



Foreign and Commonwealth Office

London SW1A 2AH

CONFIDENTIAL

2 March 1990

070
Dear John,

CCPC
CM

British Membership of the ERM: Spanish Views

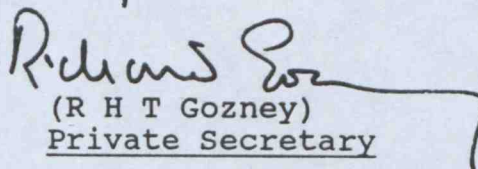
The Foreign Secretary thinks the Chancellor should know that in Madrid on 26 February he was button-holed by the President of the Central Bank of Spain, Sr Mariano Rubio. Sr Rubio said he wished to make a fervent appeal to the UK to join the ERM. Although we appeared from our statements to be worried about German economic dominance of Europe as long as the United Kingdom stayed out of the Exchange Rate Mechanism we were encouraging precisely that.

Sr Rubio said that London could not maintain its claim to be a serious financial centre and stay out of the ERM. The Foreign Secretary explained the conditions which would need to be fulfilled before the UK would join the Exchange Rate Mechanism. He added that the argument about the second stage of the Delors report was a political one on which both main British parties were agreed. Sr Rubio took this as a cue to say that of course EMU was a political issue. But he challenged the view that by agreeing to Delors stages II and III the British Parliament would be abdicating its responsibilities. Had the United Kingdom not been a democracy in the 1920s and 30s, and was the United States not a democracy now, although in both cases monetary control did not lie with central Government?

Sr Rubio said that the Spanish experience of the ERM had been good. In joining the Mechanism the Spaniards had been influenced by the French experience: France had a tendency to inflation which had been curbed by ERM membership.

I am copying this letter to Charles Powell at No.10.

Yours ever,


(R H T Gozney)
Private Secretary

John Gieve Esq
PS/Chancellor of the Exchequer

CONFIDENTIAL