

Economic Views for Investors

by Roger Nightingale

22nd January 2010

If we needed proof of bankers' stupidity . . .

Did they not see it coming? Did they not realise their contemptuous treatment of taxpayers would provoke a reaction? Apparently not! When, Obama let slip the dogs of reaction at the end of last week, bankers were surprised! Like French aristocrats in 1789, they had no understanding of the society in which they were living. Pampered and privileged, they were ready enough to take from others but extremely reluctant to give anything back.

. . . we got it last week

Will Obama succeed in taming the monsters? Or will he be destroyed up by them? Probably the former. He has public opinion on his side. Theodore Roosevelt, in the early part of the twentieth century, was in a similar position. He was confronted by "robber baron" corporations. The latter thought they were above the law, immune to public opinion. Roosevelt demonstrated otherwise. Anti-trust legislation was successfully implemented; arguably, it saved democracy and capitalism in the States.

Obama, attacking them, has found a cause that'll rally the nation

Obama's problems in 2009 arose from his being on the wrong side of public opinion. He'd sought to shift resources from the majority to the minority. But, with the economy mired in recession, the former was in no mood to be generous. The Republican's election victory in Massachusetts last week demonstrated how people were feeling. All the more reason, therefore, for the Democrats to regroup behind the popular platform of a measured attack on bankers.

Brown and Darling should have taken this line a year ago

It'll be fascinating to see how British politicians react to the news. Thus far, they've ignored the views of the general public. They've claimed they were right to support the failed Scottish banks, and they've fudged the issue of bonus payments. In part, that's because they've been fooled into believing that the banks are an integral part of the City.

They should have exposed the confidence trick perpetrated by the money lenders

Not so, of course. The essence of the City is its fund managers and brokers; its actuaries, lawyers and accountants. Bankers, by comparison are irrelevant; of no more significance than coffee-shops or hair-dressers. Obama's proposals make clear the distinction.

They should have implemented an updated Glass-Steagall Provision

He plans to have banks sell all their non-core activities. He says, very reasonably, that if taxpayers are to be required to support banks, the latter have to be required to operate in much the same way as utilities, paying their executives accordingly. Banks must choose whether to be protected and necessarily low margin, or unprotected and potentially high margin.

Instead, following rather than initiating, they'll be deemed poodles again

If Citibank, for instance, were to want to try its luck in the cut and thrust of the competitive world, it should be free to do so. But the US authorities would let the world know that, in the event of a crisis, depositors and counter-parties would not be eligible for taxpayer assistance. Could the bank survive in such circumstances? Probably not. Banks aren't used to a level playing field!

Rightly so, of course. They know nothing of the City

Brown and Darling, profoundly ignorant of the City, will have to rethink their strategy. There'll be pressure to co-operate with the US—a year ago, the PM was vocal in stressing the need for global authorities to act in concert! Will the Scottish bankers be thrown then to the wolves? That would set at risk the lucrative directorships that some who are currently working in public service thought they might receive on their retirement.

Likewise Mervyn King, whose ignorance extends to economics

What does the Governor of the Bank of England think of the Obama proposals? He too has a lot for which to answer. He mis-analysed the economy's problems in 2007 and early 2008 (thinking inflation a greater threat than depression). And he compounded his error in later in 2008 with the unilateral decision (no reference to Parliament, nor any to the taxpayers whose money he was using) to bail out Edinburgh's delinquents!

Will the Tories be any better? Hmph

And what of Cameron and Osborne? Caught on the wrong foot again? Can they yet make a distinction between those parts of the financial services sector that are valuable and those that aren't? Will they tell the latter that their time is up? That if they wish to go abroad and do to other countries what they've done to Britain, nobody'll stand in their way? Don't count on it.

The indices have been knocked. They'll almost certainly recover, though

Temporarily, in the flux of reassessment, the markets will decline. But the chances are that there'll be recovery a few weeks down the road. Money is going to remain accommodative and profits quite strong.

Contact us... Visit our website www.sippolutions.com for further information on our SIPP products and services. Alternatively, contact Roger Nightingale on 01858 419300 or email rnightingale@sippolutions.com or visit www.rogernightingale.com.

Disclaimer

This document is the opinion of Roger Nightingale and does not represent the opinions of Pointon York SIPP Solutions and is for your private information only. We are not soliciting any action based upon it and whilst information contained herein is based on sources we believe to be reliable, its accuracy is not guaranteed and may be incomplete. Any opinions expressed are Roger Nightingale's current opinions as of the date appearing on this material only and are subject to change without notice and might not be followed up on 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. We are not soliciting any action based on this material. It is for the general information of clients of Pointon York SIPP Solutions. Investment professional use only. Not for public distribution.