Alan Walters was an economist well-known among the general public as Margaret Thatcher’s personal economic adviser, a role which he performed successfully — almost uniquely in the history of such relationships with prime ministers in the UK or indeed heads of government anywhere for that matter. This made him of course controversial, and particularly among economists of different political persuasions.

Nevertheless his academic pedigree was unquestionable. He published influential papers on private and social cost functions in *Econometrica*, the *AER* and *REStats* in the early 1960s and these formed the basis of a large number of papers in applied microeconomics, especially in his main interest, transport economics. He edited the *Review of Economic Studies*, being regarded as one of the econometric stars of the generation that included Frank Hahn and Denis Sargan.

Perhaps surprisingly therefore it was in macroeconomics that he was best known popularly — especially as a ‘monetarist’. While at Birmingham University he became interested in Milton Friedman’s critique of monetary policy at Chicago. He decided to apply the analysis to UK monetary history in work from the mid 1960s that appeared in the *Oxford Bulletin*, *OEP*, *REStats* and the *JPE*; the analysis took the form of regressions of inflation and output on money supply growth later it was all brought together in an influential IEA Hobart paper in 1971, *Money in Boom and Slump*. He argued that even under fixed exchange rates exchange controls gave the monetary authorities plenty of scope to control the money supply; and that they had used this scope to pursue Keynesian policies of demand expansion, which periodically alternated with bouts of demand contraction due to balance of payments deficits. While money supply growth was not deliberately targeted, it was a good indicator of the degree of monetary ease produced by deliberate manipulations of interest rates, which were therefore exogenous to some extent and otherwise predetermined, reacting to lagged outcomes. Hence he deployed good state of the arts econometrics at that time which indeed did show rather clearly that inflation and output fluctuations followed from monetary fluctuations. It needs to be remembered that in those days little use was made of systems estimators because of the slowness of computers. But in any case for his purposes it was enough to establish that there were effects from monetary policy variation again we often forget how monetary policy was dismissed widely at the time as having small if any effect on the economy; many thought its role was purely in stabilising the balance of payments by attracting capital flows.

An interesting footnote to Walters’ work on macro was his *EJ* article in 1971 on ‘Consistent expectations’. This pre-emption of Lucas’ early writings on rational expectations was nearly rejected by the *EJ*, not surprisingly given the prevalent Keynesian views of the time. Walters did not take his paper very seriously and seems to have written it mostly as an exercise in ‘what if?’ — according to one informal account he got the idea in the bath and partly wrote it up there! Like Milton Friedman he was most comfortable using the adaptive expectations model with ‘long and variable lags’ (the variability coming from the different patterns that monetary fluctuations could take).

His policy work on the micro side came in advising on transport, both here (most notably in the Roskill Third London Airport Inquiry) and at the World Bank. However it was of course in macro that he gained fame — or notoriety according to one’s viewpoint — first when he left as an economic adviser to Mr. Heath over his ‘inflationary policies’ (he maintained Heath sacked him, but Heath says he resigned), then later in Margaret Thatcher’s first government when his main preoccupations were with monetary, fiscal and unemployment policy, and finally when he returned as her adviser in the late 1980s when the issue of the time was whether to join the European Monetary System and fix to the DM. The second episode included the budget of 1981 which 364 economists condemned. He was knighted in 1983 for his contributions over this critical period. The third episode culminated in the public row created by Nigel Lawson over Walters’ anti-ERM advice, which resulted first in Lawson’s resignation and, a few hours after, in his own, to protect Mrs. Thatcher.

This last episode illustrated much about Walters’ personality and success as an adviser. He had an unusual capacity to condense and simplify arguments, drawing out their policy implications with brutal clarity and disregard for his own personal position. Thus over the EMS he explained the impotence this would bring to monetary policy; Lawson rejected the argument (wrongly), disliked the brutality and took it personally, which was far from Walters’ intentions, while Mrs. Thatcher could easily grasp it and appreciated the personal loyalty. Nowadays the Treasury has become totally converted to the Walters argument (or ‘critique’ as it was sometimes called), witness its clear opposition to joining the euro.

Walters was born into a poor family and failed the eleven plus, but he nevertheless obtained a place at Alderman Newton’s School in Leicester, whose Anglican endowment gave support to children from poor families. He left at 15 to work in a factory, as the family’s means must have finally run out. After the war in which he fought as a private he returned to Leicester and sought the advice of his old teachers as to what he might do to improve his chances in life. As he knew nothing much in the academic line, the advice
was to do economics; he pursued an external London degree from University College, Leicester and got the top first of his year. From then on opportunities opened up; he got a Nuffield postgraduate place and in 1951 at the age of 25 he became a lecturer at Birmingham. From Birmingham where he got the chair of econometrics in 1961, he went to LSE as Cassel Professor of Money and Banking in 1968. There he joined Harry Johnson who was commuting from Chicago and with other young staff there they created a stimulating environment for postgraduate work. He went to Johns Hopkins in 1976 where he was able to work conveniently also on transport economics at the World Bank. When he retired from these positions much later, he joined Putnam, Hayes and Bartlett, the Washington consulting firm, and helped them advise a variety of foreign governments; later he joined AIG Trading in London and helped build their varied financial operations.

Walters was always enjoyable company and had a good sense of humour; on his desk at Number 10 he had a coffee mug that said ‘Quiet — genius at work’. Towards the end he was afflicted with Parkinson’s disease which made not just movement but also communication difficult. But he bore it with cheerfulness and dignity. His is a remarkable story of rags to intellectual riches.

*Patrick Minford*
*Cardiff Business School*