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# The Emotional Economy:

# Why Big Government Causes Cancer

by Martin A. Armstrong

There are several basic assumptions that lie at the center of Liberal socialism. It is first assumed that it is immoral to allow an unequal distribution of wealth. It is always widely assumed that to gain weath one must somehow prey upon the misfortunes of others. These ideas lead to a broader assumption that corporations and the so called rich are just greedy. Liberalism asserts that the sole motivation within the private sector is pure and simple material wealth and as President Clinton has proclaimed, government's most important goal is the redistribution of that wealth. This idea was originally introduced during the 19th century into the political arena by Karl Marx. Anyone who has read Marx with an objective view can easily see the seething hatred that jumps out from between nearly every line. Marx was simply a bitter man who was consumed by his personal material jealousy that blinded him to the truth. That truth was the underlying economic mechanisms that collectively forms the foundation of our delicate political-economic society.

Yet through everything Marx observed and ultimately distorted in his view of the world, there was a simple single truth. Mankind is motivated by self-interest. Liberalism or socialism builds upon Marx's philosophy assuming that man cannot be trusted and that the fruits of labour gathered from the productive forces must be redistributed to the unproductive forces. Liberalism is as obsessed with material jealousy as Karl Marx himself and has also ignored the emotional drive of man's self-interest not merely as an essential element of humanity, but also as a vital cornerstone of economic activity.

Today, charities are currently lobbying hard against any tax reform fearing that donations will disappear along with any tax deductions. They too completely discount human nature by assuming that it is purely motivated by greed and material wealth. They fail to understand that John D. Rockefeller gave so much to the world through countless gifts long before the income tax was even born in the United States. Liberalism tends to focus upon the wealth gained by someone like Henry Ford and ignores more than $1 trillion that his motivation created within the US economy in the form of the auto industry and the jobs it has provided to several generations. Liberals also ignore the fact that Ford raised wages sharply during the Great Depression in a vain attempt to increase the purchasing power of his workers in hopes of reversing the economic implosion of the day.

Liberal socialism utterly fails to understand the importance of self-interest within our economy. The desire for improvement and expansion, be it in the boardroom or in the goals of an individual, has been viewed through the eyes of liberalism as plain and simple greed. This basic element of the human emotional drive makes its presence known in every aspect of our economy. Companies will over-expand following an emotional decision process based upon pure current economic trends. Often the decisions of man assume that whatever trend is currently in motion will remain in motion for years to come. This misjudgment of the future trend leads to over-expansion and over-competition, which is inevitably followed by an economic recession and contraction in a Darwin style struggle for survival of the fitest.

Progress is the byproduct of this human emotional drive that propels the economy through each business cycle. What Liberals see as greed, economics sees as progress and economic growth. We can isolate this byproduct by simply reviewing the economy of Russia and Europe as a whole. The theory of Karl Marx was taken quite seriously throughout Europe. In the postwar period, socialism has grown unimpeded and so have taxes and regulation. The net result has been to suppress economic growth that has averaged less than 2.5% for the past two decades according to OECD figures. This poor level of economic growth has single-handedly contributed to a steady decline in the standard of living throughout Europe. A close look at the Russian economy also reveals how the theory of Marx has confused progress with greed. The Marxists/Leninists succeeded in suppressing what they viewed as capitalistic greed, but they also condemned the Russian economy to a depressing age of personal stagnation. Progress itself was restricted to government whose sole objective in its emotional decision process became military superiority. Russia's quest to confiscate the income from the productive forces within the economy was based on the same desire to redistribute income, but into the unproductive bowels of the bureaucracy.

While many will immediately argue that Liberalism is not Communism, the economic differences are little if any. During the 1960s, the top personal income tax rate in the United States stood at 91%. Liberalism argues that they are not outlawing the private ownership of material things, but when taxation rises to absurd levels, the net economic effect is indistinguishable. Excessively high tax rates extort the fruits of labour thereby reducing the disposable income, which in turn reduces economic growth and the standard of living for society as a whole. Even a tax rate of 50% between federal, state, local and indirect taxation is the economic equivilent of a feudel state. Some would argue that democracy remains the distinguishing factor. But when the ruling body views itself as more wise and raises taxes against the wishes of the people, democracy is transformed into tyranny as taxation without representation reemerges.

Throughout the endless circle of economic philosophy, the question of unequal distribution of wealth has remained the moral debate that has corrupted economics reducing it from a pure science to the idle chatter of an idealistic cocktail party. Of all the economists that have pondered this issue, only one recognized the fact that the unequal distribution of wealth was a natural byproduct of society and that to tamper with such a force would be equally immoral and economically dangerous. That economist was the only member of this profession to be canonized - Saint Thomas Aquinas (1225-1274). Aquinas in his "Summa Theologica" stressed the importance of focusing upon a "just wage" and a "just price." That was the obligation of the state, not the redistribution of wealth he warned. Such imbalances in material wealth within the economy was natural because man may be equal in rights, but not in ability or motivation.

