
The United Kingdom and Europe

*In the English-Speaking Union's 1990 Churchill Lecture,⁽¹⁾ the **Governor** examines some of the ways in which British perceptions of our role in the world have manifested themselves in our approach to Europe in the post-war period. He lays stress on internationalism, pragmatism and a preference for an evolutionary approach to institutions as qualities characteristic of UK policy, and points also to a readiness to pool independence where practical advantage, particularly in terms of economic welfare, can be demonstrated. He then goes on to argue that in the discussions on Europe's future monetary arrangements—arrangements which he insists should be assessed on the basis of whether they would enhance economic welfare—the UK proposal for a Hard Ecu and an EMF represent a positive contribution to the debate that manifests these same qualities.*

It is a very great honour indeed to have been asked to deliver this annual lecture in memory of our country's most distinguished twentieth century statesman. It is an honour for me personally, and it is an honour for my institution, the Bank of England.

I might say that some of my colleagues saw a certain irony in your invitation, Mr Chairman, since relations between Winston Churchill, when Chancellor of the Exchequer, and the Bank were far from easy to say the least.

Describing the first official meetings between Montagu Norman—my longest-serving predecessor—and Churchill, Norman's biographer says the Governor found the Chancellor 'in the receptive and responsive mood of a backward pupil who was willing to be taught.' This does not remind me of any of the Chancellors of my own experience or of my impression of Churchill. Relations between the two were in fact actually rather good for a period. But this was not to last. It is said that, after the pound had gone back on to the Gold Standard, Churchill invariably took the opportunity, at their weekly or more frequent meetings, to harangue Norman in a way that was partly abusive, partly derisory. But such is the resilience of Governors that Norman, according to the Chancellor's then Private Secretary, accepted the interviews 'as part of his duty; he kept coming back for another roasting as if he had no choice.' Again, I have no personal experience upon which to draw!

Churchill was, I need hardly say, far, far more to our country than a Chancellor who found it tiresome to be offered advice by the Governor of the Bank of England. Through his own actions and through his speeches (so easy to mimic, so difficult to match)—and perhaps even more through the events that were at the centre of his life—Churchill's place in the history of our country and the world has greatly

influenced the way we as Englishmen think about ourselves, our past, our future and our relationships with other countries.

How we see ourselves and how we assess our place in the world has seldom been more important than it is now; and the reason, in a word, is Europe. Indeed, I would be hard pressed to think of a better time to revisit the European issues that pre-occupied Churchill after the Second World War; or, Mr Chairman, as the English-Speaking Union puts it in defining the broad theme for this annual lecture, 'the problems, perils, challenges and opportunities confronting the English-speaking peoples of today'.

The theme of my remarks will therefore be the place in Europe of the British part of the English-speaking peoples. I will start by identifying some of the ways in which we are thought to have a distinctive view of the world and how that has manifested itself in our approach to Europe in the post-war period. I shall then go on to suggest that, with increasing confidence about peace in Europe—confidence bolstered by the immense achievements of the CSCE this week—we can give growing emphasis to economic objectives and relations in our approach to international co-operation. And against that background, I will make some observations about Monetary Union and the role of my own profession, central banking, in modern society.

Perceptions of Britain's role in the world . . .

Whenever the matter of the United Kingdom's future is raised, there are many—perhaps especially overseas—whose starting point is a belief that Britain is, as Dean Acheson said, still suffering the trauma of having lost an Empire; is still even trying to find a role in the world. I have to say that how to fill the void left by our loss of Empire does not seem to me a major pre-occupation of our people as they go about

(1) On 22 November.

their daily rounds; nor of our businessmen and wealth creators. But it may be that it has coloured our ambitions.

One reading of history ties us to the world outside and beyond Europe—in an earlier period to Empire and, in this century, to the Commonwealth and beyond that, to the English-speaking peoples, and especially North America. History, too, seems at times to have put us outside day-to-day developments in continental Europe, while also making us a decisive factor in Europe whenever crisis broke and the balance of power was disturbed. But do we see ourselves in this way?

