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The New Conservatism

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THE NEW CONSERVATISM

It is now a little more than a year since the first woman ever to lead a British political party led the Conservatives to a remarkable election victory, becoming in the process the first woman Prime Minister of any western democracy.

Until the general election of 3 May 1979 the Conservative party had been going through a lean patch during the 'sixties and 'seventies, losing four out of the previous five general elections, while the Government formed after the one election it did win had been brought to a premature end in circumstances which had led many to write off Conservative government for good: the trade union movement, it was argued, possessed an irrefragable power of veto.

Yet in the event the result recorded in 1979 was the most decisive secured by any party since the Labour landslide of 1945 — and in the process the Conservatives secured the support of more trade unionists than at any time in the party's history.

Even so, the election of 1979 might have been little more than a psephological curiosity had it not been for something far more important than the statistical outcome. For the fact is that the Conservative party had been swept into office on a programme which seemed to mark a conscious change of direction, not merely from that charted by its political opponents, but from that followed by all British Governments since the war, including its own Conservative predecessors. Hence the seemingly self-contradictory notion of "The new Conservatism".

But the truth of the matter is that the new Conservatism which the present British Government has been putting into practice for the past year and more is very much in the broad historic tradition of Conservatism.

That tradition has been well summed up by Lord Blake in the opening paragraph of the Epilogue to his book *'The Conservative Party from Peel to Churchill'.* "Vast changes took place in Britain during the 125 years covered by this book" he wrote:

> "Yet the person who was a Conservative of the thoughtful sort in Peel's day, his outlook, prejudices and passions, would have been quite recognisable to his counterpart who voted for Winston Churchill in the 1950s. There was a similar belief that Britain, especially England, was usually in the right. There was a similar faith in the value of diversity, of independent institutions, of the rights of property; a similar distrust of centralising officialdom, of the efficacy of government (except in the preservation of order and national defence), of Utopian panaceas and of 'doctrinaire' intellectuals; a similar dislike of abstract ideas, high philosophical principles and sweeping generalisations. There was a similar readiness to accept cautious empirical piecemeal reform, if a Conservative government said it was needed. There was a similar reluctance to look far ahead or worry too much about the future; a similar scepticism about human nature; a similar belief in original sin, and in the limitations of political and social amelioration; a similar scepticism about the notion of 'equality'."

But during the 25 years that followed Churchill it was a very different outlook that gained the intellectual ascendancy: the philosophy of social democracy, with its profound faith in the efficacy of government action, particularly in the economic sphere, and its deep commitment to the notion of 'equality'. To a greater or lesser extent, the Conservative party embraced both these delusions, the latter with some misgivings but fundamentally with a sense of resignation in the face of seeming historical inevitability, the former with little short of enthusiasm — based (in the economic sphere at least) in equal parts on a misreading of the economic lessons of the inter-war years and a misunderstanding of Keynes.

The distinctive feature of the new Conservatism is its rejection of these false trails and its return to the mainstream. Old lessons have had to be painfully relearned. The old consensus is in the process of being re-established. To the extent that new Conservatives turn to new sages — such as Hayek and Friedman — that is partly because what those writers are doing is avowedly reinterpreting the traditional political and economic wisdom of Hume, Burke and Adam Smith in terms of the conditions of today; and partly because, as specialists in economics (although Hayek in particular is a great deal more than that) they are of particular interest in an age in which, for better or worse, economic policy has achieved a centrality in the political debate which it never enjoyed in, say, the golden age of Disraeli and Gladstone. I shall have more to say about this later. But the essential point is that what we are witnessing is the reversion to an older tradition in the light of the failure of what might be termed the new enlightenment. This is important, politically, not in the sense of some kind of appeal to ancestor-worship or to the legitimacy of scriptural authority: it is important because these traditions are, even today, more deeply rooted in the hearts and minds of ordinary people than is the conventional wisdom of the recent past.

