

Confidential filing

Prime Minister's meeting with
Sir Siegmund Warburg

PRIME

MINISTER

March 1981

S
807.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
18-3-81							
5-8-81							
20-11-81							
21-12-81							
16-3-82							
PREM 19/882							



FILE SW

Ref: A07803

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

I have had a word with the Prime Minister about the possibility of her dining on 30 September to celebrate the 80th Birthday of Siegmund Warburg.

Alas, she is not able to accept this invitation. It is the day after she returns from China and just before the Conservative Party Conference. Could you please pass on her regrets.

CAROLINE STEPHENS

18 March, 1982

Ref. A07803

PRIME MINISTER

Very much
regret
it.

agree?

Prime Minister

linked to refuse.
It is the day
after you get back
from the East
just before the
Party Conference. You
will have a
speech. C.

Sir Siegmund Warburg will be 80 on 30 September, and Lord Weinstock, Sir Isaiah Berlin, Mr Grierson and Mr Jacob Rothschild are proposing to give a small dinner in his honour on 5 October at the Ritz.

2. They have asked me to inquire whether you would by any chance be willing to accept an invitation to come to the dinner. Both they and Sir Siegmund Warburg would be greatly honoured if you would; but would of course understand if you did not feel able to take it on, so close to the Party Conference.

3. I don't suppose you could get away without a speech; but it could be an absolutely informal speech, since it would be a private occasion.

RA

ROBERT ARMSTRONG

16 March 1982



cc sent to Engad Prime Minister

10 DOWNING STREET

From the Private Secretary

21 December 1981

Dear John,

The Prime Minister had a short discussion on Friday afternoon with Sir Siegmund Warburg and Dr. Wilfried Guth, one of the two heads of Deutsche Bank.

Dr. Guth said that he thought that the US recession, although deep, would not be long lived. He expected recovery to begin early enough in 1982 for 1983 to be a good year for business. He did not himself believe that US interest rates would go sky-high; in spite of the prospect of a huge federal deficit. He thought there would be defence cuts, and that new taxes would be introduced.

After a very general discussion on international economic prospects, the Prime Minister asked Dr. Guth about the position of the German banks. Dr. Guth thought that their banks were much less well managed than British banks. He had great worries about their profitability (that of Deutsche Bank apart); but as to their soundness he had no misgivings. They had substantial reserves and a valuable portfolio of industrial shareholdings. He was more concerned about the position of the US banks with their high exposure in Latin America and elsewhere.

The Prime Minister invited Dr. Guth to give her his views about the present UK position. Dr. Guth said that he had no criticisms of the underlying thrust of economic policy here over the last 2½ years. He was not one of those who thought the monetary stance had been too severe. But he felt that the time had come to relax somewhat. He was not arguing for a fiscal stimulus, but for a move downwards in UK interest rates towards the general international level. He thought that it would be helpful to have a somewhat lower exchange rate for sterling, in spite of the inflationary consequences. Dr. Guth also commended to the Prime Minister Chancellor Schmidt's practice of holding a series of informal discussions with trade unionists and employers together. German trade unionists spoke sometimes very roughly on these occasions, but he had noticed that - whether it was as a result of Chancellor Schmidt's persuasiveness, or of the relaxed and pleasant atmosphere - the trade unionists seemed subsequently to speak much more moderately in public.

Both Sir Siegmund Warburg and Dr. Gurth urged the Prime Minister to consider full EMS membership, on the basis of a lower

/ sterling

CONFIDENTIAL

sterling exchange rate. The Prime Minister commented that membership of EMS had not helped the Belgians or the Italians to manage their economies well. She also spoke of the problems for monetary policy which could arise through EMS membership.

I am sending a copy of this letter to Tim Allen (Bank of England).

Yours sincerely,

Michael Schelen

John Kerr, Esq.,
H.M. Treasury.

