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Reaffirming the Influence of Milton Friedman on U.K. Economic Policy

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Abstract

This paper finds a significant influence of Milton Friedman on U.K. economic policy from the 1970s onward, and especially during the period of the Thatcher Government. The finding is based on a consideration of statements by policymakers and key economic advisers, as well as an analysis of Friedman's commentary in the 1970s, 1980s, and 1990s on U.K. economic developments. It is shown that explicit acknowledgments of Friedman's influence were given on the record over the years by Margaret Thatcher, Chancellor of the Exchequer Geoffrey Howe, Bank of England officials, and others in policy circles. Examples of Friedman's influence include the absorption into U.K. policy doctrine of the permanent income hypothesis and the natural rate hypothesis, the rejection from 1979 onward of incomes policy as a weapon against inflation, and U.K. officials' repeated appeals to monetary sovereignty when arguing against monetary union or a sterling peg. Evidence of influence by Friedman on privatization policy and on the official perspective on the current account deficit can also be discerned.

Friedman had only limited personal interaction with U.K. policymakers, but his influence was felt in the adoption into actual U.K. policymaking of recommendations made in his writings and in the fact that those writings—which were studied closely by a number of senior U.K. economic advisers—helped alter economists' conceptual framework in the United Kingdom and thereby fostered doctrinal changes in U.K. economic policy. The analysis in this paper also shows that two key critics of the Conservative party's economic policy under Margaret Thatcher—Labour's Harold Wilson and the Conservatives' Edward Heath—had good reason to ascribe this policy partly to the influence of Friedman, whom each of them had met before the Thatcher era.

Key Words: Milton Friedman, U.K. economic policy, incomes policy, monetarism, Thatcher Government, doctrine of economic policy.

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1. Introduction

Many accounts of how economic policy has evolved in the United Kingdom in the last five decades have attributed a considerable amount of influence to the work of Milton Friedman in the development of policymakers' doctrine and strategy. One official acknowledgment on this score came in the early 2000s with the appearance of the U.K. Treasury's book *Reforming Britain's Economic and Financial Policy*, which stated that "the economics profession owes a debt of gratitude towards Milton Friedman, one of the great U.S. postwar economists" (HM Treasury, 2002, p. 30). This Treasury discussion specifically credited to Friedman two concepts that are embedded in the formation of modern U.K. economic policymaking: the permanent income hypothesis and the proposition that there is no long-run tradeoff between inflation and unemployment. In addition to these items, other features of modern U.K. official thinking on the economy that many would closely associate with Friedman—on account of his advocacy of these features in his writings and other statements—include the merits of floating exchange rates, the importance of the distinction between nominal and real interest rates, and the conviction that inflation is a monetary phenomenon.

On the above interpretation, therefore, numerous elements of Friedman's analysis have proved influential for U.K. economic-policy formation and are embedded in the approach to policymaking that has prevailed in the era of inflation targeting.

Friedman's influence on U.K. economic policy can, consequently, be viewed as having endured to the present day in several important respects. However, Friedman's influence is also regarded as having been *particularly* strong during the era of the Thatcher Government (1979 to 1990). On the issues of the role of government in the economy and of microeconomic policy, many of the initiatives taken by the Thatcher Government had parallels with specific positions Friedman had taken. But it is in the area of *macroeconomic* policy that Friedman's imprint on the Thatcher Government might well be regarded as especially important, and it is on this area that the present paper will focus.[1]

The procedure of announced targets for the growth rate of a monetary aggregate was begun by the Labour Callaghan Government in 1976. Furthermore, neither the Callaghan Government nor

[1] The principal exception made will be in the case of privatization (covered in Section 6.4 below). The Thatcher Government's privatization program would likely be regarded as a microeconomic reform or one at the intersection of microeconomics and macroeconomics. Friedman's views on labor-market reform and laws concerning unions will not be discussed here, although his positions on the matter are covered in Nelson (2017, Chapter 14).

the Thatcher Government embraced the monetary-base-control method that Friedman advocated for the pursuit of monetary targets. But, unlike the Callaghan Government, the Thatcher Government pursued monetary targets (initially for the growth in broad money, with the emphasis shifting to base-money-growth targets in its second term), *not* in conjunction with attempts to influence wages and prices directly, but as the *central* means of achieving disinflation. The Thatcher Government's embrace of the notion that monetary policy could serve as a sufficient device for the control of inflation marked that government out from its predecessors and also constituted an area of alignment with Friedman's framework. Furthermore, this is a notion to which U.K. policymakers have continued to subscribe in the last three decades even as they have departed from Friedman's prescription of monetary targeting.

In light of the Thatcher Government's endorsement of this notion, and the same government's strong emphasis in its early years on monetary targeting, it is not surprising to find that many U.K. commentators have linked Friedman and the Thatcher Government, and that they have done so especially with regard to its outlook during its first term (May 1979 to June 1983). In this connection, a retrospective by the London newspaper *Independent on Sunday* (July 26, 1992) noted that Friedman was "unfailingly associated with the early Thatcher years." [2]

This perception was also reflected in commentary that appeared during the Thatcher era. One example comes from financial commentary: the Summer 1979 issue of the U.K. commercial-bank periodical *Midland Bank Review*, which appeared shortly after the Thatcher Government assumed office, observed that the government, in contrast to the previous Conservative government of 1970–1974, had embraced Friedman's lines of thought. Commentaries in the U.K. press during the first half of the 1980s contained many similar observations. For example, an article on Friedman that appeared in the London *Daily Express* newspaper (August 6, 1980) stated that he had "exerted an enormous influence on the policies of the Thatcher Government." In addition, a producer for a 1981 BBC television program on the Thatcher Government observed: "We talked to many people involved in the evolution of Tory policy after the election defeats of 1974… The seminal influence of Professors Hayek and Friedman was acknowledged by nearly all…" (*The Listener*, March 26, 1981.) And a columnist in the London *Sunday*

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[2] In what follows, media quotations that appeared in the author's prior papers on Friedman and on U.K. economic policy, including Nelson (2005, 2009a, 2009b), are referenced by citing those papers, which contain detailed bibliographical listings for the media items. Bibliographical details for the remaining media items quoted below are listed in Section A of the bibliography of this paper.

Telegraph (May, 11, 1984) observed with regard to economic matters: "Nobody can possibly deny the vast debt Mrs. Thatcher owes to Milton Friedman…"[3]

In the same vein, many economic researchers based in the United Kingdom have traced the positions of the Thatcher Government or of Prime Minister Thatcher herself to Friedman's work. For example, Burton (1982, p. 296) identified the "works of Milton Friedman" as part of the intellectual roots of "Thatcherism." Bean and Symons (1989, p. 13) observed with regard to Thatcher: "Her favorite economist was Adam Smith with a respectful nod to Milton Friedman…" And on the issue of whether the Thatcher Government's macroeconomic approach is more appropriately attributed to the influence of Hayek or Friedman, Tim Congdon has argued (*Times Literary Supplement*, March 2, 2012): "The monetarist strain in Thatcherism came, above all, from Milton Friedman…" A number of biographies of Thatcher have likewise endorsed the assessment that Friedman was an important influence on her economic views.[4]

Many writers based in other countries have echoed the observation that Friedman was an important influence on Thatcher and the Thatcher Government. One early U.S. commentary to this effect was an August 1979 newspaper piece that stated that the members of the new U.K. government "find inspiration in Milton Friedman's economic theories." (*San Jose Mercury News*, August 20, 1979.) Similarly, numerous U.S.-based economic researchers have characterized Thatcher or key personnel of her government (in the ministry or in senior advisory

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[3] Numerous other examples from the U.K. media could be cited. For example, the London *Daily Mirror* (February 29, 1980) observed of Friedman: "His philosophy dominates present government thinking." A profile of Friedman in the *Glasgow Herald* (July 30, 1982) stated that the Thatcher Government's economic policies were "derived from his monetarist theories." In introducing a 1982 television interview with Friedman, a BBC presenter described Friedman as "the father of monetarism, the economic theory which dominates government policy in both Britain and America." (*American Attitudes*, BBC1, February 16, 1982, p. 2 of transcript.) A later television interview with Friedman was introduced as follows: "Professor Friedman's thinking, indeed, has shaped much of Mrs. Thatcher's economic strategy." (*Saturday Briefing*, BBC2, March 12, 1983, p. 1 of transcript.)

[4] This is so both in the case of extensively documented "high-brow" biographies of Thatcher and more "low-brow" biographies. In the former category, Campbell (2000, p. 374) credited Friedman with having "influenced Mrs. Thatcher far more powerfully" than some other figures cited as influential on her; in Campbell's estimation, the influence of Friedman on Thatcher spanned not only topics closely associated with Friedman but also areas such as foreign aid (Campbell, 2003, p. 339). Among more "low-brow" accounts of Thatcher's life is the text for a "coffee-table" book on Thatcher, which includes the statement (Gover, 2009, p. 38) that "her beliefs were marked by a firm adherence to the monetarist principles set out by Milton Friedman."

In addition, in one reference work that reflected on the early Thatcher years, it was stated (Cook, 1984, p. G28): "The new [U.K.] government came into office committed to a monetarist approach to economic policy; several of its leading members declared themselves converts, to a greater or lesser extent, to the teachings of Professor Friedman…" Although the term "converts" is problematic—as discussed below, U.K. politicians were and are very unlikely to describe themselves as converts to the teachings of an academic—the statement can be defended as basically valid because of the sizable number of figures in the Thatcher Government who in the early 1980s publicly identified themselves as monetarists. In addition, as discussed in Section 3 below, a number did specifically identify Friedman as the leader of monetarism or as an influence on themselves.

positions) as having been influenced to a significant degree by Friedman's work. For example, Krugman (1994, p. 173) stated that "Margaret Thatcher… was surrounded by men who had really been convinced by Milton Friedman." And Shleifer (2009, p. 123) included Thatcher among a number of heads of government coming on the scene in the late 1970s and early 1980s who "professed inspiration from the work of Milton Friedman." A similar judgment was expressed in a booklet on Friedman published in Australia in 1981, which stated: "The policies of President Reagan and of Prime Minister Thatcher reflect heavily the economic philosophies which he expounds." (Committee for Economic Development of Australia, 1981, p. 1.)

The suggestion of a considerable influence of Friedman on U.K. economic policy has received support in the present author's work both on Friedman's economic framework and on U.K. economic policy. To be sure, a rigid mapping between Friedman's views and U.K. economic policy was never present; and his personal role in, and knowledge of, U.K. economic policy were never very extensive. But several Friedman tenets have found their way into U.K. economic policymaking. Most important of them is that already mentioned: the eschewing of incomes policy as a tool against inflation and its replacement by an approach that made monetary policy the key means of controlling inflation. The transformation of U.K. economic policy implied by this change has been analyzed in detail in Nelson and Nikolov (2004), Nelson (2005, 2009b) and Batini and Nelson (2005), and its link with Friedman's work has been stressed particularly by Nelson and Schwartz (2008) and Nelson (2009a, 2009c)—with additional evidence on this score appearing later in the present paper. Further enduring instances of Friedman's influence were also given earlier, among them the rejection of a long-run Phillips-curve tradeoff and the emphasis on the real/nominal interest-rate distinction.[5] In addition, Batini and Nelson (2001) have noted that the proposition that monetary policy exerts its main effect on inflation with a lag of about two years—a rule of thumb prevalent in policy circles in the United Kingdom under both monetary targeting and inflation targeting—can be traced to Friedman's (1972a) work. Evidence provided in Nelson (2009a, 2009b) has also been supportive of the notion that the Thatcher Government in particular was influenced by Friedman's work.

In sum, there is a considerable body of work in favor of the contention that Friedman was influential on U.K. economic policy.

[5] Although it is now regarded as commonplace, the Fisherian distinction between real and nominal interest rates really only became standard in postwar monetary analysis after it was stressed by Friedman and his students and coauthors. See Nelson (2017, Chapters 6 and 12) for a detailed discussion.

A contrary position has, however, been taken by Forder (2016). Forder argues that Friedman "had no special influence" on U.K. economic policy (Forder, 2016, p. 1), either during the Thatcher years, or in other periods, such as that of the Callaghan Government.

The title of Forder's paper is "Friedman's Lack of Influence on British Economic Policy." The title of Nelson (2009a) was "Milton Friedman and U.K. Economic Policy: 1938−1979." From the comparison of titles, one might infer that there is a considerable overlap in subject matter across the two papers. And indeed there is. No prior paper was closer in subject matter to Forder's than Nelson (2009a). Although Nelson (2009a) covered only the period through 1979, it is the case that much of Forder's (2016) narrative pertains to the period up to the early Thatcher years, so the two papers are concerned to a considerable extent with the same time frame. Consistent with this, many of the specific topics covered in Forder (2016), including Friedman's warnings in the mid-1970s that U.K. democracy might be in jeopardy, the denial by certain key U.K. politicians that their economic thinking was influenced by Friedman, and the celebrity status that Friedman acquired in the United Kingdom, were covered previously in Nelson (2009a).[6]

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[6] Details of some of the overlapping items include the following:
(i) Nelson (2009a, pp. 84–85, 94–96) discussed Friedman's calls in the mid-1970s for a reduction in the U.K. government's role in the economy and the argument that he advanced that the democratic structure of the United Kingdom was under threat from the size of its public sector. The discussion of that episode emphasized the controversy that Friedman's interventions aroused and the backlash they triggered—a backlash that included descriptions in *The Guardian* newspaper of Friedman as the "Chicago Charlatan" and a "cantankerous old bigot," a reference by Chancellor of the Exchequer (Denis Healey) in Parliament to the characterization of U.K. affairs "ignorantly presented by Professor Milton Friedman," and an exchange of open letters between Friedman and Samuel Brittan in the *Financial Times*. Forder (2016, pp. 12, 14−16) discusses the same episode; his discussion includes the three quotations just given and a mention of the Friedman/Brittan exchange. Among the differences between the two discussions is that Nelson acknowledged that Friedman's contention concerning the size of the U.K. public sector had been discussed previously in the economic-research literature (such as in Tomlinson, 1990), while Forder presents the controversy as though it had never been previously considered in the research literature prior to his paper.
(ii) Nelson (2009a, pp. 73, 102) discussed the denial on the part of politicians Keith Joseph and Enoch Powell that their monetarist positions stemmed in a significant way from Friedman's work. Forder (2016, pp. 11, 17) also discusses the denials by Joseph and Powell on this score. Among the differences between the two accounts is that Forder takes such denials at face value. Another difference is that Forder describes Powell as a Conservative parliamentarian in 1978, while he is not so described by Nelson (Powell left the Conservative party in 1974).
(iii) Nelson (2009a, pp. 1, 84) discussed the celebrity status that Friedman acquired in the United Kingdom. Forder (2016, pp. 13−14) also points to Friedman's celebrity status in the United Kingdom. However, what Forder suggests as the best example of Friedman's celebrity status is an advertisement in the *Financial Times* that mentioned Friedman. This cannot possibly be the best example of Friedman's celebrity status, as the *Financial Times* is not a general-interest publication but instead a specialized business/financial publication; consequently, its advertisers would be conscious that name recognition concerning Friedman was greater among the *Financial Times* readership than among the broader public. Discussions—such as those cited in Nelson (2009a)—of Friedman that appeared in mass-circulation general-readership U.K. newspapers provide better examples of Friedman's celebrity status in the United Kingdom.

In view of the common subject matter, it is natural to expect Forder's paper to have included a comparison with the prior paper's account of the same topics. However, such a comparison of the two papers does not appear in Forder (2016). Unfortunately, Forder's (2016) discussion of Nelson (2009a) instead gives the incorrect impression that the latter paper was a bibliographical study that simply provided a list of U.K. press articles on Friedman—a characterization that greatly downplays the relevance of Nelson's (2009a) discussion for the topics considered in Forder's article and that also obscures the fact that Nelson (2009a) was an analytical narrative of Friedman and U.K. economic policy. This characterization was reinforced by Forder's implications that "the existing literature" on Friedman and the United Kingdom did not include Nelson (2009a) (Forder, 2016, p. 18) and that a "closer inspection" of press coverage of Friedman than that in Parsons (1989) did not occur until Forder's paper (Forder, 2016, p. 12). The latter statement was made even though a good number of the press articles referred to by Forder (2016) were analyzed in Nelson (2009a), and in more than one instance quotations from those articles appearing in Forder (2016) were previously provided in Nelson (2009a).