I mentioned a moment ago that economic policy tends to be at the heart of politics in a modern democracy in time of peace, and there is no doubt that the new Conservatism sprang from a growing awareness of the palpable failure of the conventional wisdom to deal with the worsening problems of the British economy. To describe the new Conservatism purely in terms of an approach to economic policy would be manifestly inadequate — it goes a great deal wider than that, as I shall hope to show. But is it the obvious place to begin.

The economic policy of the new Conservatism has two basic strands. At the macroeconomic level, our approach is what has come to be known as monetarism, in contradistinction to what has come to be known as Keynesianism, although the latter doctrine is a perversion of what Keynes actually preached himself. At the microeconomic level, our emphasis is on the free market, in contradistinction to state intervention and central planning. While these two strands fit easily and harmoniously together, so much so that they are frequently confused, they are in fact distinct. It is quite possible to be a monetarist and a central planner. Equally, Keynes was not a central planner, and his great objective was to find a means of influencing the level of economic activity *without* resort to direct intervention in markets. Indeed, it might well be argued that one of the early signs of the failure of Keynesianism in Britain was the increasing resort of those who espoused it to planning and interventionism.

I take the monetarist dimension first — the macroeconomic policy of the new Conservatism.

In essence, monetarism is simply a new name for an old maxim, formerly known as the quantity theory of money. So far from being the controversial brainchild of an eccentric American professor, it was — in one form or another — the common belief and shared assumption of politicians and administrators of all political parties throughout the industrialised world for the century and more that preceded the second world war.

It consists of two basic propositions. The first is that changes in the quantity of money determine, at the end of the day, changes in the general price level; the second is that government is able to determine the quantity of money. In practical terms, this was translated into the twin axioms of the pre-Keynesian consensus: that the primary economic duty of Government was to maintain the value of the currency, and that this was to be achieved by not increasing its supply — a constraint which operated quasi-automatically for a country on the gold standard, as Britain was for most of the pre-Keynesian period.

Today, the intolerable social consequences of the present high levels of inflation, and the still greater dangers to the fabric of society that would stem from any further acceleration, have combined with the economic dislocation caused by inflation to reinstate the old conviction that the prime economic duty of government is to maintain the value of the currency.

There is, perhaps, rather less agreement on the means to this end. Our conviction that the means themselves must be monetary in no way denies the existence of a political dimension to inflation. After all, the proposition that Governments have permitted inflation to occur — indeed ensured that it will occur — by printing too much money, leaves open the question of *why* they have behaved in this way, and it may well be that political forces have played a prominent part in this. And insofar as they have, it is legitimate to strive politically to weaken those forces. But that in no way derogates from the crucial economic role of monetary policy.

I shall return in due course to a brief history of the evolution of economic policy in Britain since the war, since it is the experiences we have undergone which — far more than any abstract theory — explain and justify the course on which we have now embarked. Suffice it to say at this stage that we are

committed to a steady reduction in the rate of growth in the money supply for the forseeable future, and that we have published — for the first time ever — a quantified medium-term financial strategy setting out a gradualist path to a monetary growth target of around 6% in 1983-84 and committing us to a fiscal policy compatible with this path: that is to say, a marked decline in total government borrowing as a proportion of gross domestic product, which we have suggested might fall from the estimated 1979-80 Public Sector Borrowing Requirement outturn of some 5% of GDP (and the 5½% we inherited from our predecessors in 1978-79) to some 1½% in 1983-84. After initial difficulty in bringing monetary growth under control, which necessitated raising the Bank of England's minimum lending rate to a record 17% last November, we are reasonably well on course on the monetary front. And, following the usual time lag, from now on we can expect the trend of inflation to be downward.

Meanwhile, at the microeconomic level, we have made considerable progress during our first year of office towards our parallel aim of rolling back the frontiers of the State and improving the functioning of the market economy.

We have abolished completely all forms of pay controls, price controls, dividend controls and exchange controls. The first three of these had been in operation, under governments of both parties, almost continuously throughout the past decade: the fourth, exchange controls, had been in force for over forty years.

