

FURTHER VIEWS.

PROBLEMS

Goodhart. Vital to make clear Govt. is willing to stand by its commitment to tough M.S. targets; to indicate its willingness, even desire, for recession; and need to recognize that monthly C&BR figures will continue to be bad until end Dec. even on our forecasts, which means that assurances about the MBR in the rest of this F Year will count for little.

Gilt Dealer.  
(v. expert)

- Great anxiety because each control relaxation implied prior knowledge by authorities of good monetary trends, so shock from a sharp rise all the greater;
- with M.S. supply targets at 11% max. inflation at 19%. Something has to give in the <sup>fairly</sup> short-run - interest rates or the target;
- however in the very short-run (weeks), the institutions have too little money to invest, the banks will hold off because of previous bad experiences, and MBR hike will achieve little or nothing. Besides it is discouraged anyway
- in a month or so pain would be eased & gilts would have a ready market. but a second bad M.S. figure might have supervened.
- the only apparent solution - a new quantitative system of monetary control, a.s.p. but here, of course,

problems of time-scale, unfamiliarity, need for consultation, echoes of Comp. & Cr. Control.

- The prospect of monetary inflation seen as less pleasing than in my separate note on Iran. The rate would go up & cause consternation in industry. The standard response (of intervention) to hold the rate & accumulate reserves, matched by gilt sales to mop up the extra sterling thus liberated at home, would probably not work. The sellers of foreign currencies - mainly corporations involved in leading & lagging - would be unlikely to take the bait quickly or massively.
- Ergo a Catch 22 situation foreseen.

AR observations

Key policy priority: ensure M5 increase for next month is as low as possible. What can bank do? Jawbone Charter? What can Treasury or Dept do?

Questions: will MCR here really achieve much, even if it is right in itself

: would one activate gilt now? Are institutions dry?

: can M5 base contribution be got out quickly?

: What is latest overseas prospect given Iran & Saudi Arabia.

To be continued.

M. 7/11