Notwithstanding the fact that the matters under discussion in Forder (2016) have important overlaps with those in Nelson (2009a), it remains true that Forder's (2016) bottom line is very different from that in Nelson (2009a) and from the conventional wisdom that was reflected in many of the quotations given above. For, as indicated above, Forder contends that Friedman was not influential on U.K. economic policy, and in particular that there was no "specific influence from Friedman on Thatcher" (Forder, 2016, p. 2). In light of this challenge to the conventional wisdom, it is therefore of interest to ascertain whether there was a significant influence of Milton Friedman on U.K. economic policy, especially during the period of the Thatcher Government.

The present paper carries out an analysis of this matter and confirms a significant influence of Friedman on U.K. economic policy—an influence that started in earnest in the 1970s (after a brief earlier period of influence in the late 1950s) and that endures in a number of features of modern U.K. economic-policy doctrine, and an influence that was especially large during the Thatcher years. This finding is based on a consideration of statements by policymakers and key economic advisers, as well as an analysis of Friedman's commentary in the 1970s, 1980s, and 1990s on U.K. economic developments.

This paper therefore represents an extension of Nelson's (2009a) analysis of Friedman and U.K. economic policy to the post-1979 period. In addition, for the Thatcher period specifically, a contribution of this paper is to cover all three terms of the Thatcher Government. As the 1992 *Independent on Sunday* quotation given above indicates, the association of Friedman with the

Thatcher Government pertained especially to its early years, and Friedman supplied numerous commentaries on the U.K. economy during Thatcher's first term. Conversely, it has been noted on a number of occasions that Friedman's profile in U.K. economic discourse in the Thatcher Government's second term (June 1983–June 1987) was much lower, whether measured by his own interventions or by references to him by others.[7] Nevertheless, it is possible, via a detailed consideration of Friedman's writings and public statements during Thatcher's second term and her final term (June 1987–November 1990), to find Friedman commentaries on U.K. developments in every year of those terms, and those commentaries are analyzed in this paper.

The analysis of the later Thatcher years provided below forms part of this paper's assessment of Friedman's influence on U.K. economic policy in the later Thatcher terms and the post-Thatcher era. It is found that several aspects of Friedman's influence on U.K. economic policy transcended both the early Thatcher years and the era of monetary targeting. These included his cases for privatization and floating exchange rates, his perspective on the current account deficit, and a number of elements of his monetary analysis given above, most centrally his insistence that monetary policy is at the heart of the analysis and control of inflation.

These findings contradict those of Forder (2016). It is found in the analysis below that Forder's contrary conclusions about Friedman's influence come from neglecting important pieces of evidence. Forder's (2016, p. 21) statement that "[n]owhere is there a record of his influencing her [Thatcher], and neither Thatcher nor her supporters in the government say he did" is not correct. Documentation will be provided in the discussion below of direct counterexamples to this statement—including Thatcher's remark, "We had learned at Milton Friedman's knee that inflation is a monetary phenomenon," and her first Chancellor of the Exchequer, Geoffrey Howe, observing of Friedman that "I admire him enormously" and stating that "I'm a man of commonsense and reasonable determination taking advice, a great deal of it from Professor Friedman." The important influence of Friedman's work on the monetary thinking on key economic advisers in the Thatcher era, especially Alan Walters and Brian Griffiths, is also documented below.

In the case of Margaret Thatcher specifically, Forder (2016) acknowledges that a passage in one of Thatcher's volumes of memoirs (that is, Thatcher, 1995), explicitly confirmed that she had

[7] For example, a newspaper columnist noted in 1986 of Friedman: "In recent years, the arid guru has scarcely earned a mention." (*Daily Express*, November 10, 1986.) Along similar lines, Maddox (2003, p. 184) observed that by late 1986 "[l]ittle was heard" of Friedman in U.K. economic debate. See also Nelson's (2009a, p. 1) assessment that Friedman's fame in the United Kingdom was well past its peak by the early twenty-first century.

read Friedman's work. But Forder interprets Thatcher as saying that she had already formed her views on economics prior to this reading of Friedman. However, this interpretation is vitiated by two other passages in Thatcher (1995) in which Thatcher acknowledged that her thinking about inflation did not converge to the monetary interpretation of inflation until the 1970s, when she became much more familiar with the monetarist counterrevolution led by Friedman. Furthermore, a companion volume to Thatcher (1995) contained an explicit acknowledgment by Thatcher, quoted above, that it was from Friedman's analysis that she obtained the insight that inflation was a monetary phenomenon. It will also be shown below that Thatcher and Friedman did converse directly on monetary matters, including the control of inflation, prior to her becoming Prime Minister, although it will emphasized that it was via his writings rather than face-to-face-meetings that Friedman primarily influenced U.K. economic policy, including during the Thatcher era.

As Thatcher was influenced by Friedman, Forder's (2016) conjecture that the claim of the existence of such an influence was an *ex post* interpretation—one that he views as having been started by backbench Labour members of Parliament around 1976 and thereafter becoming widespread—is incorrect. It is a conjecture that is further refuted by the fact that the (correct) conclusion that Thatcher was influenced by Friedman's ideas was already being made in 1975 by key figures in U.K. politics who were outside the Labour Left, including Labour's Harold Wilson and the Conservatives' Edward Heath, both of whom had met Friedman before Thatcher became Conservative party leader.

In the case of periods outside the early Thatcher years, a number of Forder's claims of a lack of influence of Friedman reflect factual errors. One example of these is Forder's (2016, p. 3) implication that the adoption of targets for monetary growth in the United Kingdom in 1976 did not reflect Friedman's influence. This position rests on the misconception that monetary targeting was imposed on the United Kingdom by the International Monetary Fund (IMF). Another example of a factual error is Forder's (2016, p. 5) claim that Friedman had no participation in the debate about whether the United Kingdom should be a member of the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS). In fact, Friedman published articles about the ERM in the U.K. and world media, and Friedman's case for floating exchange rates was explicitly cited during the debate by a leading opponent of ERM membership, Alan Walters.

The rest of this paper is organized as follows. Section 2 lays out five basic points on the connection between Friedman and U.K. economic policy. In Section 3, the acknowledgments of

Friedman's influence by Margaret Thatcher and key ministers and economic advisers are presented. In Section 4, Friedman's influence on pre-1979 U.K. economic policy is analyzed. Sections 5 and 6 then revisit post-1979 developments: Section 5 considers Friedman's largest impact on post-1979 economic policy—which was the permanent shift to the use of monetary policy as the key anti-inflation weapon—while Section 6 considers the Thatcher years in detail and their connections to Friedman's economics. Section 7 provides some concluding remarks.

Before proceeding, it is useful to make two clarifications. First, in view of the frequent references to them in what follows, several U.K. politicians who featured prominently in debates on economic policy during the 1970s and 1980s are listed in Table 1, together with some of the major positions that they held.[8]

Second, it is worth stating explicitly the point that, in the discussion below, "monetarism" will be used as a macroeconomic term referring to propositions about the relationships between the money stock and key economic aggregates as well as the implications that these propositions have about the role of monetary policy. It will not be used to refer to Friedman's views on the desirability of free-market arrangements.[9] Although there will be some occasion to refer to these latter views below, they will not be treated as being part of monetarism.

2. Friedman and U.K. economic policy: five major points

In this section, five major points relating the analysis of Friedman and U.K. economic policy are set out. An appreciation of these points provides an understanding of the way in which Friedman's influence can be ascertained.

The first point is that, as stressed at the outset in Nelson (2009a, p. 1), Friedman was not an expert on the U.K. economy. Nor did he claim to be; on the contrary, he was explicit that he was not. Friedman did not follow developments in U.K. economic data on a close and regular basis, and he provided commentary on U.K. economic developments only sporadically.

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[8] Although only the tenures as Shadow Chancellor of Healey and Howe are given in Table 1, all of the figures named in the table held various posts related to economic-policy formation during some of the periods in which their parties were in opposition instead of in government.

[9] The permanent income hypothesis, although it was an essential part of Friedman's macroeconomic framework, will be identified specifically in the discussion below rather than being considered to be automatically under the heading of monetarism. Likewise, rather than taking the natural rate hypothesis as automatically part of monetarism, the analysis that follows will explicitly indicate when that hypothesis is being considered.

Table 1. Selected leading figures in U.K. economic policy in the 1970s and 1980s	
Individual	Selected positions
James Callaghan (1912–2005)	Chancellor of the Exchequer, 1964–1967; Prime Minister, 1976–1979; Leader of the Opposition, 1979–1980; leader of the Labour party, 1976–1980
Denis Healey (1917–2015)	Shadow Chancellor of the Exchequer, 1972–1974 and 1979–1980; Chancellor of the Exchequer, 1974–1979
Edward Heath (1916–2005)	Leader of the Opposition, 1965–1970 and 1974–1975; Prime Minister, 1970–1974; leader of the Conservative party, 1965–1975
Geoffrey Howe (1926–2015)	Shadow Chancellor of the Exchequer, 1975–1979; Chancellor of the Exchequer, 1979–1983
Nigel Lawson (born 1932)	Financial Secretary to the Treasury, 1979–1981; Chancellor of the Exchequer, 1983–1989
Margaret Thatcher (1925–2013)	Leader of the Opposition, 1975–1979; Prime Minister, 1979–1990; leader of the Conservative party, 1975–1990
Harold Wilson (1916–1995)	Leader of the Opposition, 1963–1964 and 1970–1974; Prime Minister, 1964–1970 and 1974–1976; leader of the Labour party, 1963–1976

Second, although, as discussed in Nelson (2017, Chapter 14), Friedman paid more attention to developments in the United Kingdom than to those in many other parts of the world (such as Continental Europe), and he described himself as "very greatly interested in what happens in Great Britain" (Friedman, 1983a, p. 15), he devoted little of his own research time to the U.K. experience. The major exception to this pattern was found in his and Anna Schwartz's inclusion of U.K. data in their 1982 study *Monetary Trends* (Friedman and Schwartz, 1982). Friedman occasionally referred during the 1960s and 1970s to results flowing from the ongoing *Monetary Trends* project, and he used the then-near-complete *Monetary Trends* as part of the basis for policy prescriptions that he made for the United Kingdom in Friedman (1980).[10] It is nevertheless the case that Friedman did not personally participate very heavily in the discussions of U.K. monetary relations that took place in research journals and conferences in the 1960s and 1970s. But he nevertheless figured heavily in those discussions. For, very importantly, his work on the United States inspired others in these decades to conduct parallel studies using U.K.

[10] On these pre-1982 discussions, see Nelson (2009a, pp. 63, 87; 2017, Chapter 2, Section III).

data—including a key figure at the intersection of policy and research, Alan Walters, whose role will be considered at several later stages of the discussion.

Third, Samuel Brittan (for example, in *Financial Times*, March 11, 1982, and in Brittan, 2005, p. 298) has correctly stressed that the connection between Friedman and Margaret Thatcher was often exaggerated by commentators, and that is incorrect to suppose that they had heavy personal interaction or that there was a very rigid connection between Thatcher policies and Friedman views. Friedman himself alluded to both these mischaracterizations when in 1981 he remarked on the incongruity of being held "responsible for the serious problems of Thatcher's government because I once had dinner with Mrs. Thatcher."[11] It is well established that Friedman's meetings with Thatcher during her time as a politician were few. Their meetings included one in London in 1978, while Thatcher was Leader of the Opposition.[12] Although several accounts (including Moore, 2013, p. 351, and Forder, 2016, p. 5) have focused on the coverage of the foreign-exchange market in their conversation, the same conversation, by Friedman's own account, also covered domestic monetary-policy issues, including the link between monetary growth and inflation (Stephenson, 1980, p. 45; Whitehead, 1985, p. 331). Friedman subsequently visited her as Prime Minister at 10 Downing Street on February 27, 1980. In the considerable media coverage that this meeting received, it was initially given as being an hour in length (*Daily Telegraph*, February 28, 1980), but in actuality Thatcher's attendance was limited to listening to, and endorsing, Friedman's opening remarks (Moore, 2013, p. 523).[13] The brevity of her attendance would be affirmed in Friedman's much later recollection that the main substance of the meeting consisted of the discussion he had with government figures after Thatcher had departed (Friedman and Friedman, 1998, p. 566).[14] In another visit to London during Thatcher's

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[11] In Friedman, Porter, Gruen, and Stammer (1981, p. 23).

[12] This meeting (which corresponded to the dinner mentioned in the 1981 Friedman remark quoted above) was referred to in Nelson (2009a, p. 103) on the basis of the account in Campbell's (2000, p. 372) biography of Thatcher. Campbell suggested that the meeting was around 1978, while some earlier accounts that appeared of this meeting gave it as in 1977 (Stephenson, 1980, p. 45) or before Thatcher was elected Conservative party leader (Whitehead, 1985, p. 331). However, the account in Thatcher's authorized biography, Moore (2013, p. 351), has confirmed the date of the meeting as 1978 (albeit taking place around November, not the April date suggested in Nelson, 2009a).

[13] In a parliamentary debate the day after the meeting, Leader of the Opposition James Callaghan commented mockingly that he was "thankful that the Prime Minister was able to spend only a short time yesterday with Professor Milton Friedman." (*House of Commons Debates*, February 28, 1980, p. 1587.) Although Forder (2016, pp. 6–7) emphasizes the brevity of this Thatcher-Friedman meeting, the fact that it included her endorsement of Friedman's remarks does support the association between Friedman's and Thatcher's views that Callaghan stressed.

[14] This precision is itself somewhat surprising because, as noted with regard to several matters in Nelson (2017), Friedman's recollection (whether in interviews or in his memoirs) during the 1990s and 2000s of prior decades' events was often vague, especially when it came to names and dates. Forder's (2016, p. 8) use of the criterion, in evaluating Friedman's influence on U.K. economic policy in the early 1980s, that Friedman be able to recall in the late 1990s the names of specific Thatcher Government ministers, is therefore not apposite. Friedman clearly was able to give their names in his contemporaneous accounts: see, for example, his statement in Friedman (1981a, p. 17) that "I have a great deal of respect [for] and confidence in Margaret Thatcher, Geoffrey Howe, Keith Joseph…"

first term, Friedman did not see Thatcher, who was visiting the Far East, but he did meet with her economic adviser, Alan Walters (*The Observer*, September 26, 1982).[15]

The mentions of Walters in the preceding two points brings us to the fourth point: the influence of Friedman on U.K. economic policy was predominantly indirect in nature—one that occurred via the influence his writings had on politicians and, especially, on their advisers, rather than in the form of direct personal advice from Friedman to U.K. officials. It is not, in fact, a matter of dispute that Margaret Thatcher read works by Friedman: that fact—already hinted at in her 1977 remark (see below) that she would like to talk to Friedman—was confirmed in Thatcher (1995, p. 567) as well as by Moore's (2013, p. 343) examination of her annotated papers. In addition, those close to Thatcher during her time as Leader of the Opposition in the 1970s confirmed her interest in Friedman's writings. Specifically, Alfred Sherman of the Centre for Policy Studies stated that "Margaret turned to Hayek and Friedman" (quoted in Ranelagh, 1991, p. 182) and Christopher Patten, who was a Conservative party staffer during the 1970s, recalled that she would keep quotations from Friedman and other writers in her handbag (Maddox, 2003, p. 174). However, academic economists involved in U.K. economic-policy advice, such as Alan Walters, Brian Griffiths, and Patrick Minford in the Thatcher era, and Lionel Robbins in an earlier era, were far more steeped in Friedman's writings.[16] And it is the channel running from Friedman's writings to these advisers' positions to actual U.K. economic policy that provides an important indirect influence of Friedman on U.K. economic policy, one documented extensively below.

