A Special Book Section

Politics & World Affairs

. . . and the Same Old Problems

Thatcherism & Beyond—By Samuel Brittan

Lenin is supposed to have said: "He who is not for us is against us." With Prime Minister Margaret Thatcher, it is the other way round: "He who is not against her, unreservedly heart and soul, is really for her . . ."; and this, it would seem, is the view of much of the intelligentsia, the media, and a wide range of people, ranging from polytechnic graduates to the "old" land-owning Tory supporters.

It is all somewhat disconcerting to those of us who have never been Conservatives, and who are indeed critical of a good deal of present British Government policy (or lack of policy), but who find much of the prevalent knee-jerk anti-Thatcherism based on the wrong criticisms of the wrong issues and rooted in a Bourbon-like refusal to learn from past mistakes.

There is also a persistent unwillingness among Mrs Thatcher's critics (and some of her admirers too) to see how similar British economic policies are to those to which other Western European governments (whether called Conservative as in Germany or "Socialist" as in France) have found their way. Everywhere, governments are following "sound money", trying to reduce Budget deficits and to close down loss-making coal-mines, steel-mills, and other enterprises. Everywhere, too, some relief is sought from the strain of these adjustments by protectionist barriers against Third World and Japanese products (e.g. textiles, cars, electronics) or by levying the consumer to protect the farmer and land-owner.

There is nothing in the record to suggest that the Thatcher Government has gone further than others in its pursuit of sound money or its attempts to limit public spending. The one contrary example is the denationalisation programme known as "privatisation." Indeed, state aid for lame ducks has continued apace. The British Government has not disengaged from British Leyland, Rolls Royce, or any other troublesome concern. At the height of the coal strike, the Prime Minister boasted of £1.3 billion per annum "support" (an inextricable mixture of subsidy and "investment") for the Coal Board, and "buying British" is an official policy.

Nor has there been anything to suggest a counter-revolution against the Welfare State. As Jock Bruce-Gardyne freely admits in his admirably candid analysis of the record,[1] Goverment spending and the tax burden are now both higher as a proportion of the national income than in 1979 when Mrs Thatcher took office. Moreover, Welfare spending, other than unemployment pay, has shared in this increase. Even with the most successful attempts to impose a real ceiling from now on (and the best of luck with economic growth), the Government does not expect to get these percentages all the way down to the 1979 levels after two terms of office.

Why then the anti-Thatcher hysteria, exemplified by the Oxford vote against giving her an honorary degree? Why have level-headed people placed Margaret Thatcher on a par with a supporter of violent extra-parliamentary methods such as Arthur Scargill? How could so-called liberal journalists and Anglican bishops hesitate for one moment about supporting the legitimate government against attempts to remove it by brute force? Especially when the attempts included the most odious intimidation of workers and trade-unionists by gangs reminiscent of Mussolini's private armies.

A partial answer to these conundrums is simply British snobbery. Jock Bruce-Gardyne remarks how soon Mrs Thatcher became an object of derision "in the better class of political dining-room." Members of her Shadow Cabinet when in Opposition "indulged in analyses of her character as the port was circulating which occasionally induced the bystander to wonder why they agreed to serve under her leadership. . . ." (No prizes for answering that question.)

A slightly more rational ground for passionate opposition is the thought: "What would she really like to do if she had full power?" But a little reflection should show the absurdity of using this yardstick for a very practically-minded politician. For the fact is that no peace-time Prime Minister can, heaven be praised, be a dictator; and, whatever Mrs Thatcher may say in a relaxed mood to her confidants, she does not *know* what she would do in extremely unlikely hypothetical circumstances. Because the slightest mention of anything like

[1] *Mrs Thatcher's First Administration: The Prophets Confounded.* By Jock Bruce-Gardyne. Macmillan, £20.00, paper £7.95.

the "privatisation" of health, education, or pensions is greeted with cries of horror—not least from Conservative election managers—there has been no serious debate on them in which the Prime Minister has been able to take a free part. (A serious inquiry would quite likely lead to different conclusions in each of these three areas.)

Although the main emphasis of Bruce-Gardyne's account of Mrs Thatcher's first administration is on the detailed conduct of economic policy, his book is by no means exclusively confined to this area. Some of the best critical vignettes are on the Foreign Office and its political spokesmen: Bruce-Gardyne aptly recalls Lord Soames berating the folly of those who opposed a Mugabe victory in Zimbabwe, at the same time as civil war was raging in that country and Mugabe's rival Joshua Nkomo had taken refuge in London. . . .

As for the Falklands War, Bruce-Gardyne gives due weight to its key role in consolidating Margaret Thatcher's position, without exaggerating the intrinsic importance of the issue. Although it became not the done thing to refer to the War overtly after 1982, it had a more lasting effect on the public interpretation of Government actions. What had previously seemed obstinacy became determination. Refusal to solve everyone's problems, which had earlier been castigated as callous, became "resolute national leadership." I do not think many people were really deceived before or after. The lady's attributes were fully apparent from the beginning; but, after the Falklands, appreciation gained the edge over condemnation for enough people to ensure a Tory victory in 1983.

