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Magazine rapped for inconsistent article

NATIONAL Economic Action Council working group member Dr Mahani Zainal Abidin took to task the Economist for its article in the May 1 issue which she said "was full of contradictions and inconsistent reasoning".

In a Letter to the Editor of the Economist, which was made available to the press yesterday, she said the message of the article "The Road Less Travelled" was that Malaysia's capital controls and fiscal stimulus initiatives were irrelevant as the economy was bound to recover anyway as a result of its strong fundamentals.

The article said it would be a mistake to credit the controls with too big a role in the country's economic improvement.

"They form only one part of an overall economic regime that is in many ways a model for other emerging markets," said the article.

It cited a large budget surplus when the crisis hit the country, a high savings rate and relatively well-regulated banks and robust exports as some of the country's strong fundamentals.

Mahani, who is associate professor of the Faculty of Economics and Administration, University of Malaya, said: "I found this conclusion amazing since earlier you had declared that the Malaysian economy was not emerging from recession but instead entering depression, because among other things, our banks awash with bad loans, were kept afloat by the Government."

This was in the article "Dr Mahathir's Noxious Remedies" which appeared in the September 26 1998 issue of the magazine - some three weeks after the introduction of the capital controls.

She added that the May 1 article "claimed that capital controls had contributed very little to the recovery process".

Contrary to that article, she pointed out that these measures have been pivotal, adding that they were "extreme measures to deal with an extreme situation".

"In the relative calm they provided, domestic confidence has recovered and we have restructured our banking and corporate sectors," she said, pointing out that these initiatives have been commended by the first managing director of the International Monetary Fund (IMF), Stanley Fischer.

The Economist article also gave another reason why the capital controls deserve little credit: "They were applied so narrowly and imposed so belatedly that they have had little effect."

Here, she responded that the controls "have succeeded for exactly that same reason. They prevent volatile short-term capital flows from destabilising our relatively small economy, while not interfering with other more valued capital movement".

The article also claimed that the "shadow IMF" policy followed by Malaysia during the first phase of the crisis halted the over-expansion of credit.

"What these measures actually did was to unnecessarily contract the gross domestic product.

"The standard IMF prescription, which has been handed out like snake oil to rattled economies in this region, was considered too harsh and damaging," said Mahani, adding that even the IMF had conceded this. She said the magazine's "recent series of negative articles about the management of the Malaysian economy has shown a perverse refusal to

recognise a job well done, albeit with some imperfections".  
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