Government spending, which had been planned to rise steadily over the coming years — as it has done under successive governments for the past quarter of a century, has been cut substantially and is now planned to fall, in real terms, in each of the next four years. Given the requirement to increase defence expenditure in an increasingly dangerous world, and the need (to take a very different example) to finance a growing pensioner population, whose state retirement pensions are price-protected, this has meant some very difficult decisions elsewhere in order to achieve a reduction in Government spending overall — although the successful negotiation of a substantial reduction in the UK's net contribution to the EEC Budget has undoubtedly helped. But those decisions have been taken.

As part of this, we have embarked on a steady reduction in the size of the ever-growing civil service. This is already some 25,000 smaller than when we took office, and a further substantial reduction is planned.

We have also embarked on a major programme of 'privatisation' of the state-owned industries, of which British Aerospace and British Airways will be among the first candidates. While the extent of private ownership will vary from case to case, it should always be enough to shift the weight substantially from state control to the disciplines of the market. Meanwhile, various state holdings in private companies (including a reduction in the Government stake in British Petroleum from 51% to 46%) have already been sold. Throughout this exercise we are anxious to see the widest possible spread of private shareholding — so that the so-called public sector industries really do belong to the public — including in particular employee shareholding.

Despite the cuts in government spending, the overriding need to reduce government borrowing, to which I have already referred, has so far prevented us from reducing the overall burden of taxation — although that remains our long-term objective. But we have at least been able to introduce a major switch from taxes on earning to taxes on spending, with the result that income tax has been cut all round, with the top marginal rate on earned income coming down from 83% to 60%. This is absolutely essential to restore personal incentives.

Even so, at the lower end of the scale, the incentive to work has been severely blunted by the fact that, whereas earnings are taxed, unemployment benefit is tax-free. As soon as administratively practicable, we shall be rectifying this anomaly: in the meantime, legislation has been enacted to ensure that this year, for the first time, unemployment benefit is increased by a lesser amount than the rise in prices. We have not shrunk from controversial measures: what is perhaps interesting is that this one, which was announced in this year's Budget, appears (like the planned restriction on the payment of Supplementary Benefit to strikers, from which previous administrations had also recoiled) to enjoy substantial popular support.

Other measures which have become law during the current session of Parliament include the Employment Act, which will improve the working of the labour market by providing redress against a limited number of the worst abuses of trade union power, and the Housing Act, which will improve the working of the housing market and further the traditional

Conservative aim of the property-owning democracy by giving local authority tenants the right to buy — on attractive terms — the homes in which they live. Meanwhile, a whole host of Government controls in the field of business and industry have been swept aside, unnecessary government-sponsored bodies abolished, and a package of measures introduced (in this year's Budget) to provide a more encouraging fiscal climate for that most market-orientated sector of the economy, small businesses. But perhaps the most imaginative measure in the 1980 Budget was the proposal to set up, in the heart of half-a-dozen of our most derelict industrial areas, so-called 'Enterprise Zones', where the burden of corporate taxation, regulation, and form-filling will be reduced still further.

I have given you this somewhat breathless account of what we have actually done over the past year or so, not in order to boast of success: it is far too soon for that. The proof of the pudding is in the eating. But I did think it worth taking a little time to establish two basic propositions. First, that there is a great deal more to the new Conservatism than control of the money supply; and second, that there is a practical reality (and I have sought to give the flavour of that reality) behind the rhetoric of the new Conservatism.

To describe what we are engaged in as a peaceful counter-revolution would be somewhat fanciful. Whatever else they may be, Conservatives are not revolutionaries. But there is no doubt that our chosen course does represent a distinct and self-conscious break from the predominantly social democratic assumptions that have hitherto underlain policy in post-war Britain. Yet looked at dispassionately, the steady trend towards ever more governmental interference with the free and vigorous working of the market that has characterised every western economy in recent decades seems distinctly perverse.

