

PRIME MINISTER

MONETARY BASE CONTROL

1. I propose that, now the budget is over, we try again to introduce MBC. In my view it is of considerable urgency.
2. At present there is no ostensible monetary control. We are not moving interest rates according to some rule about the excess of monetary ( $\text{£M}_3$ ) growth over target values. We need to control the base of the banking system and at present we have very inadequate means to do this.
3. There is a lot of liquidity in the system mainly in the form of interest bearing financial assets. In order to prevent an explosion in the means of payment, we ought to prevent these financial assets being converted into money. MBC would enable us to avoid such a monetisation.
4. Some problems of adaptation remain but they are minor. My contacts with discount houses have shown that these firms could very quickly adapt to MBC. Indeed in many respects such adaptation has already occurred. The other objections raised by the Chancellor - the behaviour of the building societies and the fate of the two gilt jobbers - need to be examined again, but I doubt if they should constitute a lasting barrier to MBC.
5. If you agree, I shall pursue this further with Middleton and Burns and then the Chancellor.

AAW

12 March 1981

cc Mr. Lankester  
Mr. Wolfson  
Mr. Hoskyns  
Mr. Duguid  
Mr. Strauss