

# Heath scorns the 'pretence' of monetarism

By George Clark

Calling again on the world's leaders to take united action to bring stability to the international monetary systems, Mr Edward Heath, the former Conservative Prime Minister, told an audience of MPs and journalists at a Parliamentary Press Gallery lunch yesterday that monetarism, as they had come to know it over the past two or three years, no longer had any intellectual justification, if it ever did.

"It has lost any pretence of having the principles with which it started", he said. "When one has principal economic advisers on both sides of the Atlantic publicly confessing within a week of each other that they are now proved to be wrong, it is difficult for me to deny them the pleasure of saying so. . . ."

"Those who wish to maintain that monetarism has an intellectual basis will say 'We have been defeated by practical events' and I am prepared to grant them that. What they will not acknowledge is that any government, in this as in so many other things, has to deal with practical events, and

with people, and not with pure dogmas and theories."

If things went wrong it was not because people were unthinking or objectionable.

"It is a fact which every politician has to take into account: that what the electorate will accept is bound to be determined by the electorate", Mr Heath said. "This is the whole point of politics. We have now reached the point where there is no consistent intellectual economic approach to any of our problems, on either side of the Atlantic."

The determination of the Government to concentrate only on the supply side of economics had failed. It was essential to have a balance between the demand side and the supply side.

After referring to the joint efforts made through the Bretton Woods agreement, the International Monetary Fund, the World Bank, the General Agreement on Tariffs and Trade and the Marshall Plan to restore stability after the war, he contrasted the speed of events then with the "para-

lysis" which had struck the leaders of the Western world in recent times.

People who had followed in that tradition of cooperation and consultation had now left the scene and the continuity which had begun in 1941 had been broken.

Men with little experience of international affairs had taken over. "Indeed, on the other side of the Atlantic there are those who are proud of the fact that they have shattered the continuity", Mr Heath said.

"This, I believe, is the real danger which confronts us.

"We have to start again and recover the position," he said. "We have not got the pressure of the tremendous experience of the war to stimulate the kind of efforts made in 1945 to 46 so we have to start regionally."

The priority was to get monetary stability so that the economy could recover and businessmen could have some certainty about their future. The only way in Europe was through the European Monetary System (EMS),

"What worries me is that many of the lessons we learnt so painfully in the past are being overlooked today", he said. Britain missed the opportunity of going into the EMS when the pound was rising and, when it reached \$2.40, the effect was enormously damaging; then it went back and it was now at \$1.95 and still rising. The only way to ensure currency stability was by going into EMS at the time which suited our exporters and which did not put undue pressure on inflation, he said.

High interest rates were the curse of the Western world, and Britain was being dragged along behind the high American rates.

Mr Heath flatly contradicted Mr Margaret Thatcher, the Prime Minister, who has said Britain is past the trough of the recession. "I do not believe the end of the recession is in sight", he said. "I think it is being reinforced by the patterns being produced by the Americans and I do not think that Europe can escape the impact of that.