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Centre for Banking and International Finance  
Director Professor Brian Griffiths

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The Rt. Hon. Margaret Thatcher MP  
Prime Minister  
10 Downing Street  
London SW1

Dear Prime Minister,

It has been several months since either of us have spoken to you. We have followed the progress of your policies with great interest however, and we continue to admire your courage in maintaining a firm stand in the face of opposition from many quarters.

Some of the progress we expected is now evident to all. Inflation has fallen markedly. Interest rates have been reduced. Private sector productivity has increased substantially. Industrial production shows signs of sustained recovery. Like yourself, we believe these achievements must become permanent.

In our conversation with responsible officials in the Civil Service and the Bank of England, we sense a decline in enthusiasm for implementing the medium-term strategy. The hard choices are not being made in budget policy, monetary policy or regulatory policies affecting productivity. We do not believe that your medium-term strategy will succeed unless there are some new major initiatives affecting the conduct of monetary and budget policies and also the 'supply' side of the economy. At this stage, we believe the problems are primarily political and not economic.

We see no evidence that senior officials of the Bank of England are firmly committed to the support of your policies. They remain hesitant and seem reluctant to introduce those procedural changes which, in our judgement, are necessary to prevent a resurgence of inflation.

We are convinced by experience here and abroad that resolution of these problems cannot be achieved until the management of the Bank of England includes persons committed to implementing your policies. To us, this means more than acceptance of your goals. It means a willingness to take those measures that are required to achieve the goals. We are particularly sceptical that periodic pressure from the Treasury, or from your own close advisers, will be sufficient to avoid a new surge of inflation.

The risks are particularly high now that a recovery is underway. Traditional Bank of England policies cause money growth to rise much too fast during periods of recovery. There is, at present, a very high probability that these traditional mistakes will be repeated. If so, fears of inflation will rise leading to high interest rates, a weak pound and more inflation in 1983-84.



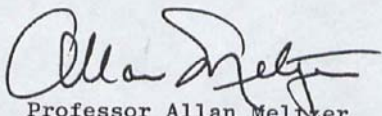
We applaud the present initiative to cut public spending in 1982-83 by 5-7% as an indication of the importance you place on controlling the size of the public sector. We believe that controlling the size of the public sector is far more important for economic growth and the revitalization of the economy than temporary changes in the size of the PSBR or tax reduction without reduction in expenditure. Tax cuts without expenditure cuts have little lasting value.

If the proposed expenditure cuts are made, they will provide room for a further major reduction in personal income taxes and corporation taxes before 1983-84. Tax and spending reduction are the principal means by which your government can encourage the increased saving and investment essential to your medium-term strategy.

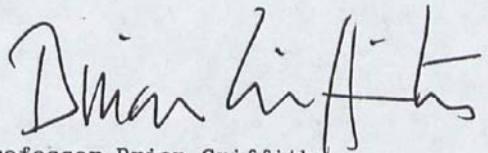
Here too, the main problems are political. The more discussion of expenditure cuts can be conducted outside the committees organized by senior Civil Servants, the greater is the chance of success.

We share your goals, are delighted at the progress that has been made and wish you every success for the future. We fear, however, that commitment to your programme has waned, and we wanted to share our concern with you.

Yours sincerely



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