

PM: WE WILL BE PRUDENT

By Wong Chun Wai

KUALA LUMPUR, Fri. — The Government will exercise restraint in its spending to fight potential inflation resulting from the Gulf crisis, Datuk Seri Dr Mahathir Mohamad said today.

The Prime Minister said the Government would not merely advise the people on how to be responsible but would also do its part.

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

He said the business community and consumers could help fight inflation.

"If inflation threatens, the most effective remedy is to buy less or not at all if there's no need to.

"Wages should not be increased unless there is a corresponding increase in productivity," he said at the annual dinner of financial institutions here.

Dr Mahathir said domestic prices did not pose a real problem, as the Consumer Price Index (CPI) went up by only 2.4 per cent in the first half of this year and by 2.8 per cent the whole of last year.

He said this performance was better than that of most developed countries. "But we cannot take things for granted."

He said Malaysians should have learnt to cope by now, just as most oil-importing nations had, with oil price increases.

"The real culprit is what is termed 'inflationary psychology' — a state of mind which prompts consumers, producers, workers and businessmen to anticipate price increases and jump the gun and so precipitate the very thing they wish to avoid — loss of purchasing power.

"A businessman who raises his price because he thinks he will need more money in order to re-stock is starting a chain reaction which is endless," said Dr Mahathir.

He said suppliers would do the same while wage-earners would demand more pay, pushing prices even higher.

"The phenomenon is ridiculous, for no one is earning more even if the amount earned in terms of figures increases."

The Prime Minister said it would be naive to believe that inflation could be stopped through legislation, such as wage-price indexing which was like "a cat chasing its tail."

On the property market, Dr Mahathir said it was booming again and almost every company was setting up a property development subsidiary or division.

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However, he warned that the property market was never stable, going through a distinct cycle.

He said banks should, therefore, be more circumspect when financing property development. "Indications are that there will be a glut of houses and condominiums. Office space might be in oversupply soon."

He said the "curious thing" was that while many residential and office projects were already off the ground: hotel projects appeared to be lagging behind.

Dr Mahathir said the growth in tourism was projected to continue into 1991 and 1992, so the lack of rooms would be even more acute in the next few years.

On the stock market, he said it had been active lately, reflecting the country's healthy economy. But he cautioned that excesses were bad.

"We are seeing once again excessive speculations which push up prices to unrealistic levels

And the prices are quite unrelated to companies' performances."

The stock market, he said, should not be a gambling institution and it should be used more for

investments and to raise funds for business.

Dr Mahathir also said that family companies had recently started to seek public-listing, being aware of the funds that could be tapped for rapid growth.

"Unfortunately, the founders of these companies still want personal control through a majority stake.

"The fear is that the demise of the founder and family squabbling will undermine management.

"The reliance on founders should be gradually replaced by corporate management structures based on responsible directors, professional managers and knowledgeable shareholders," said Dr Mahathir.

He said banks could play their part by using their clout in companies where they sit on the boards to ensure that majority stakes did not lead to absolute domination.

On the Labuan International Offshore Financial Centre (IOFC), he urged banks to look for opportunities offered.

He said the IOFC would perform well despite scepticism from some quarters that it would fail.

"If Vanuatu can be fairly successful as an IOFC, I think Labuan can too."