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000 15 December 1981

Michael Scholar Esq
Private Secretary
Prime Minister's Office
No.10 Downing Street
LONDON SW1

Dear Michael,

PRIME MINISTER'S MEETING WITH SIR S WARBURG AND
DR GUTH, FRIDAY, 18 DECEMBER

... As you requested in your letter to Peter Jenkins
of 20 November, I attach briefing material for
this meeting. The passage on European Union was
contributed by the FCO.

Yours sincerely,

Jill

JILL RUTTER
Private Secretary

PRIME MINISTER'S TALK WITH SIR SIGMUND WARBURG AND DR GUTH
18 DECEMBER 1981 AT 4.30 P.M.

Introduction

This is to be a short meeting. Sir Sigmund Warburg has suggested that one of the subjects for discussion might be Anglo-German relations within the EC.

General

2. Essential facts about the German economy are given at Annex 1.

European Council

3. The outcome of the recent European Council will be fresh in the Prime Ministers's mind. It is disappointing that the UK and Germany have not formed a more united front on the crucial budgetary issues in the Mandate, despite our common interest as the sole net contributors to the Community Budget. There are signs that the Germans still revert to the old Franco-German alliance at key moments in Community negotiations on the Mandate, budget and CAP.

4. At the Council the UK gave a general welcome to the German/Italian proposals for a 'European Act'. Their draft document will now be discussed by the Community's Foreign Ministers. A more detailed background note on this initiative is at Annex 2.

European Monetary System

5. The standard brief on sterling's participation in the exchange rate mechanism is attached at Annex 3.

Eastern Europe and German Banks

6. If time permits the Prime Minister might ask Dr Guth how he expects German banks to act in response to current fears about the creditworthiness of Eastern European countries where they have a high exposure. A brief is attached at Annex 4.

Warburg and Paribas Not to be raised

7. Finally the Prime Minister may wish to note the problems that Warburg's are experiencing following the French moves to nationalise Paribas. These two banks are currently linked by a complex series of shareholding relationships in both Europe and the USA. But following the French nationalisation measures Warburgs wish to dissolve this relationship whilst remaining on good business terms with Paribas. The situation is obviously delicate. We understand that Warburgs are in the process of negotiating a deal which would give them full ownership of their operations in America but allow the French ownership of their current European interest. (The Prime Minister should not herself raise this matter as details have been given to the Bank of England in confidence).

THE GERMAN ECONOMY

1. The second oil shock has hit Germany much harder than the first. The recession in 1975 was shortlived. Growth between 1976-1979 averaged about 4 per cent a year. This time round the recession is longer, the current account has gone deep into deficit, unemployment is rising rapidly and there are fears that the economy may have shifted onto a permanently lower growth path. The difference in the German experience second time round is probably due to the expansionary policies Germany was following when oil prices started to rise. A gradual return to internal and external balance can now be discerned. The budget and current account deficits should both fall next year, modest growth of about 1 per cent is expected, inflation should decline and the Dmark strengthen. Relative to its trading partners, except Japan, therefore Germany is still doing well.

2. Nevertheless the economic situation has had severe political repercussions. Significant divisions in the Social Democrat party as well as between the Social Democrats and their Free Democrat coalition partners were revealed when it came to cutting the automatic increase in the 1982 budget deficit due to the recession. The fortuitous achievement of massive profits by the Bundesbank which can be transferred to the Government has helped paper over the cracks. But if the Government's economic assumptions are still too optimistic as the five major economic institutes report suggests, and the number of unemployed rises above the Government's own forecast of 1.6 million, further cuts may have to be made if the budget deficit is to be contained. Chancellor Schmidt may find it difficult therefore to appease the left-wing of his own party as well as keep the coalition together.

RECENT ECONOMIC DEVELOPMENTS AND PROSPECTS

3. GNP declined slightly in the first half of 1981 after falling about $\frac{1}{2}$ per cent in the second half of 1980. A more severe downturn was avoided by a strong export performance which compensated partly

CONFIDENTIAL

for very depressed domestic demand. The five institutes expect no significant upturn in the economy until the middle of next year. The unemployment rate was about 6 per cent in September. The number unemployed has increased from about 1 million to 1.4 million over the last year. The Government expects it to rise from 1.4 to 1.6 million next year but the five institutes expect it to be higher.

