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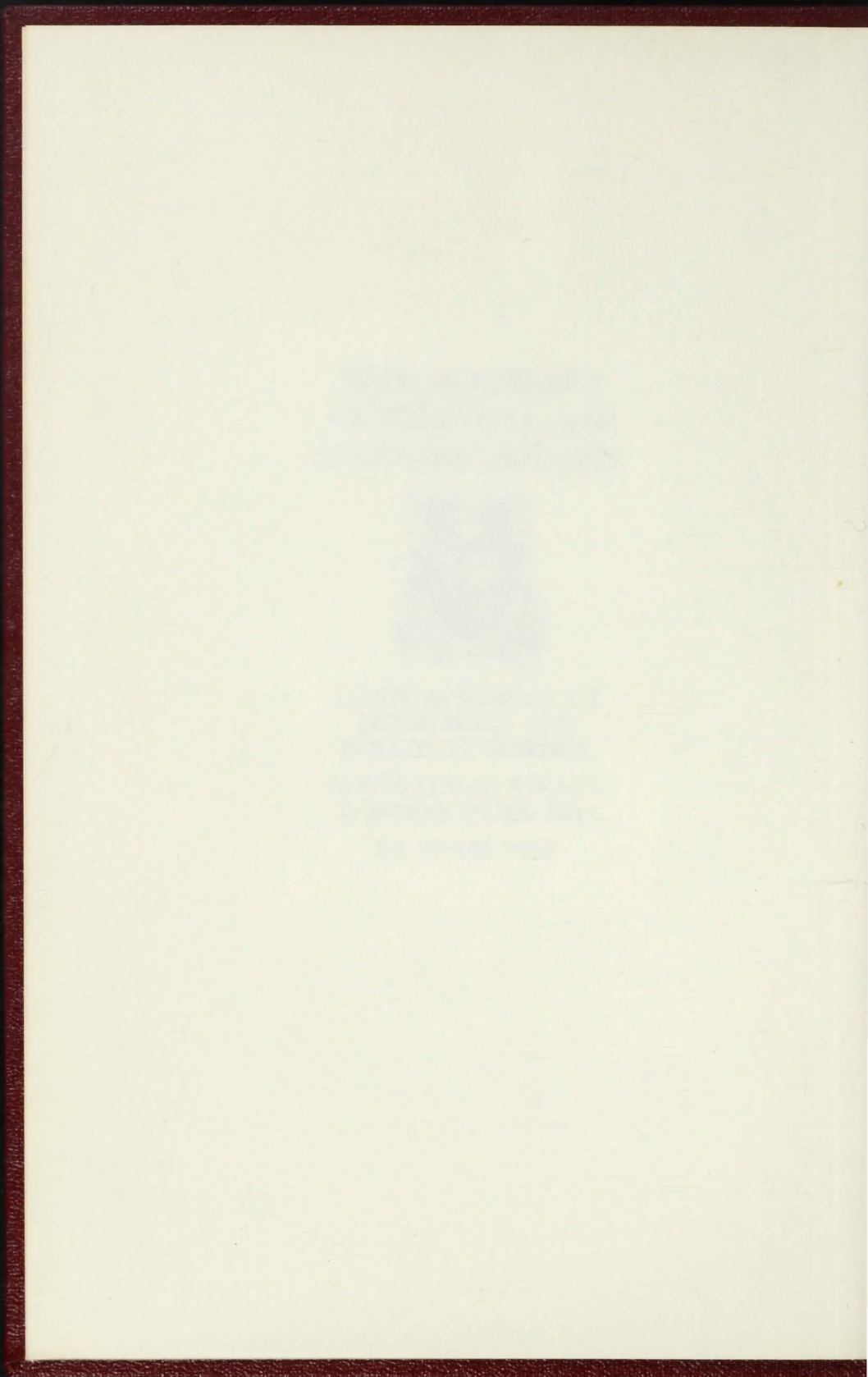
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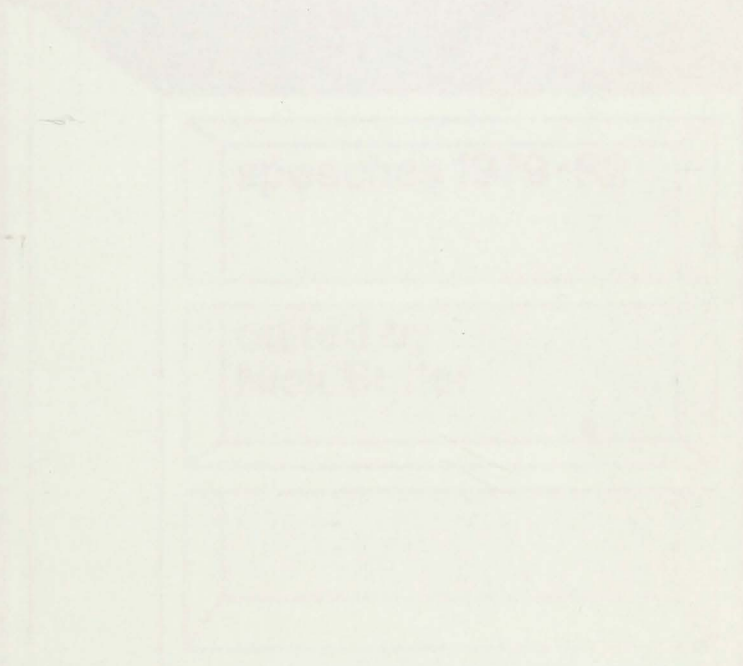


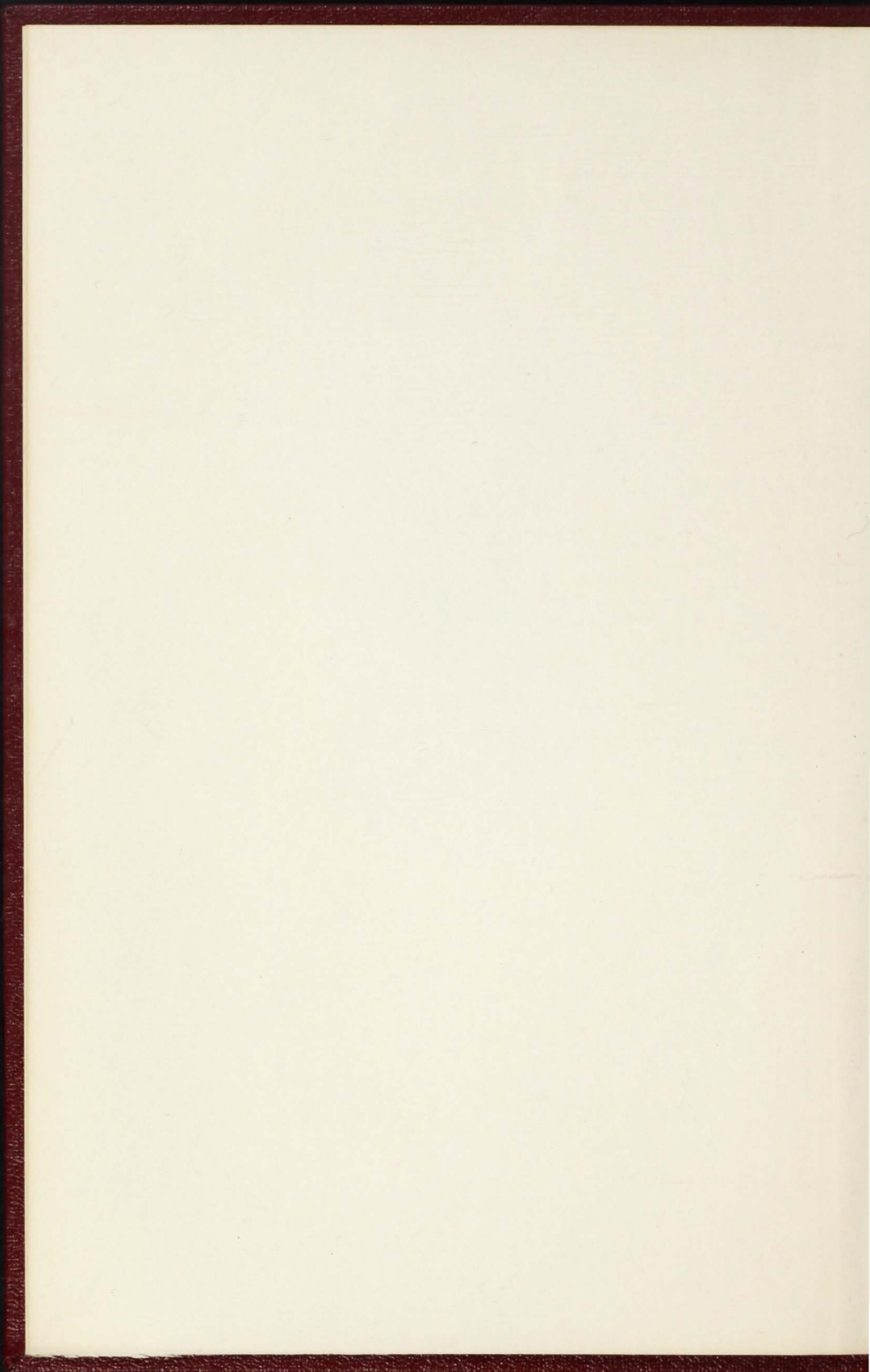




# The Economic Consequences of Mrs Thatcher

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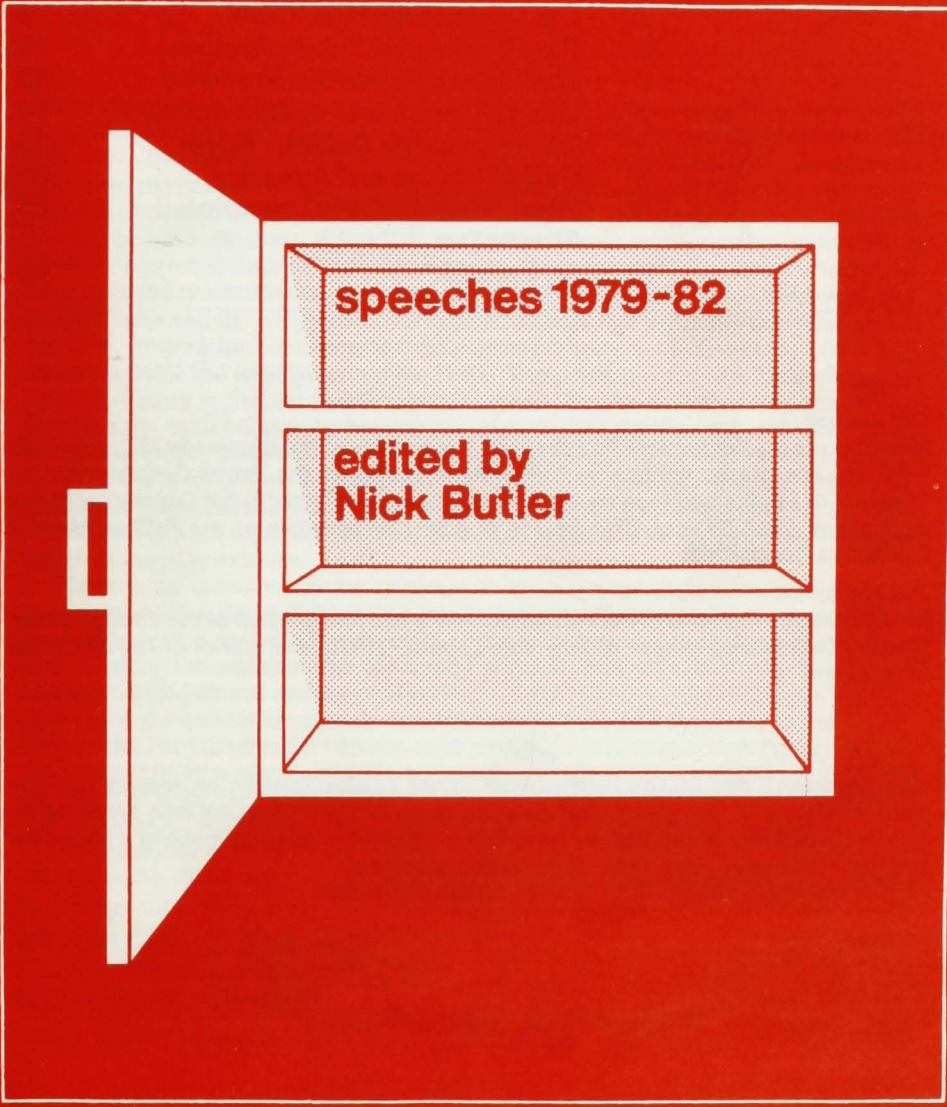


