

The episode.

March 11/6
N.F.A. 17/6
see over

Points for Chancellor: 3.00 p.m.
at No 11

- 1) Monetary policy, interest rates etc - paper on short and long term policy attached
- 2) Indexation - paper attached mp doss.
- 3) British Aerospace - 7/6
- 4) Banking Act - Finance House appeals - notice of appeal attached 7/6
- 5) Select Committee - questionnaire + timing of hearings. doss
- 6) Proprietary role of institutions

BLS Report for week-end 17/6

Handling Targets and Wage Increases

1. Select Committee
- what I said
2. - Point's two species
- what he said.

APS OK 18/6 Mark 200.

SECRET

12-6-80

Received a.m. 16/6

JB 16/6



On item 9 (Dunlop) the Governor will recall the possibility that powers might be available under S. 63 of the Fair Trading Act, 1973.

NOTE OF A MEETING HELD AT 11, DOWNING STREET ON WEDNESDAY,

11TH JUNE 1980 AT 3.00 P.M.

I have mentioned the possibility to Alan Lord, who was most emphatic. In Campbell Fraser's terms subsequently (on 3rd June) that the program buying seemed to have stopped for the time being - at a scale of around 12%.

- Copies to:
- Mr Deputy Gov
 - Mr Frisde
 - Mr Dow
 - Mr Blunden
 - Mr Page
 - Mr Lochrie
 - Mr George
 - Mr Goodhart
 - Mr Coleby
 - Mr Walker

Chancellor of the Exchequer
Governor of the Bank of England
Financial Secretary
Sir Douglas Wass

MONETARY AFFAIRS

Monetary Situation

The Governor commented that the May monetary figures had come out worse than he had expected a few days before. Given the market's reception of the eligible liability and preliminary money figures, there was no prospect of a change in MLR on 12th June, and it would be necessary now to prepare the best possible analysis of the underlying factors which had given rise to these figures. He found them at first sight rather discouraging; the CGBR had turned out even higher than previously expected, and further high figures were now in prospect for two or the next three months. This raised the question whether the high CGBR was telling us anything about underlying movements in the economy. If the May figures were to be repeated in the following months, the authorities' attitude to monetary policy would need to become much more cautious.

2. The Financial Secretary drew attention to the relatively low bank lending figure: was this so unsatisfactory? The Governor agreed that it represented an improvement, although not as much of an improvement as he had previously hoped for, while there had been a further £300 million addition to the bill leak. He saw no prospect on the evidence available on 11th June that it would be possible to reduce MLR on 19th June; however, if

SECRET

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The Govt has
seen
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11TH JUNE 1980 AT 3.00 P.M.

Copies to the Deputy Govt

Present:

- Chancellor of the Exchequer
- Governor of the Bank of England
- Financial Secretary
- Sir Douglas Wass

- Mr. Forde
- Mr. Dow
- Mr. Bluman
- Mr. Page
- Mr. Lochrie
- Mr. George
- Mr. Goodhart
- Mr. Coleby
- Mr. Walker

MONETARY AFFAIRS

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The Governor commented that the May monetary figures had come out worse than he had expected a few days before. Given the market's reception of the eligible liability and preliminary money figures, there was no prospect of a change in MLR on 12th June, and it would be necessary now to prepare the best possible analysis of the underlying factors which had given rise to these figures. He found them at first sight rather discouraging; the CGBR had turned out even higher than previously expected, and further high figures were now in prospect for two or the next three months. This raised the question whether the high CGBR was telling us anything about underlying movements in the economy. If the May figures were to be repeated in the following months, the authorities' attitude to monetary policy would need to become much more cautious.

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the forward look at the monetary aggregates now in the course of preparation proved more reassuring, and if market sentiment pointed clearly in that direction, a change in MLR need not be absolutely ruled out on 19th June. But if these conditions could not be satisfied, it would probably be necessary to wait until mid-July.

