Thai Farmer's Bank Senior Executive Vice-President Narong Srisa-arn warned, bank deposits would drop, and the tax would lead to a decline in investments with labor problems to follow. Finance Minister Sommai Hoontrakul defended the tax, saying that, "In socialist countries, such deposits are considered idle money and subject to higher taxes."

The architect of the tax package is the former economic and financial counsellor to the Royal Thai Embassy in Washington, D.C., Niphat Bhukkanasuth. Considered to be a rising star in the finance ministry, as well as a protégé of Finance Minister Sommai, Mr. Niphat is now deputy director general of the finance ministry's fiscal policy office. Allegedly, he and Minister Sommai worked hand in hand on the draft of the tax proposals. Mr. Niphat, whose father is a very close friend of the minister, is like a nephew to Sommai. Mr. Niphat first joined the fiscal policy office when Fabian economist Dr. Puey Ungpakorn, groomed by the London School of Economics, was director-general of the office.

Two years ago, Minister Sommai intervened to protect Mr. Niphat from an investigation launched by the corruption commission into his alleged involvement in a shipping scandal while a UNITHAI director. Niphat was packed off to the embassy in Washington, where he became a loyal and useful coordinator between the World Bank, the IMF, and Minister Sommai. This author met Mr. Niphat at an embassy reception last December, where he prided himself as a principal architect of the baht devaluation and proposed further devaluation.

After one too many cocktails, he threatened this author, "I will have you shot. There is nothing to discuss about the devaluation policy. It is done and that's it."

The first major political test of the finance ministry's latest austerity measures took place in the Bangkok by-elections in early May. Going into the elections, rumors circulated that the business-linked Chat Thai party would force a no-confidence vote against the government in protest of the devaluation and tax package. A cabinet reshuffling is still not to be ruled out.

At Thammasart University recently, Chat Thai Party parliamentarian Pongpol Adireksarn, warned that present economic policies are very similar to those of 1931, and could lead to institutional changes in the country. Then, he said, when the government sought to solve the trade deficit problem by devaluing the baht vis-à-vis the British pound, and by imposing harsh taxes on every conceivable taxable item, mass layoffs of government workers and functionaries resulted. These measures, he concluded, led to the 1932 coup d'état and the shift from an absolute to a constitutional monarchy in Thailand.

Mr. Adireksarn is himself committed to Thailand's development, including construction of the Kra Canal and the Eastern Seaboard project. He has participated in *EIR*-sponsored conferences in India and Thailand, to put such a regional task force approach forward as the only acceptable alternative to the IMF-World Bank plan for Thailand.

Interview: Supachai Panitchapakdi

World Bank plans 'totally unacceptable'

Dr. Supachai Panitchapakdi has been an outspoken critic of World Bank policy. Until the end of 1984, when the following interview took place, he was Director of the Office of the Governor of the Bank of Thailand. He told EIR *then, that the World Bank's "three 'Ds' policy (deflation, devaluation, and deregulation) is totally unacceptable." Dr. Supachai is currently director of the Financial Institution Supervision and Examination Department of the Bank of Thailand.*

Dr. Supachai did his undergraduate and graduate studies at Erasmus University, Netherlands. His doctoral thesis on "Educational Growth in Developing Countries: An Empirical Analysis," was written under the guidance of Prof. Jan Tinbergen, a Nobel Prize winner in economics. Unlike his professor, who is a member of the Club of Rome, Dr. Supachai believes in the necessity for infrastructural development and is very critical of monetarist economics.

EIR: I have heard that the Energy Generating Authority of Thailand (EGAT) is ready to consider once again a national nuclear energy program. Compared with our foreign earnings capacity, how much more do you think Thailand can borrow and not fall prey to the mercy of the creditors?

Dr. Supachai: Let us look at the Eastern Seaboard project. This is going to cost us almost $5 billion, but probably more like $2.5-3.0 billion in the next 10 years. . . . This is the foreign borrowing part. The rest could be in the form of joint ventures. Our foreign debt is currently at $11 billion. Add three more and it is still bearable, if the international interest rates do not change drastically in the meantime. This is the key factor, because it is a rate which is controlled by just a few industrialized countries, which makes it doubly dangerous. . . . The real value of the dollar has been distorted. Because the dollar is a reserve currency, it has become an international liquidity currency that is accepted by everyone. Because of this role of the dollar, the U.S. government can afford indefinitely a very significant budget deficit, something which would not be tolerated in any other country.

You see, most U.S. citizens . . . don't realize what effect such interest rates have on other people. Of course, with high interest rates, the dollar becomes a very strong currency.

