

MARKET SNAPSHOT

LOCAL SHARE PRICES

Stock	Move\$	Close\$	Vol
Atlantic and Pac. Pack.	0.00	0.88	-
Amal. Telecom Holdings	0.00	1.14	2000
Communications Fiji Ltd	0.00	1.65	-
Fosters Group Pac. Ltd	0.00	13.70	-
FijiCare Insurance Ltd	0.00	0.67	-
Flour Mills of Fiji	0.00	0.85	-
Fiji Sugar Corp. Ltd	0.00	0.36	-
Fiji Television Ltd	0.00	3.50	-
Kontiki Growth Fund Ltd	0.00	0.77	-
Pleass Beverages	0.00	0.94	-
Pacific Green Fiji Ltd	0.00	2.10	-
RB Patel Group Fiji Ltd	-0.01	1.75	1000
Rice Comp. of Fiji Ltd	0.00	3.00	-
Toyota Tshusho 5th Sea	0.00	1.96	-
VB Holdings	0.00	3.00	-
Yaqara Group Ltd	0.00	1.18	-
Fijian Holdings Ltd	0.00	2.67	-

AUSTRALIAN SHARE PRICES

Stock	Move\$	Close\$	Vol
Westpac	+0.48	16.50	5,079m
Commonwealth Bank	+0.72	29.70	3,611m
ANZ Banking Group	-0.40	12.30	8,356m
Foster's Group	+0.13	5.25	3,746m
Qantas Airways Ltd	+0.45	1.92	23,259m
Air New Zealand	-0.015	0.705	1200

EXCHANGE RATES

Selling notes against major currencies by Westpac bank on February 6.

US \$	0.5377
Aust \$	0.8235
NZ \$	1.0483
UK Pound Stg	0.3677
Jap Yen	48.9168
Euro	0.4207

Saving capitalism

By TK JAYARAMAN

THE annual World Economic Forum Meeting, usually held in Davos, Switzerland in late January/February used to be a gala affair. Attended by more than 2000 people, including prominent businessmen and government leaders from around the world, it was always an occasion for celebrating the achievements of capitalism.

This meeting this year was held in sombre circumstances. There is nothing to celebrate.

Mr Capitalism is in the intensive care unit.

The doctors and specialists knew what went wrong. They are not sure of solutions.

As usual, when the big man was in the ICU, relatives began playing the blame game.

Blame Game

The opening sessions belonged to Russia and China. Both have been recent, fresh-on-board entrants to the family of capitalist nations after the fall of the Berlin Wall and the Tiananmen Square episode.

Being new to ways of capitalism, they wanted to show to the world how ardent converts they have been since embracing capitalism. Premier Vladimir Putin of Russia and Premier Wen Jiabao of China launched blistering attacks on America.

Putin blamed America's "poor quality regulation," which led to the worldwide "collapses of the existing financial system." He also returned to his old theme of dislodging the American dollar from its pre-eminent role as the world's reserve currency. Decrying the world's dependence on the dollar, he observed "Excessive dependence on what is basically the only reserve currency is dangerous for the world economy."

Having failed as a communist nation, which believed in the distribution of wealth before its production, Putin took the world stage by declaring that the benefits of the capitalist boom "were distributed very disproportionately" both within countries and between them.

Putin knew what Winston Churchill said: "The inherent vice of capitalism is the unequal sharing of blessings; the inherent virtue of socialism is the equal sharing of miseries."

For his part, Jiabao could not suppress his anger. Only a few days earlier, the incoming American Treasury Secretary incurred his wrath, when he told the US Senate Committee confirming his nomination, that China was manipulating its currency. Secretary Geithner said



Wen Jiabao



Winston Churchill

that China by deliberately keeping its currency undervalued for promoting its exports, contributed to US trade deficit and external debt. The Chinese Premier Jiabao gave it back: an EC 100 lecture on macroeconomics. He placed the blame on lack of fiscal discipline on the US part, which led to twin debacles: budget and current account deficits.

After war of words

As soon the dust settled down, the world leaders sat down for forging coordinated action to move forward.