... and in Europe

In fact, our history *binds* us to continental Europe. Our cultures have common Graeco-Judaic-Christian foundations, and many of our institutions share Roman roots. Later, during the centuries when many of our central institutions first appeared in their modern form, we were deeply engaged in the dynastic rivalries and religious struggles that beset Europe.

But there are, inevitably, things which distinguish us. We are one of the very oldest unitary states, so that our specific national identity is perhaps especially strong. And during the modern period—and by that I mean the past four and a half centuries—we have not attempted to expand our sphere of influence through the conquest of territory in *mainland Europe*, something which places us apart from the other European Great Powers of the pre-war era. Instead, we expanded through international trade, and our trade was facilitated and extended by the conquest of territories *outside Europe*.

This by no means meant turning our back on Europe. Indeed, colonial rivalries for a while became a substitute for more direct confrontation in Europe. But the particular role we have played in Europe's territorial struggles does perhaps mean that, compared to our continental partners, we have a much weaker sense of the ebbs and flows of national boundaries; of the movement of peoples; of potential instability in Europe; and it is striking, by the way, how many of the European Community's founding fathers came from frontier regions.

This contrast in attitudes is perhaps most obvious in the nineteenth century, after the Napoleonic Wars, when we were buoyed by victory and, given our industrial leadership and extensive overseas trade, our foreign policy was pre-occupied with the interests of Empire and Colonies. A period which even friendly observers would say left a deep imprint, as did our decisive return to European affairs in this century's two world wars. We are rightly proud of that role. But some would say our experience of the great struggles of the 19th and 20th centuries gave us the impression that we stood alone, and indeed that to stand alone was the historic role of the British people.

My own depiction of our characteristics would be rather different. Looking to our history as a trading nation and the

political stability we have for so long enjoyed, I would want to stress our internationalism, our pragmatism, and our preference, born out of our particular experience, for the evolutionary development of constitutional institutions.

Britain's approach to the early years of the European Community

I think all these elements emerge in our contribution to the reconstruction of Europe in the aftermath of the Second World War.

As the leading statesman of the time, Churchill played a central role in this. In 1940, he called for a Franco-British union, in an attempt to fortify France against the threats it faced; and, during the war, he at various times floated the thought of creating a 'Council of Europe' as a means of solving Europe's national rivalries. But most famously, in his 1946 Zurich speech, he called for a 'United States of Europe'.

Churchill was, therefore, one of the founding fathers of modern Europe and its institutions—particularly the Council of Europe, established in 1949. But we should be clear that he did not see the United Kingdom as belonging exclusively to this new Europe. In 1953, he said that Britain's relationship with Europe 'can be expressed by prepositions, but the preposition 'with', but not 'of'—we are with but not of [Europe]'. He believed Britain's role was to lie at the heart of three overlapping circles: the Commonwealth, the 'English-Speaking World', and the newly united Europe.

It is hardly surprising, against this background, that so many of those involved in the European debate pray Churchill in aid of their views. He did in so many ways bridge the old and new worlds.

But Churchill was by no means alone in having a distinctive British vision of Europe's future, and our part in it. The key issue that divided us from our Continental partners—and divide us it did—was the extent to which new European institutions should have a supranational quality. For Georges Bidault, Robert Schuman and Jean Monnet that was definitely the aim.

The United Kingdom objected. Harold Macmillan, faced with proposals for the European Coal and Steel Community, declared that 'our people will not hand over to a supranational authority the right to close down our pits and our steel works'; Clement Attlee expressed a very similar view.

Similar differences reappeared in the negotiations launched in 1955 to establish an Economic Community, negotiations in which we were invited to participate notwithstanding our opposition to the ECSC five years before. On the one hand, the Six wanted nothing less than a fully-fledged customs union, with a common external trade policy and supranational institutions. On the other hand, the then UK Government wanted a simple free trade agreement, with as little institutional machinery as possible. We lost the

argument, dropping out of the negotiations after only four months; and instead tried to pursue our objectives through the OEEC (the forerunner to the current OECD) and, later, through the creation of EFTA in 1960.