Fifth, on key dimensions, Thatcher Government economic policy did line up with Friedman's views. As indicated in the Brittan writings mentioned above, there were certainly numerous differences between the Thatcher Government's policies and Friedman's recommendations.[17] These were apparent almost from the outset with Friedman's public criticism (in *Newsweek*, July 9, 1979) of the Thatcher Government's increase in Value Added Tax (VAT). Consequently, within six months of Thatcher taking office the London *Daily Telegraph* could editorialize (October 12, 1979): "As for compromise, ask any disciple of Milton Friedman how much of the

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[15] Their meetings during this visit included a lunch on September 20, 1982. See Walters' record of the meeting at: *http://www.margaretthatcher.org/document/144366*

[16] For the period from 1997 onward, when several officials at the Bank of England formally became policymakers owing to their membership of the Monetary Policy Committee (MPC) and the advent of Bank of England independence, it becomes more legitimate to see, in some cases, a direct influence of Friedman's work on policymakers' views, instead of an influence operating indirectly via advisers.

[17] Others, like Brittan, correctly warned against exaggerating the linkage between the Thatcher Government and Friedman. For example, a book review in the *Financial Times* (February 25, 1982) by Richard Henderson took strong issue with the hyperbolic claim in Pollard (1982, p. 166) that Thatcher Government members "follow faithfully the advice given by the 'monetarists' led by the American economist Milton Friedman" (Pollard, 1982, p. 166).

government economic policy is in line with the pure word of monetarism..." In 1980, the differences became manifest again in Friedman's public criticism (especially in Friedman, 1980) of the government's continued adherence to interest-rate- and fiscal-policy-based methods of monetary-aggregate targeting, instead of his preferred method of monetary base control. Indeed, the critique of Friedman (1980)—first made public in *The Observer* of July 6, 1980—would be repeatedly noted in the monetary-policy literature of the 1980s and 1990s (see, for example, Miller, 1981; Bean and Symons, 1989, p. 18; Congdon, 1992, p. 215).[18]

But these differences should not obscure important areas of agreement. Friedman himself acknowledged this early in the government's life when he suggested that it was desirable that, in seeking ideas for U.S. economic policy, the U.S. president "might ask Margaret Thatcher" (*Newsweek*, June 18, 1979).[19] He later elaborated: "Obviously I'm in no position over here to follow the day-to-day details of [U.K.] government policy. But I do applaud wholeheartedly the main lines of that policy." (*David Frost's New Year Special, We've Seen the Future*, Yorkshire Television, January 1, 1980.) Indeed, an important reason why the U.K. media and the research literature found the differences between Friedman and the Thatcher Government worth discussing was the very fact that Friedman's views had played an important role in forming the Thatcher Government's conceptual framework. These views included microeconomic positions on the connection between regulation and national economic performance. But they also included the crucial conclusion advanced by Friedman, already mentioned in Section 1 and discussed in detail in Sections 3 and 5 below, that inflation was a monetary phenomenon whose control was to be found in monetary-policy measures and not in direct intervention in the wage- and price-setting process.

The above are the five key points that need to be kept in mind when considering Friedman's influence. The third and fourth points underpin the conclusion documented below that Friedman was an influence on Margaret Thatcher and her government. Prior to turning to direct evidence on this matter, it is worth considering the position taken by Sir Keith Joseph. Joseph, like Thatcher, served in the 1970–1974 Heath Conservative government. After that government left office, Joseph became a critic of its economic policy, making use of monetarist arguments in doing so. Yet Joseph stated in September 1974 of Friedman: "the evolution of my views owes

[18] It has also been mentioned in many books on Thatcher and the Thatcher Government—although some of these (such as Young, 1989, p. 318, and Moore, 2013, p. 523) incorrectly suggested that Friedman testified in person to a parliamentary committee. In fact, his evidence (Friedman, 1980) was wholly a written submission. He recapitulated part of the submission's critique in a radio interview reported in detail in *The Scotsman*, October 20, 1980.
[19] This reference to Thatcher in Friedman's *Newsweek* column is not included in Forder's (2016, p. 8) listing, apparently intended to be exhaustive, of the Friedman columns' references to Thatcher.

little to him" (quoted in Nelson, 2009a, p. 102). This statement cannot, however, be validly taken at face value. For one thing, Joseph did acknowledge that the interaction he had with Alan Walters during the mid-1970s was part of the process by which Joseph became a monetarist (*Pandora's Box*, BBC2, June 25, 1992, p. 27 of transcript). As Walters was heavily influenced by Friedman, Joseph's change of views on monetary matters certainly involved indirect influence on Joseph from Friedman. For another thing, Joseph's claim of little influence from Friedman is belied by other indications that Joseph gave during 1974. For example, Joseph (1974) cited Friedman (1974)—a piece in which, in the course of advocating indexation schemes, Friedman expounded both the natural rate hypothesis and the view that inflation was a monetary phenomenon. In addition, in defending the monetarist position, Joseph referred (in *The Times*, September 9, 1974) to the "well-attested time lags" between money and the economy—thereby invoking studies that either were by Friedman himself or were applications of Friedman's work to U.K. data. A short time later, Joseph wrote (*Sunday Times*, September 22, 1974) that "to hold registered unemployment down artificially by means of demand management, an accelerated rate of inflation is required"—a conclusion so close to Friedman's prior writings (including the 1974 Friedman piece that Joseph had already publicly cited) that it is untenable to regard it as made independently of those writings.

Joseph's claim to have arrived at a monetarist framework without influence from Friedman is, therefore, implausible. Why might he have made this claim? One reason suggested above is that Joseph may have been unaware of the extent to which the U.K. monetarist economists upon whom he drew were themselves influenced by Friedman's work. But another possibility is that U.K. politicians are naturally reluctant to acknowledge that they are drawing upon the views of intellectuals unless (like Adam Smith, for example) those intellectuals are long dead. Bale (2010, p. 10) notes that the Conservative party has traditionally taken a suspicious attitude toward abstract solutions, all the more so if they come from outside the United Kingdom. Friedman in particular was a living, American academic. Admission by a U.K. politician to being influenced by the work of a U.S. academic economist might go against being perceived as a practical politician who was focused on the United Kingdom's problems and whose views were developed from their own reading of the facts. And, whereas acknowledgments of influence are routine in the research world, they carry risk in the political world. For a politician, to indicate that one has been influenced by Friedman might risk being misinterpreted as taking a sycophantic, uncritical attitude toward Friedman and his writings—as opposed to digesting, and learning from, those writings as part the formation of one's own viewpoint. In this connection, it is notable that in his 1974 denial of influence from Friedman, the description of himself to which Joseph particularly took exception was as a "follower" of Friedman.

The disincentives to acknowledging influence from academics apply beyond the field of economic policy. For example, Urban (1997, p. 2) criticized Thatcher's initial volume of memoirs (Thatcher, 1993) for not crediting academic foreign-policy and defense experts for their input into policy deliberations that took place during her time as Prime Minister. In view of this record, what is striking is not how little Thatcher herself acknowledged Friedman's influence, but how much she *did* do so. An example is in the aforementioned 1993 volume of memoirs; there, Thatcher (1993, p. 710) both endorsed the idea of a roughly eighteen-month lag from monetary growth to inflation and attributed this idea to Friedman. And as discussed in the next section, she explicitly acknowledged Friedman's influence on her perspective on inflation both in her next volume of memoirs in 1995 and in an important companion volume to her memoirs.

3. Acknowledgments of Friedman by key figures

In this section, the acknowledgments of Friedman's influence by key figures in policy circles during the Thatcher era are documented and analyzed. Section 3.1 considers Thatcher and two people who served as Chancellors of the Exchequer during her period as Prime Minister, and Section 3.2 considers some advisers who served in the executive branch of government or at the Bank of England during the Thatcher period.

3.1 Margaret Thatcher and Chancellors of the Exchequer

As indicated above, it is not in question that Thatcher read articles by Friedman during the 1970s. However, Jenkins (1989, p. 81) argued that Thatcher's upbringing had already given her a belief in sound money prior to reading Friedman's work.[20] In a similar vein, Forder (2016, p. 10) takes the fact that in her 1995 memoirs *The Path to Power* Thatcher observed that she was conscious that excessive government expenditure could be inflationary "[b]efore I ever read a page of Milton Friedman or Alan Walters" (Thatcher, 1995, p. 567) as evidence of her not learning from Friedman's work. But what these interpretations overlook is that monetarism as espoused by Friedman went beyond observations about the desirability of monetary discipline to the position that "[r]estraint in the rate of monetary growth is both a necessary and a sufficient condition for controlling inflation" (Friedman, 1980, p. 56). In particular, in the monetarist view, it was not only the case that excessive issuance of money could create inflation but also that

[20] Likewise, Alfred Sherman (in Ranelagh, 1991, p. 182) and Christopher Patten (in Maddox, 2003, p. 174) suggested that Thatcher's interest in Friedman arose from a desire to validate her preexisting views, and Ferdinand Mount (in *Evening Standard*, March 25, 1980) argued that "her ideas are as old as classical economics." It is not clear whether these individuals' assessments referred mainly to Thatcher's sympathy to free-market views or instead to her embrace of monetarist economics.

absence of money creation—a non-accommodative monetary policy—was sufficient to prevent other factors often cited as sources of inflation, such as union wage-push, from actually leading to inflation.

It was this aspect of Friedman's views that Thatcher did not appreciate or share before the mid-1970s. In two crucial passages of *The Path to Power*, she acknowledged that her understanding of the monetary nature of inflation was not well developed during the 1960s. In Thatcher (1995, p. 115), she stated that in the 1960s she was not among the handful of U.K. parliamentarians who "were prepared to argue the case against incomes policy and for monetary control of inflation." In Thatcher (1995, p. 141), she granted that, while she opposed the mandatory wage and price controls imposed by the Wilson Government in 1966, her opposition was *not* based on rejection of wage-push accounts of inflation and on the acceptance that (in the absence of wage and price controls) inflation's behavior reflected the authorities' monetary policy. In this discussion, she also indicated that she did not embrace the monetarist view of inflation until the 1970s.

Thatcher's recollection here receives support when one considers her statements from the late 1960s through the mid-1970s. In these statements, while noting that an appropriate money-supply choice was *necessary* to prevent inflation, she did not treat monetary control as sufficient for inflation control.[21] Instead, in Thatcher (1968, 1974) she supported the notion that union wage-push was a possible separate source of inflation. This perspective was brought out in these speeches' endorsement of the existence of a rigid link between nominal wage growth and inflation, and her favorable outlook toward the notion that price stability should be secured by policies that directly attempted to keep nominal wage growth in line with productivity growth, as had been claimed in the 1944 White Paper on Employment Policy (Ministry of Reconstruction, 1944) that she cited.[22]

Also consistent with the fact that Thatcher did not comprehend and embrace the monetarist view of inflation until the mid-1970s was the recollection of Alan Walters and Peter Jay, two figures to whom she spoke on economic matters at the time (the latter being the *Times*' economics editor and someone of whom she would say, "I've been an economic disciple of his for years"—see Nelson, 2009a, p. 103). Both Walters (in *A Conversation With Sir Alan Walters*, 2002) and Jay (in *Financial Times*, June 8, 1985) recalled Thatcher as still learning about monetarism during

[21] See also the discussion of Thatcher (1968) in Nelson (2009a, p. 102).
[22] In addition, in Thatcher (1968) she suggested that greater competition could be an effective weapon against inflation. This echoed the position of Edward Heath, who in the 1960s saw the abolition of resale price maintenance (implemented by him in 1964) as an anti-inflation measure.

the 1974–1975 period in which she transitioned from being a member of Edward Heath's shadow ministry to Conservative party leader.

Following the publication in 1993 and 1995 of Thatcher's memoirs, there appeared a third book, *The Collected Speeches of Margaret Thatcher* (Harris, 1997), which was explicitly offered as a companion volume to Thatcher's memoirs.[23] The speeches in this volume included one in 1992 in which Thatcher was unambiguous about Friedman's influence on her thinking about monetary policy and inflation: "We had learned at Milton Friedman's knee that inflation is a monetary phenomenon…"[24] Evidently, this learning consisted largely of coming to appreciate, over the course of the mid-1970s, Friedman's ideas from greater exposure to his writings and from discussion of his ideas with her advisers and other interlocutors. For by the time she met Friedman in 1978, she had grasped the monetary nature of inflation. In Friedman's recollection of that meeting (given in Whitehead, 1985, p. 331): "I was enormously impressed with her understanding of the economic situation, and the extent to which she recognized very clearly the relationship between monetary policy on the one hand and inflation on the other."

It is clear that Thatcher's familiarity with and sympathy with free-market ideas, as opposed to her embrace of the monetarist view of inflation, long preceded the 1970s, and that it partly involved reading of work of figures other than Friedman (such as Hayek). However, notwithstanding her preexisting familiarity with free-market ideas, Thatcher in the 1970s and beyond recognized that Friedman was a leading exponent of those ideas, and one on whose views she and other economically liberal politicians could draw. For example, in a 1977 television appearance (*Firing Line*, PBS, August 19, 1977), Thatcher said that she wished Friedman were in the room so she could talk to him, and late in her premiership she indicated that she had discussed Friedman's ideas with leading figures in the Soviet Union, who were concerned with economic reform (*House of Commons Debates*, June 12, 1990, p. 143).

An influence of Friedman's monetarist economics was also acknowledged by Thatcher's first Chancellor of the Exchequer, Geoffrey Howe. In an interview shortly after taking office, Howe said of himself and Thatcher: "I don't think that either of us would claim to have been monetarists from the beginning of time—I certainly wouldn't. We were both members of the 1970–74 government, which didn't take monetary policy as seriously as we do now, but then nor

[23] The publishers, HarperCollins, described the *Collected Speeches* as a "companion volume to the two books of Margaret Thatcher's memoirs."
[24] Thatcher (1992), as given in Harris (1997, p. 543).

did anybody else." With regard to Friedman, Howe affirmed: "Oh yes, I admire him enormously!"[25]

In a television appearance alongside Friedman in early 1980, Howe said: "Because if I were a Friedmanite—and I don't think I'm an anything-ite, I'm a man of commonsense and reasonable determination taking advice, a great deal of it from Professor Friedman." (*Free To Choose*, BBC2, March 22, 1980 p. 9 of transcript.) In 1981, Howe implied that Friedman's writings were among the places in which there could be found the principles governing monetarist policies in the world (*House of Commons Debates*, January 15, 1981, p. 1159). In 1982, former Prime Minister Heath and economist Gavyn Davies, among others, were saying that the government had parted ways with Friedman's macroeconomic views.[26] Against this background, Howe stated: "It remains absolutely central to the fight against inflation to secure corresponding reductions in the rate of monetary growth… [T]hose who talk about the death of monetarism never wished monetarism well in the first place." (*Newsweek International*, March 29, 1982.)[27]

Nigel Lawson, who worked with Howe at the Treasury and who would succeed him as Chancellor of the Exchequer in 1983, also described the Thatcher Government's policy as monetarist. For example, in a 1980 television appearance, Lawson remarked: "I just happen to believe, and the government believes, that the monetarist policy is the right one and it's the only one which will bring inflation down." (*Weekend World*, ITN, November 9, 1980.) However, as discussed by Budd (2014), Lawson in later years was not well disposed toward the practice of tracing the Thatcher Government's economic policy to academics' ideas. It is nevertheless possible to find significant acknowledgments of Friedman's work in Lawson's writings. In September 1970, during his period as a journalist, Lawson wrote of Friedman, "as an economist, he stands second to none in the world today," and called on Heath Government members to meet Friedman during his forthcoming visit to London (*Sunday Times*, September 6, 1970).[28] In the same period, Lawson described the "non-union diagnosis" of inflation as comprising the "idea... that inflation will be brought under control by keeping a tight rein on the growth of the supply of

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[25] From Murray (1980, p. 163).
[26] Heath's 1982 remarks are discussed in Section 5 below. For Davies' analysis, see *Financial Times*, March 17, 1982.
[27] Acknowledgments of Friedman's importance for U.K. thinking about monetary policy were also present at more junior ministerial levels. Jock Bruce-Gardyne, who served for a time as one of Howe's Treasury ministers, had before entering Parliament observed (*Daily Telegraph*, December 7, 1978): "Milton Friedman's formidable reputation had already reached these shores by the end of the 1960s." Later, Bruce-Gardyne (1984, p. 61) described Friedman as "the American prophet of monetary management," and in 1985 he suggested that the city in which monetarism had originated was Chicago (see his remarks in Bruce-Gardyne, Congdon, and Minford, 1985, p. 24).
[28] In fact, as discussed below, Heath himself met Friedman on this visit.

money (as recommended by Professor Milton Friedman)" (*Evening Standard*, September 30, 1970).

