

Commentary by Sean Corrigan  
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## Exporting Failure

Do you think they will finally get the message?

Policy in the UK has depressingly continued to plough the same furrow as that churned up in the US, if with a little less sense of abandon, breaking the sod, rather than strip-mining it.

- Interest rates have been slashed from 6% - actually from 7 1/2 % at the earlier, 1998 peak – to 3.5% and are half-expected by the market to fall again.
- Sterling has fallen 9% on its trade weighted index to touch six-year lows – by the old rule of thumb, roughly equivalent to the effect of another 2 ¼ % off interest rates.
- Government deficit spending has soared to the point that Culpability Brown – the very soul of imprudence -,has had to borrow more in the first three months of the year than has any Chancellor, at any time in the record.

By all the rules and tenets of what we call ‘locust economics’ – the sort institutionalized by Keynes and propagated daily by most mainstream pundits and policy makers – all this ‘countercyclical accommodation’, all these additions to ‘effective demand’, should have meant that Britain was positively BOOMING, should they not?

But, of course, since these are not remedies, but rather more of what made us ill in the first place, this is anything but the case.

As the employer’s group, the Confederation of British Industry put it, reporting its latest quarterly survey – an undertaking rapidly becoming more of an archaeological expedition - into the state of UK industry:

*‘There has been no relief from the relentless downturn in UK manufacturing with further falls in orders, output and employment’*

Despite the joy which was supposed to arrive after the latest excuse – the Iraq Conquest – had passed its sell-by date, the survey showed domestic orders having fallen for over three years, export orders for nearly seven.

Indeed, a balance of minus 24 per cent of firms saw their domestic orders grow, while export orders fell at their fastest rate for 18 months, leaving a similar balance of

minus 23 per cent, itself the fastest fall since January 2002.

That sorry combination meant that overall order books shrank at the fastest rate in four long years and the best that can be said is not that firms expect any improvement in the near term, but that they expect (read: hope) they will get worse less quickly!

As a result, job shedding naturally continued 'at a rapid pace', over two-thirds of firms were working below capacity and with the lowest number since 1991 – a bare one-sixth – saying they needed any more of the latter (nor, one interpolates, having the means to pay for it from within their own resources) investment, as you can imagine, was a non-starter.

Indeed, manufacturers plan to go on cutting outlays on building, plant and machinery at '*a significant rate*' over the year ahead, while spending on innovation and training will '*remain flat*'.

Not surprisingly, 'animal spirits' were depressed and '*uncertainty about demand*' pervaded.

This last was factor cited by over three-fifths of those questioned – a degree of entrepreneurial funk which, with the exception of the survey conducted in the aftermath of the Twin Towers attacks, was the highest proportion on record.

Ian McCafferty, the CBI's Chief Economic Adviser, looked plaintively for a *deus ex machina*:

*'Manufacturers' main hope is that a pick-up in the United States later this year helps trigger a gradual recovery in the UK.'*

Whether that's certain to help is another matter, for, presumably if the BoE- and Government-boosted cost structure of UK industry is making it less able to compete with its peers elsewhere – and this survey is only the latest to underline our long-held contention that this is the root of the problem – this wish boils down to just another unthinking plea for more undifferentiated 'demand' to arise, which will supposedly then suck goods out of the factory gate so vigorously as to leave enough in the kitty - after the monies expended to make them are deducted (a crucial factor invariably overlooked!) - for a welcome return to profitability.

The CBI will be a little concerned, then, to read of former Fed 'hawk' (We know! A rather old-fashioned concept in the McTeer-Bernanke-Greenspan era.) Bill Poole popping in from St Louis to tell Market News that higher second-quarter corporate profits were coming mostly on the back of cost-cutting, and that the economy on his patch was not showing '*any material change*.'

*'The Federal funds rate policy instrument has worked quite well,'* Poole told the newswire. *'But clearly if the economy... advances a lot slower than forecast and [this pace] lasts a lot longer, then there is room to cut the intended rate under that circumstance.'*

Over on the other side of the Pacific, new BoJ Chief Fukui – a man patently terrified of not being seen to be doing *something* at all times - was even more enthusiastic about the new policy of ‘Death to the Rentier’ being practiced by our monetary authorities, for Poole had gone so far as to disavow such policies as trying to cap long rates, remarking that this could ‘*lead to problems down the pike*’

No such temperance for Fukui, though!

*‘At the moment,’ he declared, ‘we are doing all we can to lift prices to plus territory. To [do this], we will take **unlimited** risks.’*

Indicating those risks would not cease when the Japanese people came to discern the damage being done to their nation’s money, Fukui was undaunted.

*‘Once the economy starts looking up even a little bit, people’s inflation hopes’ - (hopes?!?) – ‘which are heading down at the moment, will also begin looking up. Even if [they do], we will exercise patience and continue with monetary easing’*

Not a man too-well versed in his nation’s bitter experiences in the 30s and 40s, it seems, is Fukui-san

But, if such testimony only goes to show that foreigners might not yet be in a position to rescue his constituents, the good Mr. McCafferty allowed that if not a *deus*, then a *diabolus ex machina* would suffice:

*‘The recent Bank of England move was timely but we may need more cuts in interest rates to support the economy at this challenging time,’* he wrote.

But no, Good Sirrah!

All the evidence staring you in the face suggests that this is the *last* thing you need, since the record levels of ‘stimulus’ already being applied – by which you really mean the gross interference with the value of money and the command over resources – are the *cause* of, not the *cure* for, your woes.

We have written before that if this whole episode teaches people to question all the old fallacies and broken orthodoxies which pass for economic reasoning today, it will have been worth the hefty tuition fee.

It’s a shame, then, that the pupil – notwithstanding all the grade inflation with which our apparatchiks can seek to shield him from the revelation of his ignorance – looks set to fail the test by some margin!

Far away from such parochial concerns, out on his global, taxpayer-funded Chicken Run, the UK’s First Citizen stopped by, among many weary others, Shanghai, where he cleverly insinuated the seed of an idea in his hosts almost guaranteed to halt in its tracks their commendable ascent to affluence and their painful crawl to personal liberty.

His fiendish ploy to thwart the widely-perceived Yellow Peril? No, refreshingly, it was nothing to do with the value of the Yuan, for once.

Rather, as Bloomberg News reported, he urged that China should consider adopting Britain's Mussolini-style policy of paying private companies to provide public services, arguing that the country would be better able to improve the health-care and education of its teeming masses by adopting the *Neue Arbeitspartei*'s corporatist 'private finance initiatives' – you know, the sort that work S-O-O-O well here at home, as even the National Audit Office concurs!

*'There is another way in which we can help,'* hissed the New Statesman's Mr. Potty, obviously in the grip of one of his recurring delusions. *'Private finance initiatives have enabled us to develop our infrastructure more effectively and more quickly than would otherwise have been possible.'*

Not that we've been there, mind you, but we'd be willing to bet a crateful of Lapsang Souchong that the Chinese have accomplished much more in this line in Shanghai lately than we're likely to have managed in Shadwell or Shipton!

Earlier, in Beijing, Robespierre had simpered at his hosts that China would overtake the U.S. to become *'the world's number one economy in a couple of decades.'*

Not if they're daft enough to listen to his advice they won't!

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