



10 DOWNING STREET

From the Private Secretary

18 May 1979

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~~the~~ Talks with Gordon Pepper

In the course of a conversation which the Prime Minister had this morning with Mr. Gordon Pepper, two points came up which the Prime Minister has asked me to pass on to the Treasury for consideration.

First, Mr. Pepper suggested that one important source of revenue in the coming Budget might be the sale of commercial property currently owned by the New Town Development Corporations. In his view, the institutions would readily take up the purchase of such properties, and it would also help dampen the current property boom. He went on to suggest that a Government company might be formed to take over commercial property from the Development Corporations, and this company would then sell it off to the institutions. The Prime Minister is aware that legislation would almost certainly be required for this, but she would like this idea looked into.

Second, Mr. Pepper referred to the possibility of moving to a monetary base method of controlling the money supply. In his view, this would be an important improvement on the present system. He said that the Bank had been studying this approach for some time and were planning an article for a forthcoming Bank of England bulletin. The Prime Minister has asked me to say that she hopes the Treasury will consider the studies which the Bank has undertaken urgently; and while she is fully conscious of the need for the Chancellor to concentrate primarily on the Budget in the next few weeks, she would like to have the Chancellor's views in due course on the possibility of moving to a monetary base method.

I am sending a copy of this letter to David Edmonds (Department of the Environment), John Beverly (Bank of England) and Martin Vile (Cabinet Office).

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 HM Treasury.