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RECESSION IN THE U.S. MAY BE UNLIKELY, AT THIS JUNCTURE, BUT WHAT ABOUT STAGFLATION ?

There is big, big trouble in the House of Bush!

The financial gifts to the people of the United States of America, promised on January 25, 2008, have not produced the desired effects, yet: Help to lift the sagging, US economy; or, even ameliorate the plight of some 116 million, US families, either psychologically or materially.

It could be argued that the economic stimulus package, agreed between the White House and the US Congress, on January 25, 2008, has, in President George W. Bush's own words, *'yet to fully kick in, yet.'* (March 26, 2008, the President's comments, delivered during a visit to ColorCraft of Virginia Incorporated of Sterling, Virginia.)

Just last Monday-week, the Secretary of The Treasury, Mr Henry Paulson, admitted, publicly, that the present administrative *'machinery'* of the US cannot cope, effectively, and it is in urgent need of a complete overhaul.

The US Government's proposals, now being entertained, are far-reaching and comprehensive.

Not since The Crash of 1929 has the US public been informed of the dire urgency of the requirement for a comprehensive change to the system of checks and balances in the country: To upend that which was thought, only recently, to have been adequate to cope with the modern world's financial needs in The Land of The Free and The Home of The Brave.

So, President George W. Bush's economic stimulus package is not the answer for what ails the country, after all, and releasing $US100 billion into the economy will not do the trick.

Was economic stimulus package, therefore, only a panacea?

To reiterate, in brief, the January 25, 2008, stimulus package, it included:

1. Individuals who pay taxes would receive up to $US600;
2. Working couples who pay taxes would receive up to $US1,200;
3. Those couples with children would receive an additional $US300 per child;
4. Workers who earn less than $US3,000 and do not pay taxes would be entitled to receive rebates of $US300; and,
5. Businesses would be permitted to write off 50 percent of the cost of purchases of new plant and other capital equipment.

The total cost of the stimulus package is expected to be about $US150 billion – $US100 billion with regard to rebates and $US50 billion in respect of losses in revenue from business taxation.

Last Monday-week, Mr Henry Paulson said, inter alia:

> *'The* (US) *Government has a responsibility to make sure* (that) *our financial system is*

regulated effectively. And, in this area, we can do a better job … Our current regulatory structure was not built to address the modern financial system … We should and can have a structure that is designed for the world we live in. One that is more flexible; one that can better adapt to change; one that will allow us to more effectively deal with inevitable market disruptions; and, one that will better protect investors and consumers …'.

It may seem strange to many people in the US that this realisation has only just been discovered.

It reminds **TARGET** of the story of the heterosexual lovers who, when the young lady whispered that she had missed her period by a couple of weeks, her lover said that he would immediately go to the chemist in order to purchase some condoms.

The US Government, today, is planning to give to The Federal Reserve, wide-sweeping powers to take whatever action it determines when it is deemed necessary in the interests of the State.

It would appear that The Fed would be permitted, as in the past, to act interdependently of The Executive and would not need requisite approval for its actions, relying on knowledge and intelligence, a posteriori.

Mr Henry Paulson said that the 218-page report to upgrade the US Government's administrative machinery in order to bring it up to date with the 21st Century's requirements had been commissioned before the credit crunch of August 2007.

This would suggest, prima facie, that it had been perceived by the Bush Administration, at least 8 months ago, that radical changes were needed to the way in which certain crucial businesses was being conducted and monitored in the US.

It would suggest, also, that the requirement for change was well known by a select group of individuals of the Bush Administration, but it was kept a closely guarded secret, probably so as not to alarm the laity.

The credit crunch, as it is widely called in today's world, was the result of a number of factors, the most important of which was, without doubt, the subprime, mortgage-lending industry's problems.

That situation cascaded down from the housing crisis in the US, which had lasted for the past few years.

The rest is history.

The problems at The Bear Stearns Companies Incorporated, the fifth-largest investment bank in the US, when The Fed acted in unison with JPMorgan Chase and Company, following The Bear, nearly running out of money, was the direct result of other banks, not wanting to lend money to this bank for fear that it had too much exposure to bad debts with regard to the subprime, mortgage-lending industry.

The word, bankruptcy, has never been applied to the situation at The Bear, but, by definition, The Bear Stearns Companies Incorporated could have been said to have been insolvent, that is, unable to pay its debtors as they fell due.

It was determined by The Fed that, for the sake of the US economy, definitive action must be taken to ameliorate the situation – quickly.

Enter Stage Left, JPMorgan Chase and Company with an offer of $US2 per share for control of The Bear.

Had The Fed not acted as it did, it was quite likely that history would have recorded the demise of the fifth-largest investment bank of the US.

The results could well have been catastrophic because many depositors of other banks might well have questioned whether or not other banks might follow the path of The Bear.

