sector; what is important is money changing hands. When there are economic activities, money will change hands, whether from the government to the private sector, or between the private sector itself or to the workers, suppliers, the transport industry people, all these will happen if we spend money. Government or private sector is not the problem; what is important is that money is moved around and not just being kept idle.

I'm confident that if the value of their shares once again is commensurate with the net assets, and the value of our currency is again stable, the companies will recover; if not fully recover, at least their NPLs will be reduced, and they can borrow once more. If they can borrow, they can carry out economic activities and make profits and profitable activities will enable them to repay their loans and in this way, they can be revived.

Q: Datuk Seri, there must be a sense of urgency all round in reviving the economy.

Dr. Mahathir: Yes, I hope that everybody will understand that time really means money, everybody must work harder than usual. In the government, I expect the people to work day and night to help the economy to recover. Ministers have been instructed that they must work day and night, they must go and see what's happening on the ground, not enough by just giving direction, go back and sleep; no way they can work that way now. And government officers have been told, everybody has been told, that you must work extra hard, because we are facing a very difficult economic situation and the only way we can overcome that is really to work very hard and not allow your kind of easy-going way to interfere with the economic recovery in this country.

Commentaries

The era of free trade is over

Patricio Ricketts, "Russia Says Goodbye to Adam Smith," in the Peruvian magazine *Sí,* Aug. 31.

Ricketts discusses how free-market reforms adopted by the Russian government brought the country to its current disaster. He reports that in the midst of the Russian crisis and global turmoil, there are the words of Lyndon LaRouche, "the greatest prophet . . . (who for years has been forecasting these developments, in great detail and even with exact dates, a fact which takes all the economists by surprise . . .), and repeated again that the Russian crisis, like the Japanese, the Thai or the Mexican, far from being local phenomena, are the expression of a single systemic crisis . . . and from which neither Wall Street nor the City of London, or any other center of financial power, will escape."

Ricketts also references the work of Russian economist Sergei Glazyev, and quotes Gennadi Seleznyov on Russia's need for an industrial program and protectionism.

Dr. Sergei Glazyev, in an interview with Interfax, Aug. 26, as reported by the *Foreign Broadcast Information Service*.

Dr. Sergei Glazyev, former Foreign Economic Relations Minister of Russia, now adviser to the Federation Council (upper house of Parliament), warned that without follow-on measures to mobilize the economy, the debt freeze announced by the Russian government will set the stage for further collapse of the banks. Glazyev said that the Russian Central Bank has been "the main culprit, as regards the serious errors that led to the present scenario of a self-fuelled financial disaster." Whether the financial system can improve, with the appointment of Viktor Chernomyrdin as acting Prime Minister, depends on what the cabinet and the State Duma (lower house of Parliament) do about the Central Bank, Glazyev said.

The Central Bank has frozen "settlements with non-residents" (i.e., payment of foreign currency debts to foreign parties) for 90 days, but after that time period, Russian banks will be confronted with "stricter requirements" by the foreign investors; "many Russian banks will not be able to meet these requirements, which will result in a chain of bankruptcies," Glazyev warned.

Interfax reported Glazyev's emphasis, that "if the Central Bank were not to ensure refinancing of commercial banks, in order to support liquidity and provide credits for producers, the banking system would continue to fall apart. . . . The government and the Central Bank will have only two options in the future: to switch on the money-printing machine, or pass over to a mobilization economic policy." (In Russia, "mobilization economic policy" refers to dirigist measures to promote real economic activity.)

Glazyev said it would be a mistake, to think that the Central Bank leadership knows what it is doing. "The situation has so far been developing spontaneously. I see no reason to believe that we currently have some target." In the current financial situation, "the ruble's further fall is inevitable, without resolute measures to centralize foreign-exchange reserves, 'de-dollarize' the banking system, and freeze prices. The dollar may shoot up to 12-15 rubles to the dollar by the end of the fall."

Interfax continued, "Given the absence of other preventive measures, the previous government's decisions to restructure the GKO debt and suspend settlements with non-residents 'are pushing us toward an Indonesian-style scenario of a financial crisis,' [Glazyev] said. 'By their decisions, the Central Bank and the government are effectively guaranteeing a self-feeding rise in the demand for foreign exchange, which means the ruble's inevitable further depreciation, in a setting of seriously limited foreign-exchange reserves,' Glazyev said."

