

The Breakfast Dialogue With Prof. Paul Krugman

The Palace Of The Golden Horses, Hotel Kuala Lumpur 27 August 1999

I am honoured to be speaking on economic and financial matters to such a group of distinguished economists and financiers. I am a medical doctor, untrained in economics and finance and it is with some trepidation that I consent to speak to you, in particular Prof. Paul Krugman, an expert in the fields I am supposed to tackle. If I dare to speak at all it is because my job requires that I handle the economic, financial and other problems of a nation, a developing nation of 22 million souls. During the course of carrying out the job entrusted to me I have, with the average intelligence of a trained doctor and a fairly successful politician learnt a few things about economics and finance. I am still unfamiliar with the erudite language of the economists and financiers and so I hope you will not giggle if I use them wrongly or not at all. My experience is purely practical.

2. Human society worldwide is forever looking for the perfect formula to make life bearable if not enjoyable. But through the ages it has found that no formula is perfect. Over time their imperfections emerge and abuses worsen the effect. Eventually in disgust society abandons them in favour of a new perfect formula which it is willing to shove down the throats of all the members of human society.

3. The problem is the infatuation of the formulator and the adherents with the formula to the extent of disregarding completely the original objective. Even when none of the objectives are being achieved, the formula must be adhered to the latter. Failure to do so would result in punishment which far exceeds the original sufferings which the formula was supposed to end. Thus the Centrally Planned Economy was supposed to end the sufferings of the masses. Its implementation required and resulted in even greater sufferings not just of the masses of everyone. The results were worse than the original malady affecting the people. It took 70 years for Central Planning to be rejected.

4. Now of course the free market has replaced it. But the free market has caused more poverty and sufferings than the Command economy had ever created. But no one is about to reinstate the Command economy or to reject the free market. The new formula must be accepted and religiously adhered to even if it kills everyone. What is important is the formula, free market, not the well-being of people.

5. Malaysia believes in the free market but not as an article of faith, not as a religion. The free market is an imperfect system devised by imperfect Man. It should be adhered to faithfully only if it delivers the results it was designed for. If it doesn't we are not afraid to reexamine it, to modify it or in the last resort to discard it altogether.

6. The problem with the free market, as with all systems, is the tendency to widen its interpretation. When the free market was adopted no one really thought that currencies should be regarded as commodities and traded like coffee beans

or wheat. That came much later when the smart people in some financial centres felt that if they can make money, easy money, by selling money in the free market, then why not? The important thing is to make money trading money. Everything else is irrelevant. That the free market is supposed to bring about general prosperity to the world and everything else is irrelevant. To these bright people the main thing is the free market offers this opportunity to make money. If by selling money millions are forced out of work, starved; if the economies of countries and whole regions are destroyed, if political upheavals occur -- these are irrelevant.

7. When accused of causing human sufferings all the answer that we get is 'that is the free market'. It is teaching you how to manage the free market. We are doing you a good turn by destroying you so that phoenix will rise from your ashes.

8. Malaysia believes the free market has been abused by the currency traders and the short-term capitalists. They have been profiteering. And Malaysia does not see any reason why we should adhere faithfully to the free market when the profiteers are not subscribing to the original intention of the free market. We subscribed to the free market because of the results it promised. Now we see that not only are the promised results not being achieved but whatever little had been achieved had been systematically destroyed by the same free market system.

9. What we did to frustrate the profiteers, the rogue traders, the stock market manipulators is something that is so obvious that everyone would have resorted to it if not for the fear of being labelled heretic and burnt at the International Stakes. If, as we reasoned it, the cause of the economic turmoil was the deliberate devaluation of our currency and depression of our share market, then we just have to stop it any way we can. As a doctor I have been taught to eliminate the cause in order to cure the patient. By preventing Malaysian currency in whatever form from falling into the hands of currency traders, deliberate manipulation of our exchange rate became impossible. Thus Government regained the right to determine the exchange rate. As for the stock market the manipulators were deprived of access to the stocks they wish to short-sell. That stopped manipulation of the stock exchange in order to, intentionally or not, bankrupt the banks, the Malaysian businesses and finally the Government.

