

File FEA/0000000100, Part C – Monetary Base Control

Original reference FEA\C\650\1440\02 C

PART 3

8/7/1981 – 11/8/1981

Pages 37-54

THE ROLE OF THE NARROW AGGREGATES

Introduction

This paper summarises and updates some of the work done before the Budget on the choice of target aggregate and considers whether there is a role for one of the narrower aggregates (M1 or some measure of the monetary base) either as a target in its own right or as a less formal yardstick for taking short term interest rate decisions. The Budget reaffirmed the Government's commitment to £M3 as the target aggregate both for medium term (MTFS) and annual purposes. The paper discusses how far a role for one of the narrower aggregates would be compatible with this position. It concludes by reviewing the prospects for the different monetary aggregates in the next two years as implied by the Budget forecast, and by the latest internal forecasts and describing how we might set about choosing a numerical target for a narrow aggregate, should we want to adopt one.

I. The Monetary Aggregates

(a) M1

2. UK statistics currently identify three measures of money: £M3, M3 (which differs from £M3 only by including residents foreign currency deposits) and M1. The most obvious function of money is to act as a means of payment and the aggregate which most closely corresponds to money in this sense is M1, which consists of notes and coins and £ sight deposits. Most of these deposits do not carry an explicit rate of interest,* but there is a small, though quite rapidly growing, interest bearing component, including accounts which are clearly not primarily a means of payment, but provide a temporary home for funds eventually destined for the gilt edged market. But M1 does not include all the assets which can be effectively used to make payments and

*though current accounts do bear an implicit rate of interest, because of the way offsets to bank charges are calculated.

financial innovations of the sort recently introduced in the USA are likely to make it even more difficult to unambiguously identify a set of assets which performs this role. There are also statistical problems with M1; for example, the seasonal adjustments are prone to much larger revisions (in percentage terms) than are the adjustments to £M3 and short term movements in the series do tend to be rather erratic.

(b) £M3

3. Sterling M3 includes all the assets that are in M1, plus a large interest bearing component (£ time deposits and CD's) which fulfill another, wider function of 'money'-to act as a store of value; But there are a wide range of other short term financial assets which serve the same purpose - LA deposits, Treasury bills and deposits with finance houses. The main feature which distinguishes time deposits from these other assets is that they are capital certain. Like other short term financial assets, however, they become more attractive when the level of short term interest rates is expected to rise, relative to longer term rates. The fact that 60% of £M3 is interest bearing is the reason why £M3 is primarily responsive to relative rates of return rather than, like M1, to the level of short rates alone. While a rise in short rates will unambiguously depress M1, it may or may not reduce long term rates, and the expected capital gains to be made from holding gilts.

(c) M2

4. The Bank are now in the process of constructing a new monetary aggregate, M2, to fill the gap between M1 and £M3. Unlike these other measures of money, which are based on subsets of the deposits distinguished in the banks' own balance sheets, M2 is an attempt to give statistical content to a purely economic concept - money balances which are primarily used to finance transactions. It will include interest bearing accounts below a certain size, as well as current accounts, and may include deposits outside the banking system which can be used to make payments. It will be sometime before the usefulness of the new series can be properly assessed. The first data should be available by the end

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year by year growth rates in broad and narrow aggregates
have often diverged very sharply - indeed, over the 1970's,

*The monetary base can be defined in a number of ways. The definition used here is the wide base including notes and coins and bankers' balances at the Bank of England, but not other deposits at the Bank (eg. by Bank staff, and overseas customers). Different definitions of base money were discussed in an article in the March 1981 BEQB.

there appears to have been a slight inverse relationship between the annual growth rates of M1 and £M3. There are three striking recent examples. Between 1971 and 1975, £M3 first grew at three times the rate of M1 (1972/73) and then rose much more slowly than M1 over the period 1974/75: In 1977, M1 growth was much higher than £M3, while in 1980, £M3 grew more than twice as fast as M1. On each occasion Mo behaved like M1 rather than £M3. The last two episodes reflected dramatic changes in short term rates (down in 1977, up in 1979/80) which were not matched at the long end of the market, leading to sharp changes in the attractiveness of all short term financial assets (including time deposits) relative to longer term ones.

II. Choice of Target Aggregate

7. A satisfactory target aggregate needs to meet two conditions:- it must be causally related to the final objectives of policy - nominal incomes and inflation - and the authorities should be capable of controlling it, at least over the target period (ie. within a year, in the case of an annual target).

