

Monetary Control: Detailed Arrangements
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MONETARY CONTROL

SUMMARY AND CONCLUSIONS

The paper discusses alternative techniques of monetary control on the assumption that the authorities target the money supply, and allow the exchange rate to be determined by market forces.

2. Under the present system, the main monetary policy instrument is the power to administer MLR. There are a number of problems:

(i) it is difficult for the authorities to know what path of MLR is consistent with the target growth in the money supply. Underlying monetary trends are often hard to discern, and relevant economic relationships are only imperfectly understood;

(ii) the highly political nature of discretionary changes in MLR gives the system a bias towards delay, especially when interest rates need to rise;

(iii) if short term interest rates are changed only infrequently unexpected changes in incomes and prices will lead to fluctuations in the money supply. This may increase the risk that inflationary shocks will unwittingly be accommodated;

(iv) the authorities have no direct control over long term interest rates. Present methods of selling gilts rely on changes in short term rates (and hence the general level of interest rates) to influence expectations of future interest rates, and hence the expected capital gains from holding gilt edged stock. In principle, this technique is both inefficient and highly uncertain, though in practice it has proved consistent with very large scale funding of the PSBR in recent years;

(v) The central Government has no short term debt instrument with enough appeal to non-banks to be used to mop up the monetary effects of short term swings in the public sector's accounts;

(vi) the banks are not actively involved on the side of the authorities in controlling the growth of their deposits. Their behaviour may sometimes be positively unhelpful to monetary control eg. the use of windfall profits due to high interest rates to underprice advances.

With present techniques, the prospects of meeting the monetary targets depend critically on getting fiscal policy right. The contribution of monetary policy instruments is unreliable. And while in the long run fiscal policy must be consistent with the target for monetary growth, excessive reliance on fiscal policy for short to medium term control is a serious weakness. In consequence there can be no assurance that the targets for £M3 or the MTF3 targets will be met with any precision.

3. Monetary Base Control, in one form or another, has the important advantage of allowing interest rates to be determined by the market in a way which is consistent with policy objectives for a relatively narrow monetary aggregate. Interest rates are more likely to move promptly and in the right direction than under the present system.

4. All short term interest rates would be more volatile under MBC; if some interest rates remained sticky, financial flows could be seriously distorted. This would have far reaching implications for building societies as well as banks. At the same time, of course, Ministers would have to give up effective control of interest rates, including mortgage rates.

5. We do not think that it is possible to devise a system of MBC which, on its own will offer effective monetary control over the broader aggregates including £M3, without causing disintermediation on a scale which would impair the authorities' ability to interpret and control underlying monetary conditions.

6. If more flexible techniques for selling public sector debt could be developed however it might be possible to combine targets for £M3 or even PSL1 with some form of monetary base control.

7. A switch to MBC would necessarily involve a major institutional upheaval affecting the role of the discount market, the gilts market, the terms on which banks and building societies would lend, and the instruments available to finance central and local Government. Some of these changes might be welcome, some are in any event necessary for better monetary control. But a major change inevitably has unpredictable side effects, as the earlier experience of Competition and Credit Control testifies. Some shifts in the demand for money and other financial assets can be expected, which will temporarily complicate the task of monetary management, perhaps seriously.

8. There would therefore need to be a period of transition to minimise the risk of a breakdown in control. This implies that MBC cannot help with the problem of monetary control over the next year. We cannot even be at all confident that it would significantly improve the Government's chances of meeting the targets set out in the MTFs.

9. Ministers may like to consider three broad options. The objective of achieving a steady reduction in the growth rates of the monetary aggregates is taken as given.

Option A: A gradual move towards targeting the monetary base (broadly defined to include notes and coins). In this option there are no compulsory reserve requirements. The essential role of MBC is to generate short term interest rates. The main parallel is with present Swiss arrangements.

Option B: A gradual move to a flexible mandatory system of monetary base control, targeted on M2 (a new aggregate broadly equal to £M3 less wholesale deposits ie. large deposits bearing money market interest rates). This would be closer in spirit to the system recently introduced in the US. Annex 1 contains an illustrative blueprint for such a scheme.

Option C: Improving the flexibility of present methods of control, principally by reforms designed to achieve more precision in the timing of debt sales. Measures to smooth the seasonal pattern of the PSBR would also be relevant, as, conceivably, might an attempt to use the existing reserve asset system more aggressively.

