

Is the man who congratulates himself too readily better pitied or despised?

William Thackeray knew politicians and the political process very well. He stood for Parliament, but, happily, wasn't elected.

Hubris is regrettable in the politician, especially in retrospect.

Government Ministers congratulated themselves last week after it emerged that Britain's economics growth had probably continued in the first quarter of 2010, had very possibly quickened. "Job done," they claimed, "Crisis over." And the media, newspapers and television alike, reiterated the upbeat assessment.

Has the economics crisis been remedied, or merely delayed?

It was all a little premature. The test of the economy's rehabilitation occurs, not when the cycle is *helping*, but when it's *hindering*. At the moment, fifteen months from the last low point, conditions are as favourable as they can be. It'll be different eighteen months hence. That's when the cycle is due to peak. So it's only thereafter that we'll be able to decide whether the authorities deserve to be congratulated, only then that we'll know whether the crisis may be said to have been resolved.

Clouds are gathering on the horizon.

The early indications are not particularly encouraging. Though the public sector has been spending furiously, the private sector hasn't. That's not a viable pattern for the medium term. We know the former is to be reined in, but we don't know whether the latter will take up the slack. The danger is that we'll get the worst of all worlds: a cyclical downturn, exacerbated by public sector cuts and not mitigated by private sector enthusiasm.

It's not better in much of the rest of the world.

The picture is fairly grim in most of the rest of the world. Japan, for instance, is deflating. Its exports are fine, but its domestic demand is appalling. It may be able to keep its head above water so long as China grows rapidly, but is likely to drown otherwise.

Japan troubled; the US not out of the woods.

The US is a little better placed. Its GDP, like Britain's, has undergone a cyclical acceleration in recent months, but may suffer a corresponding deceleration in the period ahead. Job creation has begun, but has been slow. Worryingly, the consumer has neither the income nor the borrowing power to finance a spending spree.

Europe is in a hole and still digging.

Europe is a disaster. Apologists claim that all had been going well, the economy reviving strongly, when wicked speculators attacked Greece and disrupted the recovery. What a fatuous misanalysis! Speculators were merely the *agents*, Greece merely the *symptom*. The *cause* of the problem was the arrogance of the politicians.

The Greek wound is haemorrhaging and the medics can't staunch the flow.

They'd built a system that was untenable: its governance undemocratic and its finances unstable. It was bound to fail. The only question was when. If those who support "the project" were sensible, they'd go back to the drawing board; they'd redesign it; they'd incorporate more pragmatism and less dogma. Will they? No chance, not yet anyway. They think that *political will* can defeat *economics logic*. Learning otherwise will be a humiliating (and probably a lengthy) process. In short, things will have to get worse before they get better.

Only Germany has the wherewithal. Will it act?

What that means for the world economy is that Europe will be a drag for the foreseeable future. It'll contribute little to growth in the next year and a half, but quite a lot to retrenchment in the subsequent period. Germany, of course, will be crucial. If it should decide to bailout Greece (as it did the DDR), it'll condemn itself to another decade of debility. If it should decide not to, it'll be Greece that suffers the debility.

The British election is boring.

Are the politicians in the UK, in the run-up to the general election, discussing these things? Of course not. They prefer the banal. They worry that honesty will offend more than it'll please. So, they say nothing, hoping to get elected by default.

Cameron will win. Will he grow into the job?

The Tories will almost certainly win. The campaign itself is irrelevant. Voters decided a long time ago that they wanted a change. Nothing that Brown or Cameron might say, or not say, is going to change the outcome. The turnout for Labour will be low; likewise that for the LibDems (who are not trusted, partly because they are pro-Europe, partly because they are supportive of Brown). There'll be a sizeable absolute majority, possibly a landslide. The biggest losers will be the pollsters!

Asset prices will keep rising, equities in the van.

Equity markets will continue to rise. For a while, growth will seem to be satisfactory, profits good, inflation and interest rates set fair. It won't last forever. But it may see out 2010. A FTSE target of 6500 is eminently obtainable; one of 7000 not particularly difficult.

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