Science in any other field would never be so presumptuous to argue that nature is wrong. It would be unreasonable to try to reverse the rotation of the planet to create a wonderful ocean sunset for New York. But the field of economics remains far from a true science when it views the natural course of the economy and devises plans to reshape it into an idealistic utopia without regard to the long-term effects as is the case with socialism.

Often overlooked is a simple truth that Thomas Jefferson expressed in the early dawn of our nation. This truth is largely ignored by supporters of big government. In Jefferson's words from his First Inaugural Address [March 4, 1801]... "Sometimes it is said that man cannot be trusted with the government of himself. Can he, then, be trusted with the government of others? Or have we found angels in the forms of kings to govern him? Let history answer this question."

While Marx and modern Liberals view self-interest as greed, both totally ignore the fact that this by no means restricted to the private sector alone. The single greatest growth sector within the economy of the world has been government itself. No other sector has expanded so rapidly in the postwar period. In the United States, the average American was never subjected to income tax until after World War II. Now the median family pays nearly 36% of its income to government.

There is perhaps no better illustration of how government expands on an emotional basis in the same manner as the corporation or rich industrialist than the New York/New Jersey Port Authority. Tolls were first installed with a promise to abolish them once the bridges and tunnels into Manhattan were paid for in full. That day came and went and the revenue proved to be far too tempting for government to simply hand back to the people. Instead, the revenue was used to build the New Jersey Arts center, the World Trade Center and other projects that have absolutely nothing to do with the port of New York. The docks have long since been silent and the Port itself moved to Elizabeth, New Jersey. The very purpose of the Port Authority has been distorted and corrupted by the emotions of power. If it were some rich industrialist who put up the two tallest buildings in New York, the Liberals would be screaming for blood over such opulence. But since it was government who had nothing better to do with the revenues, the Liberals remained silent and argued that this was benefiting the people. Like the tolls into Manhattan, the income tax was installed with the same solemn promise to remove it when the war was concluded.

What we must understand is that this tendency for corporate expansion is based upon the emotional decisions and goals of directors. The same is true about government. We must watch carefully the slow encroachment of government for history warns that whenever it becomes too intrusive, it too collapses in the same manner as a corporation who over-expands. The emotional decisions that lead to more and grandeur programs in government are the same motivations found in the private sector. A quick look at Social Security reveals that the operational system is based upon what would be deemed to be a criminal act by government in the private sector. Regulations against business realize that the emotional decision process can lead to over-expansion and then to collapse leaving the promises of future pension payments without funding. No such safeguard exists against government who is not composed of angels as Jefferson suspected. The continued flow of funds to Social Security is dependent upon the sound judgment of the public sector and the steady inflow of revenue from taxation. Social Security recipients merely argue that they paid into the fund and fail to understand that there is no segregated bank account as is so required by law for the private sector. For the exact same scheme of taking revenue from one to pay another, Charles Ponzi was sentenced to jail during the 1930s.

A byproduct of expansion has always been bureaucracy be it in the public sector or the private sector. IBM, for example, created the personal computer industry. They were the leaders in innovation and expansion. As IBM grew, so did their internal bureaucracy causing the company to lose its lead. Bureaucracy at IBM opened the door for Michael Dell to begin assembling computers from his bedroom. Within 5 years, Dell Computers reached $1 billion in sales and the entire clone industry eventually forced IBM into restructuring. Government, above all else, has a historical tendency to build bureaucracy that is well documented back to Byzantine times. For more than 3 billion rules, regulations and laws that have been generated, government has still been unable to improve upon the simple ten commandments. Bureaucracy has been the byproduct of government's self-interest that has acted like a drug, which slowly poisons itself and society. Bureaucracy is like a cancer that slowly advances until it ultimately consumes the host. The sad legacy of government for the past 6,000 years has been none other than its strange tendency to commit suicide.

This human emotional drive that forms the foundation of our economy has been observed by many since the dawn of recorded history. In 65 B.C. the noble Senator Cicero of Rome said... "The budget should be balanced, the treasury should be refilled, public debt should be reduced, the arrogance of officialdom should be tempered and controlled, and the assistance to foreign lands should be curtailed lest Rome become bankrupt." Cicero observed the arrogance of government and the danger it posed to the state as did Jefferson. Even by the 18th century, Adam Smith wrote in his Wealth of Nations... "It is the highest impertinence of kings and ministers to pretend to watch over the economy of private people and to restrain their expense, either by sumptuary laws, or by prohibiting the importation of foreign luxuries. They are themselves always, and without any exception, the greatest spendthrifts in the society. Let them look well after their own expense, and they may safely trust private people with theirs. If their own extravagance does not ruin the state, that of their subjects never will."



Liberals have used the Treasury as a slush-fund for social engineering. They have viewed the national debt through the eyes of Marx who argued ... "The only part of the so-called national wealth that actually enters into the collective possessions of modern peoples is their National Debt." Even the father of the New Deal, Franklin D. Roosevelt disagreed with this perspective ... "Any government, like a family, can for a year spend a little more than it earns. But you and I know that a continuance of that habit means the poorhouse."

