BRITAIN

The Tory's model austerity budget

"The (last) Government behaved as if it were possible for Government to manage, indeed to plan, the economy, so as to promote efficiency and growth," said new Tory Chancellor of the Exchequer Geoffrey Howe as he presented a new-style economic and fiscal program—a budget of "opportunity" as he called it. It's meant to correct what Howe sees as the errors of past governments that labored under the misapprehension that economic growth could be reasonably expected in an industrial society.

The Tory budget message, viewed by observers as a calculated "gamble," is expected to set the standard for the "free enterprise, fiscal conservative model" which Tory thinkers would like to see the rest of the advanced sector, including the U.S., adopt at the upcoming Tokyo summit. As the *New York Times* noted approvingly: "The new budget shows how quickly unpopular steps can be taken in a system of parliamentary government, as opposed to a system of divided powers like the United States." The *Wall Street Journal* ran an OpEd by Oxford University economist Walter Eltis who said: "The first budget of Margaret Thatcher's new government is one that many Americans will envy." The newspaper editorialized that Mrs. Thatcher's success in implementing an economic program that depends on the cooperation of people who are being asked to deny their own interests will determine "the longevity of Europe's renewed interest in Adam Smith-style liberal economics."

The measures announced by Howe are meant to curtail the role of the state in economic activity, as the Tories had promised before the election, and promote more "freedom of choice" for companies and individuals. The average working person in Britain may not think much of the

DOMESTIC CREDIT

World Bank using econometrics to 'prove' Malthus was right

"The only way to deal with [energy] shortages is to constrain demand and not rant about the consequences," U.S. Energy Secretary James Schlesinger told the "Conference on International Energy Issues" June 5. Unveiling another major shift on energy policy, Schlesinger declared: "in this energy problem, we need a substantial adjustment over a relatively brief period of time. Neo-classical models of the economy don't work in this situation. *A neo-Malthusian model* is more relevant to the problems we face (emphasis added)."

Schlesinger's keynote address capped a public resurrection by the conference of negative growth in both energy use and capital formation as specified by the 19th century feudalist thinker, Parson Malthus. Although officially sponsored by the International Association of Energy Economists (IAEE), the conference was actually run by the institutions whose personnel cochaired the conference: Charles Blitzer of the World Bank and Charles Hitch of the Aspen Institute spin-off, the Resources for the Future.

To convey this Malthusian perspective, not only were direct appeals made, but more importantly, "scientific economic models" were introduced to bring Schlesinger's assumptions in through the medium of computer printouts. The models were all tbased on the fraudulent concept of GNP.

Gerald Foley, a British national from the futuristic International Institute for Environment and Development, told the conference, "For many environmentalists ... the advantages of a low-energy society are perfectly obvious. It would be more frugal than today's; perhaps more moral; a society in which the present evils of social breakdown, alienation "choice" they are faced with: spending the "extra" money derived from a lowered income tax on necessities like clothes, furniture, electrical goods, cars and gasoline—all hit by the increase in the national sales tax—or doing without.

The core of the Tories' domestic economic program, as outlined in the budget, is a radical restructuring of Britain's tax system, with the most controversial feature being a shift in the tax burden from income to consumption taxes. Its purpose is to give everyone more take-home pay, with the government recovering the lost revenue in higher sales taxes (the VAT or value-added tax).

Although Howe announced that his budget will "give the British people a greater opportunity than they have had in years to win higher standards of living," in fact the only group that will benefit are the do-nothing aristocrats in the highest income brackets who number among Thatcher's strongest supporters. For families earning more than $250,000 per year, income tax has been lowered from 83 percent to 60 percent. Thatcher's government believes that Britain's present tax system discourages the executives and entrepreneurs in this upper bracket from being as "productive" as they could be. To help them along, dividend controls and currency regulations have been relaxed which will mean the extra income can be used in such endeavors as gambling, speculation and the purchase of overseas assets.

Meanwhile, the basic tax rate will come down from 33 percent to 30 percent, giving the average British worker making $200 per week about $8 more in take-home pay. However, his family will have to shell out an additional $5 to $6 per week in sales tax, which on most consumer items was almost doubled, and gasoline costs, which the chancellor increased by 20 cents a gallon in one sweep. The cost of medical care and public transportation was also raised as part of the Tories' move to gut British living standards.

The spending cuts by the government will reduce the special subsidies used to create employment and lop $180 million off aid to the National Enterprise Board which funneled state funds to ailing industries. An estimated 150,000 out of 738,000 civil service jobs are to be eliminated in the next three years. Nationalized industries, such as British Rail and British Shipbuilding, will also suffer as the government tries to auction these off to the private sector.

The only increase in spending budgeted by the Tories is for $200 million for defense. It will be used to modernize military equipment and raise the salaries of Britain's top military brass. "We are absolutely delighted," one senior official said.

—Marla Minnicino

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and urban dereliction are reduced because people travel less, consume less and care more for the future of humanity." Foley then outlined the results of the IAEE's "economic model" which predicts Britain's GDP will grow by 1.1 percent, based on energy consumption cuts in industry by "20 to 30 percent." This, Foley said, is the optimum line for industrial production.

The economic modelers at the IAEE conference presented models which work on two premises: there is no such thing as technological innovation or new advanced energy forms, much less expansion of current nuclear and hydrocarbon capabilities. And energy has no necessary connection with growth. This provided the computer printout backdrop for Schlesinger's keynote address.

Capitalizing on this atmosphere was luncheon speaker John Sawhill, the energy programs director of the Aspen Institute, who personally helped plan the overthrow of the Shah of Iran and the subsequent "energy crisis." Sawhill told the IAEE conference June 5 to reject all energy growth for the future. The economy won't lose that much growth after all, he lied. "Primary energy costs," Sawhill stated, "amount to only 8 percent of the GNP. Even if you double energy costs, this will result in only a 1/2 percent decline in the rate of economic growth and only a 6 percent rise in the cost of living."

Economic modeling for what future?

The use of "economic modeling" to prove the need for vast energy consumption cuts opens the question of what econometrics is actually capable of doing.

At present only one economic model, developed by U.S. Labor Party Chairman Lyndon LaRouche, is capable of *causally* predicting the "nonlinear" processes of normal and abnormal economic life. The head of the largest "econometrics" house in the country, Data Resource Inc.'s Otto Eckstein, frankly told the June 10 *New York Times*, "it's the discontinuities," i.e., nonlinear effects, which "screw up" his model.

Eckstein's words are borne out by the failure of Gross National Product and its incorporation into every economic model. GNP doesn't measure *real economic production.* For example, if ten steel plants producing $3 billion worth of steel shut down this year, while five legalized gambling casinos and two real estate swindles making a $5 billion profit open up, the GNP model will show an increase in economic growth. This is totally incompetent.

—Richard Freeman