***Neue Zürcher Zeitung,* "Monetary Policy Out of the Poison Cabinet," lead economic editorial, Aug. 26.**

Because there are no alternatives left, we now have to open the "poison cabinet," and impose foreign exchange controls, says the Swiss financial daily. Expressing a mood of better re-regulation than full-scale disintegration, the mouthpiece of Swiss gnomes writes: "With the ruble collapse and the de facto bankruptcy of Russia, the crisis boiling for already one year is now threatening to turn into a global GAU [technical term in the nuclear industry for "worst possible accident"] on the financial markets." It has hit all "emerging markets," even including Ibero-America, where the Venezuelan bolivar and the Brazilian real are likely candidates for the next drama immediately ahead. "Like dominoes, one currency after the other, one financial market after the other, is falling throughout the globe. The specter of a worldwide recession is spreading."

The unsolvable paradox, the paper says, is that economies and financial markets now desperately need "monetary and financial impulses" to get out of the disaster. But, any such move, in the present atmosphere of "panic" and collapse of confidence "would trigger just another confidence crisis in the financial markets." The key question now, is how to "regenerate confidence."

The editorial points to the Chinese yuan, which for the moment remains stable in the midst of worldwide turmoil. The reason for this is not only $140 billion in foreign exchange reserves, but also that the yuan is not fully convertible. This creates a serious burden for the Chinese economy. "But a free floating of the currency cannot be an option." As the Asian events in the recent past have proven, "the collapse doesn't stop anywhere, if the habits of market participants are dictated by panic." It seems that, besides the very big developed economies, some form of "fixed exchange rates" is the better solution, be it a "currency board," a "currency peg," or something similar.

But how to defend fixed exchange rates, when not only Japan, but all the troubled "emerging markets" as well, now desperately need "monetary stimulation," which in turn would trigger attacks on the currency by panicked financial markets? The newspaper quotes U.S. economist Paul Krugman, saying the only way out is "temporary foreign exchange controls." Of course, says the paper, this proposal comes right out of the "poison cabinet." Measures such as "a containment of capital flows" or "foreign exchange controls" could only be "second-best solutions," and should only be imposed temporarily.

These are "disgusting perspectives for a world, which was just about to remove the last remnants of capital controls in the age of globalization." However, the editorial concludes, "as there are no other alternatives visible anywhere," under present circumstances, we have to open the "poison cabinet."

Paul Krugman, "Saving Asia: It's Time To Get Radical," *Fortune* magazine, Sept. 7.

Krugman, an economist with the Massachusetts Institute of Technology, proposes foreign exchange controls for Asia, as the only alternative. The world must take "the drastic step of imposing currency controls," as *Fortune's* managing editor John Huey calls it, in his praise of Krugman. Huey writes, "We expect this piece to spark heated debate from Basel to Bangkok."

The six-page article carries a box on how exchange controls could work, and runs photographs of homeless in Japan, and other scenes of economic breakdown. Krugman argues that "Plan A"—backing the International Monetary Fund—has not worked, so it is time to turn to "Plan B," although "nobody, not even Plan A's harshest critics, has been willing to talk about it openly." He writes, "In short, Plan B involves the confidence of international investors and forcibly breaking the link between domestic interest rates and the exchange rate. The policy freedom that Asia needs to rebuild its economies would clearly come at a price, but as the slump gets ever deeper, that price is starting to look more and more worth paying.

"You don't have to agree that the time has come to adopt Plan B—or even that it will ever come—to admit that something like this is the obvious alternative to the current wait-and-hope strategy. And yet it is very hard to find anyone, even among the IMF's critics, talking about it. How come?"

Dan Atkinson, "Roosevelt's New Deal Would Be the Right Medicine for Today," London *Guardian,* Aug. 31.

The world needs a global version of Franklin Delano Roosevelt's New Deal, as a response to the financial and economic crises now raging around the world, writes Atkinson. He begins:

"The money-changers are fleeing the temple of civilization, so it is not surprising that the R-word is starting to be heard once again. Where, it is asked, are the successors to Roosevelt when we need them? . . . With the 1990s 'triumph of capitalism' going up in flames, what would he have done today?"

