

If regulation is ambiguous, it's ineffective; if law is discretionary, it's biased.

For Forms of Government let fools contest; whatever is best administered is best. Alexander Pope

Paul Volcker was an excellent Fed Chairman.

He might have been just as good at advising a President.

If Volcker's recommendations are to be abandoned, taxpayers will bear the cost.

Is Obama going for the Republican jugular?

Will Goldmans recover?

Will Greece?

Not so long as it stays with the euro!

The Glass-Steagall Act did to banks in America in 1932 what the Apartheid Provisions did to people in South Africa in 1948¹. It categorised them unambiguously. It defined them as one thing or the other.

Six months ago, it looked as if Obama was going to reintroduce some aspects of Glass-Steagall. That's no longer certain. In speeches he made last week, he indicated an apparent willingness to rely more on the regulator's use of *discretionary* powers than *prescriptive* ones.

That's a pity. Taxpayers ought to be worried. Segregation of banks into two groups—those that might expect public support in the event of a crisis and those that might not—would have been the best way to limit taxpayer liability. Judgment is very fallible. Those who've exercised it in the past do not have an unblemished record: too many examples of their harassing the good guys while being conned by the bad ones.

It's possible that Obama is playing politics. Revelations about Goldman Sachs' putative misbehaviour will have strengthened his hand: voters supporting tough action and congressmen not daring oppose it. He may have decided, therefore, to go a little further than he'd previously planned.

The Goldman's Saga is not going to go away in a hurry. The Courts may exonerate those involved, but the public probably won't. Edward Kennedy was never charged with wrongdoing at Chappaquiddick, but it didn't matter; public opinion had found him guilty. Similarly O. J. Simpson. Similarly, perhaps, Goldmans.

Another story that won't go away is Greece's economics misery. Inefficient and uncompetitive, the country is being stifled by the straitjacket of the ECB's monetary policy and the Commission's fiscal recommendations. Understandably, voters are disenchanted: the administration they elected is not doing what it had promised. Understandably, workers are angry: they feel they're bearing a disproportionately large share of the burden.

In recent months, GDP has contracted and tax collections fallen. The fiscal deficit has ballooned and bureaucrats have therefore insisted on still more austerity. It's a vicious circle worthy of the Bourbons. It may end much as their regime did.

British politics is dull, its leaders uninspiring.

In Britain, the second of the political leaders' television debates was no less sterile than the first. But the LibDems' man continued to score well. It wasn't that he said anything sensible, just that the other parties' representatives were even worse. The Tories will still win, but not by the margin previously imagined. And Cameron's status will have been damaged. He'll be vulnerable. It'll be said of him that, if he couldn't win easily in 2010, he'd be likely to lose next time round!

And its economy (seemingly) stagnant!

The economy, meanwhile, appeared to mark time. The first estimate of the first quarter's GDP showed a disappointingly slow advance (0.2% on the fourth quarter). If the number were to be accurate (and it'll almost certainly be revised higher), it'll have meant that activity in the bleak midwinter months was teetering on the edge of a double-dip recession. It'll imply that Brown's fiscal policy choices (rescuing bad banks, for instance) was misguided. And it'll presage a lot more misery in the cyclical slow-down that lies ahead. Beyond autumn 2011, things are going to get very difficult.

Valuations will rise nevertheless.

The securities markets will probably continue their appreciation, though. Interest rates will have to stay low and credit accommodative. No central banker, certainly not Governor King, will dare raise interest rates in such circumstances. Set that in the context of moderately strong profits and the indices might easily climb another 20%.

Driven by low interest rates and squeezed wages.

Why will profits rise? Not because of sales exuberance, but pay moderation. Thus far, it's been only the private sector that's bitten the bullet, but later this year, whoever wins the election, the public sector will be under the cosh. Unemployment will rise, pay will be frozen and retirement age increased.

¹ No parallel is perfect. That between Glass-Steagall and Apartheid certainly isn't. But, in one significant respect, there is comparability. The classification was simple to understand, easy to enforce and inexpensive to administer. If, either in the States or South Africa, a Regulatory Agency had been given discretion to alter the classifications, things would have been much more complicated!

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