruption.*] Government Members keep asking about Labour party policy, but they will not listen when I explain what it is.

We shall all the while seek to close the gap between our economic performance and that of the rest of the Community, and between our social standards and those of the rest of the Community.

Mr. Cash: The right hon. and learned Gentleman has not said a thing.

Mr. Smith: The hon. Member for Stafford (Mr. Cash) should listen to what I have to say.

The Chancellor of the Exchequer said that the hard ecu is based on market choice and will evolve into a parallel currency. He said that it was the choice of Governments and of people. However, the "Treasury Bulletin" published yesterday set out the argument in more detail. I remind the House that it is proposed that a European monetary fund is to be established to act as the monetary authority for a new currency—the hard ecu. The distinguishing characteristic of that new currency is that it will never be allowed to devalue against any other Community currency. The "Treasury Bulletin" explains that

"the hard ecu would always be at least as strong as the strongest currency"—and we can guess which one that will be, although the bulletin adds disarmingly, "whatever that happened to be."

It adds:

"It would be the responsibility of the EMF—a fundamental one enshrined in Community law"—members of the Bruges group please note—"to ensure that hard ecu devaluation never occurred."

The hard ecu was first presented by the Chancellor as a form of common or parallel currency that would be useful to exporters and people engaged in foreign trade, but nothing terribly exciting for the rest of us. It was just viewed as a useful device. I understand—and the Chief Secretary can tell me whether this is true—that the concept was sold to the Prime Minister by Sir Michael Butler, a former ambassador and a permanent United Kingdom representative to the Community. He is also chairman of the British Invisible Exports Council. Sir Michael's technique was to argue that the hard ecu was a market-led resolution of the problem. If one says the magic words to the Prime Minister she just rolls over. The process of ratiocination may have stopped, but the magic words were said, and the right hon. Lady thought that since it was a market solution, it must be all right. The Prime Minister should take a little more care.

The difficulty of judging the hard ecu proposal is knowing whether it is designed to fail or to succeed. At a cynical level, one could understand the proposal if it were designed to fail. That would take time, which would allow the Government to say something at meetings of the intergovernmental council. However, if we take the proposal at face value and accept that it is meant to succeed, the House should examine it carefully. It was surprising that the Chancellor did not tell us more than he did. The first impression gained was that the hard ecu is an alternative vehicle for exporters, but the way that it has been described by different Ministers puts me on my guard.

There is the belief in the House, and probably in the country, that the Prime Minister is against all this stuff—that she is a resolute defender of sovereignty and an even more resolute defender of parliamentary accountability. [*Laughter.*] That is her stock in trade. One might think it odd that, at this stage in this debate, one should be reflecting on her habit of constantly mentioning parliamentary accountability. The fact remains that she has said it.

The question that I want to ask the Chief Secretary to the Treasury is this: is the hard ecu an alternative to a single currency which would avoid our having to face questions of sovereignty and accountability? Or is it another route to a single currency—perhaps even a convenient transitional mechanism through stage 2 of Delors, which unavoidably raises questions of sovereignty and accountability but seeks to keep them suppressed and to move them away from our consideration?

Listeners must have been alerted by the Chancellor's use of words at the Conservative party conference—in the euphoria of those heady days? What a long time ago it seems since the Chancellor was in Bournemouth. He must be reflecting on how one should enjoy the plaudits of the Conservative party while one may. Certainly, the financial markets seem to be a corrective to some of the political feelings that were expressed there. The Chancellor said to the conference:

"Joining the exchange rate mechanism does not mean that we are now on a road leading inexorably to a single currency." That a word "inexorably" flashed up in lights for the benefit of anyone who was paying attention. Why use that

[Mr. Smith]

word? Was it accidental? Did the right hon. Gentleman simply think, "This is the day for being inexorable"? I think that he chose it with some care.

I used to think that the Foreign Office was the Department of weasel words, but the Treasury is getting pretty smart at them too. It has certainly never before had such a willing user of them as the present Chancellor. The right hon. Member for Blaby would scorn that kind of thing. We got it pretty straight from him. It was not very nice when we got it, but we got it fairly straight. One can either do what the right hon. Gentleman did or one can wriggle one's way round the issues with weasel words.

Only a few days ago, in his Mansion house speech, the Chancellor said:

"Joining the exchange rate mechanism did not commit us to adopting, and cannot oblige us to accept, the imposition of a single currency in Europe."

I do not know how one adopts an imposition. The Treasury might care to have a look at that infelicity, before it sets out to equip the Chancellor with his next set of words for avoiding answering questions on these matters. But perhaps I fuss too much. That apart, what on earth does it mean that we are not to have a common single currency forced upon us? In what conceivable circumstances would we have it imposed upon us? If we were going to have a single currency, we should have to agree to it. We should have to go along with it. I have no doubt that, if it came to making a decision in the House, there would be fierce arguments about it. No one would be imposing it on anyone, so I do not know quite what the Chancellor meant in that speech.

