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Tests of inflation theories from the British laboratory

Allan H. Meltzer

The first two years of the Thatcher government have brought neither overwhelming success nor outright failure. A more insistent regard for monetary control and a more effective grip on public spending could however yield lasting benefits.

The British elections of 1979 that made Margaret Thatcher Prime Minister and brought the Conservatives to power were perceived everywhere as a decisive shift in direction. The Conservative programme called for reductions in taxes and spending, lower inflation, greater incentives, fewer subsidies and more private responsibility. A mixture of belief, hope and anticipation spread through the financial markets and the business sector when it became apparent that the voters would tolerate, perhaps even demand, a programme of this kind.

Two years later the most vocal critics include those who had been the most jubilant. The Confederation of British Industries, much of the financial press, many in the City and members of the government privately and publicly criticise the government’s policy and favour a less austere, less costly, more humane way of reducing inflation, expanding the economy and increasing incentives.

Inflation has continued in Britain for more than twenty years. During this period, output (gross domestic product) rose at an annual average rate of 11 per cent a year, but consumer prices rose more than 8 per cent, and real output rose less than 3 per cent on average. The rate of growth of real product is slower in the second ten years than in the first, and the rate of price increase is faster. Output rose at an average rate of 14.8 per cent in the seventies, but consumer prices rose by 12.5 per cent and real output rose by little more than 2 per cent a year.

The ten-year averages, of course, mask considerable year to year variation. During the sixties the annual rate of increase of consumer prices was never above 5.5 per cent. For the seventies, the annual increase was never less than 6 per cent and in four of the ten years exceeded 15 per cent.

The decade average rates of increase are useful for measuring inflation — the sustained rate of increase in a broadly-based index of prices. Annual rates of price change vary around the average and are a much poorer measure of inflation. The most important differences are the result of one-time changes in the price level that follow large changes in oil prices, devaluations or revaluations of the currency and the imposition or elimination of the distorting influence of price controls. Temporary reductions in the rate of inflation that occur during postwar recessions, but have not been sustained, are another cause of differences between annual rates of price change and the sustained rate of inflation.

Currently, there is a recession in Britain. The slower rate of price increases observed in recent months may not persist; the sustained high rate of inflation of the seventies may continue into the eighties. Firm conclusions about the final success, or failure, of the policies of the Thatcher government cannot be drawn until after the economy recovers.

Some preliminary conclusions do not depend on the ultimate success or failure of the government’s plan, however. It is not too soon to compare promises with initial performance, to see where the government has carried out its programme, where it has reneged or so far failed to accomplish its announced aims, and to look into the reasons for initial successes or failures. The British experiment offers a test of several current explanations of inflation, so it is useful to look at the early results of the test to see what can be learned about the explanations and about the

TABLE 1 THE BRITISH EXPERIENCE
Average rate of change

<table>
<thead>
<tr>
<th>% per year</th>
<th>1959-69</th>
<th>1969-70</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money (M1)</td>
<td>3.0</td>
<td>13.0</td>
</tr>
<tr>
<td>Consumer prices</td>
<td>3.4</td>
<td>12.5</td>
</tr>
<tr>
<td>Real gross domestic product</td>
<td>3.1</td>
<td>2.1</td>
</tr>
<tr>
<td>Employment</td>
<td>0.5</td>
<td>0.1</td>
</tr>
<tr>
<td>Value of exports</td>
<td>5.9</td>
<td>17.8</td>
</tr>
<tr>
<td>Value of imports</td>
<td>5.7</td>
<td>17.8</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Bank, St. Louis.
ability of democratic countries to end stagflation, an affliction common to many countries.

Sustained inflation in Britain kept pace with the rate of increase in the money stock, currency and checking deposits — M1. Table 1 shows that the decadal average rates of inflation for the sixties and seventies are within 0.5 per cent of the average rates of growth of money for the same periods. Real output rose faster in the earlier than in the later decade. Employment rose more slowly in the seventies, so the average growth of output per employed worker differs by only 0.5 per cent in the two periods.

