SECRET

PRIME MINISTER

REVIEW MEETING: 6 SEPTEMBER

As you know Malcolm Rifkind is not able to come.

You saw the papers at Flags A-G below over the weekend.

The one further relevant piece of paper to come in today is the note at Flag H on nursing shift overlaps which DOH have sent in response to your query following your Plymouth visit.

We have earmarked two hours in the diary for tomorrow's meeting, which should give time for a full discussion.

PRG.

Paul Gray

5 September 1988

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NURSING SHIFT OVERLAPS

1. Nursing shift overlaps are partly devoted to meal breaks and to briefing of staff coming on duty. Many wards also use them for patient care which has been specifically scheduled to take place at this time. It is also a time when essential teaching of student nurses and other staff can take place. This can at the same time be convenient to patients, reduce the number of staff working unsocial hours for which they are paid extra, and reduce problems of transport for staff going off duty at unsocial hours. Properly used, overlaps can thus be cost-effective.

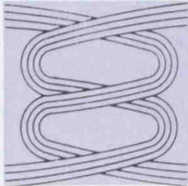
2. DOH considers a 1½ hour overlap to be reasonable, although this can vary between specialisms and according to the way work is organised. Historically overlaps have frequently been much higher than this. Following reports by the statutory auditors of apparently excessive overlaps, the DHSS asked health authorities in October 1983 to take action to reduce them. A National Audit Office study of nursing shift arrangements in 12 hospitals in 1985 nevertheless found that overlaps varied between 2 and over 6 hours. A DHSS study at about the same time found the average overlap to be 2¾ hours.

3. Health authorities were again asked to take action in June 1986 following the Comptroller and Auditor General's report on the "Control of Nursing Manpower". Many authorities are now introducing staff and workload control systems which both determine the optimum overlap based on work demands, and ensure that effective use is made of it. The Department is satisfied that progress is being made, as indeed the Prime Minister found in Plymouth. We shall continue to monitor the steps being taken by Authorities through the annual management reviews.

4. It is, however, clear that further improvements are needed. In 6 Authorities in which the statutory Auditors have recently examined the matter they found that the extent of overlap varied from 1¼ to 3¾ hours. These findings have been discussed between the auditors and the chief officers concerned, and will be followed up at the next audit visit.

5. Audit senior management is reviewing how it can augment value for money activities generally. A list of possible national projects is being prepared. This includes nursing manpower, including shift overlap.

Department of Health
5 September 1988



cogitare audentibus nihil obstet

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3/9/88

Nigel,
the enclosed paper + offprints of articles might be of interest to the P.M.
I wrote to her last week re my Fringe meeting on the ecology.

With compliments Alfred. Sir Alfred Sherman

THE NHS, FORTY YEARS IN THE WILDERNESS.

AN OVERVIEW OF THE ETHICS, ECONOMICS AND POLITICS OF HEALTH

Alfred Sherman, London, Late August, 1988.

The National Health Service has been politically contentious since its inception, and will continue to be so until structural reform cuts the link between parliament and operating units, and ends a state quasi-monopoly which generates militant monopoly-unionism, limitless importunity and economic haemorrhage. Contention has been perpetuated and vexed by deep ideological and emotional commitment and amour propre, by vested interests, and by the lack of data on which its performance can be judged.

Unless it is thoroughly reformed, the NHS will be wasteful, a drain on the economy and a burden on taxpayers, inefficient, socially unjust and a major political threat to a Conservative Government. Giving more money without prior reform will not reduce either its inefficiency or its political dangers - which include escalating militancy and electoral hazards - but on the contrary is most likely to intensify them. Conversely, reform would obviate the need to put in more taxpayers' money and would obviate much of the dangerous two-handed militancy in the Health Service when the clenched fists of the extreme leftwing unions alternate with the outstretched palms of the royal colleges.

Reform will be possible only if we can persuade many people that the NHS is not only incapable of fulfilling the aspirations which underlay its creation and generate their continued support, but that it is actually counter-productive in these terms as in other. Would-be reformers of the NHS have so far failed to do this, insofar as they have tried, which not all have done. Their motives or reasons for eschewing a radical critique of the NHS are political in all senses of the word, including the consideration that criticism is impolitic. But this has created an impasse. So long as no root and branch criticism of the very basis of the NHS has gained some measure of acceptance, or at least intellectual respectability, all who attempt reform will find themselves on the defensive ab initio with decreasing freedom of manoeuvre.

