

# Don't jump the gun, Mahathir cautions people

By Lim Kean Liang

PRIME Minister Datuk Seri Dr Mahathir Mohamad, yesterday cautioned the people against being inflamed by "inflation psychosis" because of the third oil shock.

He said "inflation psychology" was a state of mind which prompted consumers, producers, workers and businessmen to anticipate price increases and jump the gun.

"This will precipitate the very thing they wish to avoid — loss of purchasing power," he said at the annual dinner of financial institutions in Kuala Lumpur last night.

A businessman who raised his price on the assumption that he needed money in order to restock would start an endless chain reaction. The wage-carriers would then demand for higher wages which would push prices even higher.

He said such a phenomenon was ridiculous as no one would be earning more even if the amount earned in terms of figures increases.

"What all this means is that the

currency will be effectively devalued. There will just be so many more zeros in the account book and currency notes which might as well not be there," he said in a speech which touched on a wide range of topics including the stock market, financing property development, Labuan as an International Offshore Financial Centre and white collar crime.

Dr Mahathir said there was a naive belief that inflation could be stopped by legislation and wage-price indexing was one example.

He likened wage-price indexing to a "cat chasing its own tail" and added that countries which tried wage-price indexing had not been able to get rid of their "vertigo".

Underlining that the business community and the consumers could and must do more to check inflation, he said. The most effective remedy "is to buy less or not at all if you do not need it".

Wages should not be increased unless there was a corresponding increase in productivity while produc-

tivity increase must result in prices remaining stable, he said.

On Governments part, it would exercise restraint in spending and improve its own productivity.

"The Government has demonstrated its discipline during the recent recession. The Government will be equally disciplined if the Gulf crisis puts pressure on prices."

Dr Mahathir urged banks to be more accommodating and not to foreclose and bankrupt their clients.

He said a few banks not only imposed penalties but exacted their pound of flesh.

"The Government is not asking the banking system to save spendthrifts who misused their loans. But in cases where failures were due to the recession, entrepreneurs and businessmen should not be penalised by being made bankrupts."

He said banks made nearly \$900 million in profits in the first half of this year and therefore were much better placed to take advantage of an economic recovery and could afford to be more accommodating.