



PRIME MINISTER

#### VISIT OF MILTON FRIEDMAN

Caroline asked me to let you have a brief for your meeting with Professor Milton Friedman on 27 February. I hope that what follows is not too long.

2. The meeting will, doubtless, call for little formality or detailed preparation. This brief therefore recalls the reasons for Professor Friedman's presence here, indicates those developments here which most concern him and suggests a few areas which might be worth exploring in discussion.

#### BACKGROUND

3. Professor Friedman is in London for his series of TV programmes "Free to Choose", which are being broadcast by the BBC on Saturday nights. The programmes, which incidentally have been co-produced by a small British company, expound the virtues of the market economy and the necessity of monetarism. They have already been shown, with great success, in the United States. By next Wednesday he will have completed four days in the studios, recording a number of discussions under Peter Jay's chairmanship. These discussions supplement the "core" programmes and will be broadcast in due course as part of the series. One of them brings together the Chancellor and Denis Healey. I will

be appearing in another.

4. The series is in part a riposte to J K Galbraith's recent series "The Age of Uncertainty". It is also a curtain-raiser for the publication here on March 3 of Friedman's book "Free to Choose", of which I enclose a copy.

#### SPECIFIC ISSUES

5. Professor Friedman's admiration for the Government's policies and degree of commitment is well known, but not wholly unqualified. (I enclose a transcript of a recent radio interview he gave with Robin Day.) His chief anxieties include the following issues.

6. He has expressed reservations about the VAT increase in the last Budget, claiming that we should have financed the income tax cuts by cutting Government spending instead. He doubts if we will be able to control the money supply adequately without proper control of the banks' reserve assets, which requires a move towards Monetary Base Control, if not its wholesale adoption. He has been concerned recently lest the Bank of England should be intervening too heavily on the foreign exchange markets. He has always stressed the incompatibility between pursuing targets for the money supply and the exchange rate.

7. In discussion you might wish to stress that:

- we did indeed cut Government spending as soon as we took Office, and will be announcing further substantial cuts shortly.

- we are reviewing the instruments of monetary policy, including specifically a possible move to monetary base, although there are practical complications. [He knows that the consultative document is imminent.]

- we are aware of the dangers of excessive intervention on the foreign exchanges. He will have noted that we have so far not joined the EMS.

8. He is afraid that we may not be achieving sufficient economies in public spending, and moving too slowly and unimaginatively over denationalisation. For the latter he favours a "British Columbia" solution, in which profitable and loss-making NIs are grouped in a holding company, and stock in that company is distributed to the population. For BNOC he favours something like the Sam-Brittan "North Sea Equity".

9. You may be able to reassure him on public spending, given recent decisions and the imminent White Paper. The nationalised industries are more problematical. An indication of the practical problems they raise would account for the modest progress being made, but the picture thus revealed would not be a particularly reassuring one.

10. Finally, one should note Professor Friedman's longstanding belief in indexation, something which he knows concerns us greatly today. Given the ambiguities of the term - for example the radical difference between legally imposed indexation (as of old age pensions), discretionary (Rooker-Wise), commercial (Brazilian "monetary correction") or "truth in taxation" - this subject is difficult to discuss, but well worth discussing. You might wish to give the Chancellor the floor at some stage if this issue arises.

#### GENERAL ISSUES

11. In the broader political context Friedman believes strongly that one must rebut the "monopoly of virtue and morality" enjoyed by Marxists and left-wing parties and thinkers; hence his speaking campaigns, columns in newspapers and now this TV series and book. He passionately argues that a free society and market economy not

only bring about economic progress but also diffuse the benefits justly. Such a philosophy therefore has a moral justification every bit as compelling as that of the Left. However, it could be that he privately fears the Government are concentrating too much on the mechanical means and ignoring the moral ends.

#### POINTS TO MAKE IN DISCUSSION

12. Apart from dealing with such of the above issues as may arise, you may wish to reassure Professor Friedman about the seriousness and commitment with which the Government are approaching their task. Though he is as well aware as anyone of the inevitable pains and costs involved in pursuing tight monetary policies, he may have been a little discouraged by recent newspaper reports or impressions drawn from his TV discussions.

13. The easiest way to lead in to such matters might be to seek Professor Friedman's general impression of what has been achieved to date and the problems which lie ahead, in the light of what he has learnt during his visit.

#### DOCUMENTS

... 14. If time permits, it may be helpful to glance at the attached papers before you see Professor Friedman:

1. "The Free Market Man".

Observer, February 17.

NB: This is said by Professor Friedman to be rather inaccurate.

ii. "Friedman's Cure for Inflation".

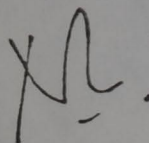
Sunday Telegraph, February 17.

iii. "Inflation Will Come Down".

Article by Geoffrey Levy in the Daily Express, February 20.

iv. "Free To Choose".

A personal statement, being the script of one of the programmes in the TV series.

A handwritten signature in black ink, appearing to be 'NL' with a horizontal line underneath.

NIGEL LAWSON

22 February 1980