10. Many of the measures which might be taken within the present framework of control would of course be equally relevant in the event of a switch to MBC; this applies particularly to changes in debt selling techniques.

11. The attached table summarises the key features of the present system, and of the main monetary base options identified above.

MONETARY CONTROL: SUMMARY

Control System	MAIN FEATURES:-						Comments
	Short term Interest Rates	Monetary Targets	Monetary Base/ Reserve Assets	Reserve Requirement	Lender of last resort facilities		
<u>Present System</u>	Discretionary control of MLR	£M3	Call money, Treasury bills, gilts (with less than 1 year to maturity) LA bills, commercial bills (up to 2% EL's)	12½% eligible liabilities 1½% cash ratio (London Clearing Banks only)	Unlimited, at given MLR	Unreliable; not capable of delivering short term control. Could be improved by more flexible techniques for selling public sector debt	
<u>Monetary Base Control</u>							
A. <u>Non-Mandatory</u>	Market determined (possibly subject to ceiling)	Monetary base, £M3 (or? PSL1)	either Notes and coins, plus bankers' balances or (preferably) bankers' balances	No mandatory requirement	only available i. in financial crisis or (possibly) ii. on penal terms	May not contribute much to control of money supply. No incentive to dis-intermediation cf. Swiss approach. Improved debt selling methods needed to control wider aggregates (£M3, PSL1)	
B. <u>Mandatory</u> (as in illustrative scheme, see Annex I and table III)	Market determined subject to ceiling set by authorities	M2, £M3 (or? PSL1)	Bankers' balances	Mandatory requirement to hold base assets equal to x% retail deposits	only available i. in financial crisis or ii. at penal rates	Short term control over M2; but some incentive to disintermediation. cf. US arrangements. Improved debt selling methods needed (as above)	

MONETARY CONTROL

Introduction

This report is concerned with possible changes to the present system of monetary control, rather than with the current monetary situation, which is discussed in detail in a companion paper. The two cannot be completely divorced of course. The Government's commitment to the medium term financial strategy (MTFS) and to targeting the monetary aggregates sets the context within which possible changes must be considered. The report also takes as given the present policy of allowing the exchange rate to be determined by market forces.

2. The plan of the paper is as follows:

Part I discusses the objectives of monetary control, and the various policy instruments which the authorities can use to control the money supply.

Part II considers the adequacy of the present system of control.

Part III analyses the failure of the reserve asset requirement (RAR) and the Supplementary Special Deposits (SSD) scheme (the 'corset'), as means of control.

Part IV discusses Monetary Base Control (MBC) in general terms, and assesses what we have learnt from the Consultations following the Green Paper on Monetary Control.

Part V discusses some practical possibilities; a gradual transition to a non-mandatory system rather on Swiss lines, or a flexible mandatory MBC, fairly similar to present US arrangements.

Part VI considers other proposals for reform, including using the present system of control to squeeze bank liquidity, and a move to a more flexible system for selling gilts.

The mandatory scheme outlined in Part V is described in detail in Annex 1. Annexes 2 and 3 discuss US and Swiss experience with MBC. Annex 4 (by the Bank of England) summarises the debate on monetary control arising from the Green Paper.

I Objectives of Monetary Control

(a) Final and Intermediate Objectives

3. The final objective of monetary policy is to control the price level. The choice of the money supply* as an intermediate target rather than interest rates, bank lending, total liquidity or some other financial variable, reflects a view that the quantity of money is more systematically related to nominal incomes (and hence prices) than those other variables. The rationale is that money is a strategic asset in modern economies. Restricting monetary growth will therefore have pervasive effects on economic behaviour, affecting spending decisions, asset prices (including the exchange rate) and consequently nominal incomes. In the short run, the main burden of equating the demand and supply of money will fall on interest rates and the exchange rate. In the longer term, however, nominal incomes and prices will adjust so that at the new price level, people are just willing to hold the stock of money outstanding.**

* If the final objective of policy was the exchange rate rather than the price level, monetary policy would be most appropriately directed to Domestic Credit Expansion (DCE) rather than the total money supply; with a floating exchange rate, however, it is clearly money, not DCE that is relevant.

** A detailed account of the transmission mechanism from money to prices was given in the July edition of the Treasury's Economic Progress Report.

