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(COVERING SECRET)

Prime Minister

12

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

MONETARY SEMINAR

I now enclose the three Treasury papers on this foreshadowed in my Private Secretary's letter of 3rd July, namely:-

(i) the paper on monetary base control by Treasury economists;

(ii) a paper on funding the PSBR, which has as an annex a summary of the various proposals for changes in the gilts market, and comments on them - particularly drawn from the Bank's paper;

(iii) a short general paper on the Government's monetary objectives and prospects.

2. You may like to start the seminar by a discussion of the monetary prospect and the implications for monetary control set out in the third Treasury paper and then turn to the main papers on the gilt-edged market and monetary base.

3. The proposals for changes in these two papers vary very much in the time span in which they could be put into effect. Some are of immediate relevance - particularly whether we should be continuing to issue long stocks, and whether they should go into the next century. At the other extreme, the switch to a monetary base system of control would take several years.

/It would

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It would involve a change in the financial system at least as fundamental as was involved in "Competition and Credit Control", and it would require considerable periods for each of drawing up the proposals in detail, consultation with the various groups of institutions affected, revision of the proposals, and implementation.

4. I would therefore suggest that we might take the main issues which arise on the papers in sequence. They appear to be:-

(i) whether we should continue to issue long dated stock; (1C in the Annex to the Treasury paper)

(ii) whether the attractions of an index-linked stock appear to outweigh the general objections to the further spread of indexation sufficiently to justify preparing and evaluating a detailed proposal, including considering the implications for taxation; (paragraph 19 and 5C in the Annex to the Treasury paper)

(iii) whether the Bank consider that there is any other way out of the present situation in which we lack a means of raising the level of long term interest rates; (paragraphs ~~14~~ 11-18 of the Treasury paper).

(iv) whether we accept the conclusions of the Treasury economists' paper that there is sufficient

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attraction in the monetary base control as a way of achieving the necessary changes in shorter term interest rates to justify the further study in depth of some particular options.

5. I am sending copies of this minute to the Governor and Sir John Hunt.

(G.H.)

13 July, 1979

Treasury Chambers, Parliament Street, SW1P 3AG
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Dear Tim

17th July, 1979.

MONETARY SEMINAR

I am afraid that the references to paragraphs in the Treasury papers in paragraph 4 of the Chancellor's minute of 13th July to the Prime Minister were not amended to take account of revisions to the papers.

The correct references should be:-

i. 1C in the Annex to the Treasury paper on the gilts market;

ii. paragraph 19 in the paper and comment 5C in the Annex;

iii. paragraphs 11 and 18 in the paper.

There was also an error in the table in paragraph 7 of the Treasury note "Monetary Objectives and Prospects". The provision for sales of other public sector debt in the forecast for 1979-80 is £2 billion, not £3 billion.

Finally, I should explain the apparent discrepancy between the figures in that table for sales of gilts and other public sector debt in 1978-79 and those in table on Page 2 of the gilts paper. The difference is in the treatment of the National Savings Bank Investment Account. The former table follows the normal statistical convention of including its take-up of gilts in sales of gilts to the non-bank public, while in the latter the inflow into the account is included within National Savings.

Yours ever,

MH

(M.A. HALL)

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cc PS/Sir John Hunt
PS/Governor
PS/Sir K. Berrill
Mr Monckfield