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## The Economic Consequences of Mrs Thatcher

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*This pamphlet, like all the publications of the Fabian Society, represents not the collective view of the Society but only the views of the individuals who prepared it. The responsibility of the Society is limited to approving the publications it issues as worthy of consideration within the Labour movement.*

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# Foreword

by Peter Shore

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The economic consequences of four years of Tory government are clearly apparent to all of us. Unemployment in May 1979 was 1.3 million, 5.4% of the working population. It is now 14%. Two million more people, including several hundred thousand school leavers who have never had the chance to work now stand in the dole queues. No attempt to fiddle the figures can diminish the waste and misery that that represents. Inflation which Labour had brought down below 10% during its last year in office rose to over 20% in 1980 and has fallen since only as a consequence of the imposed recession. Our industrial base has been crushed by the combined effects of the collapse of demand at home, high interest rates and the ludicrously overvalued exchange rate which has denied us export markets. Nothing has been done to encourage the development of new industries which should provide the employment of the 1990s. The government of Mrs Thatcher will go down in history as the first British administration to preside over the transformation of Britain's net trade balance on manufactured goods. For the first time since the Tudors ruled England we find ourselves in deficit on that account. There are days when it seems as if Mrs Thatcher has declared war on the British economy – a war which our competitors and trading partners are winning. The cost, in economic and social terms, cannot and will not be hidden from the electorate by political rhetoric or by the black arts of the advertising industry.

There is no individual better qualified to describe and dissect the economies of monetarism than Nicky Kaldor. His intellectual contribution to British economics is unmatched. In a period when economic theory has become mechanistic and shallow Lord Kaldor has sustained the concept of political economy combining analysis and evidence with political and social objectives. These speeches taken from the last four years have gone unanswered by the apologists of the government, whether in Parliament or outside. They deserve the widest possible circulation, not just as a critique of what has happened but as a contribution to the reassertion of a different concept of economic policy. The view that government intervention in economic activity, nationally and internationally, was integral and indispensable to modern government and indeed could be of enormous positive benefit became unfashionable in the difficult economic conditions of the 1970s. Now with the proven failure of the monetarist alternative that view is being given renewed consideration. Lord Kaldor provides a firm intellectual basis for the ideas which instinct and judgement tell us are right.

1983 marks the Centenary of the birth of John Maynard Keynes. It is highly appropriate that the Fabian Society should open the year with a publication by the greatest living Keynesian economist asserting once again the value and the strength of the ideas which Keynes himself developed, and which to our cost Mrs Thatcher has abandoned.



# 1. Prelude: the Ideological Challenge

16 May 1979

As a loyal supporter of the Labour Party, I cannot say that I welcome the outcome of this election. One can hardly be happy with having a Government with a strong majority committed to a strategy based on the strongly ideological orientation of the present leadership of the Conservative Party; if one is convinced, as I am, that that strategy is wholly misguided and that its pursuit will make our situation a great deal worse and not better than would have been the case if we had just drifted on with no strategy at all.

However, looking at the matter from an even longer-term point of view, I can also see positive advantages in the present outcome, for it provides a unique opportunity to settle for good the great philosophical issue which has plagued our political life and our economic progress for well over 100 years. I refer to the philosophy of *laissez-faire*. Despite its French name, it is a philosophy which is almost entirely British in origin. It owes its success to the English Utilitarians like Jeremy Bentham, who was the real father of the Manchester School and whose general rule, in his own words, was that: "*Nothing ought to be done or attempted by Government*"; or, to take another of its authors, Herbert Spencer, who in 1851 published a book with the intriguing title *State Education is Self-Defeating*, and 30 years later published another book called *Man versus the State*. This philosophy has frequently been condemned and pronounced dead and buried. It was condemned by the Conservative economist Cairns as early as 1870 in his famous inaugural lecture. It was condemned a generation later in the early 1920s by a Liberal economist, Keynes, and the authors of the Yellow Book. But, in spite of all this it is now bursting into life again embraced by a Tory Party, which historically always opposed it. It was opposed by Shaftesbury at the beginning of the 19th century, by Benjamin Disraeli, and by Joseph Chamberlain, to mention only a few of the leading Tory statesmen.

Like true converts, the new Tories propound the creed with the fervour and vitality of a new religion, and in total oblivion of its dismal past record.

## Britain in Decline

I confess that I can think of few historical situations in which the rigid application of the principles of the free market and the suppression of State interference would be less appropriate than in present day Britain. Our industrial future is in serious jeopardy, and we are in acute danger that the century-long period of our relative decline – a decline relative to other industrial nations who started much behind us and then surpassed us – is about to turn into an absolute decline with falling production, employment, and falling real income year after year, and with all the stresses this is bound to cause to our social fabric and to the whole of our institutional heritage. Indeed, if it had not been for the godsend of North Sea oil we would be in that miserable state already.

There is a steady stream of factory closures, of industrial areas becoming derelict, of whole industries disappearing in front of our eyes. The motor cycle industry, where we were leading world experts 10 years ago, has gone completely; the motor-car industry, which is still one of major industries, is disappearing fast, while others are kept alive only with the aid of large-scale Government subsidies.



Some of us have predicted this acceleration of decline as the ineluctable consequence of Britain joining the Common Market in the industrial conditions we were in as against the industrial situation of the other Common Market countries. I predicted the "negative" dynamic effects of membership in the form of a decline of British industry, and what has actually happened has fully borne out one's expectations.

The fundamental error of free market philosophy resides in the notion that profit is the true and the only relevant criterion for deciding whether a particular form of economic activity is of benefit to the nation. It is only under highly abstract and unreal assumptions that commercial profit or loss can be treated as any certain indicator of social gain or loss. The main assumption of this thesis – which is manifestly not true at present is that the labour and the other resources which are released by the cessation of a loss making activity have a more profitable alternative employment waiting for them. However, if closing down an aero-engine factory (I use this for the sake of example) like Rolls Royce does not lead to the re-employment of its many skilled workers and technicians in other more efficient factories but at best to their emigration to some foreign country; if the cessation of shipbuilding on the Clyde means only that fewer ships will be built but that nothing else will be produced instead, in these circumstances the application of the profit criterion is not a road to salvation; it is a road to ruin.

It has become so fashionable to run down our nationalised industries as a result of the chorus of ceaseless derogation by the media that it requires an act of courage to speak up in their favour. Whatever may be said against State enterprises on account of excessive bureaucracy, and so on, pales into insignificance in comparison with the merit of State enterprises in having kept up (until recent years, at any rate) a large flow of capital investment as a result of

which their capacity was modernised, their efficiency improved, and the basic industries were brought up to date, something which could never have been achieved under private enterprise. Could anyone seriously contend that our coal industry would be superior today if it had not been nationalised – or the electricity industry, or the gas industry, or the railways, or the steel industry?

### *The illusion of incentives*

Between 1880 and 1930 excluding the war years hardly any new money was sunk into the coal industry or the iron and steel industry, and very little money – in comparison with Germany, not to speak of the United States – was put into the new technology industries which arose out of the invention of electricity, the motor car, heavy machinery, synthetic dye stuffs and other chemicals. Instead, vast sums were invested abroad. In some years during the Edwardian period, when home investment in manufacturing industry was almost zero, no less than 10 per cent of our national income was invested abroad.

In those days there were incentives galore. However much present Ministers may try to revive incentives through tax reductions, they can never hope to achieve the Victorian or Edwardian peaks in fiscal incentives, when income tax was not progressive and it was seven old pence in the pound or three per cent instead of the present 33 per cent. Yet with all those incentives, the economy was stagnating. If people think we will now see miracles as a result of cutting income tax by, say, 3p or 6p in the pound, I can regretfully prophesy that it is more likely to make no difference whatever.

I have no doubt that without nationalisation we should have had the same situation after World War II as we had for 40 years before World War I and throughout a larger part of the inter-war years, and if one thinks that the period after World War

It was bad, I can only say that in the opinion of all economic historians who have studied this matter seriously, the 20 years of the 1950s and 1960s showed more rapid economic progress and more rapid growth of productivity than any comparable 20 years in previous British history. That that was due not just to a reflection of a world trend is shown by the fact that while it was true of Britain, it was not true of Germany or the United States; in other words, their post-war record of productivity was no higher than had been achieved in previous periods. It was true in our case, and it is only in the last 10 years that our economic progress has broken down, for the reasons I mentioned.

Contrary to the general presumption, investing less in some industries does not mean that we shall be investing more in others. So far as the United Kingdom is concerned, it may merely mean less investment all round. For a more appropriate diagnosis of our present troubles, I would refer to a new study on the economic growth performance of the United Kingdom which has just been published in the staff papers of the International Monetary Fund, an institution not noted for irresponsible, radical, Left-wing views. The author of the study, after an exhaustive

examination of the causes of Britain's comparative failure in the post-1945 period, concludes: "*In the United Kingdom, there has been a relatively greater flow of capital resources (in the private sector) into lagging industrial sectors such as textiles, food and beverages and relatively less in to the more dynamic export-oriented heavy and science based industries. Accordingly, United Kingdom industry has not been able to take full advantage of the marked upswing in world trade in manufactures over the post-war period. This tendency has manifested itself in a loss of export market shares and rising import penetration, which in turn have led to periodic balance of payments constraints on the growth of output. It is possible that in certain industries the shortage of complementary factor inputs, such as skilled manpower at the technician and engineer levels, together with inefficient management, may have contributed also to depressing output returns on new capital formation.*"

In the light of that, can there really be much doubt about whether our prime requirement now is more *laissez-faire* or the very opposite – more Government planning and more Government support for industrial investment?

## 2. *The Philosophy of Public Expenditure*

7th November, 1979

**As noble Lords opposite know, we are not, on certain fundamental matters, divided; that this country is in a perilously difficult situation; that inflation is a terrible curse and it must somehow be brought to an end, and that our uncompetitiveness has brought us down a slippery slope where the gradient gets ever steeper.**

Where I differ fundamentally from the other side is in their beliefs of how to turn

things around. This is what I wish to speak about. I should like to spend my time on



one aspect only – a detailed criticism of the first page of the White Paper on Government Expenditure Plans 1979-84 (Cmnd. 7036, HMSO, 1979) which the Government issued last week. I apologise for going into such detail on a few paragraphs, but I feel that this is the only way in which one can hope to carry conviction and to convince them that they suffer from numerous delusions.

