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Govt studying tax on currency speculators, says Dr M

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THE Government is studying the possibility of imposing taxes on currency speculators, an idea which is also being considered by European governments.

Prime Minister Datuk Seri Dr Mahathir Mohamad said some European countries are already thinking of limiting speculation on their foreign exchanges through taxation.

"I don't know whether we can do that or not. But we are studying the situation," he told reporters after bidding farewell to visiting co-chairmen of the Council of Ministers for Bosnia and Herzegovina, Dr Haris Silajdzic and Mr Boro Bosic in Kuala Lumpur yesterday.

James Tobin, a Nobel Prize-winning economist, in 1978 proposed an international uniform tax on spot foreign exchange transactions (including deliveries of futures contracts and options) structured to discourage short-term speculation while allowing long-term cross-border investments.

The proposed tax - since dubbed the Tobin Tax - would be designed to discourage large-scale speculation that can drive central banks to the wall and make it difficult for a government to manage its economy.

Dr Mahathir said the Government has to think of a long-term solution to the speculative attacks on the currency. "We must have a final solution to this problem," he said.

When asked how Malaysia could take advantage of the weaker ringgit, the Prime Minister said any such advantage would only be temporary. "We have to think of the long term."

Dr Mahathir is confident that the ringgit will rebound in view of the several measures that have been put in place. "We are trying very hard to solve the problem."

"Malaysian companies are making good profits. We will pull through but what I am annoyed with is this kind of activity which is supported by very rich countries.

"These very rich countries... they don't even help the poor countries and when they see poor countries coming up they try to knock on their head.

"Ironically, they talk about justice and being fair, and even questioned our democracy. But what democracy is this?" he said.

"They (speculators) are backed by very powerful countries who think that destroying the economies of the developing countries is great fun.

"What do they care? And yet they talk about human rights, about eradication of poverty. Their people come here and squeeze the country that is just trying to develop its economy. And they think this (act) is great democracy, this is freedom, free trade," he added.

On the Government's move to defer the implementation of non-critical projects to address the current account deficit, Dr Mahathir said projects being undertaken by the private sector will continue although imports of certain goods will be reduced.

"(These projects) are not being deferred. We are trying to reduce imports because the cost to import has gone up as the value of ringgit has come down.

"This is just a temporary measure. We will go on with these projects. So, for the time being, we have to reduce imports, including by the private sector," he added.

Dr Mahathir maintains that the currency problem in South-East Asia is a

deliberate act by certain speculators.

"Whether there is a conspiracy or not, the fact remains they have done it deliberately. Knowing that the ringgit is sliding, they forced it down further because they want to make money for themselves.

"This is the kind of jungle we are living in, the so-called open market and free world. All these ever-rich people can do what they like and they are backed by the rich countries," he added.

On the Government's pledge to contribute US\$1 billion (US\$1 = RM2.78) to the International Monetary Fund-led rescue package for Thailand, Dr Mahathir said Malaysia has the responsibility to help its neighbours.

Furthermore, he said, the slide in the Thai baht has affected the ringgit.

Other currencies have also weakened against the US dollar, for example the German mark, Dr Mahathir said. "But Germany can lose a few hundred billion dollars... it makes no difference to them. For us, to lose two or three billion dollars is quite a lot of money."

The ringgit edged lower against the US dollar yesterday to close at 2.7880/20, down from Tuesday's close of 2.7655/85.

Dealers said that the bullish undertone of the greenback is still strong.

"The ringgit was also slightly affected by what happened to the Indonesian rupiah," a dealer said.

The Indonesian rupiah fell to a historic low before its central bank provided some support by raising interest rates yesterday.

Another dealer said that volume was thin and the ringgit was trading within a narrow range. Against the Singapore dollar, it closed lower at 1.8403/41, from 1.8339/45 the day before.

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