Meanwhile, the Six had prospered, in both absolute terms and relative to the United Kingdom. At the beginning of the century, we had been the largest trading nation in the world, with vast international interests. We accounted for about a third of manufacturing exports by industrial countries. By the early 1960s the picture was different. Our share of manufacturing exports had halved; output growth between 1955 and 1965 in Germany, France and Italy was roughly double that of the United Kingdom. This, as much as anything else, lay behind the decision in 1961 to apply for membership; it had become clear that the EEC was not going to collapse, and that we were being left behind. EFTA came to be seen as an inadequate substitute for the Community's much larger markets; EC membership, it was hoped, would provide a welcome boost to British industry. And politically, there was perhaps an increased awareness, following the reactions to Suez, of our changed position in the world.

The negotiations were tough. We sought accommodation for our Commonwealth and EFTA trade, and our particular farming arrangements. But these differences were secondary to General de Gaulle's opposition to UK participation in the Community, both in 1963 and again four years later.

I mention this because, while it is fair to say that the United Kingdom seriously underestimated the forces in favour of supranational co-operation that existed on the Continent in the late 1940s and early 1950s and initially failed to see the mutual benefits that would flow from a customs union, it is too easy to forget that we had a policy of joining the Community only a few years after it was established; it was not the fault only of UK governments that it took us nearly twenty years actually to become a member.

Independence v international co-operation; the practical pursuit of welfare

We did, then, come to accept that, in the area of economic policy, it could sometimes be in our interests to give up our capacity to act totally independently; I will not use the word 'sovereignty'; it is fraught with difficulty.

Modern history shows that we can in some circumstances benefit from doing so. We were founder members of NATO, whose functions go right to the heart of our strategic interests, and which incidentally involved a loss of autonomy to a degree that France found itself—and still is—unable fully to accept. And in the economic sphere, we had been founder members of the GATT and of the Bretton Woods organisations; and we had accepted the external discipline on our domestic economic policy implied by the Bretton Woods exchange rate regime, until its demise in the early 1970s. In each case, and in many others in the past, we have chosen to restrict our discretion on the grounds that this would be to our advantage.

It is a matter of being practical. By that I mean that we must seek to maximise our welfare over the long term and that we should be flexible in our ideas about how this should be done; the pressures of history and economic realities will force flexibility on us whether we like it or not, so it will be better to embrace it.

It is for political philosophers and economists to debate what 'welfare' means. But for anyone from the West it is plain, I think, that it requires freedom from military threat and thus territorial stability, the liberty of individuals and their political enfranchisement, and economic prosperity. What the founders of the United States called 'the preservation of life and liberty, and the pursuit of happiness'.

The post-war history of Europe shows progress on all fronts. Peace has reigned in Western Europe. Democracy has been established in the countries of the Iberian peninsula and in Greece, paving the way for their membership of the European Community. And we have seen the lifting of the Iron Curtain across Europe, famously named by Churchill himself in 1946 and tragically dividing our continent for so long.

As political liberty takes hold in the countries formerly behind that Iron Curtain and as we become more assured about the stability of our continent, the economic ingredient of our pursuit of welfare will, I suggest, become increasingly important; perhaps especially in eastern Europe where democracy must still be fragile and nationalism remains a force.

How should we pursue economic prosperity? Experience surely confirms the basic insight of Adam Smith that the wealth of nations derives from the division of labour, aided by free trade which creates and extends markets; from free trade and specialisation. These ideas may have been novel in the 1770s but their power has been amply demonstrated since—notably by this country's rise to economic ascendancy through free trade in the middle of the 19th century; but most recently in the post-war period, when prosperity in the western industrial world rose on an uninterrupted scale unprecedented in modern history.

It is not, I think, disputed that this prosperity flowed from the great expansion of international trade, an expansion buttressed by institutional arrangements; and arrangements that go well beyond our European institutions, including in particular the GATT.

The pursuit of economic welfare in the European Community

This is the significance of the Community's efforts to establish a single internal market. The freedoms this will establish—the freedom for capital and labour, for goods and services to move across Community borders without obstruction—will create the largest open market in the world; although we should remember that cultural barriers will be more difficult to remove.