We might best start by defining the NHS. What does it comprise? To dwell on the matter of the NHS's identity is not logic-chopping; it is vital to the perceptions which mould political responses. *Sensu lato* it is used to denote all people and institutions in the Service, but *sensu stricto* it does not include hospitals, health personnel, dispensers, etc., who pre-date it and would outlast it. So long as people perceive the NHS as the nurse in her starched uniform patting pillows and the doctor who was so wonderful with little Johnie, while the Government is the "they" who were cheeseparing, the psychological and political obstacles to reform multiply and harden.

Conversely, if we can accustom people to thinking of the NHS as a system of finance and administration run by two giant and unnecssary bureaucracies without whom the nurses and doctors would be able to do a better job, and the public would have greater choice, we should be in a better position to fight our battles. We must therefore extend perception of the NHS as a financial and adminstrative framework for curative health care dominated by extra-medical socio-political objectives. They include the desire to offset the effects of income maldistribution, lack of confidence in the public's ability and willingness to provide its own health care, a desire to impose equality with both lower and upper limits and social regimentation as good in themselves.

We must offer a different vision, not only different objectives but a different style of medicine which gives patients both more rights and more duties, the right to know and to choose, the duty to behave healthily and to pay what he can afford towards his health care.

The NHS's lack of data on costs and outcomes stems from several causes. First, the Service was created from ideological motivations long before the evolution of the modern techniques for measuring and relating health processes and outcomes, without which no system of health care can be monitored or managed.

While the NHS was in the proces of formation, no one began by asking: what is health? It was considered that everyone knew what health is: it is what doctors and hospitals provide. Bevan and his advisers believed that after a limited quantum of health - as so undefined - was delivered, demand would fall. But could people who were so completely wrong about this conceivably have been right over everything else?

Because arguments about the NHS have revolved round funding and sectorality, the more basic questions regarding the essential nature of health care in a modern science-based society have yet to be asked. We should ask the questions simultaneously with our re-think of funding and provision. It is not only essential if we are to avoid mechanically applying a market-philosphy applicable to consumer-driven goods and services, but it will strengthen our case overall. (I return to this theme below.)

Secondly, the centralised administered system has neither need nor place for data on costs and outcomes. As the Social Services Committee Report says. "We have some sympathy however with the view ... that 'The reasons there is not measurement of outcomes is that nobody has found measurement of outcomes useful because it does not fit into our present system of managing the Health Service'".

Thirdly, a tax-based take-it-or-leave-it system inexorably became producer-oriented, automatically generating opposition to systems of accountability, intensified by professional mystique reflecting attitudes dating from different times and circumstances which equates accountability with curtailment of professional independence.

Fourthly, lack of data has assumed a protective function. As far back as 1979, the Health-policy study group at the CPS became persuaded that much more systematic data on costs and outcomes would be needed in order to run any kind of health service. A member of our group, Prof. Samuel Eilon, a leader in operational-research and management consultancy, head of the Management Sciences Department at Imperial College London, prepared a costed pilot study, which would have taken four years - of course, it could have been done more quickly had there been a sense of urgency - and cost £800,000.

We proposed it to the SOS, who consulted his civil servants. Their final advice, after several questions and answers sessions, was the archetypal civil service response to all our research proposals designed to provide the basis for reform, whether the matter be health, truancy, illiteracy, defence procurement or transport coordination.

* We already know everything we need to know to run the service. (A logical impossibility, since they cannot assess

the relevance of what they do not yet know.)

* What you wish to discover is unknowable. (Health providers and purchasers in several countries habitually capture all this data.)

* Even if we knew it, we should not be able to make any use of it. (That may be true, but others could.)

* It will cost too much. (£200,000 p.a. for four years when the annual bduget topped £10 billion, not counting the costs of the Department or of collecting the revenue.)

* It will take too long to be of practical use. (It would have been complete by 1985, or for that matter sooner if there had been a sense of urgency.)

