

Don Eason

MRS. THATCHER

c.c. Sir Geoffrey Howe

MEETING WITH MR. DOW OF THE BANK OF ENGLAND

The other day I mentioned to you that I would shortly be lunching with Christopher Dow, Senior Economist at the Bank of England. I did so yesterday and the following points transpired.

CONTACT WITH THE GOVERNOR

2. Dow was enthusiastic about the idea of arranging some informal contact between the Governor of the Bank and you or Geoffrey Howe. He has indicated that it would not be appropriate to do so before the Budget and that the Governor would obviously be forced to talk in fairly general terms. I think that the Bank are probably quite keen to brief us about their strategy for international borrowing in particular. I would therefore expect the Governor to invite you or Sir Geoffrey to a lunch in late April or May.

INFLATION

3. I formed the strong impression that the Bank are more worried about the inflationary situation than some other parts of the official machine, and for two reasons. First, they have recently carried out an elaborate analysis of settlements in the public and private sector since the TUC's wage guidelines were published last June, taking care to consider not only the size of the individual awards but the period between settlements. As far as I can gather their conclusion is that though private sector settlements may on average be of smaller size than those in the public sector, their greater frequency has led to a faster rate of growth in wage rates in the private sector. This is consistent with the information one can glean from the FT's

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monthly survey. But it is the opposite to that reached by Phillips & Drew. P. & D. concluded that wage inflation was worse in the public sector, and it is their figures which Healey has recently been using. The Bank hope to publish a summary of their results in their Quarterly Bulletin, but unfortunately not until the Summer issue. The second source of worry is quite simply that public expenditure is out of control.

A.N. Ridley
5.3.75.