SUNDAY TIMES SUNDAY October 22 1989

Tory MPs press for Walters' dismissal as gloom deepens

by David Smith
Economics Editor

THE prime minister is under pressure from senior Tory MPs to silence or dismiss Sir Alan Walters, her personal economic adviser, as the government faces another testing week on the economy.

A disagreement on the European Monetary System has resurfaced between Walters and Nigel Lawson, the chancellor, with the imminent publication by an American economic journal of an article written by Walters in which he declares his firm opposition to taking the pound into the EMS.

Labour intends to exploit the dispute in its Commons debate on the economy on Tuesday. Poor trade figures on the same day could create new problems for the pound, adding to fears of higher base rates.

Furthermore, the Confederation of British Industry will this week report a sharp weakening in business confidence, output and investment prospects.

There is a growing belief among Tory backbenchers that it will be impossible for the government to present a united front on economic policy as long as Walters is in Downing Street. This uncertainty, they fear, will transmit itself regularly to the financial markets.

At the very least, they say, he should be subject to restrictions similar to those governing career civil servants — to keep his views to himself and his minister, in this case the prime minister.

"In his position as an adviser, he should be in the same position as a senior civil servant," said Sir William Clark, chairman of the Tory backbench finance committee. "If he isn't prepared to be subject to those conditions, he should consider his position."

The prime minister had demonstrated that there was no rift between her and the chancellor, including on the subject of the European Monetary System, he said. "If you are an adviser and your advice is not being taken, after a bit you decide to go."

The Treasury's latest economic forecast, to be published next month, will show the economy decelerating sharply next year, but avoiding outright recession. Inflation, now 7.6%, will be forecast to drop below 6% in 1990. The current account deficit — heading for £20 billion this year — will be projected to narrow to £14 billion.

STATE OF THE PARTIES

Labour has a 10-point lead over the Conservatives — one point less than two weeks ago — according to the latest Observer-Harris poll.

Labour	48%
Conservatives	38%
Liberal-Democrats	6%
Greens	5%
Nationalists	2%
SDP	1%

Tuesday's economic debate in the Commons will follow the release of the trade figures — which are not expected to show much improvement on the previous month's £2 billion current account deficit — and could add to City gloom over the pound and base rates.

The CBI survey will show that high interest rates have sapped business confidence and are leading to cuts in investment plans. CBI leaders will warn that this month's move to 15% base rates has turned the economic warning lights to red. Last week's stock market crash, while short-lived, has added to concern about the outlook.

Gordon Brown, Labour's Treasury spokesman, said yesterday: "It looks like a long, hard winter for industry . . . home-owners and small businesses."

The prime minister had to choose between Walters and Lawson, he said. "The confusion and uncertainty over the differing views of the chancellor and the prime minister's economic adviser will continue to undermine Britain's economic prospects."

A Downing Street spokesman said the role of Walters was to give advice, but it was for the government to decide whether to take it. In his description of the EMS as a "half-baked system", in an article to be published shortly in The American Economist, an academic journal, he was writing for himself and not the prime minister, the spokesman added.

Full-time special advisers in Whitehall are required to clear anything they publish with their ministers and to avoid controversy. Walters, as a part-time adviser who splits his time between Britain and America, is not subject to the same conditions.

He has, however, been careful about contacts with the press since the controversy which surrounded his return to Downing Street last year. In submitting a 21-page "life philosophy" to The American Economist, he appears to have thought that he was only restating his known views.

Walters was lecturing in America last week. At his Washington office, inquiries were being referred to 10 Downing Street.

In the article, Walters shows himself to be firmly cast in the Thatcher mould. "The pressure from Europe and the British establishment to conform and join the exchange rate mechanism (of the European Monetary System) has been enormous," he writes. "But the arguments have never attained even a minimum level of plausibility.

"My advice has been for Britain to retain its system of flexible exchange rates and to stay out of the present arrangements of the exchange rate mechanism. So far, Mrs Thatcher has concurred."

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Thatcher returns to row over Sir Alan

Nicholas Wapshott and William Keegan

At loggerheads: Sir Alan Walters and Mr Lawson.

MRS THATCHER is expected to reaffirm her confidence in Sir Alan Walters, her special economic adviser, when she returns to Westminster this week. The Prime Minister's renewed support is certain to aggravate the continuing uncertainty about the future of Government economic policy.

