



McInroy & Wood

PERSONAL INVESTMENT MANAGERS

***“Now, God delay our rebellion: as
we are ourselves, what things are we!
Merely our own traitors.”***

All's Well That Ends Well

The drum-beat grows louder. As they march on towards the citadels of power, the people snarl; at grubby politicians; at feckless bankers; at indulgent directors; at greedy executives and, doubtless, when it comes to their own savings, at fat-headed fund managers too. They rejoice daily in news that a few more of their elected representatives have been shot by Fleet Street's snipers. One wonders how long it will be before everybody involved in the free market battleground gets carried off in the same tumbril of revenge. Can the market system as we know it survive a people's revolution?

Before answering, one needs to consider why passions are running so high. Certainly an economic and political earthquake has struck the British people. But the upheaval does not mark a collision between vice and virtue, between greedy privateers on one side and innocent victims – us – on the other. Rather it points to the collapse of a Faustian pact struck between increasingly voracious consumers of goods and services, and enterprising global producers ever more eager to supply our appetite. A unique mix of circumstances squared the devilish circle when cheaper sources of supply in a globalised economy met an apparently inexhaustible pool of cheap finance poured into our pockets by financial alchemists. Prudence and thrift were cast aside for as long as the parties had the means to indulge extravagance and risk.

Fatally, the checks and balances necessary to limit indulgence failed at the very moment they were most needed. Centralisation of political power within Westminster and the accretion of unfettered power in the hands of company executives and financial institutions turned the servants into masters, accountable only to themselves. Hence Westminster expenses ran riot, executives invented their own pay terms and contracts, and political and corporate democracy wasted as it slept.

While the Bank of England had been stripped of much of its power to moderate financial risk-taking, the Financial Services Authority, now regulator-in-chief, wallowed harmless as a basking shark in a sunlit ocean.

So much for the causes. The result is a nation embittered, resentful of all in positions of power, whether in the Westminster Parliament and the boardrooms of the Western world's biggest companies, in the City, or in any other area of activity tainted by evidence of personal greed and failed accountability. Resentful spirits, however, weigh no fair balance of blame but tilt the scale towards the failure of others whilst making light of their own.

That resentment has recently been expressed in national and European election results and the success of fringe political parties at the expense of established ones. It has also been seen in the rejection of company board resolutions normally passed on the nod by compliant shareholders. BP, Shell and other corporate titans have already been given a public kicking. So have bankers. Furthermore, recent events have added substance to a lingering disquiet that the fruits of the free market system have been unequally and inequitably shared. Over the past 15 years, pre-tax income of the poorest 5% of the nation's taxpayers rose by 50%, that of the richest 5% rose by 77%, half as much again.

At other times this disquiet might have been shrugged off as predictable back-biting by the victims of an economic downturn. But in this case so widely and deeply is it felt that it can reflect only a general revulsion at the existing order. Let us consider the fallout from all this.

In the business area, some knee-jerk reactions are predictable enough: more financial regulation, tinkering with the supervisory structure, restricting further the pricing power of vital public service providers such as utilities, and redefining the responsibilities of institutional investors; banking businesses in particular will of course come under much closer scrutiny and their activities will likely be reclassified so as to segregate the riskiest activities, properly the province of the securities houses,

