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Commentary on the economic situation

The Budget: a much overrated event

"Budget judgement" now of almost no importance compared to credit and monetary developments

The importance of the Budget for the economic outlook is grossly exaggerated in most British financial commentary. Many people seem to believe that the "Budget judgement" - meaning the extent to which the Chancellor injects demand into (or withdraws it from) the economy by changes in public sector borrowing - is crucial in determining the future course of economic activity. The large element of political theatre in the event is partly responsible for this belief, since it has the result that the Budget attracts more public attention than any other item in the financial calendar.

In fact, the "Budget judgement" is incidental to the behaviour of the economy. It involves changes in the Budget deficit (or surplus) which are nowadays very small compared to the amount of new credit extended in the economy. Last year bank and building society lending totalled almost £90b. By contrast, the entire public sector debt repayment was £9.1b., while the change in the 1989/90 PSDR (i.e, the Budget judgement) announced in last March's Budget was only £1.9b. This £1.9b. has in practice been a smaller influence on the PSDR than a number of special developments not expected in early 1989, such as the strong take-up of personal pensions which had an unforeseen Exchequer cost of over £2b. Not only has the Budget judgement been dwarfed by the private sector's credit demands, but also it has been less than the error in estimating the Budgetary position!

More crucial than the Budget for the economy is the coming slowdown in credit growth

Far more crucial to the economy in the rest of 1990 will be the response of credit demand to high interest rates. After all, the private sector borrows every month as much as the Government repays in a year. During the 1980s there was widespread surprise that bank and building society lending remained buoyant despite historically rather high real interest rates. The accompanying paper argues that the apparent anomaly can be largely explained by financial de-regulation in the early 1980s. Credit demand suppressed by controls in earlier post-war decades could, at long last, be translated into actual lending. This process now seems to be complete, since the de-regulated types of lending (mortgages, property, consumer credit) which grew quickly in the early and mid-1980s have increased more slowly in the last two years than lending to industrial and commercial companies. (Lending to the industrial and commercial sector was never subject to the same restraint.) Moreover, a cyclical reduction in corporate borrowing is in prospect, as 15% base rates force companies to reconsider expansion strategies. We suggest that the monthly total of bank and building society lending is likely to drop to the £6b.-£7b. level and that, as a result, broad money growth may moderate to the 12%-14% area. The Government has started to correct the disastrous monetary mismanagement of the late 1980s. Amidst all the gilt market gloom, it is important to make that point.

Tim Congdon — 1st March 1990

Summary of paper on

'The end of the great credit boom'

Purpose of the paper With fiscal policy increasingly sidelined in economic debate, the Goverment's key macroeconomic instrument is the level of interest rates. But interest rates work largely through their influence on the demand for credit. This paper therefore asks whether the present high interest rates will curb the growth of bank and building society lending.

Main points

* **The early post-war decades saw strong underlying credit demand for three main reasons - high returns from holding real assets such as industrial equity, houses and property; low nominal interest rates; and a tax system favourable to borrowing.**

* **But in the first 35 years after the War a strong private sector propensity to borrow was frustrated by credit controls. Credit demand could not be matched by credit supply and the growth of bank and building society balance sheets was constrained by arbitrary official ceilings.**

* **Financial de-regulation in the early 1980s was followed by rapid lending growth, particularly in those areas (mortgages, property, consumer credit) previously subject to most severe official discouragement. Such was the pent-up demand for credit that rapid lending growth coincided with historically high real interest rates.**

* **But the process of adjustment after de-regulation is now substantially complete, while cyclical pressures - notably, the strain in corporate balance sheets caused by high interest rates - are against continued rapid credit growth. Bank and building society lending will be less in 1990 than in 1989, facilitating the task of monetary control. The great 1980s boom in credit growth is over.**

This paper was written by Tim Congdon.

The end of the great credit boom

High interest rates will curb lending growth in 1990

Credit growth responsible for growth of broad money and so for inflation

The 1980s saw the strongest credit boom in British history. Bank lending in sterling to the UK private sector rose at a rate of 20% a year between the end of 1980 and the end of 1989. Since every new bank loan creates new bank deposits, this credit growth was the dominant reason for the high growth rate of broad money. If it is accepted that the high growth rate of broad money was also the key causal influence on the persisting inflation of the 1980s, the future behaviour of credit becomes basic to assessing inflation trends in the 1990s.

