

Monetarist warns wets: stop playing with fire

By Philip Webster

Mr Nigel Lawson, one of the Cabinet's leading monetarists, flayed the critics of the Government's economic strategy, telling them to drop their high moral tone and accused them of prescribing policies that would engulf Britain in a holocaust of inflation.

In a scathing denunciation of the arguments advanced this week by Mr Edward Heath, Mr Nigel Lawson, Sir John Stevens, Sir Ian Gilmour, he told a Selsdon Group fringe meeting: "What we are being offered is little more than cold feet dressed up as high principle. And he warned them that they were playing with fire."

Mr Lawson, the Secretary of State for Energy and former Financial Secretary to the Treasury, said the Government had won the last election on a platform of conquering inflation by reducing government spending, borrowing and monetary growth.

Today, half way through our first term of office one or two of those who fought on that same platform are in the Cabinet office in a Government committed to carrying it out, reveal that they are not so sure.

They were calling for higher, not lower, spending; higher, not lower, interest rates; higher, not lower, monetary growth. And he was puzzled by their call for Britain to join the European monetary system. The whole point about the EMS was that it was a form of financial discipline and would require precisely the sort of policies the Government was pursuing.

Mr Lawson said the critics claimed their approach would produce superior economic results. "If they do believe this it seems to be a triumph of hope over experience. God knows we have tried this strategy before in this country. There is nothing new about it."

"Some of those who support government economic policy are accused of being too wedded to theory. The ultimate absurdity is in remaining wedded to a theory regardless of what has happened in the real world and regardless of whether that theory has been put to the test in the real world and tested to destruction."

The critics, he said, argued that the present policy was politically unacceptable. The Government's sin was to have subordinated politics to economics. That reminded him of the Baldwin in the 1920s, over the rearmament issue.

"You cannot fight the war against inflation successfully unless you have economic policies that make sense. There is no point in deluding yourself that economic policies can trump all that. Politics is vitally important, but to get the economy on its feet again the economic policies have to be right, just as to win a war, defence policies have to be right."

The critics feared that with present policies the Tories would lose the next election. "I believe they are profoundly wrong, but at least I would ask them to drop their high moral tone because there really is nothing that is moral or com-

passionate in prescribing policies which would engulf this country in a holocaust of inflation.

"What we are being offered is little more than cold feet dressed up as high principle. It is very close to bribery dressed up as statesmanship."

The goods they were now being asked to pay out in extra spending would have to be paid for by future generations. Mr Lawson declared: "It is not the Tory tradition. It is a travesty to pretend it is."

If the Government's policies were wrong it would change them straight away. But they were not wrong. Inflation had been curbed and industry's efficiency was being transferred. Rejection was always the option for any government, but one thing that would make rejection impossible would be the Government's record. "Sorry folks, everything we have been doing over the past few years has been wrong. We have tried it and it has not worked. We are going to do the reverse."

The speaker continued: "Let us not say, for Christ's sake, that that is the way you win elections."

He told the Government's critics that they were not merely rocking the boat in political terms but that they were potential economic cost. "Those who say now publicly, 'Let us abandon the financial discipline and go back to the bad old ways of the 1960s and 1970s can only . . . persuade those who hanker to whom to postpone the adjustments and accommodations that are absolutely necessary.'"

He concluded: "I say to our critics, whose sincerity I have no wish to impugn of course, you may be wrong but you are not playing with fire."

Another Cabinet minister turned on the doubters. Mr David Howell, Secretary of State for Transport, in an optimistic assessment of the state of the economy, told a meeting in Southampton: "There never was a time when Britain was more at risk from pedlars of soft options which lead us straight back into the wasteland."

He did not mention Mr Heath, Mr St John-Stevens or Sir Ian Gilmour by name but said: "The irony is that, while impatient demands to do something about the underlying economic situation in Britain is becoming more robust." Commitment to an optimistic assessment of the state of the economy, told a meeting in Southampton: "There never was a time when Britain was more at risk from pedlars of soft options which lead us straight back into the wasteland."

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"Smash these aside with the impatient demands for spending cash as yet unearned and you mortgage the future and prepare for Britain just the same path as Germany took in the 1920s."



Unscheduled fringe activity: pensioners, not without good humour demonstrate outside the conference hall at Blackpool. Their complaint—that pensions have not kept up with the rise in the cost of living. (Picture: Peter Trivnor.)

Thatcher adviser calls Heath policy asinine

By George Clark

Mr Edward Heath was criticized last night by Mrs Thatcher's personal economic advisor, Professor Alan Walters, for giving a false account of the causes of inflation in 1973-74 under his administration.

Professor Walters, making his first public speech in a political setting since his appointment, was addressing a meeting held under the aegis of the Centre for Policy Studies, set up by Mrs Thatcher, Sir Keith Joseph and others.

At one point, answering a question, Professor Walters

said that Mr Heath had pursued "such an asinine policy" which he was in power. He hurriedly corrected himself: "Would you scrub that from the record," he said. "It was a bad policy, such a terrible policy."

In his main address, Professor Walters referred to his time as economic consultant to the Central Policy Review Staff (the "think tank") in the early days of Mr Heath's government of 1970-74.

"You have heard Mr Heath say during this conference that the reason why there was such inflation in 1974 was because of the increase in commodity prices and an increase in the price of oil; which incidentally

took quite a while to come through," Professor Walters said. Mr Heath had held that the inflation of 1974 was largely due to the increased price of imports.

