

## Economic Views for Investors

by Roger Nightingale

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Once upon a time, Europeans aspired to democracy. No longer.

As seems always to be the way with European Union affairs, the appointment last week of a President proved to be tortuous. For a protracted period, Heads of Government of member countries were torn between the Belgian who'd done nothing with his life and the Briton who'd initiated illegitimate wars. It was a close-run thing, therefore. And it counted as a major moral success for the Institution that, on this occasion, perhaps precedentally, the lesser of the two evils was chosen.

These days, they wait obediently to be told what to think.

Predictably, the people were not asked their opinion. Europeans favour elections so long as decision-making powers are retained in the hands of appointees. Sadly, voters themselves appear not to mind. There were no students on the streets of Paris or Berlin. Shamefully, none on those of London either.

Sadly, the Brits are as unashamed as the rest.

Measured in the terms in which politicians see these things, it was a triumph for Gordon Brown. He had stymied his loathed predecessor and secured the Foreign Affairs post for Baroness Ashton. He was the cat who'd got the cream. He was unable to suppress the broadest of grins!

Apparatchik Ashton was not appalled by her own appointment.

And who, incidentally, was the Baroness? She was a career bureaucrat. She'd earned a degree in sociology at one of London University's undistinguished colleges, and had worked thereafter in a sequence of quangos. At no stage in her life had she ever had a proper job; nor, significantly, one that touched on foreign affairs. More remarkable still, she had never to face voters to secure advancement: she was appointed to the House of Lords, then to the European Commission, and finally to its Foreign Office!

Nor apparently were the Tories.

And what did David Cameron think of all this? Did he regret his decision to renege on the promise to offer Britain a vote on the Constitution? Apparently not. He saw lots of advantages in the process of appointment. It was just the way, he acknowledged, to overcome backwoods resistance to progressive change. Accordingly, when a local constituency party wanted to select an inappropriate candidate, he was willing to adopt Europe's bully-boy tactics!

They used to believe in the Divine Right of autocrats; perhaps they do again.

It didn't augur well for the future. He'd win the next general election easily enough, but it wasn't clear what policies he'd pursue thereafter. He couldn't be trusted to do what he'd said, nor not to. On Europe, it looked as if he'd continue to affect scepticism but deliver compliance. And would there be similar ambivalence on public spending? Would the man talk boldly and act pusillanimously? Probably.

The OECD, a useful counter-indicator, is optimistic about the world economy.

What was clear, in any event, was that the world economy was still fragile. The inventory bounce in the summer and early autumn had been modest, and had probably now run out of momentum. It was final demand that would drive activity in the future. But the outlook was far from favourable.

Personal spending looks set to soften.

The consumer was hard pressed. Pay rises were moderating and levels of employment declining. People wanted, moreover, to raise savings to repair their balance sheets. In much of the world, therefore, personal spending would be falling by 1 or 2% per annum. And, if central banks were to be daft enough to tighten credit, the rate of decline might be much steeper.

Likewise business investment.

The private sector's capital spending would also fall. Because companies couldn't sell what they were currently producing, there'd be no justification for installing extra capacity. Lower interest rates and higher profits were of no relevance (necessary, but not sufficient, facilitators).

Will public spending stay strong? Probably not.

It was only public spending that might keep the engines ticking over. But it probably wouldn't. In most parts of the world, there was growing disenchantment with the process. In the States, it was particularly virulent. Just a year after election, President Obama and Treasury Secretary Geithner were in trouble. Democrats had majorities in both parts of congress, but no longer controlled them. And it was public spending that was the problem.

Even in the PRC, it'll not maintain the momentum.

Only China, devoting an extra 15% of GDP to public spending, had achieved satisfactory growth. But, even there, the advance might prove not to be self-sustaining. Would momentum subside if the stimulus were merely maintained? Would it need to be increased to maintain growth? Next year was going to be fascinating for economics voyeurs.

But stock prices will keep rising.

The one bright star in an otherwise gloomy firmament was the stock market. Valuations were set to continue to rise. Negative inflation, negligible interest rates, plentiful liquidity and improving profit margins would drive the process. The next bubble was well under way, of course. But who'd be prepared to burst it? Nobody for twelve months or so.

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