

THE DEPUTY GOVERNOR

Copies to Mr Fforde o/r
 Mr Loehnis
 Mr George
 Mr Coleby
 Mr M J Balfour
 Mr Quinn
 Mr Foot
 The GPS
 Mr P E Middleton)
 Mr A J Britton) HMT
 Mr M L Williams)

FOREIGN EXPERTS' SEMINAR ON MONETARY BASE CONTROL, TUESDAY, 30 SEPTEMBER

Attendance

It was suggested that the Bank and Treasury should arrange an additional seminar, besides that already set in place for UK experts on Monday, 29 September, at which Bank and Treasury officials could take expert advice on the operation of monetary base control from a small number of foreign experts. It was suggested that it would be desirable for Professor Karl Brunner to be among those invited to the seminar. At an earlier meeting in HMT to discuss arrangements for such a meeting, it was agreed that I should first seek to contact Professor Brunner to find out what dates might be possible for him to attend, and then to telephone a number of possible additional foreign experts whom we might invite to this small seminar.

After I had initially telephoned Brunner, he telephoned Brian Griffiths, who suggested that he came over for the 29 September conference. When I then again rang Brunner, he said that he could come over for 29 September. I told him that at the earlier conference we were hoping to discuss with UK bank and discount house economists, among others, to ask how their particular behaviour might be affected by monetary base control, and that we wanted to have a separate seminar at which we could discuss more general issues of monetary base control with him and other experts from several countries. Having thought initially that he might possibly be coming over on 29 September, it then became possible to persuade Brunner to agree to come instead to the foreign experts' seminar on Tuesday, 30 September and that is now the proposed date.

This has an additional advantage, in that Alan Meltzer, who is a close colleague of Brunner's, will be in London anyhow on that date, for the purpose of taking part in Professor Griffith's City University Conference on Exchange Rates. I also telephoned Alan Meltzer and, subject to his commitment to Brian Griffiths to take part as a discussant in one of his sessions on Tuesday, Meltzer would like and be able to join the foreign experts' seminar.

As agreed at the meeting at HMT, my next step was to telephone Dudler at the Deutsche Bundesbank. He indicated that he would be willing and able to come, but then said that he would need to get permission from Dr Schlesinger who might be interested in coming himself. At that point I said that if Dr Schlesinger would like to come (instead of Dudler) we would be extremely glad if he would. My reason for encouraging any proposal that Schlesinger might come was that there had always been a suggestion that we might think of inviting Zijlstra (who will be away at the IMF anyhow), and Schlesinger's appearance at the meeting would give an indication that the seminar was indeed being given full weight; and I was later told that Schlesinger would indeed like to come, though he would have to fly over early in the morning and return the same evening. Next, as again agreed, I telephoned Dr Schiltknecht of the Swiss National Bank. He agreed to come though he said that he would have to get permission from Leutwiler though he indicated that it would be just a formality.

The next step, as also agreed, was to enquire whether we could obtain any representative from the Federal Reserve System. Dick Davis, who is going to be over in the UK the week before, was very unwilling to come, partly for timetable reasons and partly because he felt himself inappropriate for this meeting. He said Axilrod would be the appropriate man. Axilrod, however, when I telephoned him, felt that the Federal Reserve System would not wish to send anybody at a high enough level to discuss these matters. This was largely for domestic reasons. They had their own battles with Professors Brunner and Meltzer, and were unwilling to take part in a discussion which would both serve further to raise their reputation and probably leave the FRS exposed to having anything they said there subsequently used against them. I agreed that with Professors Brunner and Meltzer attending the meeting, ^{it} would have to be assumed that both the meeting itself and ^{line of} the general/discussion taken at the meeting would be made known by

Professors Brunner and Meltzer to a wide group of outsiders. I certainly did not try to press them. Indeed having heard their viewpoint, I thought it only fair to warn Dudler in the Bundesbank about the dangers that the FRS saw for themselves in attending this meeting. Dudler said that they felt very much more relaxed and open in this respect than the Americans, and he indicated that he expected that Schlesinger would still want to some.

After discussion with Middleton, it was thought that there might be a case for seeing if an academic American professor, with a knowledge of monetary base control and a slightly different viewpoint from Professors Brunner and Meltzer, might be approached and would help to give greater balance to the discussion. I telephoned Ben Friedman at Harvard, who was unable to come; he suggested Professor James Pierce, who was responsible for monetary base control at the Fed and for many years worked with Arthur Burns. I shall try to ring him tonight. Depending on this outcome, it is likely that we may have four or five foreign experts for the seminar on Tuesday, 30 September. PS I failed to contact Pierce by telephone, but will write to him this morning.

Venue and Administration

The Oak Room has been booked for the whole day. It is perhaps slightly large for the twelve or so attendants of the seminar. Would recipients wish to suggest another venue? At least the acoustics are good there, which makes it preferable to the First Floor Committee Room. I have made no arrangements for lunch yet. I would hope that the Deputy Governor might feel prepared to offer lunch on the first floor. Middleton suggested that the Financial Secretary of the Treasury might like to join the gathering for lunch.

The session may, perhaps, start at 10.30 in the morning, since Dr Schlesinger would be unable to arrive earlier. Middleton has checked the Prime Minister's diary and she has a half hour gap at 5.00 pm, and there is a suggestion that the attendants might be offered drinks at Number 10. Payment for Brunner's flight and hotel room will be made by HMT; I assume that the same would go for Professor Pierce if he can be enticed to come over. There has been no suggestion of a need for any other payment to attendants, though I feel that we (HMT) should at least offer to pay for Schiltknecht's room if he feels the need to stay either the night 29 or 30 September.

