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cc Mr. Ridley

red'd E.8 NOV 1979 2 to

See 4081179

CHANCELLOR
CHIEF SECRETARY
FINANCIAL SECRETARY
SIR DOUGLAS WASS
MR. MIDDLETON
MR. BRIDGEMAN
PS/GOVERNOR

GR 8/11

MONETARY POLICY

Tim Lankester reported this morning's meeting between the Prime Minister and the Chancellor. The decision to take no action today was not discussed, and the Prime Minister's agreement can be assumed.

2. The Prime Minister was, however, profoundly unhappy with developments. She thinks it is quite clear that the "old levers" (i.e. interest rates) are not working, and that new levers will have to be devised. The purpose of the lunch is to consider all the options. The Prime Minister would be grateful if work could be set in hand on this with the utmost urgency, so that the possibilities can be set out on paper in time for tomorrow's lunch, which will be followed by a working session (I am trying to find out how long this is likely to last). She has herself mentioned various possibilities, e.g. controlling credit and hire purchase; imposing a tax on the banks; introducing penalties for excessive lending; imposing liquidity ratios etc. etc.

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But no sensible option should be regarded as out of court.

3. Finally, Tim Lankester warned me that it should be by no means taken for granted that the Prime Minister will go along with decisions proposed for next week.

4. The Governor is invited to suggest a maximum of 3 colleagues from the Bank of England to support him at lunch. *Mr Nott has also been invited.*

MMA.

(M.A. HALL)

8th November, 1979