

Econ Pol.

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Domestic Monetary Policy

NOTE FOR THE RECORD

Mr. Gordon Pepper called on the Prime Minister at 1030 hours on Wednesday, 18 July. Most of the discussion turned on the argument about issuing long gilts as opposed to short and medium gilts. This is recorded separately in my note of 18 July. Other points which came up were:

- (i) Mr. Pepper said that the banks were likely to make very high profits this year, and this was likely to result in high pay settlements in the banking sector. This could have an impact on Civil Service pay next year because of the P.R.U. comparability arrangements.
- (ii) The Prime Minister said that local authority three-month bonds appeared to be taking money away from the building societies. These bonds were secured, as she understood it, on the local authority rates. Would it not be a good idea to take away this security? Mr. Pepper said that the problem of diverting funds from the building societies was basically about high interest rates generally. If local authority bonds were no longer available, the building society money would be going somewhere else. And interest rates would stay high as long as inflation stayed high.
- (iii) Mr. Pepper said that he hoped the Government would seriously consider proposals for Monetary Base Control (MBC). A serious study was now needed of different detailed options. But before coming to any final decisions, it would be important for the Government and the Bank to consult widely with bankers and market operators. The Prime Minister told Mr. Pepper that she was chairing a seminar later that day which would be looking at MBC.

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