



New Printing House Square, London, WC1X 8EZ. Telephone: 01-837 1234

THE SHARP SHOCK OF TRUTH

Sir Keith Joseph's speech at Preston is certainly one of the most important political speeches of recent years. It does what is the most important job of a political leader out of office; it takes the most threatening problem of the time and offers a serious intellectual analysis of the way in which that problem can be overcome. It will be compared to some of the speeches of Mr Enoch Powell. Sir Keith is basically monetarist in his view of the problem of inflation, as is Mr Powell. His speech has the same clarity and like Mr Powell's best, and worst, speeches is the product of a fine academic mind. Yet Sir Keith Joseph's analysis seems preferable to Mr Powell's because it shows a deeper understanding of the difficulties of the argument.

In our view the main lines of Sir Keith Joseph's argument are unquestionably right. Inflation is threatening to destroy our society. The threat is political as well as economic. Inflation cannot be cured without stabilization of the money supply. That stabilization should be achieved by gradual means perhaps over a three to four year period. There is now a much greater danger of mass unemployment if inflation is allowed to continue than there would be from such a stabilization policy, though the stabilization policy would cause some increase in unemployment.

Overinfluenced

Sir Keith Joseph is also right in regarding the whole of post-war economic policy in Britain as having been overinfluenced by the fear of unemployment, partly because of memories of prewar mass unemployment and partly because the statistical presentation of the unemployment figures consistently exaggerated the true levels of unemployment in the economy. This overreaction resulted in recurrent excessive increases in the money supply which accelerated the rate of inflation avoidably and unnecessarily. We also believe that Sir Keith is plainly right in his judgment that mismanagement of the money supply, either too much or too little, will prevent any other policy producing favourable economic results. "If we get the money supply wrong, nothing will come right."

There are still points of difference between Sir Keith Joseph's analysis and our own. In the first place we believe that a combination of sound money policies with incomes policy is more likely to be politically workable than sound money policy alone. This view we take for a simple reason. During the period in which sound money is being restored there are likely to be many high wage settlements based on previous expectations. Under these circumstances, as Sir Keith Joseph concedes, the unions "have it in their power to price their members or fellow workers out of jobs, and no monetary or fiscal policy can prevent this".

The unemployment caused by exaggerated wage settlements in a period of monetary stabilization can be reduced by incomes policy measures; that will help to protect the stabilization policy from the political pressures that unemployment causes. For this reason we would agree

with Sir Keith Joseph's judgment that with excess demand incomes policy will not work, but not with the conclusion of the parliamentary sub-committee, which he appears to endorse, that incomes policy as such is neither desirable nor workable.

Sir Keith Joseph's speech also seems to base itself too much on a national rather than an international monetary analysis. Here again there are two views. There are those who believe that inflation is a monetary disease best understood in terms of the control of the national money supply by the individual national government, and those who believe that it is a monetary disease which is international in character, dependent on the world money supply. Those, like Monsieur Rueff, who regard gold as the only certainly finite money supply take the international view of the problem, and can certainly point to the rapid acceleration of world inflation since 1971, when the United States dollar ceased to be convertible in terms of gold. Undoubtedly we are dealing with a world and not merely a British inflation; presumably therefore we need a world and not merely a British explanation.

Yet when these differences are expressed they do not really detract from agreement with what Sir Keith Joseph is saying. So far as the first difference is concerned, it is probable that incomes policy can be an assistance to monetary policy, but certain that it cannot be a substitute for it. So far as the second difference is concerned, an international attack on inflation would be dependent on individual countries putting their own money supply in order. Sir Keith Joseph is proposing that the British Government should do what needs to be done in Britain. That must be helpful to the world situation, whatever view one takes of the causes of the world inflation.

There is a real political advantage for the country in Sir Keith Joseph coming out with this analysis. It provides the sound money group in the Conservative Party with a senior leadership which they have been lacking since Mr Enoch Powell left them. There is also the advantage that Sir Keith Joseph does not have to be taken as a package. Mr Powell is extreme in his view of immigration, is extremely anti-European and takes a very strong Protestant line on Northern Ireland. Those who do not share his views on immigration, Europe or Northern Ireland might be converted to his monetary views but would not in the least wish to support him in his other roles.

Greater force

With Sir Keith Joseph there is no such difficulty. His advocacy will give much greater political force to the case for sound money, an argument which is by no means confined to the Conservative Party but is having increasing influence in the Labour Party and among Liberals as well. Many people of all political opinions are coming to realize that whatever else is done, this is the essential condition of bringing inflation to an end, and that inflation must be brought to an end if democracy is to survive. After all the monetary and Bud-

get policies which Sir Keith Joseph is advocating were much those which were actually followed by Mr Roy Jenkins. This is not a party matter.

Coming just before a general election such new policy thinking does create a difficulty for the Conservative Party. Sir Keith Joseph is not the Shadow Chancellor, though Mr Carr is not a touchy man. Mr Heath at any rate would not go along with the whole of Sir Keith Joseph's speech and indeed obviously shares the responsibility for the truly monumental monetary misjudgments of Mr Barber's Chancellorship. No doubt at the first press conference of the election campaign, if not earlier, Mr Heath will be asked whether he agrees with Sir Keith Joseph's views and whether those views are in fact compatible with the Conservative Party's official position. On incomes policy it is indeed probable that it is Mr Heath who has got it more nearly right, at least in seeing that the monopoly power of the trade unions is a real factor which has to be counteracted.

Handicap

Another political handicap for the Conservatives will be that the Labour Party will say that Sir Keith Joseph is in favour of unemployment, that the Tories want to have higher unemployment in order to end inflation, and that this is very wicked and wrong. By the standards of postwar politics Sir Keith Joseph has handed a blunderbuss loaded with duck shot to Mr Wilson and invited him to blow the Conservative Party's head off. Yet the strength of his analysis of unemployment should go a long way to protect Sir Keith Joseph against this obvious counter attack.

It is indeed not certain that this speech will turn out to have damaged the Conservative Party. There is now one man, not on the fringe of British politics, not alienated from his party, who stands for ending inflation by the only means through which inflation can be ended. Look at the contrast between Sir Keith Joseph's speech and Mr Wilson's speech at Brighton. Sir Keith Joseph offers a definite plan, within the power of government, to stabilize the money supply and thereby to stabilize the value of money. Mr Harold Wilson claims that "our policies, our hopes for a better future, depend upon making a reality of this partnership in the social contract. There is no other way". Sir Keith Joseph has built his house on rock; Mr Wilson not only offers the blueprint of a house, built on quicksand, but of a peculiarly aqueous quicksand which has been seen to swallow up a whole estate of previous houses, including Tory ones.

In the election it will not necessarily be bad for the Conservatives that the leadership of those who can state precisely how they intend to end inflation, and precisely why they believe that their methods can succeed, has passed into Conservative hands. What Sir Keith Joseph has done may therefore prove to be good for his party. It will certainly be good for his country. It is a wise speech and it comes with the sharp shock of truth.