The main fault of the book is that in the narrative chapters which precede his evaluation, the author leans so far backwards to be objective that we have an impression of one event succeeding another without any very clear pattern of cause-and-effect. It would have helped, too, to have included a calendar of events and a few charts of current variables such as sterling, unemployment, and inflation.

It is, however, a merit of the book that Bruce-Gardyne looks at other Ministers and advisers and does not pretend that all policies come fully-fledged from Mrs Thatcher like Athene from the brow of Zeus, although the author usually prefers to relate behaviour rather than describe personalities. (The main exception, interestingly enough, is Michael Foot who, though a wrong choice for Labour leader, is described as "cultivated, witty and generous of spirit", epithets which surely apply to the author himself.)

Mrs Thatcher's First Administration also contains fascinating accounts of the Prime Minister's personal methods. John Fforde, the No. Three at the Bank of England, was said to have "aged several years" in a few hours when standing in for the Governor at a meeting with Mrs Thatcher! No doubt her onslaught was formidable; but a person in that position ought to be able to stand up to an emission of sound-waves from someone who had no physical, financial, or career power over her victim, as was the case with Mr Fforde. In general Bruce-Gardyne quotes chapter and verse to show that she was quite prepared to promote Civil Servants who did *not* share her priorities—provided they had "the ability to stand up to trenchant criticism and cross-questioning and to return the fire" (or, perhaps, in the case of Sir Robert Armstrong, the Cabinet Secretary, to deflect it).

In any case, no one reading *Mrs Thatcher's First Administration* will have any excuse for identifying the Premier's policies and ideas with "Free-Market economics."

THE DIFFERENCES are at their clearest in overseas economic policy. The British Government based its so-called "tough" EEC stance on a nationalist demand for budgetary rebate rather than on fundamental reform of the Common Agricultural Policy. This, in Lord Bruce-Gardyne's view, was also a consequence of the inveterate Foreign Office habit of lining up with Germans and their high-cost weekend-farmers rather than with the French. Nothing has been done to lance the purely domestic element in farm protection; and agricultural derating is sacred. The Thatcher Government, like its Callaghan predecessor, has been in the forefront of European plans to limit imports from the Third World and Japan, and inside the EEC is a foremost supporter of the steel cartel.

At home, tax exemption of mortgage interest, which has pernicious effects on everything from housing policy and mobility of labour to interest rates and monetary policy, enjoys the enthusiastic support of the Prime Minister—who will never allow her flirtation with classical economics to triumph over her political instincts.

The single most popular Thatcherite domestic policy—and the one most likely to be copied by the Opposition parties—has been the sale of the publicly-owned "council houses." Yet this is not something that free-market economists trumpet from the house-tops—the more astringent of them because of the discount at which the houses are sold, and the more sensible of them because they regard it as an inferior alternative to (and perhaps a step away from) recreating a market in rented accommodation.

Mrs Thatcher has undoubtedly succeeded in getting across the hard message. "The world does not owe us a living." But with the emphasis on "*us*"—the people of Britain—it does not mean quite the same as the economist's famous dictum: "There is no such thing as a free lunch." The latter is a universal statement, which would be true if there were a world government or if we were still living in tribes. The former is rooted in national pride or (as the Prime Minister would say) patriotism.

Mrs Thatcher has sometimes had to lean on classical political economists from Adam Smith to Friedrich von Hayek to rationalise her position, but her own utterances are quite different in spirit. The message of classical economics is best captured by a quotation not from an economist but from the philosopher Bertrand Russell, who declared that the world would be a paradise if people followed self-interest.[2] The remark accurately summarises the policy outlook of the classical economic school—a conscious attempt to take the moralism out of the decisions of businessmen, workers and

[2] Bertrand Russell, *Human Society in Ethics and Politics* (1954).

investors (on the higher moral ground that the world would be a better place with less self-conscious moralism).

But this is not how Mrs Thatcher thinks. She believes that the most moral course is for people to take responsibility for themselves *and their families* (the latter a concept only integrated with great difficulty into mainstream market economics), and that it is immoral for them to rely upon "other people" or for the State to look after them. For all the Prime Minister's citations of Hayek, there has not been yet a real "Thatcherite" economic philosopher.

THE LARGE DEPARTURES from market principles in international economics, the highly cost-ineffective recapture of the Falklands, and the appeal to self-help come together in a form of middle-class nationalism far removed from the economic doctrines which are praised or condemned in most debates on "the British experiment." There is no denying an overlap between market principles and Thatcherism; but the basic ideas, unlike the overlap, have not found their expositor. Political leaders are hardly ever good theorists of what they are trying to do. Mrs Thatcher's inconsistent attitudes (for instance, to money supply control, interest rates, and mortgage interest relief) show how wrong it is to link her with any pure economic school. Her instruction, in a "humorous" personal intervention in the *Yes, Minister* programme, to "get rid of *all* government economists" was revealing.

