

## Economic Views for Investors

by Roger Nightingale

Is English Gordon Brown's first language?

A couple of weeks ago, when the Prime Minister was fighting for his political life, he promised to turn over a new leaf. He said that the future, if it were left in his hands, would be characterised by openness and transparency. His remarks were welcomed by friend and foe alike.

Was something lost in the translation . . .

But, once again, he's failed to deliver. Since then, he's announced that the long-awaited inquiry into the Iraq war would be conducted in private. And he's released details of MPs' expenses censored by a sea of black ink. Is the man completely out of touch? Did he not realise that his actions would be deemed not to live up to his words? Did he not foresee the public reaction?

. . . when he used terms like openness and transparency?

It's possible the public spending debate will cause him similar grief. Everyone knows that the fiscal situation is appalling and that a period of austerity lies ahead. So why doesn't he trust the electorate with an honest discussion of the options? Why doesn't he admit that the decision to save the banks was a disastrous mistake, but that, so long as the plug remains unpulled, there isn't enough resource to continue with high levels of expenditure in other areas.

Iraq and MPs' expenses have caused problems. Public spending too?

He could score "brownie points" by inviting opinions on which programmes might be abandoned and which maintained. Is the continued fighting of illegitimate wars in the Middle East a top priority, for instance? Does the feather-bedding of corrupt EU officials represent value for money? The questions are easily posed and the public might have some interesting insights to make.

Fortunately, the economy is stirring

The economy, meanwhile, is no longer in a tailspin. Most of the recently published statistics show slower rates of decline; some hint at a return to modest growth. But what is not known is whether the change is cyclical or secular; temporary or permanent. It's not until late 2011, when the cycle will be due to turn down again, that we'll get an indication.

But will there be an employment follow through?

Much will depend on what has happened to employment in the meantime. If there has been a huge shake-out, if the jobless percentages are 5% or so higher than at present, it's unlikely that the economy will be resilient. Consumer sentiment will be plumbing the depths, and pension funds dead in the water.

And how bad will be the pensions mess?

The superannuation issue is one that has been kicked into the long grass by pusillanimous politicians for decades. Everybody knew it was explosive and everybody preferred not to be around when it was detonated. That option is unlikely to be available if the economy doesn't recover strongly.

Utterly horrible

Instead, dozens of failing funds will overwhelm the PPF and the Government. There'll be old age penury and a backlash that'll make the fuss over MPs' expenses pale into insignificance. What'll Ministers do? Initially, they'll juggle the numbers and prevaricate. They'll tax one man to pay another's pension. But that'll just weaken the economy still further.

The backlash will destroy those associated with it

In the final analysis, if the superannuated are to have a moderately dignified sunset, there'll have to be huge compensatory cuts in public expenditure. The 10% savings that are being spoken about at the moment will be insufficient to square the circle. And where will the axe fall most heavily? On the loathsome Civil Servant and hateful Local Authority worker, of course. The first thing to go will be his DB pension; then it'll be pay cuts; and then job cuts.

Labour might be replaced as the alternate

Brown and Darling hope that the surge in public spending they've enacted will lift GDP sufficiently to bail them out — politically as well as economically. On the contrary, it'll bury them. In years to come, as taxpayers are struggling with the stifling national debt, they'll be continuously reminded of the bogeymen who caused the problem. Not for a generation will Labour be returned to office.

But will wet Tories be any better?

Will the alternates be any better? Very little, sadly. They are saying more sensible things about public spending (the bar has been set very low), but not about Europe. For weeks, Hague was prevaricating. Now Clarke has come out of the closet. He's said that, if the Irish are persuaded to approve the Constitution before a Tory administration takes office, there'll be no renegotiation!

Probably not!

Really? Are these guys as out of touch with the public as Brown? Did they not notice what happened in the European elections? There'll have to be another reckoning.

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