

Tim Lankester, *Inside the Thatcher's Monetarism Experiment. The Promise, the Failure, the Legacy*, Policy Press, Cambridge, 2024, pp. 242.

In *Inside the Thatcher's Monetarism Experiment*, Tim Lankester aims to delineate the intellectual origins of monetarism, with a particular focus on its appeal for Margaret Thatcher, arguing that curbing the growth of money supply in the UK as advocated by Milton Friedman and his pupils, has been “one of the most unsatisfactory episodes of economic policy-making of modern times” (p. 2).

This is not an unfounded judgment, especially in light of the fact that the author, Sir Tim Lankester, was Margaret Thatcher's first private secretary for economic affairs. However, he was a collaborator who did not hide his views, which were in stark contrast to the Iron Lady's deepest economic policy convictions. He testifies to this in one of the most enjoyable chapters of his book: “Mrs Thatcher gave higher priority to bringing inflation down than to holding down unemployment (although to be fair, she did not believe there was really a choice between the two). I believed that, over the short run at least, there was a choice and that unemployment was the greater social evil” (p. 75).

It is often said that Margaret Thatcher was the one who faithfully implemented the monetary policy guidelines of the founding father of monetarism: Milton Friedman. The point is actually controversial because one of the first measures advocated by Margaret Thatcher was, in fact, a sharp increase in interest rates by the Bank of England, aimed at reducing the money supply, in conjunction with the decisions taken overseas by Paul Volcker's FED: from 12% in May 1979, they were raised to 17% a year later. In the following years, interest rates were lowered several times, going down to 9.06% in February 1984, being revised upwards in January 1985 (13.88%), then down again in May 1988 (7.38%), and finally up again in June 1990 (14.79%). On the other hand, the trend in unemployment in the UK and the simultaneous peak in strikes left no doubt: the hypothesis of no involuntary unemployment did not hold up. The workforce unemployment rate rose from 5.3% (May 1979) to 7.7% (September 1980), then rose again to over 10% (October 1981) and again to 11.9% (June 1984). The so-called fight against inflation was therefore not fought by strictly following Friedman's recommendations, nor, as the theory established, did it go hand in hand with a reduction in unemployment, which in fact only fell below 10% at the end of 1987 and only after interest rates had been steadily lowered. Professor Friedman gave a heroic interpretation of what had hap-

pened, explaining that Mrs Thatcher's failure was due to the fact that she had never been protected by her party.

In the central chapters of *Inside Thatcher's Monetarism Experiment*, Lankester clarifies that monetarism was applied in its pure and harsh form only during the first two years of Thatcher's government. Reading Lankester's book, it seems that it was the Bank of England – the Governor Gordon Richardson in particular – together with the Treasury – the permanent secretary Douglas Wass in particular – who stood up to the Prime Minister's ill-advised demands regarding monetary policy: "She [...] reluctantly realised that she didn't have the expertise or the experience to force her views on MBC [monetary base control] on the Bank and the Treasury" (p. 83).

From 1979 to 1981, the UK experienced slower wage growth, driven by higher unemployment and cheaper imported inputs linked to a strong currency. As some post-Keynesian scholars pointed out at the time¹ the insistence on moderate pay settlements and the Thatcherite measures, such as the Employment Act of 1980 which limited the definition of legal picketing "strictly to those who were themselves party to the dispute and who were picketing at the premises of their own employer", constituted an implicit admission of the inconsistency of monetary policy: "For since the government have accepted that pressures of prices are due to workers' demands for inflationary wage demands, the propositions that a slow and steady rate of monetary growth puts downward pressure of prices is severely weakened" (Arestis, 1984, p. 50). Lankester's point of view does not coincide with the post-Keynesian one. However, in chapter 10 of his book, citing Andrew Glyn's research, he argues that from Mrs Thatcher's perspective, "reducing the pay-bargaining power of the trade unions was necessary for combating inflation *and* for enabling industry to make adequate profits" (p. 133).