The right hon. Gentleman went on to say:

"the hard ecu could ultimately evolve towards a single currency if it were the wish of Governments and peoples that it should be used in preference to their own currencies."

That leaves the door open, but the use of the word "ultimately" suggests that there is still some time to go, so the Bruges group should not get too worried just yet.

One is led to wonder what the Prime Minister was thinking about the question when she came back from the Dublin summit, at which the question was aired, and reported to the House on 28 June this year. When asked about the hard ecu, she said:

"I do not believe that that formula could develop into a single currency."—[*Official Report*, 28 June 1990; Vol. 175, c. 493.]

The Prime Minister tells us that she does not think that the hard ecu could develop into a single currency while the Chancellor tells us that it will, or would, if people decided to follow that route.

What is the latest position? Alerted to the question, I have been examining matters with some care over the past few days. The new addition to the Treasury team, the Financial Secretary who, I am sorry to say, is not with us tonight, was speaking at the EMU seminar of the British Invisible Exports Council on the 10th of this month. Describing the hard ecu, he said:

"It would be a genuine common currency and one which could easily develop into a single currency as Governments and peoples decided."

Even more interesting is the report in today's *Financial Times* to which my right hon. Friend the Leader of the Opposition has already referred. I shall quote from the

Financial Times report of the evidence that the Minister gave to the House of Lords Committee on economic and monetary union:

"Mr. Frances Maude, the minister responsible for European Affairs, put the Treasury's case succinctly in evidence earlier this month to a House of Lords committee. The hard Ecu, he said, offered a direct route to a single European currency."

He added:

"I would argue personally that the next stage of having a single currency could actually happen more quickly going down this path."

We have moved from that potential, useful device for exporters and other curious people to another route by which we could achieve a single currency not only feasibly, but easily and quickly. Things have moved quite a bit.

The Chancellor said that we should consider the next steps and he wanted a careful definition of the Opposition's position. However, in the light of all the contradictory advice to which I have just referred, the Chief Secretary to the Treasury should explain what is happening.

Mr. Tony Marlow (Northampton, North): Will the right hon. and learned Gentleman give way?

Mr. Smith: No. The hon. Gentleman is doing well enough listening to me. I am sure that he will find my comments illuminating.

The "Treasury Bulletin" states that if the hard ecu catches on, the circulation of weaker currencies will fall and national monetary authorities will have to take action by pursuing tighter monetary policies. They will be forced to keep up. There is also a requirement to reimburse the EMF against exchange losses on devaluation. That is a strong disincentive to depreciate, as the "Treasury Bulletin" makes clear.

We need to be more clear about the constitution of the European monetary fund. Who is accountable for it? How does it work? To whom does it report? All those issues raise sovereignty and accountability questions. If the Government believe that I am making too much of a fuss about that, I shall quote Mr. Gavyn Davies of Goldman Sachs who examined the hard ecu and concluded:

"All of the problems associated with accountability and independence of the Eurofed, which have so exercised Mr Major, would apply in equal measure to his alternative European Monetary Fund."

I was put even more on the alert by a statement made by Sir Michael Butler, to whom I referred at an earlier stage in this saga. He has been thinking about the issue and how to incorporate the proposal into the treaty. He realises that there must be treaty amendments if the EMF and hard ecu are to be adopted. I know that this is not Government policy yet, but it is an interesting proposal. At a seminar at Hambros bank on 11 October, Sir Michael Butler proposed a treaty amendment that would "create a European System of Central Banks consisting of the twelve national Central Banks and a European Monetary Fund owned and run by the Central Banks, to be operational from day one of Stage 2". Clearly the EMF is linked with a system of central banking.

Sir Michael then states that a treaty amendment should "lay down the aim of price stability for the whole EMU process and of permanently fixed parities leading to a single currency in Stage 3". Is that Government policy? If the Prime Minister was here, she could clear all this up. If I could get the Prime Minister

to answer my questions, I should not be quoting Ministers. She could speak on behalf of the whole Government—at least one would hope that she might.

These are important sovereignty and accountability issues and I hope that the Chief Secretary will consider them. The House will not let the matter drop. We have seen how the Government twist and turn, how they say one thing and do another and how they profess principles and then so easily abandon them.