And so, today, the US Government is suggesting that The Fed be given express authority to take whatever action it deems fit and proper when and where it is determined, obviously in the interests of the State, first, consumers, second, and investors, third.

The proposals also include, inter alia:

- The creation of a commission to establish stricter criteria for entities involved in the mortgage market; and,
- Merging The Securities and Exchange Commission with the Commodities Futures Trading Commission.

<u>What Is Really Happening In The US?</u>

What is upsetting about many of the so-called gurus of Wall Street is that they appear not to understand the meaning of the word, recession.

As one (supposed) guru asked the head of a major corporate entity, listed on The New York Stock Exchange, during a television interview: *'Do you think that we are, already, suffering recession?'*

Such gibberish makes the mind of any sensible person boggle.

It is true that the US economy is standing on the precipice of a recession, but there has yet to be one reported quarter of negative growth.

And it takes 2 negative quarters of negative growth to justify the use of the term, recession.

Just last Wednesday, the Chairman of The Fed, Dr Ben S. Bernanke, told the Joint Economic Committee of the US Congress that the possibility existed for the US economy to slip into a shallow recession.

Dr Ben S. Bernanke said, among other things:

> *'It appears likely that real GDP* (**G**ross **D**omestic **P**roduct: The annual total value of goods produced and services provided in a country excluding transactions with other countries) *will not grow much, if at all, over the first half of 2008 and could even contract slightly … Recession is possible …Our estimates are that we are slightly growing at the moment, but we think that there's a chance that for the first half as a whole, there might be a slight contraction'.*

The testimony of Dr Ben S. Bernanke took the wind out of the sails of many an investor on Wall Street, resulting in a mild sell-off.

In **TARGET**'s view, however, it is highly unlikely that the US will suffer a recession at this juncture.

There is, of course, the strong possibility that the US economy could suffer from stagflation, however.

Now, that's a dusty word which has not made the rounds for some time, has it?

Stagflation is defined as being a state of economic depression in which stagnant demand is accompanied by severe inflation.

To put it simply: There has to be concomitance of stagnation and inflation in a period of economic depression.

One has not experienced stagflation in the HKSAR since between 1997 and 1999 when managements of shops found themselves, holding onto large inventories which they could not unload, while inflation gathered pace and while property prices continued to fall and, simultaneously, internationally, oil prices were hitting one record level after another.

At that period of time and today, it was the high price of oil, internationally, that contributed to high inflation.

A major difference between the late 1990s and today is that, in the late 1990s, supply restraints, many of which were artificial, helped to keep oil prices high.

Today, one notes that the record-high price of crude oil is the result of a weak US dollar, vis-à-vis other *'hard'* currencies, and real and escalating demand for the black ooze by developing nations, the PRC, proper, in particular.

As the translation value of the US dollar falls against other *'hard'* currencies, speculators and traders are taking flyers on oil futures, causing the price of crude oil to rise to even higher, record levels on international commodity exchanges, thus fuelling inflationary flames even further.

In addition, there is the matter of record-high prices for certain food-stuffs.

In eurozone, consumer prices have been increasing at the rate of about 3 percent per annum.

In the US, the inflation rate is said to be about 4 percent per annum.

In the PRC, proper, it is fact that the official inflation rate is about 8 percent per annum – completely out of hand!

High inflation is a fact, around the world, but nowhere is it as bad as in the PRC, proper.

(**TARGET** is not even considering the situation in Zimbabwe where inflation is running at such astronomical levels as to be completely unreal: The currency of the country is worthless.)

In Europe, economic activity is waning.

Nowhere is this more apparent than in Great Britain, Italy and Spain.

The faltering US economy is playing havoc with many parts of the world – and will continue to do so for some time to come.

The European, real-estate market, the construction industry and the financial sectors will all feel the *'heat'*, emanating from the US economic slowdown as this medium has stated on numerous occasions in the past.

One has only to pick up a newspaper in Asia, today, to take note of the many European/Antipodean/North American companies, trying to offload goods and services and properties to Asian investors in order to realise the truth of **TARGET**'s assertions.

By 2009, it is quite likely that most of the above will become only too apparent – and this is only the end of first quarter of 2008.

One has noted all of the incentives, offering by Detroit to US consumers in one attempt after another to get Americans behind the wheels of US-produced motor vehicles.

When a US family can hardly afford to meet house payments on a monthly basis, while prices rise at the High Street and while the cost of staple foods continues to go from one high level to another, the very idea of trading in the family motor car for the latest model is not very high on the list of families' priorities.

And so Detroit sits on mountains of new, old vehicles.

As corporate profit margins continue to be squeezed, from Asia to Europe to the US, so the likelihood of stagflation rears its head.

When one learns of substantial cancellations of orders for goods and/or delays of delivery dates for goods, then one may look to the definition, once again, of stagflation.

Because, by that time, it will be only too obvious.

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