The content of chapter 13 (*The legacy*) is really interesting, with the author strenuously trying to pinpoint the positive results of monetarism and recognising some truths that already belong to Keynes' approach, especially if, following the Cambridge school, one does not settle for the neoclassical synthesis – i.e. i) money does matter from the point of view of both analysis and policy making; ii) there can be no trade-off choice between the rate of inflation and

¹ See for instance Arestis, P. (1984), The UK Monetarist Experiment, *Journal of Public Policy*, 4 (1), pp. 39-56.

unemployment; iii) the rate of inflation is responsive to adjustment in interest rates. Then he permits himself to be seduced by ideas that, on closer inspection, appear to contradict a sizeable portion of the critical arguments that are presented in the book: i.e. i) the idea that the primary objective of macroeconomic policy has to be very low inflation and ii) the existence of a ‘natural rate of unemployment’ below which inflation accelerates and above which inflation slows down.

Consistent with this somewhat casual approach to political economy, Chapter 14 – devoted to the return of stagflation in the post-pandemic period – sees Lankester oscillate between explanations that correctly identify exogenous factors as the cause of inflation, and explanations that attempt to maintain monetarist causal links. What is most striking is the following statement: “Keeping control of inflation is made more difficult when the economy and labour productivity are growing slowly. [...] The desire of higher wages and the pressure for higher government spending and lower taxes are more likely, in these circumstances, to result in higher inflation” (p. 178).

Yet, based on a careful analysis of Thatcherism, we should acknowledge that the problems of low productivity in the UK depend precisely on the de-specialisation that the Iron Lady pursued in order to embrace a finance-oriented capitalist system². Only a structural evolution pursued with appropriate public investment can lift the economic system out of the trap of low productivity. Furthermore, Lankester’s supposed relationship between inflationary pressures and expansionary fiscal policies in a context of geopolitical imbalances mainly affecting countries heavily dependent on raw materials, such as the UK, does not seem to be well-founded.

Probably, the most significant standpoint articulated in regard to Lankester’s book is that expressed by Giles Wilkes in his review published by the *Financial Times*³: “It is a quietly devastating insider account of the theory and practice of monetarism during this crucial period [Thatcher’s first two years]: a tale of economic mismanagement where the main characters often had no idea what they were doing” (Wilkes, 2024).

² See for instance Sharp, M. and Walker, W. (1991), *Thatcherism and Technical Advance: Reform without Progress?*, Part 1, *The Political Quarterly*, 62 (2), pp. 262-272 and Sharp, M. and Walker, W. (1991), *Thatcherism and Technical Advance: Reform without Progress?*, Part 2, *The Political Quarterly*, 62 (3), pp. 318-337.

³ Wilkes, G. (2024), *Inside Thatcher’s Monetarism Experiment*, *Financial Times*, Aug. 18.

As such, the book appears as the memoir of an insider, lacking the precision of an archivist or the scrupulousness of a scholar of economic thought and economic policy. We should therefore not be too harsh on Lankester for failing to mention certain classic texts, above all *The Economic Consequences of Mrs. Thatcher* by Lord Nicholas Kaldor⁴, from which we draw these concluding sentences: “Mrs Thatcher would be well advised to stop listening to the Hayeks and Friedmans of this world and turn instead to Adam Smith who explained convincingly, in the chapter on Money in *The Wealth of Nations* (vol. 1, bk. 2 Ch. 2), that the credit-creating power of the newly opened banks was a major factor in the economic development of eighteenth-century Scotland. Indeed without the spread of joint-stock country banks, and their ability to finance additional investment, the Industrial Revolution would hardly have got off the floor” (Kaldor, 1983, p. 5).

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⁴ Kaldor, N. (1983), *The Economic Consequences of Mrs. Thatcher. Speeches in the House of Lords 1979-1982*, edited by Nick Butler, Duckworth.