



MR. MIDDLETON ✓

cc: Chief Secretary
 Financial Secretary
 Minister of State (C)
 Minister of State (L)
 Sir Douglas Wass
 Sir Kenneth Couzens
 Mr. Ryrie
 Mr. Burns
 Mr. Monck
 Mr. Britton
 Mrs. Lomax
 Mr. Turnbull
 Mr. Ridley

Mr. Fforde (B/England)

THE MONEY SUPPLY TARGET

The Chancellor was grateful for the papers submitted under cover of your minute of 29 January; he found them very helpful in leading him through some difficult territory. He rather sympathises with the Chief Secretary's reaction that there could be considerable attractions in an average money supply index.

2. The Chancellor has asked three particular questions:-
- (i) How would Mr. Walters view the conclusions in paragraphs 23 and 71 of Mrs. Lomax' paper - i.e. that the experience of the early 1970s does not demonstrate that broad aggregates are economically more significant than narrow ones?
 - (ii) Given the disadvantages of sterling M3 summarised in the first sentence of Mrs. Lomax's paragraph 35, how did anyone ever come to choose it?
 - (iii) If the significance of M_0 depends on the continuation of a cash-based wage system, should we call off our efforts to "mensualize" pay (see paragraph 51 of Mrs. Lomax's paper)?

JW

A.J. WIGGINS
 2 February 1981

79
 2