

Economic Views for Investors

by Roger Nightingale

Having to pay for earlier misjudgements, the Chancellor had few options

There were few surprises in the Budget. It had been expected that the news would be bad. And so it was. Levels of public sector borrowing were already horrific, said the Chancellor, but they'd get much worse in the next year or so. It would take a decade of austerity, possibly two, to return the country's finances to a satisfactory state.

He chose to cross his fingers and hoped for the best

Was that a price worth paying? Alistair Darling thought so. It would reactivate the economy, he claimed. The rest of us fretted it wouldn't. Comparable measures, when they'd been tried here in the thirties and in Japan in the nineties, hadn't worked. And the anxiety was that the delinquent officials in an accident-prone Treasury had repeated the mistaken prescription of earlier periods. Not understanding the looming signs of depression, not knowing how to improve things, they'd opted merely to prop up the failing Scottish banks.

The irretrievable mistake was bailing out the bankers

The downside to that decision was not principally the financial cost, but the associated degradation of the gene pool. Contrary to Schumpeter's recommendations, the feckless had not been eliminated, but preserved. It was as if the farmer had chosen to use the runts in the litter, beasts that were physically deformed and mentally handicapped, as breeding stock! Defective DNA would survive in the community for an indefinite period!

He'll not have the opportunity to make many more

Optimists pointed out that the capacity of the Brown-Darling duo to make misjudgements was soon to cease. There'd be an election shortly, and things would change as a result. Fiscal incontinence would end; likewise, constitutional backsliding; military misadventures would be discontinued; and foreign policy immorality halted.

The Tories will take over! Will they be different?

Some hope! The Tories seem to want to continue on the current path. They appear to be fond of bad banks; but not keen to end bad wars; they are only ambivalent about harsh interrogation; and they won't even commit themselves to a referendum on the European Constitution. The sad truth is that *Tweddledum* will be replaced by *Tweddledee*, but that nothing else will change.

Is there a risk that Copycat Cameron . . .

The Budget's specific measures may have owed more to class politics than economics logic. Why did the Chancellor lift the top rate of income tax to 50% for those who are moderately rich, and why did he go to extravagant lengths to penalise their personal allowances and pensions contributions? These measures won't raise a significant amount of money. They might, on the contrary, if a small part of the City were to relocate overseas, cause revenues to fall.

. . . will opt also to raise personal taxation?

Of course, it probably wasn't Darling's decision. It was more likely to have been Brown's. The Prime Minister is an obsessive fiscal tinkerer. He genuinely believes his initiatives in the past (when he was Chancellor) were a valuable spur to economics efficiency, and doubtless he sees his latest pensions provisions in the same light!

Brown has misjudged many things

His intervention in the row over Members' housing allowances is fascinating. He's managed to understand that the voting public is unhappy, but seems to imagine that the unhappiness is the result of the particular form that the allowances take, not their overall value. He proposes that the one be changed, but that the other be left substantially as it is!

The most recent example: housing allowances

What a clot! The electorate doesn't care whether the snouts are buried in the housing trough or the attendance one. It's the same difference. What exercises the general public is the perception that MP's are thorough-going scoundrels; over-paid and under-worked. Most particularly, the criticism of them is that they don't respond to voters' anxieties.

The strain on him is telling

Did the Prime Minister really think that his proposals would lance the boil? Did he imagine that serial expenses cheats would become suddenly popular? If so, he must be much more out of touch than even his fiercest detractors thought. The poor chap needs a long rest. Not in a year's time, but immediately.

Equities, meanwhile, are benefiting from favourable fundamentals

The one piece of good news is that equity markets are looking more attractive. Valuations are not rising at all rapidly, but profits are creeping up and so are dividends. Set that in the context of negligible interest rates and we have a recipe for longer term appreciation. It may take a few more months before the momentum builds up, but, when investors looking for income reassess the risks and rewards, a rally will begin.

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