Major policy changes

Slower growth in the seventies occurred in many countries, and the decline in the growth of output per man in Britain is much smaller than in Germany or Japan, countries with much lower rates of inflation. Rates of change of exports and imports, in current prices, increase by almost identical percentages from the sixties to the seventies, so inflation has little effect on the real value of the trade balance. In fact, the 9 per cent to 10 per cent increase in the average rate of inflation has little discernible effect on any of the real variables in the table. Whatever effects occurred are hidden by the averages or broad aggregates.

The economy that Mrs Thatcher's government inherited in the spring of 1979 was operating close to the averages for the decade. The new government announced a medium-term programme to increase real growth and reduce inflation. Six major policy changes — the medium-term plan — were announced.

1. To slow inflation, the government proposed a gradual, sustained reduction in the rate of growth of money to an average of 9 per cent in 1980-81 and to 6 per cent in 1983-4. A broad measure of money that includes time deposits, known as sterling M3, was chosen as the target.

2. To slow the growth of government, the plan called for a reduction in the real value of government spending of approximately £3.5 billion below the 1979-80 budget. A reduction of this magnitude would reduce real government spending (at 1979 prices) by 5 per cent in four years.

3. Increased incentives were given for private saving and for investment. Marginal income tax rates were reduced from 33 per cent to 30 per cent for the lowest bracket and from 83 per cent to 60 per cent for the highest bracket. Other tax adjustments were made to encourage investment.

4. To keep the deficit from rising precipitately following the tax reductions, taxes on consumption were raised. The targets for the public sector borrowing requirement for 1979-80, and 1980-81, including the central government deficit and borrowing by public corporations, were set at £8.5 billion and £7 billion (at 1978-79 prices) respectively.

5. Subsidies for state enterprise and private corporations were reduced, and publicly held shares in several state enterprises were to be sold.

6. In October 1979, exchange controls were removed. Britons were permitted to invest in foreign securities without restriction.

The government proposed the type of 'monetarist' programme advocated by the Shadow Open Market Committee and the Banking Centre at London's City University — floating exchange rates, gradual reductions in the growth of money, cuts in government spending and in tax rates. Reductions in marginal tax rates were described by the Treasury, the press and many commentators as 'supply-side' or incentive tax cuts introduced to stimulate real output.

There has been little effort to confront the unions or to break their power. The government has eschewed wage and price controls, guidelines and interference in collective bargaining. Even at nationalised firms, unions were expected to bargain with management, not with the prime minister. Occasionally, threats were made or legislation was introduced to permit competition in public services, such as mail delivery, but these actions were taken or proposed to increase efficiency, not primarily to reduce the political power of the trade unions. Recent political developments in the Labour party have increased the power of union officers within the party.

The first two years under the Thatcher government brought neither overwhelming success nor outright failure. Inflation slowed, to the lowest rate in many years, but has increased. Unemployment increased and is now at the highest rate in many years. The share of income saved increased, dramatically, but the share of income invested in plant and equipment remains close to its recent average.

Renewed surge

Mrs Thatcher's government has not been able to control public spending or the size of the public sector borrowing requirement. As the chart shows, the borrowing requirement* declined shortly after the Thatcher administration took office, but the decline did not last. Failure to reduce the growth of spending, combined with the loss of revenues during the recession, contributed to the renewed surge in the borrowing requirement in 1980. Of the two causes, the failure to control spending is, by far, the more important because it shows a failure to carry out the government's programme and because it suggests that the budget deficit will be closed only, if at all, by future tax increases. The government has moved in that direction by increasing taxes on oil.

In fact, the budget position is worse than a quick glance at the borrowing requirement shows. A careful reading of the government's planned spending in its

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*The principal difference between public sector borrowing and central government borrowing is borrowing by public corporations.
first full fiscal year shows little evidence of an effort to cut spending permanently or to reduce the size of the public sector. There are four clear signals.

First, the government did not cut spending on government consumption or transfer payments but proposed to increase the share of spending in these categories relative to the budget. The 1980 budget asked for an increase of almost 19 per cent in total government expenditure on current and capital account. Spending for government consumption of goods and services was scheduled to rise 23 per cent and grants to persons, transfers, by 19 per cent. The two items — government consumption and transfers — include 72 per cent of total spending. By allowing these items to increase relative to the budget and relative to gross domestic product, the government raised doubts about its determination to carry out the reductions in the relative size of government and in future tax rates. A central feature of the medium-term strategy to reduce inflation and increase the growth of real incomes was placed in doubt.

