of England predicted in September, 1979 that "industrial companies may be faced with a financial squeeze as severe, if not as abrupt, as in 1974-75."

Effects of hyperinflation

Falling consumer sales have hurt them badly. In addition, the interest and exchange rate structure of the pound sterling have made it impossible for British companies to market abroad, producing a $7.3 billion trade deficit in the past year.

The pound sterling is currently worth about $2.30 on the foreign exchange market. It is vastly overvalued, according to *London Times* Editor-in-Chief William Rees-Mogg. Rees-Mogg calculates that sterling, measured by how much productivity investment in Britain will buy, is worth only $1.60, or barely two-thirds as much.

Nonetheless, the Bank of England maintains artificially high interest rates in order to attract international "hot money" to London, where it can get the highest rate of return in the world on very short-term investments. It uses this short-term money to finance Britain's budget deficit, which Sir Geoffrey Howe has been trying frantically (and unsuccessfully) to cut.

Without the artificial prop, the entire structure of British government debt would come crashing down as surely as it did in 1798, when Prime Minister William Pitt hired Parson Malthus to justify the repeal of the Poor Laws.

Cost structure

British industrial companies are losing money. The London *Economist* estimates that the deficit of manufacturing companies will rise this year to £5.1 billion from £2.2 billion in 1978 and £4.3 billion in 1979, and that the minimum the companies must borrow this year will rise to £7 billion—almost as much as the government's own borrowing requirement—from £2.5 billion in 1978 to £5.9 billion in 1979.

The result, predictably, is a scramble to raise prices. All that Milton Friedman's money crunch has accomplished is to drive up the cost structure of industry, including pay increases to workers (who are not keeping up with inflation in any case), and force the inflation spiral ever upwards.

General bankruptcy—Friedrich von Hayek's explicit proposal—will reduce the demands for income in the victim economy by wiping off the books masses of equity and debt capital. The assumption is that a chain-reaction will wipe out more paper than production, and therefore bring prices down. That is one way to do things. But civilized societies do not sanction doctors who claim to cure chronic diseases by killing their patients.

A 'new industries' plan

Deindustrializing Great Britain

by Luba George

Industrial shutdowns and mass unemployment have followed the "shock treatment" economic policy applied by Britain's Thatcher government. Industrial production has consistently decreased since Thatcher came to power in May 1979, and the rate of decline continues to accelerate. In the first quarter of 1980, manufacturing output fell by 11½ percent. Reporting this result with alarm, the June 23 *Financial Times* of London added that second-quarter figures will show an even faster rate of collapse.

It should be noted that official British industrial output figures and so-called profit figures are highly misleading, as they include North Sea oil production, which has doubled in a year, with a 150-200 percent price increase in the space of 18 months. The price of British oil ranks with the highest-priced OPEC oil at over $38 a barrel. Hence, with every increase in the price of oil, what Mrs. Thatcher's statisticians report to the world as the monetary-equivalent of "manufacturing output" goes up accordingly. The Thatcher government's statistics would show "manufacturing output" soaring, even as the last factory in Britain closed its door—so long as the oil kept flowing.

Permanent plant closures account for a high proportion of this decline. A wave of bankruptcies is wiping out small and medium-sized manufacturing companies, and large-scale plant shutdowns have been undertaken by the nationalized industrial sector, including British Steel.

In the first three months of this year, 1,488 small and medium manufacturing companies were liquidated, an increase of 17 percent over the first quarter of 1979. Additionally, in the same category of firms, over two hundred went into receivership, an increase of 37 percent over the corresponding quarter of 1979.

