

Britain's economy

How bad is it?

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Not as wretched as the doomsters claim; but reviving the British economy will take time



"THE nine most terrifying words in the English language", Ronald Reagan is held to have said, "are: 'I'm from the government and I'm here to help.'" If only Gordon Brown had listened. The prime minister's plan, revealed on September 2nd, to keep Britain's troubled £4 trillion (\$7 trillion) housing market "moving forward" by advancing some £1.6 billion-worth of help to first-time buyers,

purchasers of modest properties and homeowners struggling to meet their mortgage payments was never going to be more than cosmetic. In the event it mixed a few sensible ideas (faster help for those whose banks threaten to repossess their houses) with a few dotty ones (luring first-time buyers into a falling market). But the overall effect was minimal.

The details of Mr Brown's housing plans are the least of his problems. A few days before their announcement, his chancellor of the exchequer, Alistair Darling, hijacked the headlines for a week when he said that economic times were the worst in 60 years. Mr Darling gamely maintained later that he had been talking about prospects for the world, not for Britain in particular. But before that dog had even tried to hunt, the OECD, a rich-country think-tank, released a widely reported assessment of the outlook for the world's seven biggest economies. Britain, it reckons, is the only one facing recession (two quarters of negative growth) this year. This called into question Mr Brown's oft-repeated claim that economic woes are global, and well-managed Britain is better placed than most to deal with them.

That the British economy has serious problems is pretty obvious. Britain's housing bubble was more dangerously inflated than most countries'; its households are more indebted; financial services account for a bigger share of its economy; and its government, thanks in large part to Mr Brown, spent with both hands during long years of unremitting economic growth, leaving little scope for fiscal fine-tuning now.

So the bad news is clustering thick and fast. The economy stagnated in the three months to June. Gloomy forecasts come not just from think-tanks: the governor of the Bank of England says that growth will be flat for a year. Sterling has lost 15% of its trade-weighted value over the past year, and 5% over the past month. Consumer-price inflation is widely expected to hit 5% this year (more than twice its official target), though the sharp drop in oil prices may blunt that spike. Unemployment is edging up. And the housing market is collapsing: prices have fallen by 11% in a year, and the number of new mortgage approvals in July was 71% lower than the same month last year.

The picture looks even more dismal compared with the United States. The American economy is growing again, the dollar is bouncing back and some people even reckon the housing crisis has touched bottom. Whether this is mainly owing to a \$180 billion fiscal handout (whose effects may fade), America's inexhaustible energy and now-flourishing exports, or the simple fact that it stumbled earlier is a matter of debate. Whatever the answer, Britain's prospects appear grim in comparison.

But the worst outlook in six decades? Nonsense. Britain is not going to return to the rationing of the 1940s, the three-day working week and 25%-plus inflation of the 1970s, or the 3m unemployed of the early 1980s. Nor does Britain look so bad in comparison with the neighbours. The somewhat flaky OECD report was sexed up in the retelling; and, while Britain is teetering on the brink of recession, the euro zone is already shrinking.

So Mr Brown is right to point out not only that others share Britain's suffering but also that there is a resilience to its economy. That's partly because Britain's labour and product markets are more flexible than many of its neighbours': the labour market has a safety valve in the form of the 1m workers who arrived from central and eastern Europe over the past four years and are now beginning to go home. And it is also because high energy prices, while hurting consumers, boost government revenues thanks to the remnants of North Sea oil and gas production. What's more, even though Mr Brown has played fast and loose with the rules for fiscal prudence he put in place, they nevertheless make it harder for him to spend as wildly as some of his predecessors did on finding themselves in a fix.

But Mr Brown, an arch meddler, is wrong to suggest that the government can or should make it all better. A certain amount of fiscal stimulus is working its way through the system now: some £2.7 billion will be paid next month to taxpayers who lost out when the 10% tax band was abolished from April; and benefits rise and tax receipts fall automatically when the economy turns down. But setting out to spend significantly more or tax significantly less would be risky, even if the state of the public finances permitted it. A big fiscal-stimulus package would tend to push prices up and thus make it hard for the Bank of England to reduce interest

rates. The Bank kept its base rate at 5% this week, but it will be looking to cut before long.

The truth is that Britain is simply going to have to take it on the chin for a while. There is no easy fix, no return to the days of plucking credit cards and mortgages off trees. Sterling was overvalued; it is now falling; in time exports will respond (perhaps quite a long time, as Britain's main export market is sluggish Europe). Housing was grotesquely overpriced; prices are slumping; in time they will reach a level at which poorer young Britons can buy themselves a home. These are painful but necessary realignments.

The principal danger now is not economic but political. Sterling fell on September 1st because Mr Darling revealed not new truths about the economy but divisions and indecisiveness at the heart of government. Twenty points behind in the opinion polls, Mr Brown is understandably searching for some goodies to hand out. Fortunately, the ones he produced this week will make little difference. When he finds some that do, start worrying.