The argument of this paper is that, over the next eighteen months at least and probably for several years after that, credit growth will be slower than in the 1980s. The deceleration will appear particularly marked relative to the late 1980s, when the pace of credit growth became extraordinarily fast. A reduction in credit growth is, of course, hardly surprising after the excesses of recent years and could be seen as a predictable and logical response to several quarters of high interest rates. However, this is an area where logical predictions were not very successful in the 1980s. Interest rates were "high", relative to previous decades, for most of the ten years, but credit growth was also strong and for much of the time seemed insensitive to dear money. As we shall see, scepticism about the interest-rate-sensitivity of the demand for credit had an important bearing on some of the more eccentric policy decisions of the mid-1980s.

But our immediate tasks are to identify the causes of the credit boom of the 1980s and to give reasons for expecting a slowdown in credit growth in the early 1990s. Why has credit grown so quickly in the last ten years? And why is a more moderate pace of expansion now in prospect?

Credit boom of the 1980s a reaction against earlier restraint

The credit boom of the 1980s can be interpreted most simply as a reaction against the artificial credit restrictions of the previous three decades. After the final removal of controls on banks' balance sheets in the early 1980s it became possible to *supply* credit more freely than for many years. However, lending would not have grown quickly had there not also been a reservoir of pent-up credit *demand*. It is clear from the experience that the amount of credit dammed up by controls in the late 1970s was extremely large compared to the stock of lending at that time. We need to ask why the latent demand for credit was so strong.

Three causes of strong pent-up demand for credit in early post-war decades

Three features of the post-war economic environment stimulated the demand for credit. The first was that the more or less uninterrupted prosperity of the first 25 years after the Second World War was accompanied by high yields on assets and persistent capital gains. In the 1950s and 1960s companies and individuals in the UK enjoyed growth of profits and rents which broadly

i. High returns on real assets

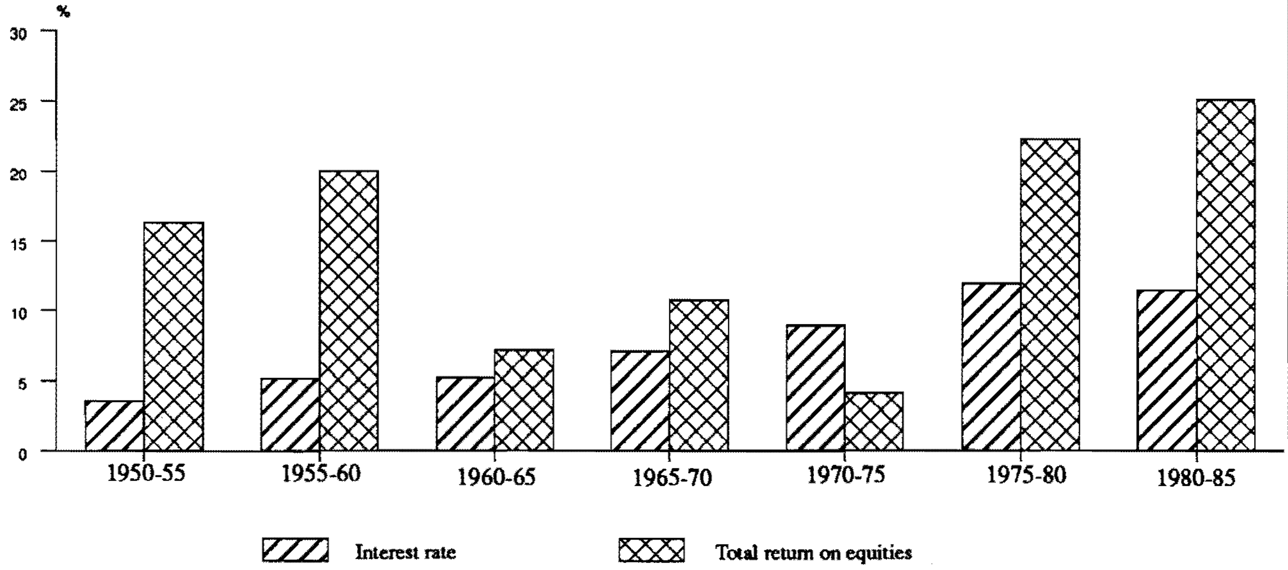
matched the increase in nominal gross domestic product. Thus, companies' gross trading profits grew by 7.2% p.a. (in money terms) in the 25 years to 1973, while gross domestic product went up 7.6% p.a. If the yield on industrial equity had been stable over the period, this rate of profits growth would have given capital gains also at an annual rate of 7.2%. At the beginning of the period the yield on equities was fairly high, with the dividend yield on good-quality equities at over 5%. The implied total return on a diversified share portfolio was about 12% (i.e., capital gains of 7% p.a. reflecting profits/dividends growth plus the 5% p.a. dividend). (In fact, the total return on the FT Industrial Ordinary index was 12.1% p.a. in the 25 years to 1970 and 10.8% in the thirty years to 1975, according to figures prepared by Bacon & Woodrow.) Returns on property were similar, in the 10% - 15% p.a. area.

