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27.11.79

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MR.FFORDE

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Consultative Document on Monetary Policy

1. At today's meeting of the drafting group it was decided that, rather than a long treatise, a more concise and easily digestible paper of about fifteen pages should be produced, aimed at bankers and politicians rather than economists. The bulk of the detailed exposition of our views on reserve ratios, monetary aggregates, and methods of monetary base control would be placed in annexes.
2. The paper would cover in turn the aims of monetary policy, the operation of the present system, the difficulties it entailed, the objections to direct controls, the possible scope for improvement in effecting desired changes in interest rates, and the willingness of the authorities to discuss methods of doing this, such as variant (c) of the monetary base schemes. The line would be taken that sterling M3 should remain the target aggregate, as interpreted in the light of the growth of other aggregates. Opposition would be expressed to any system which encouraged or ignored disintermediation.
3. EAJG would try his hand at a draft of the difficult opening section (about five pages) on the aims of monetary policy and operation of the present system. Meanwhile MDKWF would continue drafting passages not yet completed - particularly that on monetary base controls - and revising those already considered, notably a section combining discussion of reserve ratio requirements, special deposits, and new prudential liquidity norms.

Economic Intelligence Department,
27th November 1979.

M.E.Hewitt (4441)

cc 28/11/79