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KRUGMAN-CONTROLS

KRUGMAN: CONTROLS GIVE BREATHING ROOM FOR ECONOMIC RECOVERY

KUALA LUMPUR, Sept 2 (Bernama) -- Economist Dr Paul Krugman says the imposition of currency controls by Malaysia should be regarded as temporary measures designed to win breathing room for an economic recovery.

They should not be designed to secede Malaysia permanently from the international capital market, he said.

In an open letter to Prime Minister Datuk Seri Dr Mahathir Mohamad after Malaysia had announced the control measures, the Massachusetts Institute of Technology economics professor said the purpose of currency controls is to allow the adoption of more expansionary monetary and fiscal policies.

As such, the measures should be used to promote a recovery of the real economy, he said in his letter which was published on his website at <http://web.mit.edu/www.mahathir.html>.

"Such a recovery will, if all goes well, reduce the problems of insolvency in the corporate sector and non-performing loans in the banking sector," said Krugman.

In hoping that this dramatic policy would pay off, he said the imposition of currency controls is a stopgap measure.

"There is no shame in that: some gaps desperately need to be stopped. For the new policy to succeed, however, the freedom of action achieved by your (Dr Mahathir's) willingness to defy orthodoxy must be well used," he suggested.

Krugman also said the actual implementation should aim to disrupt ordinary business as little as possible.

The devil can be in the details, that is, even a conceptually sound policy can founder if the rules are poorly conceived.

Krugman said the initial announcement of the plan seemed to indicate that Malaysians travelling abroad would be restricted to carrying unreasonably small quantities of currency.

"This will need to be fixed as will any other failings that become apparent on further study or through experience," he said.

Krugman also said no matter how well currency controls are executed, the distortions they impose on the economy are serious, and tend to get worse over time.

"That is why these controls must be regarded as temporary measures designed to win breathing room for an economic recovery, not as a permanent secession of Malaysia from the international capital market."

Krugman said it would be a good idea to state now a planned date for the removal of controls - at most three years from now, perhaps less - with the strong possibility of early parole as the economy recovers.

He said experience suggested that currency controls do most damage when they are used to defend an over-valued currency, and thereby inexorably evolve from a temporary defence against speculation into a permanent system of trade protection.

Malaysia, he said, does not need a strong ringgit, but a highly competitive real exchange rate in order to increase exports.

He pointed out that this policy departure should be purely and simply to buy space for economic growth and should not be used in an attempt to prove points about the soundness of the pre-crisis economy or about the wickedness of hedge funds.

"If Malaysia truly does succeed in achieving a recovery, that will be

lesson enough for the rest of us," he said. -- BERNAMA
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