4. Consumer prices increased by nearly $6\frac{1}{2}$ per cent in the year to September. This acceleration mainly reflects higher import prices because of the weak Dmark earlier in 1981. The original forecast was for consumer price inflation of less than 5 per cent in 1981. It is now likely to average about 6 per cent. A decline, perhaps to around $4\frac{1}{2}$ per cent, is expected next year as the Dmark's recent and prospective appreciation works through. The FRG's underlying inflation performance remains good. This year wage settlements averaged about $5\frac{1}{2}$ per cent despite unusually bitter and lengthy negotiations.

5. The current account deficit in 1980 was the largest in the OECD at DM28bn (£6 $\frac{1}{2}$ bn). Improving price competitiveness due to the Dmark depreciation has boosted German export performance this year. The volume of exports increased nearly 17 per cent in the year to September. This should bring about a decline in the current deficit this year to perhaps DM24 bn. The European Commission expect it to fall to around DM 7 bn in 1982 although the five institutes are less optimistic.

6. A deteriorating current account and a rising interest rate differential against the U.S. resulted in a sharp weakening of the Dmark from the beginning of 1980 to August 1981. The dollar rate went from about DM 1.70 in January 1980 to DM 2.5 in August 1981. Its effective exchange rate fell 13 per cent in the same period. Falling U.S. interest rates and market perception of the return to internal and external balance have since resulted in an appreciation of the DM rate to around DM 2.20. In October the DM was revalued 5 per cent in the EMS. The five institutes and the European Commission expect this appreciation to continue next year.

- 2 -
CONFIDENTIAL

CONFIDENTIAL

POLICY DEVELOPMENTS

7. The 1981 budget deficit will be larger than originally planned at around DM 34bn because of the effects of the recession. The Government has with great difficulty agreed to reduce this to DM26½bn in 1982, through spending cuts, cuts in tax allowances, subsidies and transfers. Very soon after the budget was thought to have been settled, gloomier economic prospects brought to light a DM 7.8bn (£1.9bn) increase in the deficit. This was plugged by the transfer of more profits from the Bundesbank to the Government, the raising of unemployment contributions and a further DM 1bn cut in planned spending.

8. The expected improvement in the budget deficit and current account as well as falling U.S. interest rates should increase the Bundesbank's scope to lower interest rates without undermining the DM. Monetary policy was relaxed for the first time in two years at the beginning of October when the special Lombard rate was reduced one per cent to 11 per cent.

CONFIDENTIAL

EUROPEAN UNION

The draft 'European Act' was circulated to the Ten in October by the German and Italian Governments. Its central proposals are to unify the Community and political cooperation under the European Council, expand the role of the European Parliament, enable the Ten to coordinate policy on security questions, create Councils of culture and justice, and permit the Community to make more decisions by majority vote. If approved as it stands, it would require the preparation within five years of a new treaty among the Ten. The Ten have not yet begun to look at those proposals in detail.

We have given a general welcome to this initiative motivated as it is by a desire to impart renewed momentum to Community development.

STERLING AND THE EMS

We fully support the EMS as an important step in monetary cooperation and towards closer integration in the Community. We are members of the system, deposit 20% of our gold and dollar reserves in the European Monetary Cooperation Fund and participate fully in Community discussions on the possible future development of the system. We welcome the exchange rate arrangements as a contribution to stability in the exchange markets. We have repeatedly made it clear that we will join the exchange rate arrangements when conditions are right for the system and ourselves.

Defensive

2. We do not yet feel able to join the exchange rate mechanism; but it is a matter we keep under constant review as circumstances change.

Defensive (if pressed further)

3. Over the two and a half years since the EMS began there have been strong pressures on sterling of a different nature from those on other Community currencies. As one of the 4 or 5 major world currencies backed by highly developed domestic financial markets sterling is particularly susceptible to such pressures. For example over the first 6 weeks of this year sterling rose against the deutschemark by 8%; and since then

it has fallen by nearly 20 per cent.

