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From the Private Secretary

23 April 1990

Dear John,

ECONOMIC SEMINAR: FOLLOW-UP WORK

My letter of 17 April to you set out a number of ideas which the Prime Minister and Chancellor agreed should be examined as possible ways of discouraging the growth in demand for credit.

The Prime Minister considers that there is a further approach which could also usefully be explored.

Under this proposal, policy would operate through the links between clearing bank reserves and money and credit, and then to GDP. Monetary policy would be directed at the rate of growth of the Bank of England's balance-sheet. In essence, the Government would aim to constrain the growth in the Bank's reserve assets and, through that mechanism, clearing bank reserves and hence their balance sheets and capacity to increase the supply of credit.

The Bank's reserve assets would also be redefined and narrowed so as to exclude commercial bills. (This change would be designed to prevent clearing banks from expanding their balance sheets by encouraging firms to issue commercial bills, which could then qualify as reserve assets, rather than taking out loans.)

The ideas are described more fully (and no doubt more accurately) in an IEA publication 'Money, Credit and Inflation' by Gordon Pepper.

I would be grateful if you could arrange for this approach to be considered alongside the other ideas on which work has already been set in train.

Yours ever,

Barry

(B.H. POTTER)

John Gieve, Esq.,
HM Treasury.

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