4. The link between money and prices presupposes a stable underlying demand for money, in real terms. This is only likely to be the case if the assets that constitute money are significantly different from other financial assets. If not, controlling the money supply will simply lead to the growth of near money substitutes. The widespread effects on economic behaviour which are a necessary part of controlling inflation will not occur. That said, however, it is by no means easy to identify those assets which in the real world constitute "money".

5. The adoption of monetary targets may have favourable effects on expectations which speed up the response of prices to changes in the money supply, and help to reduce the output loss associated with a reduction in inflation. Monetary targets - and the market's assessment of how far the authorities will keep to them - do seem to affect expectations in financial markets. This may significantly affect the ease with which the authorities can meet their targets. But the evidence for other markets, especially the labour market, is still weak. The public's perception of the stance of monetary policy may become increasingly important. But it is no substitute for effective control of monetary conditions in the terms discussed above.

6. The role of expectations may shorten the time period over which the authorities need to exercise control over the money supply. Visible success in meeting targets is an important element in their credibility. On other grounds, however, there are no compelling reasons for the authorities to aim at control over periods of less than about a year, much less under six months. The underlying relationships between prices and money are not that precise or mechanical. Some (typically non-monetarist) economists argue that very short term control is harmful since it prevents money from filling a necessary role as a shock absorber. Less controversial is the view that fine-tuning which destabilises the longer term trend is positively undesirable.

(b) Definition of Target Aggregate

7. A review of control techniques naturally raises questions about what is being controlled. Clearly a target must relate to something the authorities can in fact control. Equally, to be worth controlling it should be well related to final objectives - the price level and nominal incomes. Beyond this, theory offers few pointers. The choice of monetary aggregate must be made on empirical and pragmatic grounds. Narrow aggregates, like notes and coins, M1 or the old M2 are in principle easier to control than broader ones like M3 or PSL1.** Certainly, one of the great attractions of targeting the monetary base, in preference to some wider aggregate, is that it alone is under the direct control of the authorities. Wider aggregates on the other hand are generally thought to convey more information about the overall thrust of the Government's policies and therefore to be more reliably related to ultimate objectives; against this, proponents of base targeting suggest that wide aggregates are as much the consequence as the cause of changes in nominal incomes.

8. The evidence for the UK is inconclusive. Over a long run of years, no one aggregate has been a consistently better predictor of the price level than the others. (See Chart 4). One episode however shows a striking contrast. The inflationary surge in 1974/5 was preceded by a sharp upswing in M3 but not in the narrower definitions of money, (including the base); on the other hand it is at least arguable that the triumph of M3 was, in this case, partly due to coincidence.* Whatever the evidence, however, it would be dangerous to rely too exclusively on any one definition of money, for policy purposes, since the strain of attempting to control behaviour by exploiting past relationships almost inevitably tends to weaken them.

*between roundtripping following Competition and Credit Control (see para 25) in 72/3 and the inflationary shock of the oil price hike in 73/4.

** See table II for definitions of these aggregates.

9. The principal justification for £M3 as a target is as an indicator of the overall stance of policy, and, as such, it is well understood by financial markets. It also has some institutional rationale since it includes most, though not all, of the liabilities of the banking sector (see tables I and II). In terms of the theoretical considerations outlined in the preceding sections, however, it is in many respects a curious hybrid. It includes interest and non-interest bearing deposits: wholesale money * and CD's as well as retail deposits; public sector deposits as well as personal and corporate sector accounts. It covers a wider span of liquidity than PSL1, from notes and coins to term deposits of over two years. As recent experience has illustrated, many of the assets in £M3 have close substitutes which are excluded - for example personal time deposits (in £M3) and building society deposits (not in £M3), CD's (in £M3) and Treasury bills and commercial bills (not in £M3). Since the abolition of exchange controls, euro sterling and covered foreign currency deposits have become virtually indistinguishable from domestic wholesale bank deposits.

10. Euro sterling is probably the most intractable aspect of the problem of close substitutes. The definition of £M3 could reasonably be extended to include domestic near monies, such as bank accepted commercial bills. We could also include some euro deposits as the US have started to do (their M2 for example, includes overnight euro dollars held by US non-banks at Caribbean branches of US banks). But there is a severe limit to how far this can be taken in the case of offshore banking; even euro sterling business need not be confined to the branches of UK banks.

