

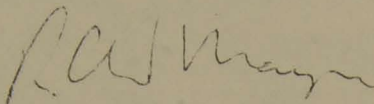
15. 5.80

NOTE FOR RECORD

Copies to The Deputy Governor
Mr Fforde
Mr Dow
Mr Blunden
Mr Page
Mr Loehnis
Mr George
Mr Walker

He called.

The Governor will call on the Chancellor of the Exchequer at
3.00 pm on Monday 19 May. Sir Douglas Wass will also be present.



Governor's Office
15 May 1980
R C W Mayes (4421)

S411
add tops

has seen. Meeting held J.B. 19/5

The governor.

Meeting with The Chancellor: 3.00 p.m 19th May.

I attach immediately behind this note the usual market briefing.

You may care to consider some of the following points:

- 1) Monetary Policy - 100 000
- 2) Exchange Rate Policy [? EEA Customs Business also] [D.g. note of 16/5] - 10 20/5
- 3) Institutional Involvement. - 100
- 4) Indexation - m.p. 1000
- 5) Key on Banks Profits - JMS safe
- 6) Local Authorities Spending
- 7) British Aerospace - 7/5
- 8) Secret Committee - 1000
- 9) Alan Walker - RCCM in 16.5 '80 Ned: S41

You might also wish to refer to your speech at the Mansion House tomorrow and to your forthcoming visit to Greece. - 7/1

I understand that Sir Douglas Warr will be present for about 1/2 hour.

J.B.
19/5.



NOTE OF A MEETING HELD IN THE CHANCELLOR OF THE EXCHEQUER'S ROOM, HOUSE OF COMMONS, ON MONDAY 19TH MAY 1980, AT 3 P.M.

Present:

Chancellor of the Exchequer
Governor of the Bank of England
Sir Douglas Wass

Copies to the Deputy Govt

Mr Floride

Mr Dow

Mr Blunden

Mr Page

Mr Lockhart

Mr Walker

Mr George

Mr Corbett

MONETARY AFFAIRS

Pay in the clearing banks

The Governor reported that the clearers had settled with BIFU, but not yet with their individual staff associations. He understood that they were intending to impose the agreement with BIFU on their employees as a whole.

Firms in financial difficulties

2. The Governor agreed with the Chancellor on the need for the Treasury and the Bank to remain in close touch about financial difficulties faced by particular firms. However, he doubted whether the recent case of Stone-Platt fell within the sort of arrangements currently in operation. There had been no question of any need for a "rescue"; the problem which had arisen had been a purely banking one, and there had been no question of any requirement for additional funds. The Bank's role had been confined to the provision of an independent chairman to bring together the banks concerned. It was agreed that the outcome - a programme for the rationalisation of the firm's activities - had been a useful one.

The role of the institutions in the promotion of industrial efficiency

3. The Governor regretted he had not yet been able to complete the paper which he had promised the Chancellor. He hoped to be able to

/provide



provide it within two to three weeks.

Monetary situation

4. The Governor remarked that the monetary situation remained somewhat uncomfortable. Although the liquidity shortage in the money markets over the makeup day was now expected to be less than £400 million, and it seemed likely that there would be no further need for the Issue Department to buy market bills, the CGBR was turning out higher than forecast while bank lending continued to grow very rapidly. The Governor was worried that Ministers might face further pressure to facilitate additional lending to firms facing any financial difficulty, despite the fact that such lending was in principle inconsistent with the overall stance of monetary policy. And although nominal interest rates remained high, the fact was that real interest rates in the UK were lower than in any other major country except Italy. He felt strongly that real interest rates should in general be positive; if rates came down very far below present levels, the margin below the rate of inflation could well lead to a substantial increase in borrowing. It was noted, however, that as the level of activity in the economy fell away, there would in time be a reduction in the demand for bank finance, as had happened in 1975. The Governor drew attention in this connection to the recent collapse in the order books of the engineering industry.

The growth of pay

5. The Governor reported his anxiety that unless the level of individual settlements comes down, the aggregate growth of earnings would remain far too high. Could more be done to relate pay increases to monetary targets? The Chancellor emphasised that the Government were deliberately avoiding mentioning particular figures. However, there was no doubt that things could not be left to go on as they were. For example, the PRU process seemed likely to result in a further increase of about 18 per cent in civil service pay in 1981, which would be quite incompatible with the monetary targets and the reduction in inflation the Government were determined to /achieve.



achieve. But the problem remained how to ensure that the monetary framework had the desired effect on pay settlements, particularly in the public sector and in certain other sectors not subject to the pressures of foreign competition. Since there was no rigid link between monetary growth and the growth of individual income, further action would be needed to change the climate in which pay negotiations were conducted.

British Aerospace

6. The Governor repeated his concern about the prospects for the proposed flotation. He suggested that it would be useful to arrange an early meeting between himself, the Chancellor and the Secretary of State for Industry.

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T/S

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A.J. WIGGINS
21st May 1980

Distribution:

- Financial Secretary
- Sir Douglas Wass
- Mr. Burns
- Mr. Ryrie
- Mr. Middleton
- Mr. Bridgeman
- Mr. Lovell
- Mr. Ridley (o/r)

PS/Governor ✓