After all, it was the market economy that created the prosperity of the West in the first place — and even today, over-regulated and constrained as it is, it continues to outperform the state-controlled command economies of the communist bloc. Moreover, if there is one value that we in the West claim to elevate above all others it is freedom; yet those who claim to be its most dedicated standard-bearers in every other sphere have no time for it in the economic: as Nozick has wryly observed, "In the United States today, the law insists that an 18-year-old girl has the right to fornicate publicly in a pornographic movie — but only if she is paid the minimum wage".

But in fact this perversity is readily explained. There is a widespread delusion that the economic case for the market economy is based on a theory of perfect competition that has no relevance whatever to the real world, and that merely to identify the manifest imperfections that characterise markets in the real world is to justify state intervention.

This is mistaken on at least two counts. In the first place, as Hayek has cogently pointed out in his essay on "The Use of Knowledge in Society", individual agents acting on imperfect information can operate a market economy quite successfully. An effective price system does not require the chimaera of "perfect competition": prices are still the most efficient signals we have for transmitting the minimum necessary information about consumer wants and investment opportunities. If not enough shoes are being produced, citizens do not have to sign petitions or lobby Parliament, nor do bureaucrats have to go out into the streets to conduct surveys of need. Instead, a businessman will discover he can sell his stock for a higher price and will order more from his suppliers. The point is as important as it is elementary.

In the second place, while markets are undoubtedly imperfect, so is the State. Market imperfection can be held to justify state intervention only if the State — which means the civil servants and Government Ministers — have somehow been spared the frailties and imperfections that mar the rest of the human race. Not only is it unclear why this should be so, but there are very real reasons why the imperfections of state intervention in the economic field are likely to be not merely equal to, but greater than, the imperfections of the market. One is that, however genuine the desire of government to arrive at an objective judgment, its decisions will not only be subject to all the inherent uncertainties of economic life, they will also, inevitably, be politically skewed. It is no use complaining about this: we live in a democracy, and the decisions that politicians take will inevitably be coloured by the sorts of phrases that sound well in speeches and the harvests of votes they might be expected to gather.

Nor is it only the politicians whose motives may be less than perfect. We are all imperfect — even the most high-minded civil servant. Academic work is still in its infancy on the economics of bureaucracy; but it is already clear that it promises to be a fruitful field. For civil servants and middle class welfare administrators are far from the selfless Platonic guardians of paternalist mythology: they are a major and powerful interest group in their own right. But there is this important distinction. While in the private sector persistence in failure is likely to lead eventually to bankruptcy or at least severe financial loss, the incentive for self-correction on the part of the State is very much weaker: indeed, nothing is harder than the admission of failure in the political arena.

Thus it is that we are driven to the very practical — and I would say very Conservative — conclusion that, so far from ever more State intervention being justified by virtue of the admitted imperfections of the market, a greater reliance on markets is justified by virtue of the practical imperfections of state intervention.

Burke used a particularly good metaphor which illuminates this point, when he compared state action to light rays approaching the prism of society — they would be bent and refracted on meeting the glass of social relations. It is a particularly Conservative point — for if socialism is the creed of utopianism and the perfectibility of man, Conservatism is the creed of original sin and the politics of imperfection — that the bad in society is so intimately and unknowably linked with the rest that an intention to deal with one specific and agreed evil may well do more harm than good.

One of the most crucial of all markets, of course, is the labour market; and here one of the more important contributions of the new Conservatism has been to show the damage that wages policies do.

While monetarism might demonstrate why it is that you cannot use a wages policy to control inflation on its own, it still leaves it open to more sophisticated advocates to claim that a wages policy is nevertheless a desirable, if not essential, adjunct of monetary policy since it alone can ease and make politically acceptable the transitional costs of monetary restraint by forcing workers to respond more rapidly to the changed monetary conditions, thus reducing (if not actually preventing) any rise in unemployment.

