

Prime Minister

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From: JOHN SPARROW

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22nd January, 1982

Dear Mrs. Thatcher,

I greatly regret not having written to you since we met in Melbourne in October. My responsibilities at Morgan Grenfell have been broadened and now necessitate regular visits to Australia and Singapore, and the consequent pressures of time coincided with a period in which economic policy was moving steadily and satisfactorily towards a sustained recovery in 1982 and 1983, thereby easing my conscience to some extent.

I am in fact about to set off for another two weeks in the Southern Hemisphere, but the confirmation that the Budget debate would begin on 9th March reminded me of my responsibilities. It seems to be widely expected that the Budget will be expansionary in tone, and there is general agreement that some expansion is now permissible, the economy having gone through a very considerable part of the process of removing inefficiencies.

If, as I expect, 1982 is in any event going to be a year of increasing economic activity, it may be that the art of framing the Budget will lie in not injecting so much additional stimulus that it becomes necessary later in the year or in 1983 once again to put the brakes on. If we can maintain the disciplined control of the economy which has emerged during the last nine months a relatively small change of emphasis should be enough to ensure a steady improvement from now on.

The recovery will carry with it the prospect of steadily increasing government revenues from the existing taxation base and, given continued determined restraint of current account spending, we are in sight of significant reductions in the PSBR to the very low levels which I believe to be the necessary hallmark of a sound economy. American experience is demonstrating yet again that even stringent monetary control is helpless in the face of lax fiscal policies. A reduced PSBR would also sustain the steady reduction in interest rates which is a necessary ingredient in the recipe for recovery and which again would only be sustainable if tackled with moderation.

The general satisfaction with the outcome of the miners' ballot is tempered to some extent by the thought that, if Mr. Scargill were a better strategist, he would always have concentrated his attention on the 1982/83 pay round rather than on the present winter. Quite apart from the recognition by the miners of their own best interests, the level of coal stocks both here and abroad would have made a miners' strike this winter inconvenient but bearable, particularly as it could not have taken place much before the end of the winter. Things may be very different in a year's time and the likelihood that 1983 will be a General Election year seems to me to point to the need for some contingency planning at this stage. The disruption of the railways has again been an inconvenience but is largely self-defeating in that it has demonstrated yet again the nation can manage without railways for relatively short periods.

Since I last wrote to you, there has been a measure of concern that the Monopolies Commission, in its understanding of the public interest, is moving steadily away from commercial matters to embrace the rather more political matter of sectional opinion. Despite my trade, I am no believer in mergers for the sake of size but it does seem to me that commercial issues should be judged on commercial grounds and not on what are fundamentally emotional reactions from people who quite often have no involvement themselves.

This week, developments in respect of Invergordon and De Lorean have demonstrated yet again that there is no such thing as job creation on a permanent basis when artificial and therefore temporary incentives are used to bolster operations which have no real prospect of long term viability. Since the War a great deal of money has been channelled from successful to unsuccessful activities in an attempt to reverse economic trends. There are always arguments of social policy that can be advanced in these cases, but the burdens imposed on the successful have nearly always outweighed the help given to the unsuccessful and on anything other than a short term view the social problems have remained undiminished.

As I explained at the beginning of this letter, I am no longer able to write on a weekly basis but I will do so whenever I can.

Yours sincerely,
John Sparrow.

The Rt. Hon. Mrs. Margaret Thatcher, M.P.,
10 Downing Street,
London, S.W.1.

cc. Professor Alan Walters
Adam Ridley, Esq.