* Anyway, we were already planning to do something on similar lines, but more plugged in, which we shall be staring shortly. (In mid-1988 they still hide behind lack of data.)

I am not ascribing Machiavellianism, but "where ignorance is bliss, 'tis folly to be wise." Left to themselves, I do not believe that they will ever capture the data. Why should they, when they like it as it is. This situation has been skillfully exploited by Frank Field, MP, Chairman of the Commons Social Services Committee (who with consummate political skill leads the Conservtive majority by the nose in his wake) to oppose reform.

On the one hand, defenders of the status quo affirm correctly that the NHS does not have the data on costs and outcomes necessary to serve as a basis for reform. .But as they know, without structural reform the NHS will never capture and collate the necessary data. Hence, stalemate persists. For reform to supervene, this Gordian knot will have to cut from outside. (I deal with a possible way below.)

The basic inadequacy of data-collection has interacted with confusions and incompatibilities in the NHS's philosophical basis. It is worth tracing the history of the argument for a tax-based NHS free at the point of treatment and equal to all-comers irrespective of income ab initio. It is a chain of reasoning with several links, not all of which necessarily follow from each other. They were not explicitly argued through, but rather accepted by default.

The chain of reasoning began with the premise that society traditionally bore an obligation to ensure that all members had access to a minimum of food, shelter, clothing, education and health care, irrespective of their merits. This is almost universally accepted, though with some caveats; the dangers of dependence and pauperisation cannot be ignored, but neither can they be taken as exempting us from these broader duties.

In the first place, as with many welfare-state innovations, health-care has been partly subordinated to the effort to impose strict egalitarianism, superseding income-differences and the play of market forces. (This differs from earlier aims of diminishing actual income differences at the point of earning, or of distributing cash transfer-payments.) The desire to impose standard health-care and education is not necessarily motivated primarily by the consideration that this will make the poor better off in these respects. Indeed I shall argue that it makes them worse off in that respect and generally. Many egalitarians are strongly motivated by the feeling that no one should be allowed to be better off. Your more extreme egalitarian regards equality as a value in itself which must be given primacy even over well being. Many educational egalitarians, e.g. Halsey, definitely wish to restrict the chances of middle-class children, so that equality may triumph even though standards fall, *fiat iustitia pereat mundus.*

Logic and experience alike show that egalitarianism in welfare and the social services is actually counter-productive, in the sense that it works against the poor. In Britain, as in all societies larger than a small tribe, the rich and powerful will always be better off than the poor and powerless, with intermediate groups strung out along the spectrum pro rata. The rich and powerful will always do best in all matters, health and education will be no exception.

In the Socialist world, whether Soviet, Yugoslav, Cuban or Israeli varieties, and in old-fashioned autocracies, the powerful are automatically given the best treatment. In countries like Britain, the rich tend to write off whatever taxation they have to pay and buy education and health at the top of the market. It is the middle classes who face the dilemma of whether to pay twice, once through taxation and once over the counter. So whenever possible they make the best use possible of state-provided facilities. They are generally able to do so, since it is they who run the state and similar systems, and therefore best know their way through them.

Hence only six per cent of British children are educated at independent schools, and a comparably low proportion of people make no use at all of the NHS when they need medical treatment. This means that all classes of society except for the quite rich compete for the limited resources of the NHS. It follows that the lower-income groups, who ex hypothesi are least competent at competing for anything, from whatever reasons, will tend to come off worse. This is only commonsense.

This is well documented in the Black Report on class-related health discrepancies commissioned by the last Labour Government.

The authors complain that the differentials had actually grown during the first thirty years of the NHS, while admitting that the relationship between health and curative medicine is not easy to establish. But if the groups in whose name the NHS was established benefit least from it, surely there is good cause to review it in terms of its own criteria.

There is also ample anecdotal evidence, not least that hourly-paid mannual workers in some regions have greater recourse to private medical care than the middle-classes, since they cannot afford to lose time off work but have a low opinion of the medical care provided in their district "to the likes of us".