In his memoirs (Lawson, 1992), Lawson referred to and endorsed the *Monetary History*'s analysis of the U.S. Great Depression (p. 1048). Lawson described Friedman's work on the permanent income hypothesis as "pioneering" (p. 632) and also (p. 1089) cited Friedman's book *The Optimum Quantity of Money and Other Essays* (Friedman, 1969a)—a book that contained a reprint of Friedman's (1968a) celebrated outline of the natural rate hypothesis. More evidence of the influence of the natural rate hypothesis and permanent income hypothesis on Lawson's thinking is provided below in Sections 5 and 6, respectively.

3.2 Economic advisers

Alan Walters served at 10 Downing Street as Thatcher's chief economic adviser in the 1981−1983 period. He continued to serve as her economic adviser, usually on a part-time basis, for much of the rest of the 1980s. Prior to his service in government, he had done research in monetary economics, mainly in the 1960s, and had also, as noted, interacted with Conservative politicians in the first half of the 1970s—including at a Shadow Cabinet meeting in 1974 after Edward Heath's second election defeat of that year (Heath, 1998, p. 521).[29] Although Walters was based in the United Kingdom in the years of his monetary research, he clearly saw monetarism as having been launched in the United States, principally by Friedman. This view was evident in Walters' later reference to the "quantity theory in its new reborn Chicago form" (Walters, 1987, p. 425). Indeed, Walters' 1960s studies had in large part been applications to U.K. data of Friedman's work, including Walters' (1966) U.K. version of Friedman and Meiselman (1963), and a study (Walters, 1971) of U.K. historical monetary relations partly inspired by, but on a smaller scale than, Friedman and Schwartz (1963a, 1963b).

Walters could correctly note that some of his own work (especially Walters, 1965) had been critical of Friedman's research on money.[30] There was, nevertheless, a close correspondence of views between Friedman and Walters. References to Friedman's work (including Friedman's

[29] Heath recalled that a second monetarist economist attending that Shadow Cabinet meeting was R.J. (later Sir James) Ball. For his part, Ball (1973) had cited Laidler's (1972) study that applied the Friedman-Phelps Phillips-curve argument to the United Kingdom, and later Ball (1982) would cite Friedman (1968a) directly.
[30] For example, in a U.S. newspaper interview that Walters gave after his appointment to the U.K. government was announced, it was observed: "While he may be a monetarist like the Nobel prize-winning American economist, Milton Friedman, Dr. Walters notes that many of his papers have pointed out errors in Dr. Friedman's analysis." (*Evening Sun*, October 9, 1980.)

research on consumption) were prevalent even in Walters' writings outside monetary economics, such as Walters' (1968) econometrics text, and Walters' acceptance of the validity of much of Friedman's monetarism was evident in Walters' (1973, p. 14) remark: "In my view, the Friedman and Schwartz [1963b] paper does establish the proposition that 'money matters.'" Indeed, some U.K. monetary economists (such as Cobham, 1984, p. 161; Congdon, 1992, p. 215) criticized Walters for being too willing to apply Friedman's framework to the United Kingdom without regard to differences between the U.S. and U.K. economies. The closeness of Friedman's and Walters' versions of monetarism was evident in Friedman's own remark (*Sunday Telegraph*, October 15, 1989) that he had not been following U.K. developments in detail, "but you can take the views of Sir Alan Walters as a proxy for my views."

Walters' affinity for Friedman's work was also manifested in the fact that, after he had completed his first spell as a full-time adviser to Thatcher, Walters was assigned by the editors of the *New Palgrave* dictionary of economics to write the entry on Milton Friedman.[31] In that entry, Walters (1987, p. 426) made clear that he believed Friedman had been influential on economic policy, with Friedman's macroeconomic research ranking among "the very few contributions that changed both the approach of professional economists and the policies adopted by finance ministers… Every economist, finance minister and banker felt his influence."

Another key adviser on economic matters during the Thatcher years was Brian Griffiths. Griffiths had been providing input to Conservative politicians even before Thatcher became party leader: Howe (1994, p. 100) noted that an early speech of his that was monetarist in content was one on the role of monetary policy in a disinflationary strategy, given in January 1975 and written with Griffiths. Smith (1987, pp. 74–75) has indicated that Griffiths continued to advise Howe when the latter was Shadow Chancellor in Thatcher's period as Leader of the Opposition. In 1985, Griffiths, who had publicly defended the government's monetarist policies (see Griffiths, 1985), left his academic position to become head of Thatcher's Policy Unit at 10 Downing Street (Campbell, 2003, p. 451).

Like Walters, Griffiths clearly saw monetarism as coming from the United States and as led by Friedman. In a 1968 newspaper article coauthored with Harry Johnson, Griffiths portrayed the postwar monetarist movement as one that began with "Friedman's challenge to the American Keynesians" and had spread to a "growing number of academic monetary specialists in North America and elsewhere" (*The Times*, October 29, 1968). Similarly, in *Business Week* (February

[31] Walters had earlier written a more popular profile of Friedman in Walters (1975).

19, 1972), Griffiths wrote that "over the last 15 years or so, a counterrevolution has been taking place, spearheaded by Milton Friedman of the University of Chicago, Karl Brunner and Allan Meltzer, formerly of UCLA, and Leonall Andersen and Jerry Jordan of the Federal Reserve Bank of St. Louis." In Griffiths' (1970) monograph on banking and monetary reform, Friedman was the most-cited author, with four of the latter's monetary writings in the bibliography. In 1972 Griffiths published an article on inflation that cited Friedman (1968a, 1970). In a later book-length treatment of inflation, Griffiths (1976, p. 30) identified Friedman and Schwartz (1963a) as a classic that "showed money performing a crucial role in the business cycle." Prior to becoming Thatcher's adviser, Griffiths (1985) noted that the government's Medium Term Financial Strategy partly reflected the influence of Friedman's work on monetary-policy rules—an issue discussed further in Section 6 below.

It deserves mention that, although Walters and Griffiths' monetary researches primarily concerned the relationship between monetary aggregates and other variables, each of them had occasion also to expound and endorse the natural rate hypothesis and, relatedly, to describe the transitory nature of the unemployment costs that would arise from a disinflationary monetary policy.[32]

The importance of the natural rate hypothesis, as well as its acceptance at the official level in the United Kingdom in the Thatcher era and afterward, was also emphasized by Charles Goodhart, who served in important roles at the Bank of England from the late 1960s through 1985, including that of chief monetary adviser from 1980 to 1985. Goodhart (1992, p. 315) observed: "the core of the monetarist position remains untouched, or has even strengthened. There has been no serious challenge to the claim that the medium- and longer-term Phillips curve is vertical, and hence that monetary policy should focus, primarily, if not solely, on controlling the level of some intermediate nominal variable, so as to anchor the rate of inflation at zero, or some very small positive number." Earlier, Goodhart (1983, p. 219) had remarked that, as between Friedman's view of the Phillips curve and the more flexible-price versions of the Phillips curve

[32] For example, Walters criticized the idea of a permanent tradeoff between unemployment and inflation in *Financial Times* (January 1, 1972). In *The Times* (November 11, 1972), Walters contended that a rise in monetary growth would lead to higher inflation and only a transitory decline in unemployment, and in *Financial Times* (December 31, 1973), Walters stated that a period of temporarily higher unemployment would see a decline in inflation. In addition, in *The Spectator* (November 2, 1974) Walters recalled that in 1971 he had written in a financial newsletter on the point that an inflationary policy would not lead to lastingly lower unemployment.

As for Griffiths, he (in Griffiths, 1972, pp. 16–18) outlined the arguments about the Phillips curve in Friedman (1968a), and Griffiths (1976, p. 255) noted that policies that changed labor-market institutions included those that "in a Friedmanian framework, reduce the natural rate of unemployment." Griffiths and Wood (1981, p. 5) observed that the case for non-activist monetary-policy rules drew on a "natural-rate-type view of the world… which helped underpin the work of Henry Simons and Milton Friedman."

then on offer from the rational expectations literature, the U.K. authorities had been "swayed by the more pragmatic monetarism of Friedman."

In sum, as was the case with key ministers during the Thatcher era, a number of individuals who served as senior economic advisers to the U.K. government in that era were importantly influenced by Friedman's work and also noted the influence of that work on the Thatcher Government's economic policy. More discussion of the interaction between Friedman's perspective and that of the Thatcher Government will follow in Section 6. In the meantime, the analysis will turn back to the pre-1979 period, in order to consider a number of influences that Friedman had on U.K. economic policy prior to the Thatcher years.

4. Friedman's influence on pre-1979 U.K. economic policy

This section considers the influence that Friedman had on three policy changes instituted prior to 1979: the United Kingdom's earlier short-lived focus, initiated in 1957, on using monetary policy as the main weapon against inflation (Section 4.1); the adoption of monetary targeting in 1976 (Section 4.2); and the introduction of a floating exchange rate in 1972 and the continuation of a float for much of the subsequent period (Section 4.3). Section 4.4 considers the influence of Friedman on two major newspaper commentators on economics in the United Kingdom during the 1970s: Samuel Brittan and Peter Jay.

4.1 The 1957 tightening of monetary policy

The 1957 tightening of monetary policy by the Macmillan Government was explicitly justified by Treasury policymakers in terms of the link between the stock of money and the price level. It consequently was a significant early episode in the postwar period in which monetarist ideas shaped U.K. monetary-policy decisions. The episode, begun in September 1957, is widely considered to have ended when the government's Treasury ministers—Peter Thorneycroft, Enoch Powell, and Nigel Birch—resigned in January 1958 after not being supported by the Prime Minister.[33]

It would be a mistake to suggest, as does Forder (2016, p. 2) that the developments in U.K. economic policy in 1957−1958 constituted an example of the United Kingdom adopting

[33] The monetary tightening and the ministers' resignation are often incorrectly presented as both occurring in the year 1957 (see, for example, Campbell, 1993, p. 682; 2000, p. 327) and this error of dating also appears in Forder's (2016, p. 2) reference to the episode.

monetarist ideas without influence from Friedman. The reason that this is not the case is that Lionel Robbins has long been identified as an influential adviser concerning the 1957 tightening (see, for example, Dell, 1990, pp. 229–233). And, as discussed in Nelson (2009a, pp. 53–54), Robbins was a close watcher and admirer of Friedman's work on money. He parted company with Friedman on some monetary matters. This was especially so with regard to external arrangements, for which Robbins favored exchange-rate management (see Dellas and Tavlas, 2009). But, on the issue of the connection between the money stock and economic aggregates, Robbins was largely in agreement with Friedman, and he viewed Friedman as an expert to whose work he deferred.

This state of affairs became apparent on multiple occasions. Robbins (1961) referred to Friedman's research in laying out a case against the Radcliffe Report.[34] Robbins (1970) provided a written introduction, very largely favorable (albeit with reservations expressed about a fixed-monetary-growth rule) to Friedman's (1970) lecture in London on monetarism, and earlier Robbins declared in the House of Lords: "I am far from contending that the quantity theory of money is the last word in wisdom in matters of this sort, but if we look at what is happening among some of the most advanced thinkers on these subjects in other parts of the world, it must be said at least that it takes a very long time dying, and that sometimes it shows signs of reviving." (*House of Lords Debates*, April 10, 1968, p. 399.) These public endorsements were preceded by Friedman-Robbins meetings going back to 1947 (Friedman, 1988, pp. 185–189). In this interaction, as well as correspondence, Robbins was by the early 1950s acknowledging Friedman as a leading exponent of the quantity theory (see Nelson, 2009a, p. 42).

As discussed in Nelson (2009a, p. 73), Robbins' role in providing advice in 1957 casts serious doubt on the validity of Enoch Powell's oft-repeated claims to have invented monetarism, or to have arrived at monetarism independently of Friedman and his work. Indeed, in the 1970s, 1980s, and 1990s, Powell expressed resentment that Friedman had won the Nobel prize in economics, Powell's grounds being that monetarism had been invented by the U.K. Treasury ministers in 1957.[35] Notably, Powell did not claim to have been a monetarist *prior to* 1957: in *The Spectator* (December 21, 1974), for example, he said that he had been "expounding it [monetarism] these last sixteen or seventeen years." But because Robbins was a catalyst for the 1957 policy measures, and because Robbins was from the early 1950s onward favorably struck

[34] That is, against the conclusions of the Committee on the Working of the Monetary System (1959). For a recent examination of the U.K. monetary and financial arrangements that emerged in the wake of the Radcliffe Report, see Aikman, Bush, and Taylor (2016).
[35] For his statements to this effect in these decades, see, respectively, *Daily Telegraph*, January 3, 1979, Nelson (2009a, p. 73), and Ranelagh (1991, pp. 79, 183).

by Friedman's monetary work, Powell's becoming a monetarist was not in fact independent of Friedman's research—although Powell may well have believed that it was.[36]

4.2 Monetary targeting

As indicated in the introduction, formal, publicly announced targets for monetary growth in the United Kingdom were begun by the Callaghan Government in 1976. Forder (2016, p. 3) contends that these monetary targets were introduced "at the urging of the IMF." If accurate, this claim might remove the possibility that monetary targeting should be regarded as an influence of Milton Friedman's thinking on U.K. economic policy. Forder's claim, however, is incorrect.[37] As Congdon (1982, p. 4) noted, it is "wrong to attribute the introduction of money supply targets to the IMF episode." On the contrary, internal targets for broad money (M3) growth were already being used by the U.K. authorities in the years immediately prior to 1976 (Goodhart, 1984, p. 122). Consistent with this situation, Denis Healey would testify about his period as Chancellor of the Exchequer: "We had monetary targets from the word 'go' and the question arose in 1976 as to whether we should publish them."[38] As for the public announcement of M3 growth targets, this indeed occurred in 1976, but *before* the September-December 1976 period over which the U.K. government worked out an agreement with the IMF concerning the direction of economic policy. The M3 growth target was announced in terse terms in the April 1976 Budget (*Financial Times*, April 7, 1976; *Midland Bank Review*, May 1976). This new policy was then fleshed out during June-July 1976 through further public statements by the authorities, whose clarifications including confirmation of the target rate (Gowland, 1979, p. 24; Congdon, 1982, pp. 4, 93).

The agreement between the Callaghan Government and the IMF concerning forthcoming U.K. economic-policy measures was not hammered out until later in 1976. The agreed measures did not include an M3 target but instead comprised (as well as fiscal-policy targets) limits on domestic credit expansion (DCE). The IMF did participate in the government's subsequent refinement of the broad-money definition—a process that resulted in the creation of Sterling M3, which in 1977 became the targeted monetary aggregate in place of M3 (Gowland, 1979, p. 25;

[36] It may well be that Robbins articulated the case for a quantity-theory approach to the Treasury without explicitly indicating that his advocacy of it was informed by Friedman's research. Budd (1987, p. 189) cautioned: "In Whitehall it is never a good argument to claim that a particular policy has already been adopted abroad." It would likely be even less palatable to appeal to research done abroad as the basis for a U.K. policy initiative.

