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THE FINANCIAL CRISIS:
HOW MUCH LASTING DAMAGE HAS BEEN DONE ?

It might well be true that the United States of America has won its war in respect of the worst financial crisis of the past 70-odd years, but questions remain as to whether or not the United States of America will be able to win the peace as the crisis abates and normality returns, not only to the largest single economy of the world, but to all of the many economies that suffered as a direct result of the near, economic meltdown in The Land of The Free and The Home of The Brave.

A similar question could be raised in respect of the economies of the European Union and of Latin America: Will they be able to wrestle successfully with the many and varied problems that are bound to come to light as their respective economies recover from the crisis?

About the only place in the world where the above-mentioned considerations may not hold sway is in Asia where, thanks to the fiscal policies of the Government of the People's Republic of China (PRC), this part of the world has been greatly insulated by domestic spending among the 1.30 billion human population of the Middle Kingdom.

The knock-on effect throughout Asia from the growth of the PRC's **G**ross **D**omestic **P**roduct (**GDP**) – the total value of all goods and services, produced within a country in a year, minus net income from investments in other countries – has been dramatic; even the Governments of the United States of America and of Eurozone appreciate this fact.

However, the scars of the financial crisis are still visible; and, nowhere more visible are they than in the United States of America.

The motor-vehicle industry of this country, which is, still, the largest single economy of the world, is in shambles.

It is unlikely, ever, to recover when General Motors Corporation was the world's largest producer of motor vehicles and the word, *'Cadillac'*, was synonymous with a work of automotive art.

Slowly but surely, General Motors Corporation has been selling off its crown jewels and India, the PRC, and Canada have been quick to mop up the relatively cheap, General Motors' goodies as soon as they hit the marketplace.

Where the crown jewels of General Motors Corporation could not find ready buyers, they have been buried along with the *'bones'* of other motor vehicles that were considered among the greatest innovations in this industry in days of yore.

The displacement of millions of American workers over a relatively short period of time has sucked a great deal of enthusiasm out of the population of this country.

Questions are asked, daily, as to whether or not the weekly pay cheque will cease along with the jobs of some 7 million, American workers, jobs that have, already, been relegated to history.

Since Detroit is just about dead, as a major producer of motor vehicles to the world, from its ashes will, inevitably, rise new industries.

These industries will require the retraining of the automotive workers, formerly engaged on the assembly lines of such companies as General Motors Corporation, Ford Motor Company and Chrysler Group LLC.

While this is taking place – and it will not be accomplished, overnight – the economy of the country cannot be expected to grow very quickly and, in many instances and in many areas, not at all.

A great deal of human capital has, already, been lost; much of it may never be recovered.

A great deal of financial capital has, also, been lost over the past few years, but it can be recovered.

However, it will take time before those fences can be mended.

Any innovative thinking will have to take into consideration the temperature of the economy; and, entrepreneurs know only too well that banks cannot dish out seed capital as in the days, prior to December 2007.

It will take another year, at least, before banks are willing to allocate funds to any great extent to start-up companies/industries.

This is because, inter alia, banks are still struggling to repair their own balance sheets and to repay their debts.

It was only last Monday that ING Group N.V., a financial institution of Dutch origin, offering banking, insurance and asset management services, announced that it would have trying to raise 7.50 billion euros (about $HK87.33 billion) via a Rights Issue.

The Dutch financial conglomerate became the first bank that was ordered to be broken up by regulators as the price for a taxpayer bailout of 10 billion euros ($HK116.44 billion).

Under pressure from the European Commission, the bank announced plans to accelerate the sale of its insurance operations and its Internet banking business in the United States of America and to refocus on its European customer base.

ING Group N.V. nearly collapsed in the latter half of 2008 under a mountain of troubled American mortgage assets.

In January 2009, ING Group N.V. announced plans to sack some 7,000 of its employees.

In many cases, banks, as with ING Group N.V., are turning to their shareholders for more cash.

HSBC Holdings plc is a classic example.

In March 2009, HSBC Holdings plc announced a £12.50 billion (about $HK138billion) Rights Issue and, after it had obtained this amount of money from its shareholders, the Chairman took out large advertisements in the popular Press in order to thank all those who put money in the bank's hat as it was passed round.

Desperation?

Most likely!

As the world has seen, during the past few years, many banks have been unable to make the grade and, as with Lehman Brothers Holdings Incorporated, they are just names in history books, now.

In the United States of America, alone, the number of failed banks has reached 100 since January 1, 2009, until today.

Banks in many parts of the world may be expected to restrict lending – because they have no option, open to them.

Risky ventures need not apply for seed capital, not now, and not in 2010, most likely.

With little seed capital available, it will be difficult for many new industries to grow tap roots.

What the above suggests is that the American Continent will not be the large consumer of Asian goods and services as in the past.

It will take time for a return to the status quo, prior to the advent of the recession that is said to have had its roots in December of 2007.

The economies of the world may well be emerging from the recession, but how long for a return to normalcy is an open question at this point in time.

The biggest problem, facing the world's economies, today, is to try to identify just how much lasting damage has been caused by the economic crisis that has engulfed the world over the past few years.

The US automotive industry is easy to identify, but there are many other industries, not just in the United States of America but in Eurozone and Asia, that are still struggling with massive problems.

One notes the movements of equity markets of the world and how their respective key indices have hit 2009 highs, but these statistics are just that, statistics.

By themselves, they mean little since they are merely the result of investors and speculators, trying to outguess what the future will hold for established companies and new companies, pitching their Initial Public Offerings.

The truth of the situation is that nobody, at this juncture, can know with any certainty as to the extent of the damage, caused by the financial crisis which, one is told by a number of Wall Street gurus, is history.

Employment in the United States of America is, still, a very sore spot on the economy and it is said that the number of people, trying to join the labour market, is growing at the rate of about 150,000 workers per month – school leavers, immigration, etc, etc, etc.

Meanwhile, companies continue to sack staff in order to try to stay financially healthy or to increase profitability.

According to The Bureau of Labour Statistics, a division of the Government of the United States of America's Department of Labour, more than 2.41 million workers have been sacked from 23,745 corporate entities in the past 10 months.

All of these workers was given their *'pink slips'* in what is known in the parlance of the Government of the United States of America as Mass Layoffs – an action of sacking at least 50 workers from a single employer.

In September, alone, *'Employers took 2,561 mass layoff actions in September that resulted in the separation of 248,006 workers, seasonally adjusted …'*, The Bureau announced on October 22, 2009.

For the 22 months from December 2007 to September 2009, the total number of mass layoffs was 47,230 events, resulting in some 4.80 million workers, filing for Unemployment Insurance Benefits.

Today, with a national unemployment level of about 9.80 percent – and rising – some 5.79 million American workers continue to pound streets, looking for work.

On Tuesday, October 20, 2009, this medium reported that Sun Microsystems Incorporated announced that it would be sacking 3,000 of its workers in the coming year.

This company is making its plans to be leaner and meaner, months before the event, it seems.

Companies, especially those that are involved in Information Technology, may be expected to rein in spending until the financial dust has settled because raising new capital is not easy, these days.

There must have been lasting damage, caused by the financial crisis, but assessing it with any great accuracy continues to remain a difficulty.

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