

Economic Views for Investors

by Roger Nightingale

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The PM seems not to be able to handle bad news

It's not been a good week for Gordon Brown. Economics developments (that he couldn't affect) were bad; political decisions (that he could) even worse. Unsurprisingly, his electoral support fell. He'd run out of ideas, but didn't know how to quit with dignity.

He fluffed Lockerbie, for instance. He lacks credibility

Newspaper headlines concentrated on the release of the man convicted of the Lockerbie bombing. There was lots of emotion, but very little logic. Nobody came out of the process looking good: not the Scottish Justice Minister, who seemed surprised that his decision had caused a furor; not US politicians, who failed to see any parallel between Gaddafi's treatment of Al Qaeda and theirs of the IRA; not the direful PM himself, ensconced in his Scottish bunker, who thought silence a substitute for insight.

Too many reprobates have been too close for comfort

There was widespread suspicion of duplicity. People speculated on the nature of the deal that had been done. Had Al Megrahi been released to prevent an inquiry that would embarrass intelligence services, or to secure supplies of Libyan oil? Some saw Mandelson's putative involvement in the negotiations as confirmation of misbehaviour. Others thought Salmond's continual references to "due process" camouflage for complicity.

Quis custodiet ipsos custodes?

Not many asked how it had come about that a bunch of indifferently qualified medics were in a position to subvert the judgment of a court of law. When had ill-health become justification for judicial review? Was it the result of a "parliamentary statute" or "established precedent"? If the latter, shouldn't competent legislatures review the matter?

The goal was open, but Brown shot wide!

Brown had had a golden opportunity to appear intelligent. Without criticising MacAskill or Gaddafi, he could have played the Statesman. He could have spoken of the need to protect the will of the people from the input of glibble (or corruptible) advisers.

He was agonising about the economics numbers

He didn't because he was probably focusing on the economy. Sadly, at a time when the rest of the world looked as if it were pulling itself (perhaps temporarily) out of recession, Britain appeared to be descending ever deeper into the mire. Its GDP numbers were revised downwards; its capital spending to shockingly low levels.

His fiscal policy is in tatters

It was difficult not to conclude that Brown's response to the crisis had failed. The huge increase in public expenditure hadn't *encouraged* the private sector, but *discouraged* it. Belatedly and grudgingly, he acknowledged his error. He began to plan a reversal of policy. Too late, of course: it'd offend radicals a lot, but only please conservatives a little.

It's made worse by EU membership

More bad news came when it was announced that there was to be a 60% increase in Britain's contribution to the EU budget. Did the PM think that good value? Did he question Blair's earlier surrender of the rebate? Did he propose that Brussels act to limit waste and corruption? Did he think a referendum on continued membership of the Union a good idea?

And worse still by military encumbrances

What about Afghanistan? The war was being lost. But Brown was unable to act: he couldn't withdraw for fear of offending the Americans; nor commit additional resources for fear of causing more death. If he weren't careful, he'd end up Lyndon Johnson to Blair's Kennedy; the man who inherited the war being blamed more than the one who started it!

The final straw: bankers! They've embarrassed him in the past

The final muddle into which he blundered related to bankers' bonuses. Of course they were a scandal, but one largely of his making. It was he who'd wanted to bail out bad banks. It was he who'd channelled countless billions of taxpayers' funds into them. The intention had been that they would use the revenues to help out desperate companies and hard-pressed house buyers. He'd been too unworldly, though, to realise that, once they'd got the money, the bankers would keep it for themselves.

And'll do so again in the future

So what's his solution now? That the regulators (the one bunch of City n'er-do-wells less trusted and less competent than bankers themselves) supervise levels of emoluments! To many observers who'd thought themselves inured to the PM's lack of judgment that will seem an elaborate joke in bad taste!

Fortunately, market indices are rising!

The one consolation: security valuations are rising. Investors know that they haven't long to wait for blessed release; their only anxiety, that *Tweddledum* be no better than *Tweddledee*! Even so, the FTSE at 5000 at year-end is a good bet; at 6000 twelve months later, a reasonable prospect.

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