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Econ Pol

Subject filed in

Econ Pol: May 79: Mgrwith
Walter Salomon.

10 DOWNING STREET

From the Private Secretary

2 July 1980

Dear Tom.

As you know, Mr. Walter Salomon called on the Prime Minister yesterday morning. The Chancellor and the Secretary of State for Industry were also present.

Mr. Salomon concentrated on two points. First, he argued that the Exchange Control Act 1947 should be altogether repealed, rather than amended. He suggested that, in the event that the Government might conceivably want to reintroduce exchange controls some time in the future, the 1946 Bank nationalisation act would provide adequate powers. The retention of the 1947 Act, even in modified form, was bad for confidence and would provide a Labour Government with too easy an opportunity to reintroduce exchange controls. Mr. Salomon asserted that neither Germany nor Luxembourg had specific exchange control powers; he did not see why we needed them.

Secondly, Mr. Salomon elaborated on his criticisms of the Banking Act 1979, which were set out in his April lecture to the Institute of Bankers. In particular, he criticised the sweeping powers of the Bank, which he implied they were not well qualified to make use of; the two-tier system of authorisation; and the personal questionnaire for directors and managers. In addition, he criticised the Bank's papers on foreign currency exposure and liquidity.

In reply, the Chancellor explained that exchange controls had been abolished, and that the exchange control department in the Bank had been disbanded and a large number of officials released for other work. Nonetheless, he had come to the conclusion after long and detailed consideration that a modified version of the 1947 Act was needed. He disagreed with Mr. Salomon about the powers under the 1946 Act: in theory, these gave the Government power of direction over the Bank, but not over the citizen.

The Chancellor also answered some of Mr. Salomon's criticisms of the Banking Act, but there was not time for him to rebut them in detail. The Prime Minister would accordingly be grateful if the Chancellor would now write to Mr. Salomon on his criticisms

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- 2 -

of the Banking Act, and if he would also set out his answers to Mr. Salomon's various criticisms of the Government's decision not to repeal the Exchange Control Act. Please could you send us a copy of the Chancellor's letter.

I am sending a copy of this letter to Catherine Bell (Department of Industry). I would be grateful if you would not show this letter to the Bank.

Wm *W*

Tim Laker.

John Wiggins, Esq.,
H.M. Treasury.

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