

SPEAKING NOTE

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THE AIM

- THE DEVELOPMENT OF GREATER MONETARY COOPERATION WITHIN THE COMMUNITY IS AN AIM WE SHARE.
- WE HAVE IN LONDON A MAJOR WORLD FINANCIAL MARKET. WE WANT TO KEEP IT, INDEED EXPAND IT.
- SO WE SUPPORT ALL PRACTICAL STEPS WHICH WILL MAKE THE COMMUNITY'S CAPITAL MARKETS, INCLUDING LONDON, WORK BETTER. ABOVE ALL WE SUPPORT GREATER LIBERALISATION.
- WE HAVE DEVELOPED THE EUROBOND MARKET. WE FAVOUR THE DEVELOPMENT OF THE ECU MARKET - AND HAVE IN THE LAST YEAR ACTIVELY ENCOURAGED IT THROUGH THE INNOVATION OF ISSUING ECU TREASURY BILLS.
- WE FAVOUR THE ABOLITION OF EXCHANGE CONTROLS - AND BLAZED THE TRAIL OURSELVES BY ABOLISHING ALL UK EXCHANGE CONTROLS WITHIN WEEKS OF TAKING OFFICE, 10 YEARS AGO.
- IN SHORT WE ARE FULLY BEHIND MOST OF THE PROPOSALS IN STAGE I OF THE DELORS REPORT - INDEED WE HAVE OURSELVES IMPLEMENTED MOST OF THEM.

THE DELORS REPORT

- AT HANOVER WE ASKED FOR A REPORT WHICH WOULD PROPOSE 'CONCRETE STAGES LEADING TOWARDS ' ECONOMIC AND MONETARY UNION.
- IN DISCUSSING THE 'PROGRESSIVE REALISATION' OF EMU, IT IS IMPORTANT TO THINK IN CONCRETE, PRACTICAL TERMS.

- WE CAN ALL THANK PRESIDENT DELORS AND HIS COMMITTEE FOR THEIR REPORT. IT IS A VALUABLE ANALYSIS. IT RIGHTLY RECOMMENDS A STEP BY STEP APPROACH. IT SHOWS HOW MOMENTOUS SOME OF THE IMPLICATIONS ARE, PARTICULARLY IN STAGES 2 AND 3.
- WE AGREE THAT THE COMMUNITY SHOULD MAKE PROGRESS. I AM READY TO AGREE HERE AND NOW THAT AN EARLY START SHOULD BE MADE ON THE MEASURES THEY SUGGEST FOR STAGE I.

STAGE I

- INDEED I AM CONTENT THAT STAGE I SHOULD START, AS THEY RECOMMEND, ON 1 JULY 1990.
- I PARTICULARLY WELCOME THEIR CALL FOR THE ESTABLISHMENT DURING STAGE I OF A SINGLE COMMUNITY FINANCIAL AREA, IN WHICH 'ALL MONETARY AND FINANCIAL INSTRUMENTS CIRCULATE FREELY, AND BANKING, SECURITIES AND INSURANCE SERVICES ARE OFFERED UNIFORMLY'.
- AND, OF COURSE, THEIR CALL FOR THE COMPLETION OF THE SINGLE MARKET, TOGETHER WITH A 'STRENGTHENING OF COMMUNITY COMPETITION POLICY'.
- IN SOME PRACTICAL RESPECTS, I HOPE THAT THE COMMUNITY WILL GO FURTHER IN STAGE I THAN THE COMMITTEE HAVE RECOMMENDED. FOR EXAMPLE, IN RESPECT OF THE ECU, THE REPORT MAKES ONLY THE RATHER MODEST SUGGESTION THAT 'ALL IMPEDIMENTS TO THE PRIVATE USE OF THE ECU SHOULD BE REMOVED'. I AGREE; BUT I RATHER HOPE THAT IN ADDITION MORE MEMBER STATES WILL JOIN THE UK IN ACTIVELY PROMOTING THE PRIVATE ECU MARKET. AND HOLDING ECUS IN RESERVES. AND USING THE ECU AS A CURRENCY OF INTERVENTION.

