

12.3.80

NOTE OF A MEETING BETWEEN THE SECRETARY OF STATE AND THE GOVERNOR OF THE BANK OF ENGLAND IN ROOM 11.01 ASHDOWN HOUSE ON FRIDAY 9 MAY at 9.30 am

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Re-issues  
pages

1 The Governor of the Bank of England called on the Secretary of State at his own request. The meeting took place without officials present.

#### NEDC

2 The Governor had missed the meeting of NEDC on Wednesday 7 May. The Secretary of State thought that the discussion on pay had been dialogue of the deaf.. The Governor thought that the paper prepared by the NEDC Secretariat had been good but that the response by the TUC was purely diversionary. Nothing of substance had been said until paragraph 23 and the whole approach was escapist.

#### Chairmanship of Cable & Wireless

3 The Governor referred to the difficulties which the Secretary of State had mentioned in obtaining a Chairman of Cable & Wireless. He offered to help find a suitable candidate. One approach might be to recruit someone with some but not all of the virtues, required and to recruit another executive who had the remaining virtues. One possible candidate might be Sir Michael Wilford, presently Ambassador in Tokyo, who was an engineer and who had the necessary international experience. The Secretary of State welcomed the suggestion; the job specification required somebody who was financially significant, who had diplomatic talents and who, because of connections in the Arab countries, needed to be non Jewish. It was agreed that the Governor would get in contact with Sir Peter Carey.

#### Chairmanship of The Post Office

4 The Secretary of State referred to the problem of recruiting a Chairman of the Post Office during the year before the split between the posts and telecommunications businesses became final. The person concerned would need to have a knowledge of Whitehall and the ability to handle two businesses which were functionally split but which were technically still united. It was agreed that the Secretary of State would send a job description and the Governor would see if he could nominate any suitable candidates.

#### Non-Executive Directors

5 The Governor was grateful for the Secretary of State's letter about the need to increase the numbers of non-executive directors in major industrial companies. He was already doing a lot in this area and was reluctant to involve Ministers because of the fear of political involvement. The Bank was thickening its contacts and building up its education campaign. In reality the nature of banking business had changed; whereas previously banks supplied working capital only, the ending of the debenture market led to term lending which required greater involvement by the banks in

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the affairs of the borrower. The Bank had stimulated the banks to take an interest in the health of their clients and had pushed for the appointment of more non-executive directors. But the Governor was opposed to the idea of statutory non-executive directors and to the ideas put forward by Mr Brandon Flay-Williams.

6 The Governor was involved in discussions with the CBI, the Stock Exchange, the institutional shareholders, the clearing banks and the acceptance houses to establish the creation of a body, perhaps a company limited/guarantee, which would have the role of facilitating the appointment of non-executive directors when companies had identified a need for them and did not know how to go about appointing them. The late Sir John Methven had been initially reluctant to take the lead but he had gradually become more interested and at present 5/6ths of the money was lined up. The idea was that the organisation would react to approaches to it and would offer its services free. The Bank had arranged a supply of the right kind of people and big companies were increasingly willing to release senior executives to take up non-executive appointments in other companies. The need was now to get the demand side right, particularly amongst middle sized and smaller companies.

#### Loan Guarantee Scheme

7 The Secretary of State mentioned his interest in ensuring arrangements where loans would be made to small businesses on a less secured basis than at present. The Chancellor, however, was discouraging the idea because of a possible conflict with the priorities of monetary policy. He was not pushing the idea of a loan guarantee scheme for the present.

8 The Governor said that a loan guarantee scheme would not work unless public money was involved and the Government clearly did not wish to put in money. The banks themselves were not interested in insuring each other; they were large enough to carry the insurance risk internally. He personally had been over the course of discussing possible loan guarantee schemes twice. The important thing was that the banks were doing more; the Midland had publicised its own activities but Barclays and Lloyds were also active. Quite a number of banks were taking equity shares in companies through their merchant banking arms.

9 The Secretary of State said that the Government's nerve was about to be tested on the question of assistance to companies because of the number of closures in prospect. It would be unfortunate if desirable investments etc were frustrated by the overall financial climate. He had arranged meetings between electronics entrepreneurs and financiers but these had not been successful; many of the entrepreneurs were clearly flourishing.

#### Greater Institutional Involvement in Companies

10 The Governor suggested that the institutions were becoming increasingly active in the affairs of the companies in which they invested. The Pru was certainly moving. The Institutional Shareholders Committee was becoming more effective. It seemed that insurance companies preferred to act on their own but were becoming more concerned about their investment side,

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There was a perceptible shift amongst the pension funds who were contemplating thinking collectively. The Investment Protection Committees had originally been technically oriented but had then widened the scope of their activities. The position now was that groups of relevant people were put together by the Bank. He also explained developments in connection with Stone Platt; the Bank's role had been to avoid waste; this had not been a lifeboat arrangement but an intelligent use of the Bank's authority. The Bank was also doing work on Z scores. This meant that people were less often surprised by companies getting into difficulties but it involved the Bank more in getting people together. The difficulty about prediction was that it was impossible to tell whether, if one part of a business went, the rest would follow. The Secretary of State mentioned, in confidence, that the Chancellor of the Exchequer might be writing to the Governor in the near future about the idea of encouraging the institutions and the more active and responsible shareholders to ginger up sleepy chairmen.