The contribution of the United Kingdom to this process has been enormous. Perhaps most importantly, we can reasonably claim to have injected a consistently liberal attitude into the Community's economic debates during a period when its development has not always been sure to follow a liberal course, as fears of 'Fortress Europe' show.

We have been an ardent supporter of the 1992 programme, which more than anything else has lifted the Community out of the 'Eurosclerosis' that had developed since the late 1970s.

One of the key ingredients in this was the determination of many in the Community—although, I should say, not initially the United Kingdom—to unblock its decision-making processes. For constitutionalists, this involved a quite profound move to 'qualified majority voting' for Single Market directives. In other words, such was each Member State's commitment to the overall objective of creating a free market that they were prepared to give up *in advance* their right to veto particular directives which they opposed. This is another example of countries reaching a practical judgement that, on balance, they could benefit from some dilution of their individual independence in a particular sphere.

Monetary Union in Europe?

The question of how most effectively to pursue economic welfare and to what extent this should involve giving up independence of action is posed in a particularly sharp way by the Monetary Union debate underway in the Community.

The broad questions this raises loom large in our country. Many believe that the debate is of historic importance; that it goes to the very essence of what it is to be a nation state collaborating and co-operating with other nation states in the late 20th and 21st centuries. But *are* the questions raised by Monetary Union different in kind from those other areas where we and others have given up some independence of action? Would Monetary Union be a quantum leap, a change of constitutional magnitude?

I think each of us must answer these questions for ourselves. But I would say this: that our monetary arrangements—like our arrangements in other areas—must be viewed as *a means of pursuing prosperity*, as a means to an end.

If that much is accepted, then it is possible to argue—compellingly—that neither we nor our Community partners need to answer the question now. Because as I have argued on many occasions before and as my central bank Governor colleagues throughout the Community argue, we are not yet in a position where Monetary Union would be economically feasible for the whole of the Community. In saying this, I must make it clear—again—what a Monetary Union would involve. It would involve a single currency and a common interest rate—that is a single monetary policy—throughout the whole area. Although highly complex, although economics, this is what the debate is about, and must be about. The core of the debate is not about whether

we retain pound notes (or rather our *five* pound notes and upwards); it concerns how we go about sustaining the value of those notes, and our money generally. Nor is it about the design of our notes. There could quite easily be flexibility on bank note design in a currency union; we could, I am sure, retain the monarch's portrait on notes issued in this country; although I might take this opportunity to point out that, contrary to what appears to be popular belief, the monarch's portrait has appeared on our notes only since the early 1960s; the belief that this has always been so is myth.

No, as I said, the first and foremost question is whether a single monetary policy, administered as it would have to be by a joint institution or European Central Bank, could offer sustainable benefits. It could do so only if there were a durable convergence of the economic performance of individual Member States, and a high degree of structural integration of our economies, so that capital and labour were highly mobile throughout the Community, with national frontiers no longer representing an obstacle to economic adjustment.

We can look to the past for useful lessons on this. Not many of us in this country are aware that there have been a number of attempts to create monetary unions in parts of Europe. A Germanic monetary union was formed in 1857 between Austria and the members of the customs union in Germany, the Zollverein; a Latin monetary union was formed in 1865 between France, Italy, Belgium and Switzerland; there was a Scandinavian monetary union between 1873 and the First World War. None of them lasted, and partly because there was not a sufficient community of interest at stake, or sufficient structural similarity or co-operation on policy—in a word, sufficient convergence.

To fail to learn from that experience, to institute a Community Monetary Union before there was sufficient economic convergence and integration, would be exceptionally risky, leading all too easily to loss of economic activity and personal hardship in some parts of the Community. And the Community would have nothing like the social welfare and taxation arrangements that nation states use to spread the burden of a loss of output or jobs in one or another region or sector, and effectively to redistribute resources.

In other words there would be difficult economic problems, which might well have severe political repercussions; for example, there could be calls for regional transfers on a scale that would not be anywhere near politically acceptable to the Community.

