



EconoMag

The Pound Gets Pounded©

by Alex Hurst

Hello and welcome from EnglishWaves radio this is Economag. Brexit, you either love it or you hate it. Like a product that briefly became the latest incarnation of the Brexit debate, not in the abstract, but on the concrete level of everyday life. Marmite, the spread made from yeast extract, that divides people on taste like almost no other food.

A: And how do you feel about Marmite?

H: I'm actually neutral on Marmite

A: Ok, so maybe there are a few outliers - but on Brexit?

H: Err I was actually very much against it - I mean it's a democratic vote so we can't change it and we should move on with it now, but I do think people were misled, and I think it was kind of the final nail in the coffin for facts in politics.

Two years ago Henri was studying abroad in Paris. At that time, the British Pound was really strong. He got almost 1 and a half euros for every one of his pounds. Paris isn't a cheap city, but the exchange rate made paying rent, buying groceries, and going out to bars with friends a lot more affordable.

If he were to go back to Paris today though, everything would suddenly be twenty percent more expensive, all because of the Pound's precipitous slide in value following Brexit. The pound has also fallen against nearly every global currency, down sharply against the US Dollar, the Australian Dollar, the Canadian Dollar... Pretty much against the currencies of every one of Britain's global trading partners. That means that importing goods becomes more expensive, and Britain imports a lot of consumer goods - \$660 Billion US Dollars worth, for a trade deficit of nearly \$200 Billion.

So where does Marmite fit in? When the value of a currency falls, and imports become more expensive, that means only one way for prices to go. Up. And the maker of Marmite, the global consumer products behemoth Unilever, tried to raise prices on all of its products across the board by 10% in response to the drop in the value of the pound. But British supermarket Tesco was unhappy, because it loves advertising low prices in the midst of a supermarket war to keep up with the German value chain Lidl. So in response, it very publicly pulled Unilever products from its shelves in a boycott of the company.

Unilever backed down in the face of bad publicity, but according to economist Paul Krugman, a drop in the pound, and the price increases that will result, is likely to

continue, it's compounded by something called the "home market effect," which is connected to the outsize role of financial services in the British economy. Essentially, Krugman asks us to imagine a good or service produced on such a scale that, even if it is consumed in two or more countries, the most efficient thing to do is to produce it in just one country and export to the other. In order to minimize shipping costs (in the case of a physical good) or transaction costs (in the case of a service), the logical thing to do is to produce in the larger market and export to the smaller one.

Unless, that is, the smaller economy paid lower wages, enough to make up for the difference. In effect, a weaker currency is a way of lowering the wages of British workers, particularly in financial services, which is 10% of British GDP.

So that's bad news for some British consumers. But if you have Euros or Dollars, well...Britain at the moment is sort of like a little bit of an early Christmas sale.