[37] Earlier incorrect claims that the IMF imposed monetary targeting on the United Kingdom in 1976 included those in *Business Week*, April 4, 1983, and in Cuthbertson (1985, p. 91).

[38] From Healey's July 7, 1993, testimony, in House of Commons Treasury and Civil Service Committee (1993, p. 51).

Argy, Brennan, and Stevens, 1989, p. 26). Even after this change, it remained the case, as it had in 1976, that the IMF conditions concerned DCE, not M3 or Sterling M3. The fact that the IMF/U.K. agreement involved DCE limits, not targets for a monetary aggregate like M3, was underlined when Chancellor Healey (*House of Commons*, December 15, 1976, p. 1534) had to clarify that the official target was for DCE not M3, and again when the Bank of England Intelligence Department (1979, p. 125) stated: "Since December 1976 the primary targets have been expressed in terms of domestic credit expansion (DCE) rather than M3."

It was U.K. policymakers who emphasized M3 (and then Sterling M3), and it was the behavior of the broad-money aggregate that guided policy decisions such as the "uncapping" (renewed floating) of the exchange rate in late 1977, after sterling's external value had been subject to a semi-official peg for most of that year. It turned out that the DCE ceilings were reached easily and that it was the targeting of M3 that formed more of a constraint on policy decisions (Congdon, 1982, p. 5; Crawford, 1983, p. 439; Gowland, 1979, p. 25).[39] The statements given above by U.K. policy officials that the primary targets were for DCE (which, of course, was a credit, not a monetary, aggregate) were therefore literally true, but in practice dead letter.

From the above, it is clear that it would not be correct to regard the decision to adopt M3 or Sterling M3 targets as one imposed on the government by the IMF. Rather, the adoption of monetary targets stemmed in large part from growing acceptance in the United Kingdom of the relationship between monetary-policy actions and aggregate demand and of monetary aggregates as a measure of monetary-policy stance. Such acceptance partly reflected the influence of Friedman's research and, as an element of that influence, the appearance of studies modeled after Friedman's but applied to U.K. data. For example, Richardson (1978, p. 32) mentioned Friedman's work on the demand for money. To be sure, another important aspect of Friedman's framework—the position that inflation is a monetary phenomenon (so that monetary-policy actions were necessary and sufficient for inflation control)—was not yet, in 1976, something that U.K. policymakers accepted; the period (1979 onward) in which it was accepted is discussed separately below.[40] But it would be wrong to suggest that the adoption of monetary targeting in

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[39] Nigel Lawson also confirmed in a retrospective on the Callaghan Government's record: "Over the period DCE was different from Sterling M3 growth and was below the ceilings set with the IMF. It is not possible to estimate what Sterling M3 growth would have been had DCE been closer to the ceilings…" (*House of Commons Debates*, December 3, 1979, p. 74W.)

[40] In particular, as stressed in Fischer (1987, p. 13) and Batini and Nelson (2005, pp. 26–29), those in policy circles who were not persuaded by monetarist arguments could reconcile themselves to broad-money targeting by viewing it as an indirect means of imposing targets for aggregate bank credit or the fiscal balance. Fforde (1982, p. 53) confirmed that such nonmonetarist arguments played a role in the acceptance of monetary targeting in officialdom, although he added that "the quantity theory itself" was part of the rationalization for monetary targets in the United Kingdom. Consistent with this, in early 1980 former Prime Minister Callaghan—although critical of the

the United Kingdom did not to an important degree reflect the influence of Friedman's research on aggregate demand (such as his studies of the relative importance of fiscal policy and monetary policy, and his emphasis on the Fisher effect) and on the demand for money. [41]

The consonance of monetary targets with Friedman's prescriptions was emphasized in retrospectives by successive economic advisers to the Wilson-Callaghan and Thatcher administrations. Peter Jay, who was an informal adviser to the 1974–1979 Labour Government in its first three years (before being made Ambassador to the United States by the Callaghan Government), noted concerning Healey's tenure that it was the case that from 1975 onward: "The Chancellor sat on the money supply, which followed a course of steady disinflation that Professor Milton Friedman himself might have charted."[42] And Alan Walters, in looking back on a year (1982/1983) in which the official Sterling M3 growth-rate target was met (and in which his favored U.K. monetary aggregate, the monetary base, was also growing moderately), observed: "Britain was on a Friedmanian path of stable monetary expansion."[43]

For his part, Friedman—who in his 1970 visit to the United Kingdom had affirmed that he regarded his prescription of steady monetary growth as appropriate for that country (*Financial Times*, September 18, 1970)—saw the adoption of monetary targeting in the United Kingdom as a case of policymakers accepting his advice. In a 1980 television appearance with Denis Healey, Friedman said: "Well, first of all, I might give credit to Denis Healey; he was the first one who followed the gospel, [as] to the best of my knowledge he was the first one in Britain who introduced monetary targets." (*Free To Choose*, BBC2, March 22, 1980 p. 8 of transcript.)[44] Likewise, in 1982 Friedman stated: "You're doing one of the things I'm advocating, which is slowing monetary growth…" (*The Observer*, September 26, 1982.) The latter statement contrasts with Forder's (2016, p. 8) conjecture that Friedman in his U.K. press interviews "does not seem anywhere to have claimed influence" on the Thatcher Government.[45]

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concentration on monetary policy that he associated with Thatcher and Friedman (see Section 2 above)—accepted that "monetarism" had been one element of his own government's policy (*Weekend World*, ITN, March 30, 1980).

[41] One of the core studies published by the Bank of England in the area—important not only for studying the demand for money but also, as Goodhart (1984, p. 11) stressed, for endorsing the nominal interest-rate/real interest-rate distinction and associating that distinction with the monetarist literature—was Goodhart and Crockett (1970). In addition, Fforde (1982, p. 53) noted that, alongside money demand studies, the finding of a "reliable relationship between M3 and nominal incomes" was influential on the authorities. This suggests that U.K. versions of the reduced-form study of Friedman and Meiselman (1963) played a role in the authorities' interest in broad money.

[42] Jay (1984, p. 162).

[43] Walters (1990, p. 91).

[44] In addition, Friedman (1987a, p. 18) gave as an "element of the quantity theory approach that has had considerable influence" the pursuit of monetary-aggregate targets, including in the United Kingdom.

[45] Furthermore, in his regular *Newsweek* column in 1979, Friedman implied that the economic program on which Thatcher had recently been elected was one that largely matched his own prescriptions (*Newsweek*, June 18, 1979).

4.3 Floating exchange rates

The Heath Government floated the pound sterling in June 1972 after a brief attempt to include it in a European fixed-exchange-rate arrangement. Forder (2016, p. 5) denies a role for Friedman's advocacy of floating exchange rates in leading to the fact that, in 1972 and subsequently, the pound has largely been a floating currency. One of his grounds for this denial is that he observes, as did Nelson (2009a, p. 77), that Friedman noted that countries initiated floating exchange rates because of the pressure of events. However, a distinction must be made between the *circumstances forcing the adoption of floating rates* and the *decision to maintain a floating-rate arrangement*. The latter refers to the matter of whether, in calmer conditions well after a panic- or emergency-related move to floating exchange rates, a country chooses to resume a fixed-exchange-rate arrangement. It is on this matter that the absorption of Friedman's (1953) arguments was very important; and Friedman (in Taylor, 2001, p. 129) did indeed take the view that his paper on floating rates was influential.

With regard to the United Kingdom specifically, Heath (1998, p. 410) observed: "We intended this [the float] to be a temporary move, but as it turned out the arrangement stayed in place until 1990." In fact, as Maynard (1988, p. 11) noted, despite having been forced into a float at first, the U.K. authorities over much of the 1970s and 1980s looked favorably on the floating-exchange-rate arrangement. Monetary-sovereignty arguments (which stressed that monetary policy should be guided by domestic economic stabilization rather than exchange-rate management), of the kind in Friedman (1953), figured heavily when, on several occasions after 1972, the U.K. government rejected fixed exchange rates: for example, in late 1977, when the authorities uncapped sterling, and in late 1978, when they turned down the opportunity of participation in the ERM. After the United Kingdom departed the ERM in 1992, the monetary-sovereignty rationale formed an important part of the Blair Government's decision in 1997 not to be part of the euro area. Monetary-sovereignty arguments were also a prominent feature of the (ultimately, losing) pro-float side of the argument taking place in U.K. policy circles during the 1985–1990 period, when ERM membership was being contemplated very seriously (see Section 6.3 below).

A second suggestion offered by Forder (2016), in denying the influence of Friedman on the U.K. debate on floating rates, is that Friedman did not follow up on his 1953 work—and so, by implication, it was not influential in later decades. This argument is not valid. For one thing, Friedman followed up his 1953 paper with many other writings on international monetary arrangements, with Friedman (1993) observing: "I have written extensively on this subject over many years." Among the follow-up items were multiple 1960s writings, including a discussion of floating rates in *Capitalism and Freedom* (Friedman, 1962), a book devoted to the subject in 1967 (Friedman and Roosa, 1967), and a good deal of the material in the 1968 book *Dollars and Deficits* (Friedman, 1968b). An abbreviated reprint of Friedman's 1953 article also appeared prominently in Caves and Johnson (1968). In a book advocating a floating pound, Brittan (1970) explicitly cited or otherwise referenced all of these 1960s Friedman publications.

For another thing, despite its age, Friedman (1953) remained a core reference in debates on exchange rates in the 1960s, 1970s, and 1980s. In 1969, Harry Johnson and Paul Samuelson both praised Friedman for being a pioneering advocate of flexible exchange rates, with Johnson describing Friedman (1953) as a classic (see Nelson, 2017, Chapter 15). Both sides of the U.K. debate on exchange rates in the early 1970s saw Friedman's paper as a benchmark reference. An advocate of fixed exchange rates (in *International Currency Review*, September/October 1970, p. 8) granted that Friedman's 1953 paper was "frequently described nowadays as a 'classic.'" On the side of exchange-rate flexibility, Brittan (1970, p. 96) described Friedman (1953) as the "classic statement of the case for floating rates."[46] In U.K. discussions during the 1980s of exchange-rate policy, Friedman continued to be invoked as the leading representative of the pro-float case. This fact is evident in accounts of that decade's debates on pegging sterling and ERM membership: for example, Lawson's (1992, p. 468) reference to Friedman as an advocate of floating, Jenkins' (1989, p. 282) remark that "according to the savants [intellectuals] of Chicago the exchange rate and the money supply could not be controlled at the same time," and Young's (1993, p. 544) observation that the case against fixed exchange rates had been formulated by the founding fathers of monetarism.

Friedman himself participated in the U.K. debate on exchange rates when he visited the United Kingdom in 1970. He publicly advocated that the pound be floated (*Financial Times*, September 18, 1970) and also urged this in a meeting with Prime Minister Heath (Oliver and Pemberton, 2006). Friedman's activism in the later ERM debate is discussed in Section 6.

4.4 Debates on monetarism in the U.K. media in the 1970s

The contributions made by the London *Times*' economics editor Peter Jay and the *Financial Times*' economics columnist Samuel Brittan to expounding monetarist ideas and explaining

[46] In addition, and notwithstanding his usual lack of generosity in acknowledging Friedman, Enoch Powell (in *The Spectator*, August 28, 1971) implied that Friedman was the leading proponent of floating exchange rates.

Friedman's critique of Keynesian economics has figured prominently in several accounts of U.K. economic discourse during the 1970s (see especially Keegan, 1985, p. 41), and the importance of Jay and Brittan as communicators of Friedman's ideas was affirmed and documented in Nelson (2009a, pp. 60, 102–103). In contrast, Forder (2016, pp. 11–12) plays down this role. However, his characterization is flawed with regard to both Brittan and Jay. In the case of Brittan, this is because Forder's rating of the link between Friedman's and Brittan's analyses is less than what Brittan himself gave and because Forder neglects key writings by Brittan concerning Friedman. In the case of Jay, the problem is that Jay had several other important vehicles, beyond signed writings in *The Times*, through which his interest in Friedman's work was manifested.

Forder deprecates the importance of Friedman's influence on Brittan by mentioning some occasions on which Brittan outlined Friedman's ideas in the *Financial Times* and concluding that these were "only a small number of articles" (Forder, 2016, p. 12). This suggestion is not well taken. For one thing, Forder's list of discussions by Brittan of Friedman leaves a gap between 1969 and 1975: but in the 1970–1974 period, Brittan made many *Financial Times* contributions that drew upon Friedman's analysis.[47] For another thing, the characterization that Friedman's analysis figured little in Brittan's economic commentary did not correspond to how Brittan saw the situation. For example, Brittan opened his column of April 5, 1973, with the words: "It may not surprise readers of this column to learn that one of the most remarkable books to have come my way is by Professor Milton Friedman."[48]

In fact, Brittan acknowledged Friedman's importance frequently and associated himself with Friedman's critique of Keynesian approaches to stabilization policy. This was made especially clear in Brittan's extended writings in books and longer articles. The 1970 book on floating exchange rates discussed above is one example. Additional examples cropped up over the course of the 1970s. In *The Spectator* (November 8, 1975, p. 593), he called for analysts to "come to grips with the Friedmanite theory of unemployment and inflation." In Brittan (1975, p. 130), he pointed to Friedman (1968a) and other Friedman contributions as further reading. In *Management Today* (April 1976), Brittan recalled that his own acceptance of the U.K. orthodoxy about demand management was something he had "abandoned by the winter of 1968–69 under the influence both of events and of a single paper by Professor Milton Friedman." And Brittan

[47] For example, Brittan discussed the natural rate of unemployment or appealed to the notion of a long-run-vertical Phillips curve in contributions to the *Financial Times* issues of January 22, 1970, March 31, 1970, May 20, 1970, July 20, 1970, October 21, 1971, January 27, 1972, and November 22, 1973. See also *New Society*, October 3, 1974.

[48] Brittan was discussing Friedman (1972b).

1977 (p. xii) recalled that "Milton Friedman's 1967 presidential address to the American Economic Association… caught my imagination..."

Peter Jay was also influenced in the late 1960s by Friedman's work, and by 1970 he was starting to take a favorable perspective in print toward the idea of targets for monetary growth as a means of controlling nominal income growth (see *New Statesman*, December 11, 1970). Forder (2016) downplays the link between Jay and Friedman by suggesting that Jay referred to Friedman only sparingly in *The Times*. However, it is a problematic practice to ascertain Jay's interest in Friedman by seeking out explicit mentions of Friedman. In the first place, articles by Jay that focused on Friedman's ideas did not necessarily mention Friedman's name: for example, a Jay-authored *Times* article called "Chancellor on the Road to Chicago" (April 17, 1969) did not refer to Friedman by name. In the second place, and far more fundamentally, as economics editor of *The Times* Jay created an environment of heavy coverage of Friedman in *The Times*, including much material that did not appear under his name. For example: (1) Jay oversaw numerous contributions by *Times* journalists about Friedman, among them an article by Hugh Stephenson in the issue of April 15, 1969, and an article on the natural rate hypothesis (featuring a photograph of Friedman) by Tim Congdon in the issue of January 22, 1975.[49] (2) Jay commissioned multiple contributions by academic and business economists on the Keynesian-monetarist debate, including the Griffiths-Johnson article already mentioned and one by Karl Brunner.[50] (3) The *Times*' economics articles included lengthy unsigned items. These included a long article, "Friedman View of Monetary Theory" (September 17, 1970), which discussed Friedman (1970) in detail and which Jay may well have penned without using a byline.[51]

It is also notable that Jay was a television presenter in the 1970s and pursued his interest in Friedman in this capacity as well—most notably in a long discussion with Friedman for the program *The Jay Interview* (ITN, July 17, 1976).[52] With this background of immersion in Friedman's work, it is little wonder that Jay was asked to write several articles on Friedman and on monetarism, including one for the *Times Literary Supplement* (December 6, 1985).