Atkinson says: "Roosevelt, we can be confident, would have had little time for bond dealers or derivatives traders. . . . He would have understood that, as in the 1920s, banking and speculation are the problem, not the solution. Roosevelt would have pressed for an international version of the Glass-Steagall Act, limiting each bank to one country and forcing them to divest their investment arms and other activities. No 'global' banks for him."

Krugman says, "as the deflationary gale hit with full force, Roosevelt would have mobilized the public sector to stand ready as employer of last resort. There would have been no question of ordinary workers bearing the pain of 'adjustment.' "

Further, "he would have beefed up the financial regulators as he did 60 years ago, and unleashed them on the guilty men: the rogue traders and insider dealers. Lengthy prison terms could have been expected."

Another measure, would be to "have convened an international summit to reshape the institutions (World Bank, IMF) that helped us into this mess in the first place, purging them of their obsession with sound money and balanced budgets."

(On Aug. 28, the *Guardian* had published a commentary calling for the immediate convening of a "new Bretton Woods" conference.)

Lionel Jospin, Prime Minister of France, speaking at the Socialist Party summer school in La Rochelle over the weekend of Sept. 1-2.

Jospin timidly raised the issue of the financial crisis. "One can see today that the euro is a stability factor and an element of protection for our economic space, but we must go further. Yesterday, Asia, today Russia, tomorrow perhaps Latin America: The financial crisis reminds us that capitalism is perhaps a force which goes but it can also be a force that does not know where it goes. The mission of socialists is to master the course, to regulate it and to transform it for more justice."

Jacques Sapir, interview with *Figaro-Economy,* Sept. 1.

Sapir, director of studies at the School of Higher Studies in the Social Sciences, proposes a return to dirigist policies in Russia. "The only reasonable solution . . . is for the Russian economy to distance itself from the markets. . . . The Russian government should install extremely strict exchange controls, reserving the buying and sales of currency only to exporters and importers. Then, a limited convertibility must be installed via an administrated exchange rate. This was, by the way, the situation in France in the fifties."

Sapir proposes injection of liquidity to bring to an end the development of a wild barter economy and local currencies in the different republics. "These measures will only be efficient if they are based on a reconstructed banking sector," he says, "with the creation of discount and rediscount markets as well as the introduction of a pension system for public titles at the Central Bank of Russia."

Once the most urgent situations are dealt with, then they can proceed to the "reconstruction of the internal market. The first lesson to be drawn is that the Russian economy cannot survive only on raw material exports." The long-term interest, even of the exporters, who are the real winners in the Viktor Chernomyrdin coup, is in the "relaunching of the industry" starting with two sectors: "The first is the production of consumer goods which can be substituted for imports (such as automobiles). The second covers the industries producing heavy industrial equipment or goods necessary to the public sector. There are there important needs which if given priority could help companies develop and for certain among them, to transfer toward the civil sector, technologies that they have used in the military sector."

"The moral discrediting of liberalism in Russia is today a key problem to the social stability, or, on the contrary, the instability of the country." Russia can neither continue along the path of liberal reforms, nor go back to the Soviet system, says Sapir: "Russian officials could well inspire themselves by what was done in Europe and in particular in France, especially during the post-Second World War period of reconstruction."

Sapir scores the illusions that Europe will not be hit by the Russian crisis. "First there will be a banking shock because of the engagement of European private banks in the risk areas; second, a commercial shock, because of the brutal drop in demand at a world level."

Laurent Joffrin, "The Illusion of the Market," commentary in French daily *Libération,* Sept. 1.

The Russian crisis underscores that the free market model has collapsed internationally, and that there is a need to rehabilitate the state's role in developing the economy, writes Joffrin, the director of *Libération*'s editorial board.

He begins by stressing that "the zealots of the infallible market" are now seeing "their beautiful machine derail completely." Joffrin ridicules French scribbler Alain Minc, a "brilliant hero of orthodoxy, but hardly prescient," who wrote a book one year ago entitled *Fortunate Globalization*. One year later, where is this happiness to be seen?

