

Background on FDR's New Deal

Another public statement, of how China is determined to carry out its national development, was a commentary in the *People's Daily* on Aug. 31, on the "Background on Franklin Roosevelt's New Deal." While the term "New Deal" has appeared regularly in statements by government leaders and in the press since the past winter, referring to the government's large-scale infrastructure investment programs, there has, until now, been very little elaboration of what this policy would entail.

This commentary demonstrates under just how close scrutiny, the workings of Roosevelt's successful New Deal are being put in China.

The article gives a very detailed description of the U.S. situation in 1929-33, when Roosevelt became President and initiated his policies: the collapse of national income and of family income, deflation, the local crises in all parts of the United States; the collapse of 1,400 banks in 1932. The most important content of Roosevelt's New Deal, the *People's Daily* wrote, was the way the government applied macro-economic measures to, especially, currency policy, credit, agriculture, industry, transport, electrification, and disaster relief.

Of course, all these economic issues are of great importance for China today.

The article describes the measures enacted. These included what the "emergency banking law" involved; agriculture policy, including raising prices to increase family income, and the setting up of a special purchasing company to buy what farmers themselves could not sell.

People's Daily detailed the provisions of the 1933 National Recovery Act, and the \$3.3 billion assistance program for municipal projects to put people to work. The article also discussed measures for disaster relief, labor safety laws, unemployment insurance, the first U.S. public insurance for the elderly, and measures to improve the positions of unions. The 1935 industrial plan, *People's Daily* reported, created investment in construction of public housing, roads, airports, canals, and other infrastructure—where China is now itself investing.

People's Daily then described New Deal financial and monetary policy. At first, the policy had been to balance the budget, but it soon became clear to Roosevelt that it was necessary to apply the Keynesian policy of increasing government spending, through an expansive financial policy, to solve the problem of unemployment.

Through this policy, *People's Daily* said, Roosevelt was able to increase tax revenues; as the economy became more stable, the deficit was gradually reduced.

The most important thing about Roosevelt's New Deal, *People's Daily* concluded, was that it *established the concept of government intervention into the market economy*, in order to generate employment and economic recovery, and was able to demonstrate this method successfully.

China is learning fast. The huge, brutal hedge funds have, certainly, met an adversary far more formidable than they had thought. There are other nations also preparing to take them on.

Documentation

Malaysia asserts its monetary independence

The Malaysian central bank released the following statement to the press on Sept. 1.

1. Since the outbreak of the Asian financial crisis more than a year ago, the risk of further waves of instability of increasing proportions still very much remain on the horizon. Despite the measures and reforms that have been put in place by all the affected countries, there does not appear to be any sign of stability returning to the financial markets. On the contrary, the crisis has deepened and spread across other continents. In particular, significant risks remain in the region. A dramatic adjustment in any of the financial centres in the region can be expected to result in significant contagion effects, not only in the region but also in other global financial markets. The effects of these developments have been increasingly severe. The adverse developments in the foreign exchange markets, the equity markets and the depressing trends beginning to emerge from the external sector all reinforce each other to cause a severe contraction in real output of the economies of the region.

2. Given the global nature of the problems confronting the international financial markets, efforts to restore world financial stability require a concerted effort of the international community. Unfortunately, action on the part of the international community to deal effectively with the risks and challenges associated with the new environment of liberalised and globalised financial markets has not been forthcoming. The current escalation in the contagion effects has not provided the sense of urgency to the world financial leaders to act decisively to contain the global financial crisis. While arguments have been put forward for emerging economies to undertake economic and financial reforms, of greater urgency is the need to reform the international financial system to better cope with the changed international financial environment that we operate in. Unless this is recognised by the international community, there will not be a permanent solution to the current crisis.

3. Efforts to deal with the current situation on the part of one country alone will not be sufficient to achieve this objective on a permanent basis. In the recent period, we have seen efforts by Hong Kong, Taiwan and Russia each coping by different means to stabilise their financial markets. On the domestic front, Malaysia has persevered to undertake adjustment policies and implement financial reforms to reduce the risks and vulnerabilities to external developments