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that demand rose in only a few months? Mr Congdon misunderstands the causes of inflation, which are predominantly the pressure of demand for goods and services on the economy's ability to produce them, plus the external force of import prices.

In advocating fiscal and monetary restraint against a background of high unemployment, he is offering a recipe for economic and social disaster. Furthermore, his fear of a mass withdrawal from government bonds overlooks the fact that there are investors all over the world who will be attracted by the offer of higher rates of interest, possibly backed by index-linking.

Michael Kennedy, Manchester

Recipe for disaster

In his article on "resurrecting Thatcher's finances" (Marketplace, December), Tim Congdon maintains that after the 1980 budget "demand and output started to recover within a few months". This is blatantly false.

Real GDP fell in 1980 and 1981, but rose slightly in 1982, and not by enough to reduce unemployment. The rate of unemployment was 4.8 per cent in 1980, but rose to eight per cent in 1981, 9.5 per cent in 1982, and was above 10 per cent from 1983 to 1987. How can he possibly say

Tim Congdon replies:

Mr Kennedy has misread my column. My reference was clearly to the recovery in demand and output after the 1981 Budget.

In that Budget, taxes were raised by three per cent of GDP, provoking the 364 economists to write to *The Times* in protest.

Just like Mr Kennedy today, the 364 forecast that "economic and social disaster" would follow. They were wrong then and Mr Kennedy is wrong now. Strong and early action to reduce the budget deficit is essential.

In the next issue:

Jonathan Bate Frank Kermode and
E. M. Forster

Tibor Fischer The state of world
literature

Adam Zeman Left brain, Right brain

David Pryce-Jones Arthur Koestler

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