

THE GOVERNOR

Copies to: The Deputy Governor  
 Mr Blunden  
 Mr Loehnis  
 Mr George  
 Mr Walker  
 Mr Dow  
 Mr Fforde  
 Mr Cooke  
 Mr Coleby  
 Mr Flemming  
 Mr Goodhart  
 Mr Plenderleith

*CR 2/6 -*

OVERFUNDING

*Did take place.*

I have confirmed with the Chancellor's Office the date and time of the proposed meeting on overfunding - Wednesday 16 June at 10.00 am. I understand that the papers for the meeting will include the Financial Secretary's minute on "Bank Lending and the Capital Market" and the Economic Secretary's minute on "Debt Sales and Monetary Policy", both dated 8 June, as well as an Agenda Note, yet to be prepared, and, of course, the original papers circulated under cover of EAJG's note of 14 May. An internal preparatory meeting is being set up for Tuesday 15 June.

*RA*  
 Governor's Office HO-P  
 9 June 1982

T E Allen (4121)

Re Governor

SECRET

Copies to Mr  
OSD  
GPS

Overfunding

As I mentioned, John Ken rang this morning to provisionally arrange a meeting between you & the Chancellor (plus others) on overfunding. He had in mind 9.30 (now 1000) on Wednesday, 16 June — to which I provisionally agreed. He said that the Chancellor wd. be supported by, say, 9 or 10 Ministers & officials [+ Walters] & supposed that you would want to bring some of your own people.

The issues to be addressed are, he said, those set out in the Financial Secretary's minute of 8 June on "Bank lending & the Capital Market" [said to have been copied to I. P.] and the Economic Secretary's minute of 8 June on "Debt sales and Monetary Policy" [said to have been copied to OSD, TSP & OSD]. There will also be an Agenda Note (as already discussed by OSD & Middleton).

✓ May I firmly agree to the time proposed? Shd. we ✓ fix a preliminary internal meeting (? on Tu 15/6)?

R 9/6

Re Governor

Secret

Copy to  
SASTZ  
DOPS  
OPS

I have established who from White Hall has been invited to attend the meeting on Overfunding which is to take place on Wed 16 June at 1000 in the Chancellor's Room at the Treasury:

Chief Secretary ✓

Financial Secretary ✓

Economic Secretary ✓

[Minister of State, Revenue] \*

Watts ✓

[Ryrie] \*

Burns ✓

Middleton ✓

Monck ✓

Moore ✓

Redley ✓

French ✓

Battisill ✓

& Waller ✓

\* Evidently not coming - vide above.

16/6

RT 541/1

The Governor

Copies to

DM

GB

ADL

DTG \*

DTW

JRD

JSF

WAC

ARC \*

JSL \*

CMB

GPS CIP \*

on  
23/6

See paras 4 & 8  
on which the Gov  
doubts

\* The Governor wd.  
be grateful to know  
if you have any comments  
on the attached notes of  
last Wednesday's mtg,  
please. R 28/6

The Governor Points at A, B & C  
made to Peter  
Tealios on Mon 24/6  
Copies to  
DGA

~~GPS~~

On 24/6

Two pts on p. 4,  
neither of which I  
think merits a  
positive correction.

GB  
ADL  
DRTG\*  
DOW  
JLRD  
JDFJ  
WAC  
ARC\*  
JSD\*  
CMB  
GPS & IP\*

No comments for  
ARC, JSD & IP

\* The Governor wd.  
be grateful to know  
if you have any comments  
on the attached notes of  
last Wednesday's mtg,  
please.

EATG 23/19  
/6

23/6

CONFIDENTIAL

NOTE OF A MEETING HELD IN THE CHANCELLOR OF THE EXCHEQUER'S ROOM,  
TREASURY CHAMBERS, ON WEDNESDAY 16 JUNE AT 10.00

Those present:

Chancellor of the Exchequer	The Governor	(Bank of England)	←
Chief Secretary	Mr George	" "	"
Financial Secretary	Mr Coleby	" "	"
Economic Secretary	Mr Flemming	" "	"
	Mr Plenderleith	" "	"
Sir Douglas Wass			
Mr Burns			
Mr Middleton			
Mr Monck			
Mr Robson			
Mr Turnbull			
Mr Kerr			
Mr H Davies			
Mr Ridley			
	Mr Battishill	-	Inland Revenue
	Prof. Walters	-	10 Downing St.