11. However, whether in practice euro markets create serious problems for domestic monetary management depends on the control techniques used. In the absence of exchange controls, arbitrage ensures^{that} euro sterling interest rates move very closely in line

*There is no statistically accepted definition of wholesale and retail deposits. Broadly 'wholesale money' covers large scale deposits (say over £50,000) lodged mainly by financial institutions and large corporations, which bear money market rates of interest. They include deposits taken at branches, interbank or raised on money markets. Retail deposits include current accounts as well as more traditional time deposits (often at 7 days).

with domestic sterling rates. Changes in domestic interest rates will therefore influence the total volume of sterling deposits, including those held offshore. On the other hand unless the links between domestic and offshore banking systems are cut, direct controls applied only to domestic deposits are likely to lead simply to a diversion of business, without imposing effective control on the total sterling money supply. This distinction has important implications for the design of a workable system of monetary base control in the UK, which are developed in Part IV and V below.

(c) Monetary Policy Instruments

12. The size of the money stock - as distinct from the base - is determined partly by the actions of the monetary authorities and partly by the portfolio decisions of the bank and non-bank private sector. In the absence of direct controls, therefore, the authorities can only regulate the growth of the money supply if they can find some reliable means of influencing private sector behaviour. In practice this means exploiting stable and predictable relationships between variables they do exercise some control over, and the target aggregate. The debate about monetary control techniques largely centres on which relationships the authorities should choose.

13. Taking fiscal policy as given, there are two broad possibilities:-

(1) the authorities may seek to influence the behaviour of the non-bank private sector by acting on the price of financial assets; for example they may use discretionary changes in interest rates backed up by open market operations in public sector debt, to influence the demand for money, or the demand for the credit counterparts of the money supply (PSBR less gilt sales, bank lending etc.)

(2) alternatively the authorities may try to influence the behaviour of the banks, in the first instance, by official action on the quantity of reserve assets; for example, they may use control of the total liabilities of the monetary authorities (base money) to influence the growth in the liabilities of the commercial banking system (deposits).

14. The choice between prices (eg. interest rates) and quantities (eg. base money) as operating targets does not really turn on theoretical issues about how in principle the economic system works. The problems are practical. Both the authorities (and the markets) are operating in conditions of uncertainty, with imperfect knowledge of the true relationships involved. Given the Government's wider objectives, the best operating target is the one which minimises the risk that the authorities will react to unexpected developments either inappropriately, ineffectually, or too late. The market's perception of how the authorities are likely to respond may be an important ingredient in the credibility of announced targets.

15. Proponents of monetary base control argue that attempts to stabilise interest rates increase the probability of inflationary policy errors. Under base control, interest rates and the market will absorb the shock of unexpected changes, rather than the money supply. This does not necessarily mean that interest rates will be very different, on average, for any given rate of monetary growth, though they may be more volatile, especially at the short end. Arguably they might even be lower, if the use of MBC helped to reduce inflationary expectations. However, control techniques may well affect the probability that a given monetary target will actually be achieved.

16. The balance of these arguments turns largely on whether base money or the relevant interest rates are most securely under the control of the authorities; and which bears the most reliable and best understood relationship to the target aggregate

In the absence of sufficiently reliable relationships arising from natural self interest, the authorities may have to resort to compulsion, by imposing minimum reserve ratios, interest rate ceilings, or direct controls over bank lending or total liabilities. But if they are making any significant contribution to monetary control, legal requirements of this sort inevitably create an incentive for avoidance, just because they are inflexible, and compel banks to behave in a certain way. This will tend to distort the message conveyed by all monetary statistics.

II The Present System

17. For given fiscal policy and on the basis of present techniques of marketing gilt-edged stock, the current system of monetary control relies above all on discretionary changes in MLR made effective by money market operations conducted through the discount market. London Clearing Banks are obliged to hold bankers balances with the Bank of England equal to at least $1\frac{1}{2}\%$ of eligible liabilities, but the purpose of this requirement is to give the Bank greater leverage over the cost of short term funds, not to ration the supply of cash to the banking system. The $12\frac{1}{2}\%$ minimum reserve asset requirement is nowadays used neither as a means of influencing short term rates nor of deliberately squeezing banks' liquidity.

