Japan rises from earthquake knockdown

REJAUL KARIM BYRON, *back from Japan*

It has been a year since Japan has been hit by the fourth most powerful earthquake in the world since modern record-keeping began in 1900, but the country appears to have come out stronger from it.

The correspondent visited Sôma, a coastal city at the Fukushima Prefacture, devastated by the tsunami triggered by the earthquake, and spoke with a number of local people -- to get a sense of their situation.

A temporary shelter has been set up for the city's inhabitants left homeless by the wrath of nature.

Only the elderly women of the families were on hand when the correspondent visited; the children were at school, the able-bodied were off to work.

The houses allotted via lottery were neatly set up, and the residents appeared to have created a nice homely environment.

"Trading has fallen substantially after the disaster," said Tanaka, a shopowner at Sendai, who has been living at the government provided temporary housing.

She added that her husband had to switch to restructuring work -- to make ends meet.

The 62-year-old Owada, whose property has been ravaged by the tsunami, has been living in the shelter, too, with her family of seven.

Owada, whose daughter works as a nurse, said they do not have to pay any rent, only the utility bills.

"We are waiting for the city corporation to build houses for us at high land," Owada said.

Another woman the correspondent met at the shelter was the 82-year-old Takahashi, who came from another seaside village, Haragama.

Takahashi, whose one son is on paid employment while the other works as a volunteer in a waste recycling plant, said they have to bear all living expenses other than the rent.

"It has been one and a half years. We want to go back to our village, but the government is not letting us as they think another tsunami is imminent," she added.

Expatriate Bangladeshi Md Emdadul Haque said that although the tsunami-hit Japanese live in the government provided accommodation they do not take any handouts from the state.

"They have been earning their bread and also extending voluntary service in different recovery works," Haque further said, to illustrate the industrious nature of the Japanese.

The recovery from the devastation was at the centre of discussions at the annual meeting of the International Monetary Fund (IMF) and the World Bank (WB), held at Tokyo from October 8 to 14.

A report, titled "Learning from Megadisasters", prepared by the WB and the government of Japan, was presented at the meeting.

Japan learnt extensively from past disasters and losses this time were contained to a great extent.

The Meiji-Sanriku earthquake of 1896, one of the most destructive seismic events in the country's history, killed 40 percent of the population in the affected zone, whereas 2011's earthquake claimed only 4 percent.

Kamaishi, a small city, hit by tsunami waves as tall as 14 feet, had a fatality rate of 1,000 out of a population of 40,000.

But the rate among the school children was abnormally low: only 5 out of 2,900 primary and junior school students lost their lives, which is 20 times lower than the general public.

It was all thanks to evacuation drills and disaster risk management education, firmly entrenched in the school curriculum as a result of past natural calamities.

On March 11, 2011, an earthquake of magnitude 9.0 occurred in the Pacific Ocean off the coast of Japan's Tôhoku region.

The quake shook the ground as far away as western Japan and lasted for several minutes.

A half hour later, a tsunami of unprecedented force broke over 650 km of coastline, topping sea walls and other defenses, flooding more than 500 km of land, and washing away entire towns and villages.

The direct economic cost of the catastrophe was $210 billion, with Japan experiencing a trade deficit for the first time in 31 years.

The GDP in the second quarter of 2011 dipped by 2.1 percent from previous year, while industrial production and exports dropped even more sharply -- by 7 percent and 8 percent, respectively.

STAR

Left, **An elderly woman sits outside a temporary shelter built for tsunami survivors at Sôma, a coastal city at the Fukushima Prefacture in Japan. *Right*, a view of an empty street through the block of temporary housing allocated by lottery to the homeless.**

Storm brings economy of US East Coast to a halt

AFP, *Washington*

HURRICANE Sandy froze commerce, shut down stock exchanges for the first time since 9/11 and idled millions of workers on Monday, laying siege to an economy still trying to get out of first gear.

With the US east coast from North Carolina to Massachusetts threatened by furious winds and a potentially devastating storm surge, businesses closed, refiners shut down operations and insurers girded for a leap in damage claims.

The New York Stock Exchange and the Nasdaq market shut completely on Monday and will stay closed on Tuesday, with operations expected to resume Wednesday, "conditions permitting," the NYSE added.

It was the first full trading closure since the September 11 attacks closed US equity markets for four days in 2001, and the first full NYSE shutdown due to weather since September 1985, when Hurricane Gloria closed it for a day.

Disaster estimator Eqecat forecast that the massive storm could cause up to $20 billion in damages, only half of them insured, as it strikes land around New Jersey and collides with another weather front.

Tom Larsen, the company's senior vice president, said the category one storm could affect 20 percent of the US population.

That could hit an economy that has already been struggling to gather pace, with economic growth at 2.0 percent in the third quarter and the government struggling to overcome an unemployment rate of 7.8 percent.

The storm also comes as President Barack Obama battles a strong challenge from Republican Mitt Romney, with the November 6 election offering voters a choice between the very different economic plans mapped out by the two.

Four major economic centers -- New York, Washington, Philadelphia and Baltimore -- were effectively closed, with mass transit and flights cut or halted completely, businesses shuttered and office workers forced to work from home.

Banks such as Bank of America and Goldman Sachs -- located in low-lying areas of Manhattan that were ordered evacuated in the face of a flooding threat -- shut their doors and transferred crucial operations to other offices.

Many companies who had expected to announce quarterly earnings put off their release, including Pfizer, McGraw-Hill and Thomson Reuters.