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[49] The latter article spotlighted a recent book to which both Friedman and Jay had contributed (Institute of Economic Affairs, 1974).
[50] This Brunner contribution is discussed in Nelson (2017, Chapter 13, Section III).
[51] The existence of this lengthy article that Jay edited and likely authored puts in perspective Forder's (2016, p. 12) assertion that in *The Times* Jay "never came close to a detailed exposition of Friedman's views."

Ironically, an instance in which Forder (2016, p. 12) acknowledges the possibility of uncredited writing about Friedman on Jay's part corresponds to an item that Jay likely did not write, as it was a *Times* editorial about U.K. matters that appeared in 1980—a year during which Jay was located mostly in the United States. Jay stopped being *The Times*' economics editor in 1977 and did not resume a regular affiliation with the newspaper until October 1980 (*The Times*, October 4, 1980), well after the date of the editorial that Forder attributes to Jay.
[52] Analysis of this interview is integrated into Nelson (2017).

5. Friedman's biggest influence: the permanent change in the role of monetary policy

Friedman's largest influence on U.K. economic policy pertained not only to the Thatcher era but to the whole post-1979 period: acceptance of his point that inflation was susceptible to control only by monetary policy and not by incomes policy. That change is the focus of this section.

5.1 Official acceptance of Friedman's position on inflation

As Chrystal (1984, p. 31) observed: "The intention of eliminating inflation solely by monetary policy rather than incomes policies was one reason why Mrs. Thatcher earned the monetarist label." In this connection, a Bank of England official would note of U.K. governments' position (Coleby, 1993, p. 126): "By the end of that decade [the 1970s], we had therefore reached the position of orthodoxy…. We recognized inflation as a monetary phenomenon." The implication of this doctrinal change in U.K. policy circles was the abandonment of the pursuit, which had been carried out by the Callaghan Government and its predecessors, of compulsory wage and price controls, or voluntary but formal wage agreements, against inflation. The momentous nature of this change in policy strategy was noted by an adviser during the Callaghan tenure who had worked closely with the Prime Minister on economic policy: "Above all, the government's then obsession with reducing the rate of inflation through direct state intervention in the intricate processes of wage negotiations… [now] seems from a different age." (Donoughue, 2008, p. 6.)

Friedman's importance in providing a monetary perspective on inflation was, as already noted, acknowledged on the record by such U.K. figures as Thatcher and Lawson. Forder (2016, pp. 4–5) proposes that the primary criterion for judging an impact on U.K. policymakers of Friedman's critique of incomes policy be whether one such critique he made—Friedman (1966)—had a discernible impression. On this reasoning, although Friedman's views on incomes policy essentially corresponded to those that U.K. policymakers themselves adopted from 1979 onward, the possibility of his views on the matter being influential must be ruled out unless it can be shown that, in the U.K. policy debates, there was a bibliographical citation of Friedman's 1966 paper.

As it happens, that 1966 paper likely did permeate U.K. policymakers' thinking, partly because Friedman basically repeated a portion of it (pp. 23–24) in a widely-read 1975 monograph produced for a U.K. readership (Friedman, 1975). But, in any event, it is wrong to suggest that Friedman (1966) was the sole important Friedman critique of cost-push views of inflation or of incomes policy. Friedman's opposition to incomes policy and his critique of cost-push views pervaded his work and his public statements. He was already an outspoken critic of incomes policy in U.S. public debate in the 1940s and 1950s (see Nelson, 2017, Chapters 3 and 10).[53] He was identified, on the basis principally of Friedman (1951, 1958, 1959), as a critic of cost-push views of inflation in such pre-1966 references as Schultze (1959) and Chamberlin (1962, p. 223). And in the *Newsweek* column that Friedman had from 1966 onward, he criticized incomes policy repeatedly, including in indictments of the incomes policies that had been attempted by the 1964–1970 Wilson government (*Newsweek*, January 11, 1971), the wage and price controls imposed by the Heath Government (*Newsweek*, November 27, 1972), and the Social Contract maintained by the Callaghan Government (*Newsweek*, September 20, 1976). He made similar criticisms in interviews given to the U.K. media in the 1970s (see, for example, Nelson, 2009a, p. 79, and *Daily Express*, November 30, 1976).

Friedman's critique of President Nixon's imposition of U.S. wage and price controls was also well known in the United Kingdom, and he was mentioned in this connection in the U.K. press around the time that Edward Heath reintroduced U.K. wage and price controls in 1972 (for example, *Daily Mail*, October 31, 1972; *The Guardian*, November 6, 1972). Thus Friedman was a very prominent critic of incomes policy in the United Kingdom, and (in contrast to some critics of incomes policy) was making this argument in conjunction with a critique of cost-push theories of inflation.

U.K. officialdom's rejection from 1979 onward of incomes policy and of cost-push views of inflation, and its acceptance of a monetary view of inflation, consequently reflected an influence from Friedman. A further Friedman influence on policy from 1979 onward was clear in the *specific* monetary view of inflation that U.K. policymakers adopted—which was the outlook associated with the natural rate hypothesis.[54] Some statements by U.K. policymakers on this score were virtual paraphrases of propositions associated with Friedman. These included Margaret Thatcher's remark that the prior Labour government had "brought down unemployment temporarily at the cost of reflation, which increased unemployment later" (*House of Commons Debates*, January 26, 1982, p. 745) and Nigel Lawson's observation that "the government cannot, other than in the very short term, directly increase the level of real demand in the economy" (*House of Commons Debates*, March 25, 1985, p. 107).

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[53] See also the criticisms of price controls, and the skepticism about cost-push arguments, in Friedman and Schwartz (1963a, pp. 497–498, 557–558).

[54] As discussed in Nelson (2009b, p. F359), Thatcher's own dislike for the "natural rate of unemployment" terminology did not imply that her policymaking framework rejected the natural rate hypothesis. The subsequent generation of U.K. policymakers did in fact use the natural-rate terminology: see, for example, King (1997, p. 86).

Also indicative of the U.K. government's acceptance of the natural rate hypothesis was Chancellor Lawson's Mais lecture (Lawson, 1984; see also Keegan, 1985, p. 216, and Lawson, 1992, pp. 414–416, for discussions). In this lecture, Lawson cast the new policymaking framework as one in which control of inflation had been reallocated from microeconomic to macroeconomic tools, and influence on unemployment from macroeconomic to microeconomic tools. Subsequent generations of policymakers have largely endorsed this interpretation of the modern U.K. policymaking framework (see, for example, King, 2005). It clearly owed heavily to Friedman (1968a).[55] Indeed, Lawson's division of responsibilities between macroeconomic policy and microeconomic policy resembled Friedman's own policy recommendations for the United States, such as in Friedman (1972b, p. xv). In that 1972 discussion, Friedman urged labor-market reform to get (the natural rate of) unemployment down, stated that policymakers should not have a numerical goal for the unemployment rate, and recommended fighting inflation with monetary policy.

5.2 Harold Wilson and Edward Heath

As is well known, Friedman's visit to Chile in 1975, which included a meeting with Pinochet, led to severe criticism of him. Nelson (2009a, p. 85) and Forder (2016, pp. 3, 15−16) both discuss the controversy on the matter that featured in public discourse in the United Kingdom. However, Forder (2016, pp. 21–22) goes further, stressing that the controversy spurred backbench, including Left-wing, Labour members of Parliament to draw a connection between Friedman and the economic policies of the Conservative party under Thatcher. It is from this, Forder (2016, p. 22) suggests, that there sprang a misconception that the Thatcher Government's policies had a close association with Friedman.

The suggestion just outlined must be rejected because, as indicated above, it was *correct* to conclude that the economic policy of Thatcher's Conservative party was importantly influenced by Friedman's work. Another reason for rejecting it is timing. Although Friedman visited Chile in April 1975, the visit was not subject to heavy media discussion in the United States until September-October 1975 onward (Friedman and Friedman, 1998, p. 401), and the controversy did not receive large-scale press coverage in the United Kingdom until 1976. By then, however, the (correct) view that the Thatcher opposition's economic policy reflected Friedman's influence was already entrenched. Indeed, as will now be discussed, the view that Friedman was an

[55] In terms of wording, however, one of the closest antecedents to Lawson (1984) was the observation by David Laidler (a former Friedman student) that U.K. Keynesians advocated "an essentially microeconomic approach to the control of the price level" (Laidler, 1976, p. 60).

influence on the Thatcher team was articulated from an early stage by two key figures who were not affiliated with the Labour Left: Labour's Harold Wilson and the Conservatives' Edward Heath. Each of these figures' positions is considered in turn.

As already indicated, by the early 1970s Friedman was known in both the United States and the United Kingdom as the advocate of the view that inflation was a monetary phenomenon that could not be meaningfully reduced by incomes policy and for which restriction of aggregate demand was the only effective remedy. The Wilson Government in 1975 adamantly took the opposite view. For example, its White Paper on inflation stated that "there can be no solution to the problem of inflation which relies on… under-utilization… The direct and sensible solution is to reduce our rate of increase in wages and salaries…" (quoted in Nelson, 2005). Chancellor of the Exchequer Healey denounced the approach of using aggregate-demand restriction to fight inflation as "a sort of bastard Friedmanite theory" (*Washington Post*, June 22, 1975). In addition, the increasing acceptance of Friedman's view of inflation among some leading Conservatives was well known by early 1975: for example, Andrew Shonfield had introduced a Friedman television appearance in September 1974 by stating: "Professor Friedman's views have recently been winning some influential converts among politicians as well as among economists." (*Controversy*, BBC2, September 23 1974, p. 1 of transcript.)

Against this background, Prime Minister Wilson observed early in Thatcher's period as Conservative party leader: "The answer certainly is that we can and shall bring down the rate of inflation without economic disaster. However, we reject the policies advanced by leading Conservatives who say that it can be done by monetarist means, producing more unemployment." (*House of Commons Debates*, March 20, 1975, p. 1850.)

Wilson had a basis in his own experience to associate the demand-restriction policies embraced by the Conservative leadership in 1975 with monetarism and with Friedman. He had met, and found himself in an impromptu public debate with, Friedman in the early 1960s, at a time when Wilson had a visiting arrangement with the University of Chicago (Wilson, 1986, p. 190). This was a point at which Wilson had already established himself as a critic of monetary policy's role, via statements such as: "Have we forgotten the devastating analysis of the Radcliffe Report about overreliance on monetary policy?" (*House of Commons Debates*, July 26, 1961, p. 445.) As Prime Minister in 1975, Wilson was dismayed by the high esteem in which Friedman's economics was held by policymakers in other countries (Wilson, 1979, p. 110) and, soon after leaving office in 1976, Wilson maintained that it was his government's incomes-policy measures in 1975 that had led to a breakthrough in the fight against inflation in the United Kingdom (Wilson, 1976, p. 97).

Wilson reaffirmed his belief in the connections between the Conservatives' economic policy and Friedman's views in the years after he was Prime Minister. For example, in 1978 he referred to Friedman as the Conservatives' "adopted guru" (*Irish Times*, May 2, 1978). This remark was made in the partisan context of a Labour party rally, but Wilson linked Thatcher and Friedman in other, less heated contexts. Indeed, for much of 1978–1979, members of Prime Minister Callaghan's inner circle were concerned that Wilson was adopting too neutral a position in the contest between Callaghan and Thatcher, and that his public criticism of Callaghan and praise for Thatcher might reflect a wish on Wilson's part that Callaghan suffer defeat to Thatcher at the next election.[56] This non-adversarial posture toward Thatcher on Wilson's part was also reflected in his 1978 remark, published in Murray (1980, p. 94), "I've no doubt at all that Margaret was elected [leader] because of her courage." But in the same interview Wilson matter-of-factly voiced his belief in an influence of Friedman on Thatcher: "As far as general economics are concerned, I think for her it's more theoretical but she certainly knows a good deal about the kind of economic philosophy she likes. I should imagine she knows her Friedman very well but, needless to say, my views on the subject do not coincide with hers." (Murray, 1980, p. 98.)

In short, Harold Wilson, a figure greatly familiar with debates on U.K. monetary policy and inflation, and who had himself met Friedman, reached the judgment that Friedman's economics was an influence on Thatcher. He did so before the 1976 upsurge in controversy concerning Friedman in the United Kingdom, and he reaffirmed his judgment in subsequent years.

Edward Heath, whom Thatcher replaced as leader of the Conservative party, likewise viewed Friedman as having been an influence on the shaping of the Conservative party's economic policy in the period after he left the leadership. For example, in 1982 Heath stated that Thatcher's government had been influenced by the "alien doctrines of Friedman and Hayek" (*House of Commons Debates*, March 15, 1982, p. 37; also quoted in Campbell, 1993, p. 732).

This characterization echoed others Heath had made since losing the Conservative leadership in 1975. He viewed the monetarist position taken by Thatcher as having two important, and undesirable, features: it was academic in origin and it originated outside the United Kingdom.

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[56] See Donoughue (2008, pp. 446, 493), and for reports on the public statements by Wilson to which the Callaghan team took exception, see *Evening News*, February 16, 1979, and *Daily Telegraph*, April 28, 1979.

Its academic origin was alluded to by Heath soon after he left the leadership when he suggested that the party was embracing a "soulless textbook theory" (quoted in *The Sun*, June 17, 1975). Its overseas, specifically U.S., origin, was hinted at in a play on words that Heath made in November 1975, when he criticized his opponents in the party for having "tried to import a strong ideological content into their argument" (quoted in *Glasgow Herald*, November 22, 1975).

Heath's position on U.K. inflation was that it reflected domestic wage-push forces whose strength was magnified by the country's special institutions and geography (see Nelson, 2009b, p. F351). He regarded monetarism as a doctrine developed without regard to U.K. institutions—a position reflected in a private remark Heath made in 1977 that monetarist policies would not work in a country like the United Kingdom (Young, 2008, p. 109). In early 1979, Heath publicly declared monetarism to be "intellectually bogus," and he characterized the Conservatives as having adopted the views of "a school of Milton Friedman" (*Toronto Star*, April 8, 1979).[57]

As with Wilson, Heath's exposure to Friedman's views partly reflected direct interaction with Friedman. During Heath's premiership, Heath and Friedman met twice. As already mentioned, the two met in London in September 1970. At that meeting, Heath and Friedman discussed not only exchange-rate policy (as noted above) but also domestic U.K. economic issues (Ziegler, 2010, pp. 333–334). The two met again at a dinner for Heath at the White House in December 1970.[58]

Thus Heath, like Wilson, met Friedman before the Thatcher era and formed the view early in Thatcher's time as leader that Friedman's economics was an influence on Thatcher. As stressed in this section, the most important such influence concerned a belief to which Heath and Wilson were united in their opposition: the belief in the need for a monetary approach to the analysis and control of inflation.

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[57] Another figure who had had a senior policy role, under both Wilson and Heath, was former Bank of England Governor, Leslie O'Brien. After the adoption of monetary targeting by the Labour government and the developments in Conservative economic thinking under Thatcher, he, too, saw Friedman as having been influential, and he referred to the "Friedmanites… in both main political parties and elsewhere" (*House of Lords Debates*, March 23, 1977, p. 544).

[58] The dinner for Heath was on December 17, 1970 (Haldeman, 1994, p. 264). In Friedman and Friedman (1998, p. 390), Friedman incorrectly recalled the London meeting of the two as being after their White House meeting. That Friedman discussion focused upon a 1980 radio forum in which both he and Heath participated (without meeting in person). This forum, which led to heated exchanges between the two, was covered the following afternoon in an *Evening Standard* report of November 5, 1980 (see also Campbell, 1993, p. 723, and McManus, 2016, p. 199). In the exchange, Heath again associated Friedman with Thatcher's policies.

6. Friedman and U.K. economic-policy developments, 1979–1990

This section considers more of the intersections between Friedman and the Thatcher Government's economic policy. Sections 6.1 to 6.3 consider developments in macroeconomic policy chronologically, before a consideration of privatization (Section 6.4), the current account deficit (Section 6.5), and some book accounts of the Thatcher years (Section 6.6).

