

NOTE FOR RECORD

Copies to:

- Mr. Fforde
- Mr. Dow
- Mr. Loehnis
- Mr. George
- Mr. Goodhart
- Mr. Walker

14/4

*Don't Deputy Governor*

*I should like to take up X1 below in a much policy group*

The Governor's Conversation with Mr. Middleton  
 Wednesday, 2nd April

Middleton reported the state of play on indexation along the lines of the Treasury Aide Memoire circulated by JSff on 2nd April. The intention was that the Bank and Treasury would circulate each other with the relevant working documents including the Prospectus ahead of a Middleton/Fforde meeting on Tuesday, 15th April. It was aimed to have a general paper for Ministers by the end of the month which would reach the Chancellor via the Financial Secretary. Reference was made to the alleged view of Wass that the interest rate might be 2½ to 3%. The Governor said that in his view it ought to be definitely below that range.

Middleton said that the second piece of contingency planning to which the Treasury had been instructed to work was the possible vulnerability of the corporate sector. They were looking into possibilities of varying the national insurance surcharge and the whole question of business taxation. They were also looking into ways of trying to help to get a lower wage round next winter: improving pay determination in the public sector and perhaps using NEDC as a forum for the discussion of pay generally. The Governor said that it was of paramount importance to change expectations and if this was to influence negotiations and decisions in the next pay round we would have to start almost straight away. The problem was that there would have to be a drop in real income and this issue had not been firmly addressed.

The Governor said he would write to the Chancellor on our proposal to roll on the gilts repurchase arrangements. It was agreed that no meeting would be necessary and that our decision would be put out on the tapes without a Press announcement. This led on to a general discussion of present procedures for agreeing and announcing technical changes in monetary arrangements.

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Middleton agreed that the present situation was anomalous and that it would be sensible to get away from the use of the phrase "with the Chancellor's approval" for operations that were explicitly technical and did not involve a change in policy.

Cwm

8th April 1980.