"Not true, not true," Professor Walters said. "Mr Heath received a letter addressed to him as prime minister by the late Professor Harry Johnson, myself, and a number of other economists in 1973, enclosing an article pointing out that, even from 1973 onwards, though import prices had risen, we were still exporting inflation, not importing inflation, and we continued to export inflation throughout 1974. If you have a balance of payments deficit of

£4,000m, that is an immense amount. Mr Heath appears to forget that he received that letter."

In the text of his speech circulated earlier, Professor Walters stated: "As economic policy developed in 1971 I was quite convinced there would be a massive inflation and a balance of payments deficit and all the other sad signs that we had seen so often before when the British government decided to go for growth."

Events later vindicated his worst fears, Professor Walters said. "There were many post mortems on these tragic years, the mistakes of which we are still paying for even today."

Many attacks of racist origin

By Hugh Noyes

Mr William Whitelaw, the Home Secretary, yesterday revealed for the first time some of the findings of the Home Office investigation into racist attacks which was set up in February. Speaking in Blackpool at a meeting of the Joint Committee against Racism, the group which first brought these incidents to the notice of the Home Office, Mr Whitelaw indicated that many of the attacks had been confirmed by the inquiry but that his officials had found no evidence of an orchestrated right-wing campaign behind these attacks.

He emphasized, however, that it would not have been easy to find firm evidence, and lack of it did not mean that there was no orchestration. The Home Office study was complete, and was now being written, added Mr Whitelaw. He would be studying it alongside Lord Scar-

man's report on the inner city riots which he expected to be published next month. The Home Office study, said Mr Whitelaw, showed that there was considerable variation in police practices throughout the country and also in relations between the police and the ethnic communities. While some relationships were very good there were also some very bad relationships. Mr Whitelaw said it was interesting that some of the places with the best practices did not have the riots that other places had. The areas without riots were those that had the best relations between the police and the community.

Mr Whitelaw emphasized that the study showed that mistakes occurred on both sides. The police, he said, could be successful in establishing good relations with community leaders.

Immigration not controlled

Speaking at a Monday Club fringe meeting on immigration, repatriation and British nationality, Mr Harvey Proctor, MP for Basildon, said it had been suggested during an earlier debate at the conference that immigration was under control. That was not the case.

More immigrants from the new Commonwealth and

Pakistan had arrived in the country last year than in 1973; that was in spite of a pledge in the Conservative manifesto of 1970 that there should be no further large-scale immigration. Since that pledge, 50,000 immigrants had arrived. When would ministers seek to reassure the indigenous population with action as well as words that the flow would be stemmed, he asked.



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'Put people before a single doctrine'

By George Clark

A Conservative government should put the needs of the people before adherence to any single economic doctrine, Mr Peter Walker, Minister of Agriculture, Fisheries and Food, told a meeting of the Tory Reform Group.

The reason the Tory Party for half a century has been the party of government is because it has been considered to be the party of sound management, sensible and pragmatic, and aware of the needs of the basic aspirations of the ordinary people."

When Mr Walker, one of the strongest critics of monetarism, was asked if the present Government was living up to that tradition, he sidestepped the question. He fell back on the standard explanation that he was a member of the Cabinet and took full collective responsibility for its decisions and actions.

But in his long review of the state of the party, he seemed to claim that he and other ministers who shared his convictions had been successful in turning Mrs Thatcher and the rest of the Cabinet away from the strict monetarist doctrine to more pragmatic policies.

After listing the factors that had led to high unemployment, Mr Walker said: "There is nobody who has the divine wisdom to make all the judgments on the complicated structure of our economy correctly, sensibly and always successfully."

Anyone who has that task has a very delicate task indeed. The purpose of the Government must be to obtain a middle course in which we see that wages and productivity are as closely allied as possible, in which the fruits of productivity are fairly distributed; and in which our currency reflects the true ability of British industry to compete. Those are very difficult judgments to make.

The Government had also to recognize that the liquidation of industries at a time of expansion could result in transferring wealth from declining to expanding industries; but in a time of recession, liquidation of the mic decline liquidations often

resulted in the destruction of wealth. "The plant and the people remain; the plant to rust and the people to be looked after by those still able to continue production", Mr Walker said.

"Then suppliers to those firms collapse, the customers go elsewhere, and the absence of suppliers and customers makes recovery difficult, if not impossible."

That was why the Government had stepped in. "Had we not intervened as a government we would have lost our shipbuilding, coal, aircraft engine, and other industries. We roared together with a multitude of their suppliers. Unemployment would have soared through the three million mark at the cost of colossal public expenditure and the foreign import would have replaced the British product."

Therefore, it was totally incorrect for the Government to have used public expenditure in an interventionist way. As a result, those industries would emerge better able to continue and to obtain bigger orders on the world market.

For the next few years, British economic strategy should concentrate on British commercial success and the ability to produce and defeat rivals, particularly Japan, West Germany and the United States. "We are going to be on the forefront of the 'sunrise industries' based on the new technologies pursuing policies through the National Enterprise Board."

To be successful it was necessary to get in Britain the same kind of cohesiveness that existed in Japan, West Germany, and the United States. Quoting the late Mr John Molead after the Conservative election defeat of 1964, Mr Walker said: "The man who would win the next general election only by winning the support of the people in the centre ground."