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MR.FFORDE

Copies to: The Chief Cashier
Mr.Walker
Mr.Goodhart
Mr.George
Mr.Barnes
Mr.Hewitt
Mr.Foot

Monetary Control

My participation in this exercise has for a number of reasons been regrettably rather spasmodic and I shall again be absent from the meeting planned for tomorrow. I thought I should therefore set on paper briefly two points which have troubled me over the way the exercise has recently been developing.

First, I had not been aware that we had, as the most recent documents imply, abandoned our attempt to move the Treasury away from targeting on M3. I have much the same concerns as CAEG sets out in his note of 22nd November about our exposed position if,as is not only right but unavoidable,we abandon attempts at direct control over the extension of bank credit.For we all know how lengthy and initially perverse can be the effects on M3 of changes in interest rates. The more narrowly our armoury is confined to interest rates the more vital it becomes to move towards M1 targetry or our operational problems would simply be compounded.

My second concern relates to the impetus that has now been gained by MBC proposals of the "variant (c)" type. I am apprehensive about any espousal of new techniques intended to induce corrective changes in interest rates through market pressures as opposed to officially administered changes. My concern is, naturally, over the robustness of the institutional framework in the face of new and unfamiliar pressures. Many of the arguments looking to influence over the borrowing and lending rates of the banks abstract from the peculiar transmission mechanism in our system involving the Discount Market. I shall wish to return to this point as the exercise develops.

A.L.C.

26th November 1979.
ALC

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