Sir Alan last week came under attack in the Commons from an unusual alliance of the Chancellor of the Exchequer, Mr Nigel Lawson, the Deputy Prime Minister, Sir Geoffrey Howe, and the Leader of the Opposition, Mr Neil Kinnock.

He has also added to the Prime Minister's embarrassment by writing an article, due for publication in the United States, in which he claims personal credit for the Government's economic policy successes and re-emphasises his differences with the Chancellor over the European Monetary System.

Mrs Thatcher returns from the Commonwealth Conference in Malaysia on Wednesday morning and faces tough questioning on Thursday from Mr Kinnock about the rift between herself and her economic adviser and Mr Lawson. She will be forced to defend the line laid down by Mr Lawson and Sir Geoffrey Howe last week that the Chancellor's policy towards the European Exchange Rate Mechanism (ERM) is the Government's policy and that Professor Walters's views are his own. Senior Government sources have revealed that Sir Geoffrey did not contact the Prime Minister before defending Mr Lawson's position on Thursday.

Mr Lawson faces an onslaught from the Labour Treasury team on Tuesday, when he must defend his policies before an Opposition debate on interest rates and the state of the economy. Labour economic spokesmen intend to draw upon the full text of a revealing autobiographical essay by Walters to be published in *The American Economist*.

The article, which has been obtained by *The Observer*, is an indiscreet document, full of embarrassing details about the Thatcher-Walters relationship. Sir Alan did not clear the article with the Prime Minister before submitting it. Senior Government sources are pre-empting Labour's assault by dismissing the essay as having been 'written two-to-three years ago' and merely 'dusted off' for publication.

It addresses the dispute between Numbers 10 and 11 Downing Street on the timing of Britain's entry into the Exchange-Rate Mechanism (ERM). Walters describes the disagreement as a 'major controversy where I found myself in a beleaguered but rather select minority.'

He writes: 'The pressure from Europe and the British establishment to conform and join the ERM has been enormous. But the arguments have never attained even a minimum level of plausibility. My advice has been for Britain to retain its system of flexible exchange rates and to stay out of the present arrangements of the ERM. So far Mrs Thatcher has concurred.'

He concludes: 'It would not be in Britain's or, I believe, Europe's interest to join the present half-baked system.'

The essay is a specially written account of his philosophy, contributing to a series from prominent economists. He asks, apparently without irony: 'Who, on earth anyway, would be interested in my philosophy? I would bring an entirely unnecessary attention upon myself in exposing my ego and my errors.'

And so he does. He confesses that his early assessment of Mrs Thatcher was wrong. In 1975 'What I thought was politically impossible had happened: Heath had lost the leadership and by a series of split votes and accidents the party had elected a woman who was regarded as an upstart — a mere housewife and junior minister — Margaret Thatcher.

'I knew Mrs Thatcher as an ardent student of economics on the various occasions I had talked to her over the past few years. I confess that I had not thought of her as a leader at all.' Later he became her special economic adviser. Mrs Thatcher said to him: 'You know what you can do best and you know what needs doing.'

Sir Alan explains: 'Thus began what I believe was the apogee of my career. I had the best job anyone could devise. Since I soon earned Mrs Thatcher's trust, I acquired a considerable influence on economic policy.'

Among other revelations likely to be exploited by the Opposition this week is the fact that he believes that at his primary school 'corporal punishment was administered firmly and fairly', that his father was a communist for 20 years and that Walters failed the 11-plus.

Gordon Brown, Labour's Treasury spokesman, yesterday challenged the Prime Minister to choose between her Chancellor and her economic adviser, arguing that the differing views 'will continue to undermine Britain's economic prospects'.

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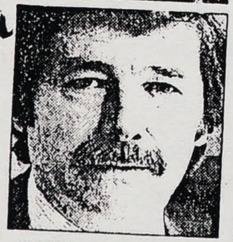
a Lawson's Waltered-down speech

In My View



William Keegan

WHAT a sad anti-climax the Chancellor's Mansion House speech was - especially after 'the speech that nearly got away with it' in Blackpool. The Blackpool performance had been designed to restore Mr Lawson to the status of matinee idol. The troops liked it, but the Prime Minister looked positively disdainful.

Her icy stare lives on in the mind long after every word of Mr Lawson's rabble rousing speech has been erased from the memory.

