

NOTE OF A MEETING

Held in Sir Douglas Wass's room at 11.45am on Friday 24 October 1980

Present:

Sir Douglas Wass (in the Chair)
Mr Burns
Sir Kenneth Couzens
Sir Anthony Rawlinson
Mr Ryrie
Mr Middleton ✓
Mr Britton
Mr Monck
Mr Unwin

THE EXCHANGE RATE: CONTINGENCY PLANNING

1. Introducing the discussion, Sir Douglas Wass said that he wanted to consider the possibilities for action if the exchange rate continued to move upward. The Chancellor and Prime Minister were deeply concerned about the economic effects of a continued rise, and the Chancellor had asked for a general talk in the near future. Sir Douglas invited the comments of those present.
2. Mr Burns said that an adjustment might soon be needed if industry was to retain its competitiveness. If action were necessary, he would prefer a fiscal adjustment to a reduction in interest rates, which he did not think would bring down the exchange rate to the degree which the Government wanted. There were, however, practical and political problems in bringing about a fiscal adjustment.
3. Mr Middleton said that for a reduction in interest rates to have maximum effect it ^{would} be necessary to relax the monetary targets. Even so, there would be a substantial lag before the exchange rate fell to its full extent.

Mr Britton said that there were really two questions here: (i) whether the monetary targets should be relaxed to achieve the maximum effect; and (ii) whether they should be replaced by exchange rate targets. While he agreed with Mr Middleton on (i),

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he was less certain about (ii). There could be as many difficulties in achieving an exchange rate target as a monetary target, and he thought it desirable that the Government should try to avoid getting into a position where its performance was monitored by reference to a target of this kind.

4. After further discussion, it was agreed that the main aim of any measures should be to correct the distortions caused by ^{the} real exchange rate which benefited consumers at the expense of the company sector. There were a number of ways in which this could be achieved, though measures to help companies would need to be general rather than selective.

5. Sir Douglas Wass said that it would be useful to have some appreciation of the scale of the problem which the exchange rate posed for the company sector, as compared with some base position. He invited Mr Unwin and Mr Britton to prepare a short note on this. This should point out the main factors affecting the company sector at present. It should go on to consider the practical possibilities for fiscal, interest rate, and exchange rate adjustment. The note should then outline various packages. The note should not take account of political difficulties, and should include examination of the effects of a pay freeze.

6. Mr Britton and Mr Unwin undertook to prepare a note along these lines for discussion at a meeting in the week beginning 27 October. They would consult as few people outside those present at the meeting as possible, and would notify Mr Taylor of any who were consulted.

cc Those present

J M G TAYLOR
29 October 1980