

THE GOVERNOR has seen

He lunched, and continued
discussions after lunch, with

POINTS FOR SIR DOUGLAS WASS: 14TH DECEMBER

the Governors
JB
14/12

1. The markets.
2. Iran.
3. Monetary base control/EMS etc. - the corset and your request to the banks.
4. Roll Committee and the Bank's membership of the NEDC (papers attached).
5. Intervention Policy (Hancock's memo of 22nd November attached and the Times article of 19th November).
6. City Salaries - the Fell exercise.
7. Rhodesia.
8. Treasury Select Committee.
9. ?Wilson Committee.
10. (Background) Honours - for Hitchcock and recognition for the FHA (papers attached).

J.S. Beverly (4121),
Governors' Office.

13th December 1979.

JB
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SECRET

14.12.79.

Received 20/12

NOTE FOR RECORD

GPS
I need to go through this to confirm actions being taken as indicated OR

The Governor
Mr. Pfordre
Mr. McMahon
Mr. Dow
Mr. Ashenden

THE GOVERNOR'S CONVERSATION WITH SIR DOUGLAS WASS

The Chief Cashier

1. The Economy and Wage Claims

Wass said his feeling was that Government policies were succeeding in some ways rather more than one might have hoped. Examples were the miners, the steel workers and the Shell tankers. However, there were too many settlements at too high a level and though perhaps the upward drift had been halted we must expect a number of high settlements in the public sector as well as in profitable parts of the private sector. He went on to talk about the correspondence between Littler and G.B. on the possible developments particularly relating to the clearing banks and said that the Chancellor had first thought of seeing the bankers himself. Wass wondered whether this might not better be done by the Governor and the Governor noted that the question went a good deal wider than the banks; moreover, there was evidently something in the argument that they needed to bid to draw labour into the City. It was left that the Governor would discuss the problem here and then revert to Wass.

This led on to some discussion of the presentational problems that would flow from the publication of high banking profits, with Wass stressing how vulnerable the banks were to their critics. He wondered very much whether any mitigation was possible, for instance in the presentation of their accounts. The more emphasis they were able to put on demonstrating the need for profits to maintain their capital base and on the different picture that inflation accounting would produce, the better. It was agreed that it would be helpful for the Governor to talk to the banks on these aspects though Wass was anxious that we should ensure that they did not draw therefrom the conclusion that the Treasury was thinking in terms perhaps of some special tax. This was not in their minds.

2. The borrowing requirement and Treasury estimates

The Governor spoke of the sharp deterioration in the picture now seen for December as against earlier estimates and on the fact that the figures for the past three months had all been consistently and heavily wrong in the same direction. He asked what could be done to

improve on this performance. Wass was first inclined simply to say that forecasts were always wrong and that high interest rates gave a tremendous incentive to the withholding of tax payments. When the Governor pressed him further on whether there was perhaps something more fundamental at work Wass said that his gut feeling was that it was no more than a matter of lags, though he did concede that Customs receipts had probably been pushed down by recessionary tendencies. He would look at the figures more closely.

3. N.E.D.C.

Wass said that the Chancellor was quite keen on the idea of the Governor becoming a member and asked if the Governor felt this would be embarrassing. The Governor replied that he thought it would be a good move but made it clear that he hoped it would not be thought necessary for him always to appear in person because of the call on his time that would be involved. Wass said that the last meeting of the Council had gone well. Murray had put his position well but the TUC attack lacked conviction and the risk of their withdrawing from tripartite discussion now seemed slight.

4. Composition of the Court

Wass referred to William Armstrong's letter to the Chancellor and said that they would welcome advice on the response to be given. The Governor explained that he was not opposed in principle to having a clearing banker on the Court though there could be no question of someone as a representative of the clearers. A CEO would in his view be impossible and amongst the Chairmen the obvious choice would be CJM - who would find it difficult. What it came to was that the idea though acceptable in principle presented problems in practice. It was agreed that we should draft a reply. Wass noted that it was in any case odd for Armstrong to direct his fire at the Chancellor who was only a link in the chain stretching from the Governor to the Queen. It was noted that the Governor would be writing shortly about appointments for end-February.

5. Medium-term financial plan

Wass noted that we had not hitherto been drawn in on this and thought that we should be. He undertook to send a paper showing where they had got to. He was worried that the present expenditure plans were not stringent enough to provide a satisfactory basis for a medium term plan without involving the necessity for a substantial rise in taxation. The Chancellor would, no doubt, index allowances and raise indirect taxation in line with inflation but something more

than this would be needed. The Governor suggested that some of the hitherto sacred areas of expenditure would need to be attacked and that social security benefits were one of the areas which would need to be looked at closely. Wass agreed but noted the problem of carrying the Cabinet in such matters.

6. Monetary control

The Governor said that he had started discussions here on an early draft of the proposed consultation paper. This raised many difficult problems, not least in that it led into so many related questions - e.g., EMS. He thought that a programme for our discussions would be helpful and Wass welcomed this. It was agreed that JSff and Littler might work out such a timetable which should provide for talks at the Governor/Wass level before Ministers were brought in. The next step would, in Wass' view, be to take the matter with the Financial Secretary and the Chancellor together. It was noted that the papers were a long way from being in a form suitable for the Prime Minister. Wass noted that the Prime Minister and the Chancellor were continually pressing for progress and made it clear, in answer to a question, that it was the Bank that was seen to be responsible for the absence of faster progress, this being our particular area of responsibility. Wass also said that he had a feeling that we had not yet found the right solution in this area. He was not all that keen on a monetary base control feeling that it would raise as many problems as it solved; for instance it might create institutional problems and would not avoid the facing of problems in the interest rate and fiscal areas. The Governor mentioned the EMS on which Wass said that the Prime Minister had recently seemed to be moving against this. One of his own worries was about the possibility, if any method of rationing credit other than by price was adopted, that we should drive a substantial volume of business offshore. He remained not at all sure that the monetary base was the line to pursue. The Governor said we hoped to get a draft consultative paper to the Treasury before Christmas and would look for talks at the Wass level early in January.

7. Iran

There was a brief mention of the problems here with Wass commenting that the Prime Minister's sympathy had been much eroded by the New York District Court action. The Governor voiced a warning that if anything happened in this context to disrupt severely we should have a major crisis on our hands.

14th December 1979.

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