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9 November 1989

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

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Dear Charles,

ARTICLE FOR THE SUNDAY CORRESPONDENT

As you will know, the Chancellor has been invited to contribute an article on EMU for this coming Sunday's edition of the Correspondent. I attach his latest version of the draft. He needs to finalise this at lunchtime tomorrow, so I should be grateful for any comments by 12 noon.

I am copying this letter to Stephen Wall (FCO).

Yours sincerely,

Maira Wallace

MOIRA WALLACE



FILE

PM

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

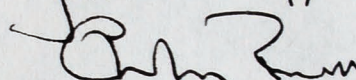
10 November 1989

See Moira.

ARTICLE FOR THE SUNDAY CORRESPONDENT

Thank you for your letter of 9 November covering the Chancellor's draft article on EMU for the Sunday Correspondent. The Prime Minister is well content with this, with only one small suggested change. The first sentence of paragraph 4 might begin: "All these changes will help to bring". You will want to avoid any feeling that better things come automatically.

I am copying this letter to Stephen Wall (Foreign and Commonwealth Office).

Yours sincerely,

C. D. POWELL

Miss Moira Wallace,
H.M. Treasury.

DRAFT ARTICLE FOR CORRESPONDENT: 12.11.89

Second redraft of 9 November

Over the next month the Community faces an important series of European meetings. The issues at stake are crucial to the UK's future; for they will determine the direction in which Europe develops over the next decade and beyond.

2. One item that will be very much on the agenda at these meetings is EMU - economic and monetary union. We need to discuss the nature of this union and how best to bring it about.

3. The ultimate objectives are clear, and shared by all. They include:

- * greater price stability;

- * stable exchange rates between the European currencies;

- * free movement of working people, as well as the goods and services they produce, through the length and breadth of the Community;

- * free movement of investment and savings;

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* equal access to capital and financial services for every citizen in the Community.

help to bring?
I don't think we
should encourage
any feelings that
better things come
automatically

4. All these changes will bring enormous practical benefits to ordinary people, in the shape of higher growth and living standards, lower prices, stronger businesses and industries, better ability to compete in world markets, and most important of all, greater choice and individual freedom.

5. At the Madrid Council in June agreement was reached that, as the first step towards realising these objectives, the so-called Stage 1 of the Delors Report should be implemented. We are wholeheartedly committed to the practical steps Stage 1 entails. Indeed, we have been in the forefront of developing the Single Market programme - by far the most important element of Stage 1 - and implementing individual measures as they are agreed. Our record shows this. Of the 68 measures due for implementation by now, the UK has put into effect all but 3, while some other countries have implemented fewer than half, and only 7 are in force in all member countries.

6. As part of Stage 1 the UK will join the Exchange Rate Mechanism - the ERM. It is not a question of whether, but when. Now is certainly not the moment. But we have set out very clearly the criteria that we

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will take into account in judging what the right moment ~~is~~ is. It will be when the level of UK inflation is significantly lower, there is capital liberalisation in the Community and real progress has been made towards completion of the single market, freedom of financial services and strengthened competition policy.

7. Why such a long list, people ask? The answer is that the circumstances have to be right if joining the ERM is to be of advantage to Britain and to our partners in Europe. The Exchange Rate Mechanism will face new tests as exchange controls are abolished throughout the Community, and as the single financial market develops. In addition, our interest rates may have to stay high for some time to reduce our inflation rate. It would be very risky both for us and the other participating countries to introduce sterling - a currency which is traded much more widely than any other in Europe apart from the deutschemark - into the ERM in these circumstances .

8. Stage 1 of the Delors Report earns our support because it is firmly based on the free market policies of deregulation and fair competition which have brought such strength to our economies over the last few years. But the tragedy of the Delors recipe beyond Stage 1 is that it abandons these sound principles in favour of a

*Decision made at the
beginning of the year - 1970*

bureaucratic centralised plan. Specifically, it proposes:

Beyond that Delors proposes

* abolishing the pound, the mark, the franc, and every other European currency. Instead, we would have ^{in favour of} a single currency, run by a single European central bank;

Delors would * this institution, ~~accountable~~ ^{accountable} neither to national governments nor to national parliaments, would have control over the vitally important matter of interest rates and exchange rates, ^{monetary power} throughout the whole Community;

* and Brussels would set binding rules on individual states' budgetary policies - ^{and in the states} usurping the traditional power of the House of Commons in tax and public spending matters. In our view such controls are entirely unnecessary and undesirable.

*It is wrong that
the Commission
propose to take the
heart of monetary
& exchange policy
away from our
elected Parliaments
to a non-elected
non-charitable
body.*

9. When we debated this issue in the Commons 10 days ago, there was a striking agreement, throughout the House, that Stages 2 and 3 of the Delors Report were unacceptable. The reason for this was clear. They would result in an enormous transfer of power away from elected national parliaments and into the hands of a group of unelected officials, apparently accountable to no one. This would breach fundamental principles of

*To our Parliament the
is totally incompatible
This is clear for all
parts of the House
where elected
representatives
are*

*Committee
Economic
members
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4
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people
with reputation*

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democratic accountability which have stood our country in good stead over the centuries. Frankly these principles are not negotiable. It is not a matter of the British Government being stubborn. This issue goes beyond Party affiliation. The simple truth is that the House of Commons will not have it. The sooner this is understood throughout Europe, the better.

10. I shall be putting these reservations to my EC Finance Minister colleagues when we meet in Brussels tomorrow. And I shall be arguing the case for the market-based alternative which I have already outlined in the UK's paper "An Evolutionary Approach to Economic and Monetary Union". I am pleased to see that our paper has been welcomed by the President of the Bundesbank, as a realistic and sensible description of what monetary policy should concentrate on in future years.

11. The UK approach seeks to follow through the success of the free market approach which underlies the 1992 programme. It will allow time to assess the fundamental changes in the European economy that will be brought about by Stage 1. It will avoid bureaucracy and centralism, and respect democracy and diversity.

12. At times like this there is always a temptation to rush ahead calling conferences, amending treaties, and setting up new institutions. It gives the illusion of

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progress. But it is only an illusion, and bought at too great a price. Faster and more substantial progress is likely to be achieved by building on the present system, removing restrictions and freeing market forces to do their work. That is why tomorrow I shall be arguing the case for an alternative which is practical, evolutionary, and robust. For in years to come future generations would not thank us for going down a bureaucratic blind alley and closing off Europe's options at this crucial stage.

.....(1049 words)

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