

GUNS VERSUS BUTTER

Wars are very expensive pursuits.

They, always, have been.

The winner, nearly always, ends up, being the loser.

There are, in today's world, no more booties to be obtained for the victor: There are only costly reparations for the vanquished nation – provided that the vanquished has something of value left after the battles have been lost.

If there are no reparations to be obtained by the victor, the chances are that the victor will foot the bill of rebuilding the shattered economy of the vanquished.

Thus, in essence, the victor stands on an equal footing with the vanquished.

When the US goes to war against Iraq, it will hurt everybody.

And, after the US claims victory over the forces of President Saddam Hussein, the US taxpayer is likely to have to help to rebuild the Iraqi economy.

While many economists claim that a short war against Iraq will have little bearing on the economics of the US, TARGET does not hold this view.

In fact, TARGET would go so far as to suggest that a war with Iraq is quite likely to plunge the US into economic recession – again.

As it is, the US economy is very wobbly; it is only just able to keep its economic head above the tidal waves that threaten to engulf it.

The cost to the US economy to try to safeguard The Home of The Free and The Land of The Brave from Arab terrorists is becoming more and more of an Administrative and financial burden, according to the latest statistics that TARGET has recently unearthed.

Not that that fact had not, already, been known, but the problem was that it had not been isolated and assimilated, in total, along with other known economic statistics, in order to understand its impact on the overall economy.

Statistics, gathered by agencies of the US Government, however, now tell a rather frightening and revealing story.

The US Department of Labour reported, on Friday, September 6:

'Both payroll employment and the unemployment rate were little changed in August ... Job gains in services, (US) Government, and construction were largely offset by losses in manufacturing and retail trade.

'Both the unemployment rate, 5.7 percent, and the number of unemployed persons, 8.1 million, were little changed over the month (of August). The jobless rates for the major worker groups –

adult men (5.2 percent), adult women (4.9 percent), teenagers (17.2 percent), whites (5.1 percent), blacks (9.6 percent), and Hispanics (7.5 percent) – showed little or no change.

‘The number of person unemployed 15 weeks or more was 2.8 million in August, down from the recent high of 3.1 million in June ...

‘About 6.8 million persons (not seasonally adjusted) held more than one job in August. These multiple jobholders represented 5.0 percent of the total employed.

‘About 1.4 million persons (not seasonally adjusted) were marginally attached to the labor force in August, essentially the same as a year earlier ...

‘Total nonfarm payroll employment was little changed (+39,000) in August at 130.8 million. Since its recent low in April, payroll employment has edged up by 162,000.

‘The services industry added 100,000 jobs in August. Employment in this industry has risen by 411,000 since February. Employment in health services rose by 26,000 in August, in line with the average monthly increase over the prior 12 months. The help supply industry, which provides workers to other businesses, added 51,000 jobs over the month, following a decline of 30,000 in July. Since its recent low point in February of this year, employment in help supply services has risen by 165,000.

‘Government employment rose by 41,000 over the month. The Federal Government added 20,000 jobs, mostly reflecting an increase in the number of Federal security personnel at airports. Employment in local government grew by 34,000 in August, due largely to a gain in local education. State education employment fell by 20,000, after increasing by the same amount in July.

‘Employment in construction increased by 34,000 in August. Despite this one-month increase, the level of construction employment in August was essentially the same as in April.

‘Manufacturing employment declined by 68,000 in August; this compared with losses in the prior 4 months that averaged 18,000. In August, job losses were widespread, including substantial declines in electronic and other electrical equipment (-18,000) and industrial machinery and equipment (-13,000). After remaining fairly steady from January through July, employment in fabricated metal products decreased by 10,000 in August. Rubber and plastics manufacturing lost 7,000 jobs, offsetting the previous month’s increase.

‘Retail trade, which had shown little change on balance since February, lost 55,000 jobs in August. A decline in department store employment (-41,000) accounted for most of the drop...’.

The final 2 paragraphs in the statistics of The Bureau of Labour Statistics of the US Department of Labour say it all.

The September statistics are likely to be even more alarming to right-minded economists.

There is the logical fallacy of *‘Figures Prove’*, which is, more often than not, used by certain stockbrokers, from New York to Tokyo.

In trying to justify, or over-generalise, a point of view, stockbrokers like to point to one aspect of an economy or industry in order to make claims that that aspect should be taken as the Gospel according to the Holy equity market: *Figures Prove*.

However, one should assimilate one set of statistics with other facts and statistics in order to try to come to a logical position so as to be able to make a determination as to direction, if definition is not completely possible.

This inductive method of logic is a little different from the mental orgasms in which stockbrokers like to indulge, and with which they like to try to infect clients.

The US Census Bureau and The Bureau of Economic Analysis (The BEA), through the US Department of Commerce, recently announced the July export figures for goods and services.

These statistics indicated that the total July exports were about \$US83.20 billion, against imports of about \$US117.80 billion.

This means that there was a goods-and-services deficit for the month of July of about \$US34.60 billion.