#### Corporate Sector Finance

11 The Governor continued to be concerned about the corporate sector. The problem was not so much one of immediate collapse but rather of a long period of attrition or pernicious anaemia. The present position was not like 1974 when there had been a sudden problem and then a recovery. There was a bad corporate sector deficit this year and probably next year as well. The continuing nature of the problem caused him concern; the Bank was increasing its contacts with companies and the banks were alert to the situation. He thought the ECI would get more cases *and* but could play a useful role. There was only a small handful of companies with a sufficient endowment to be able to buy companies which got into difficulty.

12 The Secretary of State mentioned his own ideas which he had put forward before the Budget about reducing the National Insurance Surcharge. The Chancellor thought this expensive and it would help everyone regardless of need. He had preferred to give priority to reducing interest rates. Consequently the Secretary of State was looking at cost-effective ways of helping industry. He was against subsidies in general but was looking at the prospects of increased research and development aids. Our EEC partners assisted research on an increasing scale and the sums of money were huge. He was looking at the Department's Budget to see if more money could go in to research.

#### Pay Questions

13 The Governor said that bad trouble was inevitable if there was a 20% pay round and only a 7 - 11% monetary expansion. The Secretary of State had said as much at NEDC. He had pointed out that when a company faced bankruptcy the unions adopted a reasonable line and he wanted to know why they were not sensible at the preliminary stages when obstruction by the unions could destroy a company's R&D effort, prevent it investing and thus precipitate eventual bankruptcy.



14 The Governor thought the problem was to make the effects of the monetary policy apparent to wage earners. He had given evidence to the Commons Select Committee but had been misrepresented by the Express as saying that wages had to fall inside the monetary target; this implied a wage norm which he did not wish to imply. So far monetary policy had had an impact on markets both at home and overseas considerably greater than the impact on wage negotiations. But the dilemma was that monetary policy hit manufacturing sectors much harder than the commercial and public sectors. The question was how to find a mechanism in the commercial and public sectors which was equivalent to the bankruptcy mechanism in the manufacturing sector. There was a need to put the problems in to people's mind.

15 The Secretary of State and the Governor discussed various ideas including:

the preparation of a paper on the success of different managements in persuading the unions to accept moderate wage settlements;

the scope for speeches to industrialists etc about the impact of monetary policy on the wages round;

the scope for Ministers or the Governor interviewing senior managements in order to impress on them the need for pay moderation;

the scope for senior trade unionists to be encouraged to speak on the subject; and

a series of major Ministerial statements on previously announced occasions.

The Governor and the Secretary of State agreed that the point had been reached where trades union militancy did not always pay unlike the previous situation where militancy always paid.

#### British Aerospace

16 The Secretary of State mentioned the problem which had arisen in connection with the Bank's advice on British Aerospace. He understood a technical meeting had been arranged between the Bank and officials in the Department. He had been taken aback by Sir Henry Benson's opinion. The Governor was holding up a letter he was thinking of sending to the Chancellor. The problem arose from the situation, not from the individuals concerned. It was desirable to go through the Bank's Memorandum quietly to settle whether there was agreement between the Bank and officials. He did, however, want a Ministerial decision on the float delayed. Sir Jasper Hollom was currently out of the country but when he returned he would ask him to put his mind to the question without delay. Possibly the best solution would be if the Bank itself merely offered advice and the issue itself was carried out by the City. There was an awkwardness if the Bank and Kleinworths acted together; it was difficult for the Bank to be the main issuing house when it had to rely on work of outsiders whilst the outsiders might not be as painstaking as they might be simply because the Bank's involvement would give them an excuse to relax.

Extract  
DNTIS

not sure:  
I am not sure if  
Gov. etc

Wishing those would feel it and the  
Bank behind it is protection.

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17 The Secretary of State said that he had expressed a public view about British Aerospace's ability to depend to risk capital. He agreed they should meet again when the series of technical meetings had occurred. The idea of the Bank's being involved had come from the Bank itself. He had the difficulty that the decision on the BA 146 was for the Board of British Aerospace and it was impracticable to reverse their decision on the launch of the 146 and then to carry out the float which was critically dependent on confidence in the management to run British Aerospace.

18 It was agreed that the Governor and the Secretary of State would keep in touch on the issue and would consider holding a further meeting when the technical discussion had taken place.

Further Contacts

19 The Governor and the Secretary of State agreed that they should keep in touch also on the corporate sector. They valued the opportunity to meet each other and would pass messages between themselves through their respective private offices.

*Ian Ellison*

I K C ELLISON  
PS/Secretary of State for Industry  
Rm 11.01 Ashdown Ext 3301

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Circulation

Private Secretary  
to the Governor  
PS/Mr Butler  
PS/Mr Mitchell  
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