

MR MONCK

cc Mr Ryrie  
 Mr Middleton  
 Mr Britton  
 Mr Pirie  
 Mr Turnbull  
 Mr Davies

CHANCELLOR OF THE EXCHEQUER

## CONVERSATION WITH THE GOVERNOR

Sir Douglas Wass had a long telephone conversation with the Governor yesterday afternoon, which was recorded in a minute to the Chancellor. Some of the conversation was of a personal nature; I enclose abridged copies of the minute which cover the points of more general interest.

determination. I described where our thoughts were taking us and related them to the analysis which Mr Burns had provided for you before the meeting with the Prime Minister last night. The Governor expressed his acute anxiety that we might be looking ourselves in too unqualified a manner to make such a decision. I was relieved when I told him that, while this remains in the forefront of our reformulated targetry, it would be qualified in a number of possible ways, some of which might be largely verbal. I said that I would want to talk with him further about the form of words we might use to qualify the objective. There was still some uncertainty whether the exchange rate would be such a qualification but we certainly thought that real interest rates would be relevant. The Governor welcomed this suggestion, and we are to meet some time next week.

J M G TAYLOR  
 20 February 1981

CHANCELLOR OF THE EXCHEQUER

After our meeting earlier this evening I had a long telephone conversation with the Governor.

2. We discussed first of all the question of interest rate determination. I described where our thoughts were taking us and related them to the analysis which Mr Burns had provided for you before the meeting with the Prime Minister last night. The Governor expressed his acute anxiety that we might be locking ourselves in too unqualified a manner to £M3, and was much relieved when I told him that, while this aggregate would remain in the forefront of our reformulated targetry, it would be qualified in a number of possible ways, some of which might be largely verbal. I said that I would want to talk with him further about the form of words we might use to qualify the objective. There was still some uncertainty whether the exchange rate would be such a qualification; but we certainly thought that real interest rates would be relevant. The Governor welcomed this suggestion, and we are to meet some time next week.

6. We also talked about the cash ratio and the source of the Bank's income under the new system. I asked how the discussions with the Court had gone today. The Governor took a deep breath and said that they had been very time-consuming and the Court had been considering this matter most of the day. The idea of introducing a form of charge on banks which did not now pay one - something that was involved in the idea of a levy applying to all banks and not just the clearers - was bothering the Court. There was great anxiety that some banks might not comply. The Bank had very little authority to insist on compliance. Indeed, now that the Governor's role vis-a-vis the banking system rested on a statutory rather than a moral basis it was more difficult, not less,

for him to approach banks with the sort of request that he was contemplating. He said that he had members of the Bank working hard at the moment on all ways in which he might seek to make a request authoritative. One of these involved the implied threat of legislation, something he was not at all keen on. Others might turn on the Bank providing a service, for which in some sense the levy might be compensation.

7. I said that I acknowledged the delicate position in which he was in. But we were in a difficult position too. We felt that we had to say something specific on this matter in the Budget in order to make the move towards MBC a visible and definite one. Time was running out and I was nervous about what we could actually say in the Budget Speech. The Governor said that he was very conscious of this and wanted to make progress speedily himself. He agreed to come back to me on this matter early next week.

DW.

DOUGLAS WASS

19 February 1981