

Economic Views for Investors

by Roger Nightingale

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If the Attorney General can't meet the requirements of the law . . .

Another huge embarrassment for Gordon Brown's Government! It looks as if the Attorney General, Baroness Scotland, broke a law which she herself had pushed through Parliament. The full facts are not yet known, but the charge (as yet undenied) is that she employed an illegal immigrant.

. . . why should small and medium sized companies be expected to do so?

It remains to be seen whether the procedures prescribed in her *Asylum, Immigration and Nationality Act 2006* were followed. They called for "thorough checks" to be made of the documentation submitted by a prospective employee. Passports and visas had to be inspected. Copies of them had to be made and kept. Had the Baroness fulfilled these requirements? She chose not to say.

Parliamentarians seem to think they're above the law

The auguries, though, were not good. Her initial reaction, stressing the "good faith" in which she'd acted, hinted at culpability. A statement from Downing Street, insisting that she enjoyed the "full confidence" of the Prime Minister, made the hole she'd dug for herself that much deeper. And a testimonial from Keith Vaz, to the effect that she was somebody of the "highest integrity," all but buried her.

They expect to be able to help themselves to their constituents' money . . .

Would she survive? Probably. The Lords Myners and Turner hadn't departed the scene despite palpable incompetence (the one couldn't be bothered to read the details of Goodwin's pay-off, the other failed to see in the problems of the US's secondary mortgage sector a forewarning of potential trouble in the UK). And Commoner Ainsworth remained Defence Secretary despite a failure to supply British soldiers in Afghanistan with appropriate equipment. Most surprisingly of all, Lord Mandelson was still around: he'd been disgraced on a number of occasions, but kept being forgiven and reinstated.

. . . but be immune to the consequences of their own incompetence

The message seemed to be that there was such a dearth of talent in the administration that even chronic offenders were not barred from office. And nobody quit of his own accord, of course. If the PM's own failings were insufficient to prompt resignation, why should those of subordinates? The team had decided to keep going to the bitter end. Its members knew they'd never get another chance of office. They'd be in the wilderness for a decade, possibly a generation. They might as well, they calculated, make the most of the perks for as long as they could.

Activity is edging forward

The economy, meanwhile, was improving, but disappointingly slowly. It wasn't enthusing voters, though, nor boosting tax revenues. And the medium term outlook was particularly grim: if things now, in the improving phase of the cycle, were barely tolerable, what'd they be like in a couple of years time, in the deteriorating one?

But the momentum looks very fragile

And what might be the consequence of any lessening of the credit stimulus? If interest rates reduced almost to zero, coupled with unprecedented quantitative easing, had prompted only negligible forwards momentum in GDP, wasn't it possible that a monetary reversal of practically negligible proportions might send activity crashing back into decline? The ratio of cause to effect was extreme, and getting worse.

Public spending is about to be slashed

The debate about reductions in public expenditure had grabbed the headlines in the last couple of weeks. But politicians were reluctant to be honest about the scale of the cuts they'd have to implement. They didn't want to admit they'd wasted all their fiscal firepower on the banks, and had none left for more deserving causes.

The dinosaurs will growl, but they're toothless

It wasn't 10% that'd be taken from the public sector budget, but 20%. Eventually, by encouraging resources to be used in the more efficient private sector, that would lift GDP and living standards. But the initial effects, economically and politically, would be adverse. The TUC Conference in Liverpool last week demonstrated the phenomenon. There was no recognition that the public sector would have to make sacrifices. There was instead a call to arms to protect what had been gained previously.

It'll be a test of nerve for Cameron

Inevitably, therefore, there'd be disputation. It'd started already, and it was almost certainly going to get worse in the final months of Brown's term. But the genuine test would come after the election. How would Cameron fare? Like Thatcher or Heath? With resolve or without?

Asset valuations will continue to rise

It was going to be messy, but the securities markets would probably continue to rise. They weren't doing so at the moment because the economy was recovering, but because profits were strong and investable funds plentiful. That was a combination that'd persist. The authorities wouldn't raise interest rates because they feared recession; and profits would stay strong because pay settlements would subside.

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