But note that Margaret Thatcher's nationalism is of a highly moralistic nature, far removed from the *realpolitik* beloved of the traditional political and diplomatic classes who make foreign policy their vocation. "Old School Tories" like Peregrine Worsthorne were horrified when the Prime Minister refused to back the US invasion of Grenada. "Of course we have to talk about aggression and the rule of law and self-determination in bashing the Argentinians over the Falklands", such writers seemed to say. "But that woman really believes all that nonsense, instead of realising that it is a necessary rationale for the *raison d'état* which should be the sole determinant of foreign policy." Still, speaking as someone who opposed the Falklands War on the ultimate grounds that the gains were not worth the suffering and costs, I found that the moral-legal emphasis was a mitigation, not an aggravation, of Mrs Thatcher's attitude.

The main intellectual critique of Thatcherism has unfortunately been on the much narrower issue of supposedly "dogmatic monetarism" which is allegedly responsible for over three million unemployed. Lord Bruce-Gardyne (as a financial journalist, and former Economic Secretary to the Treasury up to the last election) sheds some much-needed daylight on this mythology. So far from money-supply targets being followed dogmatically, they were frequently exceeded, revised upwards, and redefined. (He is unhappy about these departures, too much so in my view.) Even the supposedly perverse 1981 Budget, which raised taxes to reduce the Budget deficit just after the bottom of the recession, has parallels in the record of Denis Healey; and Bruce-Gardyne produces quotations from the last Labour Chancellor which could as well have come from either Sir Geoffrey Howe or Nigel Lawson, his Thatcherite successors.

Bruce-Gardyne's overriding belief is that governments have much less influence over events than they suppose, and that what marginal influence they have is usually for the worse. His most strongly felt personal defence of the Thatcher Government is that it refrained from aggravating events. His book reveals how Thatcherism can be defended by a sceptical and undeferential Tory without the missionary zeal of the Prime Minister herself.

Although *Mrs Thatcher's First Administration* is avowedly a defence, Jock Bruce-Gardyne would be quite incapable of being sycophantic even if he tried (which is perhaps why far inferior people have had better political careers). He is eloquent on the folly of accepting in advance the Clegg Commission recommendations for buying off the public sector unions after James Callaghan's final "winter of discontent" in 1979. Less acceptable to many Radical Right economists (but no less valid) will be his strong criticism of the gratuitous 4% increase in the Retail Price Index owing to the near-doubling of VAT in 1979, at a time when the collapse of years of attempted pay policies was generating a wage explosion and when the second big oil price rise was in any case touching off highly inflationary expectations. He is nevertheless confident that the soaring pound of 1979-81, coupled with inherited wage pressure, would have damaged employment whatever had happened to VAT—and it is characteristic of his blunt honesty that he usually refers to that change as the decision to reduce the basic income-tax rate from 33 to 30% (which the VAT was partly designed to pay for) rather than as the VAT increase itself.

The high real exchange-rate of that period was the source of most of the economic failures and the successes of the Thatcher Administration. It was responsible for the rapid fall in inflation, which took the Government's critics and even the official forecaster by surprise. The resulting pressure on profit margins led to a blitz on overmanning and to a productivity spurt in industry. But as the exodus from manufacturing was not offset by more jobs elsewhere and the labour force grew, the pain took the form of high unemployment.

Lord Bruce-Gardyne sees the rise in sterling as a "portfolio movement" due largely to confidence in Britain as an oil producer at a time of worries about oil supplies, rather than as the result of tight money as such. With hindsight, it might have been desirable to provide the monetary targets with an explicit exchange-rate "override", as the very rapid fall in inflation was far from the "gradualist" intention of policy. (Indeed one of the sound points made against Friedmanite monetarism by the American economist W. W. Rostow is that gradualism hardly ever occurs. Inflation tends to rise and fall in lurches—but this does not make it any less of a monetary phenomenon.)

The American experience in Reagan's first term raises the question whether the high real exchange rate could have been, not reversed as many industrialists wanted, but offset by domestic demand expansion via a higher Budget deficit. The French experience under François Mitterrand suggests that one moderate-to-small economy cannot get away with budgetary reflation on its own. There would therefore have had to be a concerted EEC (and Japanese) budgetary stimulus. We then have to ask whether it would have worked—or been offset by still higher real interest rates than we have had—if every major country tried simultaneous fiscal expansion. Even to discuss these puzzles shows an impatience with history. For until more time has passed, it will not be clear what the longer-term effects of budgetary stimulation have been, even in the US itself.

In Britain there has been no budgetary stimulation on the Reagan scale, but the pound has very clearly fallen, bringing to an end the over-valuation of sterling. Yet the 20% fall in manufacturing output in 1979-82 (or 25% since 1973) has not been reversed; and not all the fall is due to the displacement effect of North Sea oil. It looks as if a great deal of unprofitable capacity, formerly kept in being by cross-subsidisation and low profit margins, has been permanently eliminated.

