

## Beyond Stage 1 of EMU

*In a subsequent speech,<sup>(1)</sup> the Governor reviews the steps that have been taken to date towards economic and monetary union, in relation both to the 1992 project of completion of the internal market and to the strengthening of economic policy co-ordination. He stresses the importance of economic convergence and the distance still to be travelled before integration can become reality: and again recommends the UK proposals for an evolutionary Stage 2 as a realistic way forward for all members of the Community.*

I count myself very fortunate to have an opportunity of addressing so distinguished an audience this lunch-time. If I may say so, you represent, collectively, the twin pillars on which our Community is based—on the one hand democracy; and on the other, the free market economy. As the Community develops and prepares for closer economic and institutional convergence, we should I believe keep those principles always in the forefront of our minds.

I have already spoken today about monetary union, and at length, too. To those of you who were present then, may I apologise in advance if I repeat myself now. But while this morning I was trying to look ahead, and to talk about steps that might lead down the path towards monetary union in the future, I would like on this occasion to say a little more about the very important steps that we have already taken, particularly towards economic convergence.

I can well understand how, with not one but two inter-governmental conferences planned for December, and with long-term projects for monetary union having become the common currency not only of Brussels cocktail parties but of national political debate, the steps that we have already taken must seem small and hesitating by comparison with these grand ideas. But I think it very wrong to ignore them or to play down their significance.

For example, the initiatives that we have taken as part of Stage 1 of EMU, on which we embarked just 10 days ago, themselves amount to a momentous undertaking.

Stage 1 is concerned with promoting economic convergence within the present institutional framework. As such, it is the key to any successful move towards monetary union. And there is a great deal of hard, detailed work involved in Stage 1. The completion of the internal market is no small matter. Neither is the creation of a single financial area free of capital controls, although the major relaxations of controls have already taken place. We are starting—and I stress starting—to strengthen economic policy co-ordination in ECOFIN as well as monetary policy co-ordination in the EC Governors' Committee. And as part of Stage 1, of course,

all Community currencies will join the ERM narrow band, including sterling.

I know that I am not alone in stressing the importance of economic convergence as a pre-condition of economic and monetary union. But I sometimes wonder how seriously the point is taken, even by those who acknowledge it. The differences between the Community's economies are considerable—more considerable than I think many recognise, and they persist even among those countries which would see themselves as the most 'converged'.

Economic integration will be assisted by the creation of a single Community-wide market in which all obstacles to the free movement of goods and services, capital and labour, have been removed.

The 1992 project is therefore critical to EMU and remains a vital first objective. Great progress has been made with the 1992 programme, at least in the sense of agreement on the necessary Community legislation. But there has also to be implementation in national legislations and in national practice, on the ground and in the market. The Commission's own review of progress earlier this year found that only 21 of the 282 1992 measures had been implemented in all member states. And even when all of them are implemented, we will still not have a single, integrated European market. Our companies and our citizens will have to adapt to the new freedoms, many of which are still only imperfectly understood, let alone exploited.

So far as economic policy co-ordination is concerned, we have made important steps in the ECOFIN and in the EC Governors' Committee against a background of a very clear common objective of price stability. But at least for the present, we will be looking for convergence of our economies' performance against that overriding objective, rather than the convergence of our day-to-day policies. Eventually we may—I believe, will—reach a point where it is realistic to talk about implementing a common policy. But we have not reached that point yet.

(1) At a lunch given by the European Parliamentarians and Industrialists Council, in Strasbourg on 11 July.



All of this suggests to me that we should allow plenty of time for economic integration and convergence to progress. You may see this—I am sure some of you will—as further evidence that the United Kingdom is dragging its feet, but frankly I do not see it that way at all. I believe that to introduce a single currency and a single monetary policy prematurely would be very risky. If monetary union runs ahead of economic convergence and market integration, then it could well increase regional disparities, polarising the Community in a way that would be socially and politically divisive.

Now I am conscious of the anxiety of some in Europe who look for something more definite, an immediate firm commitment to a single currency and to a single institution to manage it. They say, or some of them do, this is already as good as agreed, and that the only remaining question is timing. And there is a hint, more than a hint, that if the Community cannot agree on uniform rapid progress towards this goal of a single currency, then a small group, believing their own economies to be more closely converged than the rest, may attempt to make progress on their own, leaving the rest to catch up at their own pace.

I think that such a development would be very unfortunate for Europe, to say the least. But I also believe that it is quite unnecessary to think or speak in these terms. Such thoughts reflect the way that the debate on EMU is developing into what amounts to an all or nothing affair; I have seen in our discussions over the past 18 months how less and less attention has been paid to the transitional arrangements—to what we used to call Stage 2—and more and more to the idea that one could jump, possibly in fairly short order, from Stage 1 straight into the Stage 3 institutions.

The UK scheme for the development of a European Monetary Fund to manage the Hard Ecu during an evolutionary Stage 2 is an attempt, and I hope you will accept an honest attempt, to provide a means to intensify the process of economic convergence beyond Stage 1, which

could lead to the conditions in which a single currency could be successfully established. It does so in a way that provides a common basis of progress for all countries, involving all members of the Community in a common set of disciplines but leaving a degree of flexibility that recognises the different characters of our economies.

I do not want to repeat now the summary I gave earlier today of the UK scheme, but I would like to stress, perhaps, two particular aspects. First, it is a scheme that is absolutely consistent with the principle, that we all accept, of stable prices. In contrast to the ideas for a parallel currency that we discussed and rejected during the deliberations of the Delors Group of which I was a member, the Hard Ecu scheme would *not* involve uncontrolled new monetary creation. Second, I believe that the scheme would establish with absolute clarity the responsibilities of the various authorities, Community and national. The scheme provides a discipline and the discipline is exercised through the management by the EMF of the Hard Ecu. Responsibility is absolutely clear: the EMF manages the Hard Ecu and, by that means, exerts a market influence on monetary conditions throughout the Community; the national monetary authorities manage their own currencies, although they have to take account of the market effects of the EMF's actions. There is therefore interaction, but clear responsibilities. Those who have seen or claim to see in our scheme a recipe for confusion have, I think, been doing us less than justice.

I make these points because I do believe that the proposals that we have made offer a realistic way forward for *all* of the Community consistent with our broad objectives but also consistent, and this is I think terribly important for all of us, consistent with holding together the Community, and maintaining what we have already achieved. I think that if we do find the right approach in conformity with the general principles on which our scheme was based we will be laying the proper foundations for a lasting economic and monetary union.