



17th May 2010

## Hard money for hard times

“Britain in 1945. No supermarkets, no motorways, no teabags, no sliced bread, no frozen food, no flavoured crisps, no lager, no microwaves, no dishwashers, no Formica, no vinyl, no CDs, no computers, no mobiles, no duvets, no Pill, no trainers, no hoodies, no Starbucks.. Heavy coins, heavy shoes, heavy suitcases, heavy tweed coats, heavy leather footballs, no unbearable lightness of being. Meat rationed, butter rationed, lard rationed, margarine rationed, sugar rationed, tea rationed, cheese rationed, jam rationed, eggs rationed, sweets rationed, soap rationed, clothes rationed. Make do and mend.”

- From ‘Austerity Britain 1945-51’ by David Kynaston. Hat-tip to JBP.

**There was a** strangely surreal sense of comedy to British politics this last week. Perhaps it was born out of relief that the socialist incumbents had finally been prised from office, like parasitic barnacles. Their legacy seems unlikely to be viewed favourably by posterity and that widespread air of good humour is unlikely to last. The Sunday Times reports the new government’s predictable complaints that Labour pursued a “scorched earth” policy in its final months of rushing through billions in extra spending commitments in a doomed attempt to buy votes. We can now rest assured that fiscal skeletons will be tumbling from closets for the balance of the year.

Money is not just tight, it is not what it used to be. Gold is now reaching new highs not just in US dollars, but in almost every major currency. Paper currency, on the other hand, is depreciating at the same speed as politicians’ credibility. As a sign of its fast-depleting utility, consider how much money it takes to stoke an equity market rally these days. In Europe, a rally lasting all of a day costs €750 billion – the amount pledged by EU leaders to try and distract the financial markets from the fact that most of Europe’s governments are bankrupt. There are still some fiat money hold-outs, however, like the FT’s Lex columnist, who in time-honoured fashion insists on calling buyers of gold fools. With the benefit of hindsight, over the past decade at least, it is the sellers of gold who have been foolish – like our erstwhile leader, who achieved an average price of \$275.60 for the nearly 400 tonnes of gold sold from UK reserves between July 1999 and March 2002. Gold ended the week at \$1233 an ounce. The undisputed comic triumph of the 2010 general election was surely Gordon Brown campaigning on the back of his economic stewardship. John Law. Fred Goodwin. And now Gordon Brown. The Scottish reputation for prudent financial management must be one of the most extraordinary public relations victories in the history of the world.

The only issue with gold is now a matter of market timing. Given that the likes of The Daily Mail have woken up to the rally – what we might call the beginning of the manic phase – it is reasonable to assume that some momentum may soon be lost. When The Sun breathlessly reports that an

Abu Dhabi hotel has installed a gold-dispensing ATM machine, we are not exactly at the embryonic stage of a bull market. But the macro backdrop – universal currency depreciation, fears of sovereign indebtedness and ongoing financial crisis – may never have been more supportive for the yellow metal. Unlike Lex we will be buyers on dips.

### A vote of no confidence in political leadership – the gold price, 1999-2010



Source: Bloomberg.

If there has been a spirit of hopefulness about British politics this last week, it is soon to collide with some harsh realities. The impact is likely to be brutal. In 1945, the people had been through six years of grinding warfare and the nation was getting by on a mixture of grit and resignation. The end of food rationing, for example, would not come until 1954. In 2010 there is some small sense of resignation about what is to come but precious little evidence of grit. A citizenry spoilt by handouts, made plump by a sense of institutionalized entitlement and made economically slack by a deeply entrenched welfare system now waits to see what its new politics can deliver. The phony war is over. The real war is about to begin.

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