

Economic Views for Investors

by Roger Nightingale

All creatures are created equal . . .

Britain's steelmakers have made many mistakes in recent years; likewise its bankers. Both are now in trouble; both ought to be headed for oblivion. But there's a difference: Ministers have chosen to condemn the one and condone the other. Steel is to be left to its own devices; banking to be lavishly supported by the taxpayer. The contrast in treatment was illustrated last week when two thousand of Corus's workers were made redundant, while one of RBS's, its new CEO, signed on for a publicly-financed hand-out of £200,000 a week!

. . . but some more equal than others!

Is the Prime Minister embarrassed by the asymmetry? Is he worried that his moral compass might be pointing in the wrong direction? Possibly. He knows that, *politically*, he's goofed again. But he consoles himself with the thought that, *economically*, financial services offer the country a better long term prospect than manufacturing.

Apparently, bankers fall into the second category

He calculates that there's little point in helping the country's steel sector. It stands almost no chance of becoming internationally competitive in the foreseeable future; an investment of public funds would consequently yield unsatisfactory returns. The country's financial services, on the other hand, have enormous potential. If the *status quo ante* could be restored, the benefit to employment and tax generation would be huge.

Their area of special expertise, their USP . . .

The fallacy in the argument is the presumption that banking and financial services are one and the same thing; that fund management and actuarial consultancy, currency trading and stock broking are synonymous with banking. What rot! How could the Government be taken in by so specious a proposition?

. . . is conning brainless politicians!

Did its members not notice that, though banks exist in every country, financial services are concentrated in a tiny minority? France and Germany have good banks, but bad financial services. The UK and US score poorly on the one front, but are world leaders on the other.

Last year, bankers stumbled drunkenly into the cesspit

The current crisis was caused by incompetent bankers moving into areas they didn't understand. It was their ineptitude in mortgage lending, proprietary trading, hedge funds and derivatives that sparked the collapse. If Brown had had any analytical ability, he'd have happily sent the malefactors to their doom. And he'd have initiated legislation that would ban them in future from engaging in activities for which they were intellectually and psychologically ill-equipped.

This year, cleansed by taxpayers, they smell of roses

If that had been done, there'd have been more bankers losing their jobs and fewer steelers. And there'd have been no need to pay the CEOs of the rump of the country's banking operations high salaries. There'd be long queues of applicants for any vacancies that arose. The market would set the rate for the job: arguably comparable to that of a manager of a third division football club.

For their own safety, and that of their clients, . . .

And if the Chancellor hadn't spent public money so foolishly on the banks, he'd have been able to do a variety of sensible things. He'd have been able to reduce income tax, for instance. Or he'd have been able to help pension funds by restoring to them the monies stolen by his predecessor.

. . . they ought to be heavily regulated

Will the alternates do any better when it's their turn next year? Worryingly, the answer seems to be No. The Tories also subscribe to the proposition that bankers are valuable creatures, deserving of taxpayer subsidy. It's unlikely, therefore, that helpful regulation will be forthcoming in the next few years.

The risk is that other . . .

The risk is that the authorities, increasingly *dirigiste*, will go along with the nonsenses emanating from Brussels. The Commission's intention has always been the destruction of the City of London. The project has been given new momentum recently.

. . . financial services will be instead

And we shouldn't look to the FSA for help: it's no St. George. It's more likely to devour the maiden than protect her. Interviewed on television recently, Turner sided with the dragon. He grinned a lot, but objected very little to the Commission's poisonous proposals. He's probably more anxious to deflect charges that he was asleep on watch last year than look after London's interests.

Brussels is the monster that needs to be doctored

The good news is that the economy is improving. It's probably only a cyclical revival and things might go horribly wrong two and a half years hence. But, for the moment, GDP is quickening and inflation moderating. Outside banking and the public sector, wages are stalling. Prices will shortly be falling. Unsurprisingly, security valuations (bonds and equities alike) are encouraged.

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