18. A major difficulty with the present system is that the relationship between the variable which the authorities control directly, short term rates, and the target aggregate, £M3 , is at best complex, and at worst very unreliable. A rise in short rates has opposing effects on the demand for £M3 . The demand for notes and coins and non-interest bearing deposits will be reduced: but interest bearing bank deposits will usually become more attractive relative to longer term assets. In practice, the authorities ability to engineer a significant and reasonably rapid response of £M3 to changes in MLR depends on the ability to influence expectations

in the gilt edged market. A rise in short rates will typically lead to a rise in the general level of interest rates which will move the yield gap in the wrong direction. But if the authorities can successfully convince investors that future movements in rates are more likely to be down than up, the prospect of making capital gains may stimulate speculative purchases. Since the process by which expectations are formed is very imperfectly understood and may well change in an unpredictable way, this technique is extremely uncertain; nonetheless it has, on occasions, been very successful.

19. In the longer term, the response of £M3 to short term rates depends largely on bank lending. But the evidence, such as it is, suggests that the response to changes in short term rates is slow, weak and uncertain. It may even be perverse in the short run. These results are not implausible. Since the demise of the debenture market, companies have few suitable alternative sources of funds; floating rate loans mean companies are not locked into high interest rates and the tax system has the effect of reducing the real cost of borrowing, as long as a company has sufficient taxable profits. Interest rate expectations may sometimes play an unhelpful role, since if companies expect interest rates to fall they are likely to postpone raising longer term non-bank finance. If this is so, a debt management policy which relies on inducing expectations of falling interest rates may have a counter productive effect on bank lending.

20. It is often argued that the present system has a 'bias towards delay' at least so far as increases in interest rates are concerned. Part of the problem is that because changes in interest rates are discretionary they are inevitably highly political. There is naturally a tendency to ensure that rises are really essential before taking action. The result of waiting may be that larger rises in rates are then needed to restore confidence and re-establish monetary control. The amplitude of interest rates fluctuations may be increased.

21. Equally serious, from a control point of view, is the difficulty of deciding what changes in interest rates are appropriate. Movements in \pounds M3 are most unlikely to provide a timely and accurate guide if, as argued above, \pounds M3 reacts slowly, uncertainly and sometimes weakly to changes in interest rates. If there is a policy error, considerable time is likely to elapse before \pounds M3 shows the consequences, and even when policy is adjusted, it will be some time before \pounds M3 is brought back on track. The authorities can try to allow for these lags in taking their decisions, but their knowledge of how the system works is not sufficiently precise to allow them to do so with much accuracy.

22. A further, more general, criticism is that the system does not enlist the active support of the institutions whose liabilities are being controlled. At present the authorities use one instrument, interest rates, to influence the behaviour of the banks customers, rather than the banks themselves. A system which enlisted the active participation of the banks, by exploiting their self interest on the side of monetary control, might, it is argued, be both quicker to produce results, and more effective in the longer run, since there are a range of methods which banks can use to influence the growth of their balance sheets. The criticism has some force. The difficult issue is, however, whether the banks can be induced to react to pressure in ways which are helpful rather than damaging to effective monetary control. This is discussed in more detail in Parts IV and V below.

23. The Green Paper argued that "using the basic weapons of fiscal policy gilt edged funding and short term interest rates, the monetary authorities can achieve the first requirement of control of the money supply - control say over a year or more." The discussion above

suggests that the validity of this judgement may depend, to an undesirable extent, on the authorities ability to set fiscal policy correctly. The specific contribution of monetary policy instruments looks distinctly unreliable, depending as it does so heavily on the authorities ability to use discretionary changes in MLR to alter expectations in financial markets and to influence the demand for bank advances. Important as fiscal policy is for long term control of the money supply, an excessive reliance on fiscal policy for short to medium term monetary control is a serious weakness. The PSBR is extremely hard to forecast. Its relationship with the money supply is complex at least in the short run. Equally important, fiscal policy is notoriously inflexible; not only is it difficult and time consuming to change, it is often slow to take effect. As a result, fiscal policy is no substitute for effective monetary policy instruments.

III Reserve Asset Requirement and the SSD Scheme

24. Present arrangements, with their emphasis on short term interest rates as operating targets, are a survival of the system introduced during the early 1970's, which did include two control techniques which, at least potentially, were more quantitative. Yet neither the corset nor, still less, the reserve asset ratio (RAR) worked well as techniques of monetary control. Before considering changes to the present system, it is worth briefly reviewing the lessons that can be drawn from these comparative failures.