SUPPORTERS of the Thatcher Government can point to an inflation rate lower than any since the mid-1960s and to a productivity improvement which has lasted longer than a mere recession shake-out. Against these credits are the massive debits of an increase in the number of unemployed from 1¼ to over 3 million. How then do we weigh up the record?

Mrs Thatcher's Keynesian critics shot themselves in the feet by not merely predicting high unemployment, on which they deservedly scored, but denying for good measure any prospect of economic recovery and expressing confident disbelief that inflation would ever fall back to low single figures. But although these mistakes need to be remembered, they do not themselves supply an evaluation.

In assessing the record, a more stable price level, although welcome, is best regarded as a condition for achieving other aims rather than as an objective in its own right. If we look at the more physical yardsticks of productivity and employment, neither is on its own a good indicator. Productivity alone ignores output and welfare losses from unemployment, while unemployment alone ignores the output of those still at work.

The fairest and least biased indicator is probably the overall national growth as measured by real Gross Domestic Product (GDP) over a complete business cycle. The best heroic guess one can make (involving a still incomplete cycle) is that total output will have grown in the business cycle 1979-85 at a rate almost identical to the one at which it grew in the first post-Oil-Shock business cycle of 1973-79,[3] when Heath, Wilson and Callaghan successively presided over our destiny. (Performance in both periods was, of course, far worse than in the pre-1973 period, which in retrospect looks like a Golden Age.)

On growth, therefore, the match seems to be a draw. But a

[3] The Central Statistical Office publishes a more sophisticated measure of the real value of the GNP, which takes account of the terms of trade. This is somewhat more favourable to the Thatcher record; but it is hardly worth bringing in this complication, which relates to matters so clearly outside government influence.

draw is not good enough. If the growth of output is going to remain the same, it is surely better that it should take the form of slightly lower productivity and more jobs rather than the other way round. Moreover, a draw is not good enough to offset all the psychological *Angst* which I described at the outset.

A defence of the Thatcher record would have to be based on one or more of the following propositions, not all mutually exclusive.

1. That without the Thatcher counter-revolution the growth rate would not have remained stable but declined further—perhaps because any other government would have succumbed to the temptation to subsidise lame-duck industries even further, to increase protection, or depreciate the currency deliberately, which in the long run might have aggravated the problems of industrial decline.

2. That attempts to patch up the old Keynesian consensus would have involved increasing trade-union privileges to buy support for incomes policy, and more controls over pay and prices; and that the further politicisation of decisions (e.g. the introduction of measures of no intrinsic value to placate particular interest groups) and collectivisation of ever more aspects of life might *really* have taken us on the "road to serfdom", despite numerous earlier false alarms.

3. That the Thatcher Years have provided the foundation of better economic performance, whether in reduced unemployment or faster growth, which will not be realised until the end of the 1980s (or even later). In the latter case, as Jock Bruce-Gardyne hints in his conclusions, the Thatcherite Conservatives will have taken us to the verge of the Promised Land, but another political group—he hopes the SDP/Liberal Alliance—will take us into it.

Defences Numbers *1* and *2* both involve counterfactuals, and Defence Number *3* a hypothetical statement about the future.

To my mind the most convincing defence is along the lines of the second counterfactual: the threat to freedom in trying to buttress the Keynesian approach by all manner of political controls and interventions, when it was otherwise falling apart. But this defence does not commit one to actual Conservative policy. It would be consistent with market-oriented policies which paid more attention to the distribution of income and wealth and which dispensed with the Prime Minister's own quasi-authoritarian "Victorian values" (not exhibited to any great extent by her more favoured Cabinet Ministers).

WHAT, THEN, ARE the free-market doctrines with which Thatcherism is inaccurately identified, and whose revival has caused so much disquiet among the writing and talking classes? The reader interested in the nature of these doctrines could do worse than read Geoffrey Sampson's *An End to Allegiance.*[4]

Sampson has the advantage of being a professor not of

[4] *An End to Allegiance.* By GEOFFREY SAMPSON. Temple Smith, £12.50.

economics, but of linguistics, who follows free-market economics as a personal interest. Thus he combines the analytical ability to seek the key points with the detachment to avoid the nit-picking of professionals. Like Bruce-Gardyne, he is not afraid to be critical of his own side. Some of his pen-portraits of anarchist libertarians (whose existence has yet to be discovered by the Old Left), like New York's Murray Rothbard, will be treasured by those who have encountered the personalities involved. His demolition job on the Harvard philosopher Robert Nozick—the one member of the New Right to have received academic respectability for his writing in that capacity—who finds justification for property rights in historical entitlements going back to the dawn of time, is also a *tour de force*.

An End to Allegiance falls into two overlapping parts. The second and better part is an account of the various modern free-market writers, above all Hayek. (Strangely, it omits Schumpeter, who did much to develop the theory of entrepreneurship, but whose heresies deprive him of membership of the canon. For similar reasons, Mancur Olson, who has done more than anyone to expose the pernicious effects of interest groups, tends to be omitted too.) Sampson's book will provide a good introduction for readers who want to avoid purely economists' arguments, but who equally object to over-simplification and baby-talk.