(a) Relationship with Inflation

8. There does not seem to be much to choose between the different aggregates as predictors of inflation. Over the last fifteen years or so, the correlation between prices and £M3 has been no better or worse than between prices and M1. Until about 1978, it is true. £M3 did seem to have the edge over M1. But this rested heavily on a single episode - the inflationary explosion of 1975 which was preceded in 1972/3 by a much more dramatic upturn in the broad than the narrow aggregates. One view is that an excessive growth in broad money led, two years later, to a price explosion. An alternative view is that £M3 was heavily influenced by special factors in 1972/73 and that the rise in UK inflation in 1975 was largely caused by developments in the rest of the world, the 1974 oil price rise and the upsurge in manufactured export prices. This is not to say that the 1975 inflation

was non-monetary in origin: the increase in world export prices in 1973-5 was preceded by a sharp rise in world monetary growth in 1971/72, echoes of which can be seen in the UK for both the broad and narrow aggregates.

9. This explanation does not resolve all the problems about the monetary origins of the 1975 inflation, but it casts doubt on the popular view that the behaviour of £M3 and M1 in the early '70's proves conclusively that, for the UK, broad aggregates are more economically significant than the narrow ones. The period 1972-75 aside, M1 has been slightly better than £M3 in predicting the rate of inflation and since 1978, M1 has been distinctly better, with £M3 showing a marked tendency to under-forecast the rise in prices that occurred.

10. The more important point, however, is that simple relationships between money (and money alone) and prices are not very good at tracking movements in inflation over periods as short as 2-5 years, though they may be adequate for explaining long run trends. Inflationary shocks of various sorts - stemming from movements in world oil prices changes in tax policies, income policies and their aftermath etc. - may significantly affect the speed with which prices respond to movements in the money supply. Even though these fluctuations may be ironed out in the long term, they can be very important in determining prices in the short to medium term. But over the long term, as noted above, the various monetary aggregates tend to move fairly closely together.

11. This suggests that it is not possible to discriminate adequately between the different monetary aggregates on the basis of their relationship with prices. If the objective is a long term control over inflation, one aggregate will broadly do as well as another - though structural shifts in velocity can change the relationship between a particular measure of money and prices. Over the medium term (up to five years) and certainly in the short term (up to two years) restraining the rate of monetary growth is unlikely to allow the authorities to exercise any very precise control over nominal incomes - and still less inflation - whichever aggregate is chosen.

(b) Control Issues

12. On the second issue - controllability - the differences between the various aggregates are more pronounced. The instruments available to the authorities are variations in the level of short term interest rates and fiscal policy. They may also, on occasion, be able to influence relative interest rates, through operations in the gilt-edged market, though-in our present state of knowledge - not reliably and possibly not to any great extent. Changes in short term rates may often have powerful effects on £M3 by changing expectations about future interest rates and encouraging asset holders to switch between money and gilts. But the net effect on £M3 depends on how long rates move as well, and this is not easy to predict. Short term interest rates also directly influence the growth in gross wealth, which includes bank lending- though this effect takes a year or two to build up. In general, therefore, the relationship between £M3 and the level of short term interest rates is neither very reliable nor very well understood certainly over periods as short as a year. The authorities cannot, therefore, depend on controlling £M3 by manipulating short term interest rates alone. A supportive fiscal policy is necessary. But since fiscal policy is cumbersome to change, relatively slow acting, and its effects are specific to the precise measures taken, this makes control of £M3 over periods of less than a year a distinctly chancy business.

M1

13. By contrast the narrower aggregates are less likely to be affected by fiscal policy changes and to be more responsive to changes in the level of short term interest rates. The link with fiscal policy is a matter of degree. The demand for M1, like the demand for broad money, seems to be related to gross financial wealth as well as income, and it too is likely to be influenced by fiscal policy - though to a rather smaller extent than the demand for £M3 . The relationship between M1 and the level of short term interest rates seems to be reasonably well defined and stable. Recent work suggests that the direct effect of a 1 percent

point rise in short rates is to depress the demand for M1 by about 1½% after one year, and about 2% in the longer term. Indirect effects through the impact of higher interest rates on income and wealth tend to increase the effect, especially in the longer term. These effects are not instantaneous, of course, and they are subject to a margin of error so they cannot guarantee very precise control. They may still mean that unacceptable fluctuations in interest rates are needed to control M1, especially over relatively short periods when, for other reasons, the demand for M1 is growing strongly relative to its desired path. But they provide some basis for thinking that M1 might be relatively easier to control, on an annual basis, than £M3.

