

EMBARGOED UNTIL 1800 HOURS
TUESDAY, 9TH OCTOBER, 1990

Andrew
You will recognize
all the net-very-coded
signals. C.D.P.

EXTRACT FROM A SPEECH BY RT HON SIR GEOFFREY HOWE QC MP, LORD PRESIDENT OF THE COUNCIL AND LEADER OF THE HOUSE OF COMMONS TO THE CONSERVATIVE SMALL BUSINESS BUREAU, MARSHAM COURT HOTEL, RUSSELL COTES ROAD, BOURNEMOUTH, ON TUESDAY, 9TH OCTOBER 1990 AT 1800 HOURS.

ERM: MAKING THE MOST OF MEMBERSHIP *mt*

"The decision to enter the ERM is entirely in line with the central thrust of the Government's economic policy through the last decade. That is why I so warmly applaud the decision - one which I have long believed would be in the best interests of our nation.

The defeat of inflation, the achievement of price stability, remains our central objective. The key instruments remain, as they must, monetary discipline and fiscal prudence.

But from now on, the exchange rate, always a factor in monetary policy, assumes a more prominent role. It does so, not as a substitute, but as a buttress, for monetary and fiscal policy.

For some years now the day-to-day reality of British monetary policy has reflected that relationship. 'You can't buck the market' has tended in practice to mean 'You can't ignore the Deutschmark'.

The more explicit link within the ERM between the Pound Sterling and the Deutschmark should not, therefore be seen - still less denounced - as some fresh or shameful 'surrender of British sovereignty to the dominance of the Deutschmark'.

Last week's decision should be seen rather as a firm commitment to share in the joint management of a system, which will give to Britain (as to the other members) the best prospect of long-term price and exchange rate stability.

This has been the lesson of the last decade. Germany's price stability has been exported, through the operation of the EMS, to a wider and wider circle of European economies. Most notably, in 1983 France was persuaded by Finance Minister Jacques Delors to adjust to, indeed to accept, the full disciplines of the EMS.

Experience suggests that it is thus possible to lock on to a virtuous circle of enjoying lower inflation at the same time as more stable exchange rates.

Because depreciation is no longer an option, governments in Europe have been obliged to choose between politically embarrassing and very public re-alignments, or imposing tighter monetary disciplines that will stabilise the currency over time.

Over the years, governments have increasingly chosen the latter, and use EMS obligations as a justification for imposing sensible, financially-conservative monetary policies. The long-term results, in terms of low inflation and sustainable growth, speak for themselves.

All this makes it crystal clear that ERM membership is anything but a soft option. No-one, least of all myself, has ever argued that it was or should be any such thing.

All too often in the last half century the British body politic has welcomed some new economic feature, some fresh policy development, as though it was some kind of 'magic box' - some painless cure for all our long-standing woes.

Nuclear power, North Sea gas, the 'Common Market', North Sea oil: not one of these has effected the painless cure, not one of them has turned out to be a magic box. No more will the EMS.

But the EMS does represent a framework of discipline. It should make it easier for us to know what we should be doing. And it should make it easier too for us to know when, or if, we are going wrong.

That is why we should recognise entry into the ERM as an extension of the philosophy which inspired and underpinned the Medium Term Financial Strategy, which I sought to put in place just ten years ago.

That was a strategy that we designed for ourselves. If it is now to be absorbed, as it is, in the wider framework of European self-discipline, then we need likewise to play our part in designing and developing the new, wider system.

That is the importance of our commitment to take part in the forthcoming Inter-Governmental Conference on Economic and Monetary Union. This is why it would not make sense, as some critics suggest, to try to 'draw a line under' last week's decision.

If the French, and other Community partners, wish to play their part in sharing German stewardship of Europe's monetary discipline - as they do - then so do we. If the Germans, and yet other Community partners, wish to play their part in maintaining the primacy of price stability at the heart of that discipline - as they do - then so do we. If all our Community partners wish to work together to strike the right balance between these and other considerations - as they do - then so do we.

Last week's decision to place the Pound Sterling within the ERM of the European Monetary System has been widely welcomed as a decision to turn our previous 'country membership' into full membership of the Club. We intend to play that part in good faith and to the full. Only that way shall we derive the full benefits from the discipline of the system.

However difficult the road may be - and starting where we are it may not always be easy - there can and should, if I may coin the phrase, be 'no turning back' from the historic commitment that was announced last Friday."

ENDS.

For more information, please contact Anthony Teasdale on 0860 611189.