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Doc's prescription: Stay at home to recover

Hardev Kaur

TOKYO: "We need to regulate the international capital flows. The hedge funds are out of control. They become a danger to the world economy. We need to monitor them, we need disclosure of what they are doing, we need to limit their leverage, because we have already seen they have posed systemic risks."

One can be forgiven for thinking this is a quote from Prime Minister Datuk Seri Dr Mahathir Mohamad. But no.

This is a quote from Jeffrey Sachs, Director of Harvard International Institute for Development (HIID).

Professor Sachs' thinking on the remedies of the financial crisis are no different from those that Dr Mahathir has articulated numerous times.

Sachs has also taken the International Monetary Fund (IMF) to task for its ill-designed remedies for the crisis-hit East Asian economies which in fact made the ailing patient even worse.

Calling for a new Bretton Woods, Sachs adds that the existing Bretton Woods system is based on a system of "very little international capital mobility".

Today however the capital flows dwarf trade in goods and services which is regulated by the World Trade Organisation.

The changed trading environment is today largely unregulated. The hedge funds and currency traders are running beserk and leaving great devastation in their quest for profits fueled by unlimited greed.

To stop the "robber barons" from causing even more damage there is an urgent need for rules and regulations in currency trading. Thus a new "international financial architecture" is needed.

But work on formulating the new financial architecture cannot be left to the developed world alone.

Sachs notes that with "almost six billion people as part of a global marketplace right now ... Each of the countries needs to be able to participate in this, and especially we need a system that allows developing countries a safe and reliable way to achieve economic growth in the world."

It certainly cannot be left to the US alone. It has proven that as the world's largest economy it does not take into account the needs of smaller and developing countries.

While it continues to preach to the rest of the world, and especially the poor developing countries, on what they should do, it continues to put obstacles in their way and acts only to serve its own selfish interests.

It continued, through the IMF, to push for higher interest rates in crisis hit Asian countries, credit was tightened and badly needed subsidies abolished. South Korea, Indonesia and Thailand were told to close banks and institutions irrespective of the resultant adverse effects and hardships of the prescribed measures.

But when similar problems hit closer to home with such as the collapse of the Long Term Capital Management (LTCM) it did just the opposite of what it had prescribed to developing countries.

It bailed out chief executives, former federal reserve officials and urged banks to provide funds to save their prominent investors and to save the banks - not close them.

The Federal Reserve also reduced two key interest rates last Thursday - the discount rate and federal funds overnight bank lending rate - in an

effort to "boost the US' economy's defences against a firestorm raging in the world financial system" and in the face of fears of a credit crunch.

Developing countries and those under the tutelage of the IMF were told to increase interest rates, follow austerity policies and tighten credit. Why the difference?

IMF contributed to financial panic. Its remedies appear to favour and protect investment bankers in the short term. These policies however are "not very realistic from the point of view of the economies".

More than 100 million live in poverty in Indonesia now. Millions now have only one meal, if they can afford it. Rice, the basic staple, is now priced out of their reach. Half the companies are bankrupt and the political and social fabric of the country has been destroyed.

The IMF is the "new colonial master" according to an Indonesian official. Pointing out that IMF officials come regularly, to Jakarta, just to give instructions on what needs to be done and how. The suffering Indonesians have no say in decision making of their own independent country.

With the continued devastation and the increased hardships it is essential that other remedies and solutions be considered. The IMF medication has not worked in other areas in the past and it has not shown improvements of countries under its care even now.

Malaysia has decided to go on its own. It has implemented exchange rate controls. Even Sachs says it is essential for developing countries to take measures to protect themselves from huge swings of capital.

Malaysia has done just that with the exchange rate controls. Just as a medical doctor prescribes medication and orders the patient to stay at home to recuperate for a specified period, depending on the illness - the Malaysian economy has been given a medical certificate to "stay home to recover".

The good doctor has prescribed rest for the "sick" Malaysian economy and prescribed exchange rate controls. Malaysia is "making its own best efforts domestically".

It has no choice as despite the suffering that continues to be inflicted on economies, countries and governments, the IMF and its major partners continue to drag their feet.

The world needs major reflationary policies and consumption and domestic consumption needs to be encouraged.

The destructive hedge funds and currency traders must be stopped from causing even greater devastation.

While rules and regulations and perhaps a new financial architecture is being drawn up it might be necessary for countries to follow Malaysia's example - isolate and insulate the domestic economy from destructive and volatile external influences.

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