The incoming Conservative Government made a great mistake in virtually suppressing the Black Report when it came out in 1979, since it was a telling condemnation of thirty yers of the NHS during which period Labour ruled slightly more than half the time and made most of the running. I ascertained that it was killed off not for its shortcomings, which were real enough, but for its virtues, i.e. because it provided a factual basis for scepticism regarding the NHS and DHSS in toto. For this reason, the civil servants persuaded Patrick to kill it, instead of riding it at a gallop.

Trace the difference between cash welfare- payments and the health service from the point of view of outreach! Where cash welfare is concerned, the intention is to confine payments to the genuinely needy. The system is transparent, with statistics broken down by sums and categories. By contrast, there are no figures which automatically relate the NHS's actual provisions to social class. But we know from both Black (above) and other empirical and anecdotal evidence that though its putative benefit to the poorer classes is still advanced as its main rationale, class-related diferences in health are as great if not greater than they were thirty years ago.

In education too, statistical data and anecdotal evidence suggest that class-related discrepancies have increased since the 'sixties when modernism, "Plowdenism", "relevance" and comprehensivisation were introduced, largely on egalitarian grounds.

Yet supporters of the NHS and state education insist on retaining them although only basic reform will give the poorer classes improved access. There is a contradiction here, for us to address and possibly exploit. If, as socialists complain, the NHS and state education system disfavour the lower income groups and ethnic minorities, even under Labour rule nationally and locally, why not propose reform of the system?

The way in which taxation is used to redress inequalities generally is by obliging beter off sections of the population as variously defined to meet their own needs and in addition to help the less well off through their taxes. Whether the actual execution be wise, imprudent or even counter-productive, the system is unquestioned where food and clothing and many other commodities and services are concerned. Where this principle is broached, the lower-income groups come off worse. This happens equally where they share facilities with other classes, who tend to crowd them out, as in the case of Health and Education, or when separate and inferior - though often more costly - provision is made, e.g., council housing. By contrast, when they shop for cars, food, clothes, their money is as good as anyone elses, even if this money comes from tax-borne revenues in whole or part.

We have to find a way by which the majority of people are given back responsibility for their own health, which includes paying for and safeguarding it, while paying taxes to safeguard those who cannot or will not do so.

The argument advanced by defenders of the failed status quo that this would bring about adverse selection with all the good people leaving is the opposite of the truth. First, as we have demonstrated, the beneficiaries are not the lower-income and less educated groups but precisely the better off and the "new class" which runs the state machine.

Secondly, though its aficionados would be horrified to hear it, the adverse-selection argument is a variant of the filtering-down argument, sharing its strengths and weaknesses. There are some countries where shops are state-owned. In all of them, the upper and middling strata receive better and cheaper goods than the lower strata. This is an inescapable feature of state provision, the state looks after its own.

The lower income groups lack the knowledge needed in order to make use of health facilities. Whereas their money is as good as someone elses in the supermarket, in a take-it-or-leave it health service their personal standing is not. When they shop, they exercise consumer choice and effective demand. But in health care, someone else must translate their need into efective demand. In the case of the NHS, it is the health-provider who does so, without intermediaries to provide checks and balances. Another advantage of health insurance is that the system is transparent, as welfare is, enabling everyone to see what level is provided for the poor, and if it is adequate, whereas at present, with everyone paying and receiving separately, no one really knows where the money goes.

Health insurance, particularly if it is through an employer or some insuring-organisation, combines consumer-choice with mediation between need and provision. The merits of employer-provision need arguing at length on another occasion.

Its prime advantage is that the employer has at one and the same time a vested interest in his employees' and their families' health and in spending as little on it as possible, and that the employer can afford good consultants to watch the medicos. (The fact that the CBI is strongly against them means as little as any other CBI fads at any given time, since among other things they ignore the total compensatory shift in resources this would bring about.)

But all health insurance performs this mediating function. Why should we not encourage trade unions for their members, and similar people? Why should not cooperative societies be encouraged to participate? This would be more democratic than a system run from Whitehall. If this were proposed, the Socialists wouild be obliged at least to address themselves to it seriously.

Another serious shortcoming of the NHS is that it diverts increasing resources to the elderly, to their detriment as well as to the detriment of those who could benefit from more care or alternative use of the resources. Over a third of NHS resources are now devoted to prolonging life for the last few weeks and months before death, to the discomfort of the patient, and to no avail. The incurably sick, particularly the elderly, should be allowed to die in dignity and comfort, preferably in their own homes or if not in hospices, instead of being turned into ward-fodder.

