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PRIME MINISTER

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MONETARY POLICY & EXCHANGE RATE TARGETING

The CPS held a conference on 18 July on "Monetarism Lost" a booklet by Tim Congden. Congden believes in targeting broad money and argued that since 1985 our policy has been inflationary. His argument was efficiently demolished, however, by Peter Lilley who showed that M_3 and particularly M_4 (= M_3 + building society deposits) were most misleading indicators, and that M_0 was best. With the equivocal exception of Goodhardt, the other speakers (Lomax of Nat West, Budd of Barclays, Minford and Budgeon) all agreed with the Lilley critique and added substantially to the case for M_0 .

The other remarkable feature was the general aversion, or at least scepticism, of targeting exchange rates. This is new. Both John Redwood and Patrick Minford remarked independently that they had detected this as a marked change from previous conferences.

Of course partly this may be due to the splendid outcome from Madrid, but we believe that there has been a noticeable change in the intellectual climate. Item: even Sam Brittan did not ride his careworn hobby horse - and he had ample temptation since Congden was also against joining the ERM.

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