Not outstanding

Secondly, subsidies to business and housing and capital spending are the sections of the budget in which relative reductions are largest. The 1980-81 budget continued the trend that started in 1975. From 1975 to 1979, the share of spending for subsidies declined from 7.2 per cent to 4.8 per cent. The Thatcher government cut another 0.4 per cent, a desirable but not an outstanding performance. Similar comments apply to the reductions in spending for capital formation. Further, much of the capital spending is deferred, not eliminated.

Thirdly, the government has not taken decisive action to reduce the size of the civil service. An announced reduction of 50,000 jobs planned by the previous Labour government included elimination of no more than 10,000 current positions. Failure to reduce government employment and the rate of increase of government wages is a major failure. The failure is remarkable in view of the relatively large size of the public sector. Table 2 shows cross-country comparisons of the approximate share of the labour force employed in the public sector. While such comparisons are not precise, the difference between Britain and other developed countries is striking. A reduction to the US ratio, 15 per cent, would remove more than 1 million public sector jobs.

Fourthly, the budget submitted in March 1981 surprised many forecasters by providing for tax increases instead of the U-turn in policy that had been discussed widely. The government proposed tax increases to show its continued commitment to the medium-term strategy. The strategy called for the decline in the borrowing requirement to be achieved together with a smaller public sector, however. Tax increases to support an unchanged, or larger, public sector call into question the commitment to reduce the relative size of government.

Failure to reduce government spending raises doubts about the government’s ability to control inflation. Inflation has fallen, particularly in recent months. The problem people face is deciding whether the reduction is permanent or temporary.

The problem arises because inflation has been reduced in the past. As recently as 1978, consumer prices rose only 8.3 per cent, but that performance was preceded by a 16 per cent, and followed by a 13 per cent, rate of interest. What reason do people have to believe that the Thatcher government will succeed where others have failed?

So far, they have not much on which to base their faith other than the almost visible determination of Mrs Thatcher. Against her image as a strong, committed leader, stands considerable past experience and three currently disturbing items. One is the past record of central bank policy in Britain and the United States, a record that shows no evidence of sustained commitment to anti-inflationary monetary policy. Another is the combination of fiscal and monetary policy; central bankers complain frequently about the size of public sector deficits, but just as frequently they finance a large part of each deficit, increasing money growth in the process and building a base for higher inflation. A third disturbing item is the rising political pressure, particularly from large firms in the public and private sectors and from members of the Cabinet, to moderate or reverse the announced policies.

The main problems with central bank policy in Britain (and the United States) arise because of the central banker’s excessive concern about interest rates and the frequent neglect of money growth. Targets for money growth may be announced, and strong commitments made to monetary control, but practice differs from promise. When total demands for bank credit by government and the private sector decline, open market interest rates fall. Central banks can delay the fall by slowing money growth, and they generally do. Money growth collapses as we enter
INFLATION THEORIES

TABLE 2: SHARE OF LABOUR FORCE IN PUBLIC EMPLOYMENT

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Britain</td>
<td>12-1</td>
<td>12-6</td>
<td>16-4</td>
<td>20-7</td>
</tr>
<tr>
<td>France</td>
<td>6-5</td>
<td>9-3</td>
<td>11-4</td>
<td>13-4</td>
</tr>
<tr>
<td>United States</td>
<td>8-7</td>
<td>10-9</td>
<td>14-1</td>
<td>15-3</td>
</tr>
<tr>
<td>West Germany</td>
<td>n.a.</td>
<td>6-6</td>
<td>8-8</td>
<td>11-5</td>
</tr>
</tbody>
</table>

Source: United Nations; e is UN estimate for 1980.

recessions, and since the error is symmetric, money growth soars during expansions. The problem arises — and cannot be avoided — if central banks continue their traditional approach. The reason is that no one can predict interest rates accurately. In current jargon, interest rates are a random walk; or, in simpler language, there is no information in past interest rates, money growth or other variables that can be used to make accurate forecasts. One must guess, or forecast, future economic activity, budget deficits, balance of trade, inflation and other variables and use these forecasts to predict future interest rates. If central bankers could forecast reliably, there would be much less difference between policies to control interest rates and policies to control money. They would achieve their targets for money growth.