The Monetary Base (Mo)

14. The wide monetary base (Mo) would probably be more difficult to control than M1. Even though base money consists only of the monetary liabilities of the monetary authorities, controlling the base is no different in principle from controlling M1, whether the Bank's operating instructions are set in terms of interest rates or quantities. This is because 85% of base money consists of notes and coins in the hands of the public. Quantitative rationing of the physical supply of notes and coins is not a serious option - the main effect would probably be to distort monetary conditions, rather than control them.

15. The Bank can only act directly on the banking system's holdings of cash through its money market operations. But these are tiny compared with the public's holdings. It will often not be practical to offset shifts in the public's demand for notes and coins by contracting or expanding the supply of cash to the banking extent by a matching amount. Nor would this be necessary if control of the base were only sought over a period of about 6-12 months. In practice, the Bank would have to react to a rise in the public's demand for notes and coins by driving up interest rates far enough to reduce the public's demand for cash to the extent needed to bring Mo back on track within the target period - ie. several months later. Control of Mo would therefore be based on judgements about private sector behaviour and would raise similar issues to those raised by control of M1 or £M3.

16. The problem is that the relationship between the wide base (M₀) and interest rates seems to be considerably weaker, less stable and more poorly determined than that between M₁ and interest rates. We have found no relationships capable of explaining past, very volatile movements in bankers' balances at the Bank of England, nor would past experience necessarily be a good guide to future behaviour, given the changes to money market tactics and the cash ratio now in prospect. Banks holdings of notes and coins (about 10% of the total) do seem to be (rather poorly) related to bank deposits and short term interest rates. The most important component of the base - notes and coins held by the public - are supplied on demand and, not surprisingly they seem to be well related to consumer prices and real personal disposable incomes. Evidence drawn from the fifteen years prior to about 1978 suggests that they are not much influenced by the level of short term interest rates. However, one explanation for the very low growth in the base in 1979 and 1980 is that notes and coins were more responsive to interest rate levels than past relationships would have suggested.

17. Estimates of the interest rate sensitivity of the demand for notes and coins therefore depend on how much weight is attached to very recent experience. This implies that the response to interest rates is unstable. On the basis of the last 15 years' experience including 1979 and 1980 one might guess that a 1 percentage point rise in short rates would reduce the demand for cash by about $\frac{1}{2}\%$, within a year. But ignoring 1979 and 1980, experience since 1965 is consistent with a very small response indeed - less than $\frac{1}{4}\%$ in a year. Both these estimates are subject to disturbingly large margins of error, relative to their size.

18. In our present state of knowledge, we could not hope to control M₀ with any reasonable degree of precision within a year by manipulating the level of short term interest rates - and, conversely, movements in M₀ could not provide as good a guide for setting interest rates as M₁.

Since we are so uncertain about the size of the short term response to interest rates, it would be extremely difficult to know how much to move interest rates if M_0 was growing either too fast or too slowly. The small size of even the largest estimates strongly implies that very large movements in interest rates would be needed to correct over or under-shoots within a period as short as 6-12 months. So, on the evidence now available, M_0 looks decidedly inferior to M_1 , on control grounds.

(c) Why $\pounds M_3$?

19. If M_1 is easier to control over relatively short time periods than $\pounds M_3$, and is not demonstrably inferior to it in terms of economic significance, why was it decided to re-affirm the commitment to $\pounds M_3$ as an annual target at the time of the Budget? One important argument was continuity: the need to demonstrate that, following a serious overshoot of the 1980/81 target, the policy of controlling the money supply had not been abandoned or diluted. Equally important was the desire to avoid - and be seen to avoid - achieving monetary control solely by means of unduly high interest rates. This route can put a disproportionate share of the burden of adjusting to lower inflation on the company sector leaving the public sector relative unscathed. Fiscal restraint must play a full part (though of course the net effect on industry depends on how this is achieved).

