

Mahathir named one of three movers of global events

By TAN KAH PENG in London

PRIME Minister Datuk Seri Dr Mahathir Mohamad has been described in a special *Times* report as one of the three movers of events — together with George Soros and Alan Greenspan — in the economic crisis unfolding in the world. *S 8.10.98*

A blurb accompanying a commentary by Janet Bush, economics editor of *The Times*, says an assault by speculators on Malaysia's currency prompted Dr Mahathir to blame Soros which may have exacerbated the flight of capital from the country.

But the blurb did not mention Dr Mahathir's persistent appeals to the world community to monitor the activities of hedge funds and their impact on economies worldwide.

The collapse of the Long-Term Capital Management (LTCM), which lost US\$1.8bil or 44% of its value, gambling on world interest rates, has shown the devastat-

ing impact on the international financial system.

According to the *Times* report, LTCM used its US\$4bil of capital as security to borrow another US\$120bil. It then used the US\$120bil to borrow about US\$1 trillion, which was equivalent to the GDP of China.

"By letting Long-Term Capital borrow without restraint, the banks (such as UBS, Credit Suisse, First Boston, Bear Stearns) endangered the financial health of the American economy," says the report.

"The Federal Reserve (Fed) has also been criticised for neglecting its regulatory duties. Hedge funds are not supervised since it has been presumed that billionaires should be able to look after their own money."

The report ends with a quote by David DeRosa, a finance professor at Yale University, which sums up the issues at hand: "The Fed and by extension, the entire team of the US government, will

have less credibility the next time they want to preach the favoured laissez-faire advice to broken-down Asian countries and Russia."

Soros was described in the blurb as the man who bet against the Bank of England in 1992 by putting his money on a fall in sterling and won US\$1bil.

Of Greenspan, the blurb says the Fed chairman has used his influence, and well-timed if confusing statements, to bring pressure on markets. "A few words were good for a couple of hundred points off Wall Street."

In her commentary under the heading *What world leaders must do to solve the economic crisis*, Bush says policymakers need to think about new ways of handling financial crises.

"There could be a move towards introducing capital controls on short-term investments ("hot money") in developing economies with embryonic banking systems," she says.

"The Chilean economy has remained relatively stable, partly because of a system which penalises short-term capital inflow with high rates of taxation.

"But emerging economies tend to welcome new capital, despite the risk that it might be abruptly withdrawn."

Bush notes that the IMF, "despite exacerbating the economic catastrophe in Asia by forcing countries to raise interest rates," has refused to admit fault.

Bankers have not learnt either, she says. Despite losing their shirts in Latin America in the 1970s and in Mexico in 1994, they have continued to pile into emerging markets in Asia and Russia with no proper risk analysis.

"Western governments have not learnt much either. Despite the obvious fact that it is banks, traders and speculators who run the world economy, politicians still pretend that they are in control," she says.