Practical experience of wages policies has given the lie to this thesis; but the explanation of why this is so lies in the economics of markets. Despite the manifest imperfections of the labour market in a unionised economy, it remains true that the price of labour is one which balances supply and demand, and that the price which the employer of labour can afford to pay reflects the productivity of labour. If wages are controlled then imbalances arise with shortages of labour in some areas and excess supply — that is, unemployment — in others, and there is no way in which labour can be attracted to profitable firms.

The loss is far more than merely economic. The ultimate connection between the productivity of a man's labour and his wage is lost, and he regards his pay as being determined by government rather than by his own output and efforts. The harmful economic, social and political consequences of the growing politicisation of the labour market can scarcely be exaggerated.

So far, since the collapse of the previous Government's wages policy and its formal abandonment by the present Government, wage settlements have been running at a higher level than is sensibly compatible with the Government's monetary framework, with unhappy consequences for the level of unemployment. But it is at least thoroughly healthy that there has been a much wider range of settlements: the market is once more beginning to fulfil its function, as workers are encouraged to move to jobs where their contribution to the general welfare is greatest.

If, as I firmly believe, the traditional Conservative scepticism of state power and state intervention — except, as Lord Blake rightly identified, in the context of the preservation of order and national defence — is firmly echoed in the instinctive beliefs of the British people in general, and of the working classes in particular, it is worth asking why it is that it has taken so long for that prejudice to be reflected in the election of a like-minded government. No doubt there are many reasons. But one which has, I believe, particular force, is the experience of the second world war. This, for a whole generation, was Britain's finest hour: it was also a time when the State was seen to arrogate to itself, in a cause whose rightness was not open to question, all the apparatus of central planning and direction of labour. In fact what is sensible in war, when there is a unique unity of national purpose and when a simple test can be applied to all economic activities (namely whether or not they further the success of the war effort), is wholly inappropriate in time of peace, when what is needed is a system that brings harmoniously together a diversity of individual purposes of which the State need not even be aware. Nevertheless, the apparent beneficence, rationality and justice of central planning cast a spell that long outlived the wartime world to which it belonged.

The Federal Republic of Germany provides the perfect counterpoint to this. There, too, State power was associated with war. But there it was associated not with the benevolent despotism of a Churchill, but with the evil tyranny of a Hitler. As a consequence, the economic lesson the German people learned from the war was of the evil of State power rather than the benevolence of State power; the German trade union movement was imbued with a hostility to State intervention (which had been used to suppress free trade unionism altogether) in contrast to the British trade union movement's delusion that its objectives can most effectively be secured through the agency of State intervention; and even the social democrats were driven to embrace the principles and practice of the market economy.

That is, of course, by no means the only explanation of the different post-war economic performance of Britain and Germany, but I am convinced that it has played an important part.

And now, as the false lessons taught by the war have begun to be unlearned, the new Conservatism has another historical obstacle to overcome: the immense vested interests created by the growth of State power and State patronage, by State employment and State subsidies. But if these great vested interests (on which, nowadays, social democracy, barren of ideas, wholly depends) are an effective practical barrier to radical or revolutionary change, there is no reason to suppose that they need prevent gradual and evolutionary change. And this, after all, is the Conservative way. But it emphasises just how long the task will take. Nor is it only the existence of vested interests in the material sense which counsel patience: those liberated from the dungeons of state control are often at first blinded and bewildered by the bright sunlight of freedom.

On the macroeconomic front, too, there is a sense in which the monetarist policies espoused by the new Conservatism represent a belated unlearning of what were mistakenly believed to be the lessons of the war.

In the first place, the war bred a desire to make a clean break from the orthodox monetary policies which were wrongly believed to have been responsible for the depression of the 'twenties and 'thirties. In fact, of course, dispassionate analysis of this period if anything underlines the explanatory power of monetary theory. In the United States, as Friedman's researches have shown, the authorities permitted a quite inordinate reduction of one third in the supply of money between 1929 and 1933, while in the United Kingdom Churchill's misconceived decision in 1925 to return to the gold standard led to severe monetary contraction. In both countries, a marked departure (in a contractionary direction) from the orthodox canons of monetary policy, which inevitably had a severely disruptive effect on the real economy, were wrongly interpreted as proof that the orthodoxy itself was mistaken.