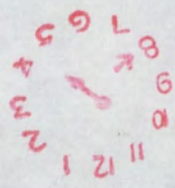
4. Clearly as the UK rate of inflation comes down and stays down, as the balance of payments of the major economies complete their adjustment to the 1979/80 oil price rises, and as the prospects in the oil market continue to settle then the balance of arguments will shift towards UK membership.

EASTERN EUROPE AND GERMAN BANKS

There are fears that a default or a declaration of a moratorium on its external debt by Poland might lead to a domino financial collapse spreading to other Eastern European countries (other than USSR). Romania and Yugoslavia are already in financial difficulties. The convertible currency debts of these countries are estimated at nearly \$80 billion at the end of 1980. We think this domino scenario unlikely, particularly if Western governments and commercial banks address the problems of each country individually rather than as a group.

The major British banks are likely to be able to absorb the effects of balance of payments problems in these countries without undue difficulty. But some large German banks are understood to have a high exposure in Eastern Europe. Decisions on these debts must be a commercial matter for the banks concerned. But it is not likely to be in the banks' own interests to take precipitate action (eg by a sharp reduction in exposure) which would increase the prospect of default and put at risk all their present exposure.

It would be useful to seek the views of Dr Guth on the dangers he may see of any banks, either German or in other countries, taking individual action which could prejudice banking interests generally and how the banks could best protect themselves from a runaway situation.



15 DEC 1981



10 DOWNING STREET

From the Private Secretary

20 November 1981

The Prime Minister has agreed to have a short general discussion with Sir Sigmund Warburg and Dr. Wilfried Guth (who is one of the two heads of Deutsche Bank A.G., Frankfurt) on Friday 18 December at 4.30 p.m. Sir S. Warburg has suggested that one of the subjects for discussion might be UK/German relations within the EEC.

I would be grateful for a short brief on any particular points of which you feel the Prime Minister should be aware, if possible by Friday 11 December.

I am copying this letter to Roderic Lyne (FCO).

M. C. SCHOLAR

Peter Jenkins, Esq.,
HM Treasury.

S. G. WARBURG & CO. LTD.
(Incorporating Seligman Brothers)

30, GRESHAM STREET,
LONDON, EC2P 2EB

Telephone:
01-600 4555
Telegrams:
WARBURCO, LONDON.
International Telex:
888476

5th November, 1981.

Dear Miss Stephens,

I refer to our yesterday's talk on the telephone and hereby confirm that Sir Siegmund Warburg will bring Dr. Wilfried Guth, who is one of the two heads of Deutsche Bank A.G., Frankfurt, to meet the Prime Minister on Friday, 18th December, at 4.30 p.m. Sir Siegmund will be attending the meeting jointly with Dr. Guth.

If this is agreeable to the Prime Minister, the subjects to be discussed will - in line with the last talk between the Prime Minister and Sir Siegmund - be:

British/German relations within
the European Economic Community
and altogether the question how
Britain and Germany jointly could
improve the organism of the European
Economic Community.

Yours sincerely,

Doris Wasserman

Secretary to Sir Siegmund Warburg.

Miss Caroline M. Stephens,
10 Downing Street,
London, S.W.1.

DW

SECRET
NOV 11 1951

CONFIDENTIAL

25th November, 1951

Dear Sir,

I refer to our recent day's call on the telephone and
very cordially thank you for the information which you have
given me regarding the two cases of Detective Park and
the former Minister of State, Mr. [Name], at 10 Downing
Street, London, W.C.2. I am sure that the subjects to
be discussed will be of interest to you and I am sure
that the information will be of value to you.

NOV 11 1951
11 21 23 4 5 6 7 8 9

CONFIDENTIAL

and also the question how
Britain can join in the effort
to improve the system of the European
Economic Community.

Yours sincerely,

Secretary to Sir Bernard
[Name]

Miss Caroline
10 Downing Street
London, W.C.2.

Please file
cf.
5/11



10 DOWNING STREET

87
BF
Mr Scholes

Confirmed for
16.30 on Fri 18 Dec.

