

c.c. Mr. Middleton/
Mr. Monck
Mr. Britton
Mr. Riley

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EXTRACT FROM RECORD OF MEETING AT NO.11 DOWNING STREET, on
6th November, 1980.

RESTRICTED

5. The Chancellor replied that control of money, and its effects on the economy, was indeed a baffling and difficult subject. What was clear was that in the absence of control of the money supply - however measured - over a period of years, control of inflation was lost. There was a bewildering variety of possible techniques of monetary control; it was particularly difficult to achieve effective control in current economic conditions, and in an economy as open as the UK's. The Government did not look only at a single monetary aggregate, though only one was used for targetting. This was a difficult and complex area: for example, if £M3 growth was high (as far as one could measure it), and a significant cause was bank lending to the corporate sector, one had to ask oneself whether something in corporate and banking behaviour was changing which meant that some of the growth in lending was not legitimately part of the money supply. More generally, even if no such thing as a monetary target had been invented, common sense suggested there was a limit to the amount the Government could borrow.

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