

PRIME MINISTER

MONETARY POLICY MEETING

Gordon Richardson has written to me with some comments on my record of the monetary policy meeting. These are all unexceptionable, except one: he says that you said that derestriction of indexed gilts should not take place until the rate of inflation was seen to be falling. I had recorded you as saying that derestriction should take place "soon", the timing and the amount to be considered by the Chancellor with reference to yourself.

Can you confirm that my recollection is right?

My recollection is

MCS 'could not take

place until when

inflation is falling.

I would say it is falling

but would agree that we should not-

5 February 1982

issue such a bill until
the present right is reversed
is reversed - which I would
be soon. I will, I agree

with the Governor's view - We
shall not have to
wait long.

ms

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4 February 1982

gc AW

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My dear Michael.

Having read your otherwise excellent summary of the Prime Minister's meeting on Monetary Policy on 22 January, there are one or two points on the record of the discussion on derestriction of indexed gilts that I feel I must make to you.

The main point is that you make no reference at all to the views of the Bank, which, on a subject as central to our responsibilities as this, I feel should be recorded. What I said was that we too are totally committed to getting and keeping inflation down but consider that derestriction, far from contributing to that objective, would prove to be a further major step towards institutionalising inflation. I pointed out that the attitude of the authorities in those major countries, which have been most successful in their fight against inflation, was one of resolute opposition to indexation, which they saw as a progressive process towards accommodation to inflation. It was our concern too that each step would lead to another (as had already happened with granny bonds and was happening with the tax structure and now in the gilt-edged market).

On two narrower points I note that the reference which the Prime Minister made to derestriction not taking place until the rate of inflation was seen to be falling is not reflected in the Minute;

and where you mention those who do not have the protection of employers' pension funds you should perhaps mention too that the self-employed can gain access to restricted indexed gilts through the index-linked retirement annuity schemes offered by insurance companies which would become increasingly flexible as more restricted indexed gilts were issued.

I am sending a copy of this letter to John Kerr.

Yours sincerely

Gordon Richardson

14 FEB 1982



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