

The Worshipful Company of World Traders

The XVth World Traders' Tacitus Lecture

Delivered at the Guildhall in the City of London on

12th February 2002

by

THE RIGHT HONOURABLE LORD OWEN CH

"BRITAIN'S ROLE IN THE WORLD - STRATEGIC AND FINANCIAL"

My Lord Mayor, Master, Alderman, Sheriffs, and dare I say it, fellow traders, for I have had two professions, well, certainly being a physician is a profession. There are those who doubt whether being a politician is a profession. But now I am a trader and deliberately so.

When I finished in the former Yugoslavia, but even before that my mind was turning as to how I would earn my living and I deliberately chose, having been a cold warrior firmly against the old Soviet Union and Soviet communism that it was time that I became a prosperity builder and worked and traded with the new Russian Federation. I took the view that coming rather late in life, to your trading skills, it had better be that I should go where others fear to tread, so I looked at Africa and opted for Russia.

When the rouble devalued there were moments when I wish I had looked at Africa rather longer! But now it's very pleasant to recall that the Russian economy is improving substantially and it's a much more attractive climate and I encourage you to go there. It's great country and a very great people and there is much that needs to be done.

Now I said I was a cold warrior, and that is true, and one of the most important memories of my life was just going up to Cambridge, I was working on a building site and the Suez Crisis broke. By the time I got to Cambridge, the crisis in Hungary had

broken, and I will never forget the cries for help on Radio Free Hungary until it was finally switched off and we were unable, any of us, NATO, to intervene on their behalf. It is a changed world following the fall of the 'cold war' but it is worth recalling, a little, the earlier world.

Now I speak to you tonight as a very firm convinced supporter of Britain's membership of the European Community and nothing will shift that.

The issue of Britain's future in Europe is one that has been with me all my political life. When I first joined the Labour Party in 1959, when I was first adopted as their candidate in a hopeless seat in Torrington, North Devon, the issue of Europe was a very important one. If you look back and read Harold Macmillan's diaries in his official biography, it is quite important to recall how depressed he was, how despairing he was, about the British economy, and particularly its trading future, and there is no doubt that many people turned to Europe and the then Common Market, in a mood of some despair at Britain's economic performance.

I do think before I address the issues - the strategic, the financial opportunities that face this country - it is worth you understanding at least, where I personally come from.

I went into politics because I was troubled by the inability to afford the necessary health provisions, the education provisions, but above all in that part of London where St Thomas' Hospital had its main catchment area in the south, the appalling housing conditions. Like many of my generation, the 60s were the years when we were determined to break this cycle of relative economic decline which was inhibiting our country, whether in our strategic and foreign policy role or whether in the domestic economy.

The 60s was a difficult period and so too was much of the 70s. For me, the cloud lifted, if you like, and I well remember it, when Jim Callaghan, as Prime Minister, came to the Labour party conference in Blackpool in the autumn of 1976 and told that conference, not the most receptive for his messages in normal circumstances, that the old days in which we could just spend ourselves out of recession were over and he starkly warned us that we could no

longer go on with the cycle of expenditure, inflation, unemployment.

It was a major change in economic policy when forms of monetary discipline started to be applied, of course under pressure from IMF, but this time, and most importantly, it was accepted by, broadly, the Labour movement. Then through the 80s Mrs Thatcher built on that. Monetary discipline did stay, but with it came trade union reform, with it came deregulation and with it came a greater emphasis on the Market, all of which, were vital.

I judge, and I am not going to delve too long in this past, that it took us 25/26 years to turn our relative economic decline around so that we now have what is one of our longest periods of sustained economic growth where our economy has moved up from 5th, some would say from 6th, in the economic league tables so that we are now the 4th richest nation in the world and there is, were it not for the horrendous events of 11th September last year, a much greater mood of confidence. It isn't the right of any one political party to claim credit for that. It has taken the effort of much more than politicians, albeit in part at least at times on an all party basis. It has required millions of people, and not a little sacrifice to get our economy strong again.

