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THE EXCHANGE RATE: MINISTERIAL BRIEFING

Mr Wiggins' minute of 4 February recorded your impression, in the light of discussion at a recent meeting of E Committee, that some colleagues did not fully understand the Government's stance on the exchange rate. He sought advice on the case for circulating a paper setting out the arguments, and the timing of any such paper.

2. Both you and the Prime Minister have set out the Government position on exchange rate issues - in particular on intervention and on inflow controls - on several occasions, both in the House and elsewhere. But it is true that the issues have been most fully presented and argued out in the several papers you put only to the Prime Minister last autumn. There are some basic truths which it could be useful to deploy more widely. I take it that you would have in mind points such as the limits on our ability to override the market and deliver a desired exchange rate; the need, if the attempt is to carry conviction, to use all the instruments of policy in support of it (interest rates, intervention, inflow controls); the effects of such an attempt, even if it fails, on the money supply and on inflation; and perhaps the fact that in essence such a policy is much the same in its effects as monetary or fiscal reflation.

3. It would certainly be quite possible to construct a paper on these lines, but its timing requires thought. We are considering what should be said (if anything) about "taking account of the

exchange rate" in interest rate decisions. You spoke to me last week about inflow controls and I am minuting separately about those. I do not think you would wish to circulate a paper to colleagues just at present, when related questions are still under discussion within the Treasury itself.

4. I think too that you would wish to avoid putting policy on the exchange rate into commission. If you circulate a paper to colleagues, whatever its formal character, there is some danger that at least some Ministers would dispute your conclusions; or use them as an argument for relaxation elsewhere involving public expenditure or tax relief. This is nothing to do with being secretive or suppressing discussion. There is plenty of that on the exchange rate anyway. But a paper circulated ad hoc to colleagues in E Committee, or even a letter to a number of them, tends in some degree to engage their responsibility and thus to invite formal comment.

5. My conclusion would therefore be that if you would still like to circulate a piece on the exchange rate, the best course might be to do it as an extension of Budget briefing. The material could then be circulated naturally as part of the arrangements we always lay on at that time. If you agree, I will ask for work to be put in hand on these lines.

K E C

K E COUZENS
13 February 1981