The power to tax has always led to the oppression of the people throughout recorded history. Government officials are no more immune from the emotional tendencies to expand their power base than the directors within the board rooms of major multinational corporations. Liberals must one day face the cold light of day. If we need to temper and control the greed of the private sector because of mankind's self-interest, then we also need to restrain the greed of the public sector which is also run by members of mankind. Neither should be allowed to operate without restraint. Too much and too rapid an expansion within the private sector will lead to a recession. Too much and too rapid an expansion of the public sector leads to revolution.

# UNITED STATES

**HOUSING STARTS:** Housing starts registered their biggest gain in 16 months, as buyers moved to take advantage of lower mortgage rates. Housing starts rose 6.7% in July, the fourth straight monthly advance, to an annual rate of 1,380,000, according to the Commerce Department. The government also revised the June rate to a 0.9% gain, rather than a 0.1% loss. The July increase was the largest since March 1994, when housing starts rose 14%.

Single family starts, which are particularly sensitive to interest rate changes, rose 6.8% in July. Single-family homes represent about 80% of total starts. Construction of new apartments and condominiums rose 6.5%.

**DURABLE GOODS:** New orders for durable goods in the US dropped unexpectedly in July, by 1.7% to $156.4 billion, according to the Commerce Department, signaling a continued weakness in the manufacturing sector. Much of the decline was attributed to the motor vehicle industry - the result of a 2 week shutdown of car plants - but every sector fell except electrical machinery.

**EMPLOYMENT:** US employment grew sluggishly in July, reflecting sharp job cuts in manufacturing, according to the Labor Department. The jobless rate edged up to 5.7% from 5.6% in June.

Non-farm payroll employment rose by 55,000 to 116.6 million - less than half the 125,000 increase predicted by Wall Street economists. Figures for June were revised up to show a gain of 250,000. Much of the weakness was concentrated in the manufacturing industry which shed 80,000 jobs, bringing total losses to 188,000 in the past four months. Employment in service industries rose by 60,000, but gains in sectors such as healthcare were smaller than expected.

**MANUFACTURING INDEX:** US purchasing managers reported a sharp increase in their index of manufacturing activity in July, indicating the economy is rebounding after a pause in the 2nd quarter.

The index rose to 50.5%, against 45.7% in June, reflecting a sharp increase in the proportion of manufacturers reporting higher orders - 50% being seen as the threshold for expansion in manufacturing.

Mr. Ralph Kauffman, a spokesman for purchasing managers, said the average level of the purchasing index in the first seven months, if kept throughout the year, would imply gross domestic product growth of about 2.4%. Inflationary pressures eased in spite of the manufacturing upturn. The purchasing managers' price index fell to 58.3% from 65.6%. The index for new orders rose from 43.4% to 53.35, the highest level since February. The production index rose to 50.9% from 44.8%.

**INVENTORIES:** Business inventories increased for the 15th straight month in June, according to the Commerce Department, but it was the smallest rise in stocks of unsold goods for any month in that period. Total business inventories rose 0.2% in June to a seasonally adjusted $683.08 billion after a 0.4% gain in May. All the gain came at the wholesale and manufacturing level, while retail inventories were unchanged from May. The June inventory increase was slightly less than the 0.3% rise forecast by economists.

Car dealer inventories fell by 0.9% in June, the biggest drop in stocks of unsold new cars since a 2.3% decline in July 1994. Carmakers have trimmed production rates in the face of lackluster consumer demand.

Total business sales increased in June by 0.7% to a seasonally adjusted $717.55 billion following a revised 0.8% May rise. June retail inventories were unchanged from May at $330.64 billion. But manufacturers' inventories rose 0.2% in June to $408.94 billion and wholesale inventories were up 0.5% to $248.87 billion.

The inventory-to-sales ratio - a measure of how long it would take to sell existing stocks at the current pace - eased down to 1.4 months in June from 1.41 months in May.

**PRODUCER PRICES:** US producer prices were unchanged last month, indicating that inflationary p[reassures remain subdued, according to the Labor Department. The figures followed a zero change in May and a 0.1% decline in June. The annual rate of producer price inflation was 1.8% last month.

The flat reading reflected a 2.5% drop in energy prices between June and July, which offset a 1.2% gain in food prices. New car prices fell 0.7%, reflecting sales incentives. Excluding food and energy, the core index was up a modest 0.2% for the second month running. Core producer price inflation is running at just over 2%.

Economists were encouraged by signs that inflationary pressures diminished for goods at an earlier stage of production. The index for intermediate producer goods was flat last month. The index for crude goods fell 0.8%.

**INDUSTRIAL PRODUCTION:** US industrial production grew fractionally in July for the first time in five months, but only because a heat wave over much of the country pushed up the output of utility companies. The overall index rose in the month by 0.1% compared with June, whose figure was revised downwards to show a 0.1% fall against the original estimate of a 0.1% gain.

**TRADE GAP:** The US deficit in goods and services trade unexpectantly widened by 2.4% from a month earlier to more than $11.3 billion in June, the second largest monthly gap on record, according to the US Commerce Department.

