price increases. *A fortiori*, if the inflation rate were to edge up to 6, 7 or 8 per cent he was constrained, should the performance of manufacturing industry and the trade deficit suggest this was necessary, from inducing a devaluation of the pound (which would raise import prices, and the RPI, even further).

What Lawson inherited from himself in the summer of 1987 was a split-level economy. At one level, that of the narrow focus of the MTFS, things were wonderful. The monetary side of the medium-term strategy had proved an almost farcical disaster – inflation did not behave in the way the monetarist model demanded; and so many changes were made to the 'targets' that the Chancellor ended up with an indicator, Mo, which his friend Samuel Brittan himself subsequently dubbed a 'pocket money' indicator; and a concept, controlling the growth of nominal gross domestic product, which signally failed to allow for the warning signals of rapid import growth.

But the fiscal side of the MTFS for Lawson was a dream come true. From the period of his conversion onwards he had shown an interest in the 'balanced budget'. With the aid of the proceeds of £5 billion to £10 billion a year from privatisation, and sales of council houses, he was to achieve this. And, paradoxically, the stronger the consumer boom, the 'sounder' his budgeting position would seem, because of the contribution of higher receipts from VAT.

The approach to balance – and eventual surplus – gave him two inestimable political advantages. It diverted attention from the trend of the balance of payments: impressed by the fiscal position, and the 'success' of the MTFS in meeting the targets for public sector borrowing, the market analysts, or 'teenage scribblers' as he called them, were slow to highlight the deteriorating balance of payments trend, and its implications (Dr Gerard Lyons, then at Savory Milln, was a notable exception). And, of course, it gave him some scope for tax cuts – which he also liked referring to as 'tax reform'.

One of Lawson's motives in being such a forceful proponent of privatisation when Energy Secretary was apprehensiveness about the chances of reaching the PSBR targets, given the unexpected pressures on public spending. But, as it turned out, the MTFS strait-jacket did prove to be, from Lawson's point of view, an effective discipline on the rest of the Cabinet's spending plans. The virtual freeze on the total volume of general public expenditure after 1983–84 was essential to the tax-cutting strategy of 1987 onwards.

But the very same freeze on public expenditure also aggravated subsequent economic and social discontents. It was assumed, in spite of opinion-poll evidence to the contrary, that people preferred tax cuts to better public services – or, even, that they did not mind deteriorating public services provided they were soothed with the balm of tax-cuts.