Lords report British economy devastated

by David Goldman

Britain's House of Lords shook the Thatcher government Oct. 16, with a multi-volume report forecasting a crisis that will "have a devastating effect on the future economic and political stability of the nation." When North Sea oil, which now makes up one-fifth of Britain's exports, begins to run out after 1990, the economy will have nothing left, the Lords' report warned: The ruined British economy now uses its oil sales to import manufactured goods, and will utterly collapse when the oil is gone.

Chaired by former General Electric official Lord Aldington, the report says the obvious concerning an economy where:

- Unemployment is already 13.8%, worse than during the Great Depression—or any other period in British history.

- Manufacturing production, after three years of alleged "recovery," remains 7% below the level of 1979, according to official statistics, and per-capita industrial production is below that of South Korea.

- One of the largest cities, Liverpool, just laid off *all* city workers after money to pay them ran out.

- The living standard has fallen to one of the lowest in Europe, well below Italy's.

The only reason Britain still appears to function, the Aldington panel concluded, is that North Sea oil brings in $21 billion a year in overseas earnings, out of about $100 billion in total exports. When that tails off after 1990, manufacturing industry may cease to be viable at all. "Between 1980 and 1983," according to a survey conducted by the Lords, the Association of British Chambers of Commerce "estimates that assets and manufacturing capacity fell by 24%." When Britain can no longer afford to replace its lost industrial capacity with imports, there will be nothing left. No wonder the Lords' committee denounces Margaret Thatcher's strategy as "unrealistic and short-sighted."

The report concluded that, barring drastic measures to revive manufacturing industry, the economy would go into an irreversible decline with stagnating output, spiraling inflation, and rising unemployment.

However, knowledgeable observers of the British scene are still waiting for a signal from British policy circles that they have absorbed the full implications of Britain's economic crisis. Britain's industrial capacity, notoriously the oldest in the world, has undergone a generalized shakeout; supposed sunrise industries, e.g., semiconductor manufactures, are faltering as the computer fad weakens internationally. Without a giant step in technology, no amount of investment in British manufacturing will help much.

But the entire range of new manufacturing technologies is defined, both scientifically and politically, in terms of President Reagan's Strategic Defense Initiative. To cure its economic malaise, Britain would also have to break its tacit understanding with the Russians, whose principal condition is that Britain employ its influence to sabotage the SDI. Lord Aldington and his friends will have to decide between their desire to appease the Soviets, and their near-term national existence.

Understandably, the Thatcherites are hysterical. The Iron Lady's minister for trade and industry, Leon Brittan, immediately issued a blast, calling the report "totally biased and misleading," and the British papers went into an uproar during the week after the report's release. *Financial Times* columnist Samuel Brittan, a leading monetarist (and Leon Brittan's brother) denounced the Lords' report on the grounds that productivity has risen. The *Observer*'s William Keegan argued on Oct. 20, in response, that *average* productivity rose only because a huge portion of industrial capacity shut down forever.

"Failure to recognize these dangers now could have a devastating effect on the future economic and political stability of the nation," leading to a "major social and economic crisis," the report says. It calls for lower interest rates, higher investment, and protection against imports.

There is a certain amount of satisfaction to be taken at Britain's predicament: Prime Minister Margaret Thatcher obscenely embraced the monetarist free-enterprise doctrine espoused by Milton Friedman and his ilk back in 1979, determining to sell off nationalized industries and shake out dead wood in Britain's long-faltering manufacturing sector.

The result is that more than one-quarter of all manufacturing capacity has disappeared during her eight years in office, unemployment rates among youth in the industrial belt are in the 40% range, and the first mass rioting in a century has shaken British society.

It is happening here

Although the British may deserve what they are getting, it is also happening here. The wrongheaded side of President Reagan, exposed in his endorsement of Thatcher's depression economics, still rules in American economic policy.

Of a workforce of 112 million, we have a bare 18 million producing goods; they are supplemented by imports consisting of more than one-sixth of our total consumption, bought, in the case of Ibero-America, at perhaps 40% of the cost of producing them here.