10. It is of course not as simple as it seems. Prior to this the nation's strengths and weaknesses in political, economic, financial and social terms were audited and the impacts of the proposed action studied. The remedies to possible adverse consequences were figured out. Every aspect of the economy was monitored and scrutinised.

11. To cut a long story short, we devised scores of actions and measures in order to enable the economy to recover. We were gratified that almost as soon as the controls were imposed the signs of recovery were seen. The Kuala Lumpur Composite Index (KLCI) rose immediately and rapidly while the

Reserves grew as never before.

12. The Malaysian economy is today on the mend. The important key indicators have turned positive. What is particularly significant has been the return of business confidence, of investors confidence and of late, consumer confidence. Indeed, I have begun to worry that people may already be getting too optimistic; I worry because over optimism breeds complacency at a time when we need dedication, commitment and perseverance. We have emerged from the woods, but we are not yet out of the woods. We are still vulnerable. The risks are there. We will no doubt see modest growth this year, but flaws remain. The fixed exchange rate and selective capital controls have helped to provide a conducive environment to kick start the economy and restructure the banking system. We have come a long way, but corporate restructuring still leaves much to be desired. Of course, there can be no quick fixes. We are realistic enough not to expect them. But, the process has been slow and not without pain. A large part of the problem has been the discrepancy between words and deeds. Strong resistance from those with vested interest cannot be underestimated. As a democracy, we cannot force people to do what they don't want to do. Further, so long as flaws in the international monetary system are not corrected, small nations -- like little boats in a turbulent sea -- remain vulnerable. We cannot therefore return to that imperfect system. We have the well-being of our people and country at heart. But we do appreciate that the economic well-being of the world has an important bearing on that of ours. So we would like to see the reform of the international monetary system carried out as soon as possible.

13. For reforms to be worthwhile the mindsets of the powers that be must change. Any attempt to preserve the rights of a few currency traders will only negate the results of the reforms.

14. Currency trading is said to be 20 times bigger than world trade in goods and services. We know that world trade benefits hundreds of millions of people in terms of employment, businesses and productive activities. Governments and countries prosper on world trade. But what is there to show from the 20 times bigger currency trade. A few thousand very rich people may make billions for themselves overnight. But hardly anyone else gain employment or business opportunities. Indeed hedging simply increases the cost of business. But worse of all currency trading had destroyed whole economies of nations and regions, destabilise them politically and caused untold misery for hundreds of millions. The profits made by the traders are actually a mere fraction of the wealth of nations which they destroy. So why are we protecting them, why is the G-7 so concerned for their welfare that the world's economic recovery has to stall?

15. If I may I would like to say a few words about this slightly boorish country, Malaysia. Some may find it difficult to believe but Malaysia is a democratic country subscribing to the rule of law. In Malaysia it is possible for opposition parties to win elections and they have even set up Governments in a number of states. If they have not been able to form the Government at Federal level it is not for want of trying or opportunities.

16. As for the rule of law no one and no organisation is above the law or may ignore the law. The King, the hereditary rulers and the leaders of the Government are all subject to the same laws. Several ministers in the Government, several Chief Ministers from the Government party have been charged in the courts, and when found guilty were sentenced. One was even sentenced to death.

17. The biggest party in the ruling coalition was declared illegal by the courts and had no choice but to be set up again. The courts are answerable only to themselves. They take orders from no one and certainly not from the Government. That is why members of the Government who break the law must face the consequences. The Government has time and again lost cases in the courts and can seek redress only through due process.

18. In Malaysia opportunities abound. The son of a poor rice farmer has as much chance to become a billionaire as the son of the Prime Minister. Discrimination is odious whether in favour or against.

19. Power corrupts but there are still people in this world who regard their mission as sacred enough for them to resist the corruption of power. Only those who are weak will assume that all who have power must be corrupt.