

Sherman



10 DOWNING STREET

PRIME MINISTER

I attach a copy of Alfred Sherman's lecture which he gave last night to the Institute of Directors in case you wanted to see it.

SS.

STEPHEN SHERBOURNE

21.9.84

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- 350 p. + 30

Wallop.  
(Kentucky  
Wyoming)

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7.9.84

RADICAL REFORMERS - THEIR FRUSTRATIONS AND SCOPE

ALFRED SHERMAN

Your invitation is a privilege, a vindication of my work over the past ten years.

In the course of these ten years, the political climate in this country has indeed undergone a marked transformation. It is no longer dominated by corporatism, Keynesian currency manipulation, trade union hegemony, escalating interventionism. I am not suggesting that I and my collaborators were sole agents. Anyway, we were going with the grain of experience.

Of course, changing the climate of opinion is only one step. The know-how, and in some cases the will, to induce the changes needed if a freer, juster society is to emerge are not so easily acquired. Hence the frustrations, which dog the radical reformer like his own shadow.

So people were bound to ask how my talk tonight would compare with last year's. They will be very different, though, I hope, not incompatible. Last year's was programmatic, because your Director General is a man of action; its outcome was that you subsequently entrusted him with leadership of your forthcoming campaigns. I, for my part, deal in ideas, some of them second hand, perhaps, but like second hand cars and houses, second hand ideas help create the market for new ones. So I shall share reflections with you.

There is no need for me to produce an end of session report. At this time of year we are inundated by them. Most of us share a common view of life and hence common experiences of hopes rising and falling, battles won and lost, but the war still in the balance, despair and elation alternating. So tonight, I shall try to stand back and place our common experience in broader historical and philosophical perspective, to draw what lessons we can, in order to furnish general direction for our continuing commitment.

Frustration is bound to be with most of us for most of the time. The radical reformer judges institutions in the light of reason, and finds them wanting. But human history has a logic of its own, different from human logic. People are moved by many forces other than logic: *prejudices* beliefs, values, vested interests all mingle with ideas, new and old. Unless the radical reformer can harness people's beliefs and interests, he is unlikely to get very far in implementing his ideas. The radical reformer is always in a hurry. His time-scale is so much shorter than history's; his temperament will not allow him to sit back and wait.

Centuries ago, Montesquieu warned that the man of ideas was likely to experience frustration in almost any society. Seeing further than others, impatient with their narrower horizons and personal concerns, he is bound to be out of sympathy with them, liable to alienate them. His assault on received ideas and vested interests will make him enemies, who will see and present him and his work in the worst possible light.

Long before Montesquieu wrote, Socrates and Plato had become reconciled to the man of reason's frustrations as an ineradicable feature of the human condition. Their disciple Aristotle ventured into the real world as advisor to a ruler, and was lucky to escape with a whole skin. In light of what happened to Socrates, we can all consider ourselves fortunate. No knighthood for Socrates, just hemlock.

Yet inspite of all these deeply embedded hurdles, radical thinkers and reformers have chalked up their successes over the centuries. So if the going seems so hard for us, we cannot automatically place the fault on our stars. If we cast a critical eye on the whole of our society, can we exempt ourselves from a critical appraisal? It is easy to blame the government, the civil service, the media, the public. But that does not take us very far towards improving our own performance. You may remember the American saying: "If you're so smart, why aren't you rich?". By the same token, you can ask the radical reformer: "if you're so smart, why aren't we rich? If you are such a rich mine of ideas for getting things done, why haven't you found a way of getting more of your ideas implemented?"

Have we, perhaps, been prone to utopianism, to the tendency to believe that if only alternatives are presented cogently enough, people will be persuaded to adopt them? This shortcoming stems, at least in part, from a lack of historical perspective which colours so much thinking nowadays.

Nearly sixty years ago, the great Spanish Liberal political philosopher, Ortega Y Gasset, commented that his was the first generation in which educated men did not know history, did not see their era as part of continuing history, and did not frame their actions in light of historical parallels. Our times consider themselves unique, freed from the constraints of history, and from the waywardness, mystery and unpredictability of human affairs, the inherent tragedy.

Our political classes, particularly those whose thoughtways are moulded by socialist and interventionist creeds, lack awareness of dilemma and paradox as inevitable features of the human condition.

Our political classes in general do not see our society and their actions within the context of the rise and fall of nations and societies, the interplay of creative and self-destructive urges, the emergence of new technologies, new social structures, new social ills, new, new, new, and almost invariably unpredicted.