Not a difficult feat. Mr Lawson managed to say nothing on that occasion, in a series of one-liners that took half an hour to deliver and about half a minute, I imagine, to compose. Which in turn raises the question of what the Chancellor was doing inside his Leicestershire study while being doorstepped by the Popular Press the other week. Certainly not writing his Blackpool speech.

My information — a scoop, I believe — is that he was reading *War and Peace* and Clausewitz on strategy in preparation for an autumn with the Prime Minister and Sir Alan Walters. He also thumbed through that great classic by Jerome K. Jerome, *Three Persons in a Leaking Vessel*.

There have been suggestions that the very idea of tensions in Downing Street over recent economic events has been invented by the Press. Would that we were so inventive.

There are a lot of turbulent priests around in these ecumenical days, and it is the job of this particular estate to report sightings. Of course, we have to apply a 50-year rule when it comes to disclosing sources.

Now, given that the Chancellor disappointed the financial markets by not putting the pound into the European Monetary System's exchange rate mechanism in Blackpool the expectation grew that he would make a significant statement at the Mansion House on Thursday.

Would that he had. The tensions of Downing Street ruled that out. Indeed, what does not seem to have been realised about the Mansion House speech is that the only significant step the Chancellor took was backwards.

He gave a clue, all right, to an expectant City (and country-wide audience of industrialists) about the timing of the pound's entry to the EMS exchange rate mechanism. But the hint was not taken.

Those who were looking for early entry, or a swift decision, were disappointed. But the repetition of the commitment to join the ERM during Stage One of the Delors programme for European and monetary union was accompanied by a hidden message.

True, the Chancellor said: 'Once our inflation has come down and progress has been made with the abolition of exchange controls and other key aspects of the single market, the way will be clear for sterling to participate fully in the EMS.'

But he proceeded to deliver a furious attack on Stages Two and Three of the Delors Report's programme (involving progress towards a European central bank and a common currency), saying it proposes 'an abrupt shift to a centralist and bureaucratic agenda that poses grave threats to any known form of democratic accountability. That is why the United Kingdom will be suggesting an alternative way forward.'

At this point the Chancellor reverted to his eccentric diversionary scheme for competition between European currencies to find the most acceptable — as if the Bundesbank did not know the answer.

You do realise what this means? Perfidious Albion wants Stage One to last indefinitely — until the time is ripe, as it were, for Stage Two. The ultimate Thatcher/Lawson/Walters compromise is that the deadline of Stage Two is assumed away. It never happens. Which brings us to what did happen between the Blackpool and Mansion House speeches: the mini crash in the stock market.

I am not sure whether the Government thinks this was invented by the Press too — they are frightfully sensitive at the moment: Peter Lilley, Financial Secretary to the Treasury, complained on Radio Four's *Today* on Friday that there had been no reference on the news to the fall in unemployment, whereas I understand it was reported 35 times by the BBC on Thursday.

At all events, the mini crash may have begun and ended in Wall Street, but it has focused greater market attention on the British economy.

The powers that be in New York and Tokyo thought their markets were too high for comfort anyway, but had to react to the mass hysteria: the US Federal Reserve supplied billions of dollars to the banking system and, before that, the Japanese Finance Ministry and the Bank of Japan told their tightly controlled market to behave.

Hey presto — can you imagine the London market falling only 1.8 per cent on a day of mass hysteria? The behaviour of the financial markets during recent weeks has driven a coach and horses through the theory that, at any one time, they provide a perfect valuation of stocks and currencies, based on all the known information.

The fact is that, like some children and many a delinquent adult, they push things until they are repulsed. Sometimes the Chancellor does know best.

One financial centre that has started looking more closely at the British economy since the Wall Street mini-crash is Tokyo.

On BBC's *Newsnight* last week I heard one of the most distinguished investment authorities in Tokyo refer to the British economy as 'close to the edge of the cliff'.

He was referring to the Chancellor's local difficulties with inflation and the balance of payments, and repeated the judgement when queried by the energetically incredulous presenter.

No wonder Mr Lawson came pretty close to promising 'two years hard slog' at the Mansion House. Do people realise what is about to hit them?