The earlier part of the book is about the "tyrannical aspects" of the existing Welfare State and modern life generally. A great deal of space is devoted to the iniquities of the architectural and medical professions, and I sympathise with much of what he says. But how far are these iniquities really due to "collectivist policies" and how far to deeper tendencies which would work themselves out in any system? After all, American medicine is largely private enterprise, and many of the "concrete jungle" city and suburban developments have been market-commercial. Even Sampson's horror stories about the "welfare services" make me wonder whether these abuses, however endemic, constitute a case against having them altogether. But perhaps Professor Sampson has had more experience than I have had of the sharp end of the Welfare State—some of his tales are pretty horrific. Those of us leading a more sheltered existence have tended to play safe and rest our case about "the road to serfdom" on the ultimate consequences of certain high-level governmental policies, not least the incomes policies once again brought out of the cupboard by Walt Rostow.

Before leaving Sampson, I must take him to task on his one serious quarrel with Hayek—over Hayek's support for a very basic minimum-income guarantee. Sampson does not seem to me either inhumane or obtuse; but he is drawn to this perverse position (I think) out of misplaced desire for logical consistency. As he knows better than most, consistency is a property of propositions and applies only very indirectly to political proposals, which need the more elusive property of coherence. When some apparent implication of a doctrine produces outrageous consequences, it is the doctrine that should be altered.

[5] *The Barbaric Counter-Revolution*. By W. W. Rostow. Macmillan, £17.50, paper £7.95.

One does not have to accept or reject Geoffrey Sampson as a single package. It is possible to have a largely free-market private-enterprise economy, together with a good measure of concern for the distribution of income and of property rights. It might be called "Thatcherism with a human face" if Mrs Thatcher were as free-market as her critics suppose, or it might also be identified with Dr David Owen's "social market economy" if that could be shorn of its Fabian remnants.

If Geoffrey Sampson's book introduces the ideas of the free-market counter-revolutionaries, W. W. Rostow's represents the backlash of the US liberal establishment against that revolution. In style they could not be more different. Sampson represents the literate ordinary citizen who has sensed the not-so-very-liberal side of that establishment. Rostow is a well-known economic historian, has also served in the Kennedy-Johnson administrations, and writes for "the layman" (his book is nevertheless full of charts and tables which will be helpful even to those who most disagree with him).

Although furnished with a special introduction to the British edition, *The Barbaric Counter-Revolution* [5] was originally written as a tract against the Reagan Administration and also against the "practical monetarism" which the US Federal Reserve has been pursuing under Paul Volcker for a longer period. Rostow has been unlucky in timing. As he explains, his book was conceived on 15 December 1982, when the published American recession statistics were at their lowest point and unemployment at a post-War high. This undoubtedly reflected in part the counter-inflationary efforts of the Fed, which owing to technical miscalculations led (as did different events in the UK) to a short, sharp and successful attack on rising prices rather than the gradual reduction that had been intended.

Since then the US has had an economic recovery which has been the envy of the world, and which has included a rapid fall in unemployment. Indeed many of the same anti-Thatcherite British commentators who will be first to praise Rostow for his general theme are also the first to indulge in tongue-in-cheek praise for President Reagan's economic record, especially his indulgence in "deficit financing."

Rostow himself favours a "new industrial policy." The case he makes for supporting declining industries is half-heartedly party-line. His real enthusiasm is for identifying and backing the winners in the new technologies; and he concedes that the main steam must come from private enterprise acting under the profit motive. The most serious part of his programme is the emphasis on links between the research universities and the business community. In his British introduction, he is less pessimistic than he was in the original American edition about his own country, which is (even under Reagan) "responding on a continental scale to the challenges and possibilities of the Fourth Industrial Revolution."

In contrast to many other writers on the new technology, Rostow thinks it probable that we are riding on a wave of new investment. But how does it help to call that a "fourth Kondrakeff"? These supposed 50- or 60-year cycles are so badly defined that Rostow can argue that we are on a "Kondrakeff upswing" and others that we are on a "downswing." Leaving the formulation aside, Rostow makes an interesting distinction between the *microchip revolution,* which will probably create more jobs rather than fewer, and *robots* which threaten, not jobs, theoretically, but a severe reduction in the price of labour relative to capital. Rostow's aversion to price-mechanism methods prevents him from suggesting how to cope with what could, if handled wisely, be the most beneficial technological development in human history.

Rostow's analysis is worst on inflation, which he persists in seeing as a series of unexpected events raising particular prices (such as oil or commodities). He refuses to realise that inflation remains a monetary phenomenon for all the misleading quantification of the technical monetarists. Rostow's lack of feel for monetary matters makes him exaggerate the power of the US Fed over *real* interest rates. His rage against the 1982 recession has prevented him from seeing the relevance of his own analysis of the "new wave of investment" (together with financial liberalisation, low private saving, and tax breaks) to interest rates (which are high not merely on account of Fed policy or even because of the US Budget deficit).

