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From the Private Secretary

20 February 1980

Dear Mr.

The Prime Minister held a meeting this evening with the Home Secretary, the Chancellor and the Governor to discuss how the large bank profits which are due out shortly might best be presented. The Chancellor and the Governor made various suggestions. The Prime Minister said that these would not be understood by the public at large if they were too technical and arcane.

In the light of the discussion, and after the Chancellor had left the meeting, the Prime Minister suggested that Ministers might draw on the following points:

- (1) When interest rates are high as they unfortunately are at present, bank profits are inevitably high. The Government are determined to get interest rates down for the sake of industry and so that mortgage rates can fall. When interest rates do fall bank profits will be lower. Bank profits always fluctuate with interest rates.
- (2) The taxpayer will benefit because approximately one-third of the profits will be taken by the Government in Corporation Tax.
- (3) At a time of difficulty for industry, the banks need good profits so that they can provide industry with adequate borrowing facilities. Without good profits, they would not have the confidence to lend.
- (4) In times of difficulty, the public need to be thankful that they can be confident that their money is safe. With good bank profits, they can be sure of this. This was not the case with the fringe banks in 1974; nor has it been in some countries overseas.
- (5) If you adjust the banks' profits and their assets for inflation, the profit increase is not as great as it looks. The banks' assets are very largely in the form of money, whereas manufacturing industry's are in the form of physical capital whose value goes up with inflation. The banks therefore need bigger profits to keep step with inflation.

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- (6) As with any industry, profits are needed for maintenance and expansion of the business. It is no coincidence that the banking sector has been one of the more successful - in terms of efficiency, increased employment and invisible earnings.
- (7) If bank profits are high, the sooner we get the inflation rate down the sooner they will fall.

As the Prime Minister told the Chancellor, she will wish to raise this in Cabinet tomorrow.

I am sending a copy of this letter to John Chilcot (Home Office), John Beverly (Bank of England), Richard Prescott (Paymaster General's Office) and David Wright (Cabinet Office).

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T. M.

John Wiggins, Esq.,
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