Throughout the ages the traditional concern of social thinkers has been the balance between liberty and order, the over-present dangers of anarchy on the one side and despotism on the other. The state is at one and the same time the principal guarantor of both order and liberty and the main threat to both. This dichotomy is inherent in every known society, because it stems from human nature. When the state is too weak, anarchy prevails, and the people lack protection from internal and external enemies. But when the state becomes too strong in relation to civil society, a vicious circle develops. The state begins to grow by its own momentum at the expense of society. The overgrown state consumes an increasing share of resources, impoverishing the productive base. As the state takes what it pleases and gives to whom it pleases, all individuals are pauperised; rich or poor, they become dependent on the state's whims.

State power of necessity is embodied in hierarchy, whether in one monolithic hierarchy or several co-existing ones. Hierarchy is the enemy of spontaneity, innovation, growth. It generates conformity, stagnation and decay. As civil society weakens, social, intellectual, moral regression occurs, vitality is drained away, society collapses. But then like any parasite which has killed its host, the state itself collapses.

Human history is littered with the bones of societies which died through excessive growth of the state. In our own contemporary culture, this over-extension of the state is as much the result of pressures from below as from above. It is concentrated overwhelmingly in the economic and social fields, not the military or religious as in previous eras. But the dangers it constitutes, in particular generation of that vicious circle, are of the same order. The task facing us, now, is to halt and reverse this trend in our own society.

We have all seen for ourselves in recent months how the state can be both over-extended, and thus a burden on society and a threat to our liberties, and at the same time excessively weak, allowing our liberties to be infringed by enemies from within, to use the Prime Minister's phrase. To go even further, the state too easily becomes over-extended, at the expense of its most essential function, the maintenance of our freedoms under the law.

We have seen the leftwing hit-groups rampage, terrorising miners and other working people, to deny them the right to work, destroying national property. The police lack the numbers, equipment and legislative and judicial facilities needed for coping adequately with the sub-revolutionary violence camouflaged as trades union activity. Our legal system is unprepared for the necessary retribution and deterrence, though things are better than they were in the '70's, when Scargill's mobs brought down a government.

The overgrown state spends not nearly enough on police and justice, two of the prime duties of the state, without which neither state nor society can survive. We devote insufficient thought and political will to them. Yet we waste enormous sums on payroll padding, support for the economies of foreign despots, whose dire situation is a result of their own actions, on dotty art, on welfare at a level which can discourage work at the margin and yet leave many people in misery. The mania for state spending, quantitative rather than qualitative, neglecting staples for the sake of novelties, puzzles the will.

The radical reformer is seized of this paradox. Like Jacob struggling with the Angel, he must both fight off and embrace the state. Above all, at this juncture in the nation's history, he must fight hard to save the state from the over-indulgence which could destroy it, and destroy us with it.

It now takes an effort of imagination to recall how recent is the view that government has direct responsibility for the economic well being of citizens, for their employment, education, health care, transport, even leisure and entertainment. A century ago, this view was confined mainly to the Marxists. In Europe, the idea of the "national economy", which the state should direct in order to achieve greater strength, was a creation of the right, bitterly opposed by liberals, then regarded as Left. It was adopted in large part by the Fabians around the turn of the century. The Fabians' path was paved by a changing climate of opinion among the political classes from the 1880's on. This partly reflected the effect of the public schools and universities, which educated sons of manufacturers in the image of sons of the aristocracy, and service, and professional families, who tended to look down on what they considered tradesmen. The snob view of society, that government by disinterested gentlemen is superior to rule of the market, which means money-grubbing businessmen, is a twin brother of socialism.

There was also the "Bismark factor". The success of Bismark's social legislation in taking the wind out of the socialists sails was admired by British Liberals. So were his military successes. His saying that the battle of Sadowa was won by the Prussian schoolmaster was taken to heart. This was the first step down a long road.

The first world war, the great depression, Keynes, Butskellism, "one society" are landmarks in its spread.

In the nineteen-thirties, a British prime minister could still tell a trade-union delegation that the government could no more influence the level of unemployment than it could the weather. Less than ten years later, the war-time White Paper on employment policy accepted that the government could, and therefore should, exert substantial and sustained influence on employment levels, and to that end to control the whole economy by use of civil and criminal law as well as by taxation and money creation.

The country has yet to extricate itself from that minefield left over from the Second World War, even though full employment policies have proven wholly counter-productive. They created a vicious circle of high unemployment, misinvestment and employment subsidies, high expenditure on unemployment pay and a squeeze on the private sector, which add up to what I now dub "inflationary recession", a neo-Keynesian monetarist squeeze with Friedmanite rhetoric.