ii. Inappropriately low interest rates, and

Secondly, interest rates were kept low throughout the period. In the first few years after the War Bank rate stayed at the 2% level first established in the Depression of the 1930s. Policy-makers were reluctant to raise interest rates sharply in the 1950s and 1960s, partly from inertia but also perhaps because of a vague wish to promote investment. Bank rate reached 7% in 1957 and 1961 after severe sterling crises, and 8% in 1967 after devaluation, but at no point did it touch the 10% plus figures which would have matched the high rate of return from holding assets like equities and property. There was also a reluctance to recognise that inflation expectations were rising steadily and that a corresponding increase in interest rates was required if credit demands were to be deterred.

Interest rates beneath total returns on equities

Total returns on equities (i.e., from holding the FT-Industrial Ordinary index) have been much higher than interst rates throughout the post-war period. Chart shows five-year averages of total equity returns compared to Bank rate/base rates.



iii. A tax system too sympathetic to borrowing

Thirdly, the tax system was more sympathetic to borrowing to buy assets than to financing investment by the issue of equity. Two characteristics of the tax system were particularly important in this context. The first was the tax deductibility of interest combined with high rates of income and profits tax. With profits tax at over 50% and top rates of personal taxation commonly in excess of 70%, the post-tax cost of borrowed money to companies and rich individuals was less than half the pre-tax cost. The second was the lenient treatment of capital gains. Until 1965 there was no capital gains tax at all; afterwards it was levied at a rate (30%) much less than the rates of profits and income tax (50% plus) which determined the value of interest deductions from taxable income.

Tax deductibility of interest payments and low capital gains tax rate very important in stimulating credit demand

The implications of the tax system deserve heavy emphasis. If there had been no tax aspect, interest rates far beneath total returns on assets would have stimulated credit. But, with the tax aspect also at work, it was possible for pre-tax interest rates to be equal to total returns and still leave borrowers with a handsome profit. The best examples were in areas like office property and farm land, where much of the return came from capital gains. If the interest rate was just the same as the annual rate of capital appreciation on an asset (which we can call x%), it made sense to borrow to buy it because the post-tax interest cost (at under half x%) was less than the capital gains (x% before 1965 and 0.7x% after the introduction of capital gains tax). As the inflation rate rose, and with it both nominal interest rates and capital gains, this point became even more important.

Its significance was particularly well-understood by property speculators, rich farmers (who mortgaged their estates), asset-stripping entrepreneurs and the like. But in truth by the late 1970s practically the entire British middle class had seen the tax benefits of debt. Millions of home-owners exploited the tax advantages of borrowing to buy houses just as property developers, farmers and entrepreneurs exploited the tax advantages of borrowing to buy land, offices and factories. With mortgage interest payments deductible from taxable income and no capital gains tax on the increase in the value of residential property, the attractions of mortgage debt were overwhelming.

But demand suppressed by controls

Given the high rate of return on holdings of tangible assets, the low nominal interest rates inherited from the 1930s and 1940s, and a tax system remarkable for its indulgence towards debt it was not surprising that the underlying demand for credit was very strong. But for most of the 1950s, 1960s and 1970s the banks and building societies were not allowed to let supply meet demand. The banks were subject - with relatively few interruptions - to restrictions on their balance sheets, typically with a ceiling on advances expressed as a percentage of the figure at a recent date. The demand for credit was suppressed. The wish to borrow could not be translated into actual lending.