When I first read this page I was so surprised that I said, "Here is a neo-conservative manifesto, a testament of faith in monetarism, which is something quite new and distinguishes the present Government from the traditional Conservative Party." It is something that could not have been written when either Winston Churchill or Harold MacMillan was Prime Minister, or when Lord Butler was Chancellor. It is a neo-Conservative manifesto which calls to mind, at opposite extreme, the Communist manifesto of Marx and Engels which is well over 100 years old. The very boldness and vagueness of its assertions make the two documents rather similar.

It is very disconcerting to those of us who are accustomed to the studied moderation and carefully guarded language of traditional State papers in this country. In fact, when I first read it the first thing that came to my mind was a well-known remark by a great historical figure of your Lordships' House, the third Marquess of Salisbury, who said about the *Daily Mail* that it was a paper written by office boys for office boys. Reading the first page and a half of this White paper, I felt that he might have said almost the same about this new manifesto.

### Myths and Faith

When carefully examined, this manifesto collapses into a series of *non sequiturs*, interspersed with assertions which can easily be proved false by an examination of relevant statistics. Since the truth or false-

hood of its basic assertions are absolutely critical to the success of the present Government's strategy, I hope I shall be forgiven if I deal with them at some length. I take my cue, in the same way as the preceding speaker, Lord Harris of High Cross, did, from the opening sentence which reads: "*Public expenditure is at the heart of Britain's present economic difficulties*".

This raises many questions. It does not say which aspect – whether it is its size, its rate of growth or its composition – they regard as critical. By saying that it is at the heart of Britain's difficulties, the implication is that public expenditure is something which peculiarly plagues Britain and does not plague other countries. Indeed, the next paragraph insinuates, without actually saying so, that public expenditure was responsible for Britain's dismal economic performance. It goes on: "*Over the past five years output has grown less than half as fast as it did over the previous 20 years, and a little over a third as fast as in other industrialised countries*".

Economic historians would confirm, I think, that the same statements or something very like to it, could be made about the Edwardian period, the first decade of this country. Perhaps public expenditure was responsible for that too – because it was too small rather than too large.

However, in the third paragraph the authors reveal that it is the growth of public expenditure rather than the size which they regard as the main cause of our difficulties. It runs:

*"Over the years public spending has been increased on assumptions about economic growth which have not been achieved"*.

This statement is quite inconsistent with the fact that at constant prices total public expenditure fell over the last five years by no less than 2½ per cent. It has not been growing. Lord Soames referred in his speech to the rapidly growing burden of public debt, and to anticipate critics I have checked the figures. The fact is that public expenditure, including debt interest, fell



by 1 per cent between 1974-75 and 1979-80. Over the same period our national output, unsatisfactory though it was, had risen be between 6 and 7 per cent. So, clearly, contrary to what the White Paper says, there has been an appreciable fall, and not a rise, in public expenditure both absolutely and even more, in relation to national income.

It would be equally untrue to say that our public expenditure is large in comparison with other countries as a proportion of GNP. Our expenditure has been, and is, below the average of the 10 major European countries, and it remains below the average even if account is taken of our relatively low income per head and of the relationship of income per head to public expenditure and to the GNP. The manifesto is completely wrong on public expenditure, and all noble Lords opposite who believe it are wrong, because they just repeat to themselves certain slogans, and the more often they repeat them, the more strongly they believe them and the less they feel to be under the necessity to check their beliefs against the facts. They are equally wrong on taxation.

The author of the White Paper could not have seen the December 1978 issue of *Economic Trends* which shows that Britain was the only one of 17 leading countries in the world which had reduced the sum of taxes and social insurance contributions in relation to gross national product between 1970 and 1976 and that it had done so by three percentage points of GNP. All but two of the other 17 countries had increased their taxation in relation to GNP, some by as much as 12 percentage points.

Moreover, according to the evidence contained in this paper, in 1976, which is the latest year for which comparative figures are available, the United Kingdom occupied ninth place among the 17 countries as regards the total burden of taxation. With a total burden of 40 per cent of GNP it was bang in the middle between the upper extreme of Sweden,

with 58 per cent, and the lower extreme of Japan, with only 22 per cent. So we were the only country among the 17 which actually reduced taxation in relation to GNP, whereas all but two of the others increased it. We were right in the middle. So what justification has the White Paper for saying "*increases in taxes have made inflationary pressures worse and reduced incentives*".

If the writers of the White Paper had looked up their facts and studied them, they should have said the opposite. They should have said that a reduced burden of taxation lightened the inflationary pressure and improved incentives.

### *Monetarism is nonsense*

Let us turn to paragraph 4. This contains even bigger blunders. It says that to bring down the rate of inflation "*it is essential to contain and reduce progressively the growth of the money supply. This means that Government borrowing must be firmly controlled. It is a main determinant of monetary growth.*"

It is only an uneducated person, or a person who is not in the least familiar with the subject, who would not know that since 1970 there has ceased to be any correlation between the borrowing requirement and the change in the money supply. The facts are everywhere to be seen – in all kinds of official publications of both the Government and the Bank of England. It is true that a relationship existed until 1969 and I believe that I was the first economist to draw attention to it in an article which was published in 1970. Almost immediately afterwards, however, the relationship ceased to exist because the new Tory Government which came into office in 1970 abandoned the old system of credit control by means of credit ceilings and introduced a new system called "Competition and Credit Control". I calculated the correlation coefficient by computer at Cambridge and it comes out exactly at

zero. So much for saying that the borrowing requirement is the main determinant of the money supply. There is a zero correlation between the change in the money stock in the United Kingdom and the borrowing requirement.

Equally, it is only a person who is totally ignorant of monetary statistics who could believe that it was the excessive rate of growth in the monetary supply which was responsible for Britain's high rate of inflation over the last five years. Anybody who cares to look up the facts needs to go no further than that admirable storehouse of information, *International Financial Statistics* published by the IMF. From that it can easily be discovered that the rate of growth of the money supply, in the broad and only significant definition (on which the Government, the Bank of England and everybody else concerned with this matter are agreed), namely, M3, clustered around 10 per cent a year, at an almost identical rate for the last five years, 1973 to 1978 in four countries: Germany, Switzerland, Belgium and the United Kingdom. All our countries had the same rate of growth in the money supply. Yet the rate of inflation averaged no less than 15 per cent in Britain over that five year period, but only 4½ per cent in Switzerland, 4¾ per cent in Germany and 9 per cent in Belgium.

I think it is obvious from these figures that the growth in the money supply no more explains the high rate of inflation in the United Kingdom than it explains the exceptionally low inflation rates of Switzerland and Germany. Indeed, if one relates the money supply to the gross national income, Germany's money supply is twice as large as that of the United Kingdom. It is 67 per cent of GNP as against our 34½ per cent, while, Switzerland's money supply is nearer four times that of the United Kingdom. It is 125 per cent of GNP against our 34 per cent. So monetarists please note that on their own chosen criteria the danger of inflation through excessive liquidity is greatest in

Switzerland and Germany, while the United Kingdom ought to be the least vulnerable. Of course this is nonsense, but it is nonsense because monetarism is nonsense. It is not Germany and Switzerland which stand in real danger of a high rate of inflation, but this country.

In fact, the United Kingdom has by far the worse record and is in the most dangerous situation from the point of view of inflation, and the policies of the present Government are, I am afraid, more likely to speed up this process than to slow it down because they go so completely the wrong way about it. There is not a word about wages or a policy on wage settlements in the White Paper.

### *An Impotent Government*

As far as output, employment and economic growth are concerned, the White Paper adopts a wholly fatalistic attitude. All it says is "*that the prospects are poor . . . both in this country and in the rest of the world*". This reminds one of a statement attributed to Neville Chamberlain during the great depression that the Government is no more capable of regulating the general demand for labour than it is of regulating the weather. After a long circle we now seem to have returned to the same point.

The philosophy underlying the present Government's policy is that wealth can be created only by the private sector, that wealth can be created only by giving incentives for risk bearing and so on, and that Governments cannot create wealth. Indeed, they say that "*to plan for more public expenditure before the required output is available to support it would ensure that the growth of output does not take place.*"

The absurdity of this view is shown by the fact that this Government would be only too glad to see more motorways built if private enterprise built them – as is the case in France – but it nevertheless feels that the same economic circumstances compel it to reduce the road building pro-



gramme by £200 million merely because this is produced by the public sector and not by the private sector. Why do they not hand it over to private enterprise and be done with it? Then they can say "Ah, the private sector has created our wealth or output, so now we can be allowed to spend more money".

As to the rest, there is one thing on which I agreed with Lord Boyd-Carpenter, when he mentioned the "so-called" cuts. The White Paper is so full of "so-called" cuts. They are not cuts at all; they are not cuts in services, provided they are treated as negative public expenditure, which is a concealed form of taxation, hypothetical taxation of the most regressive kind. When they say that the country can no longer afford to send children to school by bus its is not that the buses will stop – on the contrary they cannot stop because the schools are to be concentrated in bigger villages. It is simply that a charge is made for the transport of the children. There is no change in the use of resources, but only a regressive change in redistribution of

taxation. The road to national salvation is sought by making higher prescription charges for the same makes of prescription; by compelling higher payments for school meals and school milk and goodness knows what else besides. It is a plain cheat to call these cuts in public expenditure. It is not that the resources are transferred from one use to another. It is just a way of putting more burdens on the poor; and they are worse than general indirect taxes, because if you put VAT of 15 per cent. on clothes then everyone has to pay – not only the poor but also the rich.

I will conclude where I began, with a quotation. I began with the opening sentence of this neo-Conservative Manifesto. I think it is only fitting that I should end with the opening sentence of its counterpart, the Communist Manifesto, which runs: "*The history of mankind is a history of class struggles*". I cannot say that I ever believed in this, but the present White Paper makes me feel that there must be more to it than I had once thought.

### 3. *The Disease and the "Cure"*

16th April 1980

**The publication of the long-awaited economic plan by the Government, called *Medium Term Economic Strategy* provides an opportunity to review the competence with which the Government conduct their affairs in terms of their own chosen objectives. This Red Book is an extraordinary document. It contains bold assertions, logical *non sequiturs* and tautologies masquerading as empirical laws, which will provide rich source material to teachers of economics and examiners for many years to come.**

The Government's objective, as we all know, is to bring down the rate of inflation. This is uncontroversial. What is new is that, in their view, this requires, "*a progressive reduction in the growth of the money stock*". This is the new emphasis, to which they add in the same paragraph that they will, "*pursue policies necessary to*

*achieve this aim*".

Why say that? Why not just say that from now on they will issue less and less new money each year?

If the increase in the money supply is the cause of inflation, as Ministers constantly proclaim that it is, surely this implies that the money supply is something that can be



directly controlled, in the same way as VAT, or income tax or the size of the armed forces. If it is not, if it is something that can be influenced only indirectly, through the use of other instruments, then the rise in the so-called money supply is at best a measure of inflation and not the cause of it.

When Lord Cockfield, told the House the other day that the "*money supply was the critical factor in the level of inflation*" he was saying in effect no more than a doctor who says that "*body temperature is a critical factor in health*". You cannot cure disease by bringing down the temperature, even though your temperature will necessarily come down if and when the disease is cured.

The true instrumental variables are fiscal policy and interest rate policy. These influence the level of expenditures of consumers and businesses and, through them the public's demand to hold liquid assets, cash and bank deposits.

These are the same instruments as those of Keynesian policies of demand management. What has changed are not the instruments of control but the objectives. The present monetarist economic management aims at regulating effective demand, not for the sake of full employment, but rather the opposite; in order to secure a certain maximum rate of growth in total expenditures or in total incomes – the two come to the same – or, if I may use a technical term, in the rate of growth of the money GNP. This is the real target. The growth in the money stock – whether you choose one definition, another, or a third – is only a proxy, and not a very good proxy, because, as experience of recent years has shown, the rise in the money national income consistently exceeded by 20, 30 or even 50 per cent the growth of the money stock.

