

Supply-siders might be making a comeback.

Japan has tried many things to revive its economy. Finally, almost in desperation, it seems to be opting for supply side policies.

Prime Minister Kan would like to . . .

The last couple of decades have not been good ones for the Japanese economy. In comparison with the rest of the developed world, recessions have been quite severe and recoveries fairly mild. The Kan administration is worried that the syndrome might persist for some time to come. It frets that the immediate future will bring decelerating growth, and the more distant future a return to contraction.

. . . reverse many of the policies of his predecessors.

Its response has been to examine the potential for a supply-side experiment. It wants the economy to be more flexible—not stuck in sunset sectors but evolving into sunrise ones. It wants, in particular, to reverse the FDI trend. It would like to see companies, domestic and foreign, choosing Japan as the location for their investment.

He'd like to be radical in pursuing growth.

It'll not be an easy task. But an obvious starting point is corporate taxation. In Japan, the impost is set at a rate that's good deal higher than the world average, and about twice as high as that in the fastest growing parts of Asia. Tokyo's Finance Ministry is looking at a plan to reverse the differential.

Aiming for higher FDI.

How would the fiscal books be balanced? Perhaps they wouldn't have to be. It was suspected that Europeans were wrong to link yawning deficits with currency weakness, but, if they were right, so much the better. A softening yen would add to the attractions of investment in Japan.

Lower corporate taxes are to be coupled with less regulation.

If a trimming of the deficit were thought necessary, lower public spending would be the preferred option. Alternatively, higher indirect taxes might be levied on the consumer. There'd be no need to worry about inflation, of course. Retail prices were currently retreating; a reversal of the trend would be welcomed!

Britain's Government is doing the opposite.

Sadly, this is not the philosophy being adopted by the Cameron-Clegg coalition in Britain. Though the country's economics renaissance in the seventies and eighties was built on FDI, the Lib-Cons seem unimpressed. Instead, they're following the discredited European prescription. They focus on deficit reduction and aren't bothered if the higher taxation they implement discourages investment!

It intends to exacerbate taxation and intensify regulation.

The recent reaction to the Commission was worrying.

Especially in the context of a duller global economy.

The US is looking less good. Likewise the PRC.

In which case, commodity producers . . .

. . . might go pear-shaped.

Stock price valuations are the one consolation.

Similarly, their attitude to regulation is counter-productive. They don't fight the mindless strictures emanating from Brussels, but implement them faithfully. They seem not to have noticed, or not to care, that London is no longer a magnet for the finance sector. They equate the valuable parts of the City with the worthless ones: fund management with commercial banking!

Last week, Cameron boasted that he'd *scaled down* the Commission's demand to review the British Budget. Had he only *moderated* the requirement? Had he made any concession at all? Had he not rejected the proposal out of hand? Sadly, it looked as if the current British Prime Minister, like his predecessors, was no match for the Brussels Bureaucrat: the former once again outmanoeuvred by the latter!

The economics news, meanwhile, has been mildly worrying. GDP growth is continuing, but probably slowing. Everywhere, it seems, sentiment is in retreat. Things were going wrong and there was no confidence in the ability of politicians to put them right.

In the States, for instance, there were further signs that the labour market was stalling. Jobless claims had stopped falling several weeks ago and might now be rising. If so, consumer spending would soon lose momentum (real pay rises being negligible and personal credit barely rising).

In China too, there was a degree of anxiety. Beijing was reluctant to keep monetary conditions too expansive for fear of fuelling a house price bubble. And it was concerned about its fiscal policies. Higher public spending had temporarily lifted activity, but only temporarily. As the programmes came to an end, it was looking as if activity and employment would lose momentum. The forecasts for 2011 were only satisfactory; those for 2012 potentially unsatisfactory.

Commodity producers were also nervous. Australia and Brazil had grown exuberantly in recent years, but problems were mounting. Despite high raw material prices, external deficits were large. If the former were to soften, the latter might go critical. Growth not just slowing, but crashing!

There wasn't much good news except, slightly ironically, in the securities markets. Credit in most countries was going to remain expansive for several years. And corporate profits would continue to hold up fairly well. That was a very satisfactory combination. So long as the politicians stayed away, the indices would creep ahead.

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