THE PIGEONS WILL COME BACK TO ROOST …
AND HAUNT SHORT-SIGHTED U.S. CORPORATIONS

An aspect of the finances of many a company, over the past year or so, has not been to improve, materially, products and/or services, spend very much money on creativity with regard to marketing and sales strategies, and/or devote any but a minimal amount of innovative thinking in order to position oneself in the marketplace, but, merely, to employ cost-cutting measures in order to give the appearance – and it is, only, appearance, in most cases – that things are on the mend.

When a company writes off tens of millions of US dollars – or tens of billions of US dollars, in some cases – in bad and doubtful debts, provisions for losses in this company or that company, or sacks a goodly proportion of a company’s workforce, saving tens of millions of US dollars per year, or closes down unprofitable, or marginally profitable, divisions within a multifaceted conglomerate, the succeeding period, or within one year of such draconian measures, having been taken, must show, or appear to show, that things are improving within the conglomerate.

In many cases, of course, the above-mentioned moves had to be taken over the past few years in order to trim the fat off many a company, but there are, also, many companies that, unnecessarily, took actions which, in the light of day, were, really, not required.

Spending on technology in 2002 in the US was at the lowest in the past 2 decades, according to statistics of the US Government, both in terms of the absolute amount of money, spent, and as a proportion of the **G**ross **D**omestic **P**roduct (GDP = The total value and goods and services, produced within a country within a given period of time).

Such short-sightedness will, eventually, hit the US economy, right in its soft underbelly, in the course of the next few years.

While Japan has, historically, been able to compete, successfully, against the US and the European Union (EU) in terms of the manufacture of computer hardware, home appliances and motor cars, especially, the US has, historically, been the leader in terms of the creation of innovative computer software and the like, used to drive computers, etc.

And the US has, on the world stage, been very successful, dictating to the world what succeeding generations of computers must be able to accomplish in order to accommodate the latest-produced, US-invented software applications, which become more and more sophisticated with the passing of each year.

Microsoft is not the leader in its field out of pure luck.

And its founder, Mr Bill Gates, did not, by sheer luck, become the richest man in the world.

Mr Li Ka Shing, of the Hongkong Special Administrative Region (HKSAR) of the People’s Republic of China (PRC), cannot be considered, just a lucky stiff, due to his building up of, what is, today, the largest international conglomerate ever founded in the HKSAR.

In both cases, those of Mr Bill Gates and those of Mr Li Ka Shing, perspicacity and nous caused these moguls to be where they are, today, as respective leaders in their chosen fields of endeavour.

Over the past few years, also, record-shattering corporate scandals, especially in the US, terrorist attacks, especially on US soil and on US properties, overseas, deepening economic recessiveness, especially in the US, followed by spotty economic recoveries, in some areas of the world, wide swings in cross-currency exchange rates, and, of course, the longest and deepest bearish trend on the US stock markets since the 1930s, all have contributed to many a US and EU company, feeling that they have to adopt a very negative and defensive posture.

In many cases, such a philosophy was well founded.

But not in all cases.

When the Great Depression hit the US in the latter part of the 1920s, it took until World War II was declared in the US (that is, 1942 with the Japanese, bombing of Pearl Harbour) before a recovery started; and, it was not until after the cessation of international hostilities, in 1945, that the recession was, truly, over in the US (although some economists might take issue with this economist's determinations in respect of the US economy, during this difficult period).

Due to lessons, learned during the Great Stock-Market Crash of 1929, many investors in the US adopted a very careful stance with regard to the economic situation in the US, over the past few years.

It seemed to be the correct move because, after all, it worked in the past.

Historically low interest rates in the US, over the past 3 years, and the lowest interest rates in the United Kingdom since 1955, have resulted in a marked disparity between business investment spending and consumer spending.

While Detroit reports that sales of motor vehicles in the US are good and are continuing to improve, it has been at the expense of vastly lower profit margins and, sadly, the lack of spending on innovativeness in technology within this industry.

Lower profit margins are taking their toll of the US automobile industry because there is less money available to spend on advanced automotive technology.

This will come home to haunt US motor-vehicle manufacturers, the US automobile industry, being the largest in the world.

The EU giants, such as Mercedes Benz, BMW Group and Volkswagen Group, will, no doubt, take advantage of the lack of investment spending on advanced technology by Ford, General Motors, etc.