The rate of growth of the total money income, though it may be a true target, is not the same thing, of course, as what we or the public generally understand as inflation. Inflation is something that relates

to the rate of increase in prices or in the cost of living. The rise in prices depends on the rise in costs, the costs of material and the costs of labour, and these can be influenced by the instruments of fiscal and monetary policy, meaning restrictive fiscal measures and higher interest rates, only in an irregular and highly uncertain manner. Restrictive fiscal measures, particularly when they imply higher taxes and higher charges, may have a perverse effect by causing an acceleration of wage inflation – as indeed happened last year.

The Government can, and do, make sure by their policies that the aggregate demand for labour be reduced, and goes on falling, and that wage earners shall be punished for asking for too much.

### *Real Wage Resistance*

But this in itself may be unavailing in the light of what Professor Hicks called, in a felicitous phrase, "real wage resistance", by which he meant the workers' demand for compensation for the rise in living costs through an increase in money earnings. Hence, in order to succeed, it is not enough for the Government to reduce effective demand and thereby induce a slump in production and employment. They must break "real wage resistance", and this is the crucial factor in their whole strategy.

In order to bring down inflation, pay settlements must be consistently lower than the prevailing rate of increase in prices and must be lower not only for one year but for a whole number of years in succession.

"Real wage resistance" is no doubt abated by reducing the workers' ability to resist.

This Government orchestrated a whole gamut of policies in order to reduce "real wage resistance". The cuts in unemployment pay, the cuts in benefits to strikers' families, the rise in numerous charges, of gas and electricity prices, of rents, or rates, and the contemplated tax on food, all serve

this end, as well as the policy, to which my noble friend referred, of resistance to wage claims in the public sector as for instance in the steel industry, which has been claimed by some as a great victory. On the other hand, the militancy of the unions is bound to be enhanced as well by what they feel is a deliberate process by the Government of reducing their standard of living. One cannot reckon on the same cost-unconscious resistance to wage pressures in the private sector as in the public sector. In the public

sector, Sir Keith Joseph may be willing to put any price to get a victory in a strike, but in the private sector firms will not resist if it is too costly. Some of the policies of the Government – for example, the unfortunate idea of raising gas and electricity prices by 10 per cent, more than the rate of inflation, whatever the rate of inflation is – acts as a built-in accelerator of inflation in much the same way as OPEC acts as a world-inflation accelerator.

## 4. *The Private and Public Sectors*

*4th February 1981*

Apart from a lunatic fringe, there is no one in this country who belongs to either extreme in the matter of private versus public enterprise. We do not have many communists or many Left-Wing socialists who want to abolish private enterprise altogether, nor do we have very many Right-Wing capitalists who want to get rid of public enterprise. What is true is that the present Government and the party opposite, as Lord Thorneycroft emphasised, find that the public sector in this country is too large – a blot on the landscape. He did not explain on what basis they regard it as being too large, but they regard it as a burden and they want to reduce its size – and they neglect no opportunity to emphasise their intention to re-privatise publicly-owned enterprises, at least those which yield a profit and for which buyers can be found.

### *The Ruin of the Private Sector*

I would advise them to hurry up if that is their intention, because soon they may find it difficult to find profitable sectors to hive off, and they may find it even more difficult to find buyers, knowing the uncertainty to which the future status of such re-privatised businesses will be subject. But I am not very optimistic, from their point of view, about what is going to happen, because the real trouble is that by their present general economic policies – the policies of economic depression – they are destroying private industry so fast that, contrary to

their objectives, they are rapidly diminishing the weight of the private sector relative to the public sector, and not the other way round. They scream against nationalised industries, but it is private industry which they ruin, much more than nationalised industry. On top of that, they might well end up, as the depression deepens, having to take large enterprises into public ownership to prevent their extinction, just as Mr. Heath was compelled to do in the case of Rolls-Royce aero engines, to give but one example.



Lord Gowrie said that the difference between public and private enterprise is that private enterprise can go bankrupt. I think this is not quite accurate. If private enterprise is important, or if it supplies something which is vital to the national interest, or simply if it is an important segment of the economy, then it cannot go bankrupt, any more than can public enterprise. What happens is that it is taken into public ownership, which is not the same thing. Bankruptcies caused by recession simply increase the size of the public sector, just as, if you look at Mussolini's Italy, which was all against public enterprise, you see that they ended up with almost the whole of industry being owned by the state.

This could possibly happen here, also. This is not a debate on the economic situation, and therefore I cannot now go into the reasons. But, contrary to the optimism expressed by our Prime Minister in numerous speeches, prosperity is not just around the corner, and we are not approaching the bottom. I think there are important forces making for economic contraction which have not really begun to operate yet. We have had a big recession due to de-stocking, but the consequences on private consumption, on private investment, on fixed investment, and on exports – the three main factors determining the level of economic activity – are all set to turn down, and as they do, we are going to see a much deeper recession than has yet been seen. In the course of that, I am willing to prophesy, the range of the public sector will be rapidly enlarged and not diminished.

The industries which the first post-war Labour Government nationalised brought enormous benefits to the British economy. A far more efficient service was created in vital sectors than could have been provided under private enterprise. Why was that? It is partly because the nationalised industry was able to work on the basis of a comprehensive, long-term plan, and partly because, barring exceptional periods of

ideologically hostile Governments such as the present one, it was able to undertake sustained investment on a very much larger scale than private enterprise would have done.

### *Financial Capitalism*

In these respects, British private enterprise, I regret to say, is in general much inferior not only to British public enterprise but to the privately-run industries in other industrial countries. We have one of the most extensive and sophisticated financial markets in the world to serve the needs of industry, yet industrial investment has been inadequate in this country for more than 100 years. As a proportion of the value of manufacturing output, gross investment in manufacturing has been only one-half as high in the post-Second World War period as in our competitor countries. If we go back to the 1920s, or even farther to the 40 years preceding World War I, inferiority of industrial investment of Britain was far greater in relation to countries such as Germany, America, Japan and so on.

What has been the main reason for this? There are no universally accepted explanations, and I do not think that my own view would commend itself to many people in this House; but my view is that the very existence of the City of London, the supremacy of financial capitalism over industrial capitalism, has had a deleterious effect on our industrial development. It has certainly increased the attractions and the facility of foreign investment against home investment.

It has also meant, in the more recent decades since the Second World War that the managers of our businesses have been engaged in a continuous struggle either in averting certain takeover bids or in putting themselves into a position to be taken over on favourable terms, or else in the position to take over other firms – a game which requires clever accountants who can show

the best-looking profit and loss accounts. We find more accountants among the heads of industrial firms of this country than in any other country in the world. This financial game, the gains from successful takeover bids – that you are either taking over or else are taken over – are far more rewarding to owners and controllers of firms than the profits derived from developing new lines or new markets, all of which are, by their nature, slow and long-term operations, but which, in contrast to the short-term financial gains, are in the national interest.

### *Creating Wealth*

We require more public enterprise, not less, and a fundamentally different attitude to public enterprise – not one which regards public investment as a burden on the community. In the past few years – and I admit that the last years of the Labour Government share part of the blame – economies in public spending were largely concentrated on public investment as the easiest field in which to cut. This was the result of muddled thinking. People thought – and ministers still think – that, compared with private investment, public investment was not wealth-creating, that it was just a burden on the taxpayer. This is of course

nonsense. Take, for example, motorways. Superficially there is nothing to distinguish British motorways from French motorways except that they are called autoroutes. But in the eyes of Ministers there is all the difference in the world. French motorways are profit-making enterprises and therefore they are wealth-creating. By levying a toll on users, just like the turnpike trusts in Britain in the 18th century, they are made highly profitable. They are built by companies which are in part at least – sometimes 50 per cent, sometimes more – privately owned.

The French Government may be just as anxious to keep down their version of the PSBR (which is a much more sensible version than ours to start with) but all this does not come into it. It does not make them cut road building in times of unemployment for utterly irrelevant financial reasons. Although French Governments are criticised quite a lot in France for their financially conservative attitudes, they are miles ahead of us in their attitude to economic development, to co-operation of public and private enterprise and meshing the development of various sectors together, and also to the central direction of industrial investment, none of which are known in this country.

## *5. The Economics of the Primitive*

*18th March 1981*

The belief that public expenditure must be cut in order to balance the budget, which is clearly held passionately by the Prime Minister and her immediate associates, derives from an anthropomorphic conception of economics. Primitive religions are anthropomorphic. They believe in gods which resemble human beings in physical shape and character. The Prime Minister's economics is anthropomorphic, in that she believes in applying to the national economy the same principles and rules of conduct as have been



**found appropriate to a single individual or a family; paying your way; trimming your expenditure to fit your earnings; avoiding living beyond your means and avoiding getting into debt. These are all well-worn principles of prudent conduct for an individual, but when applied as policy prescriptions to a national economy, I submit they lead to absurdities.**

If an individual cuts his expenditure he will not thereby reduce his income. However, if a Government cut their public expenditure programme in relation to tax rates and charges, they will reduce the total spending in the economy and hence the level of production and income. It will reduce the revenue yielded by existing taxes and it will cause public expenditure on unemployment benefits and on the support of firms in trouble, and other similar items, to rise. It is a policy that is appropriate only in times of excess demand and over-full employment, as was the case in the period of Crippsian austerity after the war. At a time like now, with 2½ million unemployed, far from being a recipe for prudent housekeeping and future prosperity it is a recipe for ruin. To keep tightening the budget in the hope of "balancing the books" is to keep reducing the output and income of the nation and hence failing to balance the books as tax yields shrink and expenditures to support the disintegrating economy increase.

### *The Vicious Circle*

As a result of this kamikazi policy of repeated efforts to cut expenditure and to raise taxes in order to reduce public borrowing, the tax burden has risen substantially, both absolutely and as a percentage of the national income, and is much higher now than under the previous Government. The PSBR as a percentage of the GDP is higher than it was last year and higher than it was in the last year of the Labour Government, when it was exceptionally large. The net results of the Government's policies are thus the very opposite of what they intended to achieve. They are in the grip of a vicious circle of

having to make more cuts and impose more taxes in order to compensate, even if only partially, for the increased deficit caused by the previous round of cuts. At the moment they have to take two steps backwards to make one step forward.

If you add to the money which is raised by the Budget the monies raised through fiscal drag in income tax and the 1 per cent addition to the employees' contribution, you get a total of between £6 billion and £7 billion taken out of the economy. For what, my Lords? In order to effect a prospective reduction by £3½ billion in the PSBR. That is very much a hope. The relationship worsens the whole time. Soon they will not be able to reduce the borrowing required by however much they increase taxes and by however much they cut expenditure, because the yield of existing taxes will fall so fast and expenditure will rise so fast in consequence.

The one positive result of this Budget – which they claim they have brought in to help industry – is the reduction of MLR to 12 per cent, which is what it was before they began to raise it in 1979. To take pride in that is to be like the legendary Duke of York, feeling proud when he succeeded in marching his troops down the hill, even though they were battered and very much enfeebled. That is the policy imposed on the nation by the Prime Minister with her belief in anthropomorphic economies – a belief fully revealed in her impromptu speech at a luncheon last week.

