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The politics of fear

"I'm getting increasingly worried about the free movement of people across Europe. It's a very competitive world out there and my constituents resent that."

- Huddersfield Labour MP Barry Sheerman, defending comments he made on Twitter about Eastern European workers.

It was quite fitting that in a week that saw Britain slide into its first double-dip recession since 1975 we also saw evidence – notably from the political left – of the sort of insular bigotry and protectionist narrow-mindedness that one associates with that ugly decade. And if there was any doubt about the longevity of the UK's fragile Con-Dem coalition, its honeymoon period is certainly over now. Nor were the signs of some kind of political unravelling confined to British shores. French voters in the presidential elections shocked markets by a) favouring the socialist Francois Hollande and b) giving almost a fifth of their votes to the far-right extremist Marine Le Pen. In another turn of the sovereign debt screw, Spain was downgraded toward reality. The Dutch government, meanwhile, collapsed altogether. Amazingly, the people of Europe just don't seem that keen on austerity.

Richard Lambert for the FT anticipated Barry Sheerman's nastier musings by a week, in a piece entitled 'Why no British staff at Pret A Manger ?' Part of his answer:

"Restaurants, hotels and consumer-facing businesses of all kinds seem to have decided in recent years that young Britons are just not as good as others when it comes to friendly and reliable service, a serious work ethic – or simply turning up on time and on a regular basis."

This conclusion was supported by a subsequent letter to the paper's editor from Tony Constance of Akramatic Engineering in Derbyshire:

"After some 15 hours covering various form filling and choosing four possible candidates from CVs, the result was as follows:

Number one candidate – the job centre was told he was now off sick.

Number two – uncontactable.

The final two were due to start at 7.30am on Tuesday last week.

Number three – did not turn up as “my girlfriend is five months pregnant and I have been up all night”.

Number four – did turn up but after 10 minutes left stating: “I am not doing this job for nothing.”

The lady at the job centre was most embarrassed and said that the real problem is that “we have no sanction against them. We can’t reduce or take their benefits away.”

Not to be outdone, another journal of repute noted the case of Carl Cooper, who hired seven new recruits to his marketing firm in Hersden, Kent, only to find that none of them turned up to work; four of them failed to show because of the rain.

Perhaps this outbreak of workshyness is what happens after a champagne socialist administration urges half the school population towards university irrespective of any merit or underlying interest. As our disaffected youth are apparently prone to remark: whatever. Martin Spring’s latest ‘On Target’ newsletter (‘Britain: a culture hostile to growth’) separately contains a devastating blow-by-blow analysis of the difficulties facing Messrs Cameron and Osborne, and it is difficult to disagree with his suggestion that

“There are ominous signs that the period of office of these two young and inexperienced leaders will be seen as ending in political and economic failure.”

As Enoch Powell said, all political lives (unless cut off midstream at a happy juncture) end in failure, because that is the nature of politics and human affairs. The political life of the current coalition may end up being remarkable only for its brevity.

Chris Dillow quite reasonably asks why the recession of today hasn’t produced the sense of crisis manifest in the 1970s. His answer: that average real wages are much higher now so although standards of living are falling, they’re falling from a much higher level that softens much of the pain (of the austerity that hasn’t even really arrived yet). And that the working class is more atomized now, both geographically and ideologically. It may also be that back then the young by and large wanted to work and couldn’t, and now by and large don’t even want to, if the examples of Akramatic Engineering and Carl Cooper’s Car Smart are anything to go by.

But there is one outcome from the 1970s that is genuinely to be feared and it is called stagflation, the risk of which seems to be rising every day, if it has not indeed already arrived. Stagflation is and will be the natural side effect of extended QE during a period of widespread deleveraging – the printing of money that nobody wants. An outbreak of serious stagflation will also more than decimate conventionally managed debt and equity portfolios. But we live in strange times – times, for example, that reward bankers handsomely for bankrupting the economy. So the likes of the FT’s Chris Giles can insist with impunity that ‘The Bank of England must unleash more QE’ (26 April) without a scintilla of justification or any substantive evidence that it works. In a letter to the paper’s editor from the same day, economist Roger Alford remarked that

“The utterly disparate time horizons and the very different experience and skills required.. make it virtually impossible for any one person to have the experience and depth of understanding to provide effective leadership [as Governor of the Bank of England].”

Being hidebound by the intellectual constraints of his faux science “profession”, Mr. Alford does not take this argument to its logical conclusion – if the institution is so difficult to govern and the role so difficult to effect, why have it in the first place ? We know why the Bank of England exists – to protect the banking system at all costs (including that of bankrupting the productive economy and the taxpayer), and to finance the government's debts (the same point repeats). But ever more urgent austerity and an insoluble sovereign debt crisis are uneasy bedfellows. By definition we cannot shrink our way back to the sort of growth required to service the West's accumulated debts. Something has to give. That something will ultimately be social disorder on a continent-wide basis, not least as an ever more put-upon taxpayer base is obliged to fund the increasingly untenable costs of Big Government. Out of that disorder perhaps will come genuine political leadership and the retrenchment, rather than the constant advancement, of the leviathan state. If that is what it takes to shift an unsustainable status quo in which vampire banks and clueless bureaucrats suck the life out of the productive economy, bring it on. "The last thing that the markets need right now is increased political uncertainty at the heart of Europe at a time when the economic outlook is already bleak," commented Capital Economics. To which the only reasonable response is: tough.

Strange times and fundamentally distorted markets (see QE, again) require investors to possess unusual psychological fortitude. Two things are required to maximise the probability of meaningful capital growth or simply capital preservation in real terms within such a perilous environment. One of them is an attractive valuation at the inception of an investment. Pockets of value undoubtedly persist throughout debt and equity markets, though one may have to look harder than normal to identify them. (We leave momentum investing to others.) The other is patience. An easy philosophy to articulate, but a fiendishly difficult path to follow.

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