

NOTE FOR THE RECORD

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BRIDGEMAN'S TALK WITH THE GOVERNOR

1. After lunch on Wednesday, 23rd January, Bridgeman (HMT) gave the Governor an outline of the considerable volume of work on domestic monetary matters with which Bridgeman was now closely involved.
2. The first of these subjects was indexation. The Wass group had originally been studying the possibility of de-indexation in certain other areas, e.g. social security benefits. However, there was an argument, which was being put forward by some within HMT, for moving towards indexation in the form of the provision of indexed bonds. Bridgeman was putting up to the Wass group a paper on that subject in the course of the same afternoon. This paper was simply to act as a 'marker' saying that there was such a case but noting that the arguments pro and con, particularly with respect to the wider implications for capital markets, e.g. whether it would affect companies' access to funds from capital markets, would have to be considered in greater detail later. Thus the subject was very much left open for the time being, though there would be a need to come to a view rather briskly, since the Wass group had to report by the end of the month. Bridgeman further noted that the Financial Secretary, having realised that there was relatively little mileage to be gained in monetary control from adopting monetary base techniques, was increasingly turning his attention towards achieving his monetary objectives through being tough on the PSBR and keen to explore the possible advantages of indexation. The Financial Secretary was, therefore, to be seen as something of an advocate for the indexation of debt issues, and he had elicited the interest, if not yet the support, of the Chancellor. Bridgeman further said that the Treasury would be hoping for considerable help from the Bank with a paper, which would cover wider market implications and also

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the details, the nuts and bolts, of what an indexed issue might look like; these topics might be covered in one or two papers.

3. The second area of work with which Bridgeman was currently concerned was monetary base control. HMT had started drafting with that part of the main paper that they thought would be most difficult, this was the subject of what a more whole-hearted monetary base system might conceivably look like (as contrasted with the Bank's proposal of using movements in the money stock as an indicator for quasi-automatic interest rate changes). Bridgeman was intending to have a meeting on HMT's draft on this difficult issue during the course of this afternoon, and would hope to send the draft passage on this over to the Bank to-morrow. Once this more difficult matter had been satisfactorily dealt with, Bridgeman hoped that the drafting of the rest of the paper could proceed relatively quickly, and he outlined to the Governor the structure of the paper, which remained quite similar to that presented at the earlier meeting with the Financial Secretary. It remains the case that HMT are intending to pass lightly over the issues of the choice of aggregate, debt management (with no reference at all to indexation) and the relationship of domestic monetary control with exchange rate targets (in particular EMS). Although Bridgeman believed that progress in drafting and discussing the main paper should be able to proceed quite quickly, once discussions on the most difficult issue, i.e. what might be left of a whole-hearted monetary base control approach, had been dealt with, he stated that he did not see the Consultative Document being ready for publication before the end of February at the earliest.

4. The last topic which Bridgeman raised, at his own request, was concerned with consumer credit controls. Although he (Bridgeman) thought that the arguments for such controls were weak, and that the timing of introducing them now would be 'nonsense', he thought that, should there be a need for raising MLR in the foreseeable future, this could not be easily done politically unless the authorities were willing to consider imposing some consumer credit controls at the same time. Bridgeman asked what the Governor's reaction to this might be. The Governor said that he hoped that it was an unlikely contingency in the first place and that, if it should come to pass that there was a need to raise MLR within the immediate future, conditions would have



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had to have worsened so much that the case for an increase in MLR would then stand on its own feet, so that the Governor did not think that it would in practice, under such hypothetical circumstances, be necessarily the case that the only way to bring about an increase in MLR would be to have this tied to a tightening of consumer credit controls.

*CAEh*

23rd January 1980.

C.A.E. Goodhart