6.1 Early decisions

The Thatcher Government came into office amid a sentiment that it had to make economic reforms swiftly while it had the momentum provided by its election victory. The precedent it sought to avoid was that of the Heath Government, which was elected to office in June 1970 on a program that had some similarities in its policies to that the Conservatives proposed in 1979. The Heath Government's momentum for reform, which had already been hurt by the death of the Chancellor of the Exchequer in July, was perceived as having been stalled by the absence over August, for vacations, of key Cabinet ministers, including Heath (*The Economist*, September 5, 1970; Campbell, 1993, pp. 305–306). In contrast, in the early months of its tenure, the Thatcher Government made a number of important economic initiatives—most notably in Geoffrey Howe's Budget statement of June 1979, which announced tax reforms and also indicated that foreign-exchange controls would be phased out.[59] In his magazine column (*Newsweek*, July 9, 1979), Friedman applauded the income-tax cut aspect of the tax reforms and the exchange-control announcement.[60] In the United Kingdom, it was noted by another commentator that the new government had felt a need to hit the ground running by making these economic reforms, "with the summer of 1970 inactivity of Mr. Heath providing a sharp reminder that delay can be dangerous…" (*Daily Telegraph*, July 30, 1979.)

The idea that a government is best positioned to implement economic changes in the period that immediately follows its taking office would subsequently be stressed by Friedman and Friedman (1984, 1985).[61] Although Forder (2016, p. 9) claims that the case the Friedmans made was "not a

[59] On the exchange-control decision, see *Financial Times*, June 13, 1979, and *Daily Telegraph*, July 7, 1979. In the event, after initial relaxations of the controls in June and July, the removal of almost all of the remaining controls was expedited, occurring in October 1979 (*Financial Times*, October 24, 1979).
[60] Dornbusch (1986, p. 31) noted of Friedman (1953) that it included "persuasive arguments against exchange control." Indeed, as stressed in Nelson (2009a, pp. 30–31), Friedman's 1953 article explicitly contemplated the abolition of U.K. exchange controls. It is consequently not appropriate to imply, as Forder (2016, p. 5) does, that Friedman participated only at a late stage in discourse concerning the United Kingdom's exchange controls.
[61] Likewise, an account by a U.K. economist, Burton (1982, p. 305), was critical of the Thatcher Government for not cutting public spending sharply during its honeymoon period.

well-argued point," their position actually closely matched the attitude that the Thatcher Government's economic policymakers had upon taking office.

Not surprisingly, therefore, Friedman and Friedman (1984, 1985) actually used the early Thatcher period as a case in which a government had the most success implementing reforms when its mandate was fresh. They stated (Friedman and Friedman, 1985, p. 12): "In her first months in office, Mrs. Thatcher succeeded in ending forty years of foreign exchange control, reducing the top income tax rate from 90 to 60 percent, denationalizing trucking, and adopting a 'medium term financial strategy' to reduce monetary growth." Forder (2016, p. 9) takes exception to this description, contending that it reveals of the Friedmans "how little they knew" about U.K. economic policy. His dispute of their account states (p. 9): "Actually, the top rate of tax was reduced from 83%, [and] the MTFS was introduced in March 1980—almost a year after the election."

As noted in Section 2 above, it is certainly true that Friedman was no expert on the U.K. economy. And the quoted statement by the Friedmans was, as indicated in the next paragraph, not free of error. But it turns out that they were not mistaken on the two items (that is, the pre-Thatcher top income tax rate and the MTFS) that Forder cites as factual errors.

With regard to income tax rates, the 1979 Budget reduced the top tax rate on labor income from 83 to 60 percent and the top tax rate on investment income from 98 percent to 75 percent. Friedman considered both reductions important (*Newsweek*, July 9, 1979). Averaging the top rates prevailing up to 1979 on the two types of income gives a rate of 90.5 percent, or 90 percent if rounded down. On this reasoning, the Friedmans' use of 90 percent as the pre-Budget top rate of income tax rate was correct. However, on the same reasoning, they should have given the new top income tax rate as 67.5 percent.

With regard to the MTFS, this plan—which consisted of a laying-out of the government's successive intended reductions in the Public Sector Borrowing Requirement and Sterling M3 growth—was announced with the March 1980 Budget, but it had long been foreshadowed by key figures in the Thatcher economic team. An economic commentary that appeared a month after the government took office stated: "The government is almost certain to adopt a medium-term financial plan for the economy before the end of the year." (*Daily Telegraph*, June 4, 1979.) Just prior to the 1979 election, Howe had indicated he intended to seek a lower PSBR in the current fiscal year (1979/1980), adding: "Further progressive reductions will enable monetary targets to be similarly reduced." (*Daily Telegraph,* April 30, 1979.) Consistent with these statements, a later chronology of the development of U.K. economic policy contained the heading: "1979 to 1980: the development of the Medium Term Financial Strategy" (Temperton, 1991, p. 8). The MTFS announcement in March 1980 therefore made formal and numerically precise a plan that the Thatcher team had already indicated it intended to carry out, and much of the development of the plan had taken place in 1979.

It has already been indicated that the MTFS was interpreted by Brian Griffiths as reflecting the influence of Friedman's work on monetary-policy rules. Such an interpretation was also offered by Green (1989, p. 11), Brittan (2005, p. 298), and Minford (2005, p. 52). The idea of carrying out a program of gradual disinflation and doing so via an announced plan for multi-year reductions in monetary growth matched Friedman's prescriptions. For example, the 1-percent-per-year reduction in monetary growth from 1980/1981 to 1983/1984 for the United Kingdom envisaged in the original MTFS mirrored Friedman's recommendation (in *Newsweek*, April 24, 1978) that the U.S. monetary authorities announce that they would reduce monetary growth by 1 percent per year from 1978 to 1982.

To be sure, the inclusion of PSBR targets in the MTFS jarred with Friedman's prescriptions. Indeed, that inclusion was criticized by Friedman (1980) on several grounds, including the contention that fiscal deficits and monetary growth had no necessary relationship. It is clear, however, that the monetary-growth part of the MTFS was the element on which its designers put greatest emphasis.[62] And it is evident from the Friedman and Friedman (1985) passage mentioned above that Friedman saw the importance of the MTFS as stemming from its monetary-growth targets.[63] That impression of the MTFS would be shared by an economics dictionary (Pearce, 1986, p. 271), whose entry on the MTFS did not refer to its PSBR component.

6.2 Developments in U.K. monetary and fiscal policy, 1979–1987

The path of declining rates of growth of Sterling M3 envisioned in the original MTFS—with the target range for monetary growth being 7–11 percent for 1980/1981—rapidly became superseded by events, with high double-digit growth of the aggregate recorded in the course of 1980. Friedman's initial reaction was to take the severe overshoot of the monetary target as

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[62] For example, in his 1980 Budget speech, Chancellor Howe said of the MTFS: "At its heart is a target for a steadily declining growth of the money supply." (*House of Commons Debates*, March 26, 1980, p. 1443.)

[63] He praised the MTFS on this score in Friedman (1980), while criticizing the tactics proposed to control monetary growth. Contrary, therefore, to Forder (2016, p. 8), there is no contradiction between Friedman's praise for the government's specification of a plan (its monetary strategy) and his disapproval of its choice of monetary tactics.

implying an unintended easing of monetary policy and as a frustration of the Thatcher Government's intention to restrict aggregate demand. Taking this perspective, he judged in October 1980 that the government's "first year and a half have in large part been wasted" (Friedman, 1981a, p. 17). Friedman attributed the overshoot to the authorities' existing monetary-policy operating procedures, which he had already criticized in Friedman (1980). Friedman recommended sweeping changes in procedures and personnel at the Bank of England: the Thatcher Government, he said, should "kick out the people who have been running the money supply and replace them with people who know how to do it." (*Newsweek*, November 24, 1980.)

What followed instead was a change in personnel at 10 Downing Street: Alan Walters' arrival as an adviser. This development helped prompt a reassessment by Friedman of the monetary-policy stance that had prevailed during Thatcher's first eighteen months in office. The view that monetary policy was loose in 1980 was already at variance with other indications of tightness, including pronounced declines in real GDP and large increases in the unemployment rate. But, as Alan Walters would emphasize when making his own diagnosis in late 1980 prior to taking up his position as Thatcher's adviser, even monetary aggregates suggested tightness when series other than Sterling M3—notably M1 and M0 (the monetary base)—were considered.[64] Friedman himself had come round to this diagnosis by April 1981, when he observed: "With respect to monetary growth, the Thatcher Government has achieved a slowdown, if you look at the appropriate magnitudes, and that slowdown has produced a sharp decline in the rate of inflation." (Friedman, 1981b, p. 6.)

As he now conceded that monetary policy had been tight and monetary growth reduced, Friedman also viewed the U.K. recession as also partly due to the monetary tightening. But he cited as a factor making the recession worse than otherwise the "highly erratic" monetary growth under the Thatcher Government (*Human Events*, December 5, 1981, p. 1067).[65] It is the case, however, that the declining path of nominal income growth in the United Kingdom over the early 1980s was much as the authorities had privately forecast; it was, instead, the split during 1979–1981 between inflation and real output growth that was much worse than expected (Bean and Symons, 1989, p. 16). Under these circumstances, the variability of monetary growth that Friedman cited was unlikely to have been a prime factor making the recession more severe than

[64] See, for example, Walters (1986, pp. 140–145).
[65] Friedman also cited monetary variability when discussing the early Thatcher years in Friedman and Friedman (1985, p. 105) and in two U.K. television appearances in early 1983: an interview on *Saturday Briefing*, BBC2, March 12, 1983, p. 5 of transcript, and a presentation on commercial television published as Friedman (1983a, p. 14).

expected. Variability in monetary growth, insofar as it was a factor raising uncertainty, likely would have been associated with lower nominal income growth than otherwise; but the slowdown in nominal income growth was, as noted above, not really much sharper than the authorities planned. However, another measure that Friedman criticized from an early stage—the VAT increase—likely *did* play a notable role in worsening the early-1980s U.K. recession.

Notwithstanding his criticism on the count of monetary variability, Friedman was prepared to describe the Thatcher Government as having followed a monetarist policy partially, because it had delivered a reduction in monetary growth (*American Attitudes*, BBC1, February 16, 1982, p. 2 of transcript; Friedman, 1983b, p. 1). With inflation coming down further in 1982, and with real output growth having turned positive, Friedman suggested, "[i]n that sense monetarism has worked and done everything that was promised for it" (Friedman, 1983a, p. 13). In a still more upbeat assessment after Thatcher's reelection in 1983, Friedman noted that in achieving a decline in inflation to 4 percent (from a peak of around 22 percent in early 1980), the Prime Minister had redeemed a major promise from the 1979 election campaign. He also praised Thatcher for "persistence in the main lines of her policy" instead of giving into pressure, especially during 1981, to embark on a major stimulus to aggregate demand (*Newsweek*, July 4, 1983).

In addition to not introducing an expansionary package, the Thatcher Government did not reinstitute an incomes policy in the United Kingdom. Prior to the 1979 election, Edward Heath had predicted privately that Thatcher, if elected to government, would have to impose an incomes policy (Young, 2008, p. 109), and shortly after her election victory Harold Wilson had suggested that it was likely a question of when, not if, Thatcher would adopt an incomes policy (*Financial Weekly*, June 29, 1979). Friedman applauded Thatcher for not, in fact, doing so (*The Observer*, September 26, 1982). At the time of her first reelection, this was an aspect of her economic record that Thatcher herself underlined when she observed: "The achievement in inflation is not just that it has come down to 4 percent from 21 percent, but that it has been done without the panoply of prices and incomes or exchange controls. Freedom is working." (*Time*, June 20, 1983.)

As the second sentence in the 1983 Thatcher quotation indicates, the rejection of incomes policy amounted not only to an acceptance of the monetarist view of inflation but also to a decision that was in the direction of promoting free markets. Friedman, however, was already disturbed by this point at the extent to which monetarist policies and free-market policies—even though he advocated both—were taken as synonymous. This was, he found, especially so in the U.K. context. He complained in *The Observer* (September 26, 1982) that the U.K. media took the term "monetarism" as "cover[ing] anything that Margaret Thatcher at any time expressed as a desirable object of policy." He elaborated in Friedman (1984, p. 3) that, in much U.K. discourse, "monetarism is everything that Margaret Thatcher has proposed, whatever it may be. If Margaret Thatcher proposed that taxes be lowered, that's monetarism. If Margaret Thatcher proposed that some of the nationalized industries be privatized, that's monetarism."[66]

For Friedman, a monetarist policy did not itself include policies of restraint or reductions in regulation, public ownership, taxes, and public spending. He nevertheless was a major advocate of these latter policies, and in the last-mentioned area of public spending he was initially very critical of the Thatcher Government's record. In April 1981 he suggested that a "great failure" was that the share of government spending in output had risen under Thatcher (Friedman, 1981b, p. 7). He believed that this development was bad for supply-side reasons, and that it also put the burden of adjustment to aggregate-demand restriction on the private sector (*Panorama*, BBC1, March 9, 1981, p. 19 of transcript).

Friedman had earlier suggested that the Thatcher Government would, thanks to the Labour party's disunity, likely have a long time in office, and that it would achieve government-spending restraint over a longer period of years (Friedman, 1981a, p. 17). This scenario largely would come to pass. In 1986, Friedman implied that it had not, in fact, materialized, when he complained that, other than in areas such as privatization and the foreign-exchange market, the Thatcher record had "consisted of little more than a mere deceleration rather than a *reversal* of the growth of government" and that his "high hopes" on this matter had been disappointed (Friedman, 1986, pp. 135, 138). However, the government-spending share of national income in the United Kingdom, having reached about 47 percent in 1982/1983, fell over the following six years by in excess of 7 percentage points, to late-1960s levels (Riddell, 1989, p. 34). Over the 1987−1988 period, Friedman evidently absorbed news of this kind, and he changed his position on the Thatcher Government's public-spending record. He affirmed in 1987 that he remained one of Thatcher's "long-time admirers and supporters" (*Financial Times*, December 4, 1987), and Friedman and Friedman (1988, p. 466) judged that, in reducing the role of government in the economy, "Britain has made more progress under Margaret Thatcher than the United States has under Ronald Reagan."

One fiscal-policy issue on which Friedman continued to take Thatcher to task was the priority to be given to tax cuts. From the earliest months of the Thatcher Government, Friedman had been

[66] Friedman made similar complaints in Friedman (1983a, p. 1) and in *Independent on Sunday*, July 26, 1992.

critical of its use of tax increases to limit budget deficits. He would have preferred the 1979 cuts in income tax to have been financed by higher borrowing rather than being offset in their revenue impact by the VAT rise (*Newsweek*, July 9, 1979).[67] This position largely reflected Friedman's starve-the-beast perspective, according to which sizable budget deficits can lead to downward pressure on public spending. It was from this perspective that Friedman in late 1987 wrote an open letter to Thatcher, criticizing her support for proposals for an increase in federal taxes in the United States. The proposed tax rise, Friedman argued, would ultimately lead to a permanent increase in U.S. government spending rather than a lower budget deficit (*Financial Times*, December 4, 1987). It is unlikely that this letter made a favorable impression on Thatcher. Thatcher was one of a succession of senior figures in UK policymaking who rejected the starve-the-beast approach to the analysis and control of the national budget (see Nelson, 2009a, pp 65–66).