Except for its purely medical aspects, geriatric care should be taken out of the hands of the NHS, because old age is not an illness which can be cured. If geriatrics and long-term (i.e., incurable) mentally-ill were taken out of the curative health service, its could be run on an economic basis. The argument that because geriatrics and long-term mentally ill need some element of medical care, they are best confided to the NHS, is easily refuted. First, the NHS is primarily curative. Secondly, organised medical care is equally essential in the armed forces and the prisons service, but no one suggested putting them under the DHSS or DH.

By the same token, should non-therapeutic abortions be permitted on the NHS? Pregnancy is not an illness.

The NHS was enacted by the Atlee Government and subsequently carried further by several ministers, including Barbara Castle (who engaged in a vendetta against private practice inside the NHS not hesitating to use doubtful means) whereas the Tories could never make up their minds. Hard thought was considered both illiberal and doctrinaire, to some extent it still is. Subsequent attitudes have been one-sidedly partisan. Labour feeling is that since so many of their post-war expedients, e.g. nationalised megastructures and economic controls have been discredited, their residual political potency and morale would be dangerously threatenned by the admission that the NHS had been flawed ab initio.

Conservatives, for their part, are sceptical about the NHS, which is out of keeping with their basic beliefs and experience alike, but they fear the short-term political consequences of advocating major reform. As a result, after the 1979 election victory, the Government decided to leave the question on the back-burner for at least two years, by which time the run-up to the next election would have been adduced as sufficient reason for letting sleeping dogs lie. Promises that "the NHS is safe in our hands" and comparative expenditure figures were deemed a sufficient holding operation till the next parliament.

However, events took control. A process comparable to spontaneous combustion occurred. Fighting between various arms of the service for a greater share of funds, standard practice in budget-fed organisations, gave way to a loose coalition demanding more for everyone, which can be expected from time to time. This was predictably taken up by the Labour opposition, which is short of issues which both unite the party and strike a chord among the public. The media too coiuyld not resist the temptation to latch onto the most photogenic stories to hand. However much money is given to the NHS, there will always be one such case at the margin.

(In this context, it is worth learning from Bernard Donoghue on civil service behaviour. He coined the term "offloading" to describe the way the civil servants defeat cuts.

They first make sure that their own numbers and privileges are not afected. They then ensure that their dependents are immune. They then "offload" the cuts onto those activities which are at one and the same time the most necessary, the most vulnerable and the most likely to genrate an outcry. Old people's meals, other services to the elderly and infirm, young mothers, etc. The resulting outcry can be guaranteed to give the Government second thoughts about the cuts.)

At all events, the Government reacted to the spontaneous cubustion by deciding to carry out a radical review. However, it faced determined opposition from an alliance of vested interests, the NHS's ideologically-committed supporters, the establishment generally which tends to preserve its pillars, and Conservatives who consider discretion the better part of valour.

As health loses its high place in the issue-charts of the polls, complacency shows signs of returning. But the issue could blow up at any time. So long as there is an issue to exploit politically, a lobby based on monopoly unionism to encourage it, media who will welcome the opportunity to sensationalise it, and a Conservative party which lacks the intellectual and political courage to think matters through, the issue will fester, divide our own ranks, and give a hard left Labour Party its break-through.

The Conservatives should take the offensive on health. They should point to the unworkability and undemocratic character of the present system, and offer a more democratic system giving greater responsibility to the patients individually and collectively. They should show that only major reforms will enable the NHS to serve social justice by treating the lower-income groups adequately, and that the claims by opponents of reform to be acting in the interests of these groups are wholly at variance with the facts.

They should demonstrate that centralisation causes waste and exacerbates labour-relations. They should argue for a "mixed economy in health" - which is after all the epitome of moderation - which would bring in more money and thereby create competition for employees which will raise their wages and conditions far more effectively and painlessly than collective bargaining and militancy do.

The Conservatives must address themselves to the implications for health care of the revolution in information-technology. They should have the courage to tackle the question of unnecessary and painful prolongation of life. This entails trusting the people to understand a moral argument. But if we cannot trust the people, what can we do?

