PFP
Wealth Management

3 Windsor Court
Clarence Drive
Harrogate, HG1 2PE
01423 523311

Lion House
72-75 Red Lion Street
London, WC1R 4NA
020 7400 1860

www.pfpg.co.uk

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Hunting witches

"To the socialists of all parties (to whom F.A. Hayek dedicated 'The Road to Serfdom'), 'The Constitution of Liberty' is anathema. Hayek, they believe, stands for an atomised society full of selfish individuals all looking after their own interests. But nobody who has read the original texts could possibly represent him this way.

"One person who understood this was Margaret Thatcher. Once during a party policy meeting a speaker started to argue that the Conservative Party should adopt a pragmatic middle way. According to John Ranelagh in 'Thatcher's People', "Before he had finished speaking.. the new Party Leader reached into her briefcase and took out a book. It was Friedrich von Hayek's 'The Constitution of Liberty'. Interrupting, she held the book up for all of us to see. 'This,' she said sternly, 'is what we believe,' and banged Hayek down on the table."

- Philip Booth.

Difficult, somehow, to imagine David Cameron (or Ed Miliband, for that matter) banging any sort of book down at a policy meeting as a statement of belief – unless it happens to be on the topic of public relations. That is the measure of Margaret Thatcher's premiership. Regardless of whether you liked or loathed her policies, today's crop of aspirant statesmen in the British parliament look like pygmies by comparison. Where are our conviction politicians ? This matters, because as 'The Economist' pointed out last week, in a world desperately in need of growth,

"the pendulum is swinging dangerously away from the principles Mrs. Thatcher espoused. In most of the rich world, the state's share of the economy has grown sharply in recent years. Regulations – excessive, as well as necessary – are tying up the private sector. Demonstrators protest against the very existence of the banking industry. And with the rise of China, state control, not economic liberalism, is being hailed as a model for emerging countries."

A particularly nasty line is currently being drawn by British politicians over the issue of banker behaviour – and it is tiresomely predictable to see Lib Dem peers on the wrong side of it. In the wake of a damning report by the Parliamentary Commission on Banking Standards, MPs are stampeding to join the witch-hunt against the HBoS three – some ***five*** years after that failed banking organisation had to be rescued by the taxpayer. At the time of writing, Sir James Crosby, the former chief executive of the collapsed bank, was busily resigning from a number of directorships and had offered up his knighthood by way of supplication and atonement.

As the German political analyst and asset manager Erwin Grandinger makes clear in his analysis of the problems facing his own national body politic, 'Beyond Repair' – an analysis that is likely to shock, quite profoundly, anyone who regards Germany as a true safe haven from the euro zone debt crisis – the witch-hunt against the bankers is straight out of the statist playbook:

"What many have not understood is that the 15th September 2008 [the collapse of Lehman Brothers] revealed the biggest political scandal in Germany since 1949. It is not just the banking caste that has to be exposed to ridicule, but also the political elite, the ministerial bureaucracy and the central bank ideologues. All have worked hand in hand with the financial industry for decades (always to the disadvantage of the citizen – better known as the taxpayer). That was the reason why the political backlash against erstwhile-pampered allies in the world of finance was so brutal. ***The scapegoat may only be assigned to one camp.*** The legal, tax-related, monetary, fiscal and personal links existing between the finance ministries, the Bundesbank, the Federal Financial Supervisory Authority (BaFin), other supervisory authorities, Landesbanks, private banks and leading political parties have a complex, deep, broad and dense nature." (Emphasis ours.)

Given the wholesale betrayal of fiscal probity by government, politicians, bureaucrats, regulators and the full panoply of the state, it is hardly surprising, then, that the one interest group to be frog-marched to the gallows, albeit five years after the crime, and in the full glare of the media, is that single one which is representative of a failed banking sector. To survive, the other guilty parties must hide in plain sight.

In the words of Herr Grandinger, again,

"Politicians and the media, metaphorically speaking, do not discuss system recovery (or, in the best case, systemic change), rather they talk extensively about the remuneration and punishment of the captain and the ship's complement dressing the debate with class struggle slogans. As always in such cases, citizens, politicians and the media, as the mouthpiece of populist gratification, demand a sort of mass psychological and hysterical gaining of satisfaction, à la old school, if you will. For politicians, what matters is to release the pressure. Thus eye-catching demands are quickly fulfilled: financial speculators are to be kept on a "tight leash", bonuses are to be restricted, "banksters" are to be outlawed and fired, some useless set of rules is quickly modified and, if need be, a "pogrom atmosphere" is whipped up."

The reference to the captain and ship's complement is by way of 'Titanic'; both of us have used this metaphor over recent years (see, for example, this) to describe the chilling and relentless mathematical inevitability of systemic failure when overburdened welfare states collide with the iceberg of zero growth in the aftermath / ongoing 'long emergency' of a banking and debt crisis that politicians appear powerless either to understand or meaningfully address. The brevity of the electoral cycle trumps long term social and economic interests. Having long exhausted all conventional measures, central banks now feel obliged to steam on into uncharted waters and, by way of money printing and quantitative easing, test their bond markets, and ultimately their currencies, to destruction.

The gigantism of the State casts a long shadow over the economies of the western world. With dismal demographics and no growth, Japan leads the way (down), with the adoption in desperation of breathtakingly dangerous monetary policies. The UK seems set to follow. Erwin Grandinger develops the 'doomed State' thesis with regards to Germany. Not even the US is immune to this baleful trend, though its economy and currency are likely to end up being the last man standing. The passing of Margaret Thatcher is not just melancholy in itself, it shows the sad distance that the west has travelled between the individual libertarianism of *then* and the resigned capitulation to an impotent State of *now*. In purely investment terms, there is a very real danger, we think, in throwing valuation caution to the winds and blithely riding a rally – in "riskless" sovereign debt and equity indices alike – powered by indiscriminate tides of liquidity released by central bankers. As Joe Saluzzi recently tweeted,

"Dear CNBC, the reason why this is the most hated rally is because most of us still believe in free markets and are disgusted by central banker hubris."

But arguably the most loathsome sight of the year to date was socialist members of the UK parliament excoriating the policies, achievements and memory of the late Margaret Thatcher. To swell the State once to the brink of destruction (1979 UK) is bad enough. To do so twice (2008 UK, and of course elsewhere) while keeping a straight face beggars belief. But instead of making properly hard choices (such as pursuing genuine austerity rather than the effete variant favoured by the statesmen of 2013), our political and administrative "leaders" dole out spin and liquidity and not much else, whilst permitting the continued and inexorable rise of the State. The role and indeed value of our central banks is worthy of much greater discussion than it currently commands. It used to be said that if you were not part of the solution, you were by definition part of the problem. In what respect is the provision of ever more liquidity, whilst simultaneously starving savers and the wider economy by nailing interest rates at zero, solving anything ?

Tim Price
Director of Investment
PFP Wealth Management
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Follow me on twitter: timfprice

Email: tim.price@pfpg.co.uk

Homepage: http://www.pfpg.co.uk

Weblog: http://thepriceofeverything.typepad.com

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