

Economic Views for Investors

by Roger Nightingale

13th March 2009

Why did communism fail?

In the private sector, an executive who is incompetent tends not to last very long. If he's the manager of a football club, he goes quite quickly; if the chairman of a large quoted company, rather more slowly. But the fact that there is closure, the fact that termination does occur, implies a degree of accountability. The system works: those whose role it is to monitor performance (usually the owners) recognise inadequacy and take action to end it.

Because of public sector mentality!

Not so in the public sector. Ineptitude, however crass, seems not to be punishable. The problem may be that the owners (the taxpayers) aren't ever asked their opinion. And the elected representatives who, by default, assume the monitoring role are reluctant to accuse others of a failing of which they so obviously guilty themselves.

Central bankers demonstrate the phenomenon

Take the example of the central banks. Their track record recently (the Fed arguably excepted) has been abysmal. For the last ten years, they've comprehensively mis-analysed cyclical and secular trends. In 2007 and 2008, when both were weak, the one reinforcing the other, the hapless creatures raised interest rates!

They made grotesque errors of judgment . . .

Now they seem to have provoked, not just recession, but depression. If so, like their counterparts in 1929/30, they'll have condemned their economies to fragility for a decade or more; their countrymen to impecuniosity for a generation. But has any of them fallen on his sword? Has any shown remorse? Has any elected monitor required a resignation? Of course not. The whole of the public sector is characterised by complicity and complacency. There's a mutual agreed pact to turn a blind eye to each other's shortcomings.

. . . but haven't been disciplined

It's the private sector that bears the cost. Trichet is possibly the world's worst central banker, but he's barely been criticised – within the EZ or without. Why not? Has no one noticed the private sector's sufferings? In the last few days, figures for French and German industrial production have revealed the enormity of the devastation wrought by the man's incompetence. Output in the two countries in January was reported to have fallen by 3 and 7% in comparison with the previous month; by 15 and 20% in comparison with that twelve months earlier!

The EZ is suffering . . .

Is this going to be the low point? Will things get better from here onwards? Very unlikely. The next phase of weakness will be driven by unemployment. Hitherto, neither Germany nor France has laid off significant numbers of workers. In both, therefore, employment may now be 4 or 5% higher than required. If a corrective process should shortly begin, jobless totals rising by a quarter of a million per month, the impact on consumption and tax revenues would be negative; activity lurching downwards in response!

. . . in consequence of Trichet's failings

And Trichet is the chap who, just six months ago, was refusing to cut interest rates for fear of provoking exuberance and inflation. He's the man, moreover, who declined to lower rates last month because he saw no need for precipitate action. Has he admitted his error? Has he offered to resign? *Ne me fais pas rigoler.*

And China may be going the same way

It's not only Europe that is looking suddenly vulnerable. In China too, confidence has given way to doubts. Things became difficult at the end of last year (GDP flat in comparison with the third period?) and they're promising to be much worse in 2009. Premier Wen, at his recent Press briefing, alluded to the issue. He said the country had plenty of ammunition to reactivate demand – implying that it was probably going to be needed.

Don't rule out social unrest

It's the outlook for the labour market that'll most worry the authorities. Unemployment could start to rise by 2 millions a month. Does the country have the administrative infrastructure to deal with such a development? Might personal financial distress get severe enough to cause disturbances? Nobody knows, but everybody is scared.

It may be better after incumbent ministers have gone to the great tearoom in the sky

In Britain, the outlook is less awful. Activity is sinking at a slower pace than that in much of the rest of the world. The public sector may be bloated and feckless, but the private one (banking apart) seems reasonably efficient. If the one could be cut back and the other taxed more lightly, the prospects would be almost satisfactory. The changes will happen at some stage, but probably not until after the next election. Let's have it soon!

Contact us... Visit our website www.sippsolutions.com for further information on our SIPP products and services. Alternatively, contact Roger Nightingale on 01858 419300 or email rnightingale@sippsolutions.com or visit www.rogernightingale.com.

Disclaimer

This document is the opinion of Roger Nightingale and does not represent the opinions of Pointon York SIPP Solutions and is for your private information only. We are not soliciting any action based upon it and whilst information contained herein is based on sources we believe to be reliable, its accuracy is not guaranteed and may be incomplete. Any opinions expressed are Roger Nightingale's current opinions as of the date appearing on this material only and are subject to change without notice and might not be followed up on a specific ad-hoc document. This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Pointon York SIPP Solutions. Investment professional use only. Not for public distribution.