

The Betty Letters

My Dear Grandchild,

In any marriage, if both parties are willing and able to compromise their differences, the odds are in favour of the union, being a success over time. Of course, with any man, especially the man whom you are certain would, always, be loyal to you and would never stray far from the nest, one must be especially careful because it is rare that a husband can be trusted in the company of an available, comely lady. It seems to me that very few men are able to think, only, with that grey matter, somewhere above their ears, preferring to think with their fifth appendage. Men! You have to live with them, but they are so fickle, don't you agree? Nothing like a woman. Anyway, this letter is not meant to complain about the husbands of the world, or even one, whose name is Bo-Bo, my froglike spouse, but about the economy of the world. I liken the present economic situation, sweeping the world, to that of a marriage. I am referring to the usual type of heterosexual marriage, not the other kinds that are becoming more and more popular, these days.

Just about every day, now, I pick up the newspaper and read that there is a crisis of confidence among investors, from Wall Street, to European Capitals, to the Antipodes, to certain Asian capitals. The more that I read this phrase, 'crisis of confidence', the more I am inclined to agree that it exists. One could say that it is fast becoming a self-fulfilling prophecy. Now, the question is this: Did the crisis of confidence materialise due to a combination of apparent, very negative economic criterion, or, in the alternative, did the combination of apparent, very negative economic criterion cause the crisis of confidence? Obviously, one would be tempted to state that the combination of apparent, very negative economic criterion was the root cause of the crisis of confidence. Most people would like to believe that a crisis of confidence could not shape apparent, very negative economic criterion. It would appear to make good sense, wouldn't it? However, as history has taught us, on occasion, cause and effect can shift positions, with effect, being the reason for the cause. This, I think, is one of those times. You will recall that, a couple of years ago, a limited number of people were alleging that there could be a problem in respect of the liquidity of a very large, Chinese bank in Hongkong. This resulted in long lines of people, queuing up to withdraw all of their funds. If the Hongkong Government had not assured the depositors, along with the senior management of the bank, that the reports were without foundation and that the bank was financially very strong, the resultant effect of the allegations could have resulted in the effect, becoming the cause – and a real liquidity crisis would have ensued, ending in the bank, becoming insolvent: Post hoc, ergo propter hoc.

In the case of the crisis of confidence in today's world, consumers are faced with a plethora of independent factors, some of which are:

- Petrol prices are continually rising, causing havoc to commuters in large, sprawling cities, such as Los Angeles, California;*
- In the United States of America, the unemployment rate is stuck between 9.10 percent and 10 percent and, in Europe, the unemployment rate in a number of European Union member states has risen from about 15 percent to 20 percent;*
- Austerity measures in Greece, Portugal, Italy, Ireland, and Spain are, for many people, just too painful to bear, their savings, being wiped out in some cases; and,*

- *A number of European banks are now said to be suspect, their capital levels, being too shallow, according the International Monetary Fund.*

As a direct result of the present situation, banks are very careful to lend money to individuals and enterprises and this situation has resulted in many businesses, almost coming to a standstill, while consumers are backing away from the shops. And so, domestic consumption is rapidly reducing, dramatically. The cascading effect is the cause for:

- *Businesses, being reluctant to produce goods and services that are not absolutely necessary for fear that consumers will not buy the businesses' products and not make commitments in respect of the services on offer;*
- *Banks, being unable to earn sufficient interest income – which is any bank's 'bread and butter' – because businesses cannot see their way clear to borrow money due to the attitude and reluctance on the part of management of banks and, at the same time, businesses fear that whatever they produce cannot be sold, or sold in sufficient quantities to recover production costs;*
- *Countries, where the consumer is the victim of harsh austerity measures, obviously, housewives will stay clear of the shops as much as possible, buying only essentials; and,*
- *Holiday jaunts, fast becoming a distant memory for many families while hotels, airlines, cruise companies and travel agencies, consider what action to take in order to cut costs, resulting in more unemployment, worldwide.*

And so the situation deteriorates, further, and further, and further ... until a worldwide recession is announced and, if somebody cannot pull the chestnuts out of the fire, a depression will follow, as was the case in 1929.

On the weekend of September 17-18, it is estimated that some 30,000 people from many parts of Europe, some, having travelled many miles, descended on Wroclaw, Poland, where eurozone ministers were debating Greece's next bailout loan, among other things. This gathering of residents of Europe, which was not a coordinated gathering by anybody, but was a virtual explosion of people's growing agitation at being what they saw as the victims of the lack of governmental concern for their requirements. This is the type of incident that can lead to disaster. Adolf Hitler rose to power in the early 1930s on the back of just such a situation when Germany's economy had failed and the citizens of the country were desperate for a solution to their many and varied problems. I need not tell you what that madman eventually did and of the 50 million people who died because of his actions. What the European Union and the International Monetary Bank are, jointly, trying to do, today, is to prevent Greece from defaulting, completely, on its international financial obligations. But at what cost to the citizens of Greece? The people of Greece have, without a doubt, made a determination as to effects of the harsh austerity measures, being forced upon them, and they are causing the effect to become a reality.

The US and eurozone are approaching a situation whereby fear is the main factor for dysfunctionality. In the US, the Chairman of the Federal Reserve, Dr Ben S. Bernanke, is facing growing unrest among a number of The Fed's Governors as was made only too apparent, last Wednesday, when 3 Governors out of 10 Governors, voted against the monetary policy action of the Open Market Committee Meeting, which lasted 2 days. In Europe, there is widespread divisiveness among ministers of the European Union and this could become self-destructive if permitted to continue. Austria's Finance Minister has refused to rule out an eventual Greek default while the Finland's Finance Minister is demanding collateral in return for contributing money to the next Greek bailout. The fear is real: If Greece goes to the wall, Italy, Portugal and Spain could be next in line.

I showed my thesis to The Frog and, after he had read it, he said: 'You know, Betty, I think that I should recommend you to be Adviser to the Board of Directors of HSBC Holdings plc. This bank, the second-largest in the world, is being (mis)managed by accountants, pen pushers and bureaucrats, in the main. They are intent on amassing more and more money by selling as many of the bank's crown jewels as soon as willing buyers can be located. In these difficult times, there are many opportunities "out there" for people of vision. Sadly, the most-senior people at HSBC Holdings plc have very little vision and, when the next

Annual General Meeting comes along, they will skate about the financial strength of the bank – while profits sag. At least, you have an inkling as to what is taking place in the world.'

I can assure you, My Dear Grandchild, The Frog was serious. I am considering whether or not to accept the post. What do you think?

Talk to you, next year.

Chief Lady

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