The crucial point about the debate, to which all hon. Members have referred, is what we do from here. After having entered the exchange rate mechanism, we have been left with the weakest economy of the member states. The right hon. Member for Blaby may disagree, but we hear no more from him about the so-called economic miracle under which we were to have overtaken Germany and be pressing hard on Japan. Germany is now well ahead; France is significantly ahead; Italy is overtaking us and Spain is coming up fast behind, and all of that after this Government have been in power for 11 years with large majorities and huge oil resources.

We have an ailing economy that has been damaged by the Government's policies over the past 11 years. As our amendment states, what we need now is what we have argued for in debate after debate, day after day—we shall do so in the House and in the country. To build a strong economy and a fair society, we need a vigorous regional policy, a new drive to provide British industry with the best of modern technology, a proper infrastructure, good social services, a good transport system, and, above all, an education and training system that gives our people the chance to compete. In the new Europe we have the opportunity to compete. We shall have to compete.

An hon. Member asked whether the other member states were partners or competitors. They are both—they are partners and competitors. We have opportunities and great challenges. We shall be able to realise them only if one thing above all is comprehended—that is that the crucial determinant of success in a modern economy is the way in which we utilise the skills of our people. That is what the next Labour Government will be committed to do. We shall make a success of our economy and our society, even with the difficult inheritance that will be our unfortunate and unhappy lot.

9.30 pm

The Chief Secretary to the Treasury (Mr. Norman Lamont): I agree with the right hon. and learned Member for Monklands, East (Mr. Smith) at least on one thing, and that is that this has been a remarkable debate. We have heard some strong and powerful speeches, many of which have certainly cut across party lines.

The right hon. Member for Bethnal Green and Stepney (Mr. Shore) made a remarkable and passionate speech in which he declared his strong opposition to fixed exchange rates. He said that, when he was a Minister, he had experienced the constraints of fixed exchange rates, which—I hope that I do not sound impertinent by saying this—is one reason why some of us have come round to being in favour of them.

Hon. Members also heard a powerful speech by my right hon. Friend the Member for Blaby (Mr. Lawson). I express my sadness that my right hon. Friend announced his decision yesterday to retire at the next election. His departure will represent a great loss both to the House and

to my party. The debate is a bitter-sweet moment for my right hon. Friend as a long-standing advocate of the ERM. He made his views very clear today. Also, the House was interested to hear his comments about EMU. Although he is a strong opponent of EMU, my right hon. Friend urged the Conservative party not to fear too much stage 3 of EMU on which he had doubts, for example, whether it was a real threat and would happen.

Hon. Members also heard an eloquent speech by my right hon. Friend the Member for Shropshire, North (Mr. Biffen). He joined the right hon. Member for Bethnal Green and Stepney in opposition to fixed exchange rates. There was one point on which I sharply disagreed with my right hon. Friend. He referred to entry into the ERM as a sort of European incomes policy. I do not think that that is the effect of the ERM. If it were, I certainly would not be in favour of it. As my right hon. Friend the Member for Blaby explained, it is a monetary framework. Just as the control of monetary aggregates is a framework of which wage bargainers must take account, so will wage bargainers have to take account of the new regime of fixed exchange rates.

My right hon. Friend referred to what the Chancellor said about wage claims. My right hon. Friend the Chancellor was not urging an incomes policy; he was just drawing the attention of wage bargainers to the consequences for employment and for themselves if wage claims were excessive. That is certainly very different from an incomes policy which in the past has been designed to control inflation, but, of course, never has controlled inflation.

My right hon. Friend the Member for Shropshire, North made most of his remarks, however, about his clear preference for floating exchange rates. I remember, as he will remember, the occasion when a former Chancellor of the Exchequer, Lord Barber, came to the House and announced that the pound was to float free. I take a different view from my right hon. Friend. The consequences of that decision have not been as beneficial and as benign as they then appeared to be. The period of floating exchange rates worldwide has been one of higher inflation. Looking back, the period under Bretton Woods and the fixed exchange rate was a period of greater stability and lower inflation.

The temptation to let exchange rates depreciate has always been powerful for Governments. However, that temptation has not brought any benefits because the effects of depreciating the currency have been short lived in terms of promoting output and competitiveness, but have been lasting in terms of inflation. That is one of the reasons why the Government concluded that it would be right to join the ERM.

Another part of the debate has dealt with whether joining the ERM should lead automatically to European monetary union. My hon. Friend the Member for Stafford (Mr. Cash) and my right hon. Friend the Member for Blaby referred to that. It is very much the Government's view that joining the exchange rate mechanism does not mean that we have to go down the road of the Delors plan towards European monetary union. The House was interested to hear the speech of my right hon. Friend the Member for Blaby who has always been strongly in favour of the ERM, but who, as everybody knows, has always been passionately opposed to EMU. It was interesting that my right hon. Friend quoted Mr. Volcker saying that he did not think that we could have a single currency without