Some of you may jibe at my term Keynesian-monetarist. For years now, Keynesian economists, and the politicians and mediemen who pick up their slogans, have used "monetarist" as a term of abuse against critics of the Keynesians, parallel to use of the epithet "McCarthyite" against critics of communism. But when you come to think of it, Keynes was the father of monetarism. He, and even more so his disciples, popularised the view that by manipulation of the currency it is possible to control the economy and thereby maintain high levels of economic activity and employment. He bemused a whole generation into the belief that monetary growth creates real growth. That is monetarism, if the word means anything at all. Naturally, politicians and civil servants were not slow to welcome an elixir of eternal growth, which justified a greatly expanded role for them, as readers of the entrails and manipulators-general. It was a gift horse they would not look in the mouth

The Keynesian panacea ignores the resources balance of the economy, and confines itself only to monetary balances, hence I call it monetarist. The National Accounts statistics, which were developed by the Keynesians, take the money illusion - to re-cycle one of Keynes's phrases - so far that the distinction is lost between productive investment and unproductive, and indeed between production and consumption. For example, our nationalised industries do not really produce in the real sense of the word, but consume, in that their net output is less than their net input. Yet they loom large in our production and growth statistics.

The result of wasting a considerable part of the resources available to the economy in work-simulation and in free "exports" financed by non-returnable "loans", while at the same time generating incomes, can only be inflation. The Keynesians taught that this inflation, which follows monetary expansion as surely as night follows day could be remedied by a monetary squeeze.

But because the state sector is protected, the squeeze had always operated by creating a recession in the private sector. In other words, the state sector squeezes the private sector, of which the brunt is borne, by and large, by the smaller firms on whom our economic, social and political future depends so much. This squeeze has come to be defended, on the Friedmanite grounds that only when inflation is squeezed out of the economy, can healthy non-inflationary growth begin.

But at the same time, expenditure by the state sector expands to offset the squeeze. State expenditures are kept high in areas of high unemployment which are the areas of economic anachronism, but they squeeze the private sector, which can provide much more employment from given resources, thereby perpetuating the demand for state expenditure, which can be financed only at the cost of a squeeze on the private sector, a squeeze operating through money and interest rates but depriving them of real resources. This puts the national economy on a treadmill.

Moreover, the larger the inflationary state sector grows in relation to the private sector, the deeper and longer the recessionary squeeze in the private sector which is needed in order to keep the average level of inflation at an acceptable level. The more the State spends, the harder it has to squeeze the private sector, the harder it squeezes, the more it has to spend, and so on, and on, and on, and down.

I do not blame only the Keynesians. Economics and economists, with a few honourable exceptions, claim to possess a predictive and prescriptive science. Their status increasingly depends on this claim, which has been given the lie over and over again.

Economists are fond of jargon, but chary of defining ordinary words they use. Words change their meaning, but the change is not recognised. "Work", which originally referred to a factor of production, is now used to denote a form of consumption, i.e. expensive outdoor relief in sectors like mining, shipbuilding, rail, where the subsidy per worker can exceed his total wage. This year's total subsidy for BR was projected at £1,120m, £4,200 per employee but it is likely to exceed that.

"Investment", which once meant employing resources to expand production, now connotes the breeding of white elephants and lame ducks for their own sake.

In this context, Latin American experience throws new light on our problems. In one country, which shall be nameless, and could be one of several, people complained that a third of a very large development budget - financed partly by non-returnable loans from countries like ours - was syphoned off by corrupt politicians, officials, trade union bosses, and their friends, and invested in the United States, in real estate, agriculture and other capitalist enterprises.

That sounds bad enough, until you consider what happened to the other two thirds of the development budget. It went mainly to breed white elephants and lame ducks; iron and steel; shipyards; industries which import all their raw materials, and other prestige projects. They will saddle the country with an economic burden for generations. Meanwhile, the money which the rulers - who, a propos have a good line in socialist and anti-American demagogy - invested in the USA, was sensibly invested, and earns dividends. Now that they have a floating exchange rate, many of those concerned repatriate their earnings, helping to provide employment at home and keeping the currency stronger against the dollar than it would otherwise have been. Just imagine, had the whole development budget been stolen, the country concerned would have been better off. It would have had fewer brand-new lame ducks to feed and a greater dollar income.

Now this paradox is not confined to Latin America. It operates wherever the state directs investments.

