VOLUME XI No. 38 F R I D A Y February 27, 2009

‘IF YOU HAVE TEARS, PREPARE TO SHED THEM NOW …’

Much of the industrialised world is teetering on the brink of socialism.

While this may be a temporary phenomenon in response to exceptional circumstances that require the adoption of exceptional government actions, according to the leaders of a number of developed countries of the West, one has to ponder:

‘Just how long is temporary?’

The socialistic tendencies of many developed nations of the world are being couched in such terms as *‘buyers of last resort’*, *‘financial stimulus packages’*, *‘equity participants’*, and so on.

Regardless of the nomenclature, being applied to certain exceptional acts by sovereign states in trying to kick-start its economies in these trying times, it amounts to quasi-socialism under a slightly different guise.

But there may be no other avenue open to these sovereign states in view of the extraordinary situation that confronts them, today.

At least, none has been suggested of late.

Last Wednesday, in Washington, D.C., US President Barack Hussein Obama told the citizens of the country that new regulations will have to be drafted in order to keep the economy in check.

If that is not government interference, then, **TARGET ()** would be interested in learning the latest definition of such a term.

The US President said:

> *‘If we, once again, guide the market’s invisible hand with a higher principle, our markets will recover, our economy will, once again, thrive, and America will, once again, lead the world in this new century, as it did in the last.’*

President Barack Hussein Obama, with the best intentions in the world, no doubt, is planning to overhaul regulations, relating to Wall Street, stating that such changes are a matter of absolute necessity if the US Government is to save the day.

At this point, one has to ask the question:

‘Did Wall Street cause the recession, sweeping the world, today?’

One could be forgiven for coming to that conclusion after listening to the very moving and stentorian rhetoric of the newest leader of the largest and most-important economy of the world.

On hearing the words of President Barack Hussein Obama, the key indices of the equity markets of the US went decidedly south, once again.

The statements of the President smack of veiled socialism: Socialism does not work in stimulating free enterprise and never has worked; in the same way that protectionism does not protect an economy or any aspect of it and, if anything, it inhibits the forces that make for a dynamic economy.

A Little Background, First

Economic data, recently compiled, must be considered terribly frightening per se, not just because of its international impact, but due to the pace of the deterioration of some of the largest economies of the world.

Last Tuesday, Japan's Finance Ministry announced that the country's exports for the month of January had fallen in excess of 45 percent, Year-On-Year.

The Trade Deficit for January was ¥952.60 billion, the lowest figure since records started to be compiled in 1979.

International demand for Japan's motor vehicles sank by about 69 percent in January, Year-On-Year.

Exports to the US, which is Japan's most-important, single trading partner, fell by about 53 percent in January, compared with the like month in 2008, and exports to the European Union slumped by about 47 percent, Year-On-Year.

The situation in respect of Japan's economy can only be described as being critical in the extreme.

The economic downturn, around the world, is happening so quickly that many economists have been taken completely by surprise at its ever-accelerating speed.

The economic theories of yesteryear do not appear to be having much effect at ameliorating of the situation.

Thus far, in the first 2 months of 2009, industrial output in the US is off, Year-On-Year, by about 10 percent, and, for Europe, by about 15 percent.

In Japan, the figure is put at about 25 percent.

Chopping interest rates to the bone and making available vast sums of money in order to prop up capital ratios at banks does not appear to have had the desired effect – to the chagrin of many a country's leaders and chief economists.

Banks, still, do not want to lend money to customers: Every customer is suspect, it seems.

Many banks do not even know – and are afraid to try to ascertain – what is the true, unvarnished situation with regard to the carrying values of many of the assets on their books.

This is especially so when it comes to the market values of many a customer's bricks and mortar, used as collateral for loans, advanced just a few short years ago.

It is well known that the underlying market values of many customers' collateral are much less than the loans outstanding by those same customers, some of whom are delinquent in their payments to creditor banks.

Governments have injected liquidity into banks as well as agreeing to subscribe for new shares or some other bank instruments in order to shore up undercapitalised banks and finance houses.

The idea is to try to stem the so-called, domino effect on other banks and the obvious, knock-on effects that must follow in due course from bank failures.

The collapse of US investment bank, Lehman Brothers Holdings Incorporated, on September 15, 2008, helped to cause the financial turmoil that the world is experiencing, today, at an unprecedented level.

That financial collapse had repercussions around the world, not restricted to banking, alone.

Industry tightened its purse strings as consumers deserted the High Street.