3. In further discussion of the CGBR, Sir Douglas Wass noted that the forecasts continued to suggest a relatively low PSBR for 1980-81, with a time profile not dissimilar from last year's. There were thus reasonable prospects that the CGBR would slow down markedly later in the year.

4. The Chancellor referred to continuing concern about the growth of consumer credit. If any question arose of increasing interest rates, a consumer credit package would be needed to make the unpleasant medicine more acceptable. The Financial Secretary was attracted by the recent US precedent, and contemplated the possibility of consumer credit restrictions not accompanied by interest rate changes. The Governor commented that the US situation was very different, and the monetary prospect had improved because consumers - unlike their UK counterparts - had stopped spending. He thought that, if interest rates had to be increased, we should address ourselves to the underlying problems - the fiscal stance, external pressures, or bank lending as a whole.

5. The Governor emphasised again the problems industry were facing as a result of the high exchange rate. The Financial Secretary, however, suggested that industry in general found interest rates an even more worrying problem. The Governor agreed that a reduction in interest rates would be helpful as a means of reducing the exchange rate; but with sterling M3 now outside the target range he did not think interest rates could be reduced without appearing to cast doubt on the Government's commitment to the monetary target. The Financial Secretary noted that growth of sterling M3 over the last six months was only 9 per cent at an annual rate; and the



upward pressure on the exchange rate was undoubtedly making an important contribution to reducing inflationary pressures.

6. The Chancellor referred again to the need to avoid an over-rapid expansion of their activities by the banks. If there were to be no restrictions on consumer credit, this became all the more important. He noted that Access and Barclaycard had reduced the scale of their advertising, and this was helpful. The Governor suggested that, if the UK authorities were to emulate their US counterparts, we should encourage much bigger fluctuations in interest rates as well as impose consumer credit controls. To generate real interest rates comparable with those in the US at the height of the monetary squeeze, we might now look for nominal rates in the region of 20-25 per cent. It was noted, however, that this policy had some major disadvantages, not least for the exchange rate. The Governor reported that he had told the CLCB of the Chancellor's wish for a further meeting with the Chairmen. (It was agreed that the Chancellor's Office would discuss further with the Governor's the detailed arrangements for the meeting.)

Bank of England Quarterly Bulletin

7. The Chancellor referred to the draft of the Assessment Section of the Commentary in the forthcoming Bank of England Quarterly Bulletin; he wondered whether this gave sufficient emphasis to the monetary analysis which underlay the Government's policies. He suggested that it might be helpful for the assessment to be signed by an individual (Mr. Dow) rather than for it to be put forward as the corporate view of the Bank. The Governor said the Bank's intention had been to emphasise that, whatever theoretical approach to policy was followed, the practical outcome would be the same. He did not think the Bank could avoid expressing a corporate view in the Bulletin, and the Chancellor should not expect that the Bank would say exactly the same thing as the Treasury. However he undertook to consider the text further in the light of the Chancellor's comments, and to arrange for the



Treasury to see a further revision of the text.

Monetary Inquiry

8. The Chancellor and the Governor agreed that it would be better for them to appear separately before the TCSC, and for Treasury and Bank officials similarly to appear separately. It was noted that the Bank and Treasury replies to the questionnaire were following somewhat different lines; the important thing was that the general approach should be consistent, not that the specific answers should be in identical terms.

Dunlop

9. It was noted that Dunlop were worried by the increasing foreign shareholding in the company, whose share price was currently far below the break-up value of the assets. Although there might in theory appear to be powers in the 1970 Finance Act, the Exchange Control Act and the Industry Act under which the Government might intervene, it seemed unlikely that any of these powers would prove usable in this context.

JW

(A.J. WIGGINS)
12th June, 1980

Distribution

Financial Secretary
Sir Douglas Wass
Mr. Burns
Mr. Ryrie
Mr. Middleton
Mr. Bridgeman
Mr. Britton
Mr. Lavelle
Mr. Unwin
PS/Governor