

Echo M
cc Maiter
Civil Service - Mansford
Pt 2

NOTE FOR THE RECORD

The Chancellor of the Exchequer called on the Prime Minister at 0845 this morning.

They discussed the Treasury note on "Domestic Monetary Prospect and Bank Borrowing" enclosed with Martin Hall's letter of 12 September. The Prime Minister expressed concern at the fact that bank lending to the private sector appeared to be continuing at a high level. She asked whether anything could be done to bring the figures down.

The Chancellor explained that the recent high level of lending had surprised most analysts. The reasons for it were by no means clear. For the reasons set out in the note, it was likely that there would be a turn-down before very long; but this could not be guaranteed. The current strikes were aggravating the financial position of the company sector, and if they continued this would tend to add to bank lending. It was true that the "corset" control was not working very effectively: the banks could get round it by manufacturing reserve assets. But there was no reason to believe that closing that loophole would in itself prevent bank lending from rising. Banks would find some other way. Lending to the personal sector, although it had risen fast, only represented 17% of total lending.

The Prime Minister said that she hoped that Bank lending would turn down. One idea might be to call in the Chairmen of the clearing banks to discuss the reasons for the continued high lending levels, and anything which they might do to bring them down. She urged the Chancellor to keep in close touch with Gordon Pepper and other market analysts.

The Prime Minister then raised the question of the Treasury Departments' contribution to the Civil Service cuts exercise. She said that she was very disappointed by the Chancellor's response

to Lord Soames' options exercise. In particular, the Chancellor was only proposing a reduction of 6.6% for the Inland Revenue. The Revenue staff had increased by more than 10,000 since 1970 and she could not believe that a more substantial reduction was not possible. She intended to support Lord Soames in Cabinet in urging for a greater reduction.

The Chancellor explained his difficulties: in particular, he said that 6.6% was the maximum that could be achieved by cutting back functions. He would, of course, be trying to improve efficiency as well, but this did not appear to be part of the exercise and no staff cuts had been scored against this aspect. The Prime Minister replied that she could not agree: she did not mind how the Chancellor found the savings, but they must be found.

12.

13 September 1979