### *The Historical Equivalent*

We have been through this nightmare before with Philip Snowden, the nearest historical equivalent to Mrs Thatcher. He had the same highly moral, austere, an-

thropomorphic outlook. And when during the depth of the depression in 1931 the prospective Budget deficit threatened to reach £170 millions which was then 4 per cent of the GDP (as against 6 per cent today) he insisted on putting into effect the recommendations of the May Committee – a 10 per cent cut in all public sector wages and salaries, in forces pay and in unemployment benefit, plus a large dose of additional taxation in an emergency Budget of September, 1931. All this was done in the name

standard. Keynes told a parliamentary group two days after that Government's emergency Budget: *"It is one of the most wrong and foolish things which Parliament has deliberately perpetrated in my lifetime."* He also wrote to an American friend, in

reaction to Snowden's Budget: *"To read the newspapers just now is to see bedlam let loose. Every person in the country of super asinine properties, everyone who hates social progress and loves deflation, feels that his hour has come and frequently announces how, by refraining from every form of economic activity, we can all become very prosperous again"*.

Luckily, a few days later the French came to our rescue and saved us from the awful consequences of Snowden's anthropomorphist policies. They withdrew their loan and thereby cleared out all the gold remaining in the vaults of the Bank of England. So the great deflationary Budget came to late to save "sound money". We went off gold as there was no alternative.

## 6. *The Achievements of Conviction*

12th November 1981

**This is the third debate on the Queen's Speech in the lifetime of the present Parliament. I count myself fortunate to address your Lordships from the Back Benches of this side of the House and not from the Front Bench of the other side: I certainly do not envy Lord Cockfield in keeping up his usual air of effortless superiority and infallibility, while having to eat quietly so many of his past words.**

Lord Cockfield, with the same confidence and superiority, explained to us two and a half years ago that from now on everything would be different. It is a completely new world we are entering; the money supply will be strictly controlled; the control of the money supply will work miracles; inflation will rapidly disappear, and there will open up a marvellous new era of growth and prosperity. I do not want to repeat too many times the figures that have already been banded about and quoted. The fact is that our production

shrunk; our GDP in two years by 7½ per cent, which is more than has ever happened before in peace time; a fifth of our manufacturing output disappeared; and I could add many other features.

Turning to the methods by which this new Government thought to bring about a new Jerusalem in this country, they were always concerned with turning back the frontiers of government; reducing government expenditure. Today we heard almost with satisfaction a statement from Lord Cockfield that government expenditure,



as a matter of fact, increased as a percentage of the national income from 50 per cent to 55 per cent, and it will be higher still next year. The PSBR, by whose reduction they still seem to set great store, was exceeded by 57 per cent as compared with the Government's target in one year, and by 40 per cent in the next.

I will not go into, but merely register my utter and total disagreement with, his present emphasis on the budgetary deficit and the level of interest rates. I could demonstrate to him – I have done so and am ready to supply written proof – that there is no necessary connection whatever between the budget deficit and the interest rates; you can have high interest rates and no deficit, enormous borrowing and very low interest rates; you can have a 2 per cent war (as we had in the Second World War) or a 6 per cent war (as we had in the First World War); and lately the great Milton Friedman has come round to this view too, and I could supply references to that effect also. Let us leave that there.

### *The Money Supply*

What was missing from Lord Cockfield's excellent and wide-ranging account today was any reference to the money supply, whereas two years ago the money supply was the centrepiece of everything. The control of the money supply and the reduction in its growth rate would result in all sorts of miraculous changes coming about, so we were told. In the event what happened? Since the day the Government came to office the money supply, by their own definition, has increased at an annual compound rate of 18 per cent, as against the 11.2 per cent in the previous five years, between the second quarter of 1974 and that of 1979, and that was under a Labour Government. So the money supply increased more than 50 per cent faster than it did before. That has been the net result of monetarism.

I submit that there is not a single aspect

of the Government's policy, announced or unannounced, in which the desired objectives of the Government have been attained, except perhaps one, but that is not one for which anyone could openly claim credit. They have managed to create a pool – or a "reserve army", as Marx would have called it – of 3 million unemployed, and but for the fact that British Leyland was not closed down, as looked like happening – a lame duck, on Keith Joseph's definition, if ever there was one – the figure would soon have risen to 4 million.

There is no use blinking at the fact that in terms of the power of masters over men, the existence of 3 million unemployed makes a vast difference. One has only to scan the statistics of absenteeism, the number of days lost through strikes and the size of wage settlements, both absolutely and relatively to the increase in the cost of living, to realise that the British working classes have been thoroughly cowed and frightened. The trade unions are demoralised and a climate of fear dominates the land. The defeat of a near-unanimous strike recommendation by 350 shop stewards – I never knew there could be so many shop stewards in one firm – of British Leyland only a week ago bears eloquent testimony to that.

### *Abandoning Consensus*

Mrs Thatcher is our first Marxist Prime Minister – none but a Marxist could speak so contemptuously of consensus politics. She was reported to have said in Australia recently: "*To me, consensus seems to be the process of abandoning all beliefs, principles, values and policies. . . . It is the process of avoiding the very issues that have got to be solved merely to get people to come to an agreement on the way ahead.*"

I can almost hear Lenin speaking those words when in October 1917 he bullied 17 "wet" members of his politburo in order to take risks and seize power which they were

most reluctant to do.

Yet despite the Russian revolution, and despite Britain's present untimely essay into Victorian capitalism, the successful trend in the present century, at any rate in its second half after Hitler was defeated, has been precisely towards the kind of consensus politics our Prime Minister so despises.

Perhaps she needs reminding that there was never a more far-reaching consensus in Britain than that attained by the wartime coalition Government of Winston Churchill, which certainly did not involve abandoning all beliefs, principles and values; whereas the previous "conviction politics" of Neville Chamberlain – a Prime Minister with much the same qualities of single-mindedness, courage and obstinacy as Mrs Thatcher – divided the nation as it had never been divided before.

Coming nearer to our time, the successful democracies of post-war Europe – countries like Germany, Australia, Holland and the Scandinavian countries – follow the principles of consensus politics characterised by ever-widening consultation at all levels and by making all employees participate in decision-making at all levels. Those are the countries which have excellent labour relations, relatively low rates of inflation, few strikes and high productivity and production records, countries in which you find a recognition of a common interest in the success of the enterprise by all participants – which I consider a more important feature of success.

I would put Japan in the same category. There, in apparent contrast to its strong hierarchical traditions, there is in fact widespread regular consultation between management and staff, as we learned from an article in *The Times* the other day; and I must say that one of the most promising and cheerful features of recent events has been the increasing involvement of Japanese management in British industry. I cannot see anything but good in that kind of

development. In Japan, wages are rapidly rising, in real and money terms, and are twice as high now as they are in Britain, and workers are protected, by the guarantee of lifetime employment, from being made redundant as a result of either automation or robotisation.

### *The Miserable Contrast*

In miserable contrast to all that, British industry, as represented by the CBI, or the Government, is convinced that it is only through a large fall in the workers' standard of living, through wage increases consistently falling short of the rate of increase in prices, that industrial competitiveness can be restored. What nonsense that is! Improved competitiveness requires modernisation through new investment. It requires expanding home markets, which require higher, not lower, real wages and, most importantly, it requires an improvement in the technical competence of industrial management which, in the view of all foreign experts – though not perhaps the native experts – is one of the worst in the world.

Real wages could be much higher if our national production could be raised to its economic potential, and I failed to hear a single reference by Lord Cockfield or anyone else on the Government side, to this vital difference between actual output and potential output. If we could raise output to the full employment level, our production would be around 20 per cent higher than what it is now; and if that cannot be achieved it simply means that our organisation of the economy, our market system, and the whole system of production and distribution is fundamentally defective.

The only way that I can see of regaining full employment is by expanding the demand for the products of British industry, which in our present feeble state, I readily admit, would not be possible without protection or import controls of some kind. It would be possible only if we could channel the additional demand to British



products and not to foreign products. To that extent I agree with the Government that within the confines of their ideological parameters, which abjure controls of any kind – whether exchange controls, import controls, wage controls, price controls or any form of planning – there may indeed be no alternative to their miserable policies, which I am convinced will lead us further down and down, and more and more unemployment until some type of revolution changes things radically, for the worse or for the better. Whether it will be a revolution of the Right or a revolution of the Left, I do not know; either might happen.

In terms of their own chosen criteria the Government's two and a half years of office has been one unmitigated failure, unless the rise in unemployment by 2 million is taken on the plus, not on the minus, side of the account, and that Government speakers are anxious to deny. Nevertheless, they feel both pride in their achievement and a great deal of confident optimism. This was particularly prominent in the Prime Minister's speech in another place last week. She talked about "*the signs of economic success . . . a testament to our new economic strength*". She said that "*the major changes that we have so long needed and so often shirked have now been made, and . . . we shall secure the kind of success which our neighbours have achieved and which has eluded us since the war*". She did not tell us what she meant by "the major changes" which have now been made; we can only guess. None the less, I

am sure that those were not debating points. They were genuine expressions of a deeply felt conviction which alone can sustain the Prime Minister in the face of the tremendous pressures to which she must be exposed, and one cannot suppress a certain admiration of the way that she stands up to them.

### Convictions and Delusions

But unfortunately her convictions, however deep, however genuine, are based on a delusion. It is a delusion that Britain's failures and difficulties are the result of Fabian Socialism and the welfare state, the result of Keynes and Beveridge, and once we – here I quote again – "*return as many industries as possible to the private sector*" and get rid of the powers and privileges of trade unions everything will come right. We shall again be one of the leading nations of this world. That that view, which on my interpretation, is the basis of the Government's whole philosophy, is fundamentally false should be evident from two considerations. One is that our neighbours who have been so much more successful (to which the Prime Minister referred) have had a bigger dose of Keynes and Beveridge since the war, not a smaller one. Social security and full employment were more consistently pursued in post-war Germany, Austria, France, Sweden, Denmark and Norway than they were in Britain. Yet they have not been enfeebled, but very much enriched by those policies.

## 7. Drawing up the Balance Sheet.

17th March 1982

**The Government's basic philosophy in 1979, ably expounded by the noble Lord, Lord Cockfield, was that the Government's first priority was to bring down inflation; inflation was entirely a matter of the money supply. Therefore, "to reduce inflation, the Government will progressively reduce the growth of the money supply and will pursue the policies necessary to achieve this aim."**

In the three years since the present explicitly monetarist Government came to power, the money supply has grown much faster than before. Compared with the five years from 1974-79, under Denis Healey between 1979 and now the annual rate of growth in the money supply is 80 per cent larger. If one takes an even better measure, which is not "sterling M3", which is an artificial thing but M3 itself, the excess in the rate of growth of money supply under a monetarist Government was fully 100 per cent. Money supply increased twice as fast as it did before.

### Real Achievements

On the other hand, remarkably, the Government do not claim credit for their real achievements, which are a rise of nearly 2 million unemployed, a fall of 6 per cent in the GDP, and a fall of 19 per cent in manufacturing production. To be fair, one of Mrs Thatcher's closest supporters, Mr Arthur Seldon of the Institute of Economic Affairs writing for an American journal published in San Francisco, drew up a balance sheet of "Margaret Thatcher's successes and failures". He listed the rise in unemployment by 1½ million in two years as being her No. 1 success – indeed, the only one of any consequence. The others were a slight reduction in the rate of increases in wages and prices, and a reduction in pay settlements to the same level at which they stood when Mrs Thatcher first came in. Mr Seldon listed all

other aspects of the Government's policy – taxation, Government expenditure, PSBR and bureaucracy – as "failures". That Mr Seldon should regard higher unemployment as such a good thing is further evidence of a quiet intellectual U-turn by the Friedmanites and the Thatcherites. Originally, high involuntary unemployment was not regarded as either a necessary part or consequence of monetarism. One could quote plenty of passages from Milton Friedman and his true followers in this country to the effect that trade unions are quite harmless; if they raised wages above the true market level they would simply price themselves out of jobs but they could not – I repeat, "not" – cause either costs of production or prices to rise because these are firmly tied to the money supply. That was the core of the philosophy of the present Government.