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Goods coming into the United States are cheap. Granted, such measures may solve the internal inflationary problems of the United States, but the effect on the rest of the world is disastrous, and the United States will feel the boomerang effect of such policies. Donald Regan says, "I want to do things this way, and what does that have to do with you?" Such policies are making trouble for everybody else, and if these policies are not reversed, the world will never get out of the present recession cycle. . . .

Let's see what these [supranational] institutions have recommended to industrialized countries. They love to make what I call "3-D" recommendations. The first is *deregulation*. Everyone must deregulate. Don't control the economic process. Just let it go. But once you deregulate, the impact can be quite disastrous. Deregulation, if at all, must be a gradual process and only if the well-being of the country is maintained. It must also be conditioned upon the safety valves available in the economy which would allow that particular economy to withstand the impact of deregulation. If you deregulate abruptly, it could be a situation similar to that of Egypt, when such policies provoked a revolution.

Take food prices, for instance. You announce that you have to cut off all subsidies. But food is key. Food, in fact, is the people's net real income. If you cut subsidies, you are cutting the population's real income. You cannot always measure real income monetarily, because for poor people, food is their real income. What their food intake will be, will depend upon the price of food and not on their income. This is especially true for the poorer portion of the population. What usually follows deregulation of food prices is social revolution. Why? Well, the answer is simple. Because people don't have enough food to eat.

The second recommendation of international institutions is *devaluation*. . . . Latin American countries have made mistakes by supporting import substitution, by over-valuing their currencies, but they also have never invested enough in their agricultural production. In Asia, things are quite different. Asian countries have invested sufficiently in agricultural production, which is the reason for their political stability. Unfortunately, Latin America is still following the traditional model of development, of importing a lot. Gradual steps of economic development—subsistence, takeoff, sustainable growth, etc.—require huge investments. This means, however, that the country must borrow heavily and at the same time, be able to generate foreign earnings. Faced with a deficit, the country then tries to cut its imports and increase its exports, trying desperately to create a margin of surplus. . . . [The Latin Americans countries] have fallen into the trap of the devaluation policy.

The third policy that the international institutions recommend is *deflation*. Put the brakes on, they say. . . . Government expenditures should be cut. High interest rates should be used. These policies have only one effect, to slow down the economy, in the hope that pricing and other distribution policies would improve things. You may be able to deflate an economy that has already developed to a certain point, because you may sometimes have a problem of underutilization, a temporary cyclical problem. To temporarily deflate is not a problem. . . . But when an economy functioning at 50% is told to deflate, all they could do would be to apply "stop-go" policies. This creates very short-lived cyclical trends on all levels. Developing countries already have problems with such trends, coupled with uneven foreign exchange income due to seasonal agricultural export patterns. If, in addition, you add the dizzy pattern of inflating and deflating, this is enough to disrupt the economy.

EIR: Look at what happened to the Philippines. The IMF has totally destroyed the country.

Dr. Supachai: . . . Some international bureaucrats take themselves for some kind of god, who, with a stroke of their wand, think that problems would go away just like that. I think that we have, unfortunately, learned economics from the same school. We've all read the same textbooks. But what we want to do now is write our own textbooks, and they should assist us in this task. Here we are dealing with reality, with real problems. . . .

But, I think that these international bureaucrats have no philosophy. They only have a bunch of mechanisms. . . .

EIR: Don't you think that by intervening into a country's economic and monetary policies, the IMF and the World Bank have infringed upon those countries' sovereignty?

Dr. Supachai: Well, I don't want to go that far, but you are right, there have been cases to that effect. In Thailand, we try not to let that happen. . . .

EIR: What do you think of economists like Milton Friedman?

Dr. Supachai: It is economists like Milton Friedman and the Chicago boys that have advised the Latin American countries. Their thinking is: Make adjustments by manipulating the monetary mechanisms. . . . Monetary policies have immediate effects, but they are violent. Monetary policies don't solve the roots of a problem. Monetarists are like paramedics who try to cure through paramedical means. They try to temporarily patch things up in order to buy time. Devaluation is a very good example. It does not correct the basic price misallocation. It's only a short-term adjustment in order to buy time so that the country can have a chance to sell its goods. . . .

EIR: Don't you think the United States has forgotten her own American economic school of thinking?

Dr. Supachai: . . . The United States should begin to understand Japan better instead of trying to run her down. They have to see that whatever shortcomings there are in Japan, she is a real economic force which has more military implications than guns themselves.