In the first six months of 1995, the trade deficit rose nearly 28% to

$63.8 billion. In June exports fell twice as fast as imports. Imports declined 0.6% to $75.79 in June, but exports fell 1.2% to $64.48 billion. The largest single drop in exports was in foreign sales of cars and car parts, which declined by $500 million. The US also exported less food and beverages and consumer goods.

The growing bilateral deficit with China rose again from $2.8 billion to $3 billion. The deficit with Canada, the largest trading partner of the US, doubled in June to $1.73 billion, and the deficit with western Europe rose 69% to $1.63 billion. The deficit with Mexico appeared to be stabilizing, up only 0.7% to $1.65 billion.

## FRANCE

**RESIGNATION OF FINANCE MINISTER:** Mr. Alain Madelin unexpectedly resigned as France's finance minister, and his successor, Mr. Jean Arthuis immediately seeked to reassure financial markets of his commitment to reduce the public sector deficit.

The departure of Mr.. Madelin, an economic liberal committed to the reduction of the budget deficit had created uncertainty before the budget for next year, which is due to be completed by the end of September. Economists expressed concern about the government's commitment to pushing through economic reforms and spending cuts.

Mr.. Arthuis stressed his commitment to reducing the public sector deficit to allow lower interest rates and support job creation. Mr.. Madelin resigned, under pressure from Mr. Juppe, after angering trade unions with criticism of public sector pension packages and social welfare benefits. The prime minister, who has sought to win union support for reforms, said Madelin's remarks ran counter to the government's strategy of negotiation and dialogue.

**UNEMPLOYMENT:** Unemployment in France fell below 3 million for the first time since early 1993, according to official figures. The unemployment rate declined for the ninth consecutive month in June, dropping this time from 11.6% to 11.5%.

The method of calculation, however, met with some controversy. June's statistics were the first to use a new method which excludes from the list of job seekers working more than 78 hours in a month. This removed more Than 250,000 from the unemployment roster, taking the total out of work to 2.94 million. Without this change, the number of unemployed fell by 17,000 to 3.23 million.

**BUDGET DEFICIT:** France is planing to cut its budget deficit to about Fr290 billion next year, compared with FFr322 billion this year through spending curbs and controls on tax breaks, according to government sources.

Details of the 1996 budget are being finalized before they are presented to the cabinet on September 20. But officials say there is no room for an income tax cut and that fiscal easing will be limited to such provisions as relief for low-income home-buyers and a 50% reduction in inheritance taxes on transfer of companies.

Officials indicated that further spending controls might also be needed to meet this year's budget. This reflects lower than expected tax receipts, resulting from the pattern of economic growth in which exports and investments has expanded while consumption has been subdued. The shortfall in receipts compared with initial projections is expected to be between FFr20 billion and FFr40 billion.

France is aiming for a total public deficit of 4% of gross domestic product in 1996 and 3%, the Maastricht treaty condition for monetary union, the following year. These projections are based on growth forecasts of about 2.7% and 2.8% respectively, compared with about 3% this year.

**CAR SALES:** French car sales fell sharply last month, declining by 8.7% against July 1994, according to statistics published by the French Carmakers Committee. The figures, which showed that 192,800 cars were registered during July of this year, reflecting the ending of a consumer incentive scheme launched by the previous government. They will compound fears of a contraction in the French vehicle market and add to concerns about the increase in the value added tax.

Mr. Jaques Calvet, chairman of Peugeot Citroen, has warned that the recent increase in the VAT, from 18.6% to 20.6%, will reduce annual car sales by between 25,000 and 100,000. Last year, sales in the French market totaled 1.97 million.

Peugot and its domestic rival Renault, were hit worst by the government incentive scheme. This scheme, which was terminated at the end of June, offered car owners a subsidy of FFr5,000 ($1,040) if they traded in cars of more than 10 years old and bought a new vehicle.

**M3 MONEY SUPPLY:** French M3 money supply grew by 0.5% in June compared with May, giving a year-on-year rise of 3.9%. M3 rose a revised 0.4% in May from April.

## GERMANY

**EMPLOYMENT:** Germany's weak employment trend continued in July as companies remained reluctant to hire labor in the face of higher wage costs and the dampening effect of the D-Marks strength on exports. While seasonally adjusted unemployment fell by 5,000 in West Germany - after a rise of 11,000 in June - the Federal Labor Office said the actual jobless rate (based on unadjusted figures) increased from 7.9% in June to 8.3%.

For the first time, the labor office published pan-German seasonally adjusted figures which showed a fall of 11,000 in unemployment after a rise of 28,000 in June. The total German unemployment figure (unadjusted) rose by 133,650 to 3.59 million, a rate of 9.4% against June's 9%. In east Germany, the seasonally adjusted jobless total 6,000 lower after a 17,000 rise in June. the unadjusted total was 1.04 million against 1 million, making a rate of 13.9% against 13.4% the previous month.

**INDUSTRIAL ORDERS:** German industrial orders rose a seasonally adjusted 2.9% in May from the previous month and 5.1% from May 1994, according to the Economics Ministry. In Western Germany, the rise was 1.3% month-on-month and 2.9% year-on-year, while in East Germany, orders rose 32.6% and 46.1% respectively. April's orders were down an unrevised 0.8% from March.

