

While guaranteeing deposits may calm investors, risks to the banking system also rise, writes Jake van der Kamp

Beware, it bites

You couldn't possibly doubt the appeal of the idea on seeing the government's recent full page advert – four beaming, happy people stepping up to the microphone to express their great joy that their bank deposits may now be guaranteed to a maximum of HK\$500,000, up from HK\$100,000. Let us all cheer the Hong Kong Deposit Protection Board.

But you do have to wonder why this should engender quite so much joy. In the first place, there is little reason to leave HK\$500,000 in a bank deposit when interest rates are so low that you need a microscope to see them.

As the old saw has it, why are HSBC shares traditionally among the best investments in Hong Kong? Answer: because HSBC deposits are traditionally among the worst. Figure it out.

And it is hardly as if our commercial banks are wobbling at the moment. We had trouble that way in the mid-1980s when Southeast Asian interests raided several banks they owned here in order to prop up disastrous investments at home. But in the only serious case since that time, the failure of the Bank of Credit and Commerce International in 1991, receivers quickly ring-fenced the assets of the Hong Kong subsidiary and depositors got all their money back.

In fact, it is instructive that the Bank of East Asia stayed open right through a bank run in September and paid out all frightened depositors who demanded their money. The panic soon dissipated. Anywhere else in the world at the time, the Bank of East Asia would have had to surrender itself to government in a matter of just hours.

We have a fortress banking system in Hong Kong, probably the soundest in Asia. The only real mark of non-confidence in it recently came from Financial Secretary John Tsang Chun-wah, when he decided last year to provide a temporary guarantee of all bank deposits. He would have done better just to fold his arms and demonstrate to the whole world that he wasn't needed.

But our banks can still become a good deal less safe and one cast-iron prescription for making them so is to remove all risk from deposits, as the deposit protection scheme aims to do.

It's simple. Give me a government-backed guarantee that my bank deposit is safe and the first thing I do is look for the bank that pays me the highest interest rate.



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It no longer concerns me that this bank may go bust. That is now someone else's problem. I know that I will get my money back.

Bankers will have to adapt to this. They must offer higher deposit rates or they will not get deposits and the only way they can offer higher deposit rates, and still make money, is to charge higher interest rates on their loans, which they can only do to borrowers who constitute a greater risk. They will do it, knowing also that they will not need to feel quite so bad any longer if it

all goes wrong. The deposits are guaranteed by a government agency.

There is a name for this phenomenon. It is called moral hazard and there is no escaping it. To the extent that the fears of depositors are soothed, the risks to the banking system rise.

The Deposit Protection Board admittedly makes mention of moral hazard in its consultation paper on the HK\$500,000 limit, but then pretends that moral hazard is something it can measure, as in a spreadsheet formula, and restrain to a "manageable level".

This is nonsense. Whether still just a cuddly pup or already the ravening fanged leader of the pack, moral hazard is a wolf and not to be tamed or quantified by investment maths. It grows when you feed it and eventually it feeds on you.

Risk can never be eliminated from an investment. It can be reduced, as it is with bank deposits, but an element of it must always be there, even with deposits, to keep

your banker on his toes when he uses your money. He is kept prudent by knowing that you can take your money away from him if you lose confidence in him.

You, meanwhile, are restrained from asking him for too much by knowing he could lose your money if you do. It is a very moderate balance of fear and greed compared with what prevails in derivatives investments but, slight as it may be, it is still essential to healthy banks. Removing it leads only to eventual nationalisation of the banking system.

If you need have no worries at all about your deposits and your banker no longer has you looking over his shoulder to keep him prudent, then the arbiter of where your money goes inevitably becomes the guarantor of that money.

Hands up now, who really thinks Mr Tsang is cut out for the job?

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Cuts that bleed

Why did a public hospital ask the family of a woman seriously injured in an accident to pay almost HK\$22,000 before doctors could treat her? To stop internal bleeding, the patient needed an expensive drug that was not on the list of those available for general use. The hospital was right to point out the availability of the drug, normally used to treat haemophilia, that could help stem the bleeding. But staff obviously felt they could not authorise its use even in a life-or-death situation. The Hospital Authority described it as a "grey area". Thankfully, the hospital will refund the money to the family.

Hopefully, this case will help highlight the more general issue of how funding cuts have resulted in patients being denied optimal treatment. The problem is serious but has not received sufficient public attention.

It was not that long ago when public health-care patients had to wait a long time to see a doctor. Indeed, Hong Kong's health care provision was unimpressive throughout the 1980s and not in step with the growing wealth of the city.

When the Hospital Authority was set up in 1990, although substantial funding was provided, it had the daunting task of dealing with decades of policy neglect. Solid improvements were nevertheless made in public health care. Yet, a decade later, the authority was a prime target for major funding cutbacks. There seemed to be two reasons for this – low-cost public medicine was seen as "welfarism", and the private sector was concerned that the public sector was taking away business.