Having done it, my position is quite clear: I am a conservative with a small 'c' about retaining that wealth and that strength and I wish to be quite clear before I take any more experiments in the monetary area in particular, that this time it will really work.

So as we look into the 21st Century, it is possible to argue, I think with conviction, that we are stronger at home than we have been for many years and that offers opportunities and it is extremely important for me that we take those opportunities. Now I will deal with some aspects of our membership of the European Union at a later stage, but let me reiterate, it is my firm conviction, that continued membership is essential to our economic prosperity, and indeed it seems to me you don't have much to contribute to the world if you can't be co-operative with those countries which are nearest to you and build friendships and partnerships.

One of the proudest achievements as my period as Foreign Secretary was when we managed to get agreement, for political reasons, to expand the Community of the 9 to involve 3 countries

that had only recent come out of undemocratic, fascist rule: Portugal, Spain and Greece. And I now look to the new enlargements of bringing in those countries that were part of the Soviet Empire, who lived under the mistaken ideology of Communism, as being another great democratic leap forward. Costly, probably more costly than any of our politicians are prepared to admit to us at the moment. If we look at the experience of the Federal Republic of Germany with the immensely important reunification and the costs and the difficulties of absorbing the former East Germany in with the West, we know that this exercise will be fraught with difficulty but there are big geo-political gains from having Poland in the European Union, to name but the largest and the most strategically important. But Hungary, the Czech Republic, and many others, the Baltic States, are all immensely important. With it, I believe, will come greater economic prosperity for many of these countries and a deepening of their commitment, understanding and practice of democracy. These are noble objectives, and when we carp and criticise about some aspects of the European Union we should do well to remember these and then keep them in perspective.

But what of Britain's overall role? I have already referred to the horrors of 11th September. First and foremost, let us all recall, almost without exception, and particularly those like myself who have tried to practice international diplomacy over the last 15-20 years, we allowed international terrorism to grow up in our midst and we did far, far too little to contain it. It was intolerable that we allowed nation states to sponsor state terrorism, to have terrorist camps on their land, to practice hijacking of aeroplanes, to practice the planting of bombs, and to export their terrorism and their weapons. There are very few statesmen that can genuinely claim to have warned us but there have been a few.

Now we have had this alarming and horrendous reminder of the penalties of having that measure of terrorism in our midst, we must not forget. I sometimes wonder whether we are beginning to feel, particularly here in Europe, that life has really not that much changed, and we are beginning to ignore the magnitude of what happened to the twin towers in New York and to the Pentagon itself in Washington.

The American people have not forgotten, and we are witnessing at the moment an extraordinary degree of national unity in the United

States. A degree of national unity that has not been seen since the surprise attack on them in Pearl Harbour. Now that poses a very special problem for people in this country. We have built much of our diplomacy, I believe quite rightly, on an Anglo-American partnership: a geo-strategic partnership which involved almost all aspects of world international affairs.

We are realists, we don't need to be told that we are the junior partner, we know that full well. The size of the American population, the wealth of the American nation, the sophistication of their armed forces make them the only superpower, and a genuine superpower, and anybody who wishes to be in partnership with that superpower must realise that it will be a difficult relationship and that you will not get your way all the time, maybe not even in the majority of the time. Now it roles off the tongue very easily at the moment about being the "United States' poodle" and a few other such glib and difficult phrases. It's always been a hard role for Britain. It was very hard for us to accept in the build up to D-Day that it could not be a British Military Commander of the overall forces. It was hard for Winston Churchill to accept that Eisenhower would have to be the Supreme Allied Commander. It was even harder for General Montgomery! But the reality had to be faced and we faced it as we have faced others on frequent occasions in the past. But there had been real and positive gains. I don't use any of the normal glib phrases that operate, we have had enough of glib phrases and enough of sound-bites.

This is a highly complex and extremely delicate mechanism, the Anglo-American partnership, and we can trifle with it if we wish, and we can back off if we want. But to do so will have profound consequences for this country and, dare I say it, for the world.

