

Pure mathematics is fantasy, peopled by logicians; impure economics reality, peopled by madmen.

- The first are always right about things others don't want to know; the second usually wrong about those they do.

Some are born ignorant; some achieve it; others have it thrust upon them . . .

. . . economists score in all three categories.

Public spending is, arguably, the source of much of our difficulty.

Perhaps because of it, recession is louring again.

What's best for the future?

A sensible deployment of resources would probably help.

The Law of Large Numbers applies as rigorously in economics as in statistics. It states that, taken singly, the analysis of an economist will be wrong with a probability that is only marginally above 50%. But, taken severally, so long as there is agreement, a clustering of opinion, the probability of error rises impressively. And, paralleling the mathematical theorem, the greater the consensus, the greater the certainty of misanalysis.

When, in the eighties, hundreds of economists wrote to Mrs Thatcher saying that her policies were misguided and would lead to national penury, those who were enlightened knew the country's success and the people's affluence to be all but assured. When, in early 2008, the great and the good in the economics firmament agreed that inflation was a serious threat, but recession a negligible one, those who understood the ways of the world were convinced of the need to prepare for price stability and slump. And, today, when sixty-odd of the cream of the cream warn the Government not to cut public spending precipitately, there's a compelling mathematical imperative to implement austerity immediately.

Sadly, though, the opportunity will be missed. Brown's Government is ideologically committed to public sector indulgence and what passes for an Opposition is too worried about not offending any special interest (other than its core voters) to take fiscal affairs seriously. Even when the January tax returns were published—indicating Britain's deficit to be worse than Greece's—there appeared to be no great urgency in either Party to start to put matters right.

Recent economics statistics, unsurprisingly, paint a depressing picture. Retail spending fell sharply after VAT had been restored to its original rate. And bank lending to the private sector was shown to be falling. GDP is probably retreating again!

The economists say that's the justification for *not* cutting public spending. They say that things would be even worse if handouts to the feckless and the inept were to be reduced. They think that incompetent British bankers deserve taxpayer aid, that inefficient French farmers merit the subsidy paid to them by their northern neighbours, and that the world is a better place (terrorist threats reduced) in consequence of fighting illegitimate Middle Eastern wars!

Realists take the opposite line. They say that economics weakness is *caused* by the public sector's profligacy, not *moderated* by it. If activity is to be revived, and life returned to something like normality, the lunatics mustn't be allowed to run the asylum. They have to be ejected and replaced by others who understand economics—not economists, therefore.

Why is unemployment apparently so low?

In contrast to the generally bad data published in the last week or two, the latest unemployment numbers were surprisingly (some would say, incomprehensibly) upbeat. The numbers were stable despite indications that output was falling! How could this be? Had productivity plunged or were the published returns measuring something other than what used to be called unemployment?

Changed definitions!

Probably the latter. It's difficult to understand all of the ONS's terminology, but it looks as if there are rather more categories of "non-worker" than used to be the case. And, whereas in the past, it would have been unemployment that ballooned in the face of weakening activity; it is, today, other categories that do so.

It's a subterfuge.

Does that make voters feel better? Does it paint the authorities in a better light? Possibly so. But why haven't analysts investigated the phenomenon? Why haven't economists estimated what the numbers would have been on the old definitions? Why haven't Opposition Parties done so? The questions, as usual, are easy; the answers difficult.

And global money may continue to tighten.

The bigger economics quandary is the international monetary environment. Conditions have become a little tighter in recent weeks, and may continue to do so. The PRC's Central Bank is fretting about overheating and asset bubbles; likewise the US's one. Both will be lifting interest rates and restricting the growth of credit.

Europe and Britain will be hurt, but equities may hold up.

That's fine for those with robust economies; but not for Europe, of course. The EZ is in a frightful mess and so is Britain. Both face a difficult future: risking either double-dip recession or savage devaluation. Ironically, equity markets, London's in particular, driven by profits resilience rather than investor confidence, may hold up quite well.

Contact us . . . For further information about Pointon York's SIPP products and services, call Natalie Oliver on 01858 419 371 or visit the corporate website at www.sippsolutions.com. Alternatively, contact Roger Nightingale, by telephone, on 01858 419 300; by e-mail at rnightingale@sippsolutions.com, or browse his web site at www.rogernightingale.com.

Disclaimer: This document reflects the opinions of Roger Nightingale, not those of Pointon York SIPP Solutions. It is for private information only. Pointon York is not soliciting any action based upon it.

Whilst information contained in Roger Nightingale's articles is based on sources believed to be reliable, neither the accuracy nor the completeness can be guaranteed. Any judgments articulated are Roger Nightingale's as at the date appearing on the material. They are subject to change without notice and might not be followed with a specific ad-hoc document.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Pointon York SIPP Solutions. It is intended for investment professionals only. It is not for public distribution.