AN OPEN LETTER TO PRESIDENT GEORGE W. BUSH

To restate the obvious: The President of the United States faces a daunting task in that he must renovate the US economy, on the one hand, and, on the other hand, he must promulgate new laws in order to reform the practices of the US multinational corporation.

Confusion may arise in the minds of some people as to which is which, renovation and reformation, but the ultimate goal of the US Administration, today, is restoration of the most important single economy of the world.

Reformation of certain extant laws may have to be executed with sudden and ruthless conviction in order to bring about an economic restoration – actually, this is a must, in TARGET's opinion.

Ultimately, President George W. Bush is the trustee of the largest single economy of the world; he controls the most powerful military force the world has ever seen; he has the ability to swing, one way or the other, the largest economies of the world; he is the international policeman, a position that has been thrust upon him, de facto; and, the free world looks to him for guidance.

Today, as never before, the position of the President of the United States is the hottest job in the history of the civilised world.

The Immediate Problems

Last week, it was announced that the US economy suffered a record trade deficit of about $US37.60 billion for the month of May 2002.

What this means, in simplistic terms, is that US citizens are buying more foreign-made goods and services – to the detriment of similar, US-manufactured goods and services.

Imports into the US were about $US118 billion in the month of May as foreign-made motor cars, television sets, clothes, etc were purchased by Americans, who forsook domestically made motor cars, television sets and clothes, etc.

The US Commerce Department stated that imports are, now, growing at about twice the pace of exports.

Last Thursday, the US Bureau of Economic Analysis (the BEA) stated, publicly, that the Current Account Deficit – the combined balances on trade in goods and services, income, and net unilateral current transfers – increased to $US112.50 billion in the first quarter of this year.

This is up from about $US95.10 billion, recorded in the fourth quarter of 2001.

The BEA went on record as to state:

> *'The deficit on goods and services increased, the balance on income shifted to a deficit from a surplus, and net outflows of unilateral current transfers increased …'*
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> *'The deficit on goods and services increased to $*(US)*94.9 billion in the first quarter from $*(US)*88.0 billion in the fourth* (quarter of 2001).

'The deficit on goods increased to $(US)*106.4 billion in the first quarter from $*(US)*100.7 billion in the fourth* (quarter of 2001).

'Goods exports decreased to $(US)*164.6 billion from $*(US)*167.4 billion. The largest decreases were in capital goods, in industrial supplies and materials, and in consumer goods.*

'Goods imports increased to $(US)*271.1 billion from $*(US)*268.0 billion. A decrease in petroleum and products, mostly resulting from a decline in the volume of imports, was more than offset by an increase in nonpetroleum products. Within nonpetroleum products, the largest increases were in consumer goods, in capital goods, and in automotive products….*

'The balance on income shifted to a deficit of $(US)*1.8 billion in the first quarter from a surplus of* $*(US)6.5 billion in the fourth* (quarter of 2001) ...

'In the first quarter, the U.S. dollar appreciated 3 percent on a trade-weighted quarterly average basis against a group of 7 major currencies.'

As one would expect, the US dollar continues to come under intense pressure against other *'hard'* currencies: Against the Japanese yen, it fell to 115.64 yen, last Friday (July 19); and, against the euro, it fell to about 99.44 cents.

A weaker US dollar, vis-à-vis its major trading partners, should mean, short-term, that US-produced goods and services will stand a better chance in overseas marketplaces.

But there is the inevitable downside, also.

If the current situation is permitted to continue, US businesses will continue to suffer, leading, ultimately, to a stalling of the much-trumpeted but rather tenuous US productivity recovery.

As it is, the rate of growth of productivity in the US has been, over the past year or so, the slowest rate of growth for the past 70 years, going back to the 1930s.

This has not been appreciated, strangely, and very little has been stated about this phenomenon.

While the Chairman of the US Federal Reserve Board, Dr Alan Greenspan, claims that the US economy is on track, one cannot help but wonder whether or not that statement was uttered without the benefit of certain events that have taken place of late.

And before the release of the BEA's statistics of last week.

If the US economy were on track, yesterday, TARGET questions whether or not it is on track, today.

Interest-Rate Increases Are Not An Option

For the US Federal Reserve Board to consider interest-rate increases, at this time, from the present very low level, may well have the effect, short-term, of causing foreign investment to lend a little more money to US industry.