US consumers are opting for cheaper (and, perhaps, better) imports of motor cars, television sets, etc.

The BEA said, inter alia (all figures are in US dollars):

‘The June to July change in exports of goods reflected increases in automotive vehicles, parts, and engines (\$0.4 billion); other goods (\$0.2 billion); consumer goods (\$0.1 billion); and capital goods (\$0.1 billion). A decrease occurred in industrial supplies and materials (\$0.1 billion). Foods, feeds, and beverages were virtually unchanged.

‘The June to July change in imports of goods reflected decreases in consumer goods (\$0.6 billion); other goods (\$0.3 billion); and capital goods (\$0.3 billion. Increases occurred in industrial supplies and material (\$0.1 billion) and foods, feeds, and beverages (\$0.1 billion). Automotive vehicles, parts and engines were virtually unchanged...

‘For the three months ending July, exports of goods and services averaged \$82.1 billion, while imports of goods and services averaged \$118.5 billion, resulting in an average trade deficit of \$36.3 billion ...’.

Meanwhile, The US Labour Department continues to churn out statistics in respect of the initial claims for unemployment benefits from the footloose and fancy free, statistics that reach for higher and higher levels as the weeks pass.

It would appear that the US jobless levels will not abate, considering the very regular announcements from ‘Corporate America’, which, daily now, announces more and more sackings.

For the week, ended September 14, 2002, The Employment and Training Administration of the US Labour Department suggested that the number of people, applying for unemployment benefits for the first time, was 424,000, which would appear, on the surface, to be lower by about 9,000 initial claims, compared with the statistics for the week, ended September 7.

The US Labour Department, however, is likely to revise its initial-claim figures for the week of September 14 before this week is out.

This is the normal practice of this US Government department, which gathers and plugs in a host of other factors, such as seasonable considerations, etc, all of which are fed into the unemployment equation in order to arrive at an accurate summation of the situation in the US for a particular period.

For the past month, the number of initial claims from the unemployed of the US has been greater than 400,000 claims.

The 4-week moving average of initial unemployment claims is about 418,000, which happens to be its highest level since May 25, 2002.

It has been on the rise, now, for the past 6 consecutive weeks.

There would appear to be every reason to believe that it will continue to rise, perhaps closer to the 450,000 level, before it starts its descent.

As for continuing unemployment benefits, they stood at about 3.62 million claims – which is the highest level since June 22.

One has to ask oneself: Are the above statistics indicative of an economy in rebound; or, are they indicative of an economy, sinking (or having sunk) into a recession?

(A recession is, normally, defined as 3 consecutive quarters of negative growth in an economy, although there is debate as to whether or not such a determination may be made on the basis of just 2 consecutive quarters of negative growth in an economy.)

There is, without question, abject weakness in the US economy, regardless of statements to the contrary by certain, would-be economic pundits, the US President, notwithstanding.

The labour statistics appear to dovetail with recent reports in respect of industrial production in the world's largest single economy: It fell, moderately, in the month of August.

Employers are resisting the hiring of more staff for fear that there could be yet another downturn in the economy, with consumers, tightening purse strings, even more.

Consumers in the US, by and large, are not spending – and that has been the situation for some months, now.

For those people/families with cash in their pockets, they are more likely to leave it there, rather than consider making any fresh investments, in anything, from washing machines to equities.

This situation will depress trading on equity markets; and, the prospects are for further declines in equity prices on Wall Street.

This will cascade to other international equity markets in short order.

The war between the US and Iraq, which is bound to come, probably sooner rather than later, will drain much-needed resources of the US, as the economy speeds up the supply of '*guns*' ... at the expense of '*butter*'.

Oil prices are guaranteed to rise, choking profits of industry in the US and in the European Union (EU).

Already, last Monday, oil prices in The Gulf went over the \$US30 per barrel mark.

This was a 19-month high.

Meanwhile, OPEC – The Organisation of Oil Producing Countries – has stated that it will not turn on the oil taps to any higher level than they are now.

If friendly Arab states side with the US in the coming conflict and increase the supply of crude oil, it will ameliorate the situation, somewhat, but not entirely, because there are still quite a number of known '*friends*' of President Saddam Hussein.

Higher oil prices, internationally, will tend to accelerate recessiveness in many economies.

The US-Iraqi war is bound to be telling on nearly every economy of the world, to be sure, and one would hope that President Saddam Hussein of Iraq would come to terms with the inevitable conclusion that would follow a bloody battle between the US and Iraq – and sheath his scimitar and leave the running of the country to somebody else.

This would please President George W. Bush (and his father) because the US President sees Saddam Hussein's Iraq as being a threat to world peace – with a great deal of justification, too.

However, as the Jewish State of Israel has learned, over the past half a century, the Arab world, once riled, can be very cantankerous and intransigent with regard to matters of national sovereignty and religious fanaticism, even when such postures are in their own worst interests.

One would hope that a fighting war between the US and Iraq could be avoided, but it looks to be impossible.

And, when it comes, everybody loses.

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