Controls criticised in late 1960s and removed in early 1970s, with unhappy results

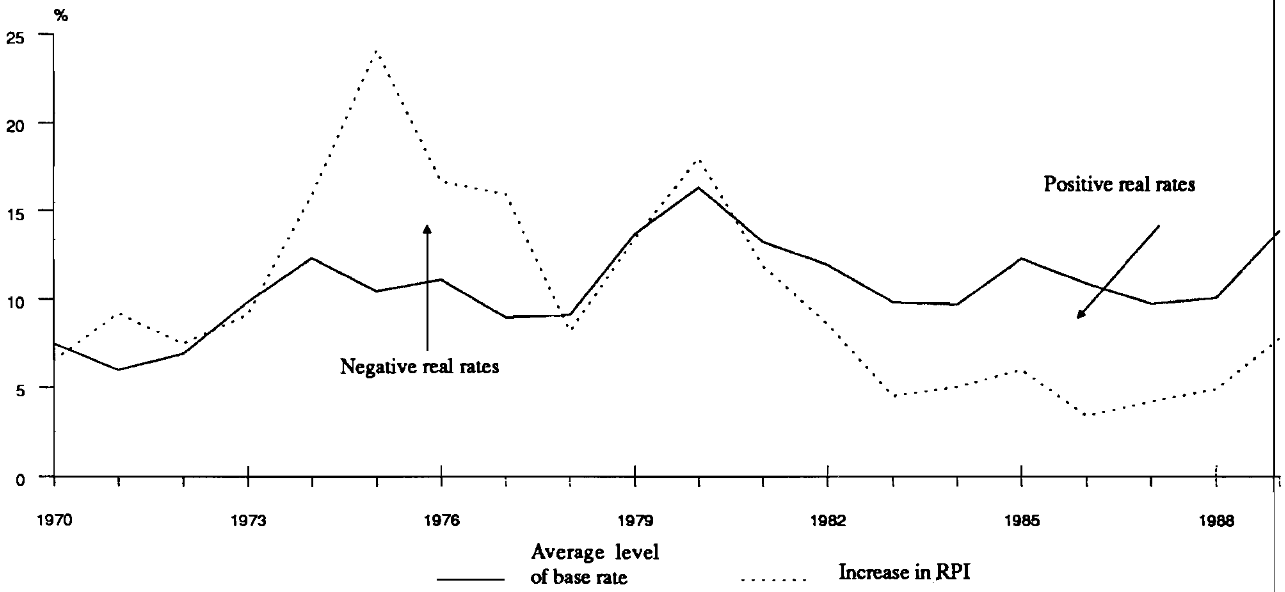
In the late 1960s a number of pro-free-market economists began to criticize lending controls, on the grounds that they reduced the efficiency of the financial system and caused resource misallocation. The Heath Government responded to these arguments by ending lending restrictions in September 1971 in a set of reforms known as "Competition and Credit Control". Credit exploded. The banking system's advances climbed from £29.8b. at end-1971 to £44.7b. at end-1972 and to £64.3b. at end-1973, increases of 49.8% and 43.9% respectively. Growth rates of broad money were very high, at over 25% p.a. The inevitable results of financial excess ensued, with balance-of-payments deterioration accompanied by higher inflation.

The Government re-introduced direct limits on the banking system's balance sheet (the "corset") and raised interest rates (to 13% in November 1973). Credit growth duly moderated and the economy entered the worst recession so far in the post-war period. (An important change to the tax system introduced by Mr. Denis Healey in his 1974 Budget - ending the tax deductibility of personal interest payments, except for mortgage interest and then only if the mortgage was under £25,000 - should be mentioned. It caused substantial repayments of personal loans. In 1975 the stock of lending actually fell and M3 growth was less than 6%.)

After this episode (the so-called "Barber boom"), the pro-free-market economists who had favoured the CCC reforms were also persuaded that monetary growth had to be kept under control. Free market and "monetarist" ideas were particularly influential in the late 1970s and early 1980s, and

The move to positive real interest rates in the 1980s

Base rates were usually beneath the increase in the retail price index in the 1970s, but were always above them after 1981.



profoundly affected the policy approach of the Thatcher Government after 1979. As a result, the Thatcher Government found itself in 1980 and 1981 committed both to comprehensive de-regulation of the financial system and to curbing monetary expansion. The experience of the previous 30 years should have given a warning about what would happen. The removal of controls was likely to lead to an acceleration in credit growth and faster credit growth would in turn result in higher monetary growth. In effect, the objectives of financial liberalization and monetary control were on collision course.

