

# Conservative Research Department

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CONFIDENTIAL

ANR/RMCS

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MRS. THATCHER

c.c. Sir Geoffrey Howe

## INSTRUMENTS OF MONETARY POLICY

Gordon Pepper's special monetary bulletin, which you will be receiving very shortly if it has not already arrived, will be another weighty criticism of the way in which the Treasury and the Bank of England currently operate the gilts' market. As you are aware, the kinds of criticism which are being voiced today are not different in kind from those which emerged last year, and indeed on earlier occasions. There has been a growing, if not total consensus amongst independent observers pointing to the need for change. Anthony Harris in the Financial Times is one example. Many stockbrokers' circulars point in the same direction. And knowledgeable commentators such as John Forsyth of Morgan Grenfell also argue in the same direction. What is different, today, of course, is that the shambles at the Bank of England last Thursday has probably been the last straw both for the City and, I suspect, for much of the Labour Party. Arguably the time has now come for us to say something about the matter which both indicates our concern while not conceding the Left's case.

The arguments are not easy ones to handle, both for technical reasons and because one is dealing with a very complex market which can react to the slightest hint of awareness of what we may be planning. For political purposes, all I think that we ought to do in the short-run is to give a discreet intimation that we are aware of the difficulties and are thinking actively about whether there is any case for change. To do anything more than that would create very dangerous expectations. If we restrict our public utterances to that level, I think it might be sensible to at least start a little ground work to prepare ourselves for more intensive studies when we come to Office. As a first step in that direction, it might be a good idea to arrange a preliminary discussion with Gordon Pepper and Geoffrey Howe to outline some of the key issues. Should this receive your joint blessing I would like to go ahead and make the appropriate dispositions for a talk sometime in April. One would naturally wish to identify a few key questions on paper

beforehand. I think that I could do this with Gordon's assistance, drawing on a little extra work which George Cardona is undertaking at the moment to survey the various proposals for change which are already in the public domain.

May I take it you and Geoffrey would be happy for me to do this?

A handwritten signature in black ink, appearing to read 'AM'.

ADAM RIDLEY