In June, industrial orders fell sharply as some normality set after the exceptionally high orders for the eastern German rail equipment industry in May. The Economics Ministry reported that orders, in seasonally adjusted volume terms, fell by a provisional 3.5% in June compared with May, more than reversing May's 3% increase over April. The June decline reflected a 1.7% drop in orders in western Germany and a steep 27.4% fall in orders for eastern Germany industry following an equally sharp jump in eastern orders in May.

**BUSINESS CONFIDENCE:** In Munich, the economic research institute Ifo said its monthly business confidence index fell to 97.5% in July from 99 in June, its lowest level in 15 months.

**MONEY SUPPLY:** German M3 money supply grew at a final annualized rate of 0.45 in June compared with the fourth quarter of 1994. The final figure was revised up from the provisional growth rate of 0.3%.

Germany's money supply resumed its weaker trend in July. The Bundesbank said the decline in M3 reflected stronger monetary capital formation - as investors put more money into longer-term investments outside M3 - and a slowdown in bank lending. M3 fell 0.4% against the level in the fourth quarter of 1994 on a seasonally adjusted annualized basis. This followed a 0.4% advance in June, the only increase this year.

**INTEREST RATES:** The Bundesbank cut official German interest rates in August to their lowest level for more than six years, responding to positive inflation news and a weaker-than-expected money supply trend.

It reduced its key short-term rates by half a percentage point, bringing the discount rate down to 3.5% and the Lombard rate to 5.5%. Other countries whose currencies are closely linked the D-Mark followed suit. Austria, Belgium and Denmark cut their discount rates by half a point and the Netherlands by a quarter of a point.

**WHOLESALE PRICES:** West German wholesale prices fell 0.7% month on month and rose 1.7% year-on-year in July. In June figures were a fall of 0.3% and a rise of 2.0% respectively.

## JAPAN

**HOUSEHOLD SPENDING:** Household spending fell an inflation adjusted 1.2% in the first half of the year, the biggest fall since the first oil crisis of 1974, according to the government's Management and Coordination Agency. The decline, which has now lasted 3 years, is also the longest since a 1980-82 downturn triggered by the second oil shock. Spending in June was down a real 0.6% year-on-year after increases in the two preceding months. An agency official said consumers were reining back spending on education and housing as well as clothes and entertainment.

**BUDGET REQUESTS:** Overall budget requests by government ministries and agencies for the fiscal 1996 general-account budget are expected to reach some Y79,000 billion, up 11% from the initial budget for the previous year, according to government officials. It would be the first double-digit growth in six years.

The yearly growth ceiling on general operating expenditures has been set at 4.2%, with the maximum amount of requests for such spending at Y43,930 billion. General operating expenditures are the general-account budget minus debt servicing costs and tax grants to local governments.

Debt servicing costs for fiscal 1996 are expected to rise 30% to Y17,00 billion over the previous year, partly because of large interest payments on the Y216,000 billion outstanding balance of government bond issues.

**M2 MONEY SUPPLY:** The Bank of Japan said that its benchmark measure of money supply - M2 plus certificates of deposit - increased by a preliminary 2.9% in July from a year earlier, compared with a revised 3.3% in June. It was the first time since December that growth had fallen below 3%, but the government said the decline was not in danger of hampering the real economy.

**TRADE SURPLUS:** According to preliminary figures from the finance ministry of Tokyo, Japans trade surplus with the US fell in July for the first time since the end of 1992.

The worldwide Japanese trade surplus, on a custom cleared basis, was down an unexpectedly sharp 23% compared with July 1994, to $9.43 billion. Exports grew 10.3%, but the rise was more than offset by a 28.6% jump in imports.

Exports to the US were down 2.8%, while imports rose 28.9%, leaving the trade imbalance 31.1% narrower at $3.87 billion. The turnaround came largely because of a 31.2% plunge in vehicle shipments to the US from a year earlier, while deliveries to Japan from automotive plants in the US - many of them Japanese owned - rose 42.3%.

The trade surplus with the European Union fell 23.1% to $1.48 billion. Exports grew by 12.6%, but imports were 34.3% higher. July's overall decline came after 2 months of a widening Japanese trade imbalance with the rest of the world, although the surplus fell 3.9% for the first 6 months of 1995.

**INDUSTRIAL OUTPUT:** Japans industrial output fell in July for three fourth consecutive month. The seasonally adjusted industrial production index in July fell 2.4% on the month to 92.6, against 100 for the 1992 base year. Shipments dropped 3% to 93.5.

The 2.4% drop was much bigger than expected, while the four month decline in industrial production is the longest downward move since the period between October 1992 and January 1993. The continued reduction in production was taken seriously by the Ministry of International Trade and Industry (MITI), which described the fall in the index as a rapid deterioration in production activity.

**HOUSING STARTS:** Housing starts were down in July for the fifth consecutive month, with orders from private owners falling particularly sharply.

