

SECRET AND PERSONAL

MR. GOW

Here is a little note on what I think is wrong with the economics of The Times. I am not sure that I can really comment authoritatively on the Leaders and articles in The Times. They dropped to such an abysmally low standard, I gave up reading them. It was a waste of time. But for what its worth, I've put my critique on untraceable paper.



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COMMENTS ON ECONOMICS OF 'THE TIMES'

Macroeconomics - Fiscal and Monetary Policy

Probably the main error of The Times is founded in the proposition that the unemployment and slump in output is due to "inadequate demand". It is argued that demand could be made more "adequate" by running a massive budget deficit and financing this by increasing dramatically the rate of growth of the money supply. It is argued that these policies would primarily go into increasing output and the production of goods and services, and employment. There would be little or any increase in the rate of inflation. On the contrary, I have seen a David Blake argument that it would reduce the rate of inflation. Some other commentators, however, have admitted that there would be some effect on inflation and suggested various forms of incomes policies.

The evidence is of course directly contrary to this view - even allowing for delays of various forms of incomes policies. The past 15 years in Britain have seen increasing budgetary deficits and monetary growth being reflected almost entirely in increases in the rate of inflation. Nor is this experience confined to Britain. All the OECD countries had a similar experience, although on a much more modest scale.

We can also, interestingly enough, examine the country which pursued a policy very similar to that advocated by The Times, and the Wets, since 1979. The Republic of Ireland joined the EMS, as we have been urged to do, in 1979. Ireland was in a very good state then, it had no heavy industry and its light industry and agriculture were developing quite rapidly. Ireland expanded her budget deficit to about 17% of her gross domestic product (ours now is about 3½%) and the quantity of punts expanded partly in order to pay for it. But Ireland also borrowed extensively from foreigners. Today, therefore, Ireland is in the grip of a financial and budgetary crisis. The punt has depreciated to about 75 pence. Inflation is running at 25% and rising. Unemployment has increased to over 13%, and is still rising rapidly. There is an enormous balance of payments deficit, of about 15% of GDP, which the Government is desperately trying to finance. Drastic increases in taxes have been proposed and severe cuts in expenditure. Not a very reassuring example of the effects of the alternative Times policy.

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One of the remarkable misreadings of economic policy was during the time of the March 1981 Budget. This was condemned by The Times as being a savage, deflationary Budget. The implication was that we would never see any turn-around in the economy but the slump would be vastly intensified. In fact the opposite occurred. Everyone now agrees that we came out of the slump in the second quarter of 1981. True, some setback to the recovery may have appeared due to the importation of high interest rates from America in September of 1981, but there is ample evidence that the recovery has continued. This was exactly the opposite of The Times' prediction.

Over the last two years or so I have been impressed by the fact that The Times has failed to make any attempt to understand the fundamentals of the macroeconomics of the UK. It has consistently missed central points of interpretation - which have often been seen by, for example, The Economist. For example in July 1980, when the corset came off the banking system, sterling M3 expanded at an enormous rate. In the subsequent months, the Times took delight in the fact that the Government was massively overshooting its monetary targets. All good fun and fair comment. But at the same time there were complaints about the vicious policy of monetarism driving us into a slump. The paradox was not even noted, yet alone resolved. Yet, to any monetarist who has had any experience at all outside the United Kingdom, it was an easy matter to dispose of. Jurg Niehans, Alan Walters, Alan Meltzer and eventually Milton Friedman, all pointed out that in spite of the ballooning sterling M3 figures, monetary policy was moderately tight.

#### Microeconomics

I am afraid that although I have noted a number of howlers during my reading of The Times, I cannot recall any particular examples to mind. However, the overall impression is that there is a most inadequate knowledge of the elementary laws of supply and demand. One example was the treatment by David Blake of, what he termed the fundamental error, in Richard Layard's scheme. (I cannot recall the details of it now.)

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The treatment of particular issues such as Aid, illustrates the lack of knowledge of the elementary principles of economics. For example, The Times seems unaware of the enormously effective criticism of Peter Bauer, of the London School of Economics. His views have dramatically reshaped thinking on Aid in the United States. But The Times hardly gives him elbow room. Instead, it joined a more or less uncritical chorus of praise for the Brandt Commission, in spite of the fact that it has been widely exposed as a tissue of wishful thinking and nonsense.

#### An Assessment

The standard of The Times' economics is far below that of the Economist. That I suppose one would expect. But even more important, I find it below the standard of Hamish Macrae, and even Victor Keegan in The Guardian. That is a statement one could never have made when Peter Jay was the Economics Editor.

Much more worrying is the fact that one cannot trust the reportage. One particular example comes to mind. About three weeks ago there was a report, by Melvin Westlake, of the television programme where Milton Friedman was interviewed. Unfortunately, I did not see the programme but I got a transcript from the BBC. The Times reported in no uncertain terms that Friedman repudiated Thatcher's policies. Reading the report this was completely wrong. And a friend who in fact watched the television performance, Dr. Edmund Goldberger of G. Consultancy, was so incensed that he wrote to Gerald Long. Nor is this, alas, an isolated incident. I can recall many other occasions where The Times has given a very slanted report.