What Remains to be Done

There will, I think, be a need to send out confirmatory telexes to those who have agreed to come and I should like to do these on Friday afternoon, assuming recipients do not wish to make any fundamental changes. These, could, of course, still be made.

If the meeting is to take place as proposed, we shall need to consider carefully how to try to structure it, and whether an introductory note would be useful to circulate to those attending. For example, is the present introductory note for the meeting on 29 September suitable to be sent exactly as it now stands already to those attending the foreign experts' seminar on 30 September?

Then there is the question of publicity. It strikes me as beyond question that the fact that the Bank and Treasury are asking Professors Brunner and Meltzer and unstated others to talk to them about monetary base control on Tuesday, 30 September will become public knowledge, and probably quite soon. Professors Brunner and Meltzer can hardly be expected not to talk to their friends and colleagues, and these in turn will talk to the press. However, I see no particular disadvantage in the press learning of this and perhaps, indeed, some advantage. I would assume that our position would be that we have asked a number of foreign experts to come to give us of their 'wisdom', but we have nothing additional beyond that to say; our purpose is to listen.

Random Comments

It is, perhaps, difficult to strike exactly the right note of giving this additional seminar due weight without trying to play it up into an occasion of greater magnitude and importance than it deserves to be. Further, I have felt slightly exposed in pressing ahead with trying to get the seminar under way. Given the pressure that we are under to hold this seminar and to hold it with all due speed, I have proceeded as set out above, without being able to hold discussions and take advice with as many people as I would have liked. I can only hope that you find the outcome of all this acceptable under the circumstances.

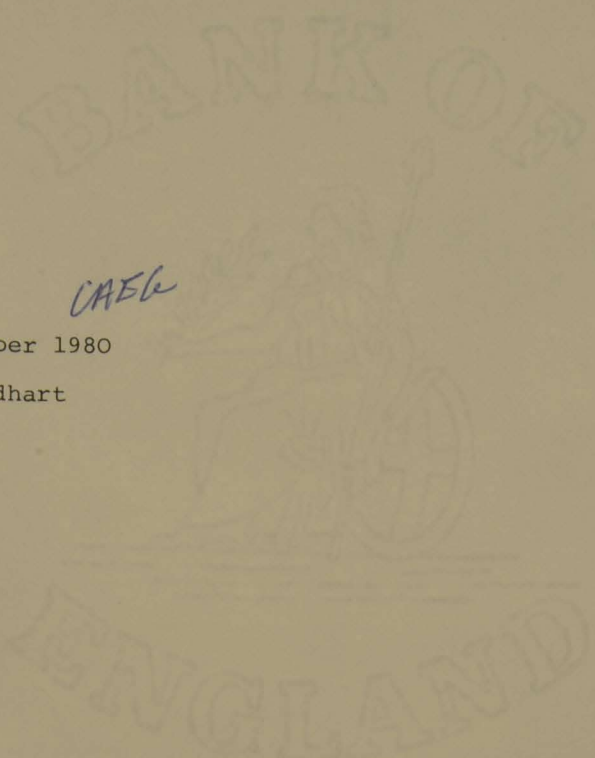
Unless otherwise instructed, I shall send ^{letters or} telexes off tomorrow (Friday) afternoon to Professors Brunner and Meltzer, Dr Schiltknecht, and Dr Schlesinger (and perhaps Professor Pierce) confirming Tuesday, 30 September as the date for the foreign experts' seminar, and confirming, as necessary, that HMT will pay travel and subsistence.

PS Owing to delays in getting this circulated I shall wait till Monday 10.00 am to despatch confirmatory letters and telexes.

CAEG

18 September 1980

C A E Goodhart



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Mr A J C Britton
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23 September 1980

Dear Charles

BRUNNER SEMINAR

1. We spoke about the agenda for the meeting with foreign experts on Tuesday 30 September and I have now had a word with Peter Middleton as well.
2. We do not need, I think, to circulate anything to the visitors in advance, but it may be useful to be clear in our own minds what ground we hope to cover. For my part, I would like to concentrate on the practical questions involved in operating monetary base control in the UK, largely taking the more abstract theoretical issues as read.
3. In particular, I would like to discuss:
 - (a) Non-mandatory control: Would wholesale bankers hold base at all? Would retail bankers' demand for base be predictable?
 - (b) Non-mandatory control: On what terms (if any) would assistance be given when the market is short of base? What would this imply for definition of liquidity (eg Treasury bills).
 - (c) Mandatory control: Would the ratio requirement be lagged, current or leading? Would base include vault cash? Would interest be paid on it?
 - (d) Mandatory control: What would be the definition of the denominator of the control ratio (ie what aggregate would be directly controlled)? In particular, should it include non-resident sterling, or resident foreign currency deposits? Should some bank liabilities be excluded on grounds of their illiquidity, or close substitutability for other wholesale market instruments?
 - (e) Disintermediation: How, in particular, could we deal with the problem of the euromarkets?

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(f) Interest rates: Would banks hold enough excess base for interest rates to be market-determined most of the time? On what terms would base be provided to banks who fail to meet the minimum ratio requirement?

(g) Wider Implications: What would this mean for exchange rate policy? For the building societies? Techniques for sterling gilts? Prudent banking? Equity as between banks?

4. I am copying this letter to Peter Middleton, Nick Monck, Rachel Lomax and Robert Culpin. If you, or they, have additional topics to suggest, it might be worth jotting down the headings and sending a further note round beforehand.

With best wishes

Paulie Hogg

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