We should also oblige Socialists, NHS last-ditchers and Conservative hedgers to address the paradox that they at one and the same time criticise the service for all inadequacies including class-bias, although spending per capita has increased by several hundred per cent since its formation, while opposing all structural reform which alone can obviate these defects.

We have an an unanswerable case. Why not make it boldly! *Cogitare audentibus nihil obstet.*

But in order to carry out thoroughgoing reform, some initial data and matrices will be needed. Since the present system has not created them in the course of forty years, and in light of the past eight years' experience its minders can be expected to drag their feet in order to preserve the status quo, the Gordian knot will have to be cut by outsiders. There are ample precedents for this. They will not need to make policy-reccomendations, which will emerge implicitly from their findings.

End.

THE WALL STREET JOURNAL, TUESDAY, SEPTEMBER 27, 1988

Inflation Again Threatens Britain

By ALFRED SHERMAN

LONDON – British interest-rates, money-supply and prices chase one another inexorably upward and generate calls for direct controls. The emergent economic crisis bears marked family resemblance to previous crises which plagued successive postwar British governments; one gave Mrs. Thatcher her party's leadership and another the premiership.

As in earlier inflationary crises, the underlying economic dilemma of which interest-rate volatility is symptom rather than cure, rather than resolution, stems from excessive government drawing on resources. The irony of it is that the Thatcher revolution was originally precipitated precisely by Lord Keith Joseph's recognition that the familiar inflation-stagnation dilemma cannot be resolved by monetary policy alone. He showed that it stems inexorably from distortions in the pattern of real-resource allocation for which government is largely responsible. The monetary equation first reflects and then compounds this distortion.

Nor is there empirical proof that in Britain's convoluted and inflexible economy higher interest rates achieve even short-term, counter-inflationary effects, let alone ones commensurate with the havoc they reap, given their effect on mortgages, costs and prices.

Anonymous Unemployed

Until distortions caused by government misallocation of resources are remedied, government will increasingly be obliged to steer between the Scylla of inflation and the Charybdis of stagnation and recession, under the shadow of the threat of inflationary recession, i.e., galloping inflation combined with chronic economic dislocation, should its grip loosen under heavy and conflicting political pressure.

Lord Joseph's 1976 critique in "Monetarism Is Not Enough," at the time considered the Thatcherite New Testament, remains topical. The major distortions in the economy are still caused by state expenditure designed to create or maintain employment. This not only generates additional incomes unrequited by any counterpart product. It also operates both a financial and a resource squeeze on the private sector which, if given the opportunity, would be capable of generating much more employment in return for a given quantum of fixed and working capital.

Hence "for every job artificially maintained by public money, several workers go on short-time working or lose their jobs altogether, as the private sector is squeezed harder," Mrs. Thatcher argued in her forward to this essay, creating the anonymous unemployed to whom Lord Joseph suggested erecting a monument as for "the unknown soldier."

But these precepts have not been put into practice, and the effects are now catching up. Much of the increase in overt public expenditure has gone to precisely such make-work, in coal, shipbuilding, BL/Rover (a failing car-manufacturer which was nationalized and heavily subsidized by Labor to keep its strike-happy workers in jobs, and was kept in the same style by the Conservatives), steel and rail (with its heavy overt and covert subsidies), etc.

Taking into account all support, including costs passed on in the form of the higher electricity prices caused by using British coal, the subsidy per miner in the least efficient coal mines works out at over £40,000 per year, about three times his wages. The other "nationalized work-simulators" exert a comparable effect on the balance between incomes generated and the counterpart in goods produced.

In addition, BL/Rover and British Shipbuilders, among others, set a norm for wages and conditions unrelated to productivity and value of output which prices many private employers out of the labor market, thereby leaving potential workers unemployed.

Support for economic industries simply destroys real resources while generating incomes. The same holds good for whole

Unless expenditure can be cut at this late hour, the government will face growing pressures for administrative steps to suppress inflationary symptoms.

categories of "exports" which will never be paid for and "loans" which will never be repaid in order to keep uncompetitive factories open.

