

## Economic Views for Investors

by Roger Nightingale

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Good judgment comes from experience . . .

"It'll be over by Christmas," said Alistair Darling. He was talking of the current recession, but his words were eerily reminiscent of another dark period in Britain's history. At the beginning of the First World War, in autumn 1914, the Generals had confidently made the same prediction. They then, of course, were wrong. Likewise now, probably, the Chancellor.

. . . and experience comes from bad judgment.

How much do we know of Mr Darling's judgment in the past? Quite a lot, and none of it very comforting. He hadn't disapproved of Gordon Brown's decision to sell the country's gold holdings at spectacularly low prices in 2002. Nor had he queried the decision to launch a raid on funded pension schemes in 1997.

The Chancellor's had a lot of the latter.

Those, of course, were his salad days. Did his judgment improve subsequently? Sadly not. In 2007, when the housing finance sector in the US was creaking under the burden of sustained malpractice, he saw no need to investigate the possibility of comparable strains having developed in the UK. Accordingly, when the Northern Rock debacle struck in the following autumn, he was wholly unprepared; he was the proverbial rabbit caught in the headlights of the oncoming car!

And his calls have got worse, not better!

Things thereafter went from bad to worse. His monumental error of judgment occurred in 2008 when he decided to bail out RBS and HBOS. Ignoring the strictures of Schumpeter, he transferred countless billions of pounds from non-banks to banks! In doing so, he impoverished the innocent and enriched the guilty; he punished the wholesome and rewarded the loathsome!

Is he a counter-indicator?

Now, he tells us that things are looking better; that the economy will be on the mend within a few months. He'll be right, of course, if the debility is merely recession; but hopelessly wrong if it's depression. The former is a function of the 5½ year business cycle and its durability is necessarily therefore moderate. Not so the latter. It is driven by considerably longer term (Kondratieff-type) considerations. It lasts for decades.

Does his prediction of amelioration imply deterioration?

Nobody knows which applies at the moment—least of all the Chancellor. And things will not be much clearer by Christmas: in its early stages, a cyclical recovery looks much like a secular one. The testing period will be the second half of 2011. We'll know then whether the recovery, if there's been one, has legs or not.

No matter. In a few months, he'll be retired.

Alistair Darling won't be bothered in either event. He'll be long gone. Even if he retains his seat in Parliament, he'll no longer be Chancellor. The Labour Party will have been dismissed. It may be a generation before the electorate dares experiment again.

Protected by an indexed pension from the economics

News that Standard and Poor's analysts had downgraded Britain's credit rating was a final blow for the hapless Chancellor. No matter that S&P's judgments in these matters are unreliable. The fact that the assessment was unfavourable was bound to reflect poorly on the financial markets. Interest rates duly rose, making the Government's already difficult funding problem somewhat worse.

Will Osborne do any better?

What will the Tories do when they take over next year? That's not clear. They've been wimpishly indecisive in their public statements thus far. But the hope has to be that they take an axe to public spending; that they quickly sell off publicly owned assets (those of the banks in particular), and reduce the establishment of the Civil Service and Local Authorities by 5% a year during their first term.

Will he act or fuff?

On the international front, there's room for huge savings. The Middle Eastern wars should be ended immediately (they raise the threat of terrorism rather than reduce it). And the relationship with Europe should be renegotiated (hopefully, Cameron will live up to his half-promise to hold a referendum on the Constitution).

It's difficult to be optimistic

Even taking such drastic steps, public finances will be slow to return to equilibrium. Unless there should be a resumption of reasonably brisk growth, tax revenues will disappoint. It'll certainly be five years, possibly ten, before the fiscal nightmare created by Brown and Darling fades from the memory.

Except perhaps in relation to the markets.

The good news is that the securities markets will hold up fairly well. S&P notwithstanding, the indices are on a rising trend. Inflation is falling and interest rates are drifting down. Meanwhile, corporate profits (more because of softening wages than firming sales) will be satisfactory. It's a recipe for improving valuations. Prospective pensioners can thank the markets, not the authorities.

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