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Exec Ppt Vol 2

SUBJECT.



10 DOWNING STREET

cc GP/E
Mr W...
Top copy: Elton Ppt,
Lunch with Clearing
Bankers Oct 79

From the Private Secretary

6 February 1981

Dear John,

I am sorry that I have not written earlier about the Prime Minister's lunch with the Committee of London Clearing Bankers last Monday. - 2/2/81

The discussion ranged widely over a number of topics, including the short-term prospects for industry, recent monetary developments, and monetary control. The Prime Minister expressed concern at the continued growth of lending to the personal sector, including lending based on credit cards. The bankers pointed out a good deal of the lending to the personal sector was in fact to small businesses, and that credit card lending represented only a small proportion of it; they also pointed out that, since November, the banks had stopped advertising credit cards. On the question of lending to the corporate sector, they denied the criticism that in too many cases overdraft facilities had been made available to enable companies to finance uneconomic pay settlements; they argued that the clearers had played a positive role in preventing the recession from causing even more bankruptcies than had taken place. On the other hand, to the extent that in some cases overdraft facilities might have been excessive, it was pointed out that the clearers faced strong competition amongst themselves and from the American banks: if increased credit facilities to a particular borrower were held back, all too often another bank would step in.

/ They also

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They also raised the question of a possible windfall tax on bank profits. Sir Jeremy Morse said that they were strongly opposed to such a tax. They had had discussions with the Chancellor the previous autumn with a view to helping the Government reduce the PSBR by other means - namely, that they should take back some of the export credit currently being refinanced by the Government. They had not put a figure on their proposal at that time, but they were now prepared to come back to the Chancellor with a specific proposition. In response to a question from the Prime Minister, he said that he thought they would be prepared to offer to take back £1 billion.

The Prime Minister gave no indication of how the Government would move on the windfall tax proposal. She expressed interest in the proposition put forward by Sir Jeremy on refinancing, but she made it clear that the Chancellor would have to consider it carefully before taking a view.

Sir Jeremy has now written to the Prime Minister with a copy to the Chancellor (his letter of 2 February), and I should be grateful for advice on how the Prime Minister might respond.

I am sending a copy of this letter to the office of the Governor of the Bank of England.

T. L.

A. J. Wiggins, Esq.,
H.M. Treasury.