Subject copy S4(dm)

Re Governor

MR FFORDE VIA
MR GOODHART

Copies to: Mr Coleby
Mr George
Mr W A Allen
GPS X2

GPR 24/10

Mr Allen
The Governor expressed interest in this when he saw WAA this morning
Michael Foot 23.10.

THE LSE SEMINAR ON MONETARY BASE

WAA and I attended this seminar, on 22 October. With Alford in the chair, and Miller, Buiter, Pepper, Geoffrey Wood, Johnson and Wills in the audience, there was enough diversity of view for a lively 1 1/2 hours; but also there was little chance for anyone less familiar with the debate to get a word in edgeways.

Much of what was said constituted a replay of earlier debates. However, among the points of interest:

(1) Pepper made no attempt to explain how his transitional proposal, for a mandatory scheme, would help one get to his ultimate objective, a non-mandatory scheme. No-one else offered an explanation either.

(2) Until Geoffrey Wood arrived, everyone tended to talk in terms of controlling M0 to influence some wider aggregate and even Wood did not go nearly so far towards setting up M0, rather than say £M3, as the main intermediate objective as did Brunner and the others at the overseas experts' seminar.

(3) There was a good deal of talk about the "tax" implications and the resulting danger of disintermediation of the various possible control regimes. There was a measure of agreement that the extent of the danger (would there be a once and for all shift or a regular problem?) was a function both of the way the control system was set up and of the activity with which it was operated. Wood accepted this and noted, with most people's agreement I think, that the non-mandatory system was clearly superior on this criterion.

(4) There was some discussion of whether a non-mandatory system would be undermined by periodic reductions in banks' voluntary demand for base, as they found ways of economising on the need for it. Christopher Johnson of Lloyds stressed that the present level of bankers' balances held by the clearers was well above what they would need if given the freedom to order things as they saw fit. (In passing, he gave the impression that he had been associated with the clearers' proposals on changes in our money market operations discussed in ALC's note of 14.10.80).

(5) Buiter put more forcefully than before his view that the fact that one did not know the level of interest rates that would achieve a particular monetary target did not necessarily mean that one should target quantities (eg of the base) rather than prices (interest rates). This was because the money variable one thought important in one's macro-economic model bore no stable relation to any of the measures of the money stock collected. To target a measure like £M3 might thus leave one as far away from desired monetary conditions as targeting a particular level of interest rates.

<u>Summary</u>

Majority opinion at the meeting, not surprisingly given the main participants, was clearly fairly hostile to any significant changes to the present system of monetary control that would lead to some form of MBC.

Gilt-edged Division
23 October 1980

M D K W Foot (4315) HO-4

Michael Foot