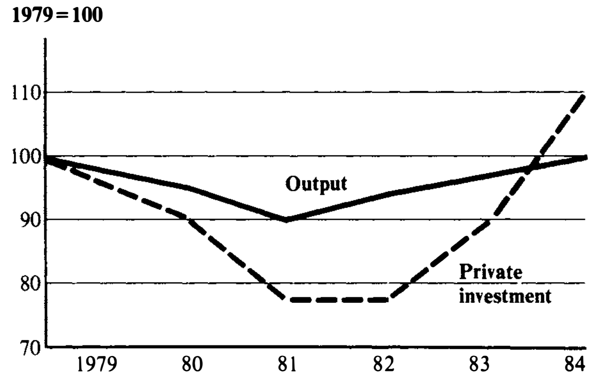
Unemployment in Britain now stands at over two million. The official 1.6 million figure represents only

British economic performance under Thatcher: An international comparison

Country	% change in industrial output		% change in consumer prices	
	3 mos.*	1 yr.	3 mos.*	1 yr.
Britain	−11.5	− 5	+25.5	+22
United States	− 9.5	− 4.5	+17.5	+14.5
West Germany	+ 5.5	+ 4	+ 8	+ 6
France	+ 4	+ 5.5	+16.5	+14
Japan	+17.5	+10.5	+12	+ 8.5

*Average of latest three months compared with average of previous three months.

What Britain calls recovery
Mfg. output and investment in 1975 constant prices



St. James Group forecast

those forced out of work who still reside in Britain, thus excluding a huge increase in emigration by British subjects since Thatcher assumed power. The two million-plus figure corresponds to the number of unemployed at the end of the last Great Depression.

And the rate of increase of unemployment is now astronomical. From the beginning of 1978 through June 1979, the total increased by an average of 5,000 a month. For the second half of 1979, following Thatcher's advent, it increased at an average of 20,000 per month. During the first quarter of 1980, unemployment was rising at an average of 37,000 per month. Yet all British sources predict a further whopping increase for the second quarter.

In addition to the smaller-scaled industry, industrial devastation has hit the following major sectors of the British economy:

Steel: The collapse of British Steel production and its workforce began in the early 1970s; but steel has been almost totally triaged by Margaret Thatcher.

Two case studies illustrate the point. In Scotland, British Steel Corporation (BSC) employed 15,000 workers before Thatcher became Prime Minister. Steel employment is now 10,000 in Scotland. On June 10 British Steel announced that it will cut an additional 1,500 jobs in Scotland by March 1981, bringing Scottish steel employment to a level of 55 percent of what it was before Thatcher.

In Wales, BSC's division employed over 70,000 workers in the early 1970s. By the end of 1979, the Welsh division's employment was at 46,000. BSC recently announced that it will eliminate 30,000 more jobs in Wales and scrap three and a half to four million tons of steelmaking capacity.

By next January there will be only 16,000 steelworkers in Wales, one third of the workforce that existed at the start of this year. British Steel's new chairman Ian McGregor, a Scottish-born Lazard Frères investment banker, is on record declaring that his goal is to immediately cut total British Steel capacity from 21.5 million tons a year to 15 million tons.

Construction: Overall construction in 1979 declined by 6 percent from 1978 and is projected to drop a further 5 percent during 1980. The most optimistic *Financial Times* projections see the 5 percent annual rate of decline persisting through 1981-82. The brunt of the collapse thus far has occurred in housing where private-sector starts are expected to drop 18 percent from 1979's 140,000 level. Public-sector housing completions for 1980 are anticipated to be 7 percent below last year's 102,000 total.

The Thatcher government's projection for 1982 is 50,000 housing completions, which means that Thatcher and her policy advisers have determined to deliberately collapse public housing.

Tractors: Britain has traditionally been a significant producer and exporter of farm machinery. Under Thatcher, the tractor industry is being substantially phased out. Tractor sales in Britain fell by 20 percent from March 1979 to March 1980, and tractor exports collapsed. Through March, tractor exports, primarily to North America, were two-thirds of the corresponding 1979 figures. Starting in the second quarter, tractor exports were down to almost half of the 1979 unit figures, although in normal years tractor exports significantly increased from the first to the second quarter.