## UNITED KINGDOM

**RETAIL PRICES:** Retail pries fell sharply in July, surprising the city of London, which had feared that inflationary pressure were increasing. The price drop reflected the fact that this year's summer sales are being marked by continued price competition, while house prices continue to edge downwards.

Measured overall, the retail price index, excluding mortgage interest payments, fell by a seasonally adjusted 0.5% between June and July., according to the CSO. Such a large fall has occurred once before since this inflation measure - known as the "underlying" index - was started in 1975.

Underlying inflation in the year to July was 2.8%, slightly outside the governmet's target of bringing inflation below 2.5% by the current parliament. Measured without mortgage costs and indirect taxes - a series favored by the Bank of England - inflation was also stable between the two months at 2.3%.

**PRODUCER PRICES:** The cost of goods leaving British factories rose in July at the fastest annual rate for more than four years. Measured overall, the cost of goods produced by industry rose by 4.5% in the year to July - the fastest rise since August 1991, according to the Central Statistical Office. Excluding the volatile elements of food, beverages, tobacco and petroleum, the annual increase was 5% - in sharp contrast to last year, when inflation was running below 3% .

The Treasury admitted that the data overall were on the "disappointing side". However, it said the monthly rate of price increase for core goods had been stable since March, at 0.4% each month - and that much of the increase stemmed from last years temporary commodity price shock.

**UNEMPLOYMENT:** Unemployment in the UK rose last month for the first time in nearly two years. After adjusting for seasonal effects, the number of people without work and claiming social security benefits rose by 1,700 to 2,315,300. The increase was more than accounted for by a 3,200 rise in the number of women without work, while joblessness among men continued to fall. The Central Statistics Office said it was too early to conclude the jobless total had reached a decisive point, with the underlying trend still showing a fall of 3,000 to 4,000 a month.

**OVERTIME:** Overtime in UK manufacturing rose by 550,000 hours a week in June to 7.76 million hours, labor statistics from the Central Statistical Office show. This is the highest monthly figure for the year and suggests that manufacturing companies are increasing opportunities for overtime rather than recruiting workers. The size of the manufacturing workforce was almost unchanged in June at 4.28 million compared with May. The figures show a fall of just 1,000 employees.

**COST OF FACTORY GOODS:** The cost of goods leaving British factories rose in July at the fastest annual rate for more than four years. According to the CSO, the cost of goods produced by industry rose by 4.5% in the year to July - the fastest rise since August 191. Excluding volatile elements of food, beverages, tobacco and petroleum, the annual increase was 5% - in sharp contrast to last year, when inflation was running below 3%.

## AUSTRALIA

**UNEMPLOYMENT:** Australians unemployment rate dipped marginally to 8.2% in July, compared with 8.3% in the previous month. This is now the lowest level since December 1990. During July, the estimate of total employment rose by just 5,000 jobs, after a much more significant increase in June.

**CONSUMER CONFIDENCE:** A widely watched measure of consumer confidence in Australia slipped 0.8% in August, its third monthly decline, to its lowest level in six months. The survey 1,202 Australians conducted between August 10 and 13, found that 31% of people expect their personal finances to improve in the next 12 months, up from July. The percentage expecting a deterioration in their personal circumstances fell slightly to 16%. About 25% said they they thought they were financially worse off in the past 12 months, compared with 36% who said they did better.

About 45% of respondents said it's a god time to invest in major household items, down from 50% in July. The number of people thinking its a bad time slipped to 22% from 24% in July.

**NET FOREIGN DEBT:** Australia's net foreign debt in the June quarter surged 6.9% to a record, highlighting the nation's reliance on foreign savings. Analysts said that the rise in net debt to A$180.50 billion (US$136 billion) combined with Australia's poor savings rate does not bode well for Australia's already troublesome current account deficit. Australia's savings rate is one of the lowest in the world. In the latest national accounts report, the government said the household savings rate fell to 2.9% in the June quarter from 3.3% in the previous three months.

The Bureau of Statistics said it was the drop in the currency in the June quarter that, in part, drove Australia's debt higher. The Australian currency shed 3% against the US dollar and almost 6% against the yen in the period. A large portion of Australia's foreign debt, which includes government and corporate borrowing overseas and foreign investment in Australia - offset by Australian investment abroad - is denominated in foreign currencies.

In the year, net foreign debt rose 10.6%. In the previous quarter it reached a revised A$168.878 billion. Making a large contribution to the latest result was A$8.7 billion worth of net capital transactions, "mainly reflecting foreign borrowing from the private sector," the bureau said.

As a percentage of gross domestic product, net foreign debt rose to 39.8% from a revised 37.8% in the March quarter, which is coming close to the record of 42.6% reached in the September quarter of 1993. The large foreign debt also puts the spotlight on the net income deficit, the amount Australia pays to service the debt. In July the net income deficit widened 4% to A$1.66 billion from a revised A$1.60 billion in June.

**ECONOMIC GROWTH:** The Australian economy expanded by a smaller- than-expected 1% in the June quarter, spurring optimism that the accelerating economy is not about boil over and fuel inflation.