This connection between economics and politics is one reason why some people suggest a Monetary Union would lead inexorably to Political Union. I do not accept this; it has certainly not been demonstrated. The 19th century German Zollverein does not provide conclusive evidence one way or another; that was a customs union for the German-speaking people who, while politically at odds for centuries, had a deep folk memory of unity; and it was a

union dominated, politically and economically, by one state, Prussia.

These issues confront our partners just as they confront us. But they need not confront either them or us with stark choices that would close off options and limit our flexibility. That is why I so strongly support the UK proposal for a European Monetary Fund and a Hard Ecu; a proposal, I should say, which the Bank of England as much as anybody helped to develop in a way that would increase anti-inflationary pressures in the Community.

It would not of itself create a single currency or a single monetary policy—in other words the new common currency would not immediately replace existing national currencies, and the EMF would not immediately replace national central banks. But in the meantime the proposal would provide a means whereby the central banks of Europe could collectively exert an influence on monetary stability throughout the Community, thereby helping to create the economic conditions which would make those choices more feasible and more desirable. As such, the UK proposal is not only not in conflict with moves to a Monetary Union. It is positively *consistent* with such moves, with the economic costs and benefits depending on the degree of convergence achieved.

And it would accomplish this incidentally in a way which preserved a clear distinction between the collective responsibility for managing the Hard Ecu and national responsibility for managing national currencies. In this sense, it would avoid any muddling of individual responsibility for monetary policy, to which the President of the Bundesbank rightly attaches such importance.

The place of central banks in modern society

One issue in the background of this debate is, indeed, the place of central banks in modern society. My remarks this evening follow only months after Paul Volcker addressed a similarly large audience in Washington on the theme 'The Triumph of Central Banking?'—a title which I should perhaps explain ended with a question mark, but which also reflects the extent to which central bankers can no longer carry out their tasks in the happy obscurity they traditionally enjoyed.

What are these tasks? They centre around a responsibility for stability in the monetary area—by which I mean the stability of the financial system and, above all, stability in the purchasing power of the currency. This has, over the past decade or so, moved us towards the centre of economic debate and policy-making, as much greater reliance has come to be placed on monetary policy. And this reflects a growing conviction that price stability is an absolutely necessary pre-condition for stable long-term growth, for economic prosperity, and thus for the welfare I described earlier as our chief practical objective.

It is in these circumstances that questions are asked—and should be asked—about the constitutional position of central

banks. In broad terms, the question is whether the institutional arrangements for pursuing price stability should, like the legal system, be outside the normal day-to-day ebb and flow of political life; whether, in Ralf Dahrendorf's terms, they are part of constitutional politics rather than normal politics. Different countries have answered this question in different ways; there have also been varying performances in achieving price stability, with no overwhelming correlation between success and any particular constitutional arrangement, although one European country in particular has an outstanding record that must be one of the chief contributors to its post-war economic miracle. But the important point is that the Monetary Union debate forces this question on all Community Member States together.

The essential thing is that our monetary policy arrangements, nationally and in the Community, should be credible and should have legitimacy. Experience shows this is extremely hard to earn, and all too easy to lose.

A leap from twelve currencies to one currency would risk sacrificing precisely that credibility for the unknown. By contrast, one of the greatest strengths of the UK proposal is that the European Monetary Fund could build up credibility as the manager of the Hard Ecu without the Community having to sacrifice the credibility of the ERM and the existing national central banks, and particularly of the Bundesbank.

Pressures to narrow, widen and deepen the Community

The UK proposal would also, critically, allow all twelve Member States to move forward together. We need to be on our guard against pressures in some of our partner countries for a small group to create a single currency area relatively quickly. This could all too easily lead to a two-tier Europe, even to an effective narrowing of the Community. I believe it would be a near tragedy for the Community as a whole.

If we should strongly oppose any narrowing, we should by contrast keep an open mind about when and how to widen. This has become a real issue since the liberation of the countries of central and eastern Europe. Over time a number of countries may want a closer relationship with the Community or even full membership; not only countries from the former Communist bloc, but also others, particularly from EFTA, who have hesitated hitherto.

