

Business Briefs

Britain

Poor stuck on 'bottom rung,' says economist

Despite Prime Minister Tony Blair's rhetoric on income fairness, the poor in Britain cannot move off "the bottom rung," according to economist Richard Dickens, in a report published by the Royal Economic Society in the January edition of the *Economic Journal*.

"Possibly the most striking phenomenon in the British labor market over the last couple of decades has been the massive rise in wage inequality," which is "now higher than at any time over the last century," Dickens said. There is record-low unemployment, says the report, but no job mobility. Top earners in "London's financial district" were earning record bonuses in 1999—as much as £2 million.

The Blairites are claiming that their plan to get young people into the job market through their "New Deal" has been a big success. They've put 170,000 youths to work since the plan was adopted in 1998—but these youths suffer from near-total illiteracy: Four out of ten "could not read well enough to understand something as simple as the instructions on a medicine bottle," Dickens said.

Asia

Debt buildup threatens economic 'recovery'

The massive debts that Asian governments have built up just in the last year alone, could make the economic "recovery" in Asia "unsustainable," *China Daily* reported on Jan. 10. Cutting domestic spending or raising taxes would hurt business and foreign investments, and therefore Asian governments face "tough choices," it said.

While Asian economies reportedly grew in 1999, after three years of decline or stagnation, budget deficits "surged very fast." In Asia overall, GDP grew by 5.7% in 1999, up from 2.3% in 1998. In Southeast Asia, GDP was up 2-3%, from a negative 7% in 1999. But, heavy domestic spending has been necessary to achieve this. According to a Jardine

Fleming forecast, budget deficits are expected to grow to 4% of GDP in Indonesia in 1999, 3.8% in Malaysia, 2.7% in South Korea, and 4.5% in Thailand. In 2000, budget deficits are expected to grow to 7% in Indonesia, 5% in Malaysia, 2.1% in South Korea, and 6% in Thailand.

Goldman Sachs reports that, with the huge deficits, government domestic and foreign debts are also skyrocketing. Indonesian government debt soared to 98% of GDP in 1999, up from 54% in 1998; South Korea's government debts increased to 28% of GDP, from 20%; and Thailand's government debts grew to 48% of GDP, from 38%.

While governments are likely to continue heavy spending to keep the "recovery" going, they will have to find ways to avoid a debt explosion. Even if governments start cutting budget deficits in 2001, the heavy burden of interest payments will keep government debts rising for several years. "We used to be very proud of our fiscal situation in Thailand, but now it is something we need to be very concerned about," said Thai Finance Minister Tarrin Nimmanahaeminda.

Many Asian governments have used favorable tax rates or tax holidays to get new local and foreign investment. Foreign investment is seen as critical for Asia, because the regional banks are "still in the grip of huge non-performing loans." But printing money to buy government debt, *China Daily* observed, could risk "runaway inflation and sharp currency depreciations."

Tax Policy

Use 'Tobin tax' globally, says Italy's D'Alema

Italian Prime Minister Massimo D'Alema proposed an international "Tobin tax" on speculative transactions, in a speech at Athens University, the Italian daily *Corriere della Sera* reported on Jan. 11. "Is it possible to conceive fiscal equity at the global level? In some way, could the basis be, for instance, the one proposed by U.S. economist [James] Tobin, who calls for a tax on international capital flows? I believe that these questions and similar ones should not be considered utopias," D'Alema said.

The Tobin tax "is the idea to tax capital

transfer from one state to another, an idea that would influence one pivot of globalization," *Corriere della Sera* commented. "It is now being pursued by 68 Senators from various parties, who introduced a resolution in the Senate." The newspaper does not report it, but that initiative was prompted by Paolo Raimondi, head of the Italian Solidarity Movement, co-thinkers of Lyndon LaRouche, who proposed a similar tax to dry up speculation.

The leftist Partito della Rifondazione Comunista has pushed for the Tobin tax, and the press speculates that D'Alema is seeking to include that party to enlarge the government majority.

China

Debate is under way on economic situation

There is a debate under way in China on its current economic situation, the vice president of the Chinese Society for Research on Restructuring the Economic System stated in a commentary in the Jan. 10 *China Daily*. "Optimistic" scholars forecast that China's economy will grow at a rate of 8.5% in 2000. China's GDP growth was 8.3% in the first three months of 1999; it fell to 7.1% in the second quarter, and the decline was halted in the third quarter. More "pessimistic" scholars warn that China's economic development will slow down in 2000, with GDP growth at 6%. They compare China's economy to that of Japan in the 1990s. "The root cause of the two countries' problems, they believe, can both be ascribed to the bubble economy."

To deal with the bubble, and prevent deflation, the government would have to carry out an expanding monetary policy to increase infrastructure investment by a big margin, and support the protective prices of certain industries. To prevent a bigger economic crisis, the government would have to invest heavily to remove bad bank loans and save enterprises.