Do you want
Sir Siegmund to
stay for meeting or
only to introduce?

Topics coming
from Westways.
Assume you will
request briefing when
they arrive.

Cf.

4/11 Miss Stephens

I think Sir S.G.W. shd probably
stay: yes, I'll ask for briefing when the
topics come. Thanks MJS 4/11

PM
Mand



10 DOWNING STREET

PRIME MINISTER

You will remember that you agreed to see Dr. Guth from Deutsche Bank in Frankfurt. The request came from Sir Siegmund Warburg. The meeting arranged for a couple of months ago had to be cancelled and Warburgs now wonder whether you would receive Dr. Guth on the afternoon of Friday 18 December. You will be entertaining the Spanish Prime Minister for lunch, but have nothing, as yet, in the diary in the afternoon.

Agree to receive Dr. Guth?

Yes not
E.S.

3 November 1981



MS

PM

10 DOWNING STREET

Prime Minister

When you saw
 Giscard working in
 May, you agreed that
 he should bring Dr
Guth, a prominent
 German banker and
 industrialist, to see you.
Guth's C.V. is attached.

MS cancelled.

cc 6/8.

12

5/8

EXTRACT FROM INTERNATIONAL WHO'S WHO

GUTH, Wilfried, DR.RER.POL.; German banker; b. 8 July 1919; member of Managing Board Deutsche Bank, AG: Chairman Supervisory Board, Daimler-Benz AG, Philipp Holzmann AG, Knorr-Bremse KG, LINCAS Electro Vertriebs-Gesellschaft mbH, Hamburg; Deputy Chairman Supervisory Board, Allianz Versicherungs AG, Siemens AG; member Supervisory Board, Henkel KGaA, Munchener Ruckversicherungs-Gesellschaft AG Metallgesellschaft AG, Frankfurt, Reemtsma Cigarettenfabriken GmbH, Hamburg, Schering AG, Berlin, Thyssen AG (formerly August Thyssen-Hutte AG), Omv. Address: Deutsche Bank AG, 6000 Frankfurt am Main, Grosse Gallusstrasse 10-14, Federal Republic of Germany.



10 DOWNING STREET

Tim.

any briefing
required?

es.

4/8.

No

JFF



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

18 March 1981

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Tim

.. Sir Keith Joseph has asked me to arrange for the enclosed letter from Sir Siegmund Warburg to be shown to the Prime Minister. Sir Keith says that Sir Siegmund placed great emphasis on his admiration of the Prime Minister.

Yours ever

lan

I K C ELLISON
Private Secretary

Encl

S. G. WARBURG & CO. LTD.

(Incorporating Seligman Brothers)

30, GRESHAM STREET,
LONDON, EC2P 2EB

Telephone:
01-600 4555

Telegrams:
WARBURCO, LONDON.

International Telex:
888476

*Jan.
Pl. speak
M 14/3*

11th March, 1981.

Dear Sir Keith,

Thank you for your yesterday's letter. What you say recapitulates with wonderful precision the chief points which were discussed between you and me last week.

May I re-emphasize one statement which I made to you, namely my immense admiration for the courage of the Prime Minister and my prayer that the success which she deserves through her courage will not be spoiled by ineffective handling in the carrying out of Government policy at certain executive levels.

It was a great joy for me to see you again after a rather long interval. As I told you, I hate to intrude on my friends in Whitehall unless they specially want to see me. Thus, whenever you feel that there is the slightest matter on which you would like to talk to me and hear my views I am entirely at your disposal and even if at the time I should be far away I will come like a shot to call on you.

*With best wishes and
warm personal attachments*

The Rt. Hon. Sir Keith Joseph, Bt., P.C., M.P.,
Department of Industry,
Ashdown House,
123 Victoria Street,
London, SW1E 6RB.

Yours

Henry Watney

SGW/DW

cc Prime Minister ✓
Tim Lankester ✓



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

→ *Carson*
As arrange -
(The PM mentioned
this to me)

10 March 1981

Sir Siegmund Warburg

R.