W/N

In an astonishingly indiscreet article, which will appear in the autumn edition of *American Economist* — extracts from which appear below — **Sir Alan Walters,** the Prime Minister's economic adviser since 1980, claims credit for the economic successes of the Thatcher years. He also explains how he differs from the Chancellor regarding the EMS.

. . . and Sir Alan's undiluted wisdom

IN response to the invitations extended by Sir (now Lord) Keith Joseph and (now Sir) Alfred Sherman, I decided to return to London in 1980 as personal economic adviser to Mrs Thatcher [by now Prime Minister] for a period of two years.

My appointment was greeted with protests, partly about the salary (£50,000) and partly because I was thought to be the rigid monetarist whom Mrs Thatcher would use to clobber the more pragmatic officials and ministers in the Treasury and the Bank of England.

There was much pressure to put me in the Cabinet office or in the Treasury, but the Prime Minister and I agreed that I would be most effective at her elbow in No 10.

The job was unique. My role was defined by the Prime Minister with the words: 'You know what you can do best and you know what needs doing.' Thus began what I believe was the apogee of my career. I had the best job anyone could devise. Since I soon earned Mrs Thatcher's trust I acquired a considerable influence on economic policy.

Yet the first months were most difficult as I worked to bring about immense changes in monetary and fiscal policy.

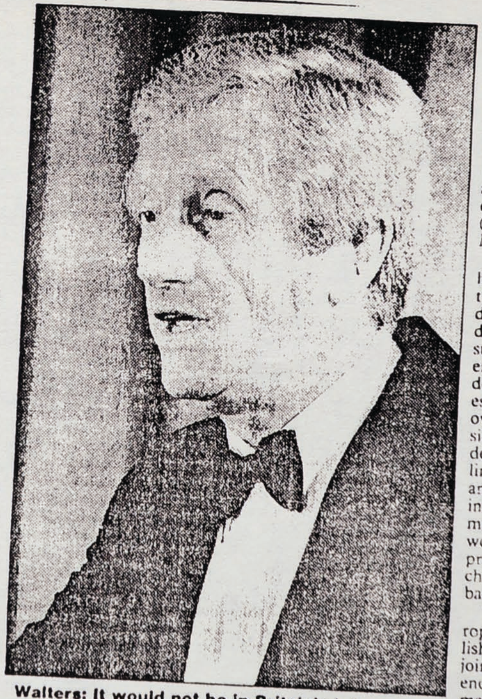
First, in 1980, I had become convinced that monetary policy, as measured by the narrow aggregates, had drastically tightened from mid-1979. (The growth rates had fallen from some 15-17 per cent to virtually zero by 1980). High real interest rates and a massive (circa 45 per cent) real appreciation of sterling together with the rapidly escalating recession corroborated this diagnosis (later confirmed by my old colleague from Johns Hopkins [the Baltimore university], Jurg Niehans).

Secondly, as the fiscal situation unfolded in the first weeks of 1981, I believed that, contrary to all conventional wisdom both in and out of government, it was essential to cut in half the borrowing requirement of the public sector (PSBR).

I proposed the biggest budgetary squeeze in peacetime history — a reduction of more than 2.5 per cent of GDP and that during a time when output was falling faster than in any year since World War II and when the monthly unemployment figures were soaring. After much fierce debate, Mrs Thatcher became convinced and, with characteristic courage, adopted this fiscal squeeze.

Professional judgement was swift and virtually unanimous. In a letter to the *Times* on 31 March 1981 signed by Frank Hahn and 364 economists including all living ex-chief economic advisers to the government, the policies were said to '. . . deepen the depression, erode the industrial base of our economy and threaten its social and political stability'.

It was clear that they had been looking for an increase in the PSBR as a countercyclical measure against the recession. My argument, per contra, stressed the unsustainability of yet another large PSBR (estimated at about 6.5-7.5 per cent of GDP) following a decade of such deficits, the soaring effect on real interest rates, and the need for a consistent and, above all, *credible* fiscal-monetary policy before there could be any hope of sustained recovery. So the deficit was cut and interest rates fell some 500 basis points below their peak.



Walters: It would not be in Britain's interest to join the present half-baked system.

The results appeared in the summer of 1981. Contrary to the dire predictions of the 365, the economy turned sharply upwards. Nor was it a flash in the pan, as it was so confidently asserted by many of the 365.