It was only the bitter experience of the Government's first year in office – when prices rose by 21 per cent instead of the 10 per cent forecast – which convinced the Government that control over the money supply was not enough; one must also have low pay settlements. Indeed, without low pay settlements, the growth of the money supply could not be slowed down either. But the Government did discover that by driving firms to the verge of bankruptcy and beyond it, it was possible to bring down pay settlements quite considerably. If a firm is on the verge of going into liquidation then in order to keep it alive, keep it on that verge, one can bring about



quite a significant moderation in wage claims. Faced with the prospect of job losses and permanent unemployment, a wage earner is willing to accept a cut in his real wages. In other words, the chief aim of the policy was to lower wage settlements and thereby lower the rate of inflation.

### *An Economic Miracle*

What have the Government achieved? They claim that there is a wonderful new spirit of leanness and efficiency in industry and that we are on the brink of an "economic miracle" such as happened in Germany under Professor Erhard. Unfortunately, all this is just talk. None of these claims shows up in the statistics which matter – those of output, consumption, investment or exports.

The Prime Minister has proclaimed at least once a year, if not twice, that the worst of the recession is over and that, from now on, the economy is on an upward path. This has been said ever since the middle of 1980 and it is still being said. The last time industrial production was proclaimed to have reached bottom was in the three months from March to May 1981. We heard Lord Cockfield, say that from then on, we have been recovering. Indeed, in the subsequent three months August-October, manufacturing output was fully 1½ per cent higher, which in annual terms is quite a substantial figure. Ministers were not slow in claiming credit for it. Unfortunately, it has turned out to be a false dawn. It is not true that just January was a bad figure; the whole of the last three months was bad. In the three months, November to January, production fell by more than 2 per cent as compared to the previous three months.

So in the last three months manufacturing production was lower than in any previous three months in the life of the present Government. You have to go back 15 or 20 years to find output as low as that. And there is no sign that it is improving.

All this is just talk; when the figures come out, they show time and again that production is lower than before. October was an exception, it was a freak month; production was 2 per cent higher than either in earlier or later months. It was on the basis of this one month's figure that all the Government's optimism was based.

If we take the forecasts – after all, the forecasts were prepared long before the January production figures were known, and they now look too sanguine – by the first part of 1983, which is the furthest forecasts go, GDP will be 3.4 per cent higher than at its lowest point in the first half of 1981. What a wonderful improvement to look forward to. From the depths of the recession, in two years, 24 months, you will have managed to increase manufacturing production by 3.4 per cent. This is what they claim. But these claims are already overtaken by the latest figures, the figures published since, and it is no more probable that a rise of 3.4 per cent will be realised than that the figures will show a fall by 2 per cent a year between now and 1983.

Even if we take the Government's figures at their face value, the net result of the whole Thatcher experiment will be a reduction of wealth. Real GDP is forecast to be some 4 per cent less than in the second quarter of 1979, when the present Government took office. We have to go back a long time to find an instance when a Government went out leaving the country poorer than when they came in. Perhaps the Government of Ramsay MacDonald from 1929 to 1931 qualifies for this description.

### *The Thatcher Experiment*

The purpose of national policy is to increase the production of wealth, and that cannot be repeated too often. It is not increased productivity, it is not lower inflation, it is not lower budget deficits; all these things are only important if they serve

the end of increased production of wealth. Initially this was recognised. Initially the Government proclaimed that their basic aim was: "to create conditions for a sustainable growth of output and employment".

We hear less about this now. After three years, despite numerous optimistic ministerial speeches, there is no sign whatever of this happening. The official explanation is that the whole world is in a state of recession; how could we have opted out of it, when everybody else is in recession? Well, this leaves out of account the fact that while our industrial partners were at the losing end of the oil crisis, we were at the gaining end. It was our peculiar misfortune that oil and Mrs Thatcher came on full stream more or less at the same time.

Therefore, all the benefits, all the potentialities which North Sea Oil gave for renewing our industrial equipment, for renewing our aging and crumbling infrastructure and modernising British industry were entirely wasted. We reduced our GDP just when our potential GDP was enlarged by a new source of income, oil, the exploitation of which would have required a large increase in effective demand sufficient to maintain employment while avoiding vast balance of payments sur-

pluses. The difference between us and other industrial countries is that all other industrial countries are constrained, on account of oil, by their balance of payments, and they could only expand further or faster or follow a more expansionary policy by incurring bigger balance of payments deficits. But our balance of payments is in surplus to the tune of £8 billion, for the first time for I do not know how many years. We are not constrained by our balance of payments; we do not have the excuse that we cannot expand because our balance of payments would not allow it.

However, bygones are bygones. When the present policies are finally abandoned and put into reverse gear, which I am sure will happen, Britain's capacity to produce will be found to have shrunk a great deal. And, however much the policies are put into reverse, the losses caused by the Thatcher experiment will never be recouped. At any particular future date the country will inevitably be poorer than it would have been if the Thatcher experiment, the triumph of monetarism and the magic of money supply, had never taken place.

## 8. *Market Forces and Industry* 3rd February 1982

The greatest of English economists of the late 19th century, namely Alfred Marshall, went out of his way to demonstrate that the doctrine of maximum satisfaction – which means that leaving things to the market leads to the best solution – is not true without strong qualifications. His greatest pupil in Cambridge, Professor Pigou, devoted his whole life to exploring the qualifications and the limitations of that doctrine in a systematic manner.

I want to illustrate the point by one or two examples of how market forces can produce the worst results even in respects in which they are expected to produce the

best results. The clearest example which springs to mind is what came to be called some 10 years ago as the Dutch disease. I am not referring, of course, to the disease



of elm trees, which is no doubt familiar to many of your Lordships. I am referring to the unfortunate and wholly unexpected consequences of the discovery of a great deal of natural gas under the sea near Gröningen. On any rational grounds one would expect that this discovery would have been a great boon to Holland, just as the discovery of North Sea oil was supposed to have been a great boon to Norway and to Britain.

However, the reality turned out to be quite different. Gas was a new, additional source of income which added greatly to Holland's exports – 90 per cent of it was bought by other countries. But these exports had to be paid for, which made the guilder a highly-sought-after currency, driving up its value in relation to Dutch industrial costs sufficiently to make it possible for foreign countries to pay for their gas by increased exports to Holland and reduced imports from Holland. So the market mechanism, which automatically tends to bring exports and imports into balance, automatically also causes an improvement in the energy balance to be offset by a corresponding deterioration in the balance of trade in manufactured goods.

As a result, from 1965 onwards Holland experienced rapid de-industrialisation – even more rapid de-industrialisation than we are experiencing today and industrial employment fell by 30 per cent, having risen substantially by 2 per cent a year ever since the end of the second war. The result was that the growth of the national income, the growth of the GDP, very much slowed down. It was growing less fast than before gas was discovered. The huge income from gas served as a substitute for other sources of income – and an inferior substitute – and not as an addition to other sources of income, which it should have done. And since gas production, unlike manufacturing, requires hardly any labour, Holland became a country of heavy unemployment and declining real wages.

Many of us were afraid that we should catch the Dutch disease once North Sea oil came on stream, and that is precisely what happened. In terms of real GDP, oil brought no net benefit at all to this country. As the value of oil production went up, so the value of manufacturing production went down. Employment in manufacturing industry alone fell by 3 million – from nearly 9 million in 1965 to just under 6 million in June 1981, and it may have fallen by another 150,000 to 200,000 since. Manufacturing output, which reached its peak in 1973, has since fallen by 17 per cent.

All this is due to the same natural tendency of the free market to substitute one source of production for another, even if the new source is more in the nature of a new inheritance – something which in a properly functioning economic system should be a net addition to wealth and not, as in the British case, the cause of a net reduction. Given the fact that there was nothing that would expand total demand in line with the increase in productive potential which occurred just when a socialist Chancellor thought that an expansion of demand is the very devil – the net result of the oil and gas discoveries in Britain, just as in Holland, was that in the field of manufactures less and less was produced at home and more and more was procured from abroad.

### *The Real Alternatives*

That this sort of thing is not inevitable but simply the result of bad government – and I do not mind whether it is a bad Labour government or a bad Tory government; unfortunately in this country we have had both – is shown by a comparison with a third country, Norway, which is governed on Keynesian principles and not on Thatcherite principles. Oil and gas loom far larger in the economy of Norway. The gross value of their oil and gas production is equal to the value of the whole of their

manufacturing output, which is about 25 per cent of the GDP, whereas in Britain oil and gas production together is, I think, around 6 or 7 per cent of GDP. But whereas employment in oil production is less than 0.5 per cent of total employment, employment in manufacturing in Norway is 20 per cent. I suppose the propagandists of the present Government would say, "Hooray! – productivity in oil or gas is 40 times as high". Output per man is 40 times as high in oil as it is in manufacturing – just because oil does not require labour, or requires very little of it.

Despite all this, thanks to a devaluation of the kroner (which the Government carried out in face of a strong balance of payments and of strong currents driving up the kroner) and then to its subsequent maintenance at a low level in relation to costs through extensive market intervention by the Norwegian Central Bank, in Norway manufacturing output and employment were maintained. Now Norway is the country with the lowest unemployment in Europe, at 2 per cent, if not in the whole world. It is only slightly exceeded by Austria which also kept unemployment very low as a result of a Socialist government in contrast to the high unemployment of right-wing governments.

Norway's example shows that there was no need to undergo the miseries of de-industrialisation or having millions of unemployed. All that it was necessary to ensure was that effective demand was high enough to utilise the available resources to the full – and the available resources were enlarged by North Sea oil and gas. That simple proposition no one in Whitehall could understand.

What we should do if we were rational and clever would be to build up our export capacity in manufactures by a large-scale industrial investment programme, a major programme of industrial regeneration and modernisation, organised from the centre, on much the same lines as in Japan. The central government there organised post-

war industrialisation. Investment was carried out in businesses run by private enterprise, but the whole thing was planned by the Japanese Government. Private industry without central planning (what the Japanese call administrative guidance and direction) cannot be expected to undertake this. On a narrow view, it does not appear to be a profitable thing to do. But the interests of the nation and of the shareholders of the companies are not identical; or, rather, they do not appear to be so. Each company acting separately and individually may be justified in thinking that a major programme of modernisation and capacity extension would not pay. It would be throwing good money after bad. But if all companies undertook such a programme simultaneously, they might well be justified in terms of profit as well as of a higher and more secure employment in the country and a higher real income for the nation as a whole.

Moreover, our own problem of expanding and modernising our export industries is far more urgent than that of the Norwegians. Norway's proved oil reserves are sufficient for a hundred years to come at the permitted maximum output of 75 million tonnes a year – which they do not expect to reach until 1990. Some Norwegian oil experts say that since the greater part of the Continental shelf has not yet been explored, oil might last for another hundred years or even longer.

But this is not true with us. Our own oil reserves are expected to be exhausted somewhere in the early decades of the next century. Therefore, it is far more important that we should have something to replace oil in order to pay for our imports. That is to say, we should use this time when we could afford it to build up and modernise our export capacity.