For some, there is a choice between 'widening' and 'deepening', a term used to describe the growing ties between existing Member States, ties that would obviously be much greater if the Community ever moved to Monetary Union.

Personally, I do not see widening and deepening as mutually exclusive. I certainly share the hope that the Community can eventually be the nucleus of a liberal trade system throughout our Continent. The countries of eastern Europe urgently need access to markets for their output, including

notably agricultural output, if their prosperity is to develop fast enough to meet the aspirations of their people. To restrict their ability to sell food to the Community would be a betrayal of the fundamental purpose of the Community, and might put at risk their political reforms.

But I think it is also important not to forget that the forces leading to change in eastern Europe included the success of the Community itself. Its economic prosperity and democratic freedoms have acted as a magnet. We would be unwise to dilute the principles that have proved essential to its successes for the sake of broadening its membership.

Conclusion

Mr Chairman, I believe that these issues—the future of the Community, the hopes of the reforming countries of eastern Europe—have a significance going well beyond the narrow interests of those who live in our Continent. To return to the broad theme I have been set for this evening, they do, I would suggest, affect the challenges and opportunities confronting all the English-speaking peoples.

Twenty-seven years ago today, President Kennedy was tragically assassinated, only months after expressing the American people's deep concern over the division of Europe. We are, happily, no longer divided, but that does not of itself make our future clear.

English-speaking people everywhere look to Britain to be part of that future; not to protect their interests but to ensure that our distinctive voice is heard and that our traditions are reflected in the Community's development.

This interest reflects the extraordinary degree to which the world economy is now inter-related as never before. So much so that no major trading country can be wholly autonomous or independent in managing its economic affairs. The practical question this raises for us is the extent to which this interdependence—this need to co-operate—is or is not for the overall benefit of the country.

I believe we are living in a world where economic interdependence is becoming not only much stronger, but actually potentially more beneficial. Since the War, this recognition has been at the heart of our policy. Where we have judged it in our best long-term interests to do so, we have been prepared to pool independence, to act together with our partners, in Europe and elsewhere. But we have never found this easy.

Indeed some of the reasons we now hesitate over Monetary Union are strikingly similar to the reasons why we hesitated

about European initiatives in the 1950s. Our critics may attribute this to nostalgia for a mythical past; mythical because things were never quite as we collectively remember them. There may be just an element of truth in this, but I believe strongly that we do not harbour illusions about our position; that we *are* realistic.

That does not mean that we are wrong to hesitate about Monetary Union. As I have described, I think a rush to Monetary Union would be a great mistake, and against our interests. But we must be clear about our grounds. I have suggested that they should not centre on a fear of losing our identity—which I do not think is in prospect—but should concentrate on economic criteria and the options available to us for maximising our welfare.

Cynics suggest none of this matters; that Monetary Union would be of no real importance since all it would involve is the loss of independence to debase the currency. But we should remember that it would mean transferring to a new body that right to manage our currency—to debase or not, as the case may be. The debate *is* important. We must be confident that any new arrangements would succeed in maintaining the value of our currency, and in increasing our economic welfare.

The way to avoid being left behind, the way to avoid structures we cannot accept, is to be part of the debate. Our proposal for a Hard Ecu and an EMF is a contribution to this. It manifests the qualities I picked out earlier as distinctive of the United Kingdom: internationalism, pragmatism and evolutionary solutions.

This perhaps contrasts with the approach taken by some of our partners, reflecting their different history and different intellectual traditions. But we should not exaggerate this. We should not slip into thinking that a preference elsewhere for institutional blueprints, powerful statements, and written constitutions implies rigidity, or an underlying lack of pragmatism.

When attempts to establish a European Defence Community failed in the 1950s, Jean Monnet concluded, it is recorded, that the building of Europe was not the intellectual pursuit of a vision but the adaptation of the vision to reality. Monnet was nothing if not a determined visionary for Europe. But that view also sounds not a million miles away from our own.

I think we can be hopeful that we will be able to find common ground with our partners. That is certainly *my* hope, and it is what we shall certainly work for in the great conferences that begin next month.