Budget-cutting no solution

By Alain d’Hauter

Cutting the budget is not the solution to our economic woes, Lester C. Thurow, MIT professor of economics and management, told an audience at MIT Wednesday evening. And getting government out of business is not the answer either, he continued, voicing the successes of German and Japanese government intervention in industry.

President-elect Ronald Reagan’s “vision” for saving the economy is false, Thurow said. He expressed optimism, however, saying that people will see soon enough that Reagan’s policies won’t provide the answers. “We’ll have to go through a necessary purgatory,” he added. This election is the electorate holds the president and his party accountable for economic failure, Thurow said.

What is needed to promote growth is to stop the “slow economic rot” besetting our economy, by a massive increase in the rate of investment, Thurow said. This must inevitably be financed by an initial fall of real average income, he said. Savings and investment should be doubled from 10 percent to 20 percent of disposable income, he said, requiring a decline of consumption from 90 percent to 80 percent. Thurow considers a period of ten years of such stringent belt-tightening necessary before the effects of the new investments are felt and real growth can start again.

The real income of the average American household has fallen 10 percent in the last two years, Thurow asserted. He pointed to the steady decline of productivity growth as a chief factor in the decline. It is not a crisis situation when productivity falls a percent or two, he said, but over the years it leads to disaster. He illustrated this by pointing to the slow fall of Great Britain over the past 80 years. Germany and Japan have rates of investment and savings which are two to three times greater than ours, Thurow indicated. Once they had high rates imposed on them after World War II, it wasn’t hard for them to keep those rates, he asserted, suggesting that the 15 percent Value Added Tax on consumption in Europe as the type of “economic sick” necessary to support the high rates.

The soaring cost of energy is another major cause of the decline in real income and a source of inflation in Thurow’s view. Energy takes 10 percent of consumer spending, so a 10 percent increase in energy cost can result either in a 10 percent increase in inflation with no reduction of real income, or an 11 percent decrease in income with no inflation, he pointed out.

Energy independence should be top priority, said Thurow, and 3 percent of the Gross National Product should be invested

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