20. A target for a narrow aggregate which can, at least in principle, be controlled by manipulating short term interest rates offers no assurance that fiscal policy will play a supporting role. In practice, however, interest rates might not have been very different, on average, in recent years, if we had been operating an M_1 target. Moreover, the fact of very high interest rates, if they prove to be necessary, may itself force a change in fiscal policy. The US, where policy is largely focussed on narrow money, provides one illustration of these problems. Despite the difficulties of achieving short term control, therefore, the fact that $\pounds M_3$ can only be controlled if fiscal policy is consistent is sometimes considered a positive virtue, if one of the objectives of policy is to meet money targets without undue reliance on interest rates.

III Targetting a Narrow Aggregate: the Options

21. These arguments do not rule out some shorter term role for M1, or even Mo, in taking decisions about interest rates providing it can be assumed that fiscal policy is in fact consistent with the MTF5. The possibilities are:-

(i) a single target for a narrow aggregate in place of the existing targets for £M3, annual and medium term - possibly (though not necessarily) alongside some objective for the PSBR; this option was discussed in the preceding section;

(ii) a short term (6-12 month) operational target for one of the narrow aggregates, with £M3 as the medium term (MTFS) target;

(iii) a short term target for a narrow aggregate as an adjunct to the annual and medium term targets for £M3.

(iv) using the narrow aggregates to interpret or predict monetary conditions alongside £M3, without adopting a formal target for them.

(a) Multiple Targets: options (ii) and (iii)

22. The objection to options (ii) and (iii) is that measures taken to control the narrow aggregate may jeopardise the already difficult task of achieving the target for £M3. This has most force if there are annual targets for both £M3 and one of the narrow aggregates, but it may be serious even if the £M3 target is only a medium term one. The problem arises because both broad and narrow money are responsive to interest rates and fiscal policy instruments, though to different degrees. If we knew, with some precision and confidence, exactly how each instrument affected each of the different aggregates, and fiscal policy could be manipulated as flexibly as interest rates, it should,

in principle at least, be possible to offset the unwanted consequences for £M3 of interest rate changes made primarily with an eye on the narrow aggregate by altering fiscal policy. Even if this were not feasible, it might still be possible to vary gilts sales so as to smooth the path of £M3 , before the necessary fiscal changes were implemented and took effect. In other words, two (and possibly three) policy instruments should in theory allow the authorities to hit two intermediate targets at more or less the same time.

23. But whether there is, even in theory, scope for multiple targets is debatable. Even though the relationship between short term rates and the level of £M3 is unreliable, the authorities may need to use them to control bank lending, if they are to control £M3 over a run of years without distorting banks' balance sheets in a way which may sooner or later prove destabilising. If so, they may have less room for manoeuvre on interest rates than the simple "two instruments two targets" proposition suggests. If bank lending is growing strongly for example, control of £M3 will involve overfunding the PSBR, unless and until bank lending is reduced. This will tighten money market conditions and the authorities will be confronted with a choice between allowing short term interest rates to rise and providing possibly substantial amounts of money market assistance eg. by buying commercial bills, or forward swaps. If short rates are allowed to rise, the growth in bank lending should in time be corrected, and a more balanced pattern of bank lending to public and private sector will be re-established. But if short term rates are held down - because they are determined by other considerations - banks will find themselves increasingly short of public sector assets.

24. It is difficult to know how banks would react in such a situation. If they are indifferent as between commercial bills and public sector assets, there may be no real problem. But they may not be. Cutting lending is likely to be a last resort. In the short run, banks could respond by bidding liquid assets



away from non-banks, driving down their yields and encouraging the non-bank private sector to switch into money. Whether, in this situation, the authorities would be right to allow a rise in the money supply rather than put up interest rates, depends on why bank lending is growing so fast. If it represents a structural shift away from other non-bank forms of borrowing for example, it may be appropriate to accommodate at least some of the increase in the money supply. But if it reflects a sharp rise in activity, it would probably be preferable to increase interest rates.

25. If the theoretical case for multiple targets is not clearcut, the presentational and practical difficulties are obvious. Multiple targets may reduce the credibility of monetary policy. Commentators will be tempted to focus on the aggregate which is performing worst relative to target, as the authorities will usually want to point to the one which is most nearly on track. Even if one target is de-emphasised and called a medium term target, both markets and the authorities would find it almost impossible in practice to ignore short term developments. This is not unreasonable, since even short term fluctuations may contain some information about longer term trends among the inevitable "noise".

