

NOTE OF A MEETING: 2.30pm WEDNESDAY 24 SEPTEMBER

cc those present

INFLOW CONTROLS

Those present:

Mr Lavelle HMT
(in the chair)

Mr Dawkins	B/E	Mr Hodges	HMT
Mr Sangster	B/E	Mr Peretz	HMT
Mr Nendick	B/E ✓	Mr Allan	HMT
Mr Norman	B/E	Mr Williams	HMT
Mr Armitage	T Sol	Mr Spencer	HMT
Miss Wheldon	T Sol	Mr Perfect	HMT

Mr Lavelle noted the Prime Minister had been sympathetic to the arguments in the Chancellor's paper on inflow controls discussed on Thursday 18 September. However the discussion had been inconclusive and we were required to look at all available options. The Chancellor was due to discuss inflow controls with the Prime Minister immediately before the party conference but it currently appeared likely this meeting would be postponed one week to Monday 13 October. The next money supply figures come out on 16 October and Parliament returns on 27 October.

2. Mr Lavelle said the aim was to send a paper to Washington for the Chancellor and Sir K Couzens by the weekend. Copies would be sent to the Financial Secretary and Sir D Wass. Mr Lavelle asked if the paper circulated by Mr Peretz on 23 September covered all the options. Mr Dawkins wondered if the tax treatment of interest on bank deposits should be mentioned but Mr Lavelle said all tax points would be dealt with separately.

3. The meeting considered the options for inflow control in detail and agreed a number of changes. Among the points discussed were

i. switching between gilts and other sterling assets could have an adverse effect on the money supply without affecting the demand for sterling;

ii. paying a lower interest rate on bank deposits while banning increases in other sterling assets might look over-generous to bank deposits. This option would be administratively more complicated than banning interest rate payments without having a significantly different effect. The Swiss and Germans had never tried this;

- Discussed
Deposit
Takers too*
- iii. if a special deposit scheme was not arranged there was nothing to stop banks making interest payments to depositors through overseas branches;
- iv. the ban on non-resident purchases of gilts only would not be referred to as simple. Ministers might be attracted to this option as a way of showing willing while minimising the risk of being drawn into further controls. However we would need to monitor the borrowing of sterling or foreign currency from abroad by non-resident controlled UK resident companies to stop an obvious gap. The amendments suggested by Mr Hodges to this end were broadly accepted. This option had the negative virtue of avoiding or minimising problems found in other options;
- v. Mr Spencer would attempt to quantify the magnitude of the effects of banning non-resident purchases of gilts;
- vi. Mr Armitage noted that non-resident controlled companies in the Channel Islands and the Isle of Man would be well placed to avoid the controls;
- vii. Miss Wheldon noted that the Treasury would need to produce arguments to convince the Commission that the controls were introduced for balance of payments reasons or because of disruption in the capital market.

Other Options

4. Mr Sangster agreed that talking down the rate would have little effect. Holding out the promise of early capital gains on gilts could encourage inflows. References to the exchange rate should be general and not expected to have any marked effect.
5. There was little scope for intervention in current circumstances given the need to control the money supply. The use of sterling to intervene in the market might have more effect than selling direct to the Banks usual customers though there was a danger that if customers were turned away they might not return. The paper would suggest some asymmetry in day to day intervention as an option while recognising that little intervention could be done in current circumstances, so we could not be sure of affecting the exchange rate by this means.

Future Work

6. Mr Lavelle suggested we press on with both the scheme for general inflow controls outlined in the Chancellor's paper of 17 September (Scheme A) and the scheme for controlling purchases of gilts ^(Scheme B) only, but give priority to Scheme A. The timetable for printing the Bank Notices and Treasury Orders should be checked before a decision was taken on whether to print the Notices and/or Orders in advance.

! The Bank would see if they could carry the costs of printing the Notices.

! don't recall our promising to investigate this

7. Mr Dawkins noted that once a decision to implement Scheme A was taken time would be needed to negotiate the special deposits scheme with the banks. The Bank would consult with its contacts to check whether it was practical to use Section 5 to stop the commercial bill gap.

8. The chairman thanked those present for their assistance.

R. M. Perfect
R M PERFECT
25 September 1980

*Lucas's Deposit Tables / Statistical books
Endothelium problem of de minimis*

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