The government said gross domestic product grew by 3.7% in the year ended June 30, unchanged from the previous year. In the quarter, growth accelerated from a revised 0.3% rise in the March quarter.

The income side of the growth ledger, which includes employment growth and wages, wasn't as strong as expected, rising just 0.7% in the quarter for 3.4% on the year. The average weekly earnings measure in the growth figures rose just 0.9% in the quarter, compared with separate government data signaling wages are growing by almost 2%.

The spending side of the ledger, GDP(E), rose 1.3% in the quarter for 2.8% in the year. The production side was up 0.9% for the quarter.

The June quarter marked the 16th consecutive quarter of positive economic growth, equal to the longest period of sustained growth Australia has seen since quarterly accounts began in 1959.

**RETAIL SALES:** Australian retail spending in July rose 1.1% from June, according to the Bureau of Statistics. That followed a revised 1.3% increase in June. In the year, the bureau said retail spending was up 8.8%. The value of sales in July rose to A$9.83 billion (US$7.41 billion) from a revised A$9.72 billion in June.

Retail sales account for about 60% of all consumption in Australia. The Bureau's trend estimate, which removes volatility in the seasonally adjusted figures, increased 0.7% in July. For the year, the trend rose 8.0%

**CURRENT ACCOUNT DEFICIT:** Australia's current account deficit unexpectedly narrowed 17% in July, as exports surged to record levels. The deficit in July contracted to A$2.09 billion (US$1.56 billion), lower than the A$2.4 billion forecast. Exports, which have kept the deficit in the doldrums in past months, jumped 9% to an all-time high of A$6.27 billion.

The June figure was revised to A$2.52 billion and the record monthly deficit in May was pushed up to A$3.13 billion. In July, the net income deficit - the amount Australia pays to service its debt - widened 4% to A$1.66 billion from A$960 million in June.

**BUILDING APPROVALS:** Australian building approvals in July fell 1.9% from June, according to the Bureau of Statistics. Approvals in the month totaled 11,237, compared with a revised 11,452 approvals in June. In the year, they were down 27%. The bureau valued the monthly building approvals at A$2.l077 billion, down from A$2.230 billion in June.

**INVENTORIES:** Australian nonfarm inventories in the three months to June 30 made the biggest quarterly jump since 1984. The Bureau of Statistics said inventories in the quarter rose a bigger-than- expected 3.1% to A$60.59 billion. That compares with a revised A$58.75 billion in the March quarter. Inventories were up 8.9% on the year.

**SAVINGS INTENTIONS:** Australian savings intentions fell in August from May and are now at their lowest level since May 1994, according to the Norwich-Melbourne Institute Index of Household Savings Intentions. The index dropped 5.0% in the June-to-August three months due to the effects of a higher inflation rate, households reporting a reluctance to make any cuts in their spending and a perception that prices will rise faster than incomes.

The index is made up of the responses to four key questions put to about 1,200 households throughout Australia in August 1995. It is funded by the Norwich Union Financial Services Group.

People were more pessimistic about the likelihood of reductions in their spending and the chances of an expected increase in their inflation-adjusted incomes. However, they were more optimistic about their present situation and about the likelihood of future saving.

**HOUSING FINANCE APPROVALS:** Approvals for housing financing in June surged 24.5%. That followed a 2.1% drop in May. The Australian Bureau of Statistics said housing approvals in June fell 14.9% on the year. The figure was seasonally adjusted.

## CANADA

**DEPARTMENT STORE SALES:** Canada's department store sales fell 1.1% in July to C$1.169 billion from C$1.183 billion the previous month. July sales were 6.3% higher than the year-earlier month. All figures are seasonally adjusted. On a n unadjusted basis, StatsCan said July's major department stores slipped 3.2% to C$458.2 million, while sales at discount stores climbed 15.3% to C$544.7 million. Cumulative sales in the first seven months of 1995 rose 4.2% from the year earlier period. Sales at major stores slipped 4.5%, while purchases in discount chains climbed 13.3%.

**GDP:** Canada's economy contracted in the second quarter for the first time in four years because of falling exports and weak consumer demand, according to StatsCan. Gross Domestic Product at 1986 prices fell 0.3% to C$609.144 billion (US$453.7 billion) from the first quarters C$610.720 billion. The figures are seasonally adjusted.

The 1% annualized decline was better than economist's expectations of a 1.2% drop and stemmed from a "sharp downturn in real exports," StatsCan said. It was the first contraction since January-March 1991.

StatsCan said the effect of lower exports was compounded by stalled consumer spending on durable goods and weaker credit demand because of higher interest rates. Real disposable income dropped 0.5% in the second quarter after growing 2.4% over the previous four quarters.

**JOBLESS CLAIMS:** The number of people receiving unemployment insurance in Canada rose 0.5% in June from May, The first increase in nearly three years. Some 716,000 Canadians received benefits in June, up from 712,000 in May. The number of beneficiaries has plunged 40% since it peaked at 1.2 million people in July 1992. June's increased number of Canadian's on benefits marked the first gain since October 1992 and follows an "economic slowdown" that has seen the unemployment rate climb and consumer spending drop in the first half of the year.

