

Economic Views for Investors

by Roger Nightingale

21st August 2009

Nature or nurture? Are Brown and Cameron politically similar . . .

Cameron and Brown have much in common: Scottish ancestry on the one hand; a willingness to subvert logic to emotion on the other. Both men, characteristically, are supporters of the wars in the Middle East. And both are defenders of the National Health Service.

. . . by virtue of their common DNA, their shared environment . . .

Each probably realises that his position in these areas is an electoral liability. But neither can see a way of disentangling himself. Sins of the past are thus visited on the future. The continuation of a manifestly unsatisfactory policy is preferred to the initiation of a potentially better one.

. . . or their comparably limited imagination?

It's likely that both men are confusing their personal interest with the public one. Experience of the NHS's oases of excellence has blinded them to its deserts of mediocrity. Their children were well served by the system; they consequently feel an obligation to finance it; and they see nothing self-serving in the imposition of a policy that requires taxpayers do so.

What explains the devotion of each to the NHS?

Last week, it emerged that the NHS's workers were amongst the unhealthiest in the country. The numbers calling in sick (10.7 days a year per employee) were significantly higher than in the rest of the public sector (9.7), and hugely higher than that in the private sector (6.4). Why? Because the health workers were genuinely ill? Or because the "sickie" had become an accepted indulgence?

Why so eloquent on its strengths, so reticent on its vices?

The latter, of course. There's an unwritten clause in the public sector worker's contract that says he may take, unquestioned, a sizeable number of days of extra paid leave. Just as the MP was allowed to claim expenses without having incurred any, so the NHS worker was permitted to take sick leave without being ill. Morally indefensible, both were perks that the rest of us paid for.

The "sickie" culture is regrettable

Did either political leader respond to the revelation? No; each seemed to think it a small price to pay for the NHS's other merits. Perhaps so. But neither of *them* had to pay the price; *taxpayers* picked up the bill. Little wonder the Westminster elite inspired more disenchantment than enthusiasm. Little wonder that those in the private sector who created the wealth distrusted those in the public sector who spent it.

The defined benefits pension inexcusable

There was another public sector perk, similarly unconscionable, that infuriated the taxpayer. It was the DB pension. Significantly, neither Brown nor Cameron acknowledged the arrangement to be an anomaly. Was that because they lacked the cerebral equipment to do the analysis? Because they saw no political advantage in raising the issue? Or because their Parliamentary chums were also beneficiaries of the arrangement?

Both should be banned

No matter; their silence spoke volumes. It indicted them and the system they supported. If the NHS were to last, things had to change; if its virtues were to be preserved, its vices had to be eliminated.

The economics revival, meanwhile, looks unconvincing

On the global economics front, last week's news continued to be slightly worrying. The inventory-based revival in activity seemed not to be spreading to other elements of demand. Retail sales and business investment were seriously weak. And public spending, though strong in recent quarters, risked losing momentum later in 2009: electoral support for fiscal stimulus was falling sharply.

Jobs are likely to be the main problem

Labour markets, meanwhile, continued to deteriorate. Employment in the private sectors of the old developed world looked as if it might sink 5% in the next twelve months. The slippage in public sectors would slower to begin, but faster and deeper once it had. Would emerging countries fare better? Not if protectionism took hold. Would it? Probably.

Inflation, though, is set to be negative in most of the world

The inflation numbers were also disconcerting. More than half the world (by GDP and population) was reporting that consumer prices had fallen in the last twelve months; and that the rate of decline was steepening. That was good for the consumer because his wages bought more, but bad for him because the real cost of credit had become unaffordable.

That implies penal real interest rates

For the industrialist, the situation was similar, but worse. While the CPI was falling by 1 to 2% per annum, the PPI was crashing by 5 to 10%. Niggardly banks offered credit to small and medium sized businesses at 7%. That was close to 15% in real terms. Unsurprisingly, many had had to close down.

Good for profitability, though, and share prices!

The good news was that surviving companies would have relied on funds generated internally rather than externally. They would have lifted profitability so as to be free of the loathed banker and rascally bureaucrat. That was going to work wonders for share prices. The rally, in other words, looked set to continue.

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.