(a) Reserve Asset Ratio (RAR)

25. The Bank always intended to use the RAR to influence short term interest rates rather than to control the supply of assets to the banking system. Yet it was thought that, in conjunction with Special Deposits, the RAR might be used to squeeze bank liquidity with a view to inducing the banks to dispose of non

reserve assets. In the event, attempts to operate the system in this way led to severe problems. Banks responded to reserve asset pressure by bidding for reserve assets and for deposits in the interbank market, rather than selling assets. While interbank rates rose sharply, yields on Treasury bills fell, encouraging the non-bank private sector to shift into money. The failure of banks to raise lending rates in line with deposit rates created profitable opportunities for arbitrage ('roundtripping'). The net result was that liquidity pressures caused the bank's balance sheets to expand rather than contract.

26. In view of the obvious affinities between the RAR/Special Deposits system, and some forms of mandatory monetary base control, it is instructive to ask why. There are four points worth noting:-

(i) the definition of reserve assets was a positive inducement to liability side management. It included claims on the public sector which could be held by non-banks as well as banks (eg. Treasury Bills, gilts with less than one year to maturity, all local authority bills) and even some claims on the private sector (commercial bills, up to a maximum of 2% of eligible liabilities). The authorities were not in a position to control the supply of reserve assets to banks, even had they wanted to. Under these circumstances, bidding for deposits was a feasible way to relieve reserve asset pressure for the banking system as a whole, as well as for an individual bank.

(ii) bank behaviour in the early '70's reflected the pent-up pressures released by the abolition of earlier controls over bank lending. Banks wanted to increase their stock of lending: this may have been one reason why they chose to respond to reserve asset pressure by adding to their liabilities rather than contracting their asset portfolios.

(iii) flexibility in some short term interest rates, but not others, can rapidly create major distortions. Banks failed to raise base rates enough to prevent roundtripping, partly to preserve the good will of their customers, partly because they may have thought that short term profit maximising behaviour would attract penal taxation. How long this behaviour would have continued, had the RAR experiment not been abandoned, is a more open question.

(iv) The authorities failed to recognise that asset management in the short run is difficult for many banks, unless they happen to hold significant amounts of marketable non-reserve assets or can rapidly call in some advances. The tactic of intensifying the squeeze to discourage banks from bidding for deposits may have given a further twist to the spiral in interbank rates.

27. These difficulties do not necessarily mean that the reserve asset requirement is intrinsically unworkable. The scope for using it more aggressively in present circumstances is briefly discussed in Section VI.

(b) The SSD Scheme

28 The 'corset' was introduced to prevent round tripping and to encourage banks to restrict their lending or at least their total assets. Increasingly however it had the effect of forcing credit into forms outside the scope of the control, at least during the periods when it was a binding constraint on banking liabilities. Two points are worth noting:-

(i) experience with the corset underlines the proposition (familiar from exchange controls) that any system of direct controls needs continuously extending as loopholes appear if it is to retain effectiveness.

(ii) the existence of exchange controls was an important element in the earlier success of direct controls. Moral suasion is only a very limited substitute; contrary to explicit guidance from the Bank of England, disintermediation through Euro markets seems to have amounted to several hundred million pounds in the last six months of the corset. It is worth noting however that Euro deposits are not a substitute for conventional retail banking business (current accounts etc).

29. There are lessons here for the design of any future scheme with a mandatory element. One approach would be to exclude wholesale deposits from the total controlled. Another would be to supplement control of wholesale deposits with restrictions on Euro currency operations. These would have to include, as a minimum, a ban on resident holdings of Euro sterling deposits, and probably also a ban on resident holdings of foreign currency deposits outside the UK. We could also follow the Americans in attempting to extend some control over Euro markets. This would mean co-operating closely with the US, since euro markets have, so far at least, been dominated by the overseas branches of American banks.

IV Monetary Base Control

30. The essential feature of all versions of MBC is that the authorities attempt to control the growth of some, or all, of their own monetary liabilities. To this end, the central bank must lend only as a last resort, and not to defend any particular level of interest rates. Some proponents of monetary base control would argue that a Government which announces a target for the base has no need of further intermediate targets, for M1 or M3. In the UK context, however, the Government's prior commitment to targets for £M3 in the medium term financial strategy has focussed the