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Time to listen to our hearts and decisively tackle economic woes

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WHEN Asian currencies came under speculative attack in the middle of last year, many western leaders joined the critics and commentators in blaming the economies of these countries.

They faulted these economies for everything from overheating to weak fundamentals, corruption, nepotism and cronyism.

Asian leaders who tried to defend their economies were criticised for promoting economic nationalism. Those who blamed the likes of currency trader George Soros for the problem were dismissed as being anti-market.

Everyone, from International Monetary Fund managing director Michel Camdessus to fund managers and stock analysts, prescribed high interest rates and tight liquidity as the "Viagra" of economic salvation.

Yet when the Australian dollar fell to its 12-year low last week (under US\$0.60 to A\$1), Australia's Deputy Prime Minister and Minister of Trade Tim Fischer blamed "evil economic forces" for undermining confidence in his country's economy.

"I think it's a sharp reminder that there are forces, evil economic forces abounding at this time," he said.

Over in Britain, The Guardian newspaper reported on June 5 that the Bank of England was under heavy fire from a coalition of unions, business, the City and opposition politicians after its surprise decision to push up interest rates was condemned as risking turning the economic slowdown into full-scale recession.

The newspaper said: "In what was almost universally attacked as an interest rate rise too far, the bank was accused of ignoring the plight of hard-pressed British manufacturing after sanctioning the sixth increase in the cost of borrowing since last year's general election."

The interest rates hike is seen as a clear defeat for the bank's governor, Eddie George, who has been holding out against the monetary policy committee's interest rate hawks.

Given this and other established facts, it is very difficult to give some central bankers very high marks for economic management. Or maybe it is too much to expect them to be concerned with broad economic management when their principal role is monetary management.

But the issue of credibility is not exclusive to central bankers. Commercial bankers too are under scrutiny not only in Malaysia but worldwide as the effects of the Asian economic crisis reverberate across the globe.

If a report in the Financial Times on emerging markets is any indication, bankers can be as fickle and irresponsible as ordinary people when it comes to spending money.

The newspaper noted: "A year ago every bank in the world seemed to be moving into emerging markets. Analysts were watching currencies as unlikely as the Kenyan shilling. The Philippine peso was almost mainstream."

It went on to say: "Then the Asian crisis broke, and the currency market was famous for six months, not only did banks make billions from the crisis but they were largely responsible for creating it."

Yet when Prime Minister Datuk Seri Dr Mahathir Mohamad blamed currency traders for the sudden and debilitating depreciation of regional currencies, he was accused of paranoia.

The British newspaper adds: "Indonesia, Thailand and even South Korea

were, admittedly, living dangerously. They had growing foreign debts and their trade balances were mostly in deficit, but trouble arrived only when the currency markets took notice of the Thai devaluation in June.

"Currency analysts, who a week earlier barely knew what the Korean currency was called, were suddenly expatiating on the beliefs of rival politicians.

"The analysts also spotted a looming problem for Asian countries because debts were mostly payable in dollars, they might have to default if their currencies fell sharply."

Suddenly, said the Financial Times, everyone was talking about defaults and "banks attacked Asian currencies almost indiscriminately."

While the banking system is portrayed by some as the saviour of the economy and should, at all costs, be protected, the banks collectively were responsible for precipitating the crisis. Their incompetence was obvious.

The Financial Times noted: "Not one bank had predicted the Asian crisis and almost everyone agrees that the victim currencies fell much further than their economic fundamentals warranted."

And yet Dr Mahathir was accused of being anti-market when he called for global regulation of currency trading. His argument that no currency was safe from speculative attacks was dismissed.

In a recent talk in Japan he spoke of a world colonised by "new capitalists" who must certainly count among them currency traders.

The Financial Times report said with Asia quieter, currency traders had been looking hard for other emerging markets.

"This has been tricky. Brazilian, Argentine and Mexican stocks and bonds are heavily traded, but most of these countries' currencies are pegged and docile. This means that the emerging markets desks (of banks) have recently thrown themselves into the Polish zloty and Czech koruna."

The time will come, according to the report, when the currency traders decide that the zloty and the koruna have risen too far and attack them (like they did the Asian currencies).

For those of us who are looking up to the IMF for answers, the Indonesian debacle should have jolted us into realising that it does not have the answers.

J. Malcolm Dowling, an associate professor of economics at the University of Melbourne, Australia, and a former assistant chief economist at the Asian Development Bank, writing in the Far Eastern Economic Review magazine said:

"What can President B.J. Habibie's government do to stop the economic decline and put Indonesia back on track to positive growth? First, it must recognise that the macroeconomic programme that the IMF has imposed is not working."

In fact, said Dowling, the IMF was instrumental in helping to erode investor confidence (in Indonesia) in the first place by forcing the closure of banks, and its tight monetary and fiscal policies exacerbated the decline in consumer confidence and aggregate demand.

Maybe, we too have been listening too much to the IMF and dressing up to its liking at the expense of long-term interests. We should start listening to our hearts. The learning process is over. It's time to act ... and with one voice decisively.

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