ERM

- YOU WILL I KNOW EXPECT ME TO SAY SOMETHING ABOUT BRITAIN AND THE ERM.
- THE DELORS REPORT SAYS THAT IT WOULD BE IMPORTANT FOR ALL MEMBER STATES TO JOIN THE ERM DURING STAGE I. LET ME JUST REMIND YOU FOR A MOMENT OF THE REASONS WHY WE HAVE NOT JOINED SO FAR.
- BRITAIN HAS FROM THE START PARTICIPATED IN THE EMS. BUT THERE IS NO DOUBT THAT IF STERLING HAD BEEN WITHIN ITS EXCHANGE RATE MECHANISM AT THE TIME OF THE SECOND OIL SHOCK, OR INDEED THROUGHOUT THE PERIOD WHEN THE POUND WAS IN EFFECT A PETRO-CURRENCY, MOVING IN THE OPPOSITE DIRECTION TO THE DM IN RESPONSE TO ANY OIL PRICE MOVE, OR ANY DEVELOPMENT WHICH THE MARKETS THOUGHT MIGHT PRESAGE AN OIL PRICE MOVE, THE RESULT WOULD HAVE BEEN DAMAGING, NOT LEAST FOR ERM.
- WE DON'T KNOW WHAT THE FUTURE OF OIL PRICES WILL BE, NOR WHAT SUDDEN POLITICAL SHOCKS MAY TOUCH OFF ANOTHER INCREASE.
- OUR POSITION IS THAT WE HAVE ALWAYS SAID WE SHALL JOIN THE ERM WHEN THE TIME IS RIGHT.
- BUT PICKING THE RIGHT TIME IS A PRACTICAL MATTER OF WEIGHING RISKS AND BENEFITS. WE NEED TO GET IT RIGHT, FOR GETTING IT WRONG WOULD HARM BOTH BRITAIN AND THE COMMUNITY.
- AS M. DELORS SAID A FEW DAYS AGO, THE PRECISE TIMING COULD NOT FOR OBVIOUS MONEY MARKET REASONS BE ANNOUNCED IN ADVANCE. AND JUDGING IT IS, OF COURSE, A MATTER FOR THE BRITISH GOVERNMENT ALONE.

- I REAFFIRM TODAY THE UNITED KINGDOM'S INTENTION TO JOIN THE ERM. AND I AM SURE YOU WOULD ALL AGREE THAT THIS MUST BE DONE IN CONDITIONS WHICH STRENGTHEN THE ERM ITSELF AND PROVIDE ASSURANCE THAT AN ENLARGED ERM COULD BE SUSTAINED.
- WHAT ARE THESE CONDITIONS?
- THEY ARE IN FACT SPECIFIED IN STAGE I OF THE DELORS REPORT. THAT PROVIDES FOR:
 - COMPLETION OF THE INTERNAL MARKET
 - ABOLITION OF ALL FOREIGN EXCHANGE CONTROLS AND FULL IMPLEMENTATION OF A FREE MARKET IN FINANCIAL SERVICES
 - AND A STRENGTHENING OF THE COMMUNITY'S COMPETITION POLICY
- IN THOSE CIRCUMSTANCES - AND PROVIDED INFLATION IN BRITAIN HAS INDEED BEEN BROUGHT DOWN SIGNIFICANTLY AS WE INTEND - THE CONDITIONS WOULD CLEARLY EXIST FOR STERLING TO JOIN THE ERM.
- I HOPE THIS POSITIVE STATEMENT WILL BE WELCOME TO YOU.

LATER STAGES

- LET ME NOW TURN TO THE LATER STAGES OF EMU ENVISAGED IN THE DELORS REPORT. I HAVE SERIOUS DIFFICULTY WITH SOME ASPECTS OF IT.
- THE REPORT SPELLS OUT THE FUNDAMENTAL NATURE OF ECONOMIC AND MONETARY UNION, AND THE TRANSFERS OF NATIONAL SOVEREIGNTY WHICH WOULD BE INVOLVED. THE REPORT SETS OUT THESE IMPLICATIONS. THEY WOULD INVOLVE AN ENORMOUS SHIFT IN THE CONTROL OF ECONOMIC AND FISCAL POLICY. INDEED AS THEY ARE NOW, THEY WOULD NOT COMMAND THE SUPPORT OF THE BRITISH PARLIAMENT. I WOULD BE SURPRISED IF SOME OTHERS WERE NOT IN FACT IN A SIMILAR POSITION.