Think of all the billions our nationalised industries like steel, coal, sank into installations proudly described by all concerned as investment and shown as such in the National Accounts. Some of these have since been destroyed as useless, others now operate, at still greater cost to the British taxpayer and British economy, because "jobs" - I use inverted commas - must be preserved. You could call them our third world industries, corrupted by easy money, ever-available credits and subsidies. Just suppose that part of the money poured into our nationalised industries had been diverted to investment in first world industries. No Ravenscraig, no Consett, no Llanwern, no economic ball and chain we seem doomed to drag endlessly, but instead revenue. We have some first world industries in Britain too. If only they were given a fair chance - reasonable taxation levels, energy costs what could they not achieve?

Or, when you come to think of it, supposing that these public funds had been invested as wisely as the trade unions invest their own funds or those pension funds in whose investment the trade unions have a say. Would they have put their money in BL? So why ours?

The Greeks had a saying, don't say of a man that he was happy until he is dead. Don't call an installation an investment till it is completely amortised. But the state lacks the rationality to do that, because it is by its nature more vulnerable to short-term political pressures than to medium and long-term economic considerations. "Investment" comes to mean contracts for large firms to create jobs in the capital goods industries, conspicuous consumption at the public's expense.

In that context, the use of the terms state sector and private sector needs re-defining. The private sector may seem statistically unified, but in reality it is divided into distinct segments, whose interests are not only different, but to some extent actually antagonistic. We have the exposed, the protected and the dependent market segments. The first has to compete at home and abroad. The second enjoys a protected home market, whether by government or by natural causes. The third depends on state-custom, on the government, on nationalised industries and local authorities, on taxes or monopoly prices at one remove. The state sector now purchases about a third of national output in one form or another. It is worth placating, and, where necessary encouraging to spend.

The dependent segment, particularly strong in the capital goods field, does not fully belong to the market economy, it is an androgynous intermediate form, an extension of the state sector by other means. This is true politically no less than economically. Dependent sector firms lobby as powerfully as anyone for increased government expenditures in nationalised industry and export subsidies. Remember the BL suppliers, the railway electrifiers, the council-house builders. The protected segment fights for protection, raising price-levels and thereby adversely affecting the competitive position of the exposed segment.

Our private sector divides up another way: between entrepreneurial firms and bureaucratised ones. The latter are generally large; they employ ex-civil servants and politicians, they are in a position to get government grants and subsidies. Whereas the entrepreneurial firm tries to maximise profits, the subsidised maximise subsidies.

The tax-eaters, to use a good eighteenth century phrase - and subsidy-eaters - a twentieth century evil, are over-represented wherever industry with a capital "I" is represented. They are first cousins to the nationalised industries.

Who will represent the entrepreneur? And who will represent the family firm, which really takes the long view and has immeasurable social value, but which has a much harder time than the large public company? We still have good entrepreneurial firms and potentially good ones. But they are under pressure, no one is there to save them if they go under, yet every additional pound of state expenditure makes life harder for them as it raises taxes and costs throughout the economy.

The longer the list of our state parasites, lame ducks, white elephants, feather-bedded farmers, dropsical local authorities, give-away exports and non-returnable loans to the Argentinians, Soviet bloc and other friends, the greater the burden which is patently being borne by the productive sector of the economy. There can be no other explanation for our survival. We have the rent from North Sea oil, the rest must come mainly from the productive sector.

Yet we know so little about the surplus-producing sector, so much about the deficitary sector. We really need a map of the British economy since the national accounts tell us so little of what we really want to know, where and how wealth is created, how it is circulated, consumed and wasted. Of all the millions of people who draw wages, salaries and fees, which create more added value than they are paid. Of all the investment in this country, which earns its own amortization and debt servicing. As I have explained, it is not a case of private-good; public-bad. It is more complex, but it is measurable, and we must bestir ourselves to find ways of measuring it.

In addition to its educational value, this knowledge would be of prime importance for the "disengagement economics", or "liberation economics" if you prefer the term, to which I think we should give priority over market economics. How quickly could the healthy segments take up the slack if our shipyards and mines, for example, were run down.

Perhaps I should explain my reference to disengagement economics as opposed to market economics. It relates to my main question as to how we radical reformers could achieve more. We noted that though state economics have failed, they seem to grow from their failures. There is nothing to be gained by ascribing this to the natural perversity of mankind, it calls for diagnosis. One explanation is that the very growth of the state and dependent sector creates fresh support for the system. The vested interests created by socialist measures fight for their self-perpetuation.

But another reason is that though the market economy may be intellectually attractive to some, it is not a banner under which many people will fight. Men will fight and die for the cross, the crescent, the flag, but not for the free market. We have yet to address ourselves to this crucial matter.