It would nevertheless be a pity if Rostow's book were dismissed by those of a different outlook. (Indeed as I look at all these books on my desk the despairing thought strikes me that each will be read largely by those who already agree with it.) Rostow's title does not correctly convey his tone, which is interesting and informative whenever it deals with subjects such as technical innovation and long-term historical movements, which he has made his specialty. Still, as someone who was so intensely involved in the Viet Nam War, Rostow should have been more sparing of the adjective "barbaric."

Unlike many British Keynesians, he fully accepts that post-War methods of "spending ourselves into full employment" were seen to cease to work about the time of the 1973 Oil Shock, and were probably always flawed. As someone more at home with physical events and trends, he finds Keynesian and Monetarist methods equally suspect because of their concentration on financial policy at the expense of underlying problems.

Rostow believes that counter-inflationary policy should be a three-legged stool, including incomes policy as well as monetary and fiscal action. He is much too sanguine about the potentialities of a soft "incomes policy", without detailed wage-and-price controls; and he subscribes to the common fallacy that Western Germany has had such a policy. German actions correspond in fact much more closely to an orthodox counter-inflationary policy, backed up by exhaustive explanation and exhortation to ensure credibility—just the combination on which Rostow pours such scorn when it is proposed for the USA. (Moreover, Rostow was not to know that by the time of his book's publication Western Germany was to have a higher unemployment rate than the USA.)

Rostow makes the mistake of supposing that the purpose of incomes policy is to counter inflation—whereas its long-term role, if it has any, is to reduce unemployment by bringing wages nearer to market-clearing levels. Rostow, like many others of his generation, suffers from not having seriously thought through the difference between the transitional unemployment usually involved in moving to a lower inflation rate and the underlying long-term rate of unemployment consistent with any non-accelerating stable rate of inflation (the so-called NAIRU).

HAVING SAID THIS, I confess that there is a case to answer. In 1977, when I wrote (with Peter Lilley) *The Delusion of Incomes Policy,* we pointed out that unemployment had not performed better in the UK—which was in the throes of the Callaghan-Healey "social contract"—than it had in countries with "hands-off" attitudes. After the subsequent unemployment explosion this is no longer true. Britain's monopolistic labour market has produced a flood of jobless A more competitive US-style labour market might be the appropriate corrective, but the scale of the problem is such that second-best attempts to simulate market-clearing wages need to be looked at again—although always remembering that the price of trade-union support for such attempts is the strengthening of the monopolistic elements which are the source of the problem in the first place. My personal revisionism only goes as far as incomes policies *which do not require overt trade-union cooperation.*

READERS LOOKING FOR a promising unorthodox approach to restoring full employment within a capitalist market economy will find more food for thought in Martin Weitzman's proposal for a new form of labour contract than in Rostow's 1960s orthodoxy. Weitzman's purpose is to make the labour market more like the "product market."[6]

In the "product market" most sellers are eagerly seeking buyers, and it looks as if everyone could increase production if only there were the market. This is quite likely an illusion, because if all firms tried to produce more simultaneously, they might well not be able to. Nevertheless, at any moment each producer is trying to sell as much as he can.

The reason is that because of "economies of scale" the extra (or marginal) cost of producing each new unit is below the average cost. Any extra units that can be sold without reducing the price will add to profits. This state of affairs is known to economists as "monopolistic competition"; but the non-specialist will rightly regard it as characteristic of competition as such. The essence is that it is a buyer's market where producers are eager to sell.

In the labour market, by contrast, there is no difference between the average cost of labour and the cost of the marginal worker. (Indeed, on more realistic assumptions than those of Weitzman, the marginal cost may be higher.) Weitzman's suggestion is to transform the labour market into something more like the product market, in which the cost of an additional worker would be less than the average cost-per-head of employing the existing labour force.

The suggestion is basically simple. Take a company where pay-per-worker is £180 per week and value-added-per-worker is £270—the difference covering overheads, depreciation, interest, profits, and so on. Weitzman would suggest changing the contract from a wage contract into a revenue-sharing one, where the worker receives two-thirds of the value added. On the day of the change-over the employee is no better off and no worse off than before. But whereas previously the company only took on an extra worker when total revenue from employing him came to £180, under the two-thirds sharing arrangement an extra worker will be taken on if the value added he produces is as little as £120, and subsequently for smaller and smaller amounts.

Thus more workers would be taken on, but at the expense of proportionally reducing remuneration per worker. For the full benefits of the system to be felt, most major companies would have to switch to the new system together, thereby increasing their combined demand for workers who would spend their pay-packets on each other's products, thus reducing the size of the pay-cut required to price the unemployed into work.

A revenue-sharing system would respond very differently from the present one to "demand shocks." If demand were reduced for counter-inflation or any other reasons, the strain would be taken by reducing prices rather than cutting payrolls: if demand were increased, more workers would be engaged with a much smaller inflationary effect. Weitzman points out that revenue-sharing, so far from being an exotic innovation, is already the norm among self-employed and professional partnerships as well as people who work on commission or who receive tips.