The first forecast is "too optimistic," the analyst wrote, and "we can hardly say a turning point has emerged. . . . China's economic growth has since 1998 mainly been boosted by expanding domestic demand. However,

in 1999, only export volume saw a prominent increase, while domestic consumption has not been overtly pulled up. . . . [It is] an urgent task for China to maintain a 7% or higher economic growth rate in the next decade or two. Development is of overriding importance for China.”

Banking

Large European banks counting on bailouts

European private banks are counting on taxpayers' bailouts, said Edgar Meister, board member of Deutsche Bundesbank, on Jan. 12. Increasing competition in the banking system is leading to a growing number of mergers, which is posing a “considerable risk,” even if the risks only become “virulent” after a few years. At the same time, mergers are increasing the number of banks which are perceived as being “too big to fail” in financial emergencies.

It seems that the large private banks in Germany are counting on such an “implicit guarantee” by public institutions, which means that “in the end the taxpayer would have to make good for private enterprise failures.” Reflecting on the ongoing attack by the large private banks and the European Commission against the public banks in Germany, Meister added that the explicit state guarantees for public banks are being justified by the common-good function of these banks. But what is the “return service” of the private banks for their “implicit” state guarantee?

Economic Assistance

Singapore Prime Minister pledges aid to Indonesia

Singapore Prime Minister Goh Chok Tong led a delegation of 15 government officials and 60 businessmen, for two days of talks in Jakarta, Indonesia, starting Jan. 13. At a press conference after meeting with Indonesian President Abdurrahman Wahid, Goh said that Singapore proposes to put together

two investment funds totalling \$740 million to kick-start investment in Indonesia. A \$500 million fund will be for Singapore government-linked companies to buy minority stakes in distressed assets held by the Indonesian Bank Restructuring Agency (IBRA). A \$240 million fund will be set up in conjunction with Singapore-based banks to finance investment by Singapore firms in Indonesia. Singapore will also spend \$1.2 million to promote Indonesia and Singapore as a joint tourist attraction.

Goh stated: “The most important factor in getting the Indonesian economy back on track is the security and political situation in Indonesia.” He insisted that Singapore wants to be a catalyst to help Indonesia, and cautioned that it would be politically unwise for Singaporean firms to be seen to be controlling Indonesia assets. “We won’t take a majority share of IBRA companies,” he stated. Goh also encouraged investment to develop the islands of Batam and Bintan, in Riau province (just offshore of Singapore), as free-trade zones, possibly with special economic status; he admitted that this would take time.

Research

British scored on sale of secret facilities

The British government of Prime Minister Tony Blair is coming under pressure by the Clinton administration because of its plans to sell off some of its most top-secret research laboratories to private companies, Reuters reported on Jan. 15.

The Defense and Research Agency (DRA), the British equivalent of the Defense Advanced Research Projects Agency in the U.S. Department of Defense, is scheduled to be largely sold off to private companies. The DRA runs some of Britain’s most important secret weapons sites, including the germ warfare facility at Porton Down.

The United States has informed the Blair government that it will not continue to share American defense secrets if the sell-off to private firms goes ahead. The DRA has a staff of 12,000 and an annual budget of \$1.64 billion, making it one of the biggest research agencies in Europe.

ROMANIA’S sugar beet industry is collapsing. Dumping-price imports, mainly from Moldova, have caused a sharp drop in prices, and planted acreage fell from 255,000 hectares in the late 1980s, to 53,000 hectares in 1999. The nation has to import 400,000 tons of sugar, which it cannot pay for. This is one of the results of International Monetary Fund policies dictated to the country.

BRITISH giants Glaxo Wellcome PLC and SmithKline Beecham PLC are discussing a friendly merger which, if successful, would form the largest pharmaceutical cartel in the world, with a market value placed at \$187 billion. The firms admit that the merger would result in 10,000 layoffs, but claim it would also provide \$3 billion per year for R&D.

U.S. WINTER WHEAT plantings of 42.9 million acres are the smallest since 1972. Under the 1996 “Freedom to Farm” free-market law, traditional supports for the farm sector, as a national economic security matter, were knocked out. Low grain prices are plaguing farmers, and the amount of unsold wheat and corn in storage is estimated to be the highest volume in 10 years.

GERMAN Hans Ulrich Klose, the head of the Bundestag (parliament) foreign commission, visited Iran on invitation of Majlis (parliament) Deputy Speaker Hassan Rowhani, on Jan. 10. Klose stated that his committee is lobbying for better relations with Iran. One issue discussed was the Hermes credits for trade with Iran, which currently have a ceiling.

UKRAINE recently suffered an increase in the price of bread of 10-20% in Lviv and 20-40% in Kharkiv, Interfax reported on Jan. 12. City officials cited hikes in grain prices as being the main reason for the more expensive bread. Meanwhile, Deputy Prime Minister Mykhaylo Hladiy assured oblast deputy governors in Kyiv that available grain reserves are “sufficient to avoid any tension in supplying bread.”