Now I want to take a quick look at the Middle East. There is a logical sequence of events that need to be understood for countering international terrorism. There will not be stability in the Middle East until the Unites States puts considerable pressure on both sides for a permanent Palestinian-Israeli settlement. It will be difficult for America to do it by the very nature of their relationship with many of their own population whom fervently support the Israeli cause. The Unites States, no President, no Administration of any of the different political hues, can put such pressure on Israel while the Israelis legitimately fear Iraqi missile attacks, fear Iranian destabilisation through sponsored terror and the transfer of

weapons. But the Iranian people will not chose the moderate Katami reforming wing, and in the process of their own self-choice, defeat the Khomeini clerical reactionary wing until they see the United States enforce a regime change in the Iraq.

Now we face a very grave challenge to British diplomacy and it is here and with us now at this moment. When the Secretary of State, Colin Powell, former head of the defence forces, acknowledged to be, if these words mean much, a moderate or dove in the Bush Administration, can tell Congress, as he did a few days ago, about the need for a 'regime change' in Iraq, which they "might have to do alone", he does not use those words unless he thinks there is a real chance that Britain - that has been with them right from the moment that the Iraqi forces went into Kuwait, in 1990, and with them when we planned for and put troops on the ground in 1991 and has been with them all through the difficult time and some of the failed policies towards Iraq in enforcing the no-fly zone in the north which protected the Kurds. They you remember were pushed out by the Iraqis right up into the mountains on the bordering countries of Iran and Turkey, also the Marsh Arabs in the south. We have been risking the lives of our airmen with the United States in enforcing that no-fly zone ever since.

For Britain, whose Prime Minister said to the US people after the 11th September, that we were first in and would be last out in their fight against international terrorism. For Britain, the consequences of stepping aside from action to change the regime in Iraq would be devastating to our international credibility. We would look like a beached whale, pretentious and overblown.

Unlike our differences over Vietnam, where opinion was deeply divided within the US, over Iraq, America is remarkably united on the need to do something about Saddam Hussein. The military risks are obvious to them, but the political gains are also clear cut. America is ready to take casualties in what they rightly believe is preventive action which, once done, will be widely supported by public opinion in all the countries in the Middle East. We cannot expect exposed governments to champion such an unpopular cause, but have no doubt that there will be the same rejoicing as there was in the streets of Kabul when the Taliban regime was overthrown.

It is hard to exaggerate the consequence for the UK if we were to step out of our geo-strategic alliance with the US and fail to

participate in military action if the UN weapons inspectors are not granted the unfettered right to conduct searches throughout Iraq. The inspectors, you remember, were put in by UN Resolution after the absolute and complete defeat of the Iraqi forces and it was specifically stated in those UN Resolutions that they would have the right and the power to track down and remove suspect weapons of mass destruction: nuclear, biological and chemical. Now I don't need to tell you but I will remind you again: Iraq has used gas against their own people and against Iranian troops. Iraq has put biological weapons actually on to their warheads, though fortunately they were not on the missiles that Iraq fired against Tel Aviv during the Gulf War.

Now, what about Iran? The Lord Mayor has just come back from Iran. I believe he was right to go there. We trade worldwide. Our representative for the City of London should go worldwide and there is dialogue still to be held with these divided factions in Iran. I don't share the view that Iran's record in recent months has been wholly bad. There have been some welcome signs of cooperation in relation to Afghanistan. They did help in the Bonn conference, which established the concept of a coalition form of government. They did help in getting Ismail Khan, who was someone they had previously supported, into the frame of mind that he would accept the governorship of the Herat province and not the other 4 provinces that he wanted. They did help, persuade, Mr Rabbani, the UN accepted President, from coming back with armed forces into Kabul and insisting that he should be the President when everybody knew that this would not provide the cohesion and the acceptance, or at least a measure of consensus in Afghanistan. So those are good signs. But Iran still continues to destabilise the Middle East, to support Hezbollah, to conduct training camps, to supply arms as we saw with the ship with arms going to the Palestinians that was stopped by Israel.

