c. Mr. Hoskyns
Mr. Walters
Mr. Duguid
Mr. Scholar

MR. INGHAM

MONETARY TARGETS AND THE RECOVERY

We had a word about your note to me of 23 November, which you wrote after seeing Alan Walters' note about the relationship between monetary targets and the recovery.

I think it is widely recognised within this office that we have a major presentational difficulty here. It is much harder, for some reason which I find difficult to analyse, to justify adherence to strict monetary targets at a time when the recovery is beginning, than it was to justify it when we were on the downward slope of the recession. This may be because we justified the conscious deepening of the recession on the grounds that it was necessary in order to establish the basis for a sustainable recovery, and it is now seen as something akin to immoral to deny people the fruits of that earlier sacrifice. I would like to try to arrange a short discussion of this among those of us concerned: unfortunately, Alan Walters has fallen victim to excessive indulgence of oysters and will not be available until tomorrow. There is to my mind (and to Andrew Duguid's) a rather clear contradiction between what Alan Walters is saying - that since all we are doing is adhering to a fixed path of monetary deceleration through both phases of the economic cycle, there is no specific policy to choke off the recovery in output - and what Terry Burns is saying, which seems to be that until inflation has got below the growth rate of monetary incomes implied by the monetary policy, our policy <u>is</u> intended to restrict output. And, as the media are now pointing out with ever increasing justification, it does look as if we are nipping the recovery in the bud.

In the meantime, therefore, I think we must rest on the lines suggested in the last paragraph of my earlier minute - 23 November to Alan Walters. The recovery we are looking for is a special kind of recovery, characterised by our ability to sustain it, and requiring therefore a continuation of our improvement in competitiveness, which means a lower rate of

/inflation

inflation than we have at present achieved. Given that most forecasters are now doubtful about single figure inflation next year, and almost all forecasters see inflation exceeding the target growth rate of money supply this side of the Election, that is a pretty unpalatable message. But it is, if I understand it aright, the Government's policy.

24 November 1981