Sir Siegmund

It was a pleasure to see you on Friday. You told me that in your view the United States, France and the Federal Republic of Germany are all afflicted with burdens of servicing accumulated past debt from Government overspending just as we are.

☞ *||* You suggested that they are better placed than we but only to the extent that the average quality of their management is better. You underestimated, in my view, the extra burdens we face from nationalised industries and trade unionist attitudes.

|| I spoke of the other views you expressed to me, about exchange rate and the handling of our debt, to the Prime Minister, who would like to talk with you.

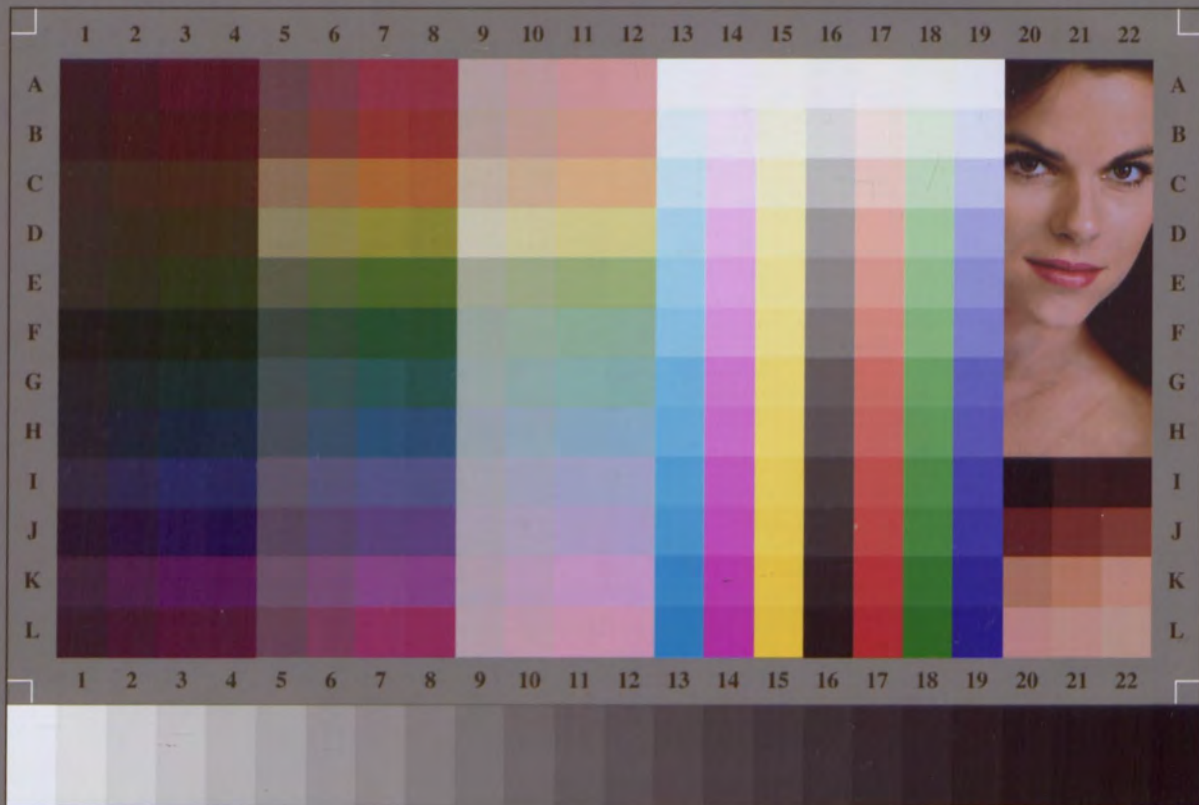
Her office may be getting in touch with yours.

Carson

Keir

KODAK Q-60 Color Input Target

C M Y



IT8.7/2-1993
2007:03

[FTP://FTP.KODAK.COM/GASTDS/Q60DATA](http://FTP.KODAK.COM/GASTDS/Q60DATA)

Q-60R2 Target for
KODAK
Professional Papers

