

THE ROAD TO HYPER-INFLATION IS PAVED WITH GOOD INTENTIONS

26.2.80

The first impression of the shoot-out in the Downing Street corral is that the film has been miscast. It is the good guys in white hats who are in the wrong and the bad guys in black hats who are in the right. There is no doubt who the good guys are. They are Sir Ian Gilmour, Lord Carrington, Mr James Prior, Mr Peter Walker and, for most of the time, Mr Norman St John Stevas. It is said by some people that Mr Whitelaw is not as much of a good guy as he looks, but he is unquestionably a cowboy on the OK ranch.

The odd thing about the good guys is that they are indeed good. They are sympathetic and interesting politicians who have a sense of the unity of Britain, and a consciousness of their descent from the moderate and progressive wing of the Conservative Party. Their politics may be tender, when judged by the psychological division between tough and tender-mindedness, but their characters are not feeble. Mr Whitelaw's courage in Northern Ireland, Mr Prior's tough defence of a moderate if mistaken policy, Lord Carrington's vigorous pursuit of his political objectives, make the adjective "wet" singularly inappropriate. It would be just as appropriate to describe Sir Winston Churchill as wet for having served under Asquith and above Butler in reforming governments.

Wrong about two things

If the good guys are in error—and, alas, they are—it is not the result of belonging to the wrong political tradition, because indeed they belong to the better one; nor is it the result of weakness of character, for their characters are at least as strong as the characters of those whose policies they criticize. They are wrong about two things. They do not understand the difference between the 1950s and the 1980s and they do not understand economics. They are historically out of phase and intellectually out of their depth.

It is sometimes represented that the division in the Cabinet is between Friedmanites and Keynesians. Indeed the economic knowledge of the Treasury ministers has been slightly referred to as "A" level economics, as though A level examiners were all Friedmanite. Would they were! The division is much more nearly between those who take economics seriously, and those who know little or no economics at all.

It is doubtful whether either Lord Carrington or Mr Whitelaw has ever read any work of economics of any school at any time in his life. If either ever has, it has left no impression on his public discussion of events. Sir Ian Gilmour may at some point have read Keynes's General Theory, but while he is widely and deeply read in political theory he seems to regard economics with a nauseous distaste. Mr Peter Walker does have views about economics but it is not the subject on which his grip is most firm.

Mr Norman St John Stevas has edited Bagehot; he will be remembered as the distinguished editor of Bagehot in two centuries' time when his work as Leader of the House may no longer be in the forefront of people's minds. Bagehot was an extremely good economist, and if Mr St John Stevas would apply Bagehot's principles to our present problems his contribution would be very valuable. There is unfortunately a surprising contrast in matters of

economic policy between the scholarship of the editor and the simplicity of the politician.

Mr James Prior cares enough about economics to be emotionally stirred by them. He can become very angry about economic propositions which he believes will damage social welfare. Yet he is not given to analysing alternatives. When confronted with an unwelcome economic proposition he will turn and charge, as it is said that an enraged rhinoceros will turn and charge at the sound of his own droppings.

No soft options to hand

We have therefore a conflict inside the Conservative Cabinet not between Friedmanites and Keynesians, but between economists and non-economists. It is true that there are Conservatives outside the Government who have studied economics and who do disagree with the views of the Prime Minister, of Sir Keith Joseph and of the Treasury ministers. One of the most interesting of these is Mr Peter Tapscott, who has spent twenty years on the back benches as a penalty for being too intelligent for the comfort of one Conservative government or another. Yet the main weight in Cabinet consists of men who reject or distrust the Government's economic policy not because they have an alternative economic analysis—which they are simply not competent to make—but because they do not want people to be hurt by deflation, and cannot bring themselves to accept that higher inflation would hurt them still more.

The social welfare conservatism which developed after the war under the leadership of Lord Butler was firmly founded on the economic circumstances of that time. In the early 1950s there were comparatively low rates of inflation and the government's share of national expenditure was also still comparatively low. In the 1980s we have very high rates of inflation and the government share of national expenditure is extremely high. No policy is viable which will not reduce inflation, which is itself a great social evil.

The situation of the country has changed in a way not unlike that of the Nuffield Foundation. When the Nuffield Foundation was begun it had a large income from a highly profitable car industry. Now it has a much smaller income from diversified investments. It can afford fewer charitable works. In the 1950s Britain was a country which was becoming richer and there was a fund available for improvement. In the 1980s Britain is a country where the wealth-creating base of the economy is shrinking rapidly. It is possible to increase the burden on an expanding base; it is madness to increase the burden on a shrinking base. To attempt to apply the principles of the 1950s to the circumstances of the 1980s is not compassion; it is an invitation to catastrophe.

This can be seen most clearly when one comes to look at alternatives. The tender-minded members of the Cabinet want to soften the impact of government policy on the nation; so far as that is purely a matter of political tactics—as Mrs Thatcher argued last night—there may be a case for it. Yet if it is a matter of general strategy it implies that the central objectives of government policy would have to be changed. If the impact of government policy is to be softened, the policy will have to be softened as well.

If the critics do not want what the Chancellor and the Prime Minister are offering, what do they want? Do they want a higher public sector borrowing requirement? If so, are they going to finance it by higher interest rates or by higher inflation? Do they want public expenditure to be maintained or cut? If cut, where else would they cut it? If maintained, how will they pay for it? So they want higher taxes? On income, or on expenditure? There are no soft options in public expenditure: either the government cut expenditure, or they accept a higher borrowing requirement or higher taxes, or they will cause even higher inflation. Some increases in taxation are already inevitable.

Do the uncomfortable colleagues want to have a more rapid rate of increase of the money supply? Some of them talk about monetarism as if it were an alien doctrine which was lowering the standards of living of the British people and causing unemployment. In logic that ought to mean that they believe that a higher rate of increase in the money supply at the present moment would be to the benefit of the country. Do the anti-monetarists want more money to be poured into the economy, and can they believe that such an increase would not cause inflation to accelerate still more rapidly?

A bigger budget deficit or a larger increase in the money supply are the only alternatives to those harsh policies which at present tend to make the Government unpopular. The price of either is higher inflation. Past governments have tried to get out of this difficulty by imposing incomes policy. Here again there are questions to be put to those members of the Government who are not fully behind the policy of the Treasury ministers.

Far too short a time

Do they believe, as politicians, that a statutory or voluntary incomes policy is open to the Conservative Government, given the present attitude of the trade unions? If they do not, then incomes policy can be discarded, at least for the present and for a Conservative government. Do they believe that an incomes policy, supposing it could be achieved, would make a larger government deficit or a higher rate of increase of money supply desirable? The attempt to combine inflation of the money supply with restriction of pay through incomes policy has proved disastrous whenever and wherever it has been applied. Some economists advocate protection, but protection would tend to increase rather than reduce inflation.

There are other issues of policy on which the Cabinet is not all of one mind. Some members of the Cabinet are uneasy about Sir Keith Joseph's handling of the steel strike, but support Mr Prior on his limited trade union reforms. Others see things the other way round. We are critical of both aspects of policy. But the central question is economic policy. The Government are committed to a long and painful attempt to reduce inflation by fiscal and monetary means. They have been in power for nine months, far too short a time for success. Can it be right to relax the attempt and return to more inflationary policies in order to ease the pain, when inflation is still moving towards twenty per cent? Faster money growth would not reduce unemployment; its only enduring result is higher inflation.