FLETCHER, M.P.

15th June, 1981

Many thanks for your letter of 11th June.

I confirm that the Prime Minister is looking forward to seeing you in her room at the House immediately after the 7 p.m. vote on Wednesday, 17th June.

Ian Gow

A. Fletcher, Esq., M.P.

From: Alex. Fletcher, MP

HOUSE OF COMMONS
LONDON SWIA OAA

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FLETCHER, A.P.

Ian.
1900 on
Wed 17th June.
el. 11/6.

Dear Ian,

I have been in correspondence with the Prime Minister about incentives to boost economic recovery; Mike Pattison knows the background.

On Tuesday afternoon I mentioned to her that I wished to clarify some points and the purpose of this letter is to ask if you would kindly arrange for me to have a little time with her in the near future.

Yours ever

Alex.

DSG
c. A. Walters

10 DOWNING STREET

Alex FLETCHER MP

THE PRIME MINISTER

8 June 1981

PERSONAL

Dear Alex,

Thank you for your letter of 1 June, and for your thoughtful comments on methods of leading the economy out of the recession.

I only wish everyone could see the point which you demonstrate so cogently in your second paragraph. Those who draw analogies with the great slump of the 1930s and suggest that we should spend our way out of the present recession, are closing their eyes to reality. In the 1930s prices were falling, and quite sharply falling, in the years of the slump. Today we have a persistent inflation of the order of 10% or more. It is difficult to believe that any additional public spending, financed by increased monetary growth, would not find its way into simply increasing the rate of inflation, rather than in the expansion of output. This view is reinforced by the fact that in the 1930s the unemployment rate was never below 10% and even at the height of the recovery in 1937 the percentage unemployment was still 10.8% (then even Mr. Keynes remarked that unemployment had fallen so far that he was more worried about the prospects for inflation!). I believe, therefore, you are entirely right in rejecting an expansion of public spending, financed by additional money, as the engine of a recovery.

Your suggestion that we should subsidise industrial investment and finance it by the issue of a "North Sea Bond" is an interesting variation on other schemes of a similar kind. The question we must ask, however, is whether it would be at all

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different from a public subsidy to investment which is financed by gilt edged sales to the non bank private sector. I do not see that in any essential way your "North Sea Bonds" differ from gilt edged securities. Then they would compete for investible funds in the financial markets. Thus sales of these bonds, in addition to gilts, would mean that there is less finance for private investment generally (the so-called "crowding out" effect) and the rate of interest which would have to be offered to debt holders would tend to rise. I believe that these effects, both deleterious to private sector investment, would offset any benefit brought about by the subsidy. I cannot see how, with any debt instrument, whether it be North Sea Bond or gilt edged, one can avoid crowding out effects and interest rate increases.

As you know, our policy was to reduce the claims of the public sector on investible funds by reducing the public sector borrowing requirement. This is part of our medium-term financial strategy and was an essential objective of the Budget. Such measures will reduce interest rates and assist industry across the board. And at the same time it will prevent the crowding out of private sector investment, which has been such a feature of Britain over the past decades. The more the public sector takes, the less there is for private business. This is why we have put such an emphasis on the control of public spending. We want to reduce the tax burden, the interest charges and the local rate levies on industry to provide the stimulus for real sustained growth.

I agree that there have been enormous reforms in British industry. Management and productivity have been in many cases quite transformed and we are now in good shape to take advantage of world markets. And there are signs that economic activity in Britain has begun to turn. It is essential now that we hold fast to our policies so that we reap the rewards of these past two years and do not dissipate them in a surge of inflationary finance.

Yours ever,

M

Alex Fletcher, Esq., M.P.

From: Alex. Fletcher, MP

HOUSE OF COMMONS
LONDON SWIA OAA

1st June, 1981.

Dear Prime Minister,

At a meeting in No. 10 last month I raised the question as to how the economic recovery should be led. I would like to enlarge on what I had in mind.

I fully support our economic strategy with it's emphasis on the control of inflation and public expenditure. My concern is that the strategy alone, while laying the essential foundations, may not provide sufficient impetus for recovery within the political timescale of the next election. In the last fifty years recovery from recession has always been government inspired and led, and the country is accustomed to greatly increased spending on public works or rearmament as the signal. We cannot follow that course but we should leave no doubt in the public mind that we are actively leading the country out of recession. I would like to suggest one way this could be done without adding significantly to public expenditure, or the PSBR during the next few years.

You will recollect the hotel investment scheme about ten years ago which provided a substantial grant for each new bedroom constructed within a two/three year period. It may have been expensive but it certainly worked for it built and extended hotels throughout the UK. A similar short term scheme for industrial investment throughout the UK and additional to the assistance already available in development areas, could help to stimulate the recovery that is so eagerly awaited. The main public expenditure cost of such a scheme could be deferred by the issue of interest bearing "North Sea Oil Bonds" in lieu of cash grants and payable in four/five years' time when oil production should be at it's peak and the flow of revenue into the Treasury at its highest level.

These bonds would mean more to industry than a deferred payment of "Special Investment Grant", for they would provide a first class security for bank loans to help finance investment and if they were to bear interest at, say 5% per annum, this would help companies to meet the loan charges.

Assuming, for example, that the grant was introduced for two years at a rate of 20% and the bond issue was cash limited at £2,000 million, this would attract a total private sector investment of £10,000 million. The contra arguments are obvious: additionality, EEC regulations, hypothecation and so on, but these should be overcome by the need to give a much deserved boost to industry in the Assisted and Non Assisted Areas alike.

One final point: as a Minister, I visit a lot of industrial companies, something I have done all my working life, first as an accountant, then in the computer business, and later as a managing director of a manufacturing company. In my experience, British industry has never tried harder to put it's house in order and management has never been more determined to succeed. In productivity, marketing and exports a great many companies have crammed more change and innovation into the last two years than most of us would have thought possible in twenty. This is a great achievement and that is why I am most anxious to find a way to stimulate economic growth at a rate which will bring reward to industry and success to your Government at the next election.

Yours ever

Alex.

Rt Hon Margaret Thatcher, MP,
Prime Minister.