



From J Bruce-Gardyne, MP

Archer 26/7 C

July 22nd, 1979

CONFIDENTIAL

The rt honble Sir Geoffrey Howe, QC, MP
Treasury Chambers,
Great George Street
SW

The answer was not,
as I remember, in fact
so to index - SW18
I have found his address
PSBR active

Archer, (A former American
in last 7 years) ?

I was frankly rather concerned to see from your reply to my PQ on Thursday that you have apparently abandoned the idea of publishing medium-range targets for the money supply and PSBR; and I am venturing to write to suggest the desirability of second thoughts about this.

I readily accept that the PSBR even for the year in course represents the sum of imponderables, and hence that the scope for error is large; and I also accept that any one denominator for the money stock, taken in isolation, may often give a most misleading impression. Yet these considerations have not, in the past, deterred the Treasury from publishing objectives for PSBR up to two years in advance when it has the IMF breathing down its neck - and even on occasion from making (admittedly unquantified) statements of intention regarding the direction of the trend in the money supply.

X The case for the publication of medium-term quantified objectives seems to me a double one. In the first place it must surely strengthen the hand of the Treasury in dealing with the spending departments, by enabling it to point out that failure to practice economy will lead to a need for higher tax receipts, since the watching world would be quick to draw its own conclusions from the abandonment of previously-announced targets. Is not that



the lesson of the current financial year, in that if Labour had won the Election, Healey could and would have been obliged to honour the £8.5bn PSBR ceiling however uncomfortable this might have been for his colleagues?

The second leg of the argument, surely, is that publication of medium-term PSBR and money supply targets (always providing, of course, that they are judged to be compatible with each other, and moving in the direction of balance) should make it easier to finance the current year's PSBR without enlargement of the credit base of the banks.

I realise that to what I have called the 'unreformed neo-Keynesians of Great George Street', while long-term planning of spending programmes and rosy-tinted forecasts of the five-year g.d.p. profile are de rigueur, even medium-term objectives for PSBR and the money supply conflict with the possible requirements of fine-tuning and pump-priming. But I confess that seems all the more reason for putting them in the shop-window.

John
John

cc: PS/Financial Secretary
Sir Douglas Wass
Mr. Littler
Mr. Bridgeman
Mr. Unwin
Mr. Cassell (or)
Mr. Middleton (or)
Mrs. Lomax



Mr. Williams ✓
Mr. Calyton
Mr. Burr
Mr. Lay
Mr. Locke
Mr. Ridley
Mr. Cropper

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

3518.

7 August, 1979

H.F.C.S.

TREASURY
- 4 SEP 1979
H.F.C.S.

~~Handwritten notes:~~
- So good know
- See 0 hrs

my dear Jock

7.8

You wrote on 22nd July about my reply to your PQ concerning my publishing medium term objectives for money supply growth and the PSBR.

My reply was not meant to imply that I had abandoned the idea. The publication of staged targets can certainly have advantages, not least through their impact on inflationary expectations. The simple commitment to a progressive reduction of money supply growth that I gave in my Budget Statement does not, of course, go that far.

But if we are going to go further, we need to be reasonably sure that we shall get it right! It is important, as you say, that our objectives should be recognised as achievable and compatible. As I emphasised in my reply our first priorities since coming into office have inevitably focussed on the first stage. Rightly or wrongly, I have taken the view that until we can be sure that money supply has been brought back under control, and we have completed our decisions on public expenditure, it would be unwise to go further. But I can assure you that the notion is far from dead.

(GEOFFREY HOWE)

Jock Bruce-Gardyne, Esq., M.P.