Prime Minister

I agree with the Treasury that it would be best for the Chancellor to reply to Jeremy Morse. ~~If not, the letter with ; (If you write, the draft will have to be~~ Are you content?

TL 16/2

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

16th February 1981

T.P. Lankester Esq.
Private Secretary
No. 10 Downing Street
LONDON
SW1

Dear Tim,

Flag A

We owe Sir Jeremy Morse a reply to his letter of 2nd February to the Prime Minister, which he copied to the Chancellor on 3rd February.

We think it would be best if the Chancellor were to reply and he has now approved the attached draft. Before signing the reply, however, he wanted to be sure that the Prime Minister was content with this approach. I should be grateful if you would confirm that this is so.

Yours ever,

Richard Tolkien

R.I. TOLKIEN
Private Secretary

(The draft could be improved; but the Chancellor [illegible] not worry about that).

TL

Agree - with draft. [illegible] last sentence [illegible]

PERSONAL AND IN CONFIDENCE

LETTER FROM THE CHANCELLOR OF THE EXCHEQUER TO:

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

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 interest at 1¼ per cent over LIBOR 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 disappointm 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. ~~But, given this reaction, there is, I am sad to say, no point in discussing the matter further.~~

GEOFFREY HOWE