In our culture, many people find the idea of dependence on the market, let alone granting it moral sanction, ethically or philosophically unsatisfactory. Why should we leave our collective and individual well being at the mercy of blind market forces, when we boast of man's liberation from subordination to the forces of nature? In practice we are left with the choice between two ways. Either we attempt to work with and through the market by greater understanding of it. Or if national life is swayed by blind opposition to the logic of economic considerations, achievements and potential of the market economy will eventually be destroyed and much else with them. This a real and present danger in open societies like our own.

I spoke earlier about tendencies in our camp to utopianism, though of course we have no monopoly of it. Even were we to succeed in demonstrating theoretically that "the market is good for you", we shall not move many people very far. We still have to appeal to their self-interest in each case, and not - as Adam Smith would have put it - to their benevolence.

Of course, it is very important to mould the climate of opinion, the political culture. We should not negate the importance of both Mrs Thatcher's and President Reagan's success in modifying the political culture in their countries, in this respect. That is a vital step.

An organisation like yours has the resources to play a growing part in this work. But that is only an auxiliary to the main job, of harnessing interests, emotions, beliefs, to the achievement of specific change. Hence we need a map of the economy. And in the foreseeable future. It is not enough to demonstrate that socialism - or socialism by any other name - has failed. We must show each individual, each group, how it has failed them, and how specific improvements could be brought to them by a freer, less state-owned and less controlled economy. It is no use expecting frightened, resentful people to give up their bird in the hand, to sacrifice their own apparent immediate good to the future general good. It is no use preaching Smithian self-interest as the motor of economics and ignoring it as the motor of economic reform.

Nor is there any logic in leaving all reform to government, that is to say leaving the state to reform and curtail the state. If we try to get the state to do our reforming job for us, it will end up even stronger and more pervasive. Your Director General dealt in his talk last year with shortcomings in our national decision-making structure. It commanded wide agreement, not least inside the civil service and political circles. But pari passu with his proposed structural reform, which will not come quickly or easily, we need action in a shorter time-scale to make good the deficiencies. This will have to come in good part outside government.

My experience as freelance radical reformer has taught me that attempting to press politicians further than they wish to go brings decreasing returns. They see the obstacles and constraints. For better or worse, they will trust their own political judgements above ours. If we wish to influence them, we must not only press and inform, but also learn to see the problems through their eyes, from their perspective, to find ways of removing the constraints which loom so large for them.

We should ask ourselves, what can we do, intellectually and politically, to help the government achieve aims we have in common. Political parties and governments rarely generate ideas; we should be happy when they examine them with an open mind, overjoyed when they accept them. Constructive frustration should never be allowed to blind us to the fact that this government in general and the Prime Minister in particular have accepted many of the ideas which radical reformers had been preaching here for a quarter of a century. Our crying need is to help find ways of implementing them, of threading our way back through the maze.

If we favour privatisation in most things, why not some privatisation of politics, too?

Your Institute is uniquely placed to undertake this task of the privatisation of economic reform. You have the resources, not only human and financial but also moral, for you do not represent a vested interest, but a state of mind, directorship, direction, the highest common factor, the national interest. We must initiate dialogue with all who care to talk with us. We shall find that many people whose policies are divergent from ours, often diametrically so, are seeking many of the same ultimate goals. Their image of us is demonological; we must learn to understand how the world looks through their eyes, as a preliminary to helping them understand how we see things.

We may be in a better position than the politicians to undertake the worthwhile task of seeking a common language with people like Frank Field a Labour MP whose main work has lain in child poverty and welfare. He has frankly recognised that the welfare state is not doing what it was set up to do, and that crying for more money is not the answer. We can start by agreeing that things are not as they ought to be, that there is a great deal of human misery which we should have been capable of averting, or at least abating. We can agree that the welfare state, as we know it, has failed. There must be more effective ways of achieving well being than "welfare" as we know it.

I believe that we can go some way towards achieving a new consensus, because we can help people learn to make sense of our common experience.

A century ago, the business classes took a far greater part in public and intellectual life than they do today, not least in welfare activities. They set the tone of political and intellectual life. In that era, Britain achieved stature greater than ever before, or ever since. Why should not the Institute create the channels through which the business classes could once again take the lead in society, set the tone, and carry the nation with us?

I hope that my unavoidably selective guided tour of past and present may encourage you to undertake such initiatives in the future, for all our futures. And for those of us who both care and dare, the future begins now.

End.

C/REPORT