There were widespread warnings that power would be cut to many homes and businesses, meaning that even after the mega-storm passes on Wednesday, many people would possibly still be unable to go back to work.

Hurricane Sandy was packing maximum sustained winds of 90 miles (150 kilometers) per hour Monday as it headed for the US East Coast.

Storm surges were already causing flooding along the coast, with more flooding expected.

Worries that fuel could be in short supply because of the shutdown of several oil refineries along the coast were downplayed, mainly because consumption was also sharply lower as drivers stayed home.

"Gas availability could be affected more from the threats of flooding," said Stephen Rajczyk of the northern New Jersey branch of the motorists' organization AAA.

But, he added: "Prices should not be impacted by this due to less driving, businesses and schools closed, less economic activity in general."

Some played down the broader impact of the storm on the economy, saying that construction, trading and shopping would resume with a spurt afterward.

"Wealth destruction is bad, and Hurricane Sandy could destroy billions in national wealth," said Jason Schenker of Prestige Economics.

"Nevertheless, while hurricanes and other natural disasters are extremely negative for wealth, they are usually positive for growth."

AFP

People walk on the boardwalk in Ocean City, Maryland, on Monday, as Hurricane Sandy nears landfall in the area.

World needs healthy capitalism

HUGO DIXON

LAST week I gave a speech on "healthy capitalism" at Oxford University. Before doing so, I tried the idea out on an academic friend of mine. He scoffed at it. For him, "healthy capitalism" was an oxymoron. Five years after the start of the world's worst financial crisis in decades, it is easy to mock capitalism. The system ran amok --leading to debt, unemployment and shrinking economies.

But that's precisely why the world needs healthy capitalism. Health involves vigour, well-being and resilience. Capitalism -- with its basis in free enterprise and private property -- can have all those qualities provided warped incentives are corrected and the culture of greed is tempered. State socialism certainly cannot. The practical alternative is to reform capitalism not throw it away.

But how should it be reformed? After the tribulations of recent years, the conventional wisdom is that the problem has been too much freedom. That, though, is a misdiagnosis. Most of the diseases that have become apparent during the crisis have been caused by a distortion of free enterprise rather than too much freedom.

Sickness number one was Alan Greenspan's habit of lowering interest rates at the first sign of trouble during the pre-crunch era. Investors dubbed this the "Greenspan put". The theory was that, since the US Federal Reserve would always ride to the rescue, it made sense to take high risks. Fear was numbed and greed left untrammelled. The natural balance of a healthy organism was distorted.

Central bankers do have a role in mitigating the extremes of the economic cycle. But it is vital that, in doing so, they don't just stoke up more trouble. They need to have the expertise to recognise bubbles and the courage to prick them -- an idea which has, thankfully, gained currency in the post-Greenspan era.

The second malady was caused by an excessive willingness to bail out bankrupt banks. In a well-functioning free market, investors would bear the consequences of poor decisions. If a bank teetered on the brink, shareholders would be wiped out and bondholders would suffer. But, with the exception of Lehman Brothers and a few much smaller cases, bondholders were bailed out instead of being bailed in.

This was understandable given the fear of knock-on effects. But a healthy body sees old cells dying and new ones being born. A well-functioning financial system also has to allow for death and renewal. Propping up zombie banks debilitates the whole economy. Meanwhile, the message that foolish risk-taking won't be punished encourages more folly. This is why reforms in the pipeline to allow banks to be wound down without causing the entire system to collapse are so important.

The third illness is caused by the heads-I-win-tails-you-lose bets that financiers and traders were able to enjoy during the upswing. If everything went well, they made a fortune; if everything collapsed, taxpayers picked up the pieces. Not surprisingly, they spun the roulette wheel.

Such privatisation of gains and socialisation of losses is not healthy capitalism. It is a caricature of the free market. Again, various attempts are being made to ensure that people bear the responsibility for their actions even if the consequences aren't apparent for several years. Doing so won't just mean the right people pay when things blow up; it should reduce the chance of things blowing up in the first place.

The fourth disease is caused by distortions in the tax system. The most egregious is the ability of companies in most of the world to deduct interest costs before calculating the profit on which they have to pay tax. Payments to shareholders, by contrast, are typically not tax-deductible. This skewed playing field incentivises companies to leverage themselves up to the gills. That happened during the bubble particularly with banks, private equity groups and real estate businesses -- all of which then got into trouble.

Healthy systems are balanced. The tax-deductibility of interest unbalances the economy. There are various ways of curing the disease -- for example, by closing the tax loophole and making compensating cuts in corporate tax rates so that business overall doesn't pay more. Sadly, only a few countries have started to address this problem.

Most definitions of health talk about mental as well as physical well-being. One can make a similar point for capitalism: values matters as well as structure. The past 30 years have seen the rise of the "greed is good" culture, as epitomised by Gordon Gekko in the film Wall Street.

Greed is a natural emotion which has some healthy aspects. It cannot and should not be removed from economic body. But it does need to be balanced by other motivations. The most important of these is the concept of service. Businesses need to be asking the whole time: how are we adding value to our customers and society at large?

Most successful companies do this. But many financial institutions failed to think through whether their products were socially valuable. Merely relying on the theory that the market's invisible hand will reconcile private greed with the greater good isn't enough, when we know how often capitalism is rigged.

Business people and financiers should never forget that capitalism rests on the consent of the people. As years of economic gloom gnaw away at that support, the challenge is to show that capitalism can be healthy. That requires changes in both structures and mindset.

Hugo Dixon is the founder and editor of Reuters Breakingviews.