

An Epitaph¹
[They create a desert and call it stability]

Let us 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.

All that maybe 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 object of policy. However, to control the money supply one has to do more than just turn off the 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 Mrs Thatcher's favourite expression), which in their view, is too much public spending. One must roll back the frontiers of the state, and economize on everything except law and order and the police and possibly defence. However, until the dramatic turnaround over the Falkland Islands 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 privatize, privatize and privatize, and never mind how much this lines the pockets of the share-owning community. The extraordinary haste to make this process of privatization speed up so much in [110] the final year of this Parliament makes one doubt their confidence in being returned in 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 could possibly 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 percent rate in May 1979 it rose within 12 months by May 1980, to 22 percent. And the money supply, which was scheduled to rise between 7 per cent and 11 percent 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 percent as envisaged in the Medium Term Economic Strategy and in the current year it is still

¹ From: Lord Kaldor. *The Economic Consequences of Mrs Thatcher*, (London: Gerald Duckworth and Company Ltd, 1983), 109-114. Ann Bailey (nee Robinson) please note, I still have your autographed copy — "Best Wishes Nicky."

around 13 percent. Although according to the original strategy it should be down by now to between 5 percent and 9 percent. Government expenditure, which was meant to be reduced, kept going up as a percentage of the national income despite all the economy drives which have been religiously repeated year after year. This 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 Keynes

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 [111] 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 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 a 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 percent 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 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 percent inflation, whether it wasn't time to lift the ban on reflation and allow the economy to expand, he said, No, that wouldn't do; it would merely endanger the hard won gains on the inflation front.

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, after years of burgeoning optimism Ministers have ceased to proclaim that [112] prosperity is round the corner, Instead they announce that one cannot opt out of the world recession. They ignore 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, or 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 to the CBI by Sir Kenneth Corfield, Chairman and Chief Executive of Standard Telephone and Cables. It was a speech which, unfortunately, was not reported in any of its interesting parts in any of our serious newspapers. I think that I should remark here that there is a kind of privatized 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 which prided themselves on being newspapers of record are ready to suppress very important information if it does not fit in with the line they are taking with their leaders.

I quote from the suppressed passages of Sir Kenneth Corfield's speech:

“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 os 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 cameras, hand calculators, electronic games — need I go on?”

An industrial wasteland

Sir Kenneth 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 semiconductor 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 industrialist saw fit to install in their factories. So, they had to go abroad for the quality of pant and machinery which was needed:

“Britain, with its long industrial experience, its liberal traditions and its unexcelled academic prowess, is a wasteland of obsolescent industry with a few oasis of industrial excellence.”

None of this is 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 — 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 our 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 no compensating benefit. For despite what Ministers say we are no better off from the point of view of industrial efficiency, or 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 the Chancellor is so fond of concentrating. The weakness 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 translated as

They create a desert and call it stability.

I think that is a very apt epitaph for Mrs Thatcher's Government.