Some traditional agricultural systems are based on "share-cropping"—in which payment takes the form of a share of the value of the crop. Sliding scales (in which pay was related to product prices) were common in coal and steel around the turn of the century. In Japan a major fraction of pay comes not as of right, but through a profit-sharing bonus, whose potential reduction is a cushion against dismissals in recession. Profit-sharing schemes have the required effect, provided that they are genuinely profit-sharing and not employee stock-ownership plans. The key point is that workers' pay should be directly and automatically adjusted by some index of corporate well-being (such as profit-per-worker or product-price).

If Weitzman makes it all too easy it is because of a blindness to power realities typical of much modern economics. It is not realistic to expect a typical worker earning £180 to agree to have all or a major part converted into a variable bonus, whose likely "downward variability" will be explained *ad nauseum* in the media if the Weitzman idea catches on. The profit bonus would have to seep in gradually, e.g. in partial substitution for extra pay-increases in a good year, or as an alternative to redundancies in a company on the rocks.

The Share Economy suffers from being so obviously a translation into readable prose of a mathematical model. The translation is easy to follow (at least for those with basic

[6] *The Share Economy.* By MARTIN WEITZMAN. Harvard University Press, $15.00, £12.00.

undergraduate economics). But one gets the feeling that the author is intellectually slumming. He is obviously impatient with questions outside his mathematical framework, such as why wage systems tended (with the exception of that in Japan very recently) to replace share systems as capitalism developed. Nor do we know what all the characteristics of his desired sellers' market for labour would really be. Most experience of such markets has been in periods of repressed inflation, which would not recur if a share economy were combined with sound monetary and fiscal policies. But there could be other kinds of snag—which, no doubt, the author would explain, after the event, with a further mathematical model and further suggested reforms.

Because all changes have unexpected consequences, it would be best to proceed with revenue-sharing on a gradualist company-by-company basis. But this very gradualism will exact a price. Weitzman mentions (although he does not stress it sufficiently) the opposition of existing workers to the dilution of their wages by extra hiring, which could be severe for any company introducing revenue-sharing. It would thus be most important for management to retain as much as possible of its traditional prerogatives. Thus *revenue-sharing* is a rival to *workers' cooperatives,* although both can coexist if they are introduced incrementally rather than systemically.

WEITZMAN'S PROPOSALS could still be the best on offer for changing the institutions of the old labour market to favour "pricing into work." His suggestions are more useful than, say, tax-based incomes policies. They are less cumbersome and do not slow down dynamic adjustments of particular industries and firms. Their irritating aspect is the belief that power realities can be swept aside by mechanistic formulae. Weitzman concedes that the losers from his proposals will be the high-seniority workers, drawing a premium above market wages (thanks to trade-union monopoly). But these are precisely the people with the most influence on union policy, and those whose attitudes prevail even among people supposedly negotiating for employers. Thus, neither Weitzman's nor any alternative reforms would reduce the need for a direct attack on labour-monopoly power which will inevitably be stigmatised as "union-bashing." Alternative forms of ownership and wage-payment can usefully supplement laws and actions to reduce trade-union privilege, but they cannot serve as a substitute.

To his credit, Weitzman emphasises that the eventual equilibrium of his system would be no different in terms of pay, profits, output (and so on) to that of the present wage system, if wages were adjusted enough to the most recent shocks to allow equilibrium to be reached. The superiority he claims is in the speed and nature of adjustment to disturbances.

HOW THEN CAN WE AVOID the painful choice between depressed living standards for less skilled workers and mass unemployment? There is a way. For if every citizen had a substantial stake in the nation's capital assets, then we could take in our stride any shift of relative shares between capital and labour. All of us would enjoy the investment income, and the independence and security it brings. On the extreme assumption of "a Robot Age", it would turn that age into a utopia rather than a nightmare; and any unemployment would be voluntary, arising from the fact that some people with low-earning capacity might prefer to live entirely as gentlemen of leisure. Even on less extreme assumptions, mass share-ownership would still improve the distribution of wealth and give more people a stake in the fruits of capitalism.

How, then, can we make capitalists out of all the citizens? I have elsewhere suggested the handling over *gratis* of privatisation shares and the channelling of Government North Sea oil revenue to all citizens on a *pro rata* basis.[7] These could be useful pilot projects, if only we had a government which combined attachment to market principles with an interest in the distribution of income and wealth.

Something more would be needed to spread ownership in the private sector proper, if the typical citizen were to have a worthwhile stake. One such idea has been provided by Stuart M. Speiser.[8] Like many American popular writers, Mr Speiser claims a ridiculous amount for his proposal of "superstock." It would not only rid us of unemployment and inflation; it would allegedly dissolve the East-West rivalry, save us from nuclear catastrophe, help with women's rights, and provide a credo for religious communities.

