

copy 2408 GPS

SECRET

Dup Sparrow
17. 7.79

Pl see flapant
marginable

NOTE FOR RECORD

Copies to: Mr. Fforde
The Chief Cashier
GPS

CR 21/17

18/7
1) Chief Cashier
2) Mr. Fforde
3) Mr. [unclear]

THE GILT-EDGED MARKET

John Sparrow of Morgan Grenfell called at the Governor's request this morning. He explained that he had for two years, at her request, been writing a weekly letter to Mrs. Thatcher, as Leader of the Opposition, and having periodic meetings, to discuss financial developments generally. Since she had become Prime Minister she had asked him to continue in this role (though he offered to discontinue if the Governor disapproved now that Mrs. Thatcher was Prime Minister). In this context he had, again at the Prime Minister's request, a week after the Budget, written - coincidentally on the day that our gilt-edged article was published - on the subject of the gilt-edged market.

The views that he had conveyed were as follows. First, that the problems stemmed primarily from the size of the PSBR, and would not have been heard about had the PSBR been smaller. His criticisms were:

good ✓

They are 1

Not very convincing

touché but see remarks about PSBR

OH NO !!!

remember Monday Thursday 1969

good ✓
see [unclear] of [unclear] heavy
good ✓

- (a) of the use of MLR to manipulate long-term gilt yields - short-term interest rates should be used to control the demand for money;
 - (b) the cost of long-dated gilts - though he accepted the preference of domestic investors for long-dated stocks, he felt that there was strong foreign interest in shorter maturities and that domestic investors would buy shorter maturities if longer stocks were not available;
 - (c) concern about the cost to the tax-payer - he mentioned the events of 13 June; and
 - (d) lack of flexibility in our pricing policy - he recognised the Bulletin arguments but felt that we could prevent a downward spiral by stepping in to buy if necessary, and was confident that we could sell more, more cheaply, by more flexible pricing.
- Sparrow said he saw no need for structural change, and in particular opposed indexation (which he felt would complete the process of crowding out) and any form of direct involvement with the investing institutions.

thought out of [unclear]

10 out of 10 for that

JSFF 18/7' CC 24/7' GAGE 24/7' 25

Says it is "dangerous nonsense", actually.

Sparrow was interested in monetary base, but felt that Forsyth would be more competent to discuss it. His inclination was to control the fiduciary issue, though he recognised that this probably dated from the time of his economic studies. Sparrow also mentioned that he had thrown out the idea of dispensing with MLR, for purely political/presentational reasons, leaving us to rely upon the more direct influence on market interest rates.

which must have been imparted by a Centenarian.

17 July 1979

EAJG

E. J. G.