



# Instant History

FRED HARRISON

labour and capital could be redeployed to higher-income uses in growing sectors of the economy, the Conservatives have decided to pump in public money. Similarly with regional investment policies, which have as a matter of fact a very poor record in creating additional jobs (their main function, we are told).

It is still an open question as to whether Heath will go back on the issue of an incomes policy. We can not take his government's words at their face value, and assume that no such instrument of control will be invoked: those words lack the credibility necessary for that kind of faith. The post-war evidence strongly demonstrates that an incomes policy is, in the end, sterile - that the basic objective of stabilising prices will be thwarted. This can result from either workers coming back for compensatingly higher wages, when free to do so; or, for example, because as with Wilson's government, indirect taxes are raised so high they force up prices even when wages are restrained.

In one single instance only can we differentiate Heath's government from Wilson's: the former has learnt the lesson of the pound's parity, and decided to float rather than to prostrate the UK economy once again before an unrealistic exchange rate.

And yet, as with Wilson, the approach adopted to the problem was not free of its dubious aspects. Wilson, according to Lord Wigg's recent memoirs, banned the word "devaluation" from the Cabinet for the first part of the Labour administration, thus restricting the choices which ought to have been freely available to a government. Heath's Cabinet adopted a talkative approach to the decision to float - but of an obfuscatory nature. Floating, we were told from the outset, was not devaluation. Well, that's true, of course; and yet, it's not. True: that floating is a mechanical means, devaluation a substantive end result. False: any government which halts its support for an existing parity, knowing - and visibly seeing - the exchange rate disappear downwards, is allowing the currency to be devalued. And yet, for some purpose I know not what, the government spokesmen in and out of Parliament chose to treat the citizens of the UK as imbeciles, by informing them that it was not instituting a devaluation by its decision to float.

The second book (2) deals with monetary eco-

**T**WO BOOKS - edited by Professors Beckerman and Johnson - provide us with a valuable record of the economic achievements and misdeeds of the '60s, the decade of Harold Wilson; and thereby facilitate a critique of the policies pursued (or not, as the case may be) by Edward Heath in the '70s.

Beckerman's is a collection of essays (1) by economists, most of them from Oxford, most of whom worked for the Labour Government as advisers. It is a sound mixture of theory (of how things *ought* to have been done, according to conventional wisdom) and practice.

The lament running through the book is of the sacrifice of left-wing ideals to the pre-1967 parity of the pound. But for the reasons as to *why* the old parity was sacred we have to turn to the political memoirs of Wilson and his former ministers: the decision was not an economic one.

After thirteen years of Tory "misrule", Labour was to set the country's economy in order. The regions were to be developed, income redistributed according to socialist criteria of justice, and (something to which Wilson was heavily committed) world poverty was to be relieved by an increased flow of aid. The statistical record and analysis in this book confirm the impressionistic evidence - the betrayal of electoral promises and socialist ideals. The economic advisers write with the conviction (and a confidence borne of hindsight?) that they knew the answers; but the power of decision-making lay with the politicians.

Now, with two years of Tory government behind us, we can judge Heath's attempts to revamp the economy according to allegedly free market economics. Tory strictures on how to operate a "free" economy have proved, one by one, to be baseless. Instead of allowing "lame ducks" to die, so that

(1) *The Labour Government's Economic Record: 1964-1970*, ed: Wilfred Beckerman, Duckworth 1972, £4.95p.

(2) *Readings in British Monetary Economics*, ed: H. G. Johnson, Clarendon Press, Oxford 1972, £2.25p.



nomics and is made up of papers by academic economists, and various institutions including the Bank of England and the National Board for Prices and Incomes.

On the issue of the money supply, and its importance, there is a useful section on attitudes and policies in the '60s - which were mainly influenced by the balance of payments problem and the consequent IMF inducement of Labour to control the money supply. It became clear that the external trade position affected domestic credit, the expansion or contraction of which was materially influenced by whether the country was in surplus or deficit. Hence, the new concept in monetary economics: domestic credit expansion.

But was DCE to be an instrument for forecasting trends, or a policy for influencing trends? It could not be both and yet, as Artis and Nobay show, the authorities were unclear as to which role they were assigning to DCE. Not that it now matters, for the Tories have returned to a policy of completely unrestrained expansion of the money supply: with a surplus on external trading, there is no Chicago School-influenced IMF to pull strings and make the Treasury jump.

The Johnson compilation ranges from interest rates to the demand for money, the role of banks in the financial market to debt management. There is a nice balance between the orthodox Radcliffe Report and the "radical" Chicago School's quantity theory of money. On the latter, what comes out clearly is the extreme reluctance to make any concessions to Prof. Milton Friedman, despite the evidence; both Bank of England analysis and work by academics reveal *some* support for the quantity theory at least - and yet, having brought this out, they proceed to react after the manner of the naughty child, who having been found to be in the wrong, still insists in retorting with a "Yes, but . . ." Most ungracious, as well as unscientific.

The Johnson readings are a valuable asset in any library, because they bring together papers originally published in many specialist journals which are not readily available to the layman.

As for Beckerman, one can only hope that the book has set an example for regular scrutiny of future governments. The value of such a series would be that ex-Premiers and their teams would not be able to cover up their collective records simply because of short memories. If we had to rely mainly on the hastily prepared memoirs of self-justifying politicians for an appreciation of their records, we could not expect the kind of grass roots cynicism and challenge which are a prerequisite to stimulating leaders into heightened performances.