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Handwritten: Handed to

Mr. and Mrs.

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(no need to reply).

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7th March, 1980.

My dear Prime Minister

In the last ten days, I have been discussing with the Chancellor, and my assistants with his, the proposals for a statement of medium-term financial strategy. These discussions have been most helpful; and the presentation which the Chancellor will now be submitting to you has, as I think the Chancellor would also agree, been considerably improved. I have, however, all along had rather fundamental misgivings about it and I think I should let you know what these are.

I appreciate that the object of the strategy is to demonstrate the way through the difficulties the country faces; and to help to ensure that we go through with it, by committing the Government to a particular path of monetary growth.

The difficulty is that some of the elements in the picture are hard to present in a persuasive way. The clear impression is given that economic growth in the years ahead is going to be no better than the 1% a year achieved in the years 1973-1979. This does not square with hopes of a more dynamic economy. Before we get to 1983, a period of recession is promised, and (implicitly) growing unemployment. The object is to defeat inflation; but as no figures are given for future inflation rates - no doubt this would be difficult - this must appear uncertain.

What the projections say about the economic prospect could possibly be correct. But by publishing them in this way, the Government will appear to be taking responsibility for what they show, and will appear to be saying that this is the result its policies are intended to produce.

These are largely political considerations which it is for you, not myself, to weigh. They do, however, affect my own task. Monetary policy is at the centre of strategy; it is difficult to carry through; and needs to be defensible in ordinary terms.

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I also see dangers, from the point of view of implementing monetary policy, from the rigidity of the presentation. I appreciate that efforts have been made to soften it, but the impression remains that the Government is committing itself in advance to follow a certain line of policy, irrespective of circumstances. This indeed is the essence of what the statement is intended to convey, and I know the arguments for it. Nevertheless, I feel greatly uneasy about accepting too binding a commitment.

Let me mention some of the considerations. We think hard each year what the monetary target should be: it is always a difficult matter of judgment. It is clearly still more difficult - not to say hazardous - to seek to determine now the targets for four years ahead. The dangers are that if the structure of wages and prices remained stubbornly unresponsive to the severity of our pre-determined monetary path, the consequences for interest rates, the exchange rate and activity could become very serious indeed.

I myself want to see progressive deceleration in the rate of monetary expansion. But I believe we are sufficiently committed to this as we are, without going further.

In the light of these considerations I doubt whether publication of the strategy would strengthen the credibility of policy.

I should be grateful for an opportunity to develop the points in this letter, of which I am sending a copy to the Chancellor.

Yours sincerely
Gordon Richardson

The Rt.Hon. Margaret Thatcher, MP.