Another move away from controls under Mrs. Thatcher led to high real interest rates of the 1980s

Our analysis of the three forces tending to encourage credit demand since the late 1940s - high expected rates of return on assets, low nominal interest rartes and a tax system favourable to borrowing - helps us to understand the sequel. The Government could not quickly alter long-term expectations about asset returns and it could not change the tax system overnight. The answer had to be a large increase in interest rates. The Bank of England's minimum lending rate was increased from 12% to 14% on 12th June 1979 and to 17% on 15th November 1979, in an attempt to bring monetary growth back within target. Although inflation of over 20% was recorded temporarily in 1980 and resulted in negative real interest rates for a few quarters, the November 1979 decision indicated a new official preparedness to impose punitive interest rates. It signalled the beginning of a decade of high real interest rates.

and rapid growth of types of lending earlier subject to controls

But such was the backlog of unsatisfied credit demand that lending still expanded rapidly in the areas that had been subject to restriction in the previous 30 years. During the period of controls successive governments had looked kindly on lending to the industrial sector, perhaps believing that industrial companies were responsible for Good Things like investment and exports, and should therefore be encouraged. By contrast, lending to property companies and for consumer credit and mortgages was curbed by informal but very unsympathetic Bank of England guidelines. As a result, lending to industrial and commercial companies was larger than lending to financial institutions or to persons. At the end of 1980 sterling lending to ICCs constituted 53.5% of all sterling bank lending, whereas sterling lending to other (i.e., non-bank) financial institutions was 15.4% and to persons 31.0%. During the 1980s the pattern changed radically. At the end of the third quarter 1989 sterling lending to ICCs, at 34.9% of the total, was overshadowed by sterling lending to persons (44.8%) and was less than twice as high as lending to OFIs (20.3%). This change in the composition of lending suggests that much of the credit growth in the 1980s was a response to the scrapping of the various regulations and controls which had been enforced in earlier decades.

It should be noticed that two classification changes - due to the Trustee Savings Banks and Abbey National becoming banks in December 1981 and June 1989 respectively - were partly responsible for the personal sector's increased share. But the point still holds if adjustment is made for the classification changes. Over the seven-and-a-half years to the second quarter of 1989, which were not significantly affected by re-classifications, the growth rates of the three categories of lending were very different. Sterling lending to ICCs increased by 16.8% p.a., whereas lending to OFIs went up by 29.1% p.a. and to persons by 23.0% p.a. (The problems with re-classifications are overcome if we stick to the totals for bank and building society lending, as we shall do below. But it should be recognised that building societies were not subject to official restrictions in quite the same way as the banks.)

Three reasons for expecting slower lending growth in future

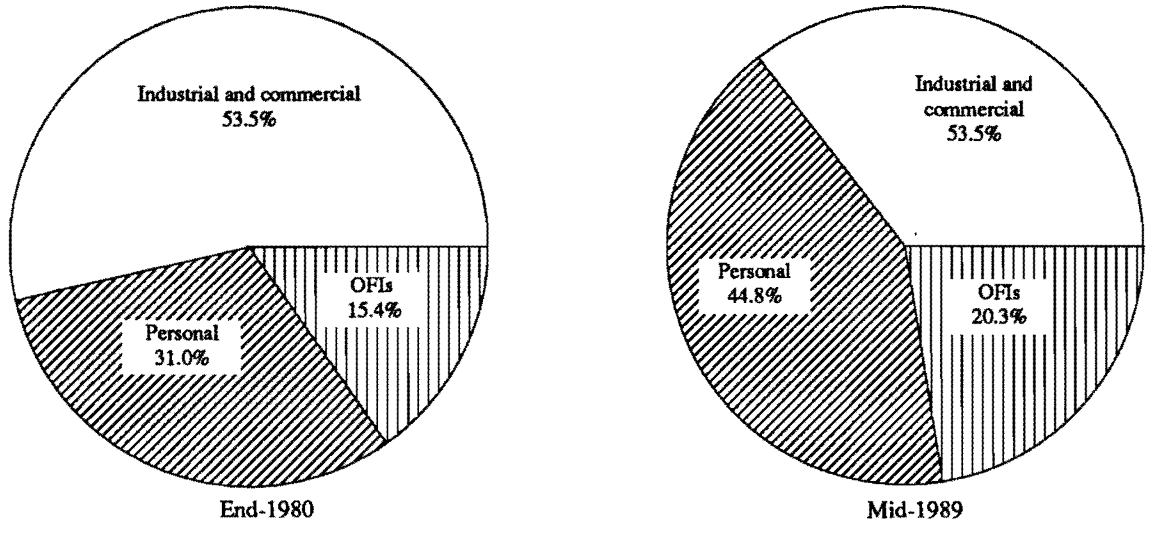
We have reached the point at which we can make the first argument for expecting credit growth to slow down in future. It is that the most fast-growing sectors of lending in recent months, and in prospect according to survey evidence in the next few months, are not the same sectors that were particularly fast-growing throughout the 1980s. The implication is that the stock adjustment made necessary by the liberalisation of the financial system in the early 1980s is now substantially complete. Credit growth in the early 1990s will not be artificially boosted by the need to compensate for an earlier period of official restraint.