In the second place, the historical accident that Keynesian policies in practice emerged from the war years, when a whole variety of wartime devices such as wage and price controls were in force, and the functions of markets and of money temporarily suspended, led to an association between Keynesianism and interventionism that is wholly alien to the thinking Keynes himself — as indeed is the so-called Keynesians' dismissal of money. But it was this false interpretation of the events of the 'twenties and 'thirties, coupled with this equally perverse interpretation of Keynesian economics, which ostensibly held that money didn't matter, that was to hold the field for the next quarter of a century and which eventually collapsed under the weight of its own inflationary excesses in the 'seventies.

In reality, the Keynesians attributed much greater power to money than monetarists do. Although they did not express it in these terms, the essence of their belief was that an increase in the supply of money via a budget deficit would have a sustained and indeed predictable expansionary impact on real things such as output and employment. By contrast, monetarists hold that, at the end of the day, what a Government does to the supply of money will produce purely money effects — although there may well be brief interludes during which monetary policies produce real effects. As David Hume pointed out as long ago as 1752 in his essay, *'Of Money'*.

> "Though the high price of commodities be a necessary consequence of the increase of gold and silver, yet it follows not immediately upon that increase; but some time is required before the money circulates through the whole state, and makes its effects be felt on all ranks of people. At first, no alteration is perceived; by degrees the price rises, first of one commodity, then of another, then of another; till the whole at last reaches a just proportion with the new quantity of specie which is in the kingdom. In my opinion, it is only in this interval or intermediate situation, between the acquisition of money and rise of prices, that the increasing quantity of gold and silver is favourable to industry."

Monetarists also believe that excesses in monetary policy — whether in the direction of an expansion or a contraction in the supply of money — will cause a greater or lesser degree of economic collapse and large-scale unemployment. A modern economy simply cannot function without reasonable stability of money.

Initially, the excesses of the Keynesian delusion — and I do not attribute this delusion to Keynes himself — were held in check by two factors: the existence of a fixed exchange rate system and the fact that the numeraire of that system, the dollar, was managed by a country which itself pursued broadly non-inflationary policies. During this period foreign exchange crises served as a proxy for monetary disciplines and, coupled with the persistence of what has come to be known as money illusion — the belief by economic agents, and in particular wage bargainers, that the currency will hold its value — this enabled a form of monetarist policy to be pursued in a Keynesian guise, with an initially significant but gradually declining degree of success, as the fact of inflation steadily eroded money illusion.

But it was not until the late 1960s and early 1970s that what has come to be known as Keynesianism entered its terminal phase. The inflationary financing of the Vietnam war undermined the whole basis of the dollar standard — while the necessary transition from a fixed to a floating rate regime removed the only existing proxy for overt monetary restraint.

In Britain, certainly, there seemed to be no awareness that the new conditions made explicit control of the money supply essential. Instead, money supply was allowed to expand without restraint, and the symptoms were treated by a fruitless intensification of controls — wage controls, price controls, dividend controls, tighter exchange controls — and intervention to 'support' industry, to the point where industrialists found it more rewarding to tramp the corridors of Whitehall in search of subsidies and grants than to remain in their factories actually trying to generate profits. In the event, industrial performance merely deteriorated further, inflation rocketed, the external value of the pound collapsed, and after a short spell of hothouse growth output and employment fell back sharply. By 1976 the British economy was in intense crisis and the IMF had to be called in, humiliatingly, to bale us out and impose its *de facto* monetarist terms.

