



Margaret Thatcher

Britain

World's worst economists: Can they dictate to Europe?

by Susan Johnson

London's current self-assigned role as the temperate foreign-policy mediator between the United States and continental Europe has considerable irony in light of the intemperate havoc the Thatcher government has wreaked on internal economic conditions in Great Britain over the past 12 months.

The results of Thatcher's budget-slashing austerity policies have been to treble inflation during her year in office to an officially acknowledged 20 percent. The Cambridge Economic Policy Group (CEPG) projects still higher inflation levels over the next five years, with a conservatively estimated *negative* growth in Gross Domestic Product.

What Thatcher's program, on top of earlier Labour government anti-industrial policies, has done to labor and its productivity is approximated by a recent London *Daily Mirror* estimate that fully one-fourth of the U.K.'s population is now living at poverty levels.

Sir Geoffrey Howe, in the Exchequer's recently issued economic White Paper, announced slashes in the meager programs which had kept conditions from further deterioration. And if unemployment follows anything like the CEPG projection of a near-quadrupling to 1985 from the current disastrous 1.3 million, the poverty level will become the norm.

Bent on consummating Britain's "postindustrial" status, the Thatcher government is also forcing strikes to speed the shutdown of basic industry. Following a crippling steel strike in February, the latest efforts target the automotive sector. Last week the management of the state-owned British Leyland Corporation unilaterally announced a 5 percent wage increase, without going through the formality of previously notifying the trade

unions of this effective cut in real wages. The result, predictably, was a strike by 18,000 BL workers.

The strike ended April 22. BL chairman Sir Michael Edwardes poised to follow through on his statements that the company's financial losses from the strike will force the shutdown of new facilities. As subsequently admitted by Roy Horrocks, managing director of BL's car division, the cuts had been planned before the strike.

The EMS option

British policymakers this week floated the possibility of London joining the European Monetary System, with the rationale that membership would help enforce budgetary discipline on the U.K.

The actual prospect is that EMS participation would enable Britain to insinuate herself into EMS decision-making and skew it toward austerity policies for the continent. The objective would be to begin to induce France and Germany to emulate Thatcher's Milton Friedman-drafted internal policies and to guide the EMS away from its original European Monetary Fund blueprint for redirecting overseas dollar liquidity into long-term low-interest development credits for the Southern Hemisphere.

In mooted British entry into the EMS—which had already been proposed as a pledge of London's good faith during the rancorous EC budget debates this year—the April 23 London *Times* editorial, "Time to End the Float," confines itself to arguments that joining the fixed-rate currency system is in Britain's interest. More precisely, in the interest of reinforcing Thatcher's policies in the face of their dislocating domestic effects. A fixed sterling parity, argues the *Times*, would put a ceiling on the pound appreciation's damage to British export competitiveness, and set a floor under "sudden falls in value, with consequently higher import prices," falls impelled by reaction to Britain's steaming inflation. Continued oil price rises will ensure investment inflows for Britain, adds the *Times*, so that high interest rates motivated by the desire to prevent capital drains can give way to sheer fiscal stringency—"cutting the size of the Public Sector Borrowing Requirement."

The bottom line for the EMS is the *Times's* demand that the prerequisite for its membership must be "genuine coordination within Europe and indeed the rest of the world of . . . monetary and fiscal policies."

This demand echoes Britain's insistence in 1978, when the EMS was first set up, that the industrialized world accept its anti-growth perspective. At that time, the demand was spurned by France and West Germany. Why they should now wish to uphold London's prerogative of dictating austerity to the rest of the world, is difficult to imagine.