

Why this censure makes no sense

Mrs Thatcher and her government have, according to the prevailing political wind, done nothing right. Today in the House of Commons those who hate everything they choose to believe she represents imagine they have her against the ropes. This, they hope, is the watershed at which the stream of political and social attitudes associated with "Thatcherism" falls away, to be lost in the mist of history's failed causes.

This year was to have been the year in which the policies of economic restraint pursued since 1979 led naturally to a steady expansion without serious inflation. A projected growth rate of 3 per cent this year was to have been the platform from which comparatively low interest rates and tax remissions to the lowest paid would lead to a sustainable expansion. But instead the pound has fallen so heavily and persistently that the Government has been driven both to try to bolster it by spending currency reserves and to acquiesce in a 14 per cent interest rate which puts expansion and the intended tax cuts at risk.

Moreover, despite the interest rate increases, the pound remains fragile and American currency dealers appear nightly on television to opine that it will get worse. They point to the adverse effect of the fall in oil prices on the UK revenue, observe gloomily that we should be doing better in manufacturing exports and point out that the coal strike continues at great cost in public money.

They do not usually have much to say about the effect of the high-priced dollar and of American interest rates in drawing funds out of sterling and so weakening it. Public spending may be too high and interest rates too low in Britain as they see it, but the effect of the huge US deficit, paid for by capital drawn in from other countries to the detriment of other currencies, figures little in their argument.

Much more bizarre, however, is the palpable pleasure Mrs Thatcher's critics here have from their contemplation of the Reaganomics of deficit-financing. Indeed, they see it as the vindication of their own neo-Keynesian plans for expansion by public spending and borrowing.

Thus the Earl of Stockton sends a televised message from the House of Lords in praise of President Reagan's borrowing to sustain the American boom, and exhorts Mrs Thatcher to do likewise. Was it not what Lord Stockton's own grandfather did? You borrow to produce; you don't produce and then borrow, ran Lord Stockton's homely wisdom. And when it is presented in so urbane a manner by a figure so venerable who dares point to its logical flaw?

Yet there is a basic distinction between Lord Stockton's publisher grandfather borrowing money (saved by other people) at the commercial rate appropriate to the risk, and the "borrowing" by governments which (unless it is

commercially funded) means devaluing money by printing more, or in the ancient phrase, clipping the coinage.

Lord Stockton, Mr Kinnock and all the other admirers of Reaganomics might also remember that there is one sense in which President Reagan's borrowing resembles that of Lord Stockton's grandfather, though it hardly supports their argument for Britain. For the Americans pitch the rate of interest at a commercially high enough level to attract funds to the dollar, and they can do so because of their economy's sheer size and efficiency, and because the dollar is a massively important international currency.

But how can Mr Kinnock, Mr Hattersley, and Lord Stockton really claim that this government could have imitated the public spending, borrowing and deficit financing in which the Reagan government can indulge? Fury has now been unleashed because UK interest rates have risen to 14 per cent. But what do the critics suppose that the British level of interest would have had to be if UK borrowing and spending were at the level they want, given our relatively poor productivity and unit labour costs?

The dons of Oxford turn in contemptible anger against Mrs Thatcher because education does not have all the money they think it should. Unchanged or slightly higher spending on education in real terms is misrepresented as "cutting"; they think it is not enough because what they want increasingly costs more. But the social services are in the same boat - as is much else, including defence. What are the priorities?

Meanwhile, vast sums of public money have to be spent resisting Mr Scargill's attempt to get unlimited funds to sustain uneconomic coal production, which is something America would never contemplate. This is the symbol of everything that is wrong here and why the pound is vulnerable.

Mr Kinnock and his friends will say that the Government should have borrowed for an expansion that would then have paid for that borrowing. There is no scrap of supporting evidence from the past governments who have attempted this. Invariably the policy has been destroyed by poor productivity and over-manning. There is a legitimate charge against the Government that it did not set systematically about planning priorities for public spending. There is a charge against the Chancellor of ineptness in understanding the markets and of failing to make clear his policies on the pound and interest rates.

But those who, in today's censure debate, will attack the Government for high interest rates - which would be far higher with increased public spending - offer no credible alternative. The government's policy will have to evolve to deal with the check to expansion which now threatens. Yet it is still essentially true that there is no real alternative in a free society to the broad policies this Government has pursued.