



Copy No 4 of 4 copies

FILE SAW

12

10 DOWNING STREET

From the Private Secretary

21 December, 1981

BF
Seminar
Cancelled

Prime Minister's Seminar on 7 January 1982

The Prime Minister was grateful for the note on monetary policy and the exchange rate which was attached to Peter Jenkins' letter to me of 14 December.

The Prime Minister continues to be concerned about the level of UK interest rates. As the Chancellor knows, she is concerned both about the threat that a continuing high level of interest rates poses for the recovery of output, and by the possibility that our present interest rate levels are being too much influenced by the choice of £M3 as the target monetary aggregate. It is the Prime Minister's view that we should be looking for a further fall in bank base rates within the next couple of weeks; and that we should be looking over a somewhat longer timescale for further falls so as to reduce or eliminate the gap between sterling and dollar rates. The Prime Minister recognises that, given the extent to which £M3 is currently overshooting the target range, such a move may be taken as a decisive sign that the Government has abandoned £M3 as the principal target variable. Her conclusion, however, is that this should lead us to a much more rapid decision about a new monetary regime; she has commented that, if the pressure were on, we could as easily reach such decisions in three days as in three months.

The Prime Minister hopes that these issues will be discussed at the seminar on 7 January. She also wishes then to consider debt management and indexation policies. She hopes, too, that there will also be a discussion of our policy towards the EMS.

Finally, the Prime Minister hopes that the seminarists will join her for lunch at the end of their proceedings on 7 January.

Perhaps you and Tim Allen (Bank of England), to whom I am copying this letter, would let me know in due course what papers you propose to produce for the occasion; and who will be attending.

M. C. SCHOLAR

John Kerr, Esq.,
H.M. Treasury

SECRET

9