

CHANCELLOR

cc Sir D Wass

THE MEETING

I suggest the overwhelming priority is to avoid bad MS figures next month. To that end you might want to pursue:

1. MLR up.
2. Achieve gilt sales. Case for new tactics, if only exceptionally
for commission
3. Avoid a harmful Bray forecast. Dilemma here, as to publish PSBR forecasts for this year and next which are bad would be harmful in one way, not to publish at all might be equally harmful in another.
4. For consideration: action to reduce PSBR; who to consider what when? Prudent to initiate contingency planning now?
*← PA7
← CASH flow*
5. Announcement of MBC desirable; but it must strike "juste milieu", and avoid appearing panicky, or involving too quick a timetable.
*+ SSD
+ ROLL-FORWARD*
6. Attitudes to money supply control need to be toughened - implying a vigorous approach by Bank to clearers, and by them to the system.
7. Possibly consider presentation over next week or so. Anything to note over and above Thursday's statement? [NB. There is a speech engagement on Friday night, set aside for oration on monetary policy.] eg include remarks about mortgages?

INCC M.I. NEXT MONTH
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8. Possibly consider contingency planning for an inflow of foreign currency induced by IRAN etc.
2. Decisions on almost anything else are likely to be either undesirable or irrelevant.
3. The key points made by my interviewees are summarised in the attachment.

ADAM RIDLEY
9th November 1979

(6) To be sure of selling sufficient gilts over the next month, there should be a tender - i.e. no minimum price.

(7) More generally, the credibility of the Government for years is at risk if adequate action is not taken now. There is a feeling that we are dithering, and unwilling to take unpleasant consequences of sticking to tight monetary targets. (Apparently this stems partly from the feeling that we were prepared to interfere with the mortgage rate: there needs to be a positive affirmation that we are not going to - though we virtually said this in the House the other day.) Terry Burns says that our fiscal stance is too lax, and in theory would like a fiscal package but he understands the political difficulties.

T. P. LANKESTER

9 November 1979

SUMMARY OF KEY POINTS FROM FOUR INTERVIEWS

Prospects: uncertain; but policy conclusions clear, indeed that very uncertainly makes the need for and desirable nature of action clearer.

General Policy: act early, and err on side of caution. Overkill later would coincide very damagingly with recessionary downturn.

MLR: up quickly to at least 16%, to break gilts strike.

Gilts: must be sold quickly and strike must be broken. Strong call seen for new tactics at this moment, in particular tendering long gilts without a minimum price.

Bank lending: difficult to control in short run and could well continue very strong for months more. But atmosphere of urgency needed quickly, both to infect banking system, its industrial customers and ordinary people. Is interest sensitive.

Forecasts: Bray must not be fudged, in particular perhaps PSBR for 79/80, 80/81.

Mortgages: positive affirmation needed that interest rate will not be interfered with.

Financial Plan: no use until short-term policy is under control.

Monetary Base: sensible to announce consultation. But vital that timescale is realistic, and announcement is not seen as a way of making short-term difficulties and evading the policy changes they demand.

PSBR: case for action to bring back in line, if possible in time to affect 79/80.

Controls: more or less unanimous feeling that corset, special deposits, reserve ratio changes and so on irrelevant at least, and probably damaging. Exchange control has undermined them all. The primary blame should not be put on the control system if PSBR and money supply are out of kilter.

Other ideas?: no enthusiasm revealed for other innovations, such as taxes. Clear feeling that if you want to control the quantity of money, then you have to be realistic about allowing the price to vary. [A difficult issue for ANR to explore really fully, however, as to push too hard implied panic.]