

World capitalism: Changing colours

[Tsang Shu-ki](#) (15/10/2008)

The U.S. and much of Europe have gone far down the road of what I described in my earlier piece as: ["How to save the economy as an irresponsible central bank" \(with Addendum\) \(20/4/08\)](#). Those unprecedented policies include in most cases:

1. guaranteeing bank deposits;
2. recapitalizing banks which are “too big to fail” (almost everyone worth mentioning); and
3. backing interbank lending instruments (to pump the blood through).

The financial system should be stabilized for the time being, possibly with counter rallies in stocks and bonds.

However, the longer-term repercussions are quite mysterious (concerning fiscal deficits, monetary expansion, and inflation versus deflation).

After such gigantic, bureaucratic and indiscretionary distortions injected into a defunct capitalist funding regime, anything could happen. History after all is interactive to a rather large extent.

Wall Street should survive, albeit with changed colours. As to the rest of the real world, the consequences would not be easy to tell.

Those short-term measures are no doubt necessary to prevent a financial meltdown---which is, I must emphasize, long-predicted and none of the faults of most of the innocent people in the rest of the world.

Anyhow, they seem to be panic moves by the enriched elite with little regard to many aspects of **moral hazard** relating to a “guaranteed banking system”, which most economists, who are well paid in universities in the advanced economies, have not carefully considered, if at all.

The relative merit between the packages of Gordon Brown versus Henry Paulson could turn out to be trivial.

As an academic without information which is emerging by the hour, several concerns just come to my mind:

1. possible “interest rate warfare” among financial institutions to gain deposits under the “guaranteed regime”, not just, say, between Ireland and Europe but between Bank A, B and C within an economy. (Why shouldn’t any depositor transfer his/her deposit to a “junior bank” which offers higher rates, now that deposits are fully guaranteed)?
2. further self-interested risky adventures among financiers to extend loans and assets under the regime; and
3. bureaucrats (from whichever parties) spending taxpayers’ money by taking huge risk on the part of the financial elite, however necessary “on the surface” to ward off “the end of the world”.

Presumably, these forms of the above hazard can be avoided by even more **stringent bureaucratic** policies: by then capitalism and socialism (for the rich) would blend beyond recognition.

A more serious global consequence is that even if the financial system is saved, will funds really go further down the circuit----to the **REAL ECONOMY**? To those who need funds and who want to spend? Will corporations and consumers regain trust and buy much?

That goes back to my piece: ["How to save the economy as an irresponsible central bank" \(with Addendum\) \(20/4/08\)](#).

This is a difficult era: heroism is understandably in short supply. Nevertheless, I hope that the real “helicopter” (in modern IT) might not be required: sending time-stamped electronic money to corporations and citizens.