

periodically in his *Darling* Chancellor's efforts to resolve the economic crisis by vetoing the few sensible suggestions that are put up. There is a systematic failure in Government policy making caused by Brown's dismemberment of the authority of the Bank of England, the only body that had some understanding of the banking system. When regulation of the system was split between the Bank, the FSA and the Treasury and the management of Government debt was parked in a backwater, the ability to create cohesive advice for the Chancellor was destroyed. There are now four key areas with different remits and responsibilities and the Chancellor seems to be unable to get a cohesive and thoughtful policy developed, the *underlapping* departments make it almost impossible to produce an analysis of the extremely complex problems that are causing the economy to unravel.

The latest policy initiative of reducing VAT by a few percent will have no impact on people's purchase decisions, particularly as the retail sector is embarking on massive discounting on sales, while the increase to UK industry and other employers of National Insurance, as well as the increase in tax on fuel, which will affect distribution costs, is negative for employment. Added to this the ballooning Government deficit will almost inevitably lead to interest rate rises one to two years from now. Add to this the pre-announcement that taxes will rise considerably in 2010 is a statement calculated to kill off any potential green shoots that may be appearing at the end of 2009.

The leaks accompanying the announcement indicate that it was a decision to make a grand statement before the cohesive and intelligent policy was thought through, showing we still have a UK Government that is addicted to spin over substance.

Most statistics are showing a precipitous decline in business akin to the 1981 recession, which was the worst recession in recent history. The difference between then and now is that today it is the breakdown in the interbank system that has precipitated the crisis, and the danger to countries that are most dependent on world trade is much greater if this dislocation is not fixed in the near future.

It is the breakdown of world trade that gives me the greatest worry, but it is also the observation that the US is less dependent than most countries on international trade that gives me some hope. It is to the US that we need to look for the light at the end of this tunnel, which we may have only just entered.

Damon de Laszlo
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To: Oakmont Corporation

From: Damon de Laszlo

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Global Economic Indicators

World Economic Growth	2007 (IMF Estimate)	4.90%	2006 (World Bank)	4.00%	2005 (World Bank)	3.60%
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Base rates: 31 October 2008	USD	1.00%	EUR	3.75%	GBP	4.50%
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MSCI World Equity Index	31/10/2008	192.11	31/12/2007	299.916	YTD %	-35.95%
Gold (PM London Fix \$ per ounce)	31/10/2008	730.75	28/12/2007	833.75	YTD %	-12.35%
Oil (WTI Crude \$ per barrel)	31/10/2008	67.81	28/12/2007	96.01	YTD %	-29.37%

The breakdown of the banking system is still “work in progress”. The fact that it has not been fixed is serious. While it appears unlikely that after the Lehman experience Governments will let any more large or even mid-size banks go down, the bankers themselves are not performing their function of providing liquidity to commerce and industry.

There is a continuing deterioration in the availability of trade finance leading to a rapid decline in commercial transactions around the world. This can be most easily seen in the decline in shipping rates, which are now down by over two-thirds, and indeed below the cost of running the ships concerned. The dislocation in the supply chain could easily lead to the destruction of many industries, leading to a severe recession.

By the end of October, the financial system had virtually stalled and I am now less sanguine as the situation is still deteriorating. While Obama is making intelligent plans and has put in place a first class economic team, he will probably not be in a position to act until January next year. Europe is still presenting a confused front. With the German Chancellor in a “let’s not be too hasty to act” mode on one side, and the Mediterranean countries pleading for concerted European action on the other.

China, on the other hand, is beginning to move in a deliberate and analytical way but is probably grappling with a cyclical economic downturn, being compounded by the global economic crisis. Japan, which has hardly managed to recover from its 1990’s recession, is sliding backwards as the world demand for its exports collapses.

This leaves the bizarre case of Britain where the Prime Minister, having spent the last five or six years talking prudence and running a profligate Government, intervenes