**INDUSTRIAL PRICES:** The industrial product price index fell 0.1% in July from June because of cheaper petroleum and coal prices, according to StatsCan. July's report was lower than economists' expectations of a 0.3% increase. The index stood at 128.9 in July, showing prices were up 7.8% from the year-earlier month. The index stood at 100 in 1986.

A 2.1% decrease in petroleum and coal prices accounted for the lower trend. Chemical, automotive products and printing product prices also declined from June. Excluding petroleum and coal products, the producer price index was unchanged in July at 131.1, and was up 8.1% from the year-earlier month.

Canada's 7.8% annual gain in industrial prices puts it in second place behind Italy among the Group of Seven nations, The United Kingdom, which trails Canada in third place, has seen its industrial prices gain less than 5% since July 1995.

**RAW MATERIALS PRICE INDEX:** Canada's raw materials price index fell 1.5% in July from June because of lower crude oil prices,. The monthly decline was greater than economists' expectations of a 0.8% decrease. July's index stood at 130.7, up 4.2% from the year earlier month, according to StatsCan. The index stood at 100 in 1986.

Excluding mineral fuels, the index gained 0.4% from June to 144.5, and rose 11% from the year earlier month. Six of the index's seven components rose last month, and one, mineral fuels fell.

**BUSINESS PROFITS:** The operating profits of Canadian businesses fell 0.7% in the second quarter to C$23.5 billion (US$17.46 BILLION), according to StatsCan. In the first quarter, operating profits totaled C$23.6 billion. Profits were up 25% from the year earlier quarter, when they totaled C$18.8 billion. It was only the second time profits have declined in the past 10 quarters. First quarter profits rose 1.9% after 1994 saw profits posting double-digit quarterly gains.

Non-financial industries saw profits drop 3% in the second quarter, reversing an increase of similar proportion in the first quarter. StatsCan said that through December 1994, profits enjoyed two years of robust growth.

**WHOLESALE TRADE:** Canadian wholesale merchants' sales edged up 0.1% in June from May as inventories climbed because of slower economic growth. Wholesale sales totaled C$20.269 billion (US$14.93 billion) in June, up from May's C$20.243 billion. May's sales were originally reported as

C$20.691 billion. . The increase was less than economists' expectations of a 0.9% gain. All figures are seasonally adjusted.

Inventory levels climbed to a record high in June, up 0.8% to C$ 30.778 billion from May's C$30.525 billion Inventory levels at mid-year were up 10.6% from the year-earlier month. Wholesalers reported higher sales in six of the eleven trade groups, which accounted for 55% of all sales. June's sales rose 5.5% from June 1994.

Wholesaler's inventories rose for the 16th consecutive month as weak demand and rising stockpiles led to an increase in the inventories-to -sales ratio to 1.52 in June from 1.44 in January.

**CONSUMER PRICE INDEX:** Canada's consumer price index rose a less-than-expected 0.2% in the month of July, led higher by a jump in hotel rates, according to StatsCan. At 134.0, the index was 2.5% higher than in July 1994. The index stood at 100 in 1986. The figures are not seasonally adjusted. The CPI excluding food gained 0.2% from June, and at 135.5 was up 2.5% from the year-earlier month. The CPI excluding food and energy rose 0.4% from June and 2.6% from July 1994 to 136.3.

Canada boasted the best inflation-fighting performance among the Group of Seven industrialized last year as consumer prices gained a mere 0.2%. That record low stemmed in part from the government's removal of tobacco taxes, an effect that was stripped out from the equation in February this year when the annualized rate climbed above 2%. The Bank of Canada said it expects CPI excluding food and energy prices to move closer to 1.5% by the end of the year and said its inflation target was not endangered.

**TRADE SURPLUS:** Canada's trade surplus widened to C$1.868 billion (US$1.374 billion) in June from May because of rising pulp, wheat and industrial goods exports, StatsCan said. May's surplus was revised to C$1.279 billion from the originally reported C$894 million.

Exports, which have slipped three times since January, climbed 0.9% to C$20.573 billion from the May figure of C$ 20.381 billion as pulp shipments surged 16.2% on strong European and Japanese demand. Furthering bolstering trade was a 12.8% gain in wheat shipments and 1.7% rise in shipments of industrial goods reflecting a small recovery in US industrial output" according to StatsCan.

Imports fell 2.1% to C$18.705 billion from C$19.102 billion because of renewed weakness for automotive products according to StatsCan. Demand also weakened for machinery and energy products after a strong growth in May.

Canada's Trade surplus with the US, its largest trading partner, jumped to C$3.299 billion from C$2.727 billion. US bound exports rose 1.2% to C$16.618 billion, while imports fell 2.7% to C$13.319 billion. Exports to the 15 member European Union fell 7.3% to C$1.06 billion, while imports rose 8.1% to C$250 million, leaving Canada with a net trade gap of C$250 million. Canada's trade surplus with Japan rose to C$383 million from C$252 million, as exports jumped 7.4% to C$1.058 billion and exports fell 7.9% to C$675 million , according to StatsCan.

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