From 1981 to this day (a still continuing boom in 1988) Britain has grown for the longest expansion on record. For the first time since World War II, Britain has been at the top of the OECD growth league instead of its usual place at the bottom. Furthermore, inflation was reduced from an ambient 15 per cent in the 1970s to less than 5 per cent from 1983 on. It became the accepted view, except among academic economists, that the Budget of 1981 together with the adjustment of monetary policy was the foundation of Britain's economic renaissance . . . .

After this auspicious beginning, I acquired a considerable reputation at the Treasury and the Bank of England, and I received their full co-operation during the next three and a half years.

In my role as adviser, there was one other major controversy where I found myself in a beleaguered but rather select minority. The issue was exchange rate intervention and the advisability of Britain joining the exchange rate mechanism (ERM) of the European Monetary System.

For more than 35 years I have been convinced that the various forms of pseudo-fixed exchange rates, dignified by various names such as crawling pegs, reference zones, etc, had only deleterious consequences — especially encouraging overvaluation and repression (on the part of dependent currencies such as sterling, the French franc, etc) and massive capital flight or inflow when the 'realignment' was imminent, which would in turn give rise to proposals for more exchange controls and trade barriers.

The pressure from Europe and the British establishments to conform and join the ERM has been enormous. But the arguments have never attained even a minimum level of plausibility. My advice has been for Britain to retain its system of flexible exchange rates and to stay out of the present arrangements of the ERM. So far Mrs Thatcher has concurred.

(Of course, I would not be opposed, at least not on economic grounds, to the development of a proper European currency administered by a European Central Bank preceded by absolutely fixed exchange rates and appropriate monetary institutions to support that fixity. But that is another story). It would not be in Britain's or, I believe, Europe's interest to join the present half-baked system.

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SUNDAY EXPRESS

Thatcher defies call for gag on her guru

by ANTHONY SMITH
Political Editor

MRS THATCHER is refusing to silence her economic adviser, Sir Alan Walters, despite demands that he should be sacked.

Senior Tories are worried that the continuing rift between the Chancellor and No. 10 could provoke Mr Lawson into storming out of the Cabinet.

Backbenchers are so concerned at the way the row is damaging the Government's standing, as well as undermining confidence in Mr Lawson, they are planning a deputation to see Chief Whip David Waddington.

The latest conflict has arisen because Sir Alan's controversial views opposing Britain linking the value of the pound to currencies in Europe are appearing in an American magazine.

His remarks that the European Monetary System was "half baked" and that arguments for joining had not even reached "a minimum level of plausibility" are sharply at odds with the views of Mr Lawson and Deputy Prime Minister Sir Geoffrey Howe.

Both publicly rebuked Sir Alan last week while Mrs Thatcher was attending the Commonwealth conference in Malaysia.

But sources close to the Prime Minister have made clear that her economic guru will not be gagged.

They point out that as a part-time adviser he does not have to clear his statements with the Government.

One senior source said yesterday: "Sir Alan has made remarks before and no doubt he will continue to do so. He is under no constraints — his role is to give advice which may or may not be heeded."

Christopher Hawkins, Tory MP for High Peak and a former economics lecturer, said last night: "Alan Walters should be fired for publicly attacking the Chancellor while wearing the mantle of the Prime Minister's appointment.

"His attacks are harming our credibility at home and abroad, and it is surely time for him to go. Mrs Thatcher has every right to have an economics adviser — and it should be the Chancellor."

Mrs Thatcher has followed the row from Malaysia and is likely to discuss the problem with party managers when she returns to London on Wednesday.

SUNDAY EXPRESS

Shut up — or go

THE Government believes that Britain should become a full member of the European Monetary System when the time is right. Sir Alan Walters, Mrs Thatcher's economic adviser at Number 10, begs to differ.

In an American magazine, he declares that the EMS is "half-baked" and that arguments for it have not reached even "a minimum of plausibility."

It is perfectly proper and healthy that the Prime Minister should have an adviser who questions and challenges Government policy — but he should do so in private.

No matter who is right or wrong about the EMS, the very last thing the country needs at this time of economic uncertainty is a public row between Number 11 and the office next door.

Sir Alan must be told to keep his mouth shut — or go.

SUNDAY CORRESPONDENT

CAPITAL MARKETS

ECU futures to give Liffe a lift

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THE latest salvo in the battle between the UK and French financial futures exchanges will be fired on Thursday when the London International Financial Futures Exchange launches the first European Currency Unit interest rate futures contract.

