



for the Chancellor  
for the Chancellor

Treasury Chambers, Parliament Street, SW1P 3AG  
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Am. 2

To note that the  
Chancellor is not  
interested in the  
banks' proposal, and  
that he sees no  
attraction to introducing  
a tax on their  
windfall profits.

PRIME MINISTER

ADDITIONAL REVENUE FROM THE BANKS

Flg A  
We spoke about the position on taxing the banks following your meeting with the clearers. Sir Jeremy Morse also sent me a copy of his letter to you of 2 February, in which he offered to take back £1 billion worth of fixed rate lending by the banks which is at present refinanced by the Government.

2. His proposal is not new; it was put forward by the clearing banks in November when I opened discussions with them and it has been floated in the exchanges on this subject which Nigel Lawson and I have had with them since.

3. The proposal would reduce the PSBR in 1982. And Jeremy Morse is right in saying that it would bring a greater immediate benefit to the PSBR than cost sharing or a levy. But this would be purely cosmetic and would certainly be seen as such. It is exactly the sort of device which Harold Lever used to invent for the last Government and which deceived no-one. It would not help bring down the rate of monetary growth and could even increase it. Moreover part of the PSBR reduction in 1981-82 would be achieved at the expense of increases in public expenditure in later years as future flows of receipts were transferred from the Government to the banks.

4. It is easy to see why the banks made the offer. The proposed transfer of fixed rate lending would be largely costless - even profitable for them. But equally, looked at from our point of

/view, it



view, it fails completely to meet my request for a real contribution to the Exchequer from the profits which they make as a result of their monopoly of current accounts when interest rates have been high.

5. We therefore proposed to the banks that they should contribute two-thirds of the subsidy element in the fixed rate lending on their books. This meant that they would have made a real contribution to reducing the PSBR. The banks were apprehensive about the continuing nature of such a contribution. So following the early discussions, I also explored an option under which the Government would no longer pay any subsidy on pre-1978 fixed rate business; this would have yielded about £150 million next year but would wither away over the next 3 or 4 years. This met the banks' fears that they should not be subject to a continuing arrangement.

6. I made it quite clear to the banks that the alternative to coming to some compromise agreement of this kind would be a tax on their current accounts. They responded, both orally and in writing to say that they would prefer a tax to any such arrangements. So they have put me in a position of having no alternative but to tax them because - seemingly on grounds of principle - they are unwilling to contemplate voluntary measures which would make a worthwhile contribution to reducing the PSBR.

7. Finally, Sir Jeremy's letter mentions the damaging effect he thinks a tax would have on pay negotiations. I have already taken him up on this point. His argument seems to be that public recognition that the banks have windfall profits will give banking unions a new trump card. Given the banks' record of excessively high settlements, this is a pretty astonishing claim. To suggest that the unions are unaware of the banks' present healthy profits and are not already well able to deploy these

/arguments

S E C R E T



arguments in negotiation is very far-fetched. Indeed, if a special tax is imposed, the clearers can argue that they can only afford smaller pay increases.

A handwritten signature in black ink, appearing to be "J.H." or similar, with a horizontal line underneath.

(G.H.)

6 February 1981

S E C R E T



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9 February 1981

Additional Revenue from the Banks

The Prime Minister has read the Chancellor's minute of 6 February, and has noted his view that there is now no alternative but to introduce a tax on the banks' windfall profits.

John Wiggins, Esq.,  
HM Treasury.

**SECRET**

*KRB*