

NOTE FOR RECORD

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Governor's Conversation with Sir Douglas Wass
Friday, 11th April

On the problems of the corporate sector Wass confirmed that the Treasury were doing some work on contingency plans but said that he, himself, now felt less worried than he had done earlier - partly on account of the CSO revisions but also in that his industrial contacts were reporting less worry than he had expected. The Governor commented that from what we could see the main problems - actual and potential - centred on small business where there were already signs that they were being squeezed for trade credit by larger organisations.

There was a discussion on the possible indexation of Government stock. Wass said he had told the Chancellor that he should talk to the Governor about this, probably towards the end of April, when the various technical papers being discussed by JSFf and Middleton had been agreed. Wass said that not merely Nigel Lawson, but now he thought, both the Chancellor and the Prime Minister were in principle favourably disposed to the idea. Wass, himself, still viewed it with extreme caution and considerable doubts. This was probably partly because in his heart he was pessimistic about getting the rate of inflation down quickly and substantially. The necessity for and difficulty of keeping out overseas purchasers was also discussed.

Asked by the Governor what was particularly concerning the Chancellor at present, Wass said that he thought his main priority was the handling of the public sector: how to increase its efficiency, seriously reduce its manning levels, and how to develop acceptable principles for its pay determination.

It was agreed that it was of the utmost importance to the Government's strategy to secure a low wage round next winter. In this context Wass said that the unions still appeared to him

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chastened and leaderless. Len Murray he thought was a worried man, very concerned to avoid battles that the unions could not win. He had been against the steel strike and had actually tried hard in the early stages to avoid it. Murray and the TUC leaders generally hated not talking to Ministers as they had become used to doing. If they could not do this, their whole rationale was called in question.

Wass said that he thought that the idea of a package was now dead. But if it did become active (in the context of higher interest rates) he strongly preferred the smaller of the two proposed packages without any controls on HP. The Governor concurred.

The Governor said we had been disappointed that the Treasury had not wished our press guidance about the trends in M3, based on the banking figures, to be explicitly attributed to the Bank. Everybody knew that we were the source of the briefing and we were beginning to look ridiculous. Wass in reply revealed some unhappiness about the whole question of guidance based on the banking figures. The Governor said we could hardly stop now; and Wass undertook to think more about it.

The Governor then took up the question of referring to the Chancellor for approval what were simply (and explicitly) technical operations in the markets. Wass said he had suggested that the Chancellor might make a general statement in a speech about this subject which presumably - though Wass did not say so explicitly - would mean that thereafter the Chancellor would not wish to be involved.

Finally, the Governor raised the question of Nigel Lawson's reply to Austin Mitchell's parliamentary question asking for a directive to the Bank on subsidised loans to Staff. Wass was not aware of this and agreed that Lawson's reply was odd and inappropriate. He said he would look into the circumstances.

*Extract
with
PPS*

Cwm

14th April 1980.