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NOTE FOR FILE

FOREIGN EXCHANGE ARRANGEMENTS

This note records events in Canberra on 9/12/83 which led to the Government's decision to float the Australian dollar.

A preliminary meeting in the Treasurer's office (10 a.m.) was attended by Treasurer, Cole and Professor Hughes - Stone, Rye and Moore - Governor, Deputy Governor and Phillips. Meeting was given over to discussion of recent foreign exchange events, closure of forex market and broad options for action.

At 10.30 a.m. the group moved to the Cabinet Room (Barbara Ward also) to join Prime Minister, Garnaut, Visbord and Shann. Discussion centred on:

- . recent events
- . could present system cope?
- . options for future.

Bank group were for float. Not clear about short-term effects on exchange rate. Phillips thought scenario with 50 per cent probability was increase in rate 1-3 per cent which would be shortlived, followed by a decline. The higher the rise, the sharper would be the decline.

Stone was anti-float. Would push rate up. Five per cent revaluation would be equivalent to 20 per cent tariff cut. Present system designed to see exchange rate not pushed too far at whim of market. He raised alternative of capital controls. Did not favour them but would prefer them to a float. Felt market had taken a punt and had not allowed for the possibility of capital controls. They would give shock to financial sector where high exchange rate under a float would give shock to productive sector. Supported by Rye.

The Prime Minister questioned Stone on the extent to which his caution reflected pessimism on the wages accord and wage outlook in 1984. Stone parried by saying outlook vis a vis other countries not good even if accord held.

Garnaut asked of relevance for monetary objectives. Felt the subject should be addressed.

Governor told Prime Minister that RBA Board appeared unworried at prospect of float. Stone felt economy should not be run to achieve a monetary projection. If cost of not acceding to pressure (speculative) was missing the M3 result, so be it.

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Visbord - not clear that rate would be lower next week under the existing system without borrowing controls. This implied Stone must be arguing for borrowing controls.

The Prime Minister then asked how much intervention there should be under a floating system. Treasurer said he would not want to be going regularly to EPC and be put under pressure to hold a rate. He would want to get RBA role correct and put responsibility on it.

Governor argued for minimum intervention. Moore questioned whether there would still be an exchange rate target and nothing would be gained.

The Prime Minister summarised the clear majority view as being in favour of a float and said he was persuaded the move would be appropriate. He then turned to specific areas to be addressed. Governor mentioned the questions to be answered; Phillips gave some detail and offered the Bank's views on them. Prime Minister said that, prima facie, he would wish to take as many of the necessary decisions at the outset rather than leave some for a future time. He then asked officials, on the basis that a decision would be made to float, to prepare papers on:

- . technical exchange control matters
- . intervention and how to set policy
- . consideration of money supply projections.

} attached.

The Treasurer wondered if there was a need to focus also on the ASB?

The three papers were prepared by working groups with RBA, Treasury, PM&C and private office involvement. They were in turn considered at another meeting around 2.30 p.m. in the Cabinet Room (same group as previously). With minor changes they were agreed and considered by a meeting of the Economic Policy Committee of Cabinet about 3.30 p.m. The Governor attended that.

EPC confirmed the various proposed actions - a press statement for the Treasurer was prepared (Deputy Governor and Phillips assisted in the drafting). He held a press conference, with Governor accompanying him, at 5.45 p.m.

MJP
12 December 1983