The consequences were dire, but not well known to the public. For example, in 2000, the government announced that financial restrictions would be placed on a range of drugs and treatments, including for hepatitis, breast cancer, multiple sclerosis and

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leukaemia. The supply of pacemakers was also restricted. Poor patients could apply to charitable funds to help them pay. But it is not easy for a disadvantaged patient and his or her family to deal with such a set-up. Anecdotal evidence suggests that the poor get further impoverished to finance treatment.

With the city's continuing financial woes, health care funding has had to be cut further. By 2003, funding and staff levels had been severely cut, leading to longer waiting times and worsening services for patients.

Two years later, the Hospital Authority admitted that service quality had been compromised. With fewer resources, treatment went to those with more urgent conditions, and waiting times got worse in all specialties, particularly surgery. The authority noted in its annual plan for 2007-08 that it was forced into "limiting or refusing introduction of new technologies and pharmaceuticals, and delaying the replacement of equipment".

Shockingly, public doctors not only have to work long hours, they have to go to court to get paid for overtime. In 2006, doctors' court action led to a settlement offer of HK\$629 million. As of last year, 18 per cent of Hospital Authority doctors were still working 65 hours or more a week. Nurses also have excessive workloads. Is this what Hong Kong can be proud of?

Over the years, there have been several rounds of consultation on how Hong Kong could pay for public health care. The most recent, last year, came to naught. The government gave the public six options on how finance could be raised for the health care system and it was made clear that raising taxes would not be the way to go. It is unclear how the discussion will now move forward. In the meantime, the Hospital Authority is being squeezed and patients are not getting the treatment they should.

Individual patients lack the knowledge, time and political voice to complain effectively. Hong Kong's political parties and legislators have yet to step in and take a good look at the issues. Last week's unfortunate case should wake people up to the need for more types of treatment to be made available to anyone. Can the health minister come up with a new and improved list?

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Other Voices

Iran's revolution in the virtual mosque

Thomas Friedman

Watching events unfolding in Tehran raises three intriguing questions for me. Is Facebook to Iran's Moderate Revolution what the mosque was to Iran's Islamic Revolution? Is Twitter to Iranian moderates what muezzins were to Iranian mullahs? And, is any of this good for the Jews – particularly Israel's prime minister, "Bibi" Netanyahu?

Here is why I ask. During the past eight years, in Iraq, Lebanon, the Palestinian territories and, to a lesser extent, Egypt, space opened for more democratic elections. Good news. But, the groups that had the most grass-roots support and mobilisation capabilities – and the most energised supporters – to take advantage of this new space were the Islamists. That is, Hezbollah in Lebanon, Hamas in Gaza and the West Bank, the various Sunni and Shiite Islamist parties in Iraq and the Muslim Brotherhood in Egypt. The centrist mainstream was nowhere.

One of the most important reasons why the Islamists were able to covertly organise and mobilise, and be prepared when the lids in their societies were loosened a bit, was because they had the mosque – a place to gather, educate and inspire their followers – outside the total control of the state.

What is fascinating is the degree to which in Iran today – and in Lebanon – the more secular forces of moderation have used technologies like Facebook, Flickr, Twitter, blogging and text-messaging as their virtual mosque, as the place they can now gather, mobilise, plan, inform and energise their supporters, outside the grip of the state.

For the first time, the moderates, who were always stranded between authoritarian regimes that had the powers of the state and Islamists who had the powers of the mosque, now have their own place to project power: the network.

But while that puts the moderates mainstream on a par with Islamists in communications terms, let's not get carried away. First, "moderates" is a relative term. Iraqi prime minister Nouri al-Maliki, while more secular and nationalist than the extreme Iraqi Islamists, wants to centralise power and solidify his Dawa group as the ruling party.

Second, even if defeated electorally, the Islamists and their regimes have a trump card: guns. Guns trump mobile phones.

That brings me to Mr Netanyahu. Israel was caught out by events in Lebanon and Iran. And Israeli officials have been saying they would much prefer that Mahmoud Ahmadinejad still wins in Iran – not because Israelis really prefer him but because they believe his tuggish, anti-Semitic behaviour reflects the true and immutable character of the Iranian regime. Israelis fear that, if a moderate were to take over, it would not herald any real change in Iran, but simply disguise it better.

But there are signals that another trend may be stirring. The Iranian regime appears to be splitting at the top. This could challenge Mr Netanyahu's security framework. Israel has to be open to them and must understand that how it relates to Palestinians and settlements can help these trends – at the margins. But a lot starts at the margins.

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Religion, the glue that holds Europe together

Jonathan Power

Not a moment too soon, the Europeans have been going through a bout of navel gazing and introspection following the recent parliamentary elections. What is the European Parliament for, when every country has its own legislatures, both national and local? Why did so few people vote, less than ever before? Why did the East Europeans, only recently liberated from the yolk of dictatorship which denied them the vote, vote less than anyone else (with a couple of exceptions)? Why are the British talking as if membership of the European Union is a yoke around their necks? In short, what is Europe?

