SECRET

NOTES ON THE MEETING WITH LAWSON

The general point made by Lawson, by way of introduction, was that the Bank's draft had the wrong 'political' flavour in a number of respects, but that this could be rectified in a paper presented as a joint effort by the "monetary authorities".

Main topics discussed

1. Choice of target aggregate

Lawson accepted that there were 2 issues:

(a) narrow versus broad money targets;
(b) whether one should look at a variety of aggregates and, if so, how could this be squared with any automatic link to one aggregate (one of the possibilities raised in the Bank's draft).

He also accepted that these subjects would be discussed by outside commentators even if not raised by the Consultative Document. He and HMT were against changing from £M3 and so wished to deal briefly with the issue in the main paper - rather than at length in an annex - recognising that there were counter-agruments to the view to be expressed.

2. Relevance of exchange rate regime

The Bank explained the problems which they saw possible entry to EMS posing for (a) any automaticity of interest rates and (b) for any major institutional changes sought as part of some form of monetary base control which might then be redundant or harmful if we joined EMS.

Lawson, supporting Littler, thought that the paper should be drafted so as to focus attention on the need to make only those institutional changes which appeared sensible given the uncertainties (notably EMS) ahead; but that, otherwise, EMS should not be discussed.

3. Gilt market techniques

Lawson was anxious to avoid raising the issue of gilt market instruments/techniques in the Consultative Document except in so far

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as it was absolutely necessary for a discussion of monetary base control. This would rule out mention of indexation. CAEG argued that the Document should however say that the Government doesn't preclude changes in instruments or techniques.

4. Disintermediation

It was agreed that discussion of this in the Document must leave no room for the reader to think that the authorities were prepared to indulge in "cooking the books" in the targetry and monitoring of the monetary target.

5. The future role of the reserve asset ratio

The Bank's position here was accepted.

6. The ending of the SSD scheme

It was agreed that the SSD scheme had no place in the future pattern of controls but that it was not operationally necessary to announce the date of its 'death' in the Consultative Document.

7. Monetary Base Control

The Bank explained that they had sought to open a door that would permit further steps 'into a monetary base world' if this later seemed desirable, while avoiding unnecessary present institutional change. Professor Burns thought it important to disillusion people of the idea that monetary base control was a magic box to cure all ills, and endorsed the cautious evolutionary approach to institutional change.

Despite the Bank's warning that it would be hard to get bankers to consult unless some reasonably clear lead was given by the authorities as to what they wanted, Lawson supported HMT's view that the Document should not rule out 'full-blooded' monetary base control and that several clear-cut variants should be considered in detail. He did not, however, show enthusiasm for any such 'full-bloodied' control.

8. Automaticity

Lawson was asked whether the implications of greater automaticity of interest rates were realised at top level. The answer was a clear "no". Lawson was of the view that the Government was prepared to consider a reduction in their discretionary powers.

9. <u>The next step</u>

HMT are to attempt a redraft along the lines set out above, taking a good part of the Annex on Monetary Base Control and much less of the Annex on Monetary Aggregates into the main paper. They were to make all possible speed.

10th January 1980