Now we're told by the French Foreign Minister that US policy on terrorism is "simplistic". The German Defence Minister favours a "political", not a "military" role. There may well be people in this room who hold a very different view to me on what should or should not be done about Iraq. I respect those difference of views. But there is one thing I insist on. We in this country make that decision. Our Prime Minister decides on that choice, having carried Parliament with him and that we do not in any sense abdicate that

responsibility to the EU or to the US. That is the most fundamental point that we must always remember.

In recent memory, there have been important times when Britain has held a position in foreign policy which has not always been supported by quite a number of the larger countries in Europe. Some have not always been supported by the United States. Just take the example of the Gulf, which I have already talked about, and the Gulf War where EU countries were then, and still are, divided. When I talk about our economic recovery, I personally very much doubt that we would have been able to maintain the momentum of that economic recovery if we had turned aside when the Argentinians had invaded the Falklands. If we had just left them with the Argentinian flag flying there. Or even worse, had put our Navy and our Marines and Army and Paratroopers down into the Southern Atlantic and then turned-tail having been defeated.

You don't isolate, politics, economics and foreign policy. They intermesh together and it requires a degree of national unity, of national confidence, of national will to stand and resist. Nor was it easy for our present Prime Minister at the time of the Kosovo war, when it was becoming ever more painfully apparent that unless there was a threat of ground troops accompanying the bombing, Milosovic and the Serbs would stick tight and save their tanks in Kosovo and continue to thrust out the Kosovars, the Muslims, into Macedonia or into Albania. It required an important measure of independence and of courage to tell President Clinton that we believed the NATO strategy was incorrect and that just relying on bombing was insufficient and that we had to be ready to put troops on the ground and if need be Britain would put as many as 50-60,000 troops to show that we meant business.

Now these are the decisions of a self-governing nation. Whether you like them or not, it would be the same decision of a self-governing nation if we were determined to stay with the Americans in their policies over toppling the Iraq regime.

Now, how can we continue to do that? Firstly, recognise that there is an inter-relationship economically to foreign policy. Foreign policy often does have costs and during a particular war you may have to take additional financial burdens which puts a strain on your own economy. You limit yourself in foreign policy if you

limit yourself too much in your economic risks. The two are tied together.

Let's deal with this question of monetary union. Let's just go back quickly in history. I am by training a natural scientist. I tend to like to look at the evidence. I've seen three monetary experiments fail after trying genuinely. I am afraid I have to confess, in all three of them, I supported the Government of the day in doing these experiments with monetary union.

The first one was in 1972 when we joined 'the snake'. You may remember the strange currency arrangement that was operating at that particular time. Edward Heath was the Prime Minister and we lasted 6 weeks before we were forced out of the snake. We thought that monetary union had then disappeared. We promised people, even those of us in the "yes" campaign in the Common Market referendum in 1975, that the issue of monetary union was no longer relevant, we dismissed it in our own 'yes' campaign leaflet and told the voters that the risks of unemployment and not controlling your economic policy were over. Little did we realise that it would come back almost within the year.

The next experiment was when Nigel Lawson shadowed the deutsche mark. It seemed to me quite sensible but the consequences of that, nearly a year of experiment, were extraordinarily damaging now in retrospect.

The third experiment was the Exchange Rate Mechanism, supported by every single newspaper, well more or less every newspaper, certainly all the political parties, and we went in in 1990 and we were forced out in 1992.

I could have dwelt on the delayed devaluation in 1967, the delayed devaluation in 1949, and if I was really unkind I would remind you of what Winston Churchill admitted was his biggest mistake, which was going back onto the gold standard, before the Second World War.

Now I am a simple man. I have had to teach myself economics and some of you may say by the end of the lecture it has not been a very successful tuition course. But if I fail three times, each time using a voluntary system, which I can pull out of, I question very carefully, before I go into a fourth experiment where next time it is

virtually impossible to get out. Theoretically, of course, no Parliament can tie its successor. Theoretically, you could just walk out. But walking out of the European Monetary Union unlike the Exchange Rate Mechanism when this time you have abolished your own currency is mighty traumatic and nobody would easily do it.

