

The "1 percent world"

SHIFTING IMAGES



MILIA ALI

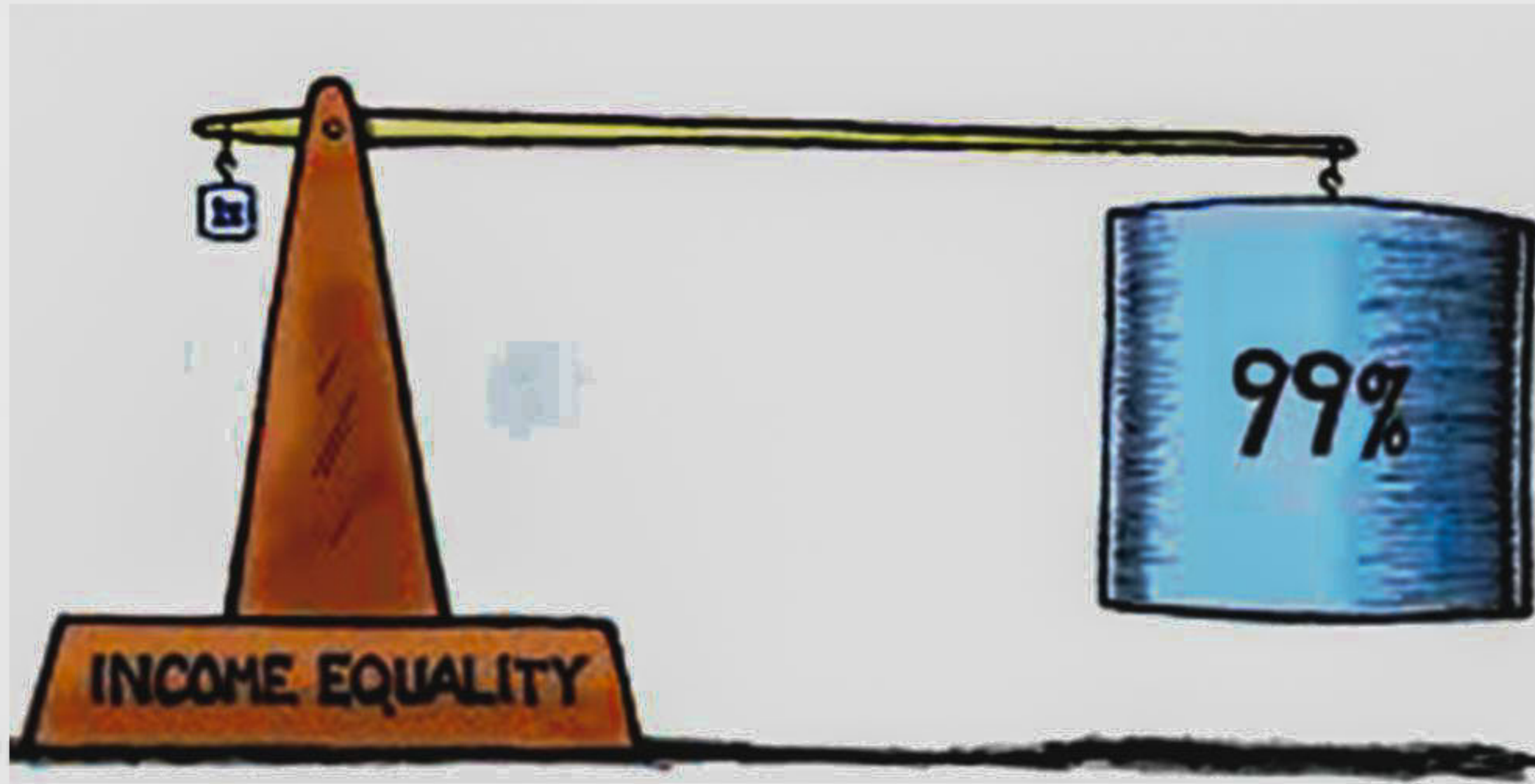
ACCORDING to a recent report "An Economy for the 1%" released by Oxfam, "wealth inequality has grown to the stage where 62 of the world's

richest people own as much as the poorest half of humanity combined." The research also found that the wealth of the poorest half of the world's population - 3.6 billion people - has fallen by 41 percent since 2010. The message is very clear - the poor are becoming poorer and the gap between the rich and the poor is increasing.

Income disparity has been a topic of discussion among experts for quite some time now. However, for a lay person like me, the issue boils down to a single existential question: Do we really want to live in a world where one percent owns more wealth than the rest of us combined and a large segment is living in poverty, resulting in insecurity and social injustices? Apart from the ethical implications, there are two major areas of concern. In a world where leaders are continually advocating democracy and equal rights for all citizens, it is scary to imagine that 62 people wield so much power (wealth being a major determinant of power) over the rest of us without being held accountable in any way. The insouciance of the world leaders in addressing the issue is indeed shocking. As I write this piece, they are assembled in the pristine environs of Davos, for the World Economic Forum. Interestingly, the focus is on economic growth - equity, if discussed at all, is a peripheral subject.

