

## Statement by Tony Blair on the euro (23 February 1999)

**Caption:** On 23 February 1999, in London, Tony Blair, British Prime Minister, sets out the United Kingdom's position on the possible adoption of the single European currency.

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## Speech by the Prime Minister Tony Blair on the euro (23 February 1999)

On 27 October 1997 my RHF the Chancellor of the Exchequer set out the Government's policy on the European single currency. He said he would publish details of how, should it choose to do so, Britain could join the euro. This became known as the National Changeover Plan. Today we publish an outline of this plan as a basis for consultation.

I would like to thank the Standing Committee set up by the Chancellor to oversee preparatory work on EMU across the economy. I am most grateful to the Governor of the Bank of England, the Heads of the Financial Services Authority and the British Bankers Association, the Presidents of the CBI and the British Chambers of Commerce and the General Secretary of the TUC for their contribution to this work. This has been a truly cooperative effort involving an unprecedented partnership between the public and private sectors. And I am particularly pleased that the Standing Committee welcomed our intention to produce the Outline Plan we are publishing today.

Madam Speaker, in his statement of October 1997, the Chancellor made clear the Government's view that membership of a successful euro would bring benefits to Britain in terms of jobs, investment and trade. He said that in principle the Government was in favour of Britain joining a successful single currency. And he set out the conditions necessary to satisfy our national economic interest.

So our intention is clear. Britain should join a successful single currency, provided the economic conditions are met.

It is conditional. It is not inevitable. Both intention and conditions are genuine.

This is the right course for the country, to resolve this issue for the British national interest, the future of our people and their well-being. And it is that national interest that will always come first.

I do not dismiss the constitutional or political issues. They are real. Monetary union is a big step of integration. But so was the Single European Act. And the EU itself. In finance and business the world is more and more integrated. It is moving closer together. And if joining a single currency is good for British jobs and British industry, if it enhances British influence and power, I believe it is right for Britain to overcome these constitutional and political arguments and the fears behind them. For the very reason of the sensitivity of these arguments, we have also said clearly: the Government can recommend. But the people will decide in a referendum.

What we announce today is not a change of policy. It is a change of gear. If we wish to have the option of joining, we must prepare. The sheer nature, scale, and complexity of the arrangements require considerable time for such preparation. It is, for example, far more detailed in its consequences than decimalisation. If we do not start to face this reality now, we will simply not have the practical means necessary to make a choice.

There are those, on the Opposition benches and elsewhere, who oppose the very idea of a National Changeover Plan. I say: we can no longer afford to pretend either that the euro does not exist or that Britain should not actively prepare for it. Such a denial of reality does not promote Britain's interests, it betrays them.

The euro is a reality. It exists. 11 out of 15 other EU members are in it. It represents 20% of world income, as big as the US. It will be the currency of 290 million people.

It has begun and, on the whole, it has begun well. Of course, these are early days. There will be tests and strains ahead. But the launch was successful. And those who predicted it would never happen or would launch itself in disaster, have been proven wrong.

And it will have a major impact on Britain, in or out. That much is obvious. That alone would rebuke those who would like to pretend it isn't there. 50% of our trade is with the eurozone. The launch of the euro means

that an increasing number of UK firms are starting to use the euro. Not just big business like British Steel, Ford, Philips, ICI and Unilever. Surveys by the Treasury's euro Preparations Unit show that some 45% of SMEs in the UK have trading links with Europe and they are already having to prepare to deal with the euro. The same survey showed that nearly half of all SMEs thought that the single currency would affect their business. Last autumn some 14% of SMEs were already planning to use the euro, and the latest survey by APACS showed that 247,000 companies intended to open euro accounts. 86% of large retailers have suppliers in the eurozone and 44% say they are planning to pay eurozone suppliers in euro from 1999. The euro is now an everyday reality for British business, large and small.

When we came to office, we took immediate steps to help the country prepare. Since the Chancellor's statement:

- the Treasury have run a major information and direct mail campaign for the 1.6 million SMEs in the UK. 350,000 copies of the Treasury's business fact sheets have been distributed and there have been three quarters of a million requests for the fact sheet leaflet;
- We have established 12 regional euro forums across the UK, led by senior business people, who are taking preparations forward at local level;
- Firms can now pay taxes, file accounts, issue and redenominate shares, and receive certain grants in euro, and Customs and Excise has trained 10,000 staff to respond to business needs.