The persistent pattern of errors is revealing. The fact that money growth is above targets during periods of expanding real activity or surges of government borrowing suggests that central banks underestimate demands for credit when credit demand rises; they set interest rates too low and allow money growth to exceed the announced targets. Like the rest of us, they cannot know at the time whether the excess growth of money is persistent or temporary.

If they treat the excess growth as temporary, and it persists, there is a surge of unanticipated money growth, increased demand for borrowing at prevailing interest rates, new fears of inflation and a further diminution of the dwindling stock of central bank credibility. If they guess or forecast correctly, there is no error. Money growth remains under control. It is the failures — failures that cannot be avoided if central banks set target rates of interest — that have caused central banks to become the engines of inflation and recession in Britain and in the United States.

Related problems

Recent British experience shows how the process works in Britain. The Thatcher government failed to reduce the growth of public spending. The public sector borrowing equipment exceeded its target by a large amount. The central bank kept the interest rate at which banks borrow constant, so £M3 exceeded its target. Since the central bank can never control both interest rates and money growth, setting the interest rates allows the market to determine the rate of money growth.

Excess public spending, larger than expected budget deficits and the growth of money in excess of target are related problems. The relation would disappear, if the central bank changed its operating procedures and permitted market rates to fluctuate as much as is required to control money. The excess deficit would then be financed by domestic saving or by foreigners, but money growth and inflation would fall.

Poor indicator

A major problem of reducing inflation in Britain, and in the United States, results directly from central bank policy. Now that the recession has ended, money growth — measured by the monetary base and M1 — is rising. Continuation of high money growth implies that the high price paid to reduce inflation in 1980 and 1981 will not produce a lasting reduction in the growth of money. People have learned, from past experience, that money growth is higher in recovery than in recessions, so they now anticipate the surge in money growth and inflation. Anticipated inflation remains high and cannot fall until there is evidence that central policy will reduce the growth of money during the expansion that is now under way. Continuation of traditional monetary practice means that inflation will rise in 1982.

My claim that central bank policy prevented money growth from falling in 1979 and 1980 raises an important question. Why did the rate of inflation decline from 13-4 per cent in 1979 to 8-5 per cent in the third quarter of 1980?

A glance at the chart on page 26 shows that there is no evidence of any sustained reduction in the growth of sterling M3, the measure of money that the Bank of England and the government use to describe monetary policy. The mid-point of the target rate of annual money growth for 1980-81 was 9 per cent; the twelve-month growth rate for 1980 was 20 per cent. More importantly, there is no evidence of any sustained reduction in the growth of this much-discussed aggregate at any time in the recent past.

There are two reasons why sterling M3 is an exceptionally poor indicator of recent monetary policy. One is well known; changes in technical regulations caused a re-classification of bank liabilities and a large increase in sterling M3 in the summer of 1980. Few observers believe that the annual growth rate of money is as high as 20 per cent or believe that the large jump in measured growth during the summer of 1980 will cause an equivalent jump in prices.
The second reason tells a great deal more about the effects of recent policy in the British economy. In 1979, the Thatcher government reduced income taxes and raised taxes on expenditure shortly after taking office. The effect of this shift in taxes, reinforced by subsequent increases in excise taxes, is to shift some of the tax burden from income to consumption. For those in the highest marginal tax brackets who paid from 65 per cent to 83 per cent of their taxable earnings above £14,000 as taxes in 1978, the tax shift increased the incentive to save and earn.

Saving has increased — both absolutely and relative to income. In the four quarters before the tax change, Britons saved less than 13 per cent of income after taxes; in the next four quarters, the average saving rate was close to 15 per cent. The recent rate is at least two percentage points higher than in any of the past five years.

There was no comparable increase in capital spending for plant, equipment and housing. In the four quarters before the tax change, the share of British GNP invested in fixed capital — including replacement was 17·6 per cent. During the next four quarters, the average saving rate was 17·9 per cent. Both numbers were below the average for the previous four years.

Not matched

The additional share of income saved was not matched by additional investment in plant and equipment. Private sector sterling time deposits increased 25 per cent in 1980; this increase, more than £9 billion, is far larger than the additional saving that followed the shift in taxes from income to consumption. The high growth of sterling M3 was more than sufficient to absorb all of the additional saving stimulated by the tax shift.

