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THE GOVERNOR - Personally

BRITISH POLITICAL ECONOMY

I recognise that some of my oral comments on our economic strategy are far from helpful. I appear to dissociate myself from the present strategy without being willing to explain and argue an alternative. The reason for this is that I have come to the conclusion that there can be no proper solution to our economic problems without a radical change in our political institutions that would enable other changes, both institutional and attitudinal, to occur and to flourish. This is an uncomfortable position for a senior public official engaged in the execution of a central aspect of current policy, though I do not think that it impairs the efficiency of my performance. It does, however, make it difficult for me to make a helpful contribution to a general discussion of what the Bank thinks should be done about this or that aspect of policy.

In October 1956 I travelled from Oxford to London by train for an interview with Lord Cobbold, who had written suggesting I might join the Bank as an adviser. During the journey I thought to myself what answer I would give if asked what I thought was the central problem of the British economy. I concluded that I would have to reply that the central problem was an endemic inflation caused by an endless struggle over shares of the cake, conducted through the wage bargaining process, which the political parties were powerless to resolve. Needless to say, I was not asked any such question and therefore did not need to give the answer.

For some years after 1956 it was possible to hope that my suggested reply would prove both exaggerated and wrong; and its awkward implications evaded. But beginning with the failures of the Wilson governments of 1964-70 and increasingly during the past decade, the central problem that one saw in the 1950s has not only returned with redoubled vigour but has brought with it, or coincided with the onset of, growing problems of economic inefficiency and institutional disorder.

I have no time, and perhaps not the inclination, to set out my views in any detail. In any case they are deployed far better by a number of politicians and commentators with whose views I broadly agree. Suffice to say that in my view the endeavours of ~~successors~~

CONFIDENTIAL

- 2 -

successive British governments, over recent years, to solve our problems or at least to put the beginnings of recovery on a solid foundation, have been doomed to failure. This is because those endeavours were and are conducted within an institutional framework which not only acts to prevent success but makes matters even worse. I refer to the dangerous and increasing political polarisation of the country that is encouraged and perpetuated by the adversary politics of the present two-party system which is itself the result of our out-dated electoral law. I refer next to the absurdities of trades union organisation, and law, that exist alongside the integration and identification of the trades unions with one of our two main political parties. I refer next to the antiquated and divisive structure of the corporate private sector and our failure fully to adapt that structure to the needs of contemporary society. Our inability to modernise the generality of trades unions and of private corporations is itself attributable to, and is perpetuated by, the malfunction of our central political arrangements. My views on these matters seem to be aligned with those of Roy Jenkins and his followers and with those of the leader of the Liberal Party.

If one gets to this point, one is reminded of a remark said to have been made by Mr. Benn when he started at the DOI in 1974: namely, that the existing system would not work and it was a waste of time trying to prop it up. In like fashion go the economic strategies of both the present government and its immediate predecessors. The present strategy may, from some points of view but not others, perhaps attain some partial success for some of its objectives, for a time. But I do not think it is capable of more than that and I do think that it risks inflicting enormous damage on the British economy and the future cohesion of British society. This conclusion is supported by almost any known economic forecast and is not just the opinion of an eccentric central banker. But it does not seem to me much use criticising the present government for what it is doing or attempting to persuade it to do something else. For it can do none other than what it is doing and can but remain a prisoner of the structure within which it came to power. Indeed, from my own point of view it would be positively helpful if the government persisted clearly along the path on which it has started. For then the results of going along that road, and their ultimate implications, might become clear as well. So

CONFIDENTIAL

- 3 -

although I am sometimes tempted to join the ranks of those who feel that current policy should be softened, within an unchanged strategy, I am as often tempted to keep alongside the hawks and advocate that the monetarist experiment be carried through with full severity for a further period. Either course merely prolongs the agony but it is conceivable that the latter way might shorten it - though this is not an argument which can be deployed at meetings in the Bank.

It would be agreeable to be proved wrong; and for some months after the General Election last May I felt that I ought to assume that I was wrong. But there are aspects of the situation now developing, and of the likely prospects, which make me think that Mr.Jenkins and Mr.Steel are right and the rest wrong.



JF.

6th February 1980