So I hope that I have convinced you of one thing: that my attitude to monetary union and the single currency does not stem from any anti-Europeanism. I have twice resigned my political career and taken immense risks with it on virtually the single issue of Britain's membership of the European Union. But I do urge everybody, and particular those politicians and columnists, none more so than in the Financial Times, to look a little more carefully at these questions. What is the hurry, first of all? Do we need to go in now? Is our economy weak?

There is absolutely no evidence whatever that our years of watching, the preparation and the development of the single currency has lead to any serious deterioration in our performance. Since 1992, Germany has lost 1 in 5 manufacturing jobs, France has lost 1 in 10 and the Britain has lost just 1 in 15. We all admit that one of the disadvantages we have had is with a high or low Euro, depending on how you look at it, manufacturing industry has had to work up hill.

Now, no argument, in my experience, is ever won, 10 to nothing, or it's certainly not an argument worth having. Most arguments are won on the balance of advantage. But when I look at the inflation rate in this country, less than half the Eurozone's, when I look to the record of the Bank of England, whose independence I think was one of the best decisions of the new Labour Government in 1997, and I compare it with the ECB, I don't want any more experiments. I want to see the ECB learn from some of *our* experience. When I look at unemployment being nearly double in the Eurozone compared with this country, I see Germany now with 4.3 million and rising unemployment, 2.5million in France. I know there are differences in population but that does not explain away why we have only 1million in Britain.

I am not complacent. There are problems ahead for the British economy. When I look at projected growth rates:

	2001	2002	2003	3 year total
Germany	0.7	0.7	2.8	4.2
France	2.0	1.5	2.6	6.1
Italy	1.8	1.3	2.7	5.8
UK	2.3	1.7	3.0	7.0
Eurozone	1.6	1.3	2.9	5.8

European Commission (*European Economy*, November 2001)

We are growing faster, as projected at least in the next few years, than the key Eurozone countries. We have grown faster over the last two decades:

	1980-90	1990-99
UK	3.2	2.5
US	3.6	3.3
France	2.4	1.5
Germany	2.2	1.3

World Bank (*2001 World Development Indicators*)

Now, I know, people will say, "oh, he's a politician, statistics can prove anything".

I then look at the position of London, Londonium as Tacitus would call it, and I look to it as one of the great miracles of our economic revival. That at a time when we were facing intense worldwide competition in manufacturing, when with all the imaginative design and new investment, we could still not compete with some developing countries, we have been able to build up our financial services, our insurance industry, the whole matrix of skills and endeavour which combines to build what we think of as the City of London.

Though I must say, Lord Mayor, since I am here, and I am not going to miss the opportunity, as a resident of Limehouse and a strong supporter of Canary Wharf, I do hope that the City of London and Canary Wharf will put their act together and bring together the two ends of Commercial Road. I think it will be a tragedy if Canary Wharf goes on extending to the East and there is

left this sort of one mile gap of extremely disadvantaged people, properties and businesses.

Canary Wharf is an amazing success story. It has provided an extra lung to the City of London. I now look at the statistics about what you're doing. Firstly, how many people realise that the currency of invoicing for UK goods trade in 2000 was, as a percentage figure, exports sterling 46%, EMU currency 21%, other EU currencies 1%. US Dollars 29%. And if you take imports the figures are 42% for sterling, 19% for EMU currency and 1% for other EU currencies and dollars 34%.

