

I am returning this paper to you because someone's scrawled gibberish all over it and put your name at the top.

Is that what the Mandarin wrote on Vince Cable's paper on how to deal with the cost of undergraduate fees?

It's not just in the west that economies are slowing.

Noting the modest deceleration in China's GDP in the last few months, global investors have grown rather nervous. They fear there's worse to come. Probably rightly so. Beijing has landed itself in the classic excess-supply endgame. It's Catch-22: tighter monetary policies risk an economics setback; looser ones, an asset bubble.

Is economics vitality consistent with financial stability?

Other countries have faced similar dilemmas in the past. Washington had to deal with one in the late twenties, Tokyo with something comparable in the late eighties. Both vacillated for a while, but, in the end, plumped for austerity. They'd hoped to steer a middle course. Instead, they were bounced from one extreme to the other. The result: initially, a severe financial bubble; subsequently, a severe economics downturn!

Sadly, the two may find co-existence difficult.

Might China fare any better? If they had to choose, which of the outcomes would the authorities in Beijing try harder to avoid? Economics softness, almost certainly. The country doesn't have a fully operational social security system. If activity were to stall and unemployment rise, there'd probably be political dissent, possibly regime change.

Near term, money will gush.

For a while, therefore, it's likely that Beijing's money taps will be opened wide again. It's possible the process has already started. Perhaps it's that which has been lifting asset prices in the last couple of weeks!

The long term's trickier.

Could monetary excesses hold economics depression indefinitely at bay? Nobody knows. Nobody's tried it hitherto. China might, if it were to conduct the experiment now, provide the rest of us with valuable insights. The country might become a monetary affairs ground breaker!

And the absolute killer is protectionism.

But there's another problem looming, and one that Beijing would be almost powerless to influence: protectionism. What if the US and EU, despairing of success on a level playing-field, should decide therefore to tilt it? China would suffer severely, but it'd pass its debility, albeit dampened a little, first to the commodity producers and then to the developed world. Within a couple of years, whatever the credit environment, activity would be retreating.

Meanwhile, back in the UK, the politics is uninspiring.

The LibDems are not used to thinking. It shows.

The Business Secretary's ideas on university fees are slightly embarrassing.

Does he really want to use taxpayer funds to subsidise overseas economies?

He must go back to the drawing board.

The problem is that there are too many second-rate universities.

Thankfully, markets will probably rise in any event.

In Britain, the coalition partners have no time to think about such matters. They're too busy with the trivial to consider the fundamental. They ponder the merits of alternative voting systems (the obscurer the better). And they devise cumbersome banking regulations (by preference, ones that are not just irrelevant, but unenforceable as well).

Their latest foray relates to the process by which students finance their sojourn at university. Business Secretary Cable has an avuncular turn of phrase which appeals to press and public alike. He steers a middle course between *smarminess* and *aggressiveness*. Excellent. But none of that should deafen us to the drivel he talks.

He's proposing a "graduate" tax. It sounds different, but it's really only a repayable-loan by another name. In the one case, the funds would be collected by the Inland Revenue; in the other, at present, by the Student Loan Company. The latter certainly fails to recover all the monies it lends. So would the former.

What would happen, for instance, to the graduate who goes overseas to work? Would he still liable to pay? If so, how would it be enforced? If not, it'd amount to a subsidy paid to foreign economies! In either event, it'd be a mess.

While the student contribution is limited to £3,000 a year, while it's merely a "top-up" to the sum paid by the taxpayer, the problem is containable. But, if the intention ultimately is to charge the student the full sum, about £25,000 a year, it will become much more pressing. There'll be a need for a sensible solution, not another of Cable's hare-brained schemes.

If the man had thought things through, he'd have realised that the reason for there being so high a demand for undergraduate places is that they're so underpriced. If the cost to the student were £75,000 plus interest, the demand would probably halve (only about 50% of graduates earn enough over their lifetime to justify the expense).

And the securities markets? They'll keep rising for another year. Slow economics growth will squeeze wages and that'll induce companies to keep inflation under control and central bankers to retain negligible interest rates. Set in the context of improving profits (look at recent results), that makes equities good value. Thus far, investors have been slow to take advantage. They won't be forever.

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