

SECRET

A keep for further 24.7.79

Copies to The Chief Cashier
Mr. Toleby
Mr. George

See m'26.7.79
D'23.7.79

MR. FFORDE

G.1
see Proc filed
25/7
23/7

A CONSULTATIVE DOCUMENT ON MONETARY CONTROL

I attach a first draft of such a possible consultative document. This has been drafted by MDKWF, with some comments and discussion with me, but, owing to the need for speed at this stage, without consultation with others in the Bank, e.g. in BAMMSS and Overseas Department (the latter would need to be consulted with respect to the references to practices in other countries).

As currently drafted, the paper would represent more of an indication of the Bank's current thinking, and less of a statement about future changes that were to be introduced, than has perhaps been the case in previous documents of this kind. The basic problem, which emerges quite clearly from the draft, is that on the one hand there are clearly severe disadvantages in the use of any kind of direct controls (which disadvantages tend to cumulate in an insidious creeping fashion) while on the other hand there are grave doubts whether the degree ^{and speed} of monetary control - that is likely to be required of the Bank - can, or indeed should, be achievable through variations in market interest rates ^{alone}. In consequence, we do not have a 'complete' solution to the problems of monetary control to proffer in this consultative document. Indeed, the only clear-cut proposal is for the abolition of the present reserve asset ratio, and even here MDKWF (and possibly Bridgeman in the Treasury) will have more reservations about the wisdom of doing away with the present reserve asset ratio than appear in the text.

The draft no doubt reflects the view from the 4th Floor. Nonetheless we have not pushed the 4th Floor's preferred approach, which is to try to rely more on sales of short-dated public sector debt to control EM3 in the intervals when gilts are rather harder to sell.

MDKWF is snatching a few days away from the Bank between now and 3rd August. In the interval I shall be free to take on what immediate redrafting is required. MDKWF, however, will be remaining at home and would not only be able to come in to attend any meetings called to discuss the draft but would, I think, actually be quite keen to do so (he would obtain an equivalent ½ day off in lieu).

24th July 1979. CAEG
C.A.E. Goodhart

EAGE 24/7²⁸