But it is unlikely that The Fed could take such an action: It needs to get the US consumer, back into the shops, buying US-made goods and services; an increase in interest rates would cause prices to rise as manufacturers pass onto consumers, the increased costs of production.

Foreign money, naturally, is concerned about the US economy and prospective investments in the largest single economy of the world due to the recent corporate scandals, inter alia, and concerns over the rate of return that they perceive as being a reasonable yield on money expended.

Again, the BEA comments:

> *'Net recorded financial inflows – net acquisitions by foreign residents of assets in the United States less net acquisitions by U.S. residents of assets abroad – were $*(US)*99.4 billion in the first quarter, compared with $*(US)*150.7 million in the fourth* (quarter of 2001). *Financial inflows for foreign-owned assets in the United States decreased more than financial outflows for U.S.-owned assets abroad …'.*

Further, the recent dramatic falls in US equity markets does not presage confidence to invest in US stocks and shares – by anybody.

Offering better terms to foreign investors to come to the US investment party will have to come to pass, but, at this stage, only higher interest rates seem to be a viable answer to the conundrum.

Another Answer

The situation in the US, today, borders on hysteria because more and more investors are losing more and more money.

Pensions and savings are being eroded at a very rapid rate.

So-called blue-chip companies and gilt-edged investments have turned out to be mere mirages: Formulae of yesteryear no longer apply.

There appears to be no safe haven for US investors' cash, which had been carefully placed in bank accounts and into retirement funds in order to plan for the future, to care for the elderly; for the infirm in their declining years.

Despondency and nervousness, as one would expect, are the natural relatives of the present economic situation in the US.

As with a yacht that has lost its keel, the vessel will never be righted without it being fitted with a new one.

And, things cannot be left as they are in the hope that time will supply an answer – because no answer will be forthcoming.

To take no action is to be negligent and reckless.

The US Government has to take determined and definitive actions in order to tackle this new emergency, which is much greater than the emergency that was created on September 11, 2001, with the attack on the US homeland by Osama bin Laden and his madmen.

Speed is essential in tackling the present economic woes of the US in the same way that it is said that justice is best served when it is expedient and timely.

However, it must be remembered that the ultimate goal of correcting the balance with regard to the US economy is not to put a band-aid on it, but to achieve a long-term plan that will stand the test of time.

In short, immediate cosmetic remedies may have the appearances of being the *'snake oil'* for the US economy, but the ultimate purpose of any and all remedies must be to achieve a viable set of solutions to cover any and all contingencies, which may come to pass in the future.

It has been said that every march must begin with the first step, and so it must be that short-term recovery must lead to long-term reformation.

A daunting task, to be sure, in view of the numerous corporate scandals of late!

More US workers must find jobs; confidence in the future must be re-instilled in the populace; US consumers have to want to purchase US-made goods and services: This will produce the impetus for a viable increase in productivity.

The national output must increase, but this can only come to fruition when demand outstrips supply – which is, clearly, not the case, today.

To consider protectionism is to court inflation and international condemnation since it is contrary to the tenets of the international trade organisations to which the US Government is a signatory.

Consumers in the US are uncertain about tomorrow.

Among their biggest concerns is whether or not the breadwinners will have employment, in the morning, and whether or not they will be able to bring in sufficient money, today, to put food on the tables and to clothe the kiddies.

The creation of additional incomes is absolutely necessary.

To achieve this, it would appear that the US Government must take the lead in job creation.

The recent falls in the price of chips to power computers, etc, is endemic of slower and lower consumer spending on those goods that require those chips.

This is stating the obvious, of course, but it bears being repeated because one, from time to time, has to be reminded that rising prices follow rising output.

The capitalistic economic system is predicated on shortages of raw materials and goods.

If such were not the case, then, the dog would catch up to its tail, eat it, and the dog would die.

But a shortage of such essential items, such as computer chips, thus forcing up their prices, ultimately to the detriment of the consumer, will not aid the US economy – because that would be akin to trying to drive a motor car with the emergency brake, restraining the drive shaft from turning, freely.

Any economic recovery for the US must be driven by a sufficiency of supply, not the lack of it: Armed with the correct tools, a mechanic can repair most engines, given the reference manual.

And a ready supply of goods is only part of the solution to the problem, because, at the other end of the equation, there must be an attendant supply of money to fuel a recovery in order to apply the balm to guarantee the effectiveness of those reforms that are deemed necessary.

It would appear that too much emphasis has been placed on reforms of corporate America, of late, and not enough concern has been placed on the renovation of the economy.

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