It was this experience that, more than any other, at last shifted the economic consensus which the new Conservatism had earlier influenced and has now inherited. Like all great political changes, this one preceded the election of the Government that was destined to inherit it. Thus it was Mr James Callaghan, addressing the Labour Party Conference, who, in September 1976, said this:

> "We used to think that you could just spend your way out of a recession and increase employment by cutting taxes and boosting Government expenditure. I tell you, in all candour, that that option no longer exists and, insofar as it ever did exist, it only worked by injecting a bigger dose of inflation into the economy followed by a higher level of unemployment. That is the history of the last 20 years."

And two months later his Chancellor of the Exchequer, Mr Denis Healey, wrote this in his Letter of Intent to the Director-General of the International Monetary Fund:

> "an essential element of the Government's strategy will be a continuing and substantial reduction in the share of resources required for the public sector. It is also essential to reduce the PSBR in order to create monetary conditions which will encourage investment and secure sustained growth and the control of inflation."

Regrettably, the commitment of the Labour Government to the new consensus was, perhaps inevitably, somewhat half-hearted. The jibe once made at Roosevelt — that he was for sound money and plenty of it — seemed increasingly apt, and the old Adam reasserted itself. But in all the confusion it had now been demonstrated that there was no coherent Keynesian alternative to monetarism. And the only alternative economic theory now in the ring is such a bastard form of Keynesianism,

with its addition of import controls to all the other controls tested to destruction in the 'seventies, that it is really closer to central planning and the command economy, and is scarcely recognisable as a variant of Keynesianism at all.

But if the social democrat alternative is in confusion and disarray, it is only fair to acknowledge that among some Conservatives, too, there are doubts about the new Conservatism.

Is it really Conservatism at all, or is it some alien creed masquerading as Conservatism? I can only say that, as a Conservative, it feels pretty Conservative to me.

There is, of course, no clearly defined political litmus test which proves whether a policy is true blue, but perhaps as good a description of Conservatism as any — at least in its British context — is Anthony Quinton's phrase "the politics of imperfection". That is to say, Conservatism is founded on the basic acceptance of the ineradicable imperfection of human nature. This general proposition has a number of very clear practical consequences.

First, it means that a great deal of weight is attached to tradition, for the very good reason that none of us alive today can possibly know better than what has emerged through trial and error over the generation. Second, there is, running through Conservatism, and deriving directly from the imperfection, both moral and intellectual, of man, a profound scepticism: scepticism about the likely results of state intervention in every aspect of our lives; scepticism about radical new plans of any kind.

And third — and of course all three are intimately connected — there is what might be termed a generally conservative disposition: a preference for gradualism in politics; a conviction that whatever needs to be done should be done in a conservative way.

The economic approach of the new Conservatism, with its scepticism of Keynesian fine-tuning and state intervention in the economy seems plainly to fall within this tradition, as it does within Robert Blake's characterisation of the practical Conservative approach which I quoted at the start of this talk.

It reinforces the Conservative reluctance to bring all social and economic relationships within the political realm. It stresses the vital importance of stability in society, which requires as its economic underpinning a stable currency. It implies a government that is strong, rather than weak, by the very virtue of its own restraint; since it seeks to preserve its authority by sticking to those tasks which are properly the responsibility of government and which it can hope to execute effectively, rather than try and do too much and end up achieving nothing. It accepts a duty for the State to relieve poverty, but rejects the idea that it is the function of the State to create (let alone to destroy) wealth.

Above all, the hallmark of the new Conservatism is a new (in post-war terms) and healthy humility about the scope for Government action to improve the economy. The distinctive feature of our medium term financial strategy, which differentiates it from the so-called national plans of other times and other places, is that it is confined to charting a course for those variables — notably the quantity of money — which are and must be within the power of government to control. By contrast, governments cannot create economic growth. All the instruments which were supposed to do this have succeeded only in damaging the economy and have ultimately broken in the hands of the governments that sought to use them. All we can do is something more modest: to try and prevent the occurrence of conditions inimical to growth — and the most inimical of all, as well as being an evil in itself, is inflation. When governments have tried to do more than this they have ended up achieving far less than this.

