



## Investment Commentary by Roger Nightingale

*A Constitution needs both Sail and Anchor  
Lord Macaulay - enough of the one to adapt to changing  
times; enough of the other to do so only slowly.*

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In the ten days or so since the Governor of the Bank of England let slip his sanctioning of secret loans to Scottish banks, the response from Press and Parliament has been muted. There's been a low level debate about the economic consequences of bailing out failures, but no discussion of the constitutional implications of allowing unelected apparatchiks to do so. That's surprising; not to say disappointing.

For centuries, it's been a principle of English Law that decisions relating to fiscal policy be decided by Members of the House of Commons, and exclusively by them. But today, it appears no longer to be an issue about which people feel strongly. The B-of-E surreptitiously lends £60 bn to RBS and HBOS, foisting the obligation on non-banks, and is not even censured for its (probably ultra vires) actions. The Governor, Mervyn King, reporting to the House of Lords, does not feel obligated to apologise for them; the happy-clappy Deputy Governor, Paul Tucker, is prepared to boast about them.

Their claim is that, without such a transfer, the economy would have performed less well. Really? Are they suggesting that bankers use resources more efficiently than non bankers? What is their evidence? Do they think it's been industrialists and retailers, fund managers and dentists who've been profligate, who've invested unwisely and brought the country to its knees? What nonsense!

There's only been one group of people whose behaviour has been worse than that of the bankers, and that's bureaucrats. It's the legislators and the regulators, and their mollycoddled civil servants, who've been the weakest link in the economics chain. If resources had to be give to feckless bankers (the case is non-proven), they should have been taken from even more feckless bureaucrats.

Global economics news, meanwhile, has been moderately good. The cyclical recovery, now almost nine months old, is quickening. But it's still very mild in comparison with the preceding setback. There's no economics justification, therefore, for all employment rolls to have stayed so high. Perhaps, in the nine months ahead, there'll be a correction.

If so, if huge numbers of workers should be laid off, the consequences for sentiment, and probably also for spending, would be serious. It might be a little different even if workers were to retain their jobs. So long as they feared prospective unemployment, attitudes would stay cautious and spending subdued. The odds against a “normal” recovery, one developing self-feeding momentum, look to be high.

The news relating to Afghanistan is almost as bad as it could be. Obama has decided (Brown trailing obediently behind) neither unambiguously to withdraw nor wholeheartedly to commit. Extra troops will be deployed, but only for a limited period. The Taliban will be allowed to take back control, but not yet. It’s a message that will dishearten friends and foes alike. It’s Vietnam all over again.

Securities markets have wobbled in recent weeks, but the outlook remains fairly favourable. Low interest rates, negative inflation and satisfactory profits will be a winning combination. Heightened levels of M&A will provide the cherry on top of the icing.

The facts and opinions contained within this newsletter have been provided by Roger Nightingale; Buckles Investment Services do not take any responsibility for the contents.

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