

HOOVER INSTITUTION

ON WAR, REVOLUTION AND PEACE

Stanford, California 94305-2323



May 24, 1984

*AS / 1984 / RA
A hand note
RAH*

*John
AEP 2
attached article
to Richard
please*

*I'm quite confused by MF's Wall St. J. article
I suggest, Ralph, you ask P. Minford
to comment on it. JMW.*

Lord Harris of High Cross
Institute of Economic Affairs
2 Lord North Street
Westminster
London, SW1P 3LB, England

Dear Ralph:

Many thanks for sending me your latest contributions to the House of Lords. They are most impressive.

However, I write not simply to approve but also to disagree. In the other piece you enclosed, "A Conservative Revolution in Great Britain," I differ very strongly with the views you express at the bottom of page 10 and the top of page 11, especially your parenthetical statement that "In 1984 our American friends would not be facing high interest rates and rising inflation if their government had been equally prudent in its earlier years." I believe that statement is almost wholly false. Part of my reason is contained in the enclosed reprint from the Wall Street Journal which deals with the question of whether in fact deficits produce high interest rates. The same qualification is correct with respect to the relation between deficits and inflation. Deficits produce inflation if and only if they are monetized. They have indeed been monetized to some extent over past decades which is why we have had inflation. There is absolutely no necessity for them to be monetized.

Much more important in my opinion, in the United States, if taxes had been raised in the past few years the deficits would not have been reduced. The result would simply have been a higher level of government spending. That certainly was the experience with the tax rise which Reagan reluctantly consented to in 1982. He was supposedly promised by the leaders in the House and the Senate that for every dollar of increase in taxes there would be a three-dollar decrease in spending. In fact, there was the predicted increase in taxes; there has been absolutely no reduction in spending to match it. We are likely to be going down the same rat hole currently with a proposed package to make a start on closing the deficit. That start is much trumpeted as containing both increased taxes and reduced spending, but the only part of it which has substance consists of the increased taxes; it will not in fact reduce the deficit.

What is true for the United States may very well not have been true for Britain; I am not making any judgment about that. But I believe that your

agree. Martin Anderson (Reagan aide) fears reversal soon on Milton's nuances. (see his 'An Economic Bill of Rights').

(attached)

What decides whether they are?

There are strong political pressures to monetize government debt, as Milton would

Lord Harris of High Cross
May 24, 1984
Page 2

parenthetical statement does not allow sufficiently for the difference between the parliamentary system in Britain, where the Prime Minister and the Chancellor of the Exchequer get the budget they submit, and the U.S. situation, where the President recommends and Congress disposes.

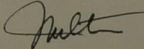
> To change the subject altogether, our daughter, her eleven year-old son, and her husband are going to be in London around June 13 and 14.

I know they would be ecstatic at being shown through the House of Lords by a real life Lord. I have written to Peter Bauer to ask him if he could perform that service since he knew Janet some thirty years ago at Cambridge when she was the same age as her son is now. I am sure that if Peter is going to be in town he will be delighted to do so.

I mention this to warn you, however, that I am also giving Janet your telephone number just in case Peter is not available. I would very much appreciate it if you could perform this little personal service in that case.

Best personal regards.

Cordially yours,



Milton Friedman
Senior Research Fellow

F:v
Enclosure