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ASIAN CRISIS-CAUSE

UNREGULATED SPECULATION CAUSED ASIAN CRISIS, SAYS BUSINESS WEEK

KUALA LUMPUR, July 29 (Bernama) -- The sudden exposure of Asian economies to the speculative whims of unregulated financial capital was the more important cause of the Asian financial and economic crisis, says a Business Week magazine article.

Robert Kuttner, writing under the Economic Viewpoint column of the July 27 issue, said it was impossible to run an efficient economy "when your currency swings by 100 percent in just a few months."

Prime Minister Datuk Seri Dr Mahathir Mohamad has been most vocal about currency manipulators causing damage to Asian economies and has also dismissed suggestions that it had emerged due to weaknesses in Asian economic structures.

While the Asian economic collapse has been widely blamed on structural problems such as too much state interference in economies, crony capitalism and thinly capitalised banks, Kuttner argued that the system, while in need of overhaul, had produced exceptional growth for two decades.

In an article entitled, "What sank Asia? Money sloshing around the world", he said when the Asian economies became targets for global financial speculation, they were abruptly exposed to forces beyond their control.

"Hot money poured in, seeking supernormal returns. When the hot money resulted in overbuilding followed by falling expectations, the money poured out just as quickly," Kuttner explained.

He observed that to reassure the same global speculative capital, these affected nations, encouraged by the International Monetary Fund (IMF), resorted to tight money and deep economic contraction.

"The kowtowing to skittish financial markets has led to generalised deflation," he said.

Kuttner cautioned that the world would enter a deflationary spiral like the Great Depression, triggered by events in Asia if we were not careful.

He said the "American architects of Asian rescue" cannot decide whether they trust speculative markets to govern flows of currency and capital.

He pointed out the difference in stance between the US Treasury and that of US Treasury Secretary Robert Rubin had resulted in a muddle in what was the best approach to solve the crisis.

While on the one hand the US Treasury backed the IMF's views like liberalising capital markets, getting government out of the way and reassuring investors, Rubin, on the other hand, talked of the need for Asian social safety nets by encouraging Japan to bail out its banks and urging China to keep pegged exchange rates, which did not reflect deference to market forces.

Kuttner felt that ad hoc damage control coupled with self-defeating austerity was the wrong approach (in overcoming the crisis), and advised that it was better to act systematically, with a "Tobin Tax" on short-term currency transactions.

He also called on a more managed system of capital flows and exchange rates.

Kuttner, in discussing the difference between free commerce in ordinary goods and free commerce in money, said the former was broadly efficient as it subjected business to bracing competition and allowed products to find markets anywhere in the world.

On the other hand, free commerce in money was destabilising and

deflationary as it held the real economy hostage to the whims of financial speculation, which was vulnerable to herd instincts, manias and panics.

"In ordinary commerce, prices adjust and markets equilibrate. In global money markets, erratic and damaging overshooting is the norm," he asserted.

-- BERNAMA
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