

31.12.80

THE GOVERNORS

copied to DG.

Copies to Mr Dow
Mr Page
Mr Loehnis
Mr George
Mr Coleby o/r
Mr Goodhart o/r

CONVERSATION WITH MIDDLETON: 30 DECEMBER

1 Middleton reported another difficult meeting at No 10 before Christmas, about the finances of the nationalised industries. Ryrie had led in the absence of Wass at a Christmas lunch and had not fared well. Middleton also said he thought Professor Griffiths had been sending stiff memoranda to No 10 about the money supply and about Monetary Control. I mentioned in reply that I had recently lunched Griffiths in the Bank, à deux, and had spent a lot of time rebutting accusations that the Bank had 'kicked into touch' and was over-influenced by its friends in the discount market and the jobbing fraternity. I also said that Griffiths had made, to me, disparaging remarks about Professor Walters.

2 Middleton said that the Centre for Policy Studies was commissioning Professor Niehens (Swiss) to do a study on relationships between money supply and the exchange rate. Niehens had been recommended by Professor Brunner, with the support of Walters. I commented, in reply, on the somewhat 'verkrampt' nature of these sources of advice. I went on to suggest that it might be useful if Middleton and myself could arrange to have a general chat with Walters, about monetary policy, as soon as possible. Middleton said he would try to fix this.

3 Middleton said he had been asked by No 10 to let them have a progress report on Monetary Control by the end of next week. In response I went over the ground in some detail, adding that I might have more to report next week following meetings here on the liquidity aspect and on the statistical side. I judged that

progress was being made on a thorough and systematic basis; but that we needed to press hard if we were to make the Budget-time deadline. I will endeavour to see Middleton's report in draft (my next meeting with him will be on Wednesday).

4 We agreed to hold a stock-taking meeting, with those concerned here and in the Treasury, during the second week in January. The stock to be taken would include both monetary control and preliminary thinking on possible retargeting of the money supply in the light of the pre-Budget forecasts, etc. On the latter, Middleton said he thought there were two basic unresolved questions:-

- (i) Whither the MTF5 and whither £M3 targets (or some alternative)?
- (ii) Whither the discretionary determination of short-term interest rates and what is really meant by an "interpretative" attitude to developments in money supply?

I suggested, as an addendum, "what about the 'targeting' of a re-fixed rate of exchange?" I also mentioned that thought was being given in the Bank to the fundamentals of these matters.

5 I mentioned, on a personal basis, the risk of the banking system coming under prudential strains if the pressures on the corporate sector continued throughout 1981 and into 1982; and I said the Bank might need to make representations to HMT on this score before long, but had not yet completed an assessment of the prospects. Middleton said he supposed this could have some implications for the suggested 'levy' on bank profits. "Yes", I replied.

6 On the budgetary prospects, and strategy generally, Middleton renewed the theme that officials found it very difficult indeed to weave the wide variety of Ministerial wishes into a coherent and internally consistent fabric.



31 December 1980