

"Monetarism" is still not enough

It is fair to say that the rhetoric, and even some of the policy programme, of the Conservative Party, prior to its electoral capture of government power in 1979, was inspired by classical liberal thinking. The pre-election Conservative policy document, *The Right Approach to the Economy*¹ made the four main 'hard' policy commitments.

"(1) Provision of a more stable economic climate with as few changes as possible, and a firm brake on legislation.

(2) Strict control by the government of the rate of growth of the money supply.

(3) Firm management of government expenditure.

(4) Lower taxation on earnings, capital, and savings."

Commitment (1) is the strategy of gradualism, associated with some elements of Friedman's thinking,² (2) is the strategy of Friedmanite monetarist policy, while (3) and (4) constituted a commitment to supply-side economic policy, as it is known in the USA.

Such policy commitments would not be advocated by all classical liberals. Many argue (as does Hayek, specifically as regards monetary policy) that gradualism in the introduction of policy is wrong. Thinking that it is better to contain the adjustment costs within a short period of time by a strategy of immediate action on cutting monetary growth and on deregulation. Moreover, while I have typified (2) as 'Friedmanite monetarist policy', Friedman himself has always argued that a particular monetary aggregate known as the monetary base, is the important magnitude to control; not just any monetary aggregate.³ Others argue for the denationalisation of money, rather than control of the statutory monopoly producer of the monetary base (the central bank). There are also those who believe the monetary system should be based on gold convertibility. Moreover, many classical liberals argue that it is pointless to talk about the 'firm management' of government

expenditure, or lower taxation, unless there are constitutional limitations on government expenditure and taxation.

Enough has been said to indicate the elements of diversity of classical liberal and libertarian thinking on policy matters. It would not be accurate, therefore, for anyone to suggest that the Thatcher programme represented the free market position. Nor, however, could it be properly denied that the Thatcher pre-election pledges or strategy were entirely contrary to market thinking.

What needs to be made plain is that - whatever the stated pre-election intentions of the government - it has been inexcusably fainthearted in putting its stated principles into practice. Indeed, very often it has carried out policies that are totally contrary to its pre-election stance on economic policy.

'DOUBLE-U' TURNS

This somersaulting is typified by Sir Keith Joseph. In the latter half of the 1970s, before returning to office, Sir Keith emerged as a born-again free marketer, publicly admitting that he (and other members of the Heath Administration) had not followed principled free market economic policies. In particular he was at that time a vigorous critic of the attempt to resuscitate lame business ducks by the injection of vast tranches of taxpayers' money. As he said then:

"For every job preserved in British Leyland, Chrysler and other foci of highly-paid outdoor relief, several jobs are destroyed up and down the country. If Ministers and union leaders were genuinely concerned to prevent unemployment, they would not have acted as they have done.'⁴

However, in 1980 and 1981, as Secretary of State for Industry, Sir Keith made massive advances of taxpayers' money to a series of loss-making nationalised concerns, adding something like £4-5 billion to government expenditure. An interchange between the Chairman of the Industry and Trade Committee of the House of Commons and Sir Keith, on the question of government

finance for BL, neatly underlines the Joseph U-turn:

Chairman (Sir Donald Kaberry): "...It seemed opportune to hold hearings so that the House might be fully informed about the reasons for the decision to provide British Leyland with the further sum of £990 million in addition to the £1,321 million or so which has been provided to them since you saw fit to recommend the advance of this further £990 million to British Leyland."

Sir Keith Joseph: "Chairman, the decision was made on the balance of the argument."⁵

Sir Keith in 1981 was evidently not so concerned about the destruction of jobs in profitable business caused by their shouldering of a vast subvention of public money to maintain jobs in BL. Now, apparently, the Joseph line became one of Civil Service 'pragmatism'. It is, after all, so very easy to be 'balanced' when taking the decision to spend £900 million of other peoples' money...

However, not all of the failure of the current government to institute a thorough-going free-market programme can be ascribed to the workings of Evans' Law (the generalised induction from experience that 'when your men get into office, they cease to be your men'). It is palpably the case that a very large part of the Conservative Party, and even a majority of the Cabinet, never were 'free market men' in any real sense. Edward Heath, Norman St. John Stevas, and their ilk are clearly more in sympathy with the position of the SDP, with some sort of muddled belief in crypto-collectivist panaceas such as 'reflation', the 'middle way', and so on.

SOME HOPE?

Personally, I like to believe that Thatcher herself is made of better stuff. However, Napoleon himself would have been hard put to get to Strasbourg, let alone Moscow, if he had been surrounded by the cringing rabble that constitutes much of the present-day Conservative parliamentary party.

It would be unfair to suggest that the current administration has achieved nothing in terms of the freeing of market. They have repealed statutory control over prices and profits, abolished foreign exchange controls, they have de-regulated certain areas (e.g. long-distance coaches, and the incipient 'enterprise zones'); and they have promised some actual denationalisation in the energy field (e.g. gas showrooms). But, while - charitably interpreted - this is not a molehill, it is clearly not a mountain of market regeneration. Moreover, the present Administration has presided over a general policy drift that is to the opposite of what all free market advocates would prescribe. First, although the Medium-term Financial Strategy, announced in 1980, promised a gradual and steady reduction in the rate of growth of £M3, the actual growth rate of this monetary magnitude has been much higher than - typically the double of - the yearly target, and highly erratic. Second, government expenditure has not been cut; it has actually risen both in volume and money terms, and as a percentage of national income, over the Administration's period of office to date. Third, the overall burden of taxation has risen, and not fallen, under the current Government.⁶ So much for the 'hard' commitments of the *Right Approach to the Economy*.

Why is the British economy in such a mess? This 'mess' has nothing to do with the media-announced 'failure', of monetarism and free market ideas. The facts are that the present Administration started off with some of the right ideas, but mostly has yet to administer it to the patient; indeed they have even often applied the reverse prescription. Moreover, in the limited areas where the proper medicine has been applied it has been withdrawn too soon, or reversed, or applied too timidly, for general healing to begin.

Sir Keith Joseph rightly argued in 1976 that monetarism would be 'not enough' to restore the British economy.⁷ In 1982 it is pertinent to remark that 'botched monetarism' is not enough either.⁸

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The Libertarian Alliance is an independent, non-party group, with a shared desire to work for a free society.

1. A. Maude et. al., *The Right Approach For the Economy* London: Conservative Central Office (1977)
2. Specifically, his views regarding the monetary deceleration.
3. The Thatcher Government's Medium-term Financial Strategy eschews control of the monetary base in favour of the control of a much broader monetary aggregate, £M3.
4. K. Joseph, *Monetarism is Not Enough*, London: Centre for Policy Studies, (1976), p.14.
5. Industry and Trade Committee, of the House of Commons, Session 1980-81, Third Report, *Finance for BL*, London: HMSO (House of Commons 294, 80/81), p.1.
6. A more detailed critique of the policy actions of the present Administration until mid-1981 is contained in J. Burton, 'The Thatcher Experiment - A Requiem?', *Journal of Labour Research*, Vol.11, 1981, Research Monograph 1.
7. Joseph, op. cit.
8. The epithet 'botched monetarism' is David Laidler's; see his "Botched 'Monetarism'", *Journal of Economic Affairs*, Vol.2, Jan. 1982, pp.79-82.