The second concern is more real - in the long run, sharp income differences create deep social tensions. When the bottom economic segment is deprived of their basic needs, they end up feeling disempowered, hopeless and resentful. The obvious casualty is social cohesion leading to community alienation and segmentation. Unfortunately, the electronic and print media have exacerbated the social tensions by over-publicising astronomical wealth-generating successes and the lifestyles of celebrities. Rarely does one find the media championing middle-class values such as hardwork and thrift, and the humanitarian and philanthropic work of faceless dedicated workers. The result is escalating anger and frustration in societies. In the absence of safety nets providing jobs and education, the bottom segment of the population could undergo a social collapse, resorting to anti-social activities. In fact, it would not be a gross exaggeration to conflate the street anger in the Middle East and other developing countries with the years of exploitation and socio-economic injustices.

Frankly, I consider myself truly fortunate to have grown up in an era when life was relatively simple, expectations were manageable, and dreams were, more or less, attainable. Inequalities were not starkly visible, symbols of ostentation were frowned upon and communities cared about their members. Regrettably, today's adverse social context has exerted a negative influence on basic emotional



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responses and there has been an overall decline in empathy and compassion. While I don't have empirical evidence to prove my point, but on a purely human scale, is it acceptable that relatively prosperous societies should rail against helpless refugees fleeing the prospect of losing their lives? Is it acceptable that a rape victim in a Delhi street was not picked up by passing cars despite her companion's calls for help? This is by no means the "progressive society" that we espouse and desire to create!

I am amazed at the growing insensitivity to the social injustices

accompanying the current model of "economic growth". It is shocking that many "experts" seem to believe that the poor are victims of their own choice and a "poor" work ethic is at the core of their misfortune. The argument that prosperity will trickle down eventually is also a ruse that is used to skirt the issue.

The truth is that the inequitable distribution of wealth is largely the result of flawed national and global policies that have done very little to close the income gap. The financial systems are being manipulated, enabled by changes in the rules that have been influenced by the financial industry itself. The rich have simply exploited a weak system with few checks and balances.

The top 1 percent may not care about

the state of the rest of the world because they have access to the best houses, the best educations, the best doctors and the best lifestyles. But no matter how insulated the super rich make themselves, they cannot deny that their fate is closely linked to how the other 99 percent live. For they cannot escape the angst caused by the cries of hungry children outside their doors or the threat of random terror attacks in a volatile and unbalanced society. Perhaps they need to go through some serious self-reflection and ask themselves: Do we want our children to inherit such a socially polarised and unstable world?

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Is it acceptable that relatively prosperous societies should rail against helpless refugees fleeing the prospect of losing their lives? Is it acceptable that a respected journalist lying injured by the roadside in Dhaka was refused help from people passing by?

Reserve currency: China's new double-edged sword

SHARJIL HAQUE

THE year 2015 was not kind to the world's second-largest economy. Growth slumped to a 25-year low. The stock market experienced massive correction, and still many argue that it is overvalued. Trade growth languished in negative terrains for much of the year. Capital outflow escalated while foreign exchange reserves fell by about USD 500 billion. Government stimulus and multiple (monetary) policy rate cuts were not successful in reviving the economy.

One bright spot for China - in an otherwise moribund year - was receiving the IMF's 'Reserve Currency' status. The Renminbi joined the US dollar, pound sterling, Japanese yen and euro in the elite basket of currencies that constitute the IMF's Special Drawing Rights (SDR) - an international reserve asset. What benefits is China likely to enjoy due to this new status? First, it will solidify China's growing geopolitical and strategic role in the international monetary system as Renminbi-denominated transactions gain popularity. Governments will park their wealth in China's currency, raising its international significance. Second, reserve currency holders will receive additional revenue from seigniorage, which entails profit made by a government through increase in the amount of money in circulation. The US government, for instance, traditionally made large profits from wide use of its currency globally. Third, given high demand for reserve currencies, the host country can benefit from lower borrowing costs through reduced bond yields. This can help China shift more easily towards domestic-currency denominated



PHOTO: REUTERS/STRINGER

borrowing from foreign-currency debt, which creates exchange rate risk, especially for non-exporters.

On the other hand, reserve currency status comes with its share of obligations. China has to liberalise its capital account to allow unfettered flow of financial assets. China remains the only reserve currency holder where capital flows are highly regulated. It also needs to allow a more flexible exchange rate. The People's Bank of China (PBC) maintains that it is taking steps toward a 'market-based' exchange rate and financial liberalisation. It is important to recognise that transitioning to a flexible regime and capital openness is a daunting task - it could even prove counterproductive to growth, given certain macroeconomic and corporate sector risks in China.