In 1751, Voltaire described Europe as "a kind of great republic, divided into several states, some monarchical, the others mixed but all corresponding with one another. They all have the same religious foundation, even if it is divided into several confessions. They all have the same principals of public law and politics unknown in other parts of the world."

In a way that Charlemagne, Voltaire, William Penn and Gladstone, the early advocates of European unity, could only dream, a united Europe has become a reality with half a billion members.

War, time and time again, has interrupted the pursuit of that objective. Continued civil war across the continent, across the centuries, reached its dreadful climax in the second world war. Of all the continents, over the millennium, Europe has been the most warlike.

Many, if not most, of the generation who lived through the second world war wondered in 1945 if they

would ever see Europe in any state of grace or glory, much less unified.

The fact that the urge to bury the hatchet and forge common institutions has come so far in such a short time against such a backdrop is the 20th century's greatest achievement. Likewise, the creation of the euro, the common currency, has taken Europe another mighty step towards the kind of unity that prohibits war.

This astonishing progression raises the question: what is the glue that holds it all together? After all, what is Europe geographically? It is no more than a peninsular protrud-

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ing from the land mass of Asia. Culturally, it has always been a potage of languages, peoples and traditions.

Indeed it is religion, not politics or economic interests, that through the ages made Europe one, held it together through its vicissitudes (many of religious origin) and provided the common morality and identity that makes the EU possible today.

Broadcasting to a defeated Germany, the poet T. S. Eliot reminded his audience that despite the second world war and "the closing of Europe's mental frontiers because of an excess of nationalism, it is in Christianity that our arts have developed; it is in Christianity that the laws of Eu-

rope – until recently – have been rooted. An individual European may not believe the Christian faith is true; and yet what he says, and makes, and does, will depend on the Christian heritage – for its meaning."

Of course, one can ask what the cults of finance, sports, television, pop culture and eroticism have to do with a Christian heritage. Nevertheless, despite all, the fact is that, through changing fashions, through war big and small, the idea of a Europe that persists is essentially Christian. On its own, economic self-interest would never have created the EU and monetary union. Political, economic, social and monetary union have been driven all along by men and women who were essentially idealistic and visionary.

From Jean Monnet, to Helmut Schmidt, Valéry Giscard d'Estaing and Helmut Kohl, the founders and creators of the EU and the euro, the urge to remove the causes of belligerence and to form institutions that would further the development of a common democracy have been a central purpose of their lives.

Europe is not first and foremost a political concept nor a financial convenience. It is an ideal. This will never be complete. We will work at it all our lives, as will future generations.

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An unfair climate pact is no deal at all

John Sayer

The history of climate change may go down as the most well-documented collapse of a human civilisation. Or, it may be the story of how leaders changed their perception of risk and mobilised the political will to lead their countries through rapid economic and policy reforms unprecedented in human history.

If the climate change talks in Bonn that ended last Friday is any indication, it might be the former: through sheer inertia, world leaders are abandoning millions of the world's poorest people to a desperate future.

Delegates from rich countries have spent the past two weeks talking but have done nothing on the issues that really matter. They failed to set an overall target for mid-term emission reductions – one of the main aims of the meeting in Bonn – or put forward concrete proposals for funding to help poor countries reduce emissions and adapt to a changing climate.

The original 50-page text for the deal, presented by the chair of the negotiations two weeks ago, has ballooned into hundreds of pages of "bracketed" (that is, disputed) text. This serves as an emblem of the polarised positions in the debate. Europe, the US, and Japan have come to the meeting with nothing new to offer. As one result, the talks in Bonn undermined further the confidence of poor countries in the negotiations.

At Bali in 2007, the world's governments set the negotiations in Copenhagen in December 2009 as the deadline to agree a global deal on climate change. To fend off

disaster, the agreement in Copenhagen will need to ensure that global emissions peak by 2015 at the very latest, and that total global emissions in 2020 fall back to 1990 levels – or even lower.

Equity is a vital and instrumental part of any agreement to be reached in Copenhagen. An agreement that simply maintains – or worse, increases – existing injustice and inequality, is unacceptable.

The existing inequalities of climate change are stark: On the one hand, developed countries are responsible for three-quarters of the greenhouse gas emissions already released into the atmosphere. On the other hand, 100 countries with a total population of nearly 1 billion people contributed less than 3 per cent of those emissions but will have to suffer the effects of climate change impacts in the near term.

A fair deal in Copenhagen will have to include resources for adaptation in developing countries, a means to redress damage from climate impacts, and policy responses that do not themselves harm poor people's lives and livelihoods. Of all the dimensions of equity, agreeing fair shares of an adequate global mitigation goal is central. Without this, there can be no deal.

We must tell the Group of Eight leaders in their summit in Italy next month that only a political commitment for ambitious action at the highest level can save the talks. The inertia in Bonn must end and they must come to Copenhagen ready to strike a deal that will prevent a human catastrophe.

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