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Treasury Chambers, Parliament Street, SW1P 3AG ~~and the Bank~~
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Prime Minister
The Chancellor wanted you to
have bits for the weekend (though I
haven't had a chance to read it
though). ~~I think we must~~
~~leave it to the Treasury~~

7 March 1980 would you like to discuss
with the Chancellor?

Go ahead on
20 March.
or are you content for
publication to go ahead
on 20 March?
PB
2/3

PRIME MINISTER

... I attach a draft of the Consultative Document on
Monetary Control which I promised to issue in my state-
ment to the House on 15 November last year. It is in
the form of a Green Paper which has two parts. The
first is a statement by the Government which sets out
the role of monetary policy and monetary targets. This
makes it clear that we consider that we can meet our
medium term objectives by the appropriate use of fiscal
policy and interest rates.

2. The consultations will be conducted on the basis
of the second part of the document which is an agreed
paper by the Bank and the Treasury. A number of changes
in the present arrangements are proposed. But the
analysis suggests that the more ambitious changes in
the system which have been put forward are unlikely to
improve our short term monetary control. The discussions
will however enable us to test the arguments and see
whether there are any schemes - particularly those of
the monetary base type - which would be an improvement
on the present arrangements.

13. I should perhaps



3. I should perhaps add that I have included the two annexes to the document for the sake of completeness. They have not yet been fully reworked and it is very important that they should be kept secure until this has been done.

4. The techniques on which the paper invites discussion are those concerned with the generation of short term interest rates. Inevitably therefore it is not about the biggest issues in monetary policy. We shall need to make this clear in presenting the document. But though the issues it considers are not the biggest, they are certainly important. They give rise to sharply divided views in the City and elsewhere. So we shall have to be very careful with our presentation.

5. My plan is to publish the document no later than Tuesday 25 March and preferably on Thursday 20 March. This will enable me to get it out of the way before the Budget; it could be very damaging in the markets not to have done so. Publication on Budget Day itself would I think be a mistake. The Budget and the Public Expenditure White Paper are quite enough for one day. The press would resent any such move and we should lose the opportunity to present the document properly.

6. The key question on which we have to make up our minds eventually is whether we are willing to assign to the markets a greater role in the determination of short

/rates. The



rates. The authorities are of course always part of the market, whatever the technique used. Under a monetary base regime we would still be left to decide when and how the base should be changed if money supply deviated from the target. But would there be much point in going through all the upset which would be involved if we intend to exercise the same degree of discretion as we do at present? In circumstances such as those of the past few weeks, a regime under which the Government worked under predetermined rules, would have caused the market to carry interest rates up; that would have been the justification for the scheme in the eyes of its proponents.

Chancellor
now tells me
he would
like to
circulate
to E colleagues
only.

P.

7. If you are content, I will circulate the Consultative Document to the Cabinet for information. I am copying this minute and enclosure to the Secretaries of State for Industry and Trade and Sir Robert Armstrong.

G.H.

(G.H.)