PART THREE

Defining British Monetarism

Inescapably monetarism in the British context is connected with the premiership of Margaret Thatcher between 1979 and 1990 and so with 'Thatcherism'. But the origins of 'Thatcherite monetarism' lay somewhat further back, in the disastrous Heath–Barber boom of the early 1970s and the shambles of macroeconomic policy-making in the mid-1970s. As she explains in the first volume of her autobiography The Path to Power, *Thatcher was attracted to monetarism because 'the technical arguments and insights were so completely in harmony with my fundamental instincts and early experience' (M. Thatcher,* The Path to Power *[London: HarperCollins, 1995], p. 568). No one should be surprised that a grocer's daughter believes in free markets, sound money and balanced budgets. The first essay here – which is a heavily rewritten version of a chapter in the author's* Monetarism: An Essay in Definition – *sets monetarism in the wider political context. It tries to explain why supporters of monetary control tend also to advocate the liberty of the individual, to support the free play of market forces and to favour private ownership over state ownership. (The pamphlet* Monetarism: An Essay in Definition *was published in 1978 by the Centre for Policy Studies, the think tank founded by Thatcher and Sir Keith [later Lord] Joseph in 1974. Mr Alfred [later Sir Alfred] Sherman asked me to write it after seeing my essay on Keynes and the Keynesians in* Encounter *in 1975. The* Encounter *essay is the first in this collection.)*

The bungles in British economic policy in the 1970s were specifically British and the attempts to restore some sort of order were also specifically British. Two core themes were the reduction in the budget deficit and the need to integrate fiscal policy with money supply targets. The themes came together with the adoption of the Medium-Term Financial Strategy in the 1980 Budget, with Thatcher herself strongly sympathetic to the objective of a more balanced budgetary position. In the resulting style of policy-making, monetary control depended on curbing the amount that the government borrowed from the banks combined with restraint over bank lending to the private sector. This was different from the approach espoused by American monetarists (such as Milton Friedman), in which the key to targeting the rate of money supply growth was management of the monetary base. So a 'British monetarism' had to be differentiated from an 'American monetarism', as in the second essay here 'British and American monetarism compared', based on a paper originally given at a one-day conference on Keynes and monetarism at the University of Kent in 1987. Interestingly, it was easy to illustrate the Anglo-American differences in the 1980s with references to Keynes's work dating from the 1920s and 1930s.

Mayer's The Structure of Monetarism *is probably the most well-regarded book on the definition of monetarism. (T. Mayer,* The Structure of Monetarism *[New York and London: W.W. Norton], 1978.) Mayer has written to me that – in his opinion – 'British monetarism' is not really monetarism. Fair enough, but the definition of intellectual movements is difficult. No one doubts that a set of ideas called 'monetarism' did influence British public policy in the late 1970s and the 1980s, and that in some respects the resulting changes to policy were lasting. (By implication, there must also have been a group of people in the UK who were 'monetarists', more or less, whatever they subsequently say about the matter.)*