26. There can be no guarantee that both targets would in practice be met, certainly on a year by year basis. Our knowledge of the effects of different policy instruments is inevitably imprecise, and the fact that policy takes time both to change and to take effect adds to the problem. In recent years it has proved difficult to meet even one target, with all the instruments at the authorities disposal. Two would certainly add to the problems to put it no higher.

27. It would be difficult to make £M3 a purely medium term target in the current financial year, without risking a serious loss of credibility in the overall strategy. The fact that last year's target was so seriously overshoot makes it particularly important to achieve the 1981/82 target if at all possible. Adopting an additional annual target for M1 or M0 could jeopardise the £M3 target, without significantly adding anything to the credibility of policy. This risk would still be present if there were a move to multiple targets after the end of the current target period - say in the 1982 Budget.

(b) Narrow Aggregates as Indicators: option (iv)

28. A less formal way of giving a role to the narrow aggregates would be to treat them as early warning devices, rather than explicit targets. This would be worth doing if there was reason to think that movements in the narrow aggregates systematically 'led' developments in £M3 or other broad money aggregates. But in fact this does not seem to have been the case, on average, over the last decade or so, judging by the statistical relationships between M1 and £M3. On the other hand, one can certainly point to individual episodes where, with the benefit of hindsight, the narrow aggregates seemed to be giving an earlier - or more accurate - signal about monetary conditions than £M3.

1977/78

29. The clearest example is 1977. In the first half of 1977, MLR was reduced by stages from 15% to 5%, as the authorities tried to hold the exchange rate down. This was reflected in an acceleration in the growth of M1 from 0.6% in 1976 Q4, to 5% in 1977 Q2 and 7.2% in the third quarter. Despite heavy intervention, £M3 growth never exceeded 3% even in 1977 Q3. This dramatic fall in interest rates did however fuel the growth in bank lending in 1978, which was largely responsible for the target overshoot in that year. If the authorities had taken more

account of the narrow aggregates in early '77 - as some commentators advocated at the time - they might have abandoned the policy of trying to reconcile incompatible exchange rates and monetary objectives sooner, thereby increasing their chances of meeting the £M3 target in both 1977 and 1978.

1980

30. Last year provides an example of a case where the narrow aggregates may have been giving a more accurate picture of underlying monetary conditions than £M3. On our own analysis the rise in £M3 reflected a rise in financial wealth, as consumers reacted to the inflationary shocks of 1979/80 by saving more, relative to their income, in order to rebuild the real value of their holdings of money-fixed assets. Since the rise in financial wealth represented a move back to some preferred position, not a temporary switch which will be reversed, the increase in £M3 to which it gave rise is likely to be held, not spent. It was a response to past inflation, in other words, and is unlikely to fuel a future rise in the price level. The narrow aggregates, which are less responsive to financial wealth, were more affected by the sharp rise in interest rates in both nominal and real terms. The effect of interest rates on activity is uncertain, but it is difficult not to believe that they were a factor in the savage destocking that took place last year, and, indirectly, in the deceleration in inflation that occurred.

31. While there is therefore some reason to think that the narrow aggregates may have been a better indicator of monetary conditions last year than £M3, the evidence is not conclusive. We cannot be sure, at this stage, that the growth in broad money will not fuel future inflation. Our analysis rests on the assumption that there is a stable demand for wealth relative to income. If the rise in financial wealth was not planned, or is only temporary, the associated rise in £M3 could still find its way into extra spending, and finance future inflation. In fact, however, little is known directly about the demand for gross financial wealth. The evidence is indirect and largely based on the behaviour of the personal sector saving ratio in the 1970's.

32. Secondly, £M3 was only a misleading indicator, even on our analysis, if the Government's concern is about the future rate of inflation, rather than the price level itself. If the worry is the price level itself accommodating past inflation is not acceptable: the appropriate response to the £M3 overshoot was not to ignore it, but to claw it back in future year to correct for the inflationary shocks that took place in 1979/80 which were unwittingly accommodated by the expansion of broad money in 1980/81.

