

Alan - the below -  
most concerned  
about the  
request to distribute

10 → Alan Walters (came to Am) 2.  
we spoke  
10 December 1981 MLS 14/12 p/9

**SECRET**

PRIME MINISTER

ALAN WALTERS

FEDERAL RESERVE BOARD STUDY OF MONETARY AGGREGATES IN THE UK

the paper - because  
its conclusions will be  
twisted against  
us.

1. As you know, the Federal Reserve Board is very interested in our experience of monetary policy in Britain. One of its main research economists, David Howard, and his team, have been working on the subject for at least three years. He has sent me, on a personal and confidential basis, his first draft of a paper entitled "The Nonbank Demand for Monetary Assets in the United Kingdom: An Examination of Monetary Growth and Policy".
2. The paper is sophisticated and technically most complex. It is, however, highly competent; I can find no important error in the analysis.
3. The conclusions are modest and do not make extravagant claims. They are, however, entirely consistent with the views which I have expressed for more than a year now, and which Gordon Pepper has urged in his recent letter.
4. The summary conclusions of David Howard:  
 ".... on the criterion of control ability the choice for intermediate target would seem to be M1 rather than sterling M3.  
 "With regard to the relationship with ultimate goals .... the preferred intermediate target is M1."
5. There are some subsidiary conclusions which are of interest for policy purposes. The first conclusion is that he discovers a high substitution effect of foreign currency with respect to domestic interest rates. Secondly, from other research, Howard reports that the monetary base instrument could be used to control either M1 or sterling M3 but that control would probably be better in the case of the narrow aggregate M1.
6. I have asked Howard to distribute his paper to the Treasury and the Bank.

This will be disadvantage for us.

As I have remarked before M1 was all right under Fed

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I hope the paper will not be distributed - because it will then look bad.