This is not all. Official British statistics understate the state's take of economic resources because their private-public modal split is based on concepts which predate postwar structural changes. Large numbers of nominally independent or even private bodies are public sector, in the sense that they depend on state power for their income, whether from taxation or state-granted monopoly rights.

Privatized monopolies like British Gas (all natural and coal gas) and British Telecommunications reproduce the public sector syndrome in resource-use, in spite of their nominally private status. This is because sale of these giants to the public simply farmed out the right to exact monopoly profit to private shareholders in return for a capital sum, then used to finance current-account spending.

The European Common Agricultural Policy, known as CAP, which levies heavy import duties on agriculture products imported from outside the European Community, adds 10% to the retail price index; this will rise further when levies are imposed on vegetable oils.

The CAP also compounds the exchange-rate dilemma. In a country with as high a foreign trade quotient as the U.K., the rise in export prices caused by a high pound would normally be offset by the fall in import prices of raw materials, which in turn exerts downward pressure on domestic costs which affect exporters' costs of production. But the CAP prevents Britain gaining on the one side what it loses on the other. This makes the use of interest rates to damp inflation even more problematical.

Public expenditure in general also includes indirect support for nominally private firms which supply nationalized industries and central and local government and serve as their political camp-followers, e.g., the BL/Rover supplies lobby with its band of tame Conservative MPs.

The reasons why this massive inflationary resource-waste, whose condemnation was built deep into the fabric of "High Thatcherism," was allowed to survive the Conservatives' 1979 election victory, and what could be done about it now, are beyond the scope of this article. But unless expenditure can be cut at this late hour, the government will face growing pressures for administrative measures to suppress inflationary symptoms. Some groups will press for higher interest rates and others for lower. Some will ask for a package of small expenditure cuts in social services which the civil servants will ensure are "off-loaded" onto the most vulnerable segments where they evoke the strongest backlash.

Employers are again blamed by politicians for causing inflation by overpaying, though no employer pays more than he needs to. This is a reversion to the Keynesian doctrine on inflation's roots that Mrs. Thatcher and her supporters renounced a decade back. It also ignores the consideration that a major cause of rising wages is the high wage floor caused by generous and easy welfare.

The hue and cry against the consumer boom is being renewed coupled with ominous calls for action against credit and prices, a propitious launching ground for the Treasury's undiminished aspirations to price and incomes controls, an inevitable corollary of its basically Keyensian approach, albeit still garnished with Friedmanite rhetoric. The "Economic Review" journal of the National Institute for Social and Economic Research, known as the Treasury and Bank of England's *alter ego* and shrine of neo-Keynesian orthodoxy, has called for credit controls.

While admitting that they always failed and proved counterproductive in the past, the Review claims that somehow the circle can be squared this time. The belief in magic is deep-seated in human nature, particularly, it seems, in politicians, bureaucrats and their tame scribes.

Unreconstructed Corporatists

This extra-political syndrome explains the continued attraction of these failed panaceas for Conservative MPs and ministers, though they are bound to be divisive inside the party. Recent anti-Thatcher manifestations by the parliamentary party in support of Chancellor Nigel Lawson's short-lived stand against Prime Minister Thatcher – though he later implicitly conceded her case – and similar opposition to her proposals for health service reform – as described on this page Aug. 23 – could be expected to recur.

Many Tories remain unreconstructed corporatists who would welcome any pretext for renewing the pursuit of the will-o-the-wisp of wage and price controls even though they brought down previous governments of both parties and would divide the party as it has not been divided since Edward Heath's ouster as prime minister in 1974.

This could yet be the price for failure to honor the original Thatcher commitment to slash estate expenditure.

Sir Alfred is a former speechwriter and adviser to Mrs. Thatcher on policy matters.

Time to bring back Keith Joseph

WITH last week's prime rate increase, interest rates, money supply, prices and trade deficits are chasing each other inexorably upward and we are back on the Keynesian treadmill which undid every previous government from Macmillan's onwards.

It was precisely a recognition that demand management and monetary squeezes are not an effective way of controlling inflation and growth that led Sir Keith Joseph (as he then was) to launch what became Thatcherite economics.