Currency of invoicing:

Table 1. Currency of Invoicing for UK Goods Trade, 2000, %

	Export s	Import s
Sterling	46	42
EMU currencies	21	19
Other EU currencies	1	1
US dollars	29	34
Other currencies	3	4
Total	100	100

N.B. EMU currencies include the euro national legacy currencies, the euro and the Greek drachma. Other EU currencies comprise the currencies of Denmark and Sweden

SOURCE: HM CUSTOMS & EXCISE, NOVEMBER 2001

Now I would like to hear a little more about that. I am a trader, as I said to you, and I suspect that I am like many people in this room: we work in dollars. Steel is a dollar trade; Iron ore: dollars; Oil: dollars; many of the energy fields: dollars. We change our figures

and we start to talk about pounds twice a year - when we present our Annual General Meeting results and when we produce our half-yearly results . We think in dollars, we act in dollars, we work in dollars, we hedge in dollars, we use the City of London facilities for all those things.

Now, we are not alone in this. The dollar is still a very significant part of the British economy and we need to recognise that fact and we need to take account of it. Then look at regional share of UK trade: Euroland is 44.6%; the USA, Americas (excluding the United States), Asia, Australia, Africa 42.7%.

Regional Shares of UK Trade:

Table 2. Regional Shares of all UK Current Account Credits

(including investment income)

Region	Share of UK CA Credits, 2000, %
Euroland	44.6
EU	49.2
<u>TOTAL EUROPE</u>	57.2
<u>USA</u>	19.7
Americas exc. USA	5.3
Asia	13.2
<u>AUSTRALASIA & OCEANIA</u>	2.1
Africa	2.4
International Organisations	0.1
Total	100.0

Source: ONS Pink Book

I could go on and will put them on the website for you to see the market for foreign equities:

Table 5. Markets for foreign equities, 2000

	Turnover	% of world turnover	Number of foreign companies listed	% of total listings
London	2669	48	448	15
New York	1142	21	433	14
Nasdaq	844	15	488	16
Germany	321	6	245	8
Stockholm	96	2	19	1
Euronext	74	1	420	14
Others	380	7	1019	33
Total	5526	100	3072	100

Source: International Financial Services London

The percentage of world turnover, the number of foreign companies listed. Again, the striking thing is that London even surpasses New York, and certainly Germany and Stockholm.

Now, inward investment, we heard a lot of moans about that it is bound to fall, inevitably - that word that keeps coming up. Well, it's not the case, whether you look at the UNCTAD figures or others, again it shows that we are in second place after the United

States, substantially ahead of the Netherlands and then France and of Germany and these are not minor differences. They are substantial. In the year 2000 for us in trade terms was - I am doing a brief calculation, I don't think I trust myself to do it - but it was very substantial.

Inward Investment into the UK compared with other countries:

Table 3. FDI inflows in 2000 and 2001 in developed countries, \$bn

	2001 (Jan-Sept only)	2001 UNCTAD estimates for full year	2000
<u>UNITED STATES</u>			287.
	144.1	160.0	7
United Kingdom	54.6	72.9	119.
Netherlands	30.2	40.3	7
			53.0
<u>FRANCE</u>			
	29.0	38.7	44.2
			176.
Germany	20.8	24.9	1
Canada	20.4	27.2	63.3
Belgium/			218.
Luxembourg	17.1	34.3	0
Spain	16.8	22.4	36.6
Italy	13.8	16.6	13.4
Sweden	13.6	18.1	23.3
Switzerland	8.6	11.5	16.3
Ireland	7.2	14.3	19.0
Denmark	5.8	7.8	32.3
Japan	4.4	5.9	8.3
New Zealand	2.6	3.5	1.5
Portugal	2.2	2.7	6.3
Finland	1.8	2.2	8.8
Austria	1.8	2.2	8.6
Greece	1.4	1.9	0.8
Norway	0.9	1.2	6.0
Australia	0.2	0.4	11.7

Source: Unctad

Look at the City of London's status:

City of London Status:

