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PRIME MINISTER

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

23 February 1981

Sir Jeremy Morse, KCMG
Chairman of the Committee of
London Clearing Bankers
10 Lombard Street
LONDON
EC2V 9AP

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Dear Jeremy

Thank you for your letter of 3 February, with which you sent me a copy of your letter to the Prime Minister and its enclosures. I have discussed what you say with her and she has asked me to reply.

We have, of course, already discussed your argument that a tax would have a damaging effect on your pay negotiations, and I am afraid that I continue to find it unconvincing. It can hardly be suggested that the unions concerned are unaware either of the level of banks' profits or of the bargaining value of that fact. Public recognition that you have high profits would surely not signal anything new to the unions. By contrast it could well be said that a tax or other form of contribution would give an added argument for standing firm in negotiations, on the grounds that it decreased ability to pay.

I note what you say about retransfer of export credit at present refinanced by the Government. As you know, neither we nor the previous Government have excluded such retransfers. However, the acquisition by the banks of what is really a form of gilt-edged security carrying a market-related interest rate can hardly be seen as a major benefit to public funds or an important sacrifice by the banks. I am afraid the interest charge fully offsets what you say about a discounted cash flow advantage. These retransfers do not meet the need for a real contribution.

In all the circumstances, I must express my very real disappointment that you and your colleagues have not felt able to respond more positively to the proposals for cost-sharing which Nigel Lawson put to you at the end of January.

Yours sincerely
Geoffrey Howe

GEOFFREY HOWE