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FOREX-ECONOMIST

MALAYSIA'S FOREX CURBS THE RIGHT MEDICINE, SAYS KRUGMAN

SINGAPORE, Sept 1 (Bernama) -- Malaysia's move to introduce foreign exchange controls to curb speculation in the ringgit is just what a world renowned economist recently proposed.

Dr Paul Krugman, the Massachusetts Institute of Technology economics professor who was the first economist to cast doubts on the Asian Miracle theory, had said Asia's troubled economies should introduce forex controls in order to regain international confidence.

Addressing a business meeting in Singapore last week, Dr Krugman said the Asian economies were reaching the end of the road "and that it was time to do something radical."

Prior to the forex controls announced by Malaysia's Bank Negara today, Prime Minister Datuk Seri Dr Mahathir had indicated that Malaysia was considering measures which might appear "drastic" or "shocking".

In his Singapore address, Dr Krugman said a radical measure such as forex controls was necessary as pressures on the Asian economies were too large and because the IMF (International Monetary Fund) reform programmes had failed.

"Since Plan A, which was going to the IMF, did not work, it is time to go for Plan B, which is implementing foreign exchange controls," he said.

Thailand, Indonesia and Korea are three of Asia's troubled economies that have gone to the IMF for financial aid.

Writing in the latest issue of Fortune magazine, Dr Krugman had said the radical forex controls move would temporarily break the link between domestic interest rates and exchange rates.

He noted this would allow governments to lower interest rates without sending their currencies into another downward spiral.

He said extreme situations demanded extreme measures and that if Asia did not act quickly, the crisis could worsen into a depression similar to that experienced in the 1930s.

Professor Jagdish Bhagwati of Columbia University, who counted Dr Krugman as one of his former students, said for developing countries, turning to capital account convertibility "is like riding a tiger that is going in the right direction - if you fall off, you will keep going where you want to go but not on the tiger's back, rather inside his belly."

In an interview with Singapore's Business Times over the weekend, he said the IMF should drop its agenda of pushing capital account convertibility onto developing countries.

He said ultimately much of the blame for the Asian economic crisis could be laid on the slapdash way in which the US Treasury and the IMF, at Wall Street's prodding, encouraged all to rush into extensive short term borrowings as if trade in capital was the same as trade in widgets (gadgets).

"It is astonishing that even as the Asian crisis was unfolding last year, the IMF's Interim Committee in the Hong Kong meetings of the IMF and the World Bank was urging member nations to push along this dangerous path," said Prof Bhagwati.

On the Treasury-Wall Street complex, he said it was hard to see Secretary Robert Rubin or World Bank President James Wolfensohn, both from Wall Street, letting their erstwhile colleagues take a fall.

"Indeed, they would regard the world of free capital flows as a natural and an inevitable progression to economic bliss for all," he said.

"So, the world has to be made safe for capital flows again, protecting the banks and flogging the nations that have been pushed into their embrace."

So, he added, the IMF had to turn into a "lender of first resort" and not a "lender of last resort" where the lending banks would be protected from substantial losses while putting the screws on the nations in crisis so that this deflationary policy would "induce capital to go back". --

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