

OK 25/11

NOTE FOR RECORD

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Dr Schlesinger, Vice-President of the Deutsche Bundesbank, telephoned the Governor today to report a conversation he had with the Prime Minister when she was in Bonn recently. In the course of a long discussion about monetary policy, Schlesinger said that the following points were made:

- 1 He emphasised that she should not expect quick results from monetary policy.
- 2 He also emphasised that one should expect good results from a relatively strict monetary policy only if there was a broad consensus within the economy. Monetary policy would not succeed, for example, if wage rises were of a size which took no account of the monetary guidelines.
- 3 The Prime Minister expressed the view that, so far as the use of monetary instruments was concerned, the Bank of England was too quick to grant help to the banking system. This sentiment applied particularly to the Clearers. Schlesinger replied that a Central Bank must have control of its own money creation in order to control the aggregate money supply, which in turn implied control over credit creation and debt management. In respect of the former, he saw a problem in our obligation to the discount houses. In respect of debt management, Schlesinger explained that the Bundesbank was not required to finance the Government's deficit: the Finance Ministry had to look for funds without the Bundesbank's help. The Prime Minister was apparently astonished at this revelation, although she was later alleged to have said that she was not at all clear what Schlesinger had been saying about debt management.

The Governor explained in general terms the problems which monetary policy was encountering in the UK and briefly referred to our preference for dealing with intermediaries rather than directly with the Clearing Banks.

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Schlesinger finally proffered the view that our MLR decision today indicated that there was a certain understanding with the Government that you cannot bear too strongly on the economy. The Governor replied that the MLR cut should be seen in the context of the whole package announced by the Chancellor. In particular, he added that monetary policy has clearly been tight.

Governor's Office HO-P  
24 November 1980

S P Collins (4421)

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