MONETARY POLICY, FUNDING AND THE MONEY MARKETS

Debt Sales and Monetary Policy

1. The Chancellor asked for the Governor's view of the strategic objective explained in the Economic Secretary's note of 8 June. The Governor said the essence of the problem was that bank lending was growing too rapidly in relation to the Government's targets for the rate of growth of broad money. In part this was because the banks were proving more effective intermediaries, from the perspective of both borrowers and lenders, than the capital markets. One element in any solution must therefore be measures to reduce the growth of bank lending, and he welcomed what was proposed for the Local Authorities and Nationalised Industries. We might also find some easement from natural forces; it was possible that bank lending might now start to slow down. He agreed with the Economic Secretary's characterisation of the National Loans Act constraint on borrowing as a 'fortuitous legislative barrier' and would welcome a change. But he saw the legislation as designed to provide an emergency exit which it might be necessary to use in certain circumstances, rather than a license to overfund. Whether to include a limit or

CONFIDENTIAL

not was essentially a political judgement, though it was worth pointing out that, by analogy with the kind of overall borrowing limit which the Select Committee on Procedure were discussing, the markets might be unsettled as we approached the ceiling.

2. The Chancellor agreed. Ministers had now decided to put forward the legislation without a numerical limit. There was also general agreement that no new structure - on the lines of the proposed Monetary Operations Account - was needed.

#### Local Authorities

3. Mr Monck said it had been agreed that we would open up the possibility of a variable rate facility with the Local Authorities without a preparatory PQ. He would tell them that we wanted to offer them variable rate money through the FWLB but were unsure of our power to do so within the terms of the existing legislation and would make a firm proposal when we were. The Chancellor was content for officials to proceed in this way.

#### Capital Markets

4. The Governor thought it had been useful to conduct the review even though we had come up with few clear recommendations for action. There was a general belief that the capital markets should be encouraged but much less unanimity on how we could revive them. He was sure that we should not maintain the embargo on zero coupon and deep discounted stock but it would be unwise to think that simply removing it would lead to a flood of new issues. Only a further fall in inflation would be sure to revive the market. Without that it would probably require the abandonment of symmetry or a significant level of subsidy. Although our stance could be justified he was not entirely comfortable with the conclusion that nothing could be done. There was an argument for contingency work on alternative tax regimes, or interest rate subsidies, in case the situation did not improve.

5. The Chancellor agreed that we should keep the subject under review. Further work was in hand in the context of the follow-up to the original Grylls proposals. He saw no case for a generalised subsidy and hoped that the focus could be on fiscal remedies. The Governor said he shared Ministers' natural reaction to proposals for subsidies, but we should recognise that the existing tax regime implied considerable subsidisation of certain types of borrowing, particularly via mortgage tax relief.

6. The Chancellor concluded that the Financial Secretary's recommendation and draft statement were satisfactory for the time being. It might be that little business would be written on the strength of it but it was an indication of our intentions and, since it was not possible to legislate this year to allow a US-type accruals system, we could not go further for the time being. We should need to see the details of legislation to introduce an accruals based tax treatment before we firmly committed ourselves in public to introducing it.

7. The Economic Secretary raised the question of indexed stock issued by the Local Authorities. At present we were preventing them making such issues, but there were signs of interest on their part and our opposition was based on flimsy arguments. Mr George pointed out that to allow the Local Authorities to offer indexed stock could encourage requests from the Nationalised Industries and Building Societies. Mr Monck said that the Registrar of Friendly Societies might be able to prevent the latter, though the extent of his powers was uncertain at the moment. As for the Nationalised Industries, we could legislate to allow them to borrow on indexed terms from the NLF but to add such legislation to the changes already envisaged would be likely to provoke opposition in Parliament from those opposed to any further extension of the principle of indexation. The Chancellor agreed, and asked for a quick appraisal of our attitude to proposals for indexed borrowing by Local Authorities, Nationalised Industries and Building Societies.

Presentation

8. The Chancellor said that the presentation of the package which had been agreed was complicated by the activities of the Select Committee on Procedure, who would be talking to both the Governor and himself on a related subject in the next few weeks. The Governor thought it would be right to present the various measures together. It was important to explain to the House the way it fitted together. The Chief Secretary argued that one low-key statement would be appropriate. As for timing, the Committee Stage of the Finance Bill would probably end on 29 June and the Report Stage would start in the week beginning 12 July. This pointed to a statement, made at the time the new clauses were tabled, on 5 July. Mr Middleton commented that the statement would be accompanied by extensive Notes to Editors and would be supported by a major briefing exercise. Mr Battishill confirmed that there would be a more detailed Inland Revenue statement on the taxation aspects released at the same time.

9. In discussion it was agreed that it might be preferable to delay the Chancellor's appearance before the Select Committee until after the Report stage. On the other hand it might be thought provocative to appear to discuss parliamentary control on borrowing only after the change had been made. A further possibility, since the Committee themselves had proposed early dates for a hearing, would be for the Chancellor or another Treasury Minister to appear before the clause were tabled. But whoever appeared would have either to be silent on the subject of legislation, which could be regarded as unhelpful, or trail the possibility, which might adversely affect the presentation of the whole package.

10. The Chancellor concluded that the subject required further discussion.

Copies: Those present  
Sir William Ryrrie  
Sir Kenneth Couzens  
Mr Britton  
Mr D Moore

*Harold Davies*

H J DAVIES  
17 June 1982