

READ THIS ... AND WEEP !

When a company grows very materially too quickly, the probability exists for that company to become dangerously embarrassed when it becomes apparent that management is incapable of handling the situation.

One saw that, some years ago, with publicly listed Carrian Investments Ltd, then controlled by the flamboyant and crooked Chairman, Mr George Tan Soon Gin ().

One of the many lessons learned (aside from understanding the criminal aspect, which was unearthed, during an investigation of this once, huge publicly listed company) was that, when a conglomerate grows too big too quickly and the cash-flow is seen as to be inadequate to cover debt service and capital repayments to the conglomerate's bankers/financiers, that conglomerate can only succeed if it has in place the necessary human capital to govern it.

Also, one of the most-crucial and, perhaps, the most-dangerous time in a corporation's life is when it is expanding very quickly because it is only too easy for management to bite off more than it can chew.

When Sir Douglas Clague was the Chairman of Hutchison International Ltd, as it was then known, the above problems became manifest, resulting in The Hongkong and Shanghai Banking Corporation Ltd, taking over control of the company – in the interests of the company and its shareholders.

As with most aggressive corporate managements, the lessons of the past are rarely heeded and, no doubt, the world will witness a recurrence of the above, over and over again, ad infinitum.

Much of the above is also true on a macroeconomic scale, too.

The managements of countries, including the Administration of President George W. Bush of the United States of America, are not immune to the vagaries that plague economies of our time.

Doling out tax rebates and what-have-you, as the US Government determined, recently, is a stop-gap measure, at best, because it goes nowhere near to solving the problems, confronting the largest, single economy of the world, today.

Short-term solutions as a panacea for long-term problems are not the way to go, ever, but, thus far, very few economists, anywhere in the world, have had the courage to criticise the actions of the US Government in dishing out charitable donations to a large proportion of the human population of the country, now numbering about 303.82 million people.

Short term: US discount stores and wholesale clubs may well report increased sales, but as soon as the tax-rebate cheques are cashed, it will be back to normal, again – consumer spending, drying up.

The US economy of late, as the world has come to realise, is affecting, just about, every other economy.

The boom in the US economy has been quickly followed by an almighty (and unwelcomed) bust.

First came the US housing-market collapse – and it has yet to show any signs or symptoms of abating – and the US housing-markets' problems spilled over into the US banking system which, today, is terrifyingly

suspect.

What is different about the US economy's downturn, this time around, is the intensity of it and how, like a fungus, it is spreading to just about every part of the globe.

There is no indication as to how long the US economic downturn will last and, concomitantly, inflation is rearing up in the country, muddying the economic waters that much more.

The US economy is, in short, a horror story, unseen for many a decade.

According to the latest statistics, the US economy still remains the largest and most-technologically powerful economy on the globe.

The **Gross Domestic Product (GDP)** – the annual, total value of goods, produced and services provided, excluding transactions with other countries – per capita is about \$US46,000.

Unlike, Western Europe and Japan, managements of US businesses enjoy greater flexibility in respect of making decisions with regard to such things as expanding capital plant, sacking surplus workers, and developing new products.

US businesses are at the forefront of technological advances, especially in respect of computers, medicine, and military equipment.

And, yet, for all of its advantages, today, the US economy faces the prospect of falling into recession.

The second-largest economy of the world, Japan, has, already, experienced one quarter of negative growth: One down and one to go before one can say that Japan's economy is in the grips of a recession.

A question, being asked by some economists, is whether or not the US economy has grown beyond its means, in the same way that a corporation is likely to run into serious trouble if it overspends, during a period of rapid growth, and is unable to meet its financial commitments when called upon so to do.

Another, perhaps, pressing question is whether or not the US economy is in danger of losing consumption as an engine of growth.

Economic growth and business cycles go hand in hand, most of the time.

In the present situation, the business cycle is being influenced, greatly, by commodity prices, foreign-exchange translation rates, and interest rates.

This situation is not prevalent, just in the US, but in nearly every country of the world.

These 3 factors are affecting exports, consumption and, lastly, investments.

Consumption, investment and net exports are the components of the demand side of GDP.

An interesting statistic is that, in the US, today, the annual population growth is about 0.88 percent.

This compares with, say, Spain, where the annual population growth rate is about 1.50 percent.

And, in Russia, today, a major problem for that Government is that the annual population growth rate is negative 0.474 percent.

This is in spite of the Russian birth rate, being 11.03 births per 1,000 population, which is higher than Spain's 9.87 births per 1,000 population.

Human capital is the key to increasing production in a country as well as maintaining innovative product mix.

The level of education of the population is vital if a country is desirous of wanting to be able to maintain a dynamic economy.

In many nations on the African Continent, one sees the result of insufficient amounts of money, having been spent on education.

In the US, today, expenditure on education accounts for about 5.30 percent of GDP.

In Spain, today, expenditure on education accounts for at least 4.20 percent of GDP.

It is a given that when people are given a good/better education, eventually, industrial output can be increased, utilising the same number of hours of labour input.

In Spain, today, about 40 percent of all of the population complete higher education studies.

This leads to the obvious realisation that investment in education is vital for any and all countries in spite of the fact that the dividends from this large expenditure will not be seen for many years in the future.

Research and development is dependent on a population's ability to complete academic studies.

One notes that the Middle East has been responsible for very little in the way of innovation in any field for many centuries in spite of the exciting discoveries in mathematics in days of yore.

The history of algebra, for instance, began in ancient Egypt and Babylonia, where people learned to solve linear ($ax = b$) and quadratic ($ax^2 + bx = c$) equations, as well as indeterminate equations, such as $x^2 + y^2 = z^2$, whereby several unknowns are involved.

The ancient Babylonians solved arbitrary quadratic equations by essentially the same procedures taught today. They could also solve some indeterminate equations.

Openness to the world is, also, essential for the generating of new ideas and methods, applied to the production process.

Japan, for many centuries, was a country which, like the proverbial ostrich, stuck its head in the sands of time and saw nothing else – but sand.

Investment programmes and doling out charity are ineffective, generally, unless other growth drivers are in place within an economy.

The ever-improving quality of workers, increased industrial output and more money, spent on the level of education in a country, along with closer ties and understanding with other countries of the world would appear to be among the most-immediate solutions to many of the problems, facing the economies of the world.

But that is long-term thinking and, in the meantime, there will be economic heartaches, unseen for many a decade, probably not since the Great Depression, which lasted from 1929 to 1939.

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