Liffe already trades three-month mark, dollar and sterling interest rate contracts. The three-month ECU contract has been launched to provide a hedging instrument for the substantial ECU cash market throughout Europe. It follows two years of research involving all the major players in the ECU market.

The growth rate so far of the ECU has been rather slow, accounting for some 2.5 per cent of banks' external lending, but the use of the ECU for trade finance and invoicing is expected to increase.

Three continental banks, Generale Bank, Kredietbank and Istituto Bancario San Paolo di Torino, have agreed to be designated market makers responsible for ensuring the liquidity of the contract. Liffe is confident that its other members from the UK and Japan will be active in the ECU market once it is up and running.

London's claim to be a truly international exchange will be further enhanced when Automated Pit Trading comes into effect on November 30. The first contract to be traded on APT will be Liffe's Euromark futures contract, to be followed within two weeks by the Bund, or German government bond, contract. By mid-1990, LIFFE hopes to have added all its remaining futures and options contracts to the system.

The APT system, costing some £1.6m to set up, will allow members to trade outside the normal market hours and take advantage of orders from the Far East and the US.

One of the reasons behind Liffe's drive to become more international is the shrinkage of the UK government bond market — and with it the decline in importance of the long gilt futures contract. This is in direct contrast to the French financial futures market, the Matif, which benefits from a consistent supply of new government issues.

Despite being younger than London's futures market, the Matif regularly outstrips Liffe in terms of turnover. In September, volume on the Matif totalled 2.16m contracts (including 34,380 traded on THS, the over-the-counter network). Liffe traded 2.12m contracts in September.

The competitive pressures on Liffe will increase further from January 26 next year, when Frankfurt's futures exchange will open for business.

Futures have not been traded in West Germany since 1923, partly because it was not known whether the business would count as gambling under German law and whether, as a consequence, the courts would uphold liabilities. The laws were changed in August to allow an exchange, and about 50 firms have so far signed up for membership.

However, for the time being Liffe will keep its monopoly on the Bund contract, some 500,000 of which are traded monthly. The Frankfurt exchange will start by trading options in 30 shares, with stock index and Bund contracts to follow later.

Trading will be fully automatic, with a system modelled on that used by Soffex, the futures exchange established by the three major Swiss stock exchanges just over a year ago.

Nicola Reeves and Matthew Crabbe

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POLITICAL NOTEBOOK

Why the punters should still buy Lawsons

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SUNDAY TELEGRAPH

by Bruce Anderson

IF YOU WANT to be Chancellor of the Exchequer, it is helpful to look like a Puritan. Though there have been notable exceptions — Lloyd George, Roy Jenkins — most successful Chancellors have given the impression that there is something of Gladstone in their make-up.

Not Nigel Lawson. There is little of the Puritan in his personality, still less in his public image — and nothing of the hypocrite in his frank enjoyment of life's pleasures. This does not matter when things are running smoothly at the Treasury, but when trouble starts it can create distrust, which is only compounded by Mr Lawson's insouciant manner and absolute refusal to express any humility towards his critics.

It may be for this reason that a damaging falsehood has been gaining currency. It has been asserted that Nigel Lawson is not a serious monetarist, and is not fully committed to counter-inflation: certainly not at the expense of economic growth and electoral success.

Two pieces of evidence have been presented in support of this thesis. First, there is the Chancellor's abandonment of broad money targets in the mid-Eighties, and his preference for an exchange-rate/ERM strategy. This is said to prove that he is not a proper monetarist. Second, there is the mismanagement of the money supply since 1987, with Mr Lawson failing to squeeze hard enough or early enough. This proves his lack of counter-inflationary zeal.

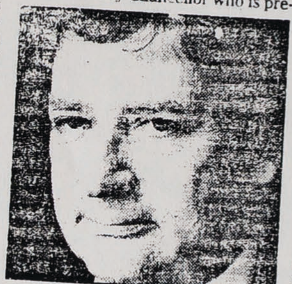
I would argue that the first allegation underestimates both the difficulties of running an effective monetary policy and the sophistication of Mr Lawson's response to that problem. On the second charge, it is much harder for the Chancellor to plead "not guilty", but in mitigation, he can claim that he was wrong for good reasons, in good company — and that he was the victim of a profound cultural change.