Already, Volkswagen Group and BMW Group have upgraded their new marques: The Bentley and the Rolls-Royce, respectively.

On the website of Volkswagen, TARGET noted the following claims:

> *'Bentley Motors, now owned by Volkswagen Group, is benefiting from very substantial investment and is developing new models to extend still further the breadth of customers' choice. At the factory at Crewe, advanced technology and craftsmanship come together to make the world's very best kind of sporting car – the incomparable Bentley.'*

And Mercedes-Benz has launched a competitor to the Rolls-Royce in The Maybach, which will tempt many a mogul, away from US-produced, luxury motor cars.

This super-luxury, motor car, with a top speed of 155 miles per hour (which is standard for all models), claims to be the most technologically advanced motor car ever produced.

Forward-thinking conglomerates will, always, win the day.

Low interest rates have kept motor-vehicle sales in the US at buoyant levels.

The same is true for the US housing market.

One has, always, to remember that the value of bricks and mortar is dependant, to a very great extent, on interest rates levels: The higher the interest rate, the lower is the value of bricks and mortar due to the profit margins that may be obtained from such purchases: Yields are reduced.

When interest rates start to rise, again, there could well be a cascading effect as the icing falls off the housing *'cake'* in the US.

<u>The Threat Of Inflation</u>

As the value of the US dollar continues to decline against the currencies of its major trading partners, it must lead, inevitably, to inflationary tendencies, being felt in the US.

The US is very dependant on imports, especially from Asia.

Payment for imported goods and services is, and, always, has been, in terms of US dollars.

If the US dollar buys less, say against the Japanese yen and/or the PRC's renminbi, it means that fewer goods may be purchased with one US dollar.

The costs of doing business in the US will rise; these costs will have to be passed on to the US consumer, leaving less disposable income, available for other purchases.

Demands by US employees will be made of management of companies, in terms of higher wages, salaries and perquisites; management will have to respond with higher retail prices in order to cover the additional costs of doing business.

The US Federal Reserve Board will respond, accordingly, by increasing short-term interest rates in order to control any hint of a sustained inflationary tendency in the US: The US economy is, still, the largest and most-important economy of the world, and it must be protected from itself.

The determination, generally, of US and Canadian industries to pare staff levels – Nortel Networks Incorporated slashed its workforce by about 50,000 employees, during the past 18 months or so, while Merrill Lynch and Company Incorporated waved goodbye to some 22,000 of its former employees, in the past 24 months or so – and to reduce spending on technology must, eventually, lead to declining competitiveness in the US and Canada, vis-à-vis the EU and Japan, especially.

US and Canadian industry know, full well, that selling yesterday's goods is akin to selling obsolete merchandise that cannot withstand the pace of technological changes.

Belt-tightening exercises by US industry is leading – in many cases, it is, already, a fact – to declining competitiveness on the world stage.

This is leading to the door, being left ajar for better-produced and technologically superior goods, entering the US marketplace, or taking a bite out of other markets, historically the bailiwick of US corporate giants.

One has only to look at the numbers of Japanese-produced motor cars, now being driven by US residents on US highways, most of which are rated as being superior to Detroit's motor cars, to realise what is happening.

In a recent dialogue, broadcast on a Japanese radio station, one US manufacturer boasted to his Japanese counterpart:

US manufacturer:	*‘Our rejection factor has been lowered to less than 3 percent, now!’*
Japanese manufacturer:	*‘Excuse, please: What meant by rejection factor?’*

The Japanese work ethic – which is changing rapidly, too – is such that pride in one’s company results in the finished product to be rarely faulty because the Japanese worker feels that to be careless will reflect on the entire crew with which he is working.

Dollar-for-dollar, Japanese-produced electronics, motor vehicles, cameras, home appliances, etc, are superior to those similar products, produced in the US, or anywhere else, for that matter.

In a recent conversation with a Canadian resident, one who lives in the most expensive area of Toronto and who is known to be among the richest families in the area:

TARGET:	*‘I see that you are, still, driving that 8-year old, Japanese-manufactured Toyota.’*
Canadian resident:	*'Of course! It never breaks down and it costs me just $C50 per year to service’*

Which US-produced motor car can match that?

If US industry does not pull up its socks and invest, aggressively, in technology, it could well be left behind in the international race for superior technology to drive the latest innovations.

And such an eventuality will, inevitably, lead to further declines in the economy of the strongest nation of the world.

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