For their growth, Russia and China need Europe and the US. The American economy alone accounts for a quarter of the world economy.

Both Russia and China have already invested in US Treasury bonds. For reviving their own national economies, the countries have taken steps. They include big government spending measures. Australia which reduced its growth estimate from 2 per cent to 1 per cent, has announced a fresh \$A42 billion (\$US26.5 billion) stimulus package. China with its one party government, was the first country, to lead the world with its big fiscal stimulus programme of about \$US600 billion.

Since similar measures in democratic countries will have to be passed by legislatures, it would take time. Partisan politics comes into play, delaying action.

The newly elected US President is struggling hard to get his bill passed in the US Congress. The Republicans believe that tax cuts are the key



Vladimir Putin

to revival while the Democrats put faith in government spending rather than tax cuts.

After two days of intense negotiations, on Friday late night, the US Senators finally struck a deal on about \$US110 billion in cuts to the roughly \$US900 billion legislation. This compromise would provide 60 votes out of 100 which are needed to send the bill back to the House of Representatives. The latter has passed its own version worth \$US825 billion, without any Republican support.

The new \$US780 billion package, if voted by the Senate in the next few days, is composed of 42 per cent tax cuts and 58 per cent fresh government expenditure. It is not clear how far the House would agree to the revised figure and what the final figure and the components would be.

The US President wants a final clearance by February 16.

Rise of nationalism in bad times

In the meanwhile, there was an international row caused by a controversial "Buy American" clause in the package, passed by the House. The clause has sought to ensure that only American iron, steel and manufactured goods are used in government funded projects. European nations have already hinted that they would move WTO to strike the provision illegal as it discriminates against foreign suppliers in regard to US government projects.

Pascal Lamy, the chief of World Trade Organisation (WTO) recognises that hardship triggers anxiety for protection. Already there were strikes by British refinery workers over the plan to hire foreign labour.

In Spain, which enjoyed a construction boom, is now hit hard by recession. So, Spain has decided to fund travel expenses of its legal immigrants, who are employed in construction industry to go home. Lamy says, "Scapegoating the foreigner is an old trick in politics".

Trade war is bound to follow any such move to protect domestic jobs. Mounting criticism led

the US Senate to soften the controversial clause. However, it is uncertain whether the House would agree to it.

Life after interest rate cuts?

On Thursday, the Bank of England cut interest rates to 1 per cent from 1.5%, which is the fifth interest rate cut since October 2008. It was also the lowest in its 315 years of history.

Australia's central bank reduced the interest rate to 3.25 per cent, the lowest since the 1960s. The European Central Bank's interest rate for its euro zone remains unchanged at 2 per cent. The euro zone interest rate was cut four times since September 2008 when it was 4.25 per cent. Already, the benchmark interest rate in US is zero. Investors are hesitating and lenders and banks are reluctant to lend. Is there any life after zero interest rate?

Cyprus's central bank Governor Athanasios Orphanides says "Yes!" He warns against inaction, stressing more of non-standard measures. These are now called quantitative easing. They are designed towards easing credit flow by aiming at soaking the economy with liquidity. These comprise tools other than main policy interest rate for promoting growth.

The Bank of England is buying corporate bonds held by commercial banks with money, which is provided by Treasury bond sales.

In Japan, the government encouraged banks to buy stock by guaranteeing their value. The objective was to boost share prices and raise confidence. However, in the midst of declining trade volume and falling prices, stock prices are also falling. Now its central bank, Bank of Japan has planned to buy the shares held by the banks to put the money back in their hands. The Japanese parliament approved a plan to buy up to 20 trillion yen (\$US225 billion) in shares held by banks. So, all non-standard measures, after cutting interest rates to zero or near zero level are being tried.

However, Mr Capitalism is still in ICU.

The world, comprising former communist countries of the "evil empire", the Soviet Russia, communist China and the free world are all working hard to save him.

They all know what Churchill said long time ago: "Capitalism is the worst system except for all those others that have been tried."

■ Associate Professor Jayaraman teaches monetary economics at USP.

The inherent vice of capitalism is the unequal sharing of blessings; the inherent virtue of socialism is the equal sharing of miseries