Most measures of money growth convey similar information about monetary policy and future inflation, once allowance is made for differences in trend. Deviations from trend are generally in the same direction and occur at about the same time. Regulations and structural changes may alter the relations between the growth rates and most observers are familiar with the periodic distortions caused by regulation of interest rates in the United States. Tax policy appears to have caused a similar distortion in Britain.

The higher saving ratio in Britain added much more to time deposits, included in sterling M3, than to (non-interest bearing) demand deposits or currency, the principal components of M1. M1 and the monetary base — bank reserves and currency — show very similar patterns. Growth of M1, the monetary base and other indicators that exclude time deposits declined markedly in 1980. The growth rate of the monetary base for the year ending in the first quarter of 1979 was 14·8 per cent; by the fourth quarter of 1980, the annual growth rate of the monetary base had fallen to about 5 per cent.

High interest rates reduced the growth of base money and stimulated the demand for savings deposits. The increased saving, following the tax change, flowed into the banks as savings deposits, raising sterling M3 relative to M1.

Slavish attention to sterling M3 has hidden the substantial deceleration of money growth from public view, from the Bank of England and the government. The financial press, economists and others have called attention repeatedly to the government’s failure to reduce money growth. These comments and criticisms neglect the effect on the growth of time deposits and sterling M3 of the increased rate of saving. Monetary policy in 1980 was substantially less inflationary than is commonly recognised. And the rate of inflation fell sharply, after more than a year of anti-inflationary monetary policy.

A common view in Britain and the United States is that inflation occurs because monopolists raise their prices. The most commonly cited monopolists, particularly in Britain, are the trade unions, and a common, or widely repeated, view teaches that inflation cannot be reduced until the power of the unions is curtailed. Sophisticated versions of the argument recognise that unions cannot create inflation without the help of the government or the central bank. Unions are said to ‘cause’ inflation, however, by raising wage demands excessively, creating unemployment and forcing the government to expand money growth and increase inflation to reduce real wages and restore employment.

Mrs Thatcher’s government has not chosen to confront the unions and has either postponed or rejected efforts to pass legislation that reduces the power of the trade unions. Yet inflation has declined and so has the rate of increase of money wages. The annual average rate of real wage increase for the first three-quarters of 1980 remained between 0·5 per cent and 1·5 per cent, not very different from the average rate of increase in 1979. More importantly, the average rate of increase of real wages is not strikingly different from the average productivity growth of 1·5 per cent in recent years.

Main reason

Neither measured productivity growth nor increases in real wages has adjusted smoothly to the anti-inflation policy. Unemployment increased, in part the result of layoffs and firings in the overmanned, nationalised industries, in part the effect of recession. But the government has not invoked guideposts or imposed formulas for wage and price changes, and Mrs Thatcher has given evidence of her intention to continue the anti-inflation policy without relying on any type of direct pressure.

Private sector unions have reduced their demands, following the reductions in the rate of inflation. Unions in the public sector and civil servants have gained relative to the private sector. These gains in public sector wages are a main reason that the
government budget and the public sector deficit have continued to rise.

A second conjecture about government policy, known as 'supply side economics', has attracted a following in the popular press. No careful statement of this position has appeared, as far as I know, but a number of popular versions exist.

The main point emphasised by supply-side economists is the stimulating effect on real output and employment that can be had if marginal tax rates are reduced. The correctness of this point is not in dispute. The patron saint of classical economics — Adam Smith — would be pleased to learn that this ancient wine has been repackaged in a form acceptable to modern politicians.

Basic point

No economists should deny that an increase in real and after-tax returns to labour or capital increases the amount of these productive factors offered for sale. The point is basic to economics. The problems start when we try to follow the rest of the argument, particularly the parts about government spending and inflation. Supply-side economists emphasise tax cuts, often deny the importance of spending cuts, and suggest at times that a reduction of marginal tax rates is an anti-inflation policy. The argument is that as output increases, spending and the quantity of money demanded increase. With constant money growth and faster growth of real output, inflation fails.

Spending reductions are not emphasised in the theory of supply side economics, but the reasons are not entirely clear. Higher real growth raises the level of real income. If government spending grows at an unchanged rate, the share of output allocated, or transferred, by government falls or rises more slowly. Unless there are rapid, dramatic changes in real growth, a large part of the tax reduction is temporary, not permanent, and has no lasting effect on the allocation of resources.

