



The Betty Letters

My Dear Grandchild,

I note that speculators, betting on the price of a barrel of crude oil on a daily basis, consider it more exciting (and more rewarding) than playing the horses or betting on the price of stocks and shares on equity markets. One can make as much as three percent on one's money within a single day! Further, experts are suggesting that the price of the smelling black ooze can go as high as \$US100 per barrel before the end of the year. At the current levels of \$US60-plus per barrel, that is a gain of more than sixty percent within a period of just four months. It is interesting to see how speculation on international oil markets can push prices up and/or down, very violently. Quite exciting! However, its effects on the economy of the Western World are going to be devastating unless checked, shortly, or, alternatively, the price of crude oil starts to fall back again to more accommodative levels. The gurus of Wall Street claim that the world can get used to the higher price of energy in due course and that it is just a matter of time before consumers factor into their budgets, the higher cost of keeping the family motor car, full of petrol, the cost of a pound of sugar, being twenty percent higher than it was at about this time, last year, the cost of a pair of the youngster's shoes, being higher by fifty percent, etc, etc, etc. It is obvious that workers will have to turn to their employers to ask them for more money in order to cope with increased prices of this and that. If employers cannot find the money to meet the demands of labour, then, they will have to scale back production and, in some cases, shops and factories will have to close down, completely. The biggest employer of the United States is the motor-vehicle manufacturing industry and ancillary industries that service it and/or provide parts to it. Those industries are in trouble because, among other things, Asian-made motor vehicles, by and large, are as good as or are better than their counterparts of the United States; and, Asia can produce similar motor vehicles to those of the United States at much lower costs, compared with motor vehicles, being produced in the United States and Canada. This situation reminds me of the story of the American manufacturer of a special type of steel. The American manufacturer produced a type of steel that was as thin as a human hair, but which could withstand the weight of fifty tonnes without any appreciable and detectable stress factor, over a period of one year. So proud was the American manufacturer with his product that he sent a sample to Switzerland in order to show Europe of the continuing ingenuity of The Land of The Free and The Home of The Brave. About six days after sending the sample of the special American steel to Switzerland, it was returned to the Detroit, Michigan, plant – with the hair-thin piece of tubular steel, having been drilled full of holes. Detroit is, as everybody knows, the automotive centre of the United States, but it is suffering, horrendously, due to the fact that it can, no longer, compete with the likes of Asia. The motor-vehicle industry of North America grew fat and lazy over the years, with labour, making more and more demands on industry for higher wages and multiple perquisites. Now, it is in that smelly spot, under the armpit of North America industry, from where it may never be able to recover its former dominant self, or even anywhere near the glory of yesteryear when Henry Ford introduced the first, mass-produced, motor car, which stood international industry on its ear – for ever! The motor vehicle industry of North America grew fat and lazy during the period from about 1950 to about the 1970s. During that period of time, labour made more and more demands on industry for higher and higher wages and for more and more perquisites. As an example of the perquisites, negotiated by labour unions, during that period of about twenty five years, General Motors Corporation expects to spend upwards of \$US6 billion on healthcare for its workers, this year. Ford Motor Company has stated that it has budgeted about \$US3.50 billion on healthcare for its workers, this year. That amount of money is more than the national budgets of quite a number of North Pacific and South Pacific countries, you know.

The consumer of America, today, is rebelling against American-built motor cars and vans because the motor vehicles, produced by Ford Motor Company and General Motors Corporation, the world's Number Two and Number One motor-vehicle manufacturers, respectively, are (a) not as good as their Asian counterparts and (b) in view of the higher cost of petrol, they are just too expensive to operate. As the amount of available surplus money dwindles, so Mr and Mrs America will have to fashion their lifestyles to fit their new reduced budgets. The higher price of energy, while it may not be immediately apparent, is cutting its way through the economy of the only superpower in the world as a hot knife cuts through soft cheese. Recently, Ford Motor Company intimidated that it would be slashing more of its workforce and closing down some more of its plants. The company has, already, sacked some thirty five thousand of its workers and has closed seven North American plants. The job cuts are permanent: There is no turning back for Ford Motor Company. Those jobs are lost, forever. The higher price of crude oil is, certainly, a contributing factor to the problems of Ford Motor Company and General Motors Corporation and all of those companies which, directly or indirectly, are dependant on these giants of the American, motor-vehicle industry because American consumers can no longer tolerate their lot and are looking for ways and means to stretch existing budgets in the certain knowledge that the future will not be as good as the present when it comes to surplus funds to be spent in the High Street.

And, talking about the High Street, consumers of Europe and the Americas are spending less and less of disposable income because they are terrified that, unless they tighten their money belts, now, tomorrow may usher in the dawn of more borrowing in order just to buy shoes for the kiddies and put nutritious food on the table for the family. Air transportation has become much more expensive, now, with every airline, having to impose fuel surcharges in order to be able to make ends meet. Delta Air Lines Incorporated, the third-largest carrier in America, is on the verge of packing it in because it cannot make a profit. Its creditors are knocking at its doors, begging for their money. The cost of the fuel surcharge on long-haul flights on Cathay Pacific Airways Ltd is, today, about \$HK664 per passenger, which is only about 1.66 percent of \$HK39,940, the cost of a Business Class ticket from Hongkong to Toronto, Canada. But that figure of \$HK664 is sufficient to purchase a school uniform for any child. It is sufficient to feed a family of four people for at least two days. In short, it is quite a whack! For a family of four people, thinking of taking a holiday, such considerations as airlines' fuel surcharges could well be a deciding factor on whether or not to take that holiday. And I doubt, seriously, that Cathay Pacific Airways Ltd will reduce the fuel surcharge 'tax' – even if the price of crude oil falls back to \$US30 per barrel. The company, most likely, will just drop the name, 'Fuel Surcharge', but tack the same amount of money onto the price of a ticket, surreptitiously, of course. It is a good way to increase profit margins.

I need not go much further on this topic because, at this point, I am sure you see the direction in which I have gone: The high cost of energy is likely to cripple weak economies of the world while retarding the growth of many of the stronger economies of the world. One cannot but wonder whether or not the time has come for governments to step in in order to try to control undue speculation on international oil markets. Oil is not a luxury item, whose price should never be regulated because consumers will do that job. Oil is an essential commodity, which is of vital and strategic importance to most economies of the world. The world must not be held to ransom by unscrupulous speculators, greedy oil moguls, or Arab oil producers, who see a chance to sock it to the West. Consumer spending is one of the keys to turning a weak economy round, but consumer spending is linked, directly, to income and the surpluses that are derived therefrom. In order to put consumers back on the road to spending, there will have to be the creation of many more jobs. And this is just not happening: Ask Bill Ford, the Chairman of Ford Motor Company and the grandson of the company's Founder. Well, I must go now.

Chief Lady

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