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PRIME MINISTER

As you suggested, Adam Ridley has seen Brian Griffiths, Harold Rose, Terry Burns and John Flemming. Their views are very much one of a kind. Briefly:

- (1) It is essential to move fast and increase MLR to at least 16%. M3 for November must be "good", and the only way of being certain of achieving this is to sell a large quantity of gilts. There is a general feeling that there is a "gilts strike" at present. No one will buy unless MLR goes up.
- (2) It is almost impossible to control Bank lending to the private sector ^{on} and the supply side - i.e. direct controls such as tightening reserve asset ratios, the SSD scheme and "moral suasion" won't work. Bank lending will only be certain to come down when activity weakens and we have high interest rates - though interest rates will not have an immediate effect.
- (3) Nonetheless, the Governor should call the clearers in and try to get them to reduce lending. This could reduce the published figures for lending, though other ways of getting finance (e.g. acceptances and borrowing from branches abroad or from American banks) are likely to take its place.
- (4) There is no point in having a medium-term financial plan when the Markets are dubious about our ability to stay within the existing target.
- (5) If we were to change to monetary based control, there should be plenty of time for consultation. Only four months consultation was allowed for Competition and Credit, and this was not enough.

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(6) To be sure of selling sufficient gilts over the next month, there should be a tender - i.e. no minimum price.

(7) More generally, the credibility of the Government for years is at risk if adequate action is not taken now. There is a feeling that we are dithering, and unwilling to take unpleasant consequences of sticking to tight monetary targets. (Apparently this stems partly from the feeling that we were prepared to interfere with the mortgage rate: there needs to be a positive affirmation that we are not going to - though we virtually said this in the House the other day.) Terry Burns says that our fiscal stance is too lax, and in theory would like a fiscal package but he understands the political difficulties.

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9 November 1979

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