Those Conservatives who nonetheless feel ill at ease with the new Conservatism are inclined to suggest that it smacks far too much of classical liberalism. The charge is a strange one. Nineteenth century politics was about wholly different issues. There was, behind the rhetoric, a fundamental consensus on economic policy. Disraeli may have used the Corn Laws and protection to secure the leadership of the Conservative party, but in practice he was operating in precisely the same world of non-intervention in industry, adherence to the gold standard (and thus to stable money) and free trade as was Gladstone. They had their differences outside the field of economic policy, but what matters to us today is what they had in common — which is scarcely surprising given that Gladstone himself was a Conservative Cabinet Minister before becoming the embodiment of Liberalism. Of all forms of heresy-hunting, this variety seems particularly futile.

But perhaps the 'alien creed' school of Conservative critics of the new Conservatism are concerned less with its affinity to classical liberalism and rather more with a feeling that it is somehow too theoretical (and therefore allegedly extremist, although this identity is never satisfactorily demonstrated) and not pragmatic enough.

I have to concede that there is something in this. There *is* a difference — but it is a necessary one. In the nineteenth century Conservatives could afford to disavow theory and affect a disdain for abstract ideas and general principles, for the simple reason that the theories, ideas and principles on which Conservatism rests were the unchallenged common currency of British politics. The rise of social democracy has changed all that. Conservatives have a need, as they did not have in the nineteenth century, to fight the battle of ideas.

When Conservative critics of the new Conservatism propounds the paradox that the traditional thinking of Conservative theory is that there is no theory and that the only political rule is that there are no political rules, I assume that the underlying message is that problems should be judged on their merits. But this doesn't help us to decide what their merits are — instead, it leaves it to other political creeds to determine them. To this it might be replied that the Conservative can exercise his own judgment and be a force for moderation; but this won't do. In the first place, while denying ideology, it is in fact itself profoundly ideological, since it implicitly accepts the concept (wholly alien to the Conservative tradition and to the true nature of politics alike) of a simple linear left-right spectrum, along which a suitably moderate position can be judiciously selected. (Not that the adoption of a particular point on an ideological scale is any less an ideological act by virtue of being nearer the middle than the end of the scale.)

But, second and more important, the only characteristic of a point in the middle of an ideological spectrum is that it is determined, not by the person or party ostensibly choosing that point, but by the position of the two extremes. As Keith Joseph has pointed out, if Conservatives are always to split the difference between their former position and that of the Socialists, not only will they be dragged along by the socialists, but they will actually provide them with an incentive to be more extreme. Thus the pursuit of moderation necessarily becomes self-defeating.

Moreover, it is far from clear where the voter comes in all this. Those who are unhappy with the new Conservatism automatically assume that, by having an identifiable view, it will frighten off the electorate. The result of the election which swept the present Conservative government into office should surely have put paid to that particular charge, at any rate. Nor is it surprising that people might actually want to vote for a Party that appears to share their views. The notion that Conservatism is nothing more than a technique of governing is altogether too pallid and bloodless an account of the role of a major political Party.

What, then, really is new about the new Conservatism? In economic terms, as I have tried to show, very little. But equally important, it has a robust commonsense quality that is wholly in harmony with the everyday experience of the ordinary family.

Monetarism, after all, is really rather obvious: if you produce too much of something, its value falls. If you borrow too much, you're likely to get into trouble. It is Keynesianism, which seems to stand everything on its head, which is the difficult and esoteric doctrine.

Nor is distrust of Government and what it can do new either: the novelty is, if anything, the surprising degree of trust and confidence in big Government which so many British citizens displayed for so long after the war.

All that is new is that the new Conservatism has embarked on the task — it is not an easy one: nothing worthwhile in politics is; but at least it runs with rather than against the grain of human nature — of re-educating the people in some old truths. They are no less true for being old.

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