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MAHATHIR-KRUGMAN

DR MAHATHIR DID HAVE A POINT, SAYS RENOWNED ECONOMIST

SINGAPORE, Aug 29 (Bernama) -- Prime Minister Datuk Seri Dr Mahathir Mohamad did have a point when he blamed capital market players for the financial crisis, says Dr Paul Krugman, the economics professor at Massachusetts Institute of Technology.

However, he told Singapore's Business Times in an interview published here today that the point would have been more effective if Dr Mahathir had made it more quietly.

"Or, if it had come from someone else," said Dr Krugman, the first economist to cast doubts about the Asian Miracle theory.

One of the tragedies of this crisis, he said, was that some valid criticisms that a number of people had made had been lost because they were wrapped in a lot of irrelevant rhetoric.

Dr Krugman said it should not have been made a political issue and that no one was conspiring to destroy Asia because they were jealous.

"But we do have a world which seems awfully susceptible to extremely damaging speculative runs, and even in some cases, possibly conspiracies although by all indications not against Malaysia but perhaps now against Hong Kong," he said.

Dr Krugman recently said the IMF (International Monetary Fund) reform programmes had failed and he has called for foreign currency controls to put Asian countries back on track.

Asked by Business Times if it was a little too late to impose currency controls now when much of the capital has already gone, he said the capital had not all gone.

"There has been a lot of repayment but the foreign debt is still a major drag," he said.

"The point is that you want now to follow a conventional stimulus package. You want Asian economies to respond to their recessions, as if they were the US."

He noted that when the US was in a severe recession in 1982, it did not worry about the budget deficit and it sharply cut interest rates.

Dr Krugman said Asian economies had been unable to do that because of the justifiable fear that if they tried, currencies would go into freefall and recovery attempts would simply boomerang back on them.

He said Asian economies needed those expansionary policies and he did not see how it could be done if there was also the need to satisfy the international financial markets. -- BERNAMA

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