

President Bush hard policies challenged

Democrats win landslide victory at US mid term elections.

I believe the consensus was rather for a democrat victory in the House of Representatives and a slight majority for Republicans in Senate, however it ended with a democrat's landslide victory in both chambers. Doubtless this will lead to President Bush lame duck profile as he was already suffering poor popularity. Odds further increased for the next president to be democrat (some say Hillary Clinton).

President Bush has strongly biased people's intentions including his own supporter's. From a long-term perspective President Bush left a heavy burden on American peoples but he also caused trouble to various foreign countries. Personally I welcome this elections result. More specifically I believe that an Iraq policy change will reduce terrorism threats and cut unnecessary costs.

'Total death ear toward other parties demand and total self-interest pursuit ' are undoubtedly reasons behind terrorists attacks. There is a problem with Bush administration posture and things cannot improve without a radical change. United States hold an overwhelming economic and military power relative to other nations mixing up with other civilians on a global basis, therefore it was unavoidable that terrorists threats appeared here and there.

To ease tensions, opening negotiations with other parties that do not share a mutual interest is far wiser (offering support and education) than using sheer military power. In this sense the Koizumi cabinet deserved his 'yes sir' label when deciding in a hurry to send self-defence forces in Iraq. Koizumi blindly followed United States hard-line policy and that was a total blender lacking long-term vision.

Although not limited to Bush administration lack of enthusiasm toward energy, environment and global warming policies are also quite a problem. Liberal economies Achilles' heel is the fact private organizations cannot voluntarily raise short-term unprofitable projects although useful on long term. In the United States there is a huge gap between successful and not so successful sectors. Environmental problem and social policy represent the dark side.

Democrats are more inclined to consider the weakest. Democrats will adopt a more aggressive fiscal policy toward the wealthiest and promote social policies. The established theory says stock markets hate this policy mix. However looking at past Indexes performance according to US administration political colour neither democrat nor republicans can be clearly linked with a bull market. Macro economic environment and United States technical and industrial competitiveness is much more important.

US stock market should show mild strength.

According to established theory a democrat victory is negative for stock market. However the winning political party is elected to deal with the actual problems, in the end I believe election results are welcomed.

Consequently stocks won't fall provided the winner does not launch policies damaging companies' earnings or economy. Historically we experienced numerous cases when the Dow rose up to 4 months before a mid term election or presidential election

This said this elections result just couldn't end without any damage. Large pharmaceuticals companies like Pfizer or Wal-Mart notoriously employing low wage workers were sold off (discounting minimum legal wage increase or new pharmaceutical products price cap policies).

Incidentally US legal minimum wage is 5.15 US\$ (608 Yen) per hour. Back to June the proposal to rise this minimum wage to 7.25 US\$ (855 Yen) per hour was crushed by the republicans in the House of Representatives budget committee. Present elections outcome mean this proposal will come back on the table and is sure to go through.

This revamped legal hourly minimum wage represent 14,500 US\$ on a year basis based on 40 hours week or 2000 hours worked per year plus 2 week holidays paid entitlement. That's roughly 1 million 710,000 Yen per year. At such low level one's hand cannot turn to social security nor old age security. What did Republican Party members had in the back of their minds by opposing the proposal? Maybe Republican's campaign funding was supported by traders employing illegal immigrants underground...

I checked Japan and EU minimum wage laws. In Japan the new hourly rate is 719 Yen for Tokyo area, 610 Yen for Akita and Okinawa areas. In EU French/UK minimum monthly wage is 1,250 euros (roughly 190,000 Yen per month), 50,000 Yen per month in Turkey and the lowest for Bulgaria at 15,000 Yen per month. Now I understand why Bulgarian Sumo wrestler 'Kotooshu' was pleased to come to Japan wrestling Sumo!

US equities passed through mid term elections without experiencing the traditional bear. Should the fall had taken place we could have enjoyed a superb rebound but the relentless pace makes previsions somewhat difficult. To speak clear and loud US saving rate has still a long way to go up. Consumption rose on the back of housing bubble therefore the price to pay is obvious. US payrolls stay high however should house prices fall further the impact will come sooner or later.

FRB representative's say that US GNP growth rate, which decreased to 1.6 % annually, should soon recover the 3 % level but this look over optimistic to me. Employment should fall and consumption weakens by next year. However if US can maintain a real 2 % growth rate then earnings can still grow at 5 % level. US rates will slightly decrease and stock market shows mild strength therefore Japanese equities will show resilience and downside risk remain very limited.