

## Economic Views for Investors

by Roger Nightingale

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It's important, not merely to recognise mistakes, but correct them.

A fund manager is bound to make mistakes from time to time. But, if he's intellectually competent and psychologically secure, he'll acknowledge his errors and seek to reverse them. He'll not leave them unreviewed in a pathetic attempt to pretend they don't exist.

Fund managers do so; politicians don't.

Politicians are different: slightly less proficient cerebrally, and much less mature emotionally. The PM illustrates the syndrome. In the early years of New Labour, he did fairly well. He'd inherited a strong economy, and made a number of reasonably sensible decisions. That, ironically, was fatal: it convinced him that he was incapable of error. When, subsequently, things began to go wrong, thick and fast in recent years, he went into a state of denial.

Brown's term will be celebrated, not for his mistakes, but for his denial of them.

He wouldn't admit mistakes and couldn't therefore rectify them. A few examples: the Middle Eastern wars; the rescue of the Scottish banks; the European Constitution. In each example, the original decision was made for reasons of expediency, not for those of principle or logic. With good luck, the costs might have been tolerable. But, in the event, the luck being bad, they turned out not to be. A good fund manager would have recognised reality and cut his losses. He'd have apologised for the errors of his predecessor and have pulled out of Iraq and Afghanistan; he'd have sent RBS and HBOS to the perdition they deserved; he'd have staged a second vote on the Lisbon Treaty and have demanded that other members of the EU do likewise (Ireland, of course, already had).

Bad fund managers are quickly sacked; inadequate PMs more

Will he do any of these? Of course not. That would require him to admit his prior judgment was wrong. He can't; he's too childish to live with such an admission. As a result, his portfolio will continue to underperform, and his client continue to be impoverished. Indeed, things will get worse.

Sadly, the Tory alternate looks just as dopey.

The good news is that the incumbent portfolio manager is shortly to be sacked; the bad news that the judgment calls of his likely replacement are no less bizarre. David Cameron has let it be known that he'd continue to commit troops to Iraq and Afghanistan. He believes, he says, that military action there is reducing the threat of terrorism! He's indicated also that he approves of delinquent bankers being rescued. The best way of helping industrialists and retailers, consumers and pensioners, he argues, is to take away their money away from them and give it to bankers!! Finally, of course, he's thrown in the towel in relation to democracy. The best way to promote the rights of the individual is to deny him any!!!

Is it too late to replace him? Alas, yes.

Why the Tories take these positions is a mystery. It's one thing to defend your own mistakes. It's quite another to endorse those of your opponents. Psychologists have studied the former extensively; the latter barely at all. The implication, perhaps, is that mental health problems in Westminster are more widespread than previously supposed.

The US economy seems to be outrunning the pack.

On the economics front, the US issued more details about its performance in the third quarter. GDP had risen reasonably briskly, and it had done so with a sharply reduced labour input. Productivity, in consequence, had soared: it had risen at an annualised rate of more than 9%. The implications for inflation were favourable (the rate would be substantially negative for some time to come), and for profits exceedingly favourable (margins would climb to their highest level for many decades).

Unemployment the only fly in the ointment.

For employment, on the other hand, the outlook was ambiguous. Would the extra productivity lead to worker layoffs, consumer disenchantment and inadequate activity? Or would it prompt accelerating wages, ebullient sentiment and a boom? Nobody was certain, but the Fed, significantly, was cautious. It probably feared the former scenario, and was quick to assure the world that interest rates would be kept at negligible levels for a protracted period.

New York's equities will soar, and so will most others.

That was enough for the stock market bulls. They were off and running. Quite rightly so. Excellent profits set in the context of accommodative liquidity would lift the indices sharply. They'd rise 10% in the remainder of 2009; a further 15 to 25% next year. The rest of the world's stock markets would largely follow suit.

Europe's possibly bringing up the rear.

It was possible, though, that the advance in Europe would be a little below par. It was recognised that the authorities there, when the crisis broke, had called things wrongly again. The complacency of the Commission was palpable; the lack of understanding of the ECB pitiful. The euro took the hit. Its overvaluation was substantial beforehand; intolerable now. But Trichet and Barroso, as psychologically adolescent as Brown, as intellectually challenged as Cameron, don't acknowledge their errors and won't remedy them.

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