### *The Limitations of Market Forces*

I have given but one example of the general



proposition that you cannot rely on market forces to generate sufficient demand which alone can ensure the optimal use of resources. This is one thing that the markets cannot do. Nor can you rely on the foreign exchange market to secure a satisfactory balance of payments. Anyone who listened to the speech of Lord Soames, in the debate in this House last week will have been convinced that, in the matter of foreign exchange, reliance on market forces is a total absurdity. Another major respect in which we cannot rely on market forces concerns the stability of wages and prices. The present Government regard price stability as the supreme objective of national policy. Whether they are right in this – to give inflation or the absence of inflation such a high priority – is a matter for argument. But, whether the priority is high or low, they haven't a clue of how to achieve it. They have an *idée fixe*, which perhaps is not as widespread now as it was a year ago, that in some mysterious fashion, which is completely unexplained, it will come about automatically through control of the money supply. In fact, as experience has shown, they cannot control the money supply. I am sure it would not have made any difference, even if they had succeeded.

The only way to make some real sense of their policy – one cannot assume that one's masters are all half-witted – is to suppose that they believe in the curative powers of unemployment; that, if you create enough unemployment, the working classes will be hungry enough and the trade unions will be weak enough not to have strikes, not to have absenteeism or recalcitrance, and not to have wages rising faster than productivity. The example of ASLEF in the last few weeks has shown that 3 million unemployed are not nearly enough. It may need unemployment up to 5 million or 6 million to reduce the working classes to that state of obedience. And what a waste! What a lot of contrived misery of the large majority of the nation that depends on work for earning a living.

All this is because the Prime Minister and her friends are ideologically opposed to controls. I am convinced that their policies will fail. In our present era, the late 20th century, inflation has become endemic to the capitalist system. It is present in all capitalist countries and, moreover, it has now spread to communist countries as well. It cannot be got rid of without a consensus policy on income distribution which allows effective and comprehensive controls over prices and wages. Lady Young said quite a lot about how impractical this was; but she did not tell us what her alternative is or whether she has an alternative.

### *The Export of Capital*

A final area in which it is hopeless to rely on market forces is foreign investment. This is only an aspect of the more general issue of whether private profitability is a good or a bad guide to national profitability. It may be profitable for a British or a multinational firm to transfer its activities abroad where labour is cheaper or the exchange rate more favourable; but it is against the interest of the nation as a whole. The Chancellor of the Exchequer in another place the other day argued against the view I have just put forward by saying that, if we controlled outward investment, we could not expect to get the benefit of inward investment. What he did not say was that this is a poor argument because United Kingdom investment abroad in manufacturing industry is 10 times as large as foreign investment in Britain; so that we do not get benefits from foreign investments which are comparable with the losses to Britain through investing abroad rather than in this country.

In other words, to restore the British economy, and with it the health and morale of the nation, we must adopt policies to look after both the supply side of the economy – that is, the capacity to produce

– as well as the demand side. The present Government, with their blind faith in

market forces, disclaim responsibility for both.

## 9. *Unemployment: The Unexplored Alternative*

16th November 1982

The Select Committee on Unemployment – and chiefly its chairman Lady Seear – must be congratulated for producing in a short period a very solid piece of work (Report from the Select Committee of the House of Lords on Unemployment), extending to a history of unemployment, a review of the theories of unemployment, and to assembling a vast amount of statistical material on the costs of unemployment, its social effects, as well as a detailed review of possible remedies. In my view it is all the more regrettable that the committee missed its target as regards the basic causes of unemployment, and the causes of its aggravation since 1973.

I think that it is true, as it is true in medicine and everything else, that one cannot find the right remedy without giving the right diagnosis; and the right diagnosis the committee certainly failed to give. The section of the report which comes near to it is that which discusses United Kingdom export performance, looked at from two different points of view; exports as a share of the national income, and exports as a share of world trade. These two measures of performance appear to yield widely divergent results.

### Exports in relation to national income and world trade

Year	UK Exports as share of UK national income %	UK Exports as share of world trade %
1953	24.7	21.2
1958	23.3	17.8
1963	21.3	15.4
1968	23.9	11.6
1973	27.0	9.4
1979	33.4	9.7
1981	32.1 (est)	

Source: National Income and Expenditure NIESR.

If you take the first of these two measures – exports as a share of national income – we seem to have done frightfully well. Comparing the initial year, 1953, with the final year, 1979, we see that the share of exports in our total national output has increased in a most remarkable fashion – from 24.3 per cent to 33.4 per cent; in other words, from less than a quarter to just over a third of total output. Most of the improvement occurred after 1973. The rise in share up to 1973 was only from 24.7 per cent to 27 per cent. Whereas at the earlier date, one in four of everything produced in this country – and I think that, judging from their source, the figures relate to manufacturing industry only – was exported abroad, by 1979 one in three of everything produced was exported. That is a very significant difference.

Over the same period we lost more than one-half of our share of world trade in manufactures. Whereas in 1953 we still accounted for 21.2 per cent of total world trade, the share fell to less than 10 per cent – to 9.7 per cent, to be exact – by 1979. The figures do not go much further, but since then the share has fallen by a further 20 per



cent and now stands at just over 8 per cent of world trade.

### **Decline and Complacency**

That Britain's share of world trade has a diminishing trend is a long-established fact. It was first noted in the 1880s – 100 years ago. But then, and for many years afterwards, people took comfort from the fact that a fall in our share of trade was an inevitable consequence of the spread of industrialisation to other countries. There was a time when Britain was the only country to produce factory-made goods. Then our share was necessarily 100 per cent of “manufactures”, if we confine the term to factory-made goods and exclude hand-made goods.

We could not prevent other countries from following our example. Indeed we actively assisted in the process by sending out our engineers, our skilled workmen, by establishing factories abroad, and sometimes by providing them also with the necessary funds through the City. Thus our share of world trade was bound to fall, but that was not regarded as a source of great worry, because it was thought – and, up to a point, rightly – that the size of the market is increased *pari passu* with the expansion of the number of producers.

But this kind of complacent attitude will not hold water if applied to the post-World War II period. For there it can be seen that all other industrial countries – with the sole exception of the United States – managed to keep their share, or even to increase it during the same period in which our share of trade was halved. Thus between 1953 and 1979 France's share increased from 9 per cent to 10.4 per cent, Germany's share increased from 13.3 per cent to 20.7 per cent, Italy's from 3.3 per cent to 8.4 per cent, and Japan's from 3.8 per cent to 13.6 per cent.

Clearly, while Italy and Japan were exceptional in more than doubling or trebling their share of world trade, so were we

exceptional. Nobody else in the world has diminished their share by one half, or anything like it, during these 26 years. Yet nobody else seems to have been as successful as Britain in increasing their share of exports in total output – not even Japan, I believe. We have increased it to 33 per cent. Ministers make speeches all over the country saying that there is no other middle-sized country – neither Germany, nor Italy, nor France – which exports such a high share of total manufacturing production as we do; and that is true. For Germany or France the figures is only 20 or 25 per cent.

### **Resolving the Paradox**

How is this paradox to be resolved? It can be resolved, and can be resolved only on the basis of Sir Roy Harrod's theory of how foreign trade is brought into balance. Put quite simply, the theory says that imports are brought into balance with exports through changes in the total effective demand; meaning by the term “total effective demand” the sum of home demand and foreign demand. This is not on account of deliberate policy measures, but because businesses naturally contract their operations whenever new orders fall short of current production; and, equally naturally, they expand their operations whenever new orders exceed current production.

Harrod then shows that the first state of affairs – the tendency to contract operations – is a result of an excess of imports over exports; and the second state of affairs – the tendency to expand – is the result of the opposite. Harrod's contention was that it is through such movements in output that foreign trade is brought into, and kept in equality. Since imports vary in direct proportion to home income (while exports vary with world income) these tendencies imply that a country's economic growth relative to other industrial countries – that is to say, its growth of capacity and its

growth of productivity and of employment – will tend to diminish or increase accordingly as the yearly percentage rise in imports exceeds or falls short of the percentage rise in exports. That is the really fundamental point on which the whole question of unemployment hinges.

We find that between 1953 and 1979 the volume of British manufactured exports increased threefold which I think is quite a respectable figure. But the volume of manufactured imports increased 12.9 times; that is four times as fast as the volume of exports. The result of this discrepancy was that the level of total manufacturing output over the whole period increased by only 85 per cent – that is to say, production increased by less than a third of the annual rise in exports and by less than a sixth of the annual rise in imports.

What I am contending is that the shortfall in the growth of production over the growth of exports is nothing more than a mirror image of the shortfall in the growth of exports over the growth of imports.

### *Imports and Output*

The fact that imports expressed in terms of annual rates rose at just over 10 per cent a year during the whole of that period was consistent with exports rising at only 4.7 per cent a year, because, and only because, total income (or output) rose at only 1.9 per cent a year. We had a very low growth rate of production because our growth rate of exports, although it was much higher than our growth rate of output, was so much less than our growth rate of imports. Every year more of the income generated by domestic production was diverted to imports and less of it returned to the producers, who originally laid out the wages and salaries which provided the source of demand. Therefore, the producers naturally found that orders did not expand fast enough; on the contrary, they consistently fell short.

Whereas if, one way or another we had had a situation in which imports had risen in proportion to the rise in total output and no more, total output would also have risen in proportion to exports and no less, which in our situation means that both exports and imports, and total production, would have risen around 5 per cent a year instead of 1.9, 4.7 and 10 per cent respectively. In that event our output between 1953 and 1979 would have increased by 255 per cent instead of the 8.5 actually achieved. That is to say, we had it in our power to increase three times the rate of growth of total production, if only we had kept the growth of imports down to the requisite level and not allowed it to exceed it.

The fact that the United Kingdom's propensity to import foreign goods was so much higher than the world's propensity to buy British goods meant that our total output could rise at only a fraction of the rate of growth of our exports – a fraction which tended to diminish as the volume of imports took up a steadily rising part of total domestic demand.

Hence the rise in the export ratio from one-quarter to one-third of total output, which I referred to before, from 25 to 33 per cent, is a sign not of strength but of extraordinary weakness. The export ratio was rising not because exports were rising fast but because total production was rising so much more slowly. After all, a ratio is a ratio, and it depends on both the numerator and the denominator how it moves. Production rose far more slowly than exports, and *a fortiori* far more slowly than imports. In fact, it is interesting to note that the largest improvement in the export ratio occurred in the six years from 1973 to 1979. That was a period during which the growth of manufacturing output was negative, being minus one-half per cent a year, and the growth of exports was only half as large at 2.8 per cent, as during the previous 20 years.

No doubt Sir Geoffrey Howe is formally correct in repeating on every possible



occasion that both of these phenomena – fast growth of import penetration combined with the slow growth of export penetration – are manifestations of the same thing; that is, the fact that consumers, whether home consumers or foreign consumers, increasingly prefer foreign goods to British goods. We suffer from what the Government call “supply side difficulties”. That is almost Her Majesty’s Government’s favourite expression; and by “supply side difficulties” they simply mean that British producers find it more difficult to sell, either in the home market or in foreign markets, than foreign producers, and therefore their share of the market is shrinking both abroad and at home.

### *The Duty of Government*

No doubt this is true, but it is the duty of the Government to help British industry to get out of this situation, and this is what the present Government are manifestly not doing; or they are doing it on the theory that if you want to cure a man of pneumonia the best thing to do is to expose him half naked in the middle of a cold night to a rainstorm.

Owing to the importance of economies of large-scale production in manufacturing (which are very important but very little emphasised) both comparative success and comparative failure have cumulative effects. If we want to make British industry more successful we must begin by improving its market prospects, and this requires a limitation on the growth of imports of the kind that we are already applying in connection with Japanese cars. Japanese cars are the one case where we operate a market penetration ceiling, at 10 per cent. We tell the Japanese that they must not sell more than 10 per cent of the total car sales. They do it voluntarily, but obviously they do not do it because they like doing it.