Small businesses will have the help they need; the City of London is prepared and already taking a good share of euro-denominated business.

But these are all preparations for the euro, with Britain, at present, out of it. It is also necessary now to prepare for Britain being in. If, as we have already announced, we want to keep open the option of making a decision early in the next Parliament to join, we need to step up our practical preparations now. Hence the National Changeover Plan.

The public sector will give a clear sign of its commitment to prepare. Each department now has a Minister responsible for euro preparations and each will now report regularly on the preparations they are making.

Where computer systems are being upgraded, all departments will build in euro compatibility where that represents value for money. In the case of the DSS, the Inland Revenue and Customs, the scale and complexity of their computer systems makes advance preparations critical. Together, these departments are the main interface between central government and the business community and deal with almost every individual in the UK. They may need to spend some money prior to a referendum to make their IT systems euro-compatible, so that we can maintain the flexibility for Britain to make the changeover as quickly and cost-effectively as possible.

It is right that Parliament should be asked to give explicit approval to such expenditures, which will amount to some tens of millions of pounds spread over a number of years.

We will therefore include provisions in the Finance Bill and the Social Security Bill which will authorise this spending.

And of course there will be the normal votes on the appropriation accounts.

So the Government itself will be making active preparations for the euro in the belief it will be in this country's interests to join in the future should our economic tests be met. Business should start to do the same.

The National Changeover Plan sets out the range of work involved for different sectors. For example, in the retail financial sector the BBA and APACS are leading work with the Bank of England on how to approach the conversion of their core IT systems. The retail sector more generally will be taking forward with consumers and suppliers work on a detailed code of practice on arrangements for the changeover.

Businesses, large and small, need to focus on the impact of the euro on their business strategies.

On the basis of this work, and after studying the experience of the first wave of participants, the Outline Plan that we are publishing today shows that it is possible to streamline the timetable adopted in Europe, with no disadvantage to our economy and some benefit. Overall we believe it should be possible to move:

- in 4 months from a Government decision to a referendum;
- in 24-30 months from a positive referendum result to the introduction of notes and coins;
- and a further six months before sterling notes and coins are withdrawn.

This means that the whole process from a positive referendum result to the withdrawal of sterling could be completed in around three years, considerably faster than the period required for the first wave of EMU participants. A great deal of further work needs to be done to refine and develop this timetable, and particularly to clarify how soon after a positive referendum result we could actually join EMU. As the Plan makes clear we are committed to taking this work forward in collaboration with business and the wider public sector, so that we can produce a further plan in about a year's time.

I turn now to the economic tests the Chancellor set out on 27 October 1997. There is much focus, entirely natural, on the politics of the euro project. It is, of course, an intensely political act. But just as the euro cannot be conceived of, except politically; it cannot be made to work, except economically. It is, after all, an economic union.

We have, as a Government, resolved the political issues, in favour of the principle of joining, should the economic tests be met. But they must be met. The manner in which we joined the ERM is a standing monument to the danger of joining a monetary arrangement on purely political grounds.

There are two ideological and absolute positions on the euro which I do not share.

The first is "no, never". It is to rule out Britain's membership of the euro on grounds of constitutional principle for always. It is perfectly principled. It argues, no matter what the benefits in terms of jobs or industry or even influence, such a decision is simply wrong, on grounds of sovereignty. I cannot accept this. For the reasons I gave earlier, in the modern world, look around. Technology, global finance, mass communication, to say nothing of travel and culture: this is a world moving together. Sovereignty pooled can be sovereignty or at least power and influence, renewed. I suspect even if we were today to rule it out in principle and for ever, then in a few years that ruling would itself come under question and in the meantime we would lose all influence whatsoever in the economic future of the EU of which we will remain a member.

The second is an unconditional "yes, now". It is to say that economic conditions are meaningless and we should join regardless. But I believe the conditions are meaningful. It is precisely because the conditions are meaningful that we have said, to give some greater certainty to business and the country that, barring unforeseen circumstances, we would not make a decision this Parliament to recommend joining the euro.