With regard to monetary policy in much of Thatcher's second term, Friedman's assessment was predominantly favorable. In May 1985 he observed that the U.K. authorities had been prepared in the face of large and prolonged unemployment to pursue policies that had had ended double-digit inflation (Friedman, 1985, p. 18).[68] An event the following October must have given Friedman some pause: Chancellor Lawson suspended the target for Sterling M3 growth after seriously overshooting the target for several months. Much commentary at the time portrayed the move as the jettisoning of monetarism by the government (see Smith, 1987, pp. 123–126), and Congdon (1992) has argued that the abandonment of the broad-money target ushered in the United Kingdom's inflationary boom of the late 1980s. Friedman, however, came out against these interpretations. The government had since 1984 been targeting growth in both M0 and Sterling M3—and from October 1985 it kept, and for a while thereafter continued to meet, the M0 targets. Friedman preferred one monetary target to two, and he was already suspicious of Sterling M3—a suspicion that would have been reinforced by the criticism of that aggregate, and support for M0, in Walters (1986). With M0 still being targeted by the authorities, Friedman had grounds for continuing to regard the United Kingdom as a monetary-aggregate-targeting country, and he so characterized it in Friedman (1987a, p. 18). Furthermore, he would look back on the mid-1980s period, which featured contained and stable M0 growth alongside low inflation, as that in which the United Kingdom's monetary policy comprised "strict monetarism" (*Sunday*

[67] In the early 1980s, he would note that President Reagan had done more than Thatcher to cut taxes (*The Observer*, September 26, 1982).
[68] Friedman also noted and applauded the U.K. government's issuance of indexed long-term bonds. He observed that this innovation would reduce government revenue from inflation (Friedman, 1985, p. 17). However, his implication that the revenue-raising motivation helped explain prior periods of high inflation in the United Kingdom clashed with the U.K. postwar policy record, as discussed in Nelson (2009a, pp. 80–81).

Telegraph, October 29, 1989). The Thatcher period, Friedman observed in late 1987, had "proceeded on the basis of more stringent monetary and budgetary policies… Great Britain has had some transitional difficulties, but it's now emerging from that. Inflation has come way down and the British economy has been growing at a more rapid rate than any economy in Europe." (*Jerusalem Post*, November 6, 1987.) However, Friedman's high regard for monetary policy under Nigel Lawson would change in response to the policies that Chancellor Lawson pursued from early 1987 onward.

6.3 The ERM debate

Chancellor Lawson pursued an unannounced peg of the sterling exchange rate against the mark in the 1987–1988 period. Even after this policy was abandoned, he and many other government figures favored a fixed-exchange-rate policy in the form of U.K. membership of the Exchange Rate Mechanism of the European Monetary System, and debate on this matter inside and outside the government was intense in the late 1980s and into 1990.

Forder (2016, p. 5) asserts that Friedman "made no contribution to the British debate about the EMS…" This is not correct. In the wake of Lawson's experiment with pegging sterling and the emergence of a revival of inflation in the United Kingdom, Friedman wrote in the *Wall Street Journal* (April 19, 1989): "Nigel Lawson chose to stabilize the exchange rate and hence lost control of the price level." It was likely in light of this letter (perhaps as reprinted in London's *Wall Street Journal Europe*) that *The Scotsman* newspaper (May 30, 1989) noted that, in the "simmering row" over the United Kingdom and the ERM, "Milton Friedman, the arch monetarist, is airing his views…" Later in the year, Friedman went further and penned an article for the *Financial Times* (December 18, 1989) reaffirming the case for floating exchange rates.[69] Elaborating on this theme in *National Review* (June 11, 1990), Friedman suggested that Lawson's 1987–1988 pegging experiment had led to "a sharp rise in monetary growth that… left a legacy of inflation and high interest rates that Britain is still struggling to overcome." It was against this background of interventions by Friedman that *The Economist* (December 1, 1990) noted: "Dyed-in-the-wool monetarists—led, as ever, by Mr. Milton Friedman—still insist that governments should take care of domestic monetary policy and let exchange rates look after themselves."

[69] See also Nelson (2009a, p. 15), which mentions this article and its revised version in Friedman (1992).

Not only did Friedman participate in the public debate on the ERM; it was also the case that his views on exchange rates informed the anti-membership group within the government. The group included Margaret Thatcher and her adviser Alan Walters. Walters made his stand against the ERM in prominent public forums in 1986 (Walters, 1986, Chapter 7; *Financial Times*, April 28, 1986). The following year, his *New Palgrave* entry on Friedman appeared, and it credited Friedman (1953) with the monetary-sovereignty case for floating exchange rates and with an emphasis on the consistency of floating exchange rates with free markets (Walters, 1987, p. 425). Both these aspects of the case for floating appealed to Thatcher.[70] After Walters ceased being an adviser to the government, he published a book against ERM entry, in which he cited Friedman's 1953 paper for its analysis of exchange-rate behavior under a float (Walters, 1990, p. 127).[71]

The United Kingdom joined the ERM in October 1990, the month before Thatcher left office. It was in the aftermath of these events that Friedman observed in 1992 of Thatcher: "I think she was a godsend for the British. I just wish she had exercised a little better control of her government." (*Independent on Sunday*, July 26, 1992.)

A couple of months after Friedman made these remarks, the United Kingdom was forced out of the ERM. In 1994, after the United Kingdom's and other countries' recent problems with pegged-exchange-rate systems, Friedman wrote a new piece on fixed exchange rates in which he argued that even the Bretton Woods system was overrated (*National Review*, September 12, 1994). This 1994 Friedman article would be cited favorably in Thatcher (1995, p. 596).

6.4 Privatization

Ahead of the Thatcher years, Friedman was one of the most prominent advocates of the position that U.K. industries be privatized.

Forder (2016, p. 4) discounts the possibility of an influence by Friedman on the embrace of privatization in the United Kingdom by remarking that there was only "a little" about

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[70] For Thatcher's endorsements of these arguments, see for example Thatcher (1993, pp. 689–690, 726; 1995, pp. 479, 597).

[71] Forder (2016, p. 5) sees significance in the lack of mention of Friedman in Thompson's (1996) account of the United Kingdom and the ERM. However, the Thompson book was concerned primarily with the sequence of decisions and meetings of Conservative ministers and government officials concerning the ERM. Friedman was of course not part of these interactions, but his body of writings helped shape the case made on the pro-float side in successive Conservative governments' internal debates on the ERM. Another book, Stephens (1996), was concerned with both the Conservatives' debates on the ERM and the intellectual contributions underlying those debates, and Stephens' book contained multiple references to Friedman.

privatization in Friedman (1962). However, it is unsatisfactory to treat Friedman (1962) as the be-all and end-all for Friedman's advocacy of privatization—not least because the book concentrated on the United States. As Friedman (1986, p. 135) noted, the issue of privatization was vastly more pertinent for the United Kingdom than for the United States, owing to the extensive government ownership of industrial enterprises in the former country.

Friedman, in fact, wrote at length during the 1970s on the case for privatization of U.K.-government-owned industries. A *Newsweek* column, "How to Denationalize" (December 27, 1976), specifically made this case. In addition, as part of talks given in London a few months earlier, Friedman had advocated large-scale privatization of U.K. enterprises; in doing so, he employed the then-little-used "privatize" term.[72] When these talks entered print in the United Kingdom in early 1977, Friedman's advocacy of U.K. privatization received attention in the national and even world media (for example, *Glasgow Herald*, January 31, 1977; *Toronto Sun*, January 31, 1977). They also prompted a hostile editorial in the *Daily Express* (February 1, 1977). The editorial line of the *Express* was pro-Conservative party, but privatization was at this point liable to be resisted by many Conservatives as well as Labour figures.

Friedman again pushed for privatization during a visit to the United Kingdom in 1980, including in interviews (for example, *Evening Standard*, February 28, 1980) and in his joint television appearance with Geoffrey Howe (*Free To Choose*, BBC2, March 22, 1980 p. 23 of transcript). The failure to embark on comprehensive industrial privatization was one basis on which Friedman criticized the early years of Thatcher's record (see, for example, *Human Events*, December 5, 1981, p. 1067). He felt that the failure to privatize had blown up public spending, in part because the Thatcher Government had committed itself to public-sector pay rises of a magnitude greater than would have been granted by private firms (Committee for Economic Development of Australia, 1981, p. 7).

The Thatcher Government's privatization of industrial enterprises featured heavily in its second and third terms, and these privatization programs received some praise from Friedman (for example, in Friedman, 1989, p. 569). However, he complained that the form in which privatization had proceeded had not been the one he had advocated in his 1976 contributions. Friedman wanted the transfer of ownership of enterprises to consist of a process in which the government ended its participation by giving ownership claims to every member of the citizenry. He insisted that this method was "the policy of privatization that makes the most sense"

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[72] See Friedman (1977, pp. 51–53). In this discussion, the word "privatize" appeared on page 51.

(*Jerusalem Post*, November 12, 1987). This method clearly diverged from the U.K. privatization process, in which government enterprises were sold by selling equity claims on the stock market. It is perhaps testimony to the prominence that Friedman conferred upon his own preferred variant of privatization that two insiders' accounts of the Thatcher Government's privatization program have contained a defense of the selling-shares method against the giving-away method (see Lawson, 1992, p. 217, and Harris, 2013, p. 240).

6.5 Current account of the balance of payments

An overlooked aspect of Friedman's influence on U.K. economic policy is the way his work shaped thinking in the United Kingdom about the balance of payments and specifically judgments on whether current account deficits were a problem.

Lawson (1992, p. 856) quoted one of his own talks on the balance of payments, given in July 1988, in which he observed that "a country whose investment opportunities are sufficiently attractive to generate a net capital inflow will by definition have a current account deficit." This perspective matched very closely the one Friedman had been offering for many years. Friedman (1969b, p. 2) had observed: "You can have a capital inflow only by accommodating it on current account." Along the same lines, Friedman and Friedman (1985, pp. 120–123) had viewed the recent enlargement of the U.S. current account deficit as a by-product of the increasing attractiveness to foreigners of making investments in the United States, and they stressed that efforts to reduce the current account deficit by trade-policy measures were undesirable and would only actually lower the deficit insofar as they deterred capital inflow.[73]

The starting point for this perspective was that, under a floating exchange rate, the overall balance of payments had to be in equilibrium. The issue then arose of whether it was a cause for concern if, within the overall zero balance, a current account deficit was being registered, equal in absolute magnitude to the capital account surplus (a net capital inflow). According to the perspective Friedman (and later Lawson) took, if a capital inflow reflected large-scale government borrowing from overseas, the associated current account deficit might be a symptom of problems; but if the borrowing was by the private sector, it might reflect the appropriate operation of intertemporal behavior on the part of households and firms. "If individual Britons

[73] An older example Friedman gave was of U.S. current account deficits in the nineteenth century, which he viewed as a counterpart to the investment flows coming from the United Kingdom to the United States during that period (Friedman and Friedman, 1980, p. 43; Friedman, 1987b, pp. 180–181). See also Friedman's remarks on the United States' trade deficit of the late 1970s in *Newsweek*, September 5, 1977.

want to borrow from abroad, that's their business," Friedman remarked in a 1976 U.K. television interview (*Newsday*, BBC2, November 9, 1976, p. 8 of transcript). "There's nothing wrong with being a debtor nation... if the debt has been accumulated to get assets," he observed on a later occasion (*The Commonwealth*, August 24, 1987, p. 361).

Friedman stressed that the function of floating exchange rates was not to eliminate a trade or current account deficit, but to give a country the ability to operate its own monetary policy (*Wall Street Journal*, June 30, 1975). In that context, it could be part of the normal operation of floating exchange rates for an increased capital inflow to provoke an exchange-rate reaction that generated a larger current account deficit (Friedman and Roosa, 1967, p. 95; Friedman and Schwartz, 1982, p. 335).[74]

It is clear from the above that Friedman was an exponent, in public statements since at least the 1960s, of what has come to be called the intertemporal approach to the current account. Although the discussion of this approach by Obstfeld and Rogoff (1995) did not cite Friedman's work, they did describe the approach as derived from "forward-looking consumption theories" (p. 1776)—implying that it was descended from the permanent income hypothesis of Friedman (1957). The permanent-income aspect of the intertemporal approach to the current account is brought out most clearly by considering the fact that a current account deficit involves consumption spending that is likely high in relation to current income. The intertemporal approach can rationalize such behavior if current income is low in relation to permanent income.

Lawson had evidently reached a similar perspective on the current account deficit. As indicated above, Lawson recognized Friedman (1957) as a pioneering work, and Lawson's 1988 perspective on the current account deficit flowed naturally from the permanent-income view of agents' behavior propounded in *A Theory of the Consumption Function*. Furthermore, as indicated in Section 1 above, the permanent income hypothesis has continued to be embraced as a key analytical tool in U.K. policy circles in the period beyond Lawson's time as Chancellor of the Exchequer.

[74] One of the reasons he did not see a float as eliminating current account imbalances was that, contrary to the contention of some of his critics, Friedman did recognize both goods and capital flows as factors driving exchange rates. "I don't intend to leave out capital movements at all," he noted in 1967 (Friedman and Roosa, 1967, p. 94). Indeed, his 1953 case for floating exchange rates had cited the desire to hold foreign securities and other income-yielding assets as one source of demand for foreign exchange (Friedman, 1953, p. 159; see also Friedman and Schwartz, 1982, p. 29).

6.6. Books on the Thatcher Government

Forder (2016) considers several books written on the Thatcher Government and concludes that the number of mentions of Friedman are few and are of a kind that do not justify inferring that Friedman was influential. One shortcoming of this judgment is that the books Forder considers contain more references to Friedman than Forder suggests. In particular, the edited volume of Kavanagh and Seldon (1989) contains a reference to Friedman that happens not to be listed in the book's index: a remark by Brittan (1989, p. 6) implying that the Thatcher Government's economic position can be partially traced to "the views of Milton Friedman."[75]

In addition, important references to Friedman appear in (i) additional writings of some of the authors of the books that Forder considers, and (ii) notable books that Forder does not consider. Each of these matters is considered in turn.

Forder (2016) takes Riddell's (1989) book on the Thatcher Government as consistent with the conclusion that Friedman was not influential. But Riddell, in an earlier book on the Thatcher Government, implied that the supporters of Thatcher in the Cabinet would be familiar with Friedman's work (Riddell, 1985, p. 42). Forder (2016) also apparently takes Young's (1989) biography of Thatcher as consistent with Friedman not being influential. But in a later edition of that biography, Young (1993, p. 620) indicated that the economic arrangements of a "Friedmanite nirvana" formed a benchmark against which to judge the outcome of policy changes implemented during the Thatcher years. Young suggested that what policymakers strove for did not correspond to this benchmark, but he implied that the benchmark had features that guided the Thatcher Government's policies. Consistent with this posture, Young had earlier (in *Sunday Times*, November 9, 1980) described Friedman as the Thatcher Government's "intellectual butler": that is, Friedman had served up ideas that the government used.

Finally, an early book on the Thatcher Government stated that its economic policy was based on "Professor Friedman's particular economic theories" (Stephenson, 1980, p. 61), and a later study of Thatcher's economic policy assessed that there was no doubt that the research of Friedman and Walters had been "very influential" on the Conservative party's economic policy (Maynard, 1988, p. 32).[76]

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[75] The one reference in this book that Forder locates is itself highly significant, for it consists of Roberts' (1989, p. 65) observation that Margaret Thatcher "accepted Milton Friedman's view that inflation was not directly caused by the unions…" Section 3 above considered Thatcher's acceptance of this point.

[76] See also Williamson (2015), who emphasizes the influence that Friedman's thinking had on the development of the economic policy of the Conservative party ahead of the 1979 election.

7. Conclusions

This paper has found a significant influence of Milton Friedman on U.K. economic policy from the 1970s onward, and especially during the period of the Thatcher Government. Examples of Friedman's influence include the absorption into U.K. economic-policy doctrine of the permanent income hypothesis and the natural rate hypothesis, the official rejection from 1979 onward of incomes policy as a weapon against inflation, and successive decisions by U.K. policymakers to maintain floating exchange rates when other options were being mooted. Evidence of influence by Friedman on privatization policy and on the official perspective on the current account deficit can also be discerned. Important acknowledgments of Friedman's work appeared on the record: for example, in officials' explanations for the introduction of monetary targeting in the United Kingdom, in Margaret Thatcher's crediting to Friedman the insight that inflation was a monetary phenomenon and her mention of his work on lags, and in praise from Geoffrey Howe and Nigel Lawson for Friedman's contributions to economics. The familiarity with Friedman's work that key economic advisers such as Alan Walters possessed was also an important route by which Friedman's influence on U.K. economic policy was felt.

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