For the purposes of this write-up, it is important to determine if a flexible Renminbi would appreciate or depreciate in a more liberalised capital account regime. On one hand, reserve currency status could raise demand for Renminbi, causing it to appreciate (the US dollar is the best example in this context). This possibility still appears low in the near-term if we balance it with factors which lower demand for China's currency. Given subdued growth prospects, dented image of China's policy credibility, large stock market sell-offs and higher demand for overseas assets, the Renminbi is more likely to depreciate if only markets decided its fate. With the US Federal Reserve poised to steadily raise interest rates over the next 2-3 years, the pace of capital outflow from China could rise dramatically. Episodes of sharp

depreciations will no doubt create panic in global markets and raise possibilities of 'competitive devaluation' by neighbouring economies. Competitive devaluation or 'currency wars' stem from countries' motivation to protect their own export competitiveness. Certainly China would want to avoid such geopolitically-sensitive scenarios if it wants to maintain goodwill, protect its growing strategic role in the international financial system and promote the Renminbi's reserve currency status to other countries.

Given persistently weak global demand, it is also doubtful whether depreciation will substantially revive China's exports. For instance, currency depreciations in South Korea and Singapore last year have done little to boost their export growth. Even if we

assume China's exports will improve with a lag, such macro benefits should be balanced against any costs imposed upon the economy due to depreciation. The most pressing concern in this regard is China's massive pile of dollar-denominated corporate debt. According to the Bank for International Settlements, this figure is at a mammoth USD 800-850 billion. Foreign currency debt in China - driven by sectors such as real estate, oil and gas, power, metals and mining - escalated since the global financial crisis to take advantage of near-zero interest rates in international markets. While China's reserve is still much higher, it will not necessarily protect exporters (specifically whose foreign currency income is less than foreign currency liability) and non-exporters from exchange rate risks. Depreciating exchange rates will raise the cost of servicing these debts, reducing profits or depleting capital buffers. This is likely to impede future growth, business expansion plans and ultimately China's transition to a more consumption-driven economy. These underlying risks suggest that exchange rate stability will remain the PBC's policy objective in the short-term. In other words, the very risks associated with this new status are likely to prevent China from tapping into its full advantages. China needs to accelerate its shift towards a more healthy (albeit slower) consumption-driven growth model. Only then will investor sentiment stabilise, reducing capital outflow and sharp depreciation pressures. Until then, the Renminbi will remain (for want of a better word) a 'quasi' reserve currency.

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QUOTABLE Quote

ANDREI TARKOVSKY
A legendary Soviet filmmaker

Never try to convey your idea to the audience - it is a thankless and senseless task. Show them life, and they'll find within themselves the means to assess and appreciate it.

CROSSWORD BY THOMAS JOSEPH

ACROSS

- Stylishly quaint
- Esau's twin
- Mermaid's home
- Bush's successor
- Meredith Wilson show
- Junior, to senior
- Major no-no
- Early hour
- Spells
- Two-faced god
- Judge's wear
- Midterm, for one
- Yen
- Credit's opposite
- Play setting
- Reagan nickname
- Cry loudly
- Gettysburg loser
- Pub pint
- Billy Joel nickname
- Like bar beer
- Leaning
- Fence supports
- Transmits

DOWN

- Goes bad
- Canyon sound
- New driver, often
- Flock father
- Burdens
- Door frame maker
- "Modern Family" network
- Hunting garb, for short
- Yemen neighbor
- Cause of ruin
- Caret's key
- Like a greenhouse
- Compass point
- One of the Clampetts
- Log chopper
- Collar
- Lingerie item
- Nest item
- Look upon
- Dutch blooms
- Fragrances
- Brewed beverage
- Halt
- "Dear me!"
- Wagers
- Grace finish
- 39 Touch down
- 40 Finishes
- 42 Touch lightly
- 43 Bauxite, for one

YESTERDAY'S ANSWER

P	O	L	E	F	A	M	E							
C	O	R	E	A	G	E	N	T						
O	C	E	A	N	E	R	V	E						
C	O	G	N	A	C	L	I	E						
K	N	O	T	H	E	R	O	E	S					
Y	O	N	C	A	R	E	T	S						
G								O	B	A	D			
S								C	O	L	S	C	A	T
P	E	L	O	S	I	M	A	C	H					
I	R	A	S	H	E	R	R	Y						
T	I	R	E	S	I	D	I	O	M					
T	E	E	T	H	S	E	N	S	E					
S	T	A	Y	S	A	G	S							

BEETLE BAILEY by Mort Walker

IT WAS THE ONLY WAY I COULD GET A PASS TO TOWN

BUT WE'LL BE LATE FOR THE MOVIE

THERE ARE JUST A FEW MORE COOKIES ON SARGE'S SHOPPING LIST

BABY BLUES by Kirkman & Scott

WELL...

...THERE'S NOTHING IN THE RULES THAT SAYS HAMMIE CAN'T SHARPENADO YOUR HOUSES AND HOTELS TO EVEN THE GAME UP.

YES!

YOU GUYS ARE SUCH SORE LOSERS! I'LL GET THE HOSE!