We must improve the market prospects also by ensuring a competitive exchange

rate; that is, we must ensure that British goods are not in general handicapped by high unit costs owing to the overvaluation of the pound. The best example of the artificially high value of the pound is that you can buy a motor-car, either a British or a foreign car, in any Continental country 20 per cent or 25 per cent cheaper than you can buy it in England.

### *Imports and Employment*

The problem of unemployment appears insoluble so long as we are not prepared to tackle the problem at its source. Tackling the problem at its source means eliminating the disparities between the growth rates of imports and exports. Unlike many other speakers, I do not regard this as an insoluble problem; I do not regard it as a terribly difficult problem, and neither do I regard it as a problem for which you have to do hundreds of different things, as enumerated in a long list of things recommended for alleviating unemployment or its consequences. I think that once you solve the problem of keeping down the growth of imports to the growth of exports, then manufacturing production will pop up to equality with the two growth rates and you will find unemployment literally melting away. You do not have to do anything about it. It will just melt away of its own accord – without special skills or vocational schemes or job splitting or all the hundreds of other things that the Government have in contemplation. And you will be surprised at how quickly it happens.

I wish to end by giving just one example. At the end of the war, everybody – and I was one of them because I was there – was extremely pessimistic about the future of Western Germany. It was an overpopulated country; how on earth was it going to live? Then it had to absorb 4 million expellees from East Prussia, Silesia and from the Sudetenland. Much to everyone’s surprise, in a very few years in

the 1950s it absorbed them, because its exports were growing faster than its imports and therefore domestic production had a double engine to enable it to go forward very fast. Then the expellees ran out and they came up against a labour shortage. What did they do? They lifted the barriers and let in, first the Italians and then, when there were no more Italians, the Spaniards. When there were no more Spaniards, they let in the Greeks and, finally, the Turks.

So with 4 million people in addition, 40 per cent of the manufacturing labour force was comprised of expellees and the so-called guest workers. In other words they had over-full employment 40 per cent. Nobody had planned it; it just happened by itself – and it happened because the exports grew faster than the imports.

I submit that, if people want to solve the unemployment problem, then the remedy is in their hands.

## 10. *An Epitaph*

10th November 1982

This is the fourth debate on the Address in this Parliament and it is very likely to be the last. It provides a suitable occasion, therefore, to look back and review the economic consequences of the Government's policies in the light of their original aims and aspirations. That the Government stuck to their policy, was important for it meant that as the economic situation worsened, as production fell and as unemployment rose, they were not prepared to use the rudder and not prepared in any way to adjust their policies in the light of developing circumstances, as previous Governments have done. Their reaction was to do nothing – to ignore what was happening and to go on as before, gazing at the gathering clouds with folded arms, in the firm belief that provided they did nothing everything would come right in the end.

### *Rolling Back the State*

All that may be fine, indeed admirable, if the basic premises upon which the policy is founded are right. But it is absolutely fatal if the basic premises are wrong. The Government's basic philosophy was essentially a simple one. According to their creed inflation is the source of all evil, and inflation is simply a consequence of increases in the money supply. So control of the money supply became the central objective of policy. However, to control the money supply one has to do more than just turn off a tap – although Ministers, especially at the beginning, often talked as if it was as simple as all that; one must deal with the basic cause of having "to print

money" (to use the Prime Minister's favourite expression), which, in their view, is too much public spending. One must roll back the frontiers of the state, economise on everything except on law and order and the police and possibly defence. However, until the dramatic turnround over the Falkland Island, even defence did not escape the slimming process. And one must also raise money under this simple philosophy, as much as one can and as fast as one can, by selling all the assets one can lay one's hands on – hence privatise, privatise and privatise, and never mind how much this lines the pockets of the share-owning community. The extraordinary haste to make this process of



privatisation speed up so much in the final year of this Parliament makes one doubt their confidence in being returned at the next election.

The other part of the policy is to improve productivity by improving incentives, and this means lowering taxation, particularly at the top end where tax is supposed to act as a disincentive. There is quite a different type of incentive for bottom people – they are meant to work harder in response to the threat of unemployment and poverty.

From the very beginning everything went wrong that possibly could go wrong. The Chancellor's first Budget, a few weeks after taking office, was the major cause, not of alleviating, but of aggravating inflation. From the 10 per cent rate in May 1979 it rose within 12 months, by May 1980, to 22 per cent. And the money supply, which was scheduled to rise between 7 per cent and 11 per cent per year, again announced in the budget speech, rose by no less than 22 per cent in the course of the following year. In the year after that it rose by 13 per cent instead of between 6 per cent and 10 per cent as envisaged in the Medium Term Economic Strategy, and in the current year it is still around 13 per cent, although according to the original Strategy it should be down by now to between 5 per cent and 9 per cent. Government expenditure, which was meant to be reduced, kept going up as a percentage of the national income despite all economic drives which have been religiously repeated year after year. That was because national income, the denominator of this ratio, fell steadily and also because Government expenditure in connection with unemployment steadily rose.

### ***The Inversion of Keynesianism***

However, with the unexpected explosion of prices and wages in 1980-81, and the impossibility of preventing the money

supply from rising in line with prices, strict monetarism – meaning Friedmanism – was quietly dropped because it did not work. Indeed, one Cabinet Minister declared in Cambridge last week that he always knew that Friedmanite policies were, “a lot of bloody nonsense”. Luckily, perhaps, for him this was only reported in the local papers and it may not have reached the London area.

In place of Friedman the Government regressed to an inverted Keynesian policy. I call it an inverted policy because Keynesian instruments were used in reverse – for example, the budget was tightened in the face of growing unemployment, instead of loosened. The money supply as the main instrument of policy was abandoned and it was replaced by a rigid incomes policy – they call it “pay policy” – in the public sector, which was carried out very firmly against considerable resistance. This was combined with an over-valuation of the exchange rate achieved by high interest rates and the creation of mass unemployment in the private sector both through high exchange rates and even more through very tight fiscal policies which were concealed by the fact that revenues were low on account of unemployment and low output. On a full employment basis the PSBR was transformed into surplus.

All of these things which the Government have done are anathema to the pure Friedmanite creed. The Government have kept up the pretence that they are fighting an inflation caused by excessive demand long after they have adopted policies that are appropriate only to an inflation caused by a rise in costs – whether labour costs or raw material costs – a type of inflation which has no validity and which is not supposed to exist in the pure monetarist philosophy. And in this, at the price of ruining British industry, of reducing the standard of public services and creating 4 million unemployed, they have been reasonably successful. Inflation has indeed

come down as we heard today, to the rate of 7.3 per cent and the Chancellor has before him the glamorous prospect of 5 per cent by next spring.

### *The Smell of Decay*

But no one has explained, nor has ever attempted to explain, what the great benefit of the low inflation rate is, if its achievement and continuance involve falling or stagnating output, falling or stagnating living standards, the disappearance of whole industries and the general smell of poverty and decay. When the Chancellor was asked some weeks ago, with the prospect of 5 per cent inflation. "Is it not time to lift the ban on reflation and allow the economy to expand?" he said, No, that would not do; it would merely endanger the hard won gains on the inflation front. His Statement on Monday, despite making some concessions to industry, really confirmed this attitude in view of the reactions that have already been quoted from the newspapers.

But what are these gains on the inflation front for, if they are not meant to improve our economic performance? Monetary stability seems to be regarded not as an instrument, but as an ultimate end of policy. It is no longer even claimed that it is a necessary prelude to economic recovery. Indeed, Ministers after years of burgeoning optimism have ceased to proclaim that prosperity is round the corner. Instead, as Sir Geoffrey Howe said two days ago, one cannot opt out of the world recession. He ignored the fact that Britain is an oil producer and indeed an important net exporter of oil. Therefore, Britain is not hampered by a balance-of-payments constraint which prevents other countries, such as Germany and France, from having expansionary economic policies. We are by no means compelled to fall in line with deflationary policies pursued either on ideological grounds, as in the case of the United States of Mr Reagan, or on grounds

of necessity as in the case of the oil consumers of continental Europe.

One must contrast this vague fatalism with the admirable speech made last week to the CBI by Sir Kenneth Corfield, who is chairman and chief executive of Standard Telephones and Cables. It was a speech which, unfortunately, was not reported in its interesting parts in any of our serious newspapers. I think that I should remark here that there is a kind of privatised press censorship in this country which is not directed by the Government in any way – there are no D notices behind it – but is a spontaneous consequence of the kind of people who own our newspapers. Something of this existed for a long time, but in the last two years they seem to have abandoned all restraint, and newspapers which prided themselves in being newspapers of record, are ready to suppress very important information if it does not fit in with the line they are taking in their leaders.

Therefore, I beg the indulgence of your Lordships if I quote from the suppressed passages of Sir Kenneth Corfield's speech. He said: "*Designing and marketing the right product is not only the key to successful wealth creation, but it is one of the very few actions which are entirely in the hands of management. For many years research and innovation has been one of Britain's success stories. But the product of research and innovation, which is technology, has been neglected by far too many British firms. Just think of the things that are not made in Britain – binoculars, typewriters, video recorders, cassette recorders, tape recorders, transistor radios, cameras and cine camera, hand calculators, electronic games – need I go on?*"

### *An Industrial Wasteland*

He went on to say that when it comes to industrial investment, not to goods for consumption, nothing is produced here except bricks and mortar. All the plant and equipment which was needed for the



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semi-conductor plant which he wanted to install in Scotland, had to be imported. We have known for many years – long before the present Government came to power – that British industrialists abandoned the production of the kind of machine tools which other British industrialists saw fit to install in their factories. So, one had to go abroad for the quality of plant and machinery which was necessary for “*Britain, with its long industrial experience, its liberal traditions and its unexcelled academic prowess is a wasteland of obsolescent industry with a few oases of technical excellence.*”

All this is not new – our decline, relative to newer industrial powers, has been going on for 100 years or more, though luckily it was reversed – and this is a very controversial statement although not as to facts – for 25 years during which time we protected our industries. That is to say, between 1932 and 1957, and especially during the five years preceding World War II, for the first time since the middle of the 19th century we were at the top of the league of countries in the rate of economic growth and not at the bottom of the league.

But when that ceased our relative decline was resumed. We fell again to the bottom of the league and, after entry into the Common Market, our decline much accelerated – as, indeed, I made every effort to convince people that it would be – until we have now reached the point at which

there is a danger of collapse of, if not the whole, at least the greater part of our whole manufacturing industry. Doubtless, as *The Times* says, we are very good at retailing, but what is the point of that if our manufacturing industry disappears? How do you make the money to spend in the shops?

Clearly, Mrs Thatcher’s Government cannot be held responsible for all this. She is responsible only for telescoping into a few years what otherwise might have taken some decades. By being ruthless in the belief that she is applying a genuine remedy, she has made things very much worse than they need have been, and has brought us no compensating benefit. For despite what Ministers say we are no better off from the point of view of industrial efficiency, of productivity, or in the range of products that we are producing. We have in no way eased the problems on the “supply side.” on which Sir Geoffrey Howe is so fond of concentrating. The weaknesses on the “supply side” have become very much greater, and not less, under this Government. So, we suffer all this with nothing to set against it on the other side.

One is reminded of Tacitus who, when writing about the devastation of the outlying parts of Britain by the Romans, said: “*Ubi solitudinem faciunt, pacem appellant*”, which is usually translated as: “*They create a desert and call it stability*”. I think that is an apt epitaph for Her Majesty’s present Government.

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