Focussing on Russia, Joffrin writes that what is lacking there, "is not the market," but rather "a state, without which the market economy turns into a mafia farce." What is needed, is not "the minimal state" which the liberal theoreticians speak about, but rather "a true state, a big state on the European model," which can carry out infrastructure projects and bring together large-scale collective investments, while "regulating the financial markets" and "bringing assistance to the outlying regions that have been sacrificed to virtual liberalism as they never were to real socialism." For the Russians to be able to do this, though, means the West changing its views toward the importance of the state.

The global lesson, is that "the democratic states cannot, with impunity, abdicate their sovereignty to the profit of the markets." A stop must be put to the "imperialism of the economic world." Joffrin hopes that the current "financial alarm can have a virtue: to make it understood, that it is time to rehabilitate the politics of the state."

Laurent Joffrin, commentary in *Libération,* Aug. 29.

It's a battle for regulation, against the market ayatollahs, says Joffrin. Identifying speculation and laissez-faire radicalism as the catalysts of the ongoing crisis, he says that "the idea of international regulation of finance appears to be surfacing," and it is running up against "the market ayatollahs," who "paralyze any reflection" on this idea.

***Estado de São Paulo* editorial, "At the Mercy of the Market Yuppies," Aug. 24.**

The paper attacks the mentality of the young yuppies who gamble with people's money on the financial markets, and who are completely disconnected from any reality beyond their computer screens or the big board of stock quotations. *Estado* points to the behavior of yuppie brokers, who advised people to invest in the Russian market, and "cheerfully bet on it, fueling the investors' thirst for financial gains," as an example of what French reporter K.S. Karol calls "bandit capitalism." As for the recent panic over Venezuela, *Estado* slams the "nefarious influence of market analysts." The time has come, it warns, to do away with the myth of "the wisdom of the market, that is, speculative capital's unrestricted freedom of movement, as Hong Kong's financial authorities are proposing."

Estado argues that the "generally very young" brokers, "don't have the cultural education and training to make decisions, based on a precise diagnosis of the economic, political, and social realities of any country."

***Business Week,* editorial entitled "Needed: A New Deal on Global Debt," Sept. 7.**

"It's time for a global [debt] write-down," the editorial says. It mixes together good with potentially wrong ideas, but it is one of the first attempts of a major U.S. publication to address in a significant way that the current mass of outstanding debt cannot and will not be paid, and that it is time to "wipe the slate clean."

And, from those who have it backwards: Richard Medley, "Headed for a Free Market Fall," commentary in the *Washington Post,* Aug. 30.

Re-regulation may seem to work, but the free market is the American way, says Medley (who gets the first part right), the managing partner of the Medley Global Advisors, "which provides political intelligence to hedge funds, corporations and investment houses." He writes: On June 30, [1997], the Thai baht crisis that then-Japanese Prime Minister Ryutaro Hashimoto had tried to warn G-7 leaders about "exploded onto trading screens around the world. It was the start of a chain reaction in politics and financial markets that has now brought us to a crisis point in the post-Cold War era. . . .

"This is the first real challenge to the post-Cold War dominance of American free trade ideals that have become the de facto ideological orthodoxy of the era."

The markets in free fall from the "cascading crises in Russia, Asia, central Europe and now Latin America . . . threaten to reverse the seemingly effortless victory of free market ideology in the wake of communism's collapse," Medley says. However, despite giving every indication that re-regulation is a cure for the disease, he considers the cure worse than the free market disease he espouses. For example, consider the following remarks:

"Hong Kong authorities are openly buying stocks to prop up their market and punish speculators. Taiwan is demanding that traders report large currency transactions so they know government officials who have favors to hand out or withhold are watching. And guess which two countries are the only ones stock prices have risen in the past two weeks?

"On the back of this success there is open talk of setting up an Asia-wide, government-controlled hedge fund to fight back against speculators and of imposing capital controls to prevent money from flowing in and out of each country with complete freedom and without cost."

After further insights into the success of the re-regulation process, Medley concludes by saying that it is essential for the United States to work with the other G-7 nations to combat this tendency, because the alternative is "another Great Depression."