Table 4. Trends in London's share of international financial markets, %

	1990	1995	2000	2005	2010	2015
	1.0	1.0	1.0	1.0	1.0	1.0
	1.0	1.0	1.0	1.0	1.0	1.0
	1.0	1.0	1.0	1.0	1.0	1.0
Cross-border bank lending	1.0	1.0	1.0	1.0	1.0	1.0
Foreign equities turnover	1.0	1.0	1.0	1.0	1.0	1.0
Foreign exchange dealing	1.0	1.0	1.0	1.0	1.0	1.0
Derivatives turnover	1.0	1.0	1.0	1.0	1.0	1.0
- exchange traded	1.0	1.0	1.0	1.0	1.0	1.0
- OTC	1.0	1.0	1.0	1.0	1.0	1.0
International bonds	1.0	1.0	1.0	1.0	1.0	1.0
- Primary market	1.0	1.0	1.0	1.0	1.0	1.0
- Secondary market	1.0	1.0	1.0	1.0	1.0	1.0

Source: International Financial Services London

Now, against that sort of background, are we sure, are you sure that we should join monetary union? Fortunately, you're going to have a choice in a referendum, but we should ask ourselves in every walk of life, what are the implications and look at some of the difficult and different implications that we have to face.

There is an uneasy understanding that the foreign policy and strategic question is not unrelated to the economic question. I have already indicated to you that there are costs of a military exercise and risks. The Gulf war went very well but if it had gone very badly it would have had profound economic consequences. As members of a self-governing nation even if the decision is one that you don't like you live with the consequences. You pay a penalty. We paid a pretty heavy penalty in pressure on sterling at the time of Suez.

Now, if you are a member of the European Monetary Union will those other members of the monetary union be prepared to pay the same price? I don't believe they will. I think that you would find if there were a difference of foreign policy assessment, if you were embarked upon an exercise which you had undertaken because you thought it was necessary and it was feeding back disadvantageously into the Eurozone countries, they would, quite legitimately, make representation which were not foreign policy but economic objections. Now, fair enough say some people, that is what you should do. But do most people want that? Is that going to have to be a factor when we take foreign policy decisions? But then there is something else.

What does monetary union involve? It is not just only the one-size-fits-all interest rate policy. The one-size-fits-all exchange rate policy. But we have seen in particular in the last few weeks an attempt to impose a one-size-fits-all fiscal policy. And Germany, the architects of the stability pact, have broken through by a majestic use of political power. Fine you may say. But we were sold a purely independent monetary union with an independent European Central Bank.

Now if it is realistic and rational, which I believe it to be, that the politicians will get involved in economic policy, then you have to ask yourself: is this really a completely independent economic policy or is it not the manifestation of political power and manoeuvring inside the Eurozone countries? And I think that Germany's demonstration of muscle is very clear on this: it is political. This monetary union has always been political.

It was a deal between Chancellor Kohl and President Mitterrand. Now as traders we don't object to deals. As a politician I can certainly not object to deals. That is what you are there for. To go

and make often difficult, and sometimes, sordid compromises that nobody else wants to do and when you've done it they attack you for it. That is the nature of the political debate.

But let's be clear about what we are entering into and let's understand it. I happen to believe that if you do go into monetary union you do need a stability pact. I actually do believe financial disciplines are necessary to make EMU work. I do think Finance Ministers in the Eurozone have a point in wanting an economic government to ensure the Eurozone does not break up.

I am convinced that a very fair measure of harmonisation, not perhaps exactly the same, but a fair measure of harmonisation, will be necessary not just on tax, but on welfare benefit policies, pension policies and on many of the other big economic parameters of economic policy.

Now even those who are most in favour of EMU in this country say "oh, no, no, no, there's none of that, in the monetary union.... there'll be no interference with direct taxation or benefit levels..." Well, what about the withholding tax, which you have all lived under threat from; fortunately now, for the moment, pushed aside. But other measures will be taken. Look at the pension gap in provision between the different member states of the European Union and imagine the pressures and tension it is going to produce in the Eurozone particularly facing a rising population of people active and over the age of 65.

Now these are factors that have to be weighed in the balance along with the whole question of how much our economy is really geared to the continental economy and how much of it still owes quite a lot to the influence of the United States, Canada, Mexico, NAFTA and the wider trading world.