The sizeable reduction in marginal tax rates in Britain has not had the effects predicted by supply side economists, at least not yet. Saving increased relative to income, but investment did not. The deficit did not decline. Inflation declined following the reductions in money growth and despite a temporary decline in the growth rate and level of output. The economy went into a recession, not the expansion that was supposed to follow the tax cut.

No doubt some clever supply side economist will find a clever explanation. Perhaps failure to reduce the growth of government spending aroused scepticism about the permanence of the tax cut. Perhaps people believe that the government's real claim on real resources is measured more accurately by the amount government spends than by the amount currently paid in taxes. Perhaps people remain sceptical about the extent to which government will reduce inflation if the budget deficit rises and the central bank continues to announce, and
ignore, target rates of increase for money growth.

These adjustments to supply side economics, if they are made, bring supply economics closer to British experience and mainstream monetarism. The adjustments remove many of the unique features of supply side economics including the free lunch offered to politicians, and by politicians, who urged tax cuts without budget cuts and offered to end inflation without reducing money growth.

Inflation fell in 1980. There is no doubt about that. Even those who describe the policy as flawed or failed do not dispute this fact. But they do not go from the fact of lower inflation to the reasons for this partial success or the reasons why the cost of reducing inflation has been high. One reason is scepticism about the future of the policy. The rise in the pound, the high rates of interest, high unemployment and a larger than anticipated deficit, under the old rules, meant a change in policy. No one has an alternative policy that will work more effectively, but that does not stop the critics or make the continuation of the medium term strategy, with renewed effort to cut the budget, more secure.

No offsetting effect

No less important is the misunderstanding of the mechanism through which inflation has been reduced. Critics of the policy tend to think in simple Keynesian terms and, therefore, misinterpret what has happened. The slower rate of price increase in 1980 is both a cause and an effect of the appreciation of the pound against most major currencies. Appreciation reduces the domestic price of imports, and if slower money growth accompanies the appreciation, there is no offsetting effect on domestic prices and the rate of inflation falls. Because the growth rate of money fell as the pound appreciated, expected inflation fell. People are now willing to hold more money at a given level of income.

Sterling appreciated against the dollar in 1977, 1978 and 1979. The rate of appreciation did not increase in 1980, but the reasons for appreciation have changed. The removal of exchange controls and the higher saving rate in Britain permitted Britain to finance a large budget deficit with domestic saving and foreign capital. At the same time, saving rose both in absolute level and relative to income. The reduction of spending affected spending on foreign as well as domestic goods, so the appreciation did not lead to a trade deficit. Slower growth of the base contributed to lower inflation by reducing the expected rate of inflation. Oil helped by reducing imports and attracting investment in North Sea oil.

Oil is not a new force affecting the pound and the price level. The difference between 1980 and earlier years is that the rate of price increase fell as the pound appreciated. To explain the difference, we must look to monetary policy.

It is strange — but accurate — commentary on the procedures of the Bank of England that the reduction of inflation was an accident. Undue attention to interest rates kept the minimum lending rate higher than was required to slow the rate of price change. The lower rate of price change and high rate of interest attracted saving and capital inflow to finance the budget deficit at a high real rate of interest. The rate of interest is too high to permit the economy to prosper, so the recession is worse, but the inflation is lower than anyone anticipated eighteen months ago.

The problem now is to bring about a recovery without increasing inflation. Experience in Britain, in the United States and elsewhere suggests this will not happen unless the Bank of England gives up its effort to control interest rates and turns its attention to controlling the monetary base. The Bank must restore its credibility and in doing so restore confidence that the costly recession will produce lasting benefits.

Britain has paid too high a price to reduce inflation, but the costs are not all sunk costs. And all the costs are not the result of monetary policy. Reduced subsidies to nationalised industries made hidden unemployment visible.

Mrs Thatcher's government must show the courage, determination and judgment to get the gains that they have paid for. Budget cuts, not tax increases, monetary control, not money market myopia, can tilt the cost-benefit ratio and make the policy produce lasting benefits and gains for everyone. A continuation of current policies and the current system of monetary control will bring back high inflation and slow growth.