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Krugman's views on IMF not that original

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PAUL Krugman, the American economist famed for his statement about the myth of Asian economic miracle, has hit the headlines again.

This time, he is calling for Asian economies, sent to the pits by International Monetary Fund's reforms, to adopt some radical measures quickly.

His suggestion is in the cover story for Fortune magazine's "Saving Asia". The IMF cure has failed. It's time to get radical" (Sept 7), is certainly unconventional and extraordinary. His peers may even be of the opinion that he is bordering on recklessness.

However, I cannot help but feel vindication for many in Malaysia. In particular, Prime Minister Datuk Seri Dr Mahathir Mohamed. The Prime Minister had been saying for months, that IMF-mandated policies were not suitable for the economic problems confronting Malaysia and its neighbours and that our problems called for unconventional measures.

But each time he raised this issue, he was criticised as having no understanding of good economics, especially by the media, which has always spoken from the perspective that the IMF is right and everyone else who chose to differ was wrong.

At the peak of the media's infatuation with the IMF, everyone in East Asia was made to look like a crook and that the only standard which should be embraced was that mandated by the IMF.

Krugman's stand is really not that original anyway. In Hidden Agenda, the book I published and co-authored earlier this year, our stand was that if IMF's actions were not policed or checked, it would eventually result in total devastation of the East Asian economies.

Krugman's piece read like a sequel to Hidden Agenda, which we wrote way before the verdict on IMF's prescriptions were in.

In Hidden Agenda, we provided a Malaysian and Asian perspective to the financial crisis and examined the havoc created by the IMF when they "took control of three Asian economies - Thailand, Indonesia and South Korea".

In that book, we also drew attention to the host of criticisms levelled by other noted economists on IMF's reforms, which were seen as ultimately pushing for the further opening of Asian economies to international capital.

For instance, why is the Fund insisting on capital account opening in countries (such as South Korea and Thailand) that were awash with domestic savings?

One wonders why the Fund did little to organise debt rescheduling negotiations, preferring instead to administer bailout funds in return for structural and institutional reforms.

Krugman says Asia has sunk into a catastrophic state, essentially because Plan A - the reform package which encompassed devaluation, high interest rates and austerity measures - has failed.

And he noted that those who pushed for Plan A, have been rather quiet about Asia's predicament.

Krugman suggests that we - as in the IMF, the US Treasury and the afflicted countries - try Plan B.

This essentially involves the imposition of "exchange controls" and then lowering interest rates, so that the domestic real sector can get on with business.

He says if Asia does not act quickly "we could be looking at a true

depression scenario - the kind of slump that 60 years ago devastated societies, destabilised governments and eventually led to war. Extreme situations demand extreme measures; its time to talk about Plan B.