

## *The Betty Letters*

*My Dear Grandchild,*

*I know absolutely nothing about economics, but I do know that trying to run my house with the pittance that Bo-Bo, my froglike husband, gives me to spend on this and that could be considered akin to running the finances of a country. Don't laugh! Because all of the considerations with which I have to contend are exactly the same considerations that Mr George W. Bush, the President of the United States of America, has to contend the exception, of course, being that a country does not factor into its finances the market value of fixed assets – buildings, infrastructural projects, partially and/or completed, healthcare benefits, insurance, etc, etc, etc. When costs rise and my household budget is stretched to the limit, I have a number of choices: I can tell a fib to Bo-Bo, claiming that I lost some of the monthly housing-keeping budget while shopping; I can tell Bo-Bo that inflation is rampant and that I need an increase in the monthly budget in order to make ends meet; I can tell Bo-Bo that I want to make a party for him in order to celebrate his birthday and, as such, I need a bit more money; or, I could suggest, selling some of the shares in Bo-Bo's favourite publicly listed company. With choice Number One, I am bound to fail because, as we, all, know, ladies are not good at telling lies – we, just, can't fake it, as the saying goes. Choice Number Two is a possibility, but if Bo-Bo challenges me, I shall lose the argument, no doubt. Choice Number Three is not really a good idea because Bo-Bo, as he approaches the age of 70 years, tries to forget his birthday. As for the final choice, Bo-Bo would never agree to me, selling his company's shares on the stock market because it could be interpreted as being a loss of face. So, what to do? The only thing that I can figure out is to cut down on my spending – which is a nasty thing to consider and, in any case, it is not in the character of a lady to reduce her spending habits. Think what it would do to the economy of a country is ladies, starting reducing their spending, en masse! However, the one thing that springs to mind, and it could be defended, adequately, is to cut down on spending by convincing Bo-Bo to go on a diet (!). Now, Bo-Bo likes fatty things because, in Shanghai, where he grew up, he ate copious quantities of pork and chicken and all of those things that are not healthy for anybody, long term. So, I could suggest to him that I want to look after his health and, according to my doctor, he should eat less meat and more raw vegetables and fresh fruit, cut down on sugars, cakes and ice cream, and avoid all fats and oils. Also, he should eat only the white of the egg and only have one slice of bread for breakfast, eat a light luncheon with plenty of salads and skip dinners, completely. All this will save me a lot of money and time, you know ... if I can get him to agree. The best part of this plan is that it will not affect me, at all, because I do not need to go on a diet. In essence, therefore, I shall be saving money on Bo-Bo so that I can continue with MY lifestyle. If Bo-Bo fights me, then, I have a trump card: A new wardrobe for him after he brings down his weight by 50 pounds. He needs new clothes, anyway, but I have been putting it off because, after all, which lady wants to spend money on men's clothes: Men should be spending money on women's clothes. Men have no idea of fashion, colour coordination, the cutting of clothes, etc, etc, etc – a pair of baggy trousers and a shirt are all that they need, most of the time. What part of their bodies have they got to emphasise, anyway?*

*I think, My Dear Grandchild, you, now, can adduce from where I am coming in this letter. What I am saying, in fact, is that, when a country's finances are in strife, there is, always, an answer, hiding here or there; you just have to look for it. Of course, the leader of a country can't have the entire population go on a*

diet, but there are other ways round the problem of a country's overspending, lax credit, offered by lending institutions to the population, inflation, and so on. In the United States, today, there is a great deal of talk about the chaos with regard to subprime, mortgage-lending industry and how the present crisis could lead to a clampdown on credit, generally, which, in turn, could slow down the growth of the **Gross Domestic Product (GDP)** of the country. I looked into my dictionary and discovered that GDP is the total market value of a country's output of goods and services that are exchanged for money or traded in a market system over a certain period of time – usually a year or a 3-month timeframe – regardless of who owns the productive assets. GDP measures the value of all economic activity within a country's borders. Very straight-forward, isn't it? Then, the answer to the problems of the United States is relatively easy: In order to increase the growth of the GDP of the country, all that one has to do is to increase the output of goods and services and make certain that there are ready buyers for the goods and services. Tightening credit in the US due to the chaos in the subprime, mortgage-lending industry is not the answer, therefore, because this is going to affect much too many people, from the butcher, the baker, the candlestick-maker, all the way down to the little housewife, such as I. Lending organisations tend to overreact to any perceived crisis of any description. That is what is happening, today, not just in the United States, but in most other parts of the world, too. Banks in the United States are being overly careful before affording loans to anybody. The effect of this silly policy will be to reduce consumer spending. Consumer spending is linked to credit terms, you know: The tighter the credit, the more claw-back in consumer spending. While, long-term, tighter credit is helpful for any economy because, inter alia, it is a way to contain inflation, but this is not the time to overreact with an arbitrary clam-down on credit facilities to qualified borrowers due to the chaotic situation in one kind of mortgage-lending sector of the economy. Many people in the United States, a few years ago, went bonkers and overspent, buying homes when interest rates were relatively low, not thinking of the time when interest rates would rise, again, incurring unjustified, recurrent costs by purchasing goods on the never-never plan, and neglecting to put some money aside for the rainy days. Now, these same people are paying the price for their folly. These people, today, are in serious financial trouble. The problems have cascaded down the line so that even the butcher, the baker and the candlestick maker are being forced to pay cash for their raw materials, their credit facilities, having been curtailed by silly financial institutions whose senior managements have become mesmerised by other considerations, other, that is, than affording credit to qualified buyers.

Then, there is the matter of keeping the family motor car, running. With petrol prices, rising rapidly, with the chances that the price of crude oil will continue to rise to a level, approaching \$US90 per barrel before the year is out, in my opinion, it is detracting from consumer spending in the High Street. In the United States, a gallon of petrol is about \$US3.00 ... and rising. Households, which purchased uneconomic motor cars, a few years ago, now regret those decisions. But it is too late to commiserate about past mistakes. Due to the fact that financial institutions have clamped down on borrowing to just about everybody, it means that many households in the largest economy of the world are being hit (a) by the monthly expenses, associated with yesteryear's purchase of the family car, that expense, having been incurred when interest rates were lower than today's levels, plus the cost of repairs, wear and tear and, of course, paying through the nose for a gallon of petrol and/or (b) the cost of financing the mortgage payments for the family home is strangling the already tight, monthly household budgets. Now, what you may not realise, My Dear Grandchild, is that the above situation will fall right down on the proverbial necks of companies of all sorts in the United States because they will not be able to tolerate the fall-off in consumer spending and, due to this situation, they will be forced to take immediate action, such as reduce capital spending. If credit terms continue to be tight, as they are today, for an extended period of time, it could well cause the entire economy of the United States to enter another recessionary period. And, then, it is curtains for everybody. Watch out when the holiday season approaches! You will see that importers will be leery to top up inventory levels and suppliers will have little choice but to reduce shipments. Hard times are a-coming unless immediate action is taken to ameliorate today's financial problems in the world's largest, and most-important single economy.

Talk to you, next week.

*Chief Lady*

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