

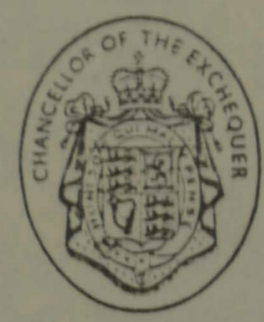
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MR DEPUTY

Tim Allen has 'phoned the Chancellor's Office
to point out that Mr Loehnis was present
at the meeting on 2 March and not you.

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NOTE OF A MEETING HELD IN THE CHANCELLOR'S ROOM, H.M. TREASURY ON
TUESDAY, 2 MARCH, 1982

Present:

- Chancellor of the Exchequer
- Economic Secretary
- Sir D Wass
- Sir K Couzens
- Mr Ryrie
- Mr Burns
- Mr Middleton
- Mr Cassell
- Mrs Lomax
- Mr Kerr

CW

- Governor - B/E
- ~~Deputy Governor~~ - B/E *Mr Lechin*
- Mr George - B/E

THE MTFB SECTION IN THE FSBR

The Governor said that the only comment he had on this section concerned the choice of range for the monetary aggregates. The ground had been well covered at previous meetings, and he did not wish to labour the point. But he remained convinced that a target range of 9-13, or even 8-13, should be preferred to the proposed range 8-12. Despite the recent improvement in the monetary figures, he could not see changes in prospect in the coming year which would markedly change this year's experience, and in his view a range of 8-12 had an element of presentational optimism about it. It seemed a pity given the attempt now being made to give the monetary policy a greater sense of realism, to choose a range which did not straddle the expected outcome. This was particularly so at a time when the link between the money supply and prices had tended to break down because of institutional changes and changes in velocity.

2. The Chancellor said he fully understood the arguments, but pointed out that had their logic been followed in the past, they would have argued for abandoning the attempt to keep to monetary targets over

/the last five years.

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the last five years. But part of the point in setting monetary targets was to influence expectations and to encourage further reductions in the rate of inflation. It was relevant to the argument that no commentators were foreshadowing an upward movement of the target range, and Professors Minford and Neild both expected maintenance of the 5-9 per cent range. In any case the margin between an 8-12 and a 9-13 range was fairly slight and he did not feel that choice of the 8-13 range would give a markedly greater margin of safety. Moreover he felt it would be taken as a curious and weak sort of signal by the market.

3. In discussion the following additional main points were made:-

1. There was a general tendency for commentators to expect monetary growth to be at the top end of whatever range was announced. It would be very difficult to persuade them that there had been a change in practice here.

2. The general response of the markets to the budget was likely to be that it was fiscally responsible, but any doubts there were to be on the monetary side. Announcement of a range of 9-13 per cent would greatly reinforce these doubts.

3. Apart from the latest monetary figures, a number of other developments were favourable, including the latest reduction in the oil price.

4. The Governor concluded that there seemed no alternative but to agree to differ on this point. Turning to the draft budget speech he said that the Bank had a number of detailed comments. It was agreed that these should be discussed with Mr Middleton that afternoon.

5. The Chancellor, summing up said that he noted that apart from the remaining difference on the size of the range for the monetary target, on which there had been an agreement to differ, the Bank

/had no further

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had no further comments on the MTFS section in the FSBR, and that they would be discussing with Mr Middleton that afternoon the bank's comments on the draft budget speech.

ps

P.S. JENKINS
2 March 1982

Distribution:
Those present