High interest rates affect domestic producers' competitiveness not only via the exchange-rate but through additional costs. This is a major reason for chronic de-capitalisation and de-industrialisation which have affected manufacturing industry since the mid 1960s, whereas British service industries, which are less dependent on interest and exchange rates, are topping world leagues.

The Chancellor's prescription is "more of the same". Yet higher interest rates are bound to cause the treadmill to run faster, raising prices, reducing competitiveness, increasing the trade deficit, generating calls for yet higher interest rates.

Someone, somewhere ought to be thinking of our predicament. That requires both a more incisive look at what has been happening to the economy and going back to basics to discover when, where and why the Thatcherite reformation lost its impetus and regressed to the Treasury's traditional Keynesian demand management, albeit garnished with Friedmanite rhetoric.

The retrogression is developing a momentum of its own, leading ineluctably to pressures for the rest of the Keynesian arsenal: "other instruments", credit controls, tax increases, wage and price controls, in short, where we came in.

The tragedy is that the original Thatcher reformation was launched precisely by Joseph's recognition that the familiar interlocking dilemmas could not be solved by monetary measures alone, least of all by interest rate squeezes, which, indeed, ended up by intensifying it.

He showed that monetary dilemmas both reflected underlying distortions of the real economy caused by government misallocation of resources in pursuit of growth and full employment.

Unless we can cut back

Sir Alfred Sherman, co-founder of the Centre for Policy Studies, analyses Britain's current economic predicament and recalls the cry underpinning the Thatcher revolution that 'monetarism is not enough'

government expenditure — he argued — no monetary policy can succeed in achieving stable prices, a viable balance of payments, and acceptable levels of growth and employment. He spelled these ideas out at length in his 1976 Stockton Lecture, "Monetarism Is Not Enough".

Because myths grow fast and are difficult to uproot, it is essential to understand that though his critics, opponents and enemies (the latter in his own party) dubbed him monetarist, he was in fact a counter-monetarist. He pointed out that by any rational definition, Keynes and his followers had orginated monetarism, i.e. the belief that monetary demand-management could keep an economy on an even keel irrespective of what was being done with real resources.

He argued that the vast economic haemorrhage caused by British Leyland, British Coal, British Rail, British Shipbuilding, British this, that and the other, "regional policy", were at the expense of real jobs. For every artificial job created or saved — he argued — several would be lost, creating the "unknown unemployed", to whom a monument ought to be erected.

At the time, Mrs Thatcher vigorously supported this view, and echoed Joseph's warning against failing to cut state expenditure and dressing up the old Keynesian squeeze on the private sector in new fashionable rhetoric. She said: "There is a danger that the old errors will creep back in new form, with vast state expenditures maintained on the pretext that their reduction could cause much worse unemployment."

The rest is history. Why the native hue of resolution was sicklied o'er lies outside the scope of this article, the cuts were not made, but on the contrary, yet more money went to preserve the subsidy hungry dinosaurs.

Improvement in trade union behaviour following legislation and shortage of work alone was insufficient to stave off a return of the old dilemmas. A major cause of wage increases is high indiscriminate welfare, to which both Joseph and Lawson had drawn attention while in opposition. Welfare levels create the rising floor which drives up wages employers must pay to take workers off the dole queue. Differentials do the rest.

Wages are also pulled upwards by the uneconomically generous handouts by nationalised industries which lead the pay-rounds.

The European Common Agricultural Policy is another predictable source of price increase and trade deficit. It not only raises the RPI by about 10 per cent, with dire effects on competitivity.

It also exacerbates the effect on our trade balances of a high pound. Were it not for the CAP, we should gain something on the swings from cheaper dollar imports which would help keep down internal costs. As things are, we just lose on the roundabouts of the dear pound.

The reason why Lawson's oil on the flames is accepted and even praised by the City establishment owes much to the fact that they think in terms of money, not of real economics, that is to say, resources. Monetarism is not only not enough, it is positively dangerous to our economic health.Someone should tell Mr Lawson and Mrs Thatcher.

Perhaps Lord Joseph might come back from the Lords with the salvo which launched the Thatcher Reformation, "Keynes Is Dead." But this time, they will need to lock the sepulchre much more firmly.

Arthur Seldon's Radical Reflections column has been held over