

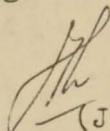
7.11.79<sup>78</sup>SIR DOUGLAS WASS

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MONETARY POLICY

I attach a latest appraisal of prospects by Mr. Middleton and a submission by Mr. Bridgeman covering the options on rolling forward the monetary target, the future of the SSD Scheme and interest rates.

2. The fact that money supply is continuing to drift at a disappointingly high level may be partly due to timing: the unexpected delays in net tax receipts and the obstinately high level of bank lending net of foreign exchange outflows may both reflect growing private sector cash flow problems and perhaps some involuntary stocking. More worrying is the fear on latest forecasts of a worsening PSBR.
3. To influence the prospective run of money supply, we need gilt sales as the quickest and most effective means at our disposal. In retrospect, it is a pity we did not go for higher sales in September for payment in October. We need to get back in the market soon and on a fairly substantial scale.
4. What I find most troublesome is the sense of loss of credibility of the determination of Government to achieve its monetary targets, combined with worries about actual control of events. I think we need to judge the presentation of the next target and related matters from this point of view. Particularly important will be to show full understanding of developments and avoid suggestions of either weakening or resort to cosmetics.
5. I think Mr. Bridgeman's main recommendations (paragraph 31) are right for this. I advise against the weaker roll forward option which he offers as a fall-back: it would be better to aim at the tighter target now and be seen next summer to be missing it, than to be seen now to be weakening the target set in the last Budget.

  
(J.G.LITTLER)7 November, 1979