

## Economic Views for Investors

by Roger Nightingale

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To con electors, politicians have first to con themselves and the media

It was to be expected that those of the world's politicians who attended the G20 meeting in London this week would claim it to have been a success. And it was to be expected also that much of the media, anxious to reinforce its symbiotic relationship with the governmental elite, would concur. The surprise was that financial markets went along with the romance. It was almost as if investors shared the (contrived?) optimism.

In regard to this week's G20 assemblage in London: easy-peasy!

What had actually been achieved? Very little. There was to be some additional fiscal stimulus and some extra regulation. But details were scarce. Possibly deliberately so. Indeed, there was a suspicion that the public spending proposals were exaggerated by double counting – many of the programmes having been announced previously. And it looked as if the commitment to heightened supervision of the financial community was more wishful thinking than concrete proposal.

But the market's euphoria might go as quickly as it came

The risk is, of course, that markets will subside as investors reassess the situation. They'll probably recognise, for instance, that the fiscal measures are set to fail. Taking resources from one group and giving them to another is, at best, a zero-sum exercise: the increase in the spending of the latter being offset by the reduction in that of the former.

There's no such thing as fiscal stimulus!

Never mind the theory; look at the evidence! Has fiscal policy ever revived an economy? Did it do so in the States or Britain in the Thirties? Did it lift activity in Japan in the Nineties? Certainly not; so why does anybody suppose it might be effective in the current decade?

Nor any virtue attached to European regulation

What, meanwhile, is to be made of the regulatory nonsense? It looks as if the commitment was adopted largely to keep the Europeans onside. The EZ argued (as did Brazil) that the economics problem had been caused by the Anglo-Saxons. It had been their "light-touch" regulation that sparked the misbehaviour. The solution lay therefore in the adoption of "heavy-handed" European restraint.

The knee-jerk reaction of the EU is to prohibit what it can't compete with

Did anybody believe that? Of course not! Not even the French and Germans: they were just jealous of the financial hegemony of London and New York. They'd wanted to destroy it for years and were prepared to perform somersaults of logical sophistry to that end. They thought that if they could persuade the world to regulate out of existence the high IQ parts of the financial community, their own boys would have a chance.

Don't try to eliminate misconduct before the event ...

Really? Would it have helped to have had three Lord Myners not reading the relevant documents, rather than just one? Cloned incompetents would raise costs but not curtail mischief. Traders would be as reckless as ever; bankers as stupid. Extra supervision would contain neither.

... just punish it afterwards

The solution is not the *prevention* of the crime before it has occurred, but the *punishment* of those responsible for it afterwards. The indictment to be levelled against the Anglo-Saxon system is not that regulators failed to spot the problem initially, but they failed to reprove the perpetrators subsequently. The on-going existence of RBS and HBOS is a heavy burden to have to bear; the grotesque rewards accorded to miscreant CEOs, a scandal. They'll be with us for decades, possibly generations.

The EZ can't run a central bank, never mind a regulatory authority!

Would the European model have resolved the problem? Don't be silly. If the Europeans had been allowed to supervise the world's financial community, we'd still be in the Middle Ages. Sub-prime mortgages wouldn't be a problem because there'd be no mortgages at all. There'd be no spivs in the derivatives markets because there'd be no derivatives.

And they're as hopeless at forecasting economics developments as at guiding them!

The Europeans have an additional problem: their economies. In recent months, instead of holding up better than those of the US and UK, they've seemed to be sinking faster. Exasperatingly (as they see it), their reward for monetary virtue, fiscal orthodoxy and regulatory rectitude has been extra debility! That makes it very difficult for their political leaders to adopt the intellectual high ground. How can they expect to be listened to when their economies have been so dire? They underperformed in the good years, and now they seem to be underperforming again in the bad ones.

The politicians are past their sell-by dates

Little wonder that the French President and German Chancellor were sidelined in London. Nobody thought it worth listening to what they had to say. Sarkozy's threat to go home was treated with indulgent amusement; Merkel's stolid defence of discipline with polite inattention.

But markets to rally?

The good news is the continued monetary stimulus. Extra resources for the IMF and World Bank are to be generally welcomed. They'll help economics demand and lift asset valuations.

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