Tulletttt Prebon Research, a blog by Dr Tim Morgan

Revenge of the bottom-scourers

by Tim Morgan on April 18, 2013

The traditional shoe-making industry deserves to be remembered for its multiplicity of esoteric trades and titles. Whilst the shoe-maker himself might be known as a “cobbler”, a “cordwainer” or a “snob”, his employees ran the gamut from “last-maker”, “drum-man”, “finisher” and “knot-tier” to “press-man”, “skiver”, “sorter”, “tabler” and “toggler”. The most intriguing job title of the lot, though, surely has to be “bottom-scourer”. Though long obsolete in the shoe trade, perhaps the term could be resurrected to describe the citizens of a flat-lining economy? If so, we’re all bottom-scourers now.

I can’t claim to be all that excited about whether the next set of GDP figures will reveal a “triple dip” or not, since all that a “triple dip” really means is that a slump has been punctuated by a couple of positive quarters. My concern, as you’ll know, is with fundamental issues, and the continued flat-lining of the British economy is tending to disguise – at least for now – some really troubling fundamentals.

Let’s take the current account, which last year plunged to a deficit of £58bn, from £20bn in 2011. Current account deficits of this magnitude matter, because they show that the UK is not paying its way in the world. Far from expecting an improvement from 2012’s pretty shocking 3.7% of GDP, the IMF expects the deficit to worsen to 4.4% (say £70bn) this year, and to remain at well over 4.0% in 2014. In a nutshell, this means that our overseas earnings (and our investment income) are not covering the cost of imports, which in turn means that foreign creditors are lending us the wherewithal to buy our essential food and energy. Pretty obviously, that’s not a sustainable place to be.

Foreigners are important, too, in lending to a British government which continues to spend far more than it can afford. Of course, the government can ease its reliance on overseas lenders by printing money, which – whisper it who dares – is what open-ended QE really amounts to. Quite apart from the latent inflationary threat implicit in QE, the policy is proving hugely damaging to savers, the very people who, logically, should be financing economic regeneration.

Savers are not the only ones suffering, of course. Latest official figures reveal that average weekly wages have shown zero average growth over the last year. Bad though this is when set against official inflation of 2.8%, it is even worse when compared with our latest estimate of the rate at which the cost of essentials is increasing (3.4%). Spare a thought, too, for workers in the private sector, whose nominal earnings have actually declined (by 0.5%) over the last year. Worst hit of all are employees in the notoriously badly-paid retail and hospitality sectors, whose February 2013 average weekly wage (of £303) was down by 2.1% year-on-year.

The response from government seems to be a Micawberish belief that ‘everything will sort itself in due course’. Perhaps we can reinvigorate the property market by helping first-time buyers to purchase over-priced houses? Maybe we can inflate our way back to prosperity if the new governor will let us lighten-up on our targets? Fortunately for ministers, their official political opponents are about the only people more economically-clueless than themselves.

I know this is going to sound hopelessly idealistic, but might it be a better idea to ditch the gimmicks and focus on the facts? Perhaps the government could tell the public quite how unsustainable our predicament really is, and base a recovery plan on realistic assessment and structural reform?

No, thought not.