i. Change in credit structure since liberalisation now complete

The point is established most easily by comparing the recent behaviour of lending to ICCs and the personal sector with typical behaviour in the 1980s. Between 1980 and 1987 bank and building society lending to the personal sector increased on average by 20.1% p.a., whereas lending to ICCs rose by 14.8% p.a. But in 1988 and 1989 lending to persons went up by 21.1% and 17.0% respectively, whereas lending to ICCs shot forward by 33.3% and 30.1%. The surge in ICC lending in the last two years clearly has nothing to do with

The changing composition of bank lending in the 1980s

Chart shows % shares of sectors in total sterling bank lending, "OFIs" refers to "other (i.e. non-bank) financial institutions.



Source: *Financial Statistics*

de-regulation. The relatively slower growth of personal lending suggests that the adjustment after liberalisation is no longer the dominant influence on the structure of credit growth.

Weakness in personal sector credit demand

Further evidence of weakness in personal sector credit demand has emerged in recent months. The stock of all mortgage lending (by both banks and building societies) increased last year by 15.3%, which may seem high but is notably down from 19.8% in 1988 and 17.6% in 1987. More strikingly, consumer credit (for hire purchase, instalment credit and so on) grew at an annual rate of under 10% in the fourth quarter of 1989, much less than the increases of 20.9% and 20.3% seen in 1987 and 1988. In December consumer credit actually fell. One of the most sluggish areas has been lending on credit cards. Over 1989 as a whole it went up by £469m., equivalent to 8%, compared to £602m. (+11%) in 1988. The January monthly statement from the Committe of London & Scottish Bankers gave further evidence on the same theme. It noted that, "Lending to persons rose by only £23m., compared with an increase of £283m. in January 1989. There was a small fall in lending for house purchase (-£7m.), which was more than accounted for by repayment of £58m. of bridging finance; in January last year, house purchase lending rose by £299m." It appears that the great 1980s boom in mortgages and personal credit, which saw lending to the personal sector up by 20% or more year after year, is coming to an end.

and in property lending

The dynamism of certain other types of lending in the 1980s was largely the result of de-regulation. For example, bank lending to property companies - which had been the ugly duckling of the credit scene and, hence, subject to official restraint in the 1970s - soared from £2.7b. at November 1981 to £31.9b. at November 1989. The average annual rate of growth of property lending was 36.2% p.a., far ahead of that for lending as a whole. Here also there are several signs of retrenchment today, reflecting the more difficult outlook for commercial and office property. A November 1989 survey by Woolgate Property Finance (reported in the *Financial Times*, 8th December) found a significantly lower proportion of respondents in the property sector expecting to increase their bank exposure than a year earlier. Again, the message seems to be that property lending is in a quite different situation today from the early 1980s. It no longer needs to "catch up" after a long period of restriction.

and to support leasing investment

The tax motive for borrowing can be identified in the rapid growth of certain kinds of credit which deliberately exploit the tax deductibility of interest payments. Leasing is the most obvious of these. Figures for lending to leasing companies were not separately compiled at the beginning of the 1980s, but they have been available since 1983. From the end of 1983 to the end of 1989 such lending increased on average by 25.6% p.a., somewhat faster than lending as a whole. But here, too, survey evidence points to an early decline to more modest growth rates. The volume of leasing business fell by 2% in the third quarter, for the first time in many years, according to the Equipment Leasing Association.