These are legitimate questions and there is no room for error. This time we must get this fourth experiment right, if we take it. This time, though, we need not take the risk. We are a strong economy. We have gone through our pain. We don't have to put this success in jeopardy. We can wait. Joining is not inevitable.

So these are some of my cautions about what is being envisaged on the timetable of a referendum before the Intergovernmental Conference at the end of 2003 or early 2004. I am not in principle

against the euro. It is very difficult in principle to be against anything being a politician. Almost everything is tradeable. I've only ever said "never" once and I said I would *never* join the Tory Party and that has been kept. But I do believe that "never" is a tricky word to use in politics,. Some of my assumptions about the strength of the City of London might be proved over a period of time to be incorrect, and given that I have said that it is now such an important element in our economic life, that would have to be weighed very carefully in the balance.

So if you fail us, in the City, if you don't adapt, if you don't anticipate, if you're not ahead of your time, if you're not the fastest to move into the new technologies, it may be that we would have to re-assess. So you have a heavy responsibility. There are, however, other problems with the single currency. There is no historic record of a single currency across nations, being successful and sustained, over a period of decades, without those countries become part of a single state.

It is very hard to envisage a single currency without a single state. Because you are creating a hybrid. As I have indicated to you I think the pressure from the Finance Ministers in particular in the Eurozone for an economic government is well founded. I think that they are, effectively, within a single currency zone going to be driven more and more to create to a supranational economic government. And yet for reasons which I have tried to develop in this lecture, for strategic, foreign and diplomatic reasons, I want at the very minimum, to retain intergovernmentalism in foreign and defence policy.

Actually I have used "never" in one context. I, personally, will *never* accept, in my lifetime at least, qualified majority voting in foreign policy and defence. We should *never* be driven into foreign policy and defence decisions that we couldn't support. That it would be implemented even though we were in a minority. I don't think that goes with, not just the grain of politics, I don't think it is compatible with being a self-governing state. I don't think that it is compatible with the present structures of democracy in the UK.

But I don't say "never" to the Euro for another reason - because time changes. A new generation, my children's children, might genuinely feel European citizens, they might be ready to go to war for Europe, they might be ready to respond to a European President

and a European Government and on these keys issues of foreign defence and economic policy they'd be content to have a European leadership.

Of course, they'll keep the Westminster Parliament. You may say it is not much use any how. I don't believe that. It has its down moments. But it can still make or break Prime Ministers, after all it broke Margaret Thatcher. It is a powerful body if a Prime Minister alienates their own party. For all its faults, I have seen it as the cockpit of the nation. I remember that debate on the Saturday, on the first day of the invasion of the Falklands when it did speak for the country. It has still much to recommend and I for one don't want to put that in jeopardy or challenge it.

So I say finally to you, my Lord Mayor. There are some of us, indeed, I would say millions of us, who are not prepared to put at risk the continuation of this country as a self-governing nation, by which we mean, quite simply a few things, we will do our utmost to reach agreement with our European partners, with our American friends, with members of the Commonwealth, but in the last analysis we reserve the right to make the key decisions about our destiny ourselves, the key economic decisions, the key defence decisions and the key foreign policy decisions and we are not about to succumb to some fashionable faddist theory that the days of the nation state are over.

One of the things which gives me confidence about this country is that in the group of polling ages the 18-24 group are the ones who are most committed to the European Union and most against the euro. I'll leave you with that thought. I think it tells us something very significant. I think it tell us that that generation have not lived with the defeatism about the world economy and particularly the British economy. They have seen us prosper all of their adult life and in their political memories seen Britain act around the world independently and decisively. They don't see why we have to abandon what works for us. They have confidence in our system. When you get a little bit older, into the 30 or 40 age group, you still have memories of the failure under the ERM, the troubles of the 80s and 70s. Then perhaps you take a pessimistic view. I'd like to believe that that younger generation are the generation that will give us back our self-confidence, the bolstering and the courage to remain a self-governing nation.

The source material used in this text were provided by Capital Economics Ltd.

This document was transcribed by Law///Alert Limited. For further details see www.lawalert.net