1972-74

33. There is one notable episode when, it is often asserted, the narrow aggregates provided a misleading indicator of underlying monetary conditions and future inflation - the period 1972-4. Over this period, the authorities justified their failure to tighten policy in the face of an explosive growth in £M3 partly by reference to the more moderate growth in M1. Some of the difficulties in interpreting this episode have already been mentioned. £M3 was known to be heavily distorted by the aftermath of Competition and Credit Control, and in 73/74 by round tripping, and there were good grounds for looking at other monetary indicators. (though there were also fears that M1 was distorted too, to a lesser extent). Moreover, the decision not to adopt a more restrictive stance on fiscal policy as well as interest rates was in part a deliberate one, not just a by-product of inadequate information. As the charts show, both real M0 and real M1 rose sharply relative to past trends between 1972 and mid-1973. Yet fiscal policy remained very lax until late 1973 and the authorities did not push MLR above 9% until July 1973. Thereafter the growth in the narrow - though not the broad - aggregates did decelerate sharply as interest rates were raised in stages, to 13% by November.

34. The simple view that the narrow aggregates always lead movements in broad money does not stand up. But M1 and M0 have sometimes contained useful information about underlying monetary conditions and future trends which are

obscurred in the broad aggregates, for structural or other reasons. It would be unwise to ignore sharp divergences in the growth of broad and narrow aggregates. But equally, there seems no case for relying on either Mo or M1 entirely, to the exclusion of other factors (including broad money) in taking decisions about interest rates. The moral seems to be that no rule can remove the need for the authorities to form their own interpretation of events before changing policy instruments.

IV. Outlook for the Monetary Aggregates in 1981/82 and 1982/83

35. In 1980/81, £M3 grew twice as fast as M1 and Mo. The forecast underlying the MTFS suggested that this position may be broadly reversed over the next three years, if the assumptions on which it was made are correct: £M3 growth was assumed to fall from nearly 18% in 1980/81, to 8% in 1981/82 and then to decline steadily by a percentage point each year to reach 6% in 1983/4. With the PSBR falling relative to GDP, this was consistent with a gradually declining path for interest rates. The narrower aggregates were expected to grow relatively rapidly, however, at around 14-15% a year, principally in response to the decline in interest rates and some recovery in activity.

36. The latest forecast⁺ shows a somewhat different picture. Higher and rising short term interest rates are now thought to be necessary if the £M3 target is to be met; the average level of short term rates is put at nearly 14% in both 81/82 and 82/83. As a result, the forecast growth of the narrow aggregates is rather lower than in the MTFS, though still above the assumed growth in £M3. M1 is expected to grow by about 11% in both financial years, while Mo may grow by about 10½% this year, falling to about 8% next.

V. Setting Targets for the Narrow Aggregates

37. While the forecasts are subject to a wide margin of error, the broad conclusion they point to is plausible: namely that a target for M1 or Mo which is in single figures will require higher real interest rates than would otherwise

be needed to meet the MTF3 targets for £M3. This reflects a general problem with targetting a narrow aggregate when the rate of inflation is changing. The demand for M1 depends, inter alia on the price level and the level of nominal interest rates. If nominal rates are constant as inflation comes down, the demand for M1 will grow broadly in line with nominal incomes, though the deceleration in the rate of inflation will itself cause real interest rates to rise. If, on the other hand nominal interest rates fall in line with inflation to keep real interest rates constant, the demand for M1 will tend to grow faster than nominal incomes. In other words, the fact that the demand for M1 is sensitive to the level of nominal interest rates means that velocity is likely to vary with the rate of inflation. This makes it difficult to reconcile a smooth growth in M1 with stable real interest rates during periods when the rate of inflation is changing.

38. There have been pronounced changes in M1 velocity over the past decade, as the rate of inflation has varied. M1 velocity rose steeply between 1972-75 when the rate of inflation accelerated, although real interest rates fell. When inflation decelerated from 1976 to 1978, M1 velocity fell sharply, although real interest rates became less negative. Between 1978 and 1980 inflation accelerated again, and M1 velocity again rose sharply, while real interest rates tended to fall until the end of 1979. The increase in M1 velocity as inflation decelerated through 1980 was, associated with a marked rise in real interest rates.

39. Over the next few years, a target for M1 which would avoid the need for high real interest rates would probably have to be above the growth in nominal incomes - that is, the target would have to be set to accommodate some fall in velocity as inflation comes down. That would mean choosing rather high numbers - certainly above the current £M3 target

and probably in excess of 10% for both 1981/82 and 1982/83. If the target were a public one, this would be presentationally very difficult, though it would be consistent with using M1 as an indicator, for internal purposes, in the sense discussed in section III(b) above, to interpret movements in £M3.

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7 July 1981