



10 DOWNING STREET

THE PRIME MINISTER

10 July 1980

Dear Mrs. Robinson,

You wrote to me on 2 July about the difficulties which your business is now facing.

I know what hardship people have to face during times of economic difficulty. The Government intends to create an economic climate where enterprise and initiative can prosper, and our small businesses will be crucial to the success of our efforts. The hardest part of our battle to improve our economy is going to be the personal tragedies like those you describe. I know that it can be very difficult to make sense of national policies when you look at the immediate effects on friends and colleagues, but I would like to explain to you the basis of our efforts. Everyone recognises that inflation is our worst enemy. No country has ever brought inflation down without reducing the growth of the supply of money. We have to keep the supply of money as close as possible to the increase in our output. We can only reduce the growth of the supply of money if we can reduce the level of borrowing from the banks. Industry has been borrowing heavily, which is one reason why interest rates are so high. The second major reason is that the Government continues to borrow a great deal: we want to try to finance this borrowing by tapping private savings rather than by making further demands on the banking system, but to achieve this we have had to offer a high interest rate. To break out of this circle we have been making strenuous efforts to cut the level of Government borrowing by holding down Government spending.

As we get the supply of money fully under control and the inflation rate falls, interest rates will fall too. I am pleased that we were able to start moving interest rates downward last week.

/ Declining

Declining interest rates will, I am sure, help all businesses. But the main task for companies must be to raise their productivity and to hold down costs, especially by settling for wage increases they can afford. When I ask the private sector to make sacrifices and improve performance, I realise that the public sector must make its contribution. The Government is asking everyone to play their part in the effort. I hope you and your staff will have realised that we are serious about this from the proposals I announced this week for limited increases in pay for Members of Parliament, and for other senior people in the public sector.

I know that the theories about economic policy may seem far removed from the immediate problems of people who lose their jobs. Given the scale of the country's economic problems, there are bound to be harsh consequences when we take the measures necessary to set things right for the long term future. In the most successful economies, jobs disappear fast but new jobs are created still faster. One of the lessons that our people will need to learn is to be ready to move into new fields as the market switches to new goods and services. As we get our economy going again, there should be opportunities both in established businesses and in new ones.

Please understand that I know just exactly how you felt when you wrote your letter. My job would be easy if I could please everyone and do what would please all people. Plus, only the difficult decisions come to me and some of them cause me great heartaching.

Yours sincerely

Raymond Thatcher