- I ALSO HAVE GREAT DIFFICULTY WITH THE REPORT'S TREATMENT OF FISCAL POLICY. IT ASSERTS THAT BINDING RULES FOR THE BUDGETARY POLICIES OF THE VARIOUS MEMBER STATES WOULD BE ESSENTIAL TO SUPPORTING MONETARY UNION. I FIND THAT VERY QUESTIONABLE: EVEN IN FEDERATIONS, CONTROLS OVER THE BUDGETS OF COMPONENT STATES ARE THE EXCEPTION RATHER THAN THE RULE.
- I QUESTION TOO THE REPORT'S ASSERTION OF THE NEED FOR MASSIVE SUBSIDIES TO PERIPHERAL REGIONS. I SHOULD HAVE THOUGHT THAT A BETTER ANSWER WOULD BE TO ENCOURAGE GREATER FREEDOM FOR MARKET FORCES SO AS TO GET RID OF DIFFERENCES IN COMPETITIVENESS.
- I ALSO QUESTION THE ACCEPTABILITY TO COMMUNITY PUBLIC OPINION OF ARRANGEMENTS AS LACKING IN DEMOCRATIC ACCOUNTABILITY AS THE REPORT DESCRIBES. THE SUGGESTED EUROPEAN SYSTEM OF CENTRAL BANKS WOULD BE LESS ACCOUNTABLE THAN THE MOST INDEPENDENT OF OUR PRESENT CENTRAL BANKS - THE BUNDESBANK.
- I RAISE THESE QUESTIONS NOW NOT BECAUSE I SEEK ANSWERS NOW BUT RATHER AS ILLUSTRATIONS OF THE KIND OF ISSUES WHICH WILL HAVE TO BE ADDRESSED IN DUE COURSE IN THE FURTHER WORK ON STAGES II AND III WHICH OUR FINANCE MINISTERS ENVISAGE.
- IN PARTICULAR WE SHALL NEED TO LOOK AND SEE WHETHER THERE ARE OTHER MODELS OF ECONOMIC AND MONETARY UNION WHICH WARRANT CONSIDERATION. WE SHOULD NOT ASSUME THAT STAGES II AND III CONTAIN A MONOPOLY OF WISDOM ON THE SUBJECT.

- THE ISSUES IN STAGES II AND III ARE FUNDAMENTAL, BUT I THINK WE ALL RECOGNISE THAT DECISIONS ON THESE MATTERS ARE SIMPLY NOT ON THE CURRENT AGENDA. WE MUST STICK TO THE PRACTICAL AND GO FORWARD INTO WHAT NEEDS TO BE DONE NOW.

CONCLUSIONS

- OUR FINANCE MINISTERS DEFINED PREPARING FOR STAGE I AS THE PRIORITY TASK WHEN THEY CONSIDERED THE REPORT AT THEIR MEETING IN SPAIN LAST MONTH. I AM SURE THAT THEY WERE RIGHT, AND THAT WE SHOULD TODAY ENDORSE THEIR VIEW.
- THEY SUGGESTED THAT THE WORK SHOULD BE DONE 'AS A MATTER OF URGENCY'. I AGREE.
- IN SHORT, I BELIEVE WE SHOULD TODAY DECIDE THAT:
 - THE WORK OF THE DELORS COMMITTEE HAS BEEN VALUABLE;
 - THEIR DESCRIPTION OF POSSIBLE LONG-TERM ARRANGEMENTS REQUIRES MUCH FURTHER, LONGER-TERM, STUDY TAKING IN OTHER ALTERNATIVES AS WELL: BUT
 - THEIR RECOMMENDATIONS FOR EARLY ACTION ARE RIGHT, AND SHOULD BE IMPLEMENTED.