

24 April 1980

The Rt. Hon. Mrs.
Margaret Thatcher
10 Downing Street
London S.W.

Dear Madam,

Please read Arthur F. Burns' 1979 Per Jacobson lecture on "The Anguish of Central Banking", especially the final sentences of the central paragraph on p.15 where this ex-governor of the Federal Reserve Board maintains that at any time during the last fifteen years the Federal Reserve system "could have restricted the money supply and created sufficient strains in financial and industrial markets to terminate inflation with little delay."

This confession of one of the most experienced and knowledgeable living central bankers that only political problems prevented him from doing so strengthen my conviction that politically it can be carried out only by an instantaneous act and not gradually, which because of the incident misery no government could last out. I believe that the trade union problem must be cleared up first, but this very sequence makes it so urgent that nothing short of a referendum authorising Parliament to deprive the trade unions of all special privileges would seem to give you still time to carry through the monetary reform, for which all the preparations should be made now. I am increasingly inclined to believe ~~lieve~~ that this can be done only by covering the budget deficit for the first year (or two) by a loan in a new, indexed "standard" unit (which might ultimately become the unit of currency, and to charge the Bank of England from this moment with the sole task of so regulating the supply of basic money as to keep its purchasing power constant.

With profound respect, sincerely

F.A. Hayek