

15 April 2009

MUSCAT -- The world needs a more just and humane economic system in order to come out of the current global economic meltdown. This was stated by Farouq Irani, India's celebrated expert on finance, in his address to a corporate gathering organized by Muscat Finance Co Ltd here yesterday. Farouq said lack of ethics and a couple of other gigantic forces caused the current global crisis. He outlined a few factors that caused the global economic meltdown.

The first factor was the US Federal Reserve's belief that pumping money has the potential to solve problems by bringing the demand up. This attitude toward monetary policy management is one of the root causes. The second causative factor was the spread of toxic assets (built in the subprime crisis) throughout the world, with clever instruments of securitization and supporting derivatives.

This permitted banks in a given country who could earlier only lend up to the aggregate of deposits that they could collect within their geographical area to now take funds from the whole world as that "a country like the UK lend money up to three to four times its British originated deposit holdings". The third important causative factor, according to Farouq, was the disastrous impact of the credit rating agencies (CRA) decisions. Increasingly, informed opinion takes the position that during the period of this crisis it may have been better if credit rating agencies did not exist because they gave the financial community a false sense of comfort.

They failed to tell the world about a Force 9 Hurricane! Surprisingly enough, at the time of the demise of the Lehman Brothers, credit rating agencies gave it triple 'A' rating, he said. "If the CRAs misguided by their computer models had not placed Triple 'A' ratings over convoluted real estate collateralized paper then the agencies and banks would have paid greater attention to the credit risk details and have desisted from extending such incredulous credit.

Farouq said "credit rating agencies became embedded in the economic system and grew very powerful and soon began to influence the fortunes of large companies and even 'countries'. In the early days credit rating agencies lived in a cocoon that was insulated from the live atmosphere of Wall Street. However, this culture changed once the Moody's got listed in the stock market. The CRAs got closer to companies and their analysts were given lessons on congeniality and dealing with Wall Street firms".

As a result of these and other causative factors, he said, today "Washington is broken, the financial system is shattered and bakers once the high priests of the capitalist system are today its villains amassing huge bonuses despite their tremendous mismanagement risk." In response to a question that one school of thought believes capitalism cannot survive the present crisis and one needs to look beyond capitalism, Farouq said "what we need is a more humane and just system", because just pumping money and palliative measures or initiatives that causes the crisis will not resolve the crisis.

The Muscat Finance organized the corporate gathering as a gesture of thankfulness for the support of their key corporate clients on occasion of their 20th anniversary. Earlier, Hassan Kamer Sultan, Chairman, Muscat Finance, unveiled a new website of the company. Ajit Engineer, CEO, Muscat Finance, his address, said Muscat Finance has served 80,000 clients and has been justifiably named best brand three times in Oman.

*By Staff Reporter*

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