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US-Financial

US FEELS MARKETS CANNOT BE TRUSTED TO CORRECT THEIR OWN EXCESSES- RUBIN

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WASHINGTON, Jan 30 (Bernama)--The Clinton administration has begun an intensive effort to identify "possible mechanisms" for dealing with future international financial crisis, US Treasury Secretary Robert Rubin said today.

Malaysian Prime Minister Datuk Seri Dr Mahathir Mohamad had called for some kind of government intervention to deal with excessive currency speculation which he said had resulted in the free fall of currencies and subsequently financial instability in Thailand, Indonesia, Malaysia and other countries in the region.

Dr Mahathir's proposal was initially rebuffed by advanced countries, including the United States, by currency speculators, and by the International Monetary Fund (IMF). But the IMF later warmed up to the proposal and was willing to look into the idea, while the infamous currency speculator, George Soros, had conceded that the system was broke and needs fixing.

Rubin said that the Asian crisis showed that markets cannot be trusted to correct their own excesses and called on governments to step in and "modernise the architecture" of international finance.

Rubin told the House Banking and Financial Services Committee Friday (today) that the initiative, being worked out by the Treasury and the Federal Reserve Board over the last four years, was aimed at crisis prevention and crisis response to the global financial system.

He said, the initiative would focus on four objectives: improving transparency and disclosure; strengthening the role of the international financial institutions in dealing with the challenges of today's global markets; determining the role of the private sector in bearing a fair share of the burden in times of crisis and strengthening the regulation of financial institutions in emerging economies.

"While nobody can say for certain what will happen in the current situation, the countries in Asia have great underlying strengths, such as high savings rates, firm commitment to education, and strong work ethics and with a sustained commitment to the necessary reforms, they are well-positioned to re-establish strong economic growth and sound currencies going forward," Rubin told the committee.

The Clinton administration is requesting from Congress US\$18 billion in additional US funding for the IMF. The Clinton team made up of Rubin, Federal Reserve Chairman Alan Greenspan, and Defence Secretary William Cohen, put up a strong show to convince Congress about the IMF's important role in resolving the crisis and to explain the impact of the Asian crisis on the American economy.

Rubin emphasised that a strong IMF had been critical to dealing with financial instability in Asia.

He said an IMF with the capacity to respond effectively if this crisis were to deepen and spread was critical in protecting and promoting the interests of the American people.

Greenspan said, worldwide estimate of Asian equity losses (excluding Japan) since June 1997 was estimated to have exceeded US\$700 billion, with more than \$30 billion having been lost by US investors.

Substantial losses have also been recorded in bonds and real estate, he added.

Greenspan said it was crucial that the Asian financial and banking

systems be stabilised "if confidence, that has been so thoroughly undercut in this most debilitating crisis, is to be restored."

Congressman Michael Castle of Delaware said "it is unacceptable that nation states which are facing bankruptcy and turn for help to international entities such as the IMF when they have exhausted their domestic resources, should do so with unclean hands."

"They should not be permitted to persist in false characterisations of their economies and mislead the markets in vain attempts to shore up currencies, postpone accountability and evade the consequences of their own actions," he said.

Castle also called on the IMF to insist on more transparency and enforce accepted principles of accounting and reporting of economic data on nations and central banks as a condition precedent to receiving assistance funded by US taxpayers.

Rubin, counterargued that the US contribution to the IMF had not cost the US taxpayer one dime. "There are no budget outlays. Our contribution does not increase the deficit or divert resources from other spending priorities."

However, he warned, failure to provide funding could reduce US leverage in the IMF, and could shake confidence in American leadership in the global economy at a time when confidence and American leadership are so important in reestablishing stability in Asia.-- BERNAMA

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