

# Economic Views for Investors

by Roger Nightingale

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Using taxpayer funds to bail out failing companies . . .

Fiscal policy can only redistribute resources; it can't create them. Accordingly, when Governments extend financial support to struggling companies, they do so by denying it to other, potentially viable, ones. Invariably, the results are disastrous. Failing companies do not mend their ways, and survive for only a short while thereafter. Meanwhile, those which might have succeeded are constrained by inadequate capital and taxpayers are impoverished by unconscionable public debt.

. . . always ends in tears

Curiously, Governments don't feel ashamed of their delinquent behaviour; typically, they distort logic to present their actions in quixotic terms. Ministers, for instance, who approved taxpayer subsidies for obviously uncompetitive sectors in the fifties, sixties and seventies remained unrepentant for the remainder of their lives. Did they really think that coal and steel could be made efficient by bureaucratic indulgence? Did they think that the outrageous practices of the car, railway and docks sectors would disappear if they were condoned?

But it's a lesson that few politicians ever learn

It took Margaret Thatcher (and oil revenues) to turn the tide. Dinosaur companies had either to adapt or depart. Some went one way, some the other. It didn't much matter. What was important was that those that remained should *contribute* resources rather than *consume* them. The trick worked: activity recovered and so did living standards.

Thatcher did; Blair and Brown didn't

Sadly, the advent of Blair and Brown turned back the clock again. Huge sums of taxpayer money were handed out to hopeless causes and, unsurprisingly, the abuses of earlier decades re-emerged. Health, education and transport were treated exceedingly generously. And what was the result? That executives and administrators paid themselves ludicrous bonuses; that gross over-manning returned; but that the quality of the service extended to the taxpayer-consumer was little changed.

As a result, efficiency has been sacrificed and debt has exploded

And what did the politicians think they were doing when they let a bunch of street-wise industrialists buy MG-Rover for a pittance? Did they or their Civil Servants keep a watching brief on what was happening? Did any of them imagine that the company could be turned round when the UK's currency was rising much more quickly than its relative manufacturing productivity? It should have been obvious to the meanest intelligence that the company was doomed.

Ministers and Civil Servants lack commercial competence

The executives certainly knew it was. They spend the few years they were in charge feathering their nests. The senior ones ripped out £10m each. But left the workers' pension scheme almost £500m in deficit. In the report into the affair published last week, the company's executives were criticised, but the politicians weren't.

They are routinely outwitted by company executives

It'll be the same, of course, with the Scottish banks. About to fail, they persuaded the halfwits in the Treasury to use public money to bail them out. The executives, who ought probably to have been prosecuted, certainly to have been censured, were allowed to walk away with unconscionably large sums of money. Politicians were too busy, they claimed, to notice; they hadn't enough time to read the papers. Civil Servants and Regulators were similarly over-burdened: too naïve to suspect misbehaviour; too focused on knighthoods and index-linked pensions!

MG-Rover and RBS were two obvious examples of the phenomenon

The one piece of good news is that nobody now will seriously propose using taxpayer funds to save Vauxhall. The car company's executives and workers will be told that survival must be dependent on efficiency rather than finance. Will the chaps be prepared to work harder for less? Or will they copy the behaviour patterns of sponging colliers and rascally bankers? Probably the latter. They'll argue that, if Goodwin could get away with his abuses, Mandelson with his disgraces, Turner and Myners with their oversights, why not the Vauxhall workforce with their deficiencies? Several examples of firmness must be implemented before mindsets are changed.

Will the Tories be any better?

Brown's lot have no intention of pursuing a principled approach to business; it's far too late to do so now. But they will be constrained by their track record of manifestly poor business judgment and by their lack of finance. What about Cameron's Tories? Will they bite the bullet? Or prefer to hug trees?

They don't inspire confidence

The auguries are not good. They've become slightly more responsible in recent months, but probably less because of conviction that opportunism. Cameron hasn't initiated the attack on public waste, but he has subscribed to it after the public made its feelings clear.

Thankfully, markets are set to rise further!

No matter. He might be better once he's in office. In the meantime, asset markets will rise: equities briskly, gilts more moderately.

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