ii. Tax motives for borrowing no longer so compelling

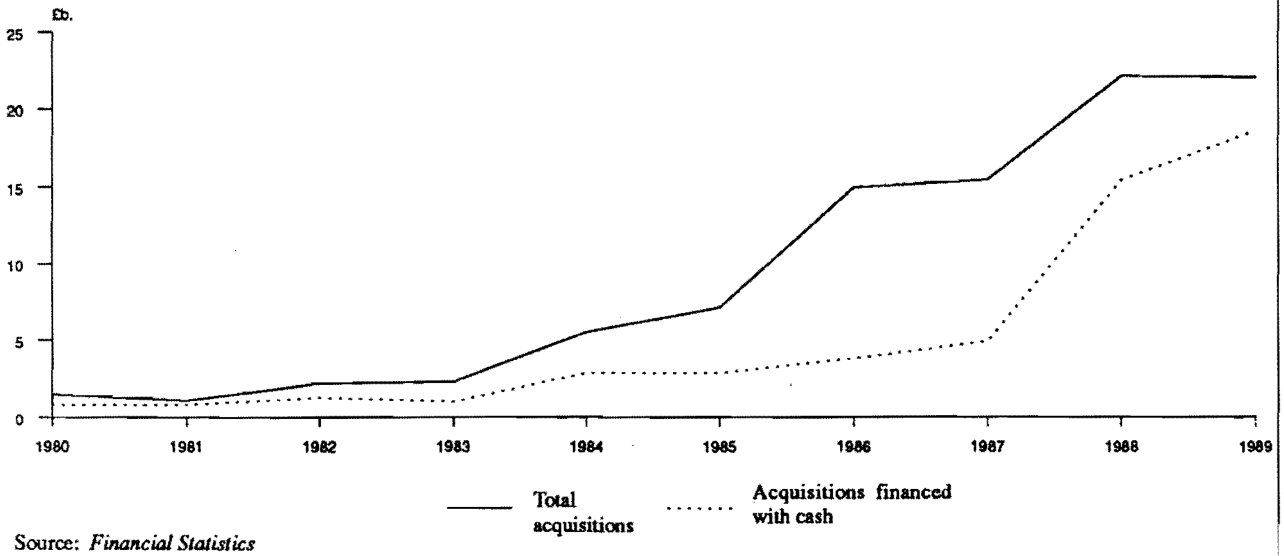
In fact, tax reforms in the 1980s have made the tax system less favourable to borrowing than in the earlier post-war decades. Over time there should be a significant effect in dampening the demand for credit. The most important changes came in the 1984 Budget, with the abolition of 100% first-year capital allowances and the reduction in the corporation tax rate from 52% to 35%. The ending of 100% first-year allowances undermined the tax benefits of leasing, which require borrowing to be effective, and the cut in corporation tax narrowed the gap between pre-tax and post-tax borrowing costs. The large fall in top rates of income tax has had the same effect, while the harmonisation of the top rates of income tax and capital gains tax has eliminated the argument for borrowing in order to capture the discrepancy between them. Finally, the limit on the size of the mortgage eligible for interest relief (£25,0000 when introduced in 1974, now £30,000) has at last become an important influence on the housing market. In due course the pre- and post-tax cost of borrowing will be the same even for residential mortgages. These various tax changes represent a second strong reason for expecting the rate of credit growth to be lower in the 1990s than in the 1980s.

iii. A cyclical slowdown in prospect

The end of the post-liberalisation structural adjustment and the erosion of the credit-inducing features of the tax system are therefore two major arguments for a long-lasting credit slowdown. But the more short-run and cyclical aspects of the question should not be overlooked. We have seen lending to industrial and commercial companies has been the most rapidly-growing category in the last two years and that the dynamism here cannot be explained as a structural shift. It must be regarded instead as a cyclical development. In fact, a burst of

The boom in corporate acquisitions in the 1980s

The boom in acquisitions was one reason for the increase in company borrowing in the 1980s. Chart shows total expenditure and cash expendiutre on acquisitions by industrial and commercial companies, in £m., in UK. (The difference between them reflects acquisitions made with shares and loan stock.) Cash expenditure often involves bank borrowing. 1989 is partly estimated.



Source: *Financial Statistics*

corporate borrowing is characteristic of the final stages of a boom, as companies complete their investment programmes and accumulate stocks because of a failure to anticipate weaker sales. The 30% plus lending increases in 1988 and 1989 can be interpreted in these terms. However, some special influences also need to be mentioned. The last three years have seen a bunching of large projects, such as the Channel Tunnel and Canary Wharf, which have relied on bank finance. There have also been an exceptional amount of borrowing to finance takeovers and corporate restructuring, and a wave of management buy-outs on the American model.

