

## Economic Views for Investors

by Roger Nightingale

Economies may not be sprouting many green

Equity markets are on a roll. In Europe, America and Asia, they've been rising strongly for several weeks. Currently, they're establishing new highs for the year.

... but equity markets are.

What's caused the enthusiasm? Excellent results, for the most part. Companies reporting on their trading activities in the recent past have declared better than expected profits—albeit allied to worse than expected sales. Unsurprisingly, investors have been impressed. They've welcome the rise in margins. They've recognised that, if 2010 were to bring an economics recovery, the accompanying profits advance would be extraordinarily strong!

Governments are claiming success!!!

Politicians and central bankers have smiled nervously at these developments. They've claimed (not wholly convincingly) that what's happening now in finance will soon be replicated in employment. In that event, of course, they'd be able to claim that the fiscal and monetary policies implemented in the last twelve months were justified!

Probably prematurely.

They may be disappointed. It's possible that profits will stay strong, but wages weak; consumption anaemic, but capital spending not compensatingly robust; corporate balance sheets healthy, but personal ones ailing. If so, economics conditions might barely stabilise, and the (psephological) status of Ministers continue to decline.

Profits are rising at the expense of wages!

There is particular vulnerability in relation to the official treatment of commercial bankers. Why, it'll be asked in many countries, were these money-lending miscreants, instigators of all our woe, helped with taxpayer funds? Why should their incompetence be condoned when that of others is censured? How are voters going to react to the announcement of astronomic banking profits and huge executive bonuses? Will taxpayers be happy to pick up the losses but not be allowed to share in the gains?

The UK has a particular problem.

These issues may be particularly pertinent in the UK. There, the banks misbehaved outrageously but were supported unconscionably. Brown claims his actions were proportionate, though he's unsure of his ground. Likewise Cameron. It's an issue that needs hard thinking.

Surgery is necessary.

The country would benefit from having another Keith Joseph. If the system's financial fabric is to be repaired, if the fraying is to be halted, a willingness to adopt radical proposals would be useful. Margaret Thatcher was. She questioned instinctive Tory loyalties. Will Cameron?

Bankers must be muzzled.

The obvious starting point is the acknowledgement that banks have become too big. The failure of any one of them threatens systemic disruption. The solution is obvious: banks have to be cut down to size. And not by simple sub-division: no one wants merely to replace maxi-disasters with mini-ones; what's required instead is something that prevents bankers doing themselves and others any more harm.

Constrained from anything other than clearing cheques.

The answer is that they be excluded from activities for which they're unqualified, intellectually and psychologically. They oughtn't to be allowed to dabble in fund management, investment banking, estate agency, derivatives, proprietary trading, etc. Simple money transmission is their speciality. They must stick to it.

The world must be made safe for the taxpayer.

They'll squeal that, in such an event, they'll be set at a competitive disadvantage relative to their rivals elsewhere in the world. On the contrary: once customers know that their money is safe, no longer at risk from toxic executives, banks will benefit from a competitive advantage! Money will pour in!

And the City of London unleashed again.

And the City of London will benefit as well. With no bankers to sully their name, the status of currency traders and fund managers, brokers and accountants will soar. No longer handicapped, London will dominate, as never before, the financial services world.

Will Tories rethink their prejudices?

Perhaps the Norwich North by-election result will shake up members of the Tory hierarchy. They won the seat, but unconvincingly. Given the expenses scandal, given the horrific GDP numbers, there should have been a landslide.

Will pensioners have their day in the sun?

The only good news is that the securities markets are rising. A triumph of hope over experience? No; it's sound logic. Things are going to get better. The public sector will be disciplined and the bankers emasculated. Equities will soar, gilts advance and property stabilise. More importantly, downtrodden pensioners, long forgotten, will fare better. And not before time.

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