

13.11.79

I agree on length. You will no doubt wish to discuss perhaps with a view to a fuller synopsis. (Init.) JBP 14/11

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MR. FFORDE
VIA MR. GOODHART

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THE CHIEF CASHIER.

I cannot believe we can have useful consultation on the basis of a 100 page paper. It seems to me we have to make a proposal:

- (a) targets set in terms of an aggregate (? EM3) but interpreted in the light of all others, over a period of months;
- (b) instruments - consistent fiscal policy; debt management; interest rates.
- (c) interest rates to be managed by including monetary base control variant C if that is what we want or explaining why not if not.

A possible outline for a Consultative Document on Monetary Control

- 1. (d) therefore no r.a. ratio - but prudential liquidity norm. Terminate (JBP)
I have been giving some thought to the ground that a Consultative Document might have to cover and to our preparedness in EID to write a first draft at short notice. variants. (Init.) EAJG 13/11

2. Clearly, a great many topics could be covered and the outline which follows is based on the presumption that, as part of genuine consultation, propositions for change with which we have little sympathy need to be covered (and the reasons behind our attitude explained); a typical example would be the suggestion that money be redefined to include overseas residents' £ deposits. However, even if the text remains basically analytical, with much of the necessary historical institutional and empirical material put in appendices or covered by references to other sources, the result will still be a formidable document. The presumption may therefore need re-examination.

3. It is also apparent that there is no single obviously logical order to the material and that it may depend heavily upon the conclusions we wish to draw out. The outline below assumes that there are some subjects on which the authorities have strong preferences and the ordering is determined accordingly.

The outline (comments on preparedness in brackets)

A. The aims of monetary policy as seen by the authorities (can be culled from previous work, should include a defence of monetary targetry).

B. The present system of monetary control: its workings and the pressures for change (i) from outside commentators and (ii) from the 'facts' of Exchange Control relaxations and the Banking Act (can be culled for previous work).

C. Subjects on which the authorities have strong preferences. (Not, of course, intended as an actual heading)

- (a) abolition of the present reserve assets ratio (to be taken largely from the Bank paper on this subject sent to HMT in the summer);
- (b) adoption of certain prudential rules for banks' holdings of primary liquidity (to be drawn from BAMMS's paper on their proposals. There would be much to be said - in terms of restricting the length of the overall paper and of keeping a consistent analytical approach - for this section to cover only the monetary control implications of the proposals, which presumably would then be published separately (at the same time?). No piece with such an aim in mind has yet been drafted;
- (c) retention of the present range of debt management policies and instruments (to be covered only briefly by reference back to the June Bulletin article).

D. Subjects on which the authorities have views rather than strong preferences

- (a) the appropriate target aggregate(s), covering monetary base (briefly and referring to (c) below), non-interest bearing and total M1, M2, M3, M3; wider aggregates, including Private Sector Liquidity 1 & 2, and inclusion of overseas residents' sterling deposits; credit aggregates. (Miss Balfour is starting work on these topics; most of the subjects have been covered in detail at some time or another but it will take time to pull the pieces together and to evaluate them in a 'post Exchange Control' world);
- (b) the future of direct controls, a section which is, of course, a candidate for B above. (Papers produced earlier this year will quickly furnish the material necessary for this Section);
- (c) the relevance of monetary base control (presumably, this would be a slightly simpler version of our recent paper to HMT).

A fully written up version of such an outline would produce, I suspect, a 100 page (A4) paper. With immediate effect, Monetary Policy Division will be gearing up for the production of such a paper, but inevitably it will, if required, be a massive effort.

Economic Intelligence Department,
13th November 1979.

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