Strip away all the gimmicky packaging and we are left with the germ of a good idea. Instead of reinvesting their profits, the largest corporations would have to hand over their earnings to stockholders. This is a proposal already advocated by F. A. Hayek and Milton Friedman to improve efficiency and reduce management-power relative to shareholder-power. If all new investment had to be financed by new issues of bonds or shares, it would be more subject to market tests.

Speiser differs from Hayek and Friedman; instead of tapping the conventional financial markets, corporations would have to allocate their new issues in equal portions to all citizens. Special "unit trusts" would put together the new shares in convenient parcels. Citizens would be granted bank loans to pay for their holdings, which would be frozen until the loans were repaid and as the new stocks gained in value. No scheme for allocating share capital *gratis* to the have-nots can avoid "watering" the capital of existing shareholders. But Speiser's watering is of the gentlest. There is no confiscation; and mass share-ownership relates to new capital, leaving ownership of existing assets unaffected.

Speiser underestimates the inflationary risks of the massive bank-loans necessary to implement the scheme. They could be kept in check, but quite likely at the expense of a general tight-money régime in other sectors. Might it not be simpler to avoid the bank loans (and the sharp distinction between new and old equipment) by requiring corporations to issue to

[7] Samuel Brittan, "The Politics and Economics of Privatisation", *Political Quarterly* (April, 1984).

[8] *How To End the Nuclear Nightmare.* By STUART M. SPEISER. North River Press (P.O. Box 241, Croton-on-Hudson, N.Y. 10520), $8.95.

the new "unit trusts" a certain number of "free" shares per annum; but otherwise leave their activities alone? In other words, an overt and less cumbersome watering.

One or other variant will be necessary if we are to have a Property-Owning Democracy as anything other than a slogan. Mass share-ownership combines easily with the Weitzman revenue-sharing schemes, relating to the ownership of that part of the revenue not paid over directly to the workers.

FINALLY, HOW DOES THIS breathless survey of diverse ideas relate to "Thatcherism"? Quite directly.

The trouble with economic policies pursued by European Governments—most of which are "Thatcherite" without the name—is that they represent the reaction of the 1970s to the mistakes of the 1960s. The trouble with most of their critics is that they simply want to put the clock back to the 1960s and return to "reflation", incomes policy, and yet higher public spending . . . as if nothing had happened. What is still missing is a policy attuned to the needs of the 1980s and '90s.

With hindsight it can be seen that both the Keynesian Revolution and the Monetarist Counter-Revolution were "dazzling digressions" from the main problem. The defect they both had in common was that they thought they could make a successful detour around the labour market—the market which was malfunctioning—by skilful adjustments of financial aggregates.

An attack on the high unemployment that has infested European capitalism will need to tackle it at its source—which is the wage system and the ownership of capital.

Eisenhower & After

US Conservatism since the 1950s—By ANTHONY HARTLEY

DWIGHT D. EISENHOWER has recently been described by Paul Johnson as the best American President of the 20th century. The addition of the name of Warren Harding in the same context might seem to make this a mixed compliment; nevertheless a favourable estimate of the Eisenhower presidency shows how much things have changed since a combination of Castro, Sputnik and U-2 brought it to an apparently disastrous close. Eisenhower's biographer, Stephen E. Ambrose,[1] has few doubts:

> "Eisenhower gave the nation eight years of peace and prosperity. No other President in the twentieth century could make that claim. No wonder that millions of Americans felt that the country was damned lucky to have him."

Sandwiched between a President on whom action was forced by circumstances (Truman) and one who valued action for its own sake (Kennedy), the Eisenhower years do indeed seem in retrospect a period of repose, a tranquil interlude between the Korean war and the moment when America was "got moving" in so determined a manner that it has hardly been still since.

Professor Ambrose has written a full and intensely interesting biography which, like all good biographies, abounds in quotations from its subject. From these gradually emerges the character of Eisenhower: a man who, for all his experience as the Army's lobbyist on Capitol Hill, remained a soldier in politics, conservative in his views and, in many ways, alien to the wire-pulling and exercise of patronage which constitute the operative modes of American political life. When filling appointments in his Administration, he wrote in his diary:

> "No one should be appointed to political office if he is a seeker after it."

From this conviction stemmed his preference for a Cabinet composed of successful businessmen—these at least would have to make financial sacrifices to serve their country. Were they to be excluded, he wrote, it would be impossible "to get anybody to take jobs in Washington except business failures, college professors [crossed out and replaced by "political hacks"], and New Deal lawyers."

The list is eloquent of Eisenhower's personal tastes. His chosen friends were a group of wealthy men ("the gang") with whom he tirelessly played golf and bridge, shot quail and white-wing doves, and who provided him with advice about investments and sheltered enclaves near good golf-courses for his holidays. In private life as in public, the President dominated his associates by his simple dignity and his moral authority. No doubt political life was made easier for him by his standing as a national hero, but, as Stephen Ambrose shows, Eisenhower's long experience of affairs, his capacity for administration, and a military ability to take decisions when required to do so enabled him to exert effective

[1] *Eisenhower The President 1952-1969.* By STEPHEN E. AMBROSE. Allen & Unwin, £15.00.