Fewer buy-outs and takeovers ahead

It is quite clear that takeover finance and lending for management buy-outs will be on a smaller scale in 1990 than in the previous two years. The large rise in interest rates since mid-1988 has caused balance sheet strain in the corporate sector, forcing companies to consider action to reduce their bank debts. There will be less preparedness to buy other companies and greater eagerness to sell loss-making subsidiaries. The collapse of a number of buy-out deals in the retail and building sectors (Lowndes Queensway, MFI, Magnet) has given bankers and enterpreneurs a warning that they must be more careful about expanding corporate debt in future, a message reinforced by the recent failure of Drexel Burnham Lambert.

Reduction in syndicated credits listed in *Euromoney*

Against this background, it is not surprising that the value of syndicated credits agreed for UK companies in recent months has fallen sharply. (The infrastructure projects and corporate deals of the late 1980s often involved figures too large for a single bank's balance sheet.) A guide is provided by adding up the monthly announcements of syndicated credits in *Euromoney*. The average monthly total of such announcements climbed from £202m. in 1985 to £902m. in 1986, £2,124m. in 1987 and £3,430m. in 1988. But in the final months of 1989 there was a marked reduction. In the third quarter the monthly average was £2,232m. and in the fourth £2,894m. (These figures exclude water authorities' syndicated credits of over £7b. in December, on the grounds that they were exceptional.) In January 1990 the total was £906m. and in February £610m. The *Euromoney* figures gave useful advance warning of the boom in corporate borrowing in 1987, 1988 and 1989. They are now pointing to a reduction in corporate borrowing in 1990.

Credit demand is sensitive to interest rates

Indeed, the recent behaviour of all kinds of credit suggests that borrowers are responding in the right way to higher interest rates. The slowdown in credit growth in prospect this year can be understood as a cyclical correction after the excesses of the Lawson boom, as well as the end of the post-liberalisation structural adjustments of the 1980s. It is obvious that the financial behaviour of personal sector mortgage borrowers, property companies considering new developments, corporate treasurers advising boards on acquisition strategy and, indeed, practically every individual and company in the country is profoundly influenced by interest rates. The coming reduction in credit growth in 1990 will be largely the result of the rise in interest rates since mid-1988.

The point deserves heavy emphasis. A number of economists in the early 1980s were so puzzled by the obstinately buoyant levels of bank lending in a dear-money environment that they denied any stable relationship between interest rates and bank lending. This argument was crucial in the demise of broad money targets. It was felt that, if there was no definite link between interest rates and lending, interest rates could not be used to keep broad money growth on target.

The strange argument that high rates cause *faster* money growth led to some bad decisions in the Lawson boom

Some economists - notably Mr. Anthony Harris of the *Financial Times* and the economic consultant, Mr. Brian Reading - went even further. They claimed that credit growth could be positively related to interest rates. (In other words, the higher are interest rates, the faster is broad money growth.) The idea is that much of the growth of bank lending is the mechanical addition of interest charges to loan principals. It follows that the higher is the general level of interest rates, the higher are interest charges and the faster is the growth of bank lending. A bizarre implication is that, if policy-makers want to cut credit growth, they should reduce interest rates. This line of argument may seem odd and peculiar. But that does not mean it has been without influence. In fact, it was a commonplace of casual theorizing in official circles in the early and mid-1980s. At informal lunches and dinners in this period Mr. Lawson often expressed the view, not always frivolously, that a rise in interest rates would result in higher growth of bank lending (and so of the much despised M3) because of the interest-debiting effect. Some of the more eccentric policy decisions of those years, including the interest rate cuts in the spring of 1988, become easier to understand.

Diastrous monetary mismanagement of late 1980s is beginning to be corrected

At any rate, the great credit boom of the 1980s is over. The structural adjustments to credit following the financial liberalisation of the early 1980s seem to be substantially complete, while the tax system is markedly less helpful to borrowers than it once was. Cyclical influences should also depress credit expansion. Precise quantification of the coming slowdown in lending is difficult. The July 1989 Gerrard & National *Monthly Economic Review* argued that bank and building society lending of about £5b. a month would be consistent with 12% M4 growth and 5% inflation over the medium term. That compares with an average £7.0b. in the twelve months before July 1989 and with an average £7.8b. in the second half of 1989. Perhaps the right kind of figure to be thinking about in 1990 is £6b.-£7b. in a typical month. With the recent changes in funding policy, that would give a 12%-14% growth rate of broad money. At long last the disastrous mismanagement of credit and broad money in the late 1980s is beginning to be corrected.