Export volumes wilted.

In the People's Republic of China (PRC), alone, it is estimated that some 20 million workers found themselves without monthly pay cheques as one factory after another was forced to close for the lack of orders from the US and Europe.

That took place in less than one year.

The Government of the PRC, correctly, became increasingly worried about the growing numbers of itinerate workers, roaming streets of cities in the PRC, looking for work.

For the PRC Government to do nothing would be to court widespread civil unrest.

Domestic demand in the PRC had to be stimulated.

Emphasis was placed on stimulating the domestic market via fiscal policy in addition to banks' expansionary monetary policies.

In the US, President Barack Hussein Obama signed into law a $US798-billion financial stimulus package.

That amount of money is equivalent to about 5.40 percent of the **G**ross **D**omestic **P**roduct (**GDP**) of the country.

In Germany, a second fiscal package was unleashed, totalling €50 billion.

Together with expenditure programmes, already in place, Germany had determined to spend about 1.50 percent of its GDP in order to boost its economy.

The Group of Eight – Canada, France, Germany, Italy, Japan, United Kingdom and the United States – which represent the world's most-industrialised countries, plus Spain, determined to spend nearly $US1,100 billion in the following manner:

a. $US460 billion to be earmarked for private households in the hope of luring consumers back to the High Street;

b. $US180 billion to be spent in infrastructural projects;

c. $US130 billion to be used at the discretion of central governments;

d. $US120 billion to be used to alleviate the tight financial situation at the private-enterprise level;

e. $US65 billion to be targeted for environmental projects;

f. $US50 billion to go into private and public sector construction;

g. $US40 billion to be used for education and research and development; and,

h. $US20 billion to be used for healthcare.

The problem of spending all of this money is that successive generations will have to foot the bill in order to repay it.

The US, for instance, is staring at a national budget that is deep in the red, estimated to be a deficit of about $US1,600 billion.

Put another way, that amount of money is about 11 percent of the GDP of the US.

One cannot help but wonder whether or not some governments will have the ability to bring their respective budgetary deficits back under control in view of the ever-worsening financial situation, globally.

To permit inflation to rise is, perhaps, one method of permitting a country's debt burden to be eroded away in the same way that strong winds grind down cliffs in time.

But, the higher goes inflation, the higher goes interest rates.

Higher interest rates make the service of debt more difficult.

Industry suffers.

Consumer goods become more expensive.

The actions of governments, today, in trying to solve the economic problems, confronting the world, will determine the actions of the governments of tomorrow because tomorrow's government will inherit the problems, left behind by today's governments.

The spending programmes of the US and Europe will bear no fruit for at least another 6 months, or even longer.

And, meanwhile, the clock ticks.

The Horrors of Socialisation

In the meantime, one sees more and more government involvement in private enterprise with suggestions that this bank or that bank will have to be nationalised.

History has proved that socialisation rarely stimulates entrepreneurialism at any level.

If anything, the opposite is true and, due to the knowledge that one is faced with political landmines, being strewn in the path of progress, socialisation usually results in non-action, being preferable to action, as far as senior management is concerned.

Socialisation, more often than not, results in industrial progress, being stymied.

Where there is no reward, there is little reason for a worker to put his proverbial shoulder to the wheel.

More often than not, also, especially in entities, controlled by the state, money is squandered, corruption is rampant, and industrial production rarely keeps up with demand.

In the former, East Germany, for instance, that is in 1971, consumers had to wait for up to 16 years in order to purchase a motor car; and, the waiting list for a new television set was up to 8 years long.

The official name of East Germany, at that time, was the German Democratic Republic, or GDR.

All factories, at that time, were controlled by state organs.

Eventually, as history has recorded, the human population of the GDR revolted – and the walls came tumbling down.

The rebuilding of East Germany by West Germany is continuing to this day and, as one tours the East and, then, the West of the country, one notes the changes, taking place – 19 years after the reunification of the country.

With the current financial crisis in Germany, it looks as though it will take another 25 years to bring East Germany up to the level of West Germany.

Ironically, the mores of many East Germans – if not most of them – still live on when under the yoke of the intense, dictatorial socialisation of the GDR government.

Socialism and protectionism must be avoided no matter how tempting it may appear in these difficult times by certain governments as a stop-gap measure.

Monopolies confound an economy; socialism inhibits entrepreneurialism; and, protectionism, eventually, strangles an economy.

Dare one say that socialism is the path to communism?

-- E N D --