



10 DOWNING STREET

THE PRIME MINISTER

23 March, 1983

Dear Mr Wainwright

Thank you for your letter of 14 March.

I said I was a true Keynesian in order to distinguish my views from those many post-Keynesians who distort and traduce his teachings. Keynes was a vigorous and undying opponent of inflationary finance. He never believed that the structural problems of the United Kingdom could be solved by expanding money demand. In letters to The Times on 12, 13, and 14 January and 11 March 1937, Keynes pointed out that the rate of unemployment was at that time about 12½% of insured persons. He went on to argue that additional demand would not be paralleled by additional employment:

"... we are approaching, or have reached, the point where there is not much advantage in applying a further general stimulus at the centre," since "... the economic structure is unfortunately rigid".

He concluded that "there is a risk of what may fairly be called inflation".

And in that year indeed inflation was trivially low, probably less than 1%. Similarly in discussing government borrowing, he said "Just as it was advisable for the Government to incur debt during the slump, so for the same reasons it is now advisable that they should incline to the opposite policy".

/ Those letters

Those letters represented Keynes' mature view of the efficacy of general demand expansion, debt finance and the risks of inflation. I believe he was correct.

Yours sincerely
Margaret Thatcher

R.P. Wassell, Esq.