Nigel Lawson abandoned broad money targets, not because he was not a monetarist, but because he was a realistic monetarist. Monetarism is basically a matter of common sense. At its core is a simple proposition: that if the ratio of money to goods is altered, the value of money will also change. So increases in the supply of money relative to the supply of goods will cause inflation. All very straightforward: the only problem is how to measure and control increases in the money supply, in an ever-more complex economy.

On the basis of the evidence available to him, Mr Lawson concluded that no single monetary indicator gave a reliable reading. So he decided not only to monitor a range of indicators, but to pay particular attention to the exchange-rate. This was not a retreat from monetarism; it was merely a means of finding a monetary policy that would work.

But Mr Lawson went further. He also decided that the pound's fortunes should be tied to the Deutschemark. That meant joining the ERM, and aligning British monetary policy to that of the Bundesbank, Europe's most implacable opponent of inflation, with the aim of securing a rate no more than, say, one per cent higher than the German figure.

Now it is perfectly possible to be against inflation and against the ERM; Sir Alan Walters is a good example. But it is *not* possible to be in favour of the ERM and lax about inflation. Any Chancellor who is pre-



Lawson: a serious monetarist

pared to chain himself to the railings of the Bundesbank cannot be accused of being soft on inflation.

But the Prime Minister would not allow the Chancellor to carry his policy through to its logical conclusion by joining the ERM. In support of her refusal, she cited Sir Alan's arguments; but they were only a rationalisation for her stance. Its basis was twofold, and instinctive. First, there was her dislike of Euro-embroilment; second, her deep unwillingness to accept that Britain needed German help to mount a successful counter-inflation policy. Before the 1979 election, Nick Ridley used to argue in favour of the ERM precisely on the grounds that no British Government could be trusted to persevere with counter-inflation: by 1987, Margaret Thatcher believed that she had refuted that argument. At various stages since, though not recently, she has been inclined to blame Mr Lawson for undermining that refutation.

Alan Walters's argument and the rejoinders by Sam Brittan are too complex to be readily summarised; anyway, it is now less necessary to do so, for two reasons. First, since the Madrid Summit, the counter-ERM argument is only of historical interest. The Government is now committed to membership of the ERM, and that commitment could only be abrogated if our inflation rate were to fall to West German levels over the next year: an unlikely development.

Second, there seems to be a wide measure of agreement that even if Britain had joined the ERM in 1987, we would still be facing the same problems today. The ERM is not a benevolent institution, in which the other participants are eager to use their reserves to bail out an unfortunate member suffering from policy looseness. Had the UK been a full member, we would still have had to push up interest rates.

There might have been two marginal differences. It is possible that interest rates would not have come down as far in early 1988, and it is also possible that there would have been less exchange-rate pressure for the rise to 15 per cent. But we had a domestically generated inflation problem, and we would always have had to clear up the mess ourselves.

Which brings us to the question of Mr Lawson's responsiblity for that mess. By the autumn of 1987, British monetary policy was too loose, and the economy was growing too fast. Corrective measures were taken: the interest rate went up, and the Treasury was ready for further increases. Then came Black Monday.

Very intelligent men warned of the danger of a crash, as did Neil Kinnock. Throughout the world, finance ministers injected liquidity into the system; Mr Lawson did the same. No one predicted that our economy would just shrug off Black Monday and carry on growing regardless.

This is where the cultural change comes in. A few years ago, the average British household had borrowed half as much relative to income as the average US household. Now the average British household has borrowed slightly more. We have moved from being an under-borrowed society in which credit was regulated and rationed to a fully-borrowed society in which there is a free market in credit. Even in a period of high growth and excellent supply-side performance, this has created demand well in excess of capacity; hence inflation and the trade deficit.

But hence also more home-ownership, higher living standards, and a necessary move towards individual choice in credit. The adjustment has been disruptive; bringing inflation down will be painful — but this is all in the context of an economy whose underlying growth rate has increased, and which has made a decisive break with the bad old habits of the Sixties and Seventies.

I have always argued that Mr Lawson will be remembered as a great Chancellor, and that his difficulties were only the difficulties of success. I plead guilty to underestimating the difficulties, but not to overestimating Nigel Lawson. My advice to the political investor remains what it has always been: buy Lawsons.

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