It is worth summarising the economic tests the Chancellor set out: sustainable convergence between the UK and countries within the euro-zone; flexibility to adapt to change in the UK and in continental Europe; the impact on investment and the UK financial services industry; and whether joining the single currency would be good for employment.

Three points should be emphasised. The first is that economic convergence must be not momentary but, as far as we can accurately foresee, sustainable. We are still at a different stage of the economic cycle from the rest of Europe. But the difference between our official interest rates and theirs is narrowing. In October 1997, UK interest rates were at 7 per cent, with those in France and Germany at close to 3 per cent. UK interest rates are now at 5.5 per cent, compared to 3 per cent for euro area. The difference between our long-term interest rates and theirs is also falling, and is now down to around half a per cent. Long-term interest rates are now around their lowest for 40 years. Our inflation performance is consistent with the ECB's

definition of price stability. But it is essential that convergence is settled and sustainable. We cannot say that yet.

Moreover, for decades, we have been prone to far greater swings in the economic cycle than our continental counterparts. It has been boom and bust. It has enormously damaged investment and reduced our ability to grow without hitting an inflationary ceiling at relatively low levels of growth.

There is now an entirely new framework for economic management in place. Bank of England independence has at long last given us credibility in interest rate decisions, as well as low interest rates. And there are new fiscal rules that the Chancellor has relied upon to slash the £28b borrowing requirement and ballooning national debt we inherited and put us on a path of fiscal prudence. This new framework is a revolution in economic management for Britain. On its foundation, we have then put in place measures to boost education, skills, technology and productivity, measures to enhance the ability of business to grow and prosper. But we need to get through this more difficult part of the economic cycle and emerge stronger. For Britain to join the euro, it must be from a position of sustained economic strength.

The second point is that these are early days for the euro itself. It is sensible to see how it settles down and how the ECB steers a path consistent with both strong economic discipline and the avoidance of deflation.

And third, it will take some time to make a clear judgement about whether the direction of economic reform in Europe will enable us to meet the tests we have set out, particularly on flexibility and jobs.

Europe has a choice. Most of the countries in Europe have high and persistent levels of unemployment. The Asian crisis has brought home to all of us in the EU, the fragility of the new world of globalisation. Our world economy is more interdependent than ever before. The EU is not competing with itself; but with the whole of the world from Asia to America.

The single currency alone won't make Europe prosperous. The single currency plus fundamental reform in labour, capital and product markets and in our welfare systems, can do so.

Economic reform is crucial, not just to the success of Britain's participation in the euro but to the euro itself. I understand the worries of those who, while not ruling out the euro in principle, are nonetheless concerned about the type of euro-zone we might be joining. This is a real question. We must be sure the EU is moving forwards, not backwards. There are real problems in the EU and Britain can play a part in the solution. The economic reform programme includes the action plans which were started at our Cardiff Economic Council. They require labour market reform through greater flexibility; capital market reform through a European venture capital industry; and product market reform through extending competition and strengthening the Single Market. And we are determined that these must be in place.

The way to provide social protection today is not more and more regulation or high business costs and taxes; it is through making our workforce highly adaptable, more employable and better skilled; through encouraging the development of technology; promoting small businesses; and making our welfare systems help people off benefit and into work, with specific measures to combat social exclusion. We need a new social model for a new European reality.

I want a Britain strong, economically disciplined: with boom and bust eradicated; flexible, competitive and dynamic.

And I want us in a Europe that at best is moving firmly in the same direction, rather than trying to hold us back.

A vision that lets us adapt the European social model to the new realities of global commerce.

A vision that binds the EU and America closer together and lets us learn from one another.

We have stated as a matter of Government policy that in principle Britain should join a successful single currency. That principle is real. The practical preparations we have set out are real. The conditions necessary so that we proceed with caution and with common sense and in our own interests are real. And we have set out a vision of Europe's future.

We have a vision, but it is a vision that is practical. We should have confidence, both in our vision and our pragmatism.

I commend this Statement to the House.