

Sir Keith Joseph blames full employment policies for inflation

Sir Keith Joseph yesterday rejected the full employment policies of the two main political parties since the war and blamed those policies for causing inflation which threatens full employment, economic growth and the expansion of the social services.

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Heath and Mr Carr, the shadow Chancellor, will be willing to follow Sir Keith in giving absolute priority to conquering inflation at whatever temporary cost to employment, living standards and political support.

The speech, at Preston, may embarrass the Tories in the possible run-up to an election.

Economic strategy condemned

By Peter Jay
Economics Editor

In an extraordinary political testament yesterday Sir Keith Joseph, the Conservative MP, who has been a minister or shadow minister for the past 15 years and a member of the Cabinet or Shadow Cabinet for most of that period, rejected in a speech at Preston the whole bipartisan basis of postwar full employment policies as pursued by governments of both parties.

It remains to be seen how far Mr Heath and Mr Robert Carr, Shadow Chancellor, will be willing to follow him in giving absolute priority to conquering inflation by controlling the Budget deficit and the money supply at whatever temporary loss to employment, living standards, investment and political support.

The speech is bound to provoke a heated debate within the Conservative Party, not something that will be specially welcome on the eve of a general election. Sir Keith's speech, which cannot be read except as a root and branch condemnation of the whole economic strategy followed by Mr Heath and Mr Barber from the summer of 1971 to the last election, comes from a member of the Heath Cabinet throughout that period.

It comes, moreover, from the Tories' home affairs spokesman, who is thus trespassing on the territory of the party's accredited economic spokesmen. Mr Heath is bound to be asked whether, for example, he accepts Sir Keith's observation that "electioneering breeds inflationeering—we, the Conservatives, are not without blemish"; and whether he is prepared to endorse what Sir Keith calls "a distinctive Conservative approach", which puts sound money before all other short-term economic priorities, in preference to "middle-of-the-road policies".

"Inflation is threatening to destroy our society", Sir Keith said. The distress and unemployment that would follow unless the trend was stopped would be catastrophic, with the consequent risk that political parties which presided with such well intentioned ineffec-

tiveness over such a universal frustration of expectations would pave the way for those offering solutions at the cost of freedoms.

"Our proud achievements, our great history, our superb national talents do not render us immune to the processes of despair and disintegration which ultimately invite dictatorship", Sir Keith observed.

He began by accepting his full share of collective responsibility for the errors of subsequent governments and by trying to explain how it was that such governments "for the last score years, led by well intentioned and intelligent people advised by conscientious officials and economists, took a course which led inexorably and predictably to the present nightmare.

"It has always been known that to create too much money . . . is to court the danger of inflation. But government after government chose to take the risk, for several, not in themselves ignoble, reasons. The assumptions were probably always the same: that the inflation would only be mild; that it could be stopped; and, above all, that mild inflation seemed a painless way of maintaining full employment, encouraging growth and expanding the social services—all highly desirable objectives."

"We see now", Sir Keith admitted, "that inflation has turned out to be a mortal threat to all three." In part, he argued, the politicians were hypnotized by the unemployment statistics which evoked false memory and undue fears of the 1930s. "Experience has shown that far more menacing tensions are generated by inflation itself and that, in circumstances of excess demand, they cannot be cured by incomes policy."

Since the Conservatives had known and used all the arguments against incomes policy in opposition during the years 1966-70, Sir Keith asked: "Why did we try incomes policy again? I suppose that we desperately wanted to believe in it because we were so apprehensive about the alternative: sound money policies."

"To us, as to all postwar gov-

ernments, sound money may have seemed out of date; we were dominated by the fear of unemployment. It was this which made us turn our back against our own better judgment and try to spend our way out of unemployment, while relying on incomes policy to damp down the inflationary effects . . . we talked ourselves into believing that those gaunt, tight-lipped men in caps and mufflers (of the 1930s) were round the corner and tailored our policy to match these imaginary conditions."

They were imaginary because since the war there had been virtually no unemployment in Keynesian terms on a national as opposed to a regional scale. The real involuntary unemployed had fluctuated, Sir Keith maintained, between 100,000 and 300,000 or so since the war.

"As against these, there have been something like a million unfilled vacancies. . . ."

Thus, Sir Keith insisted, "for almost the whole of the postwar period there were on a national basis several times as many real vacancies as involuntary unemployed . . . we have had nationally an overall shortage of labour". How otherwise would Britain have been able to absorb more than a million workers from overseas?

Although all the special categories of unemployed deserved concern and attention, "we have brought upon ourselves over the last 20 years desperate inflation by too often expanding demand above supply as the single cure for a whole variety of forms of unemployment". The periodic booms had been a cruel deception of those whom they were designed to help.

Sir Keith, who appeared to be addressing himself as much to his Shadow Cabinet colleagues as to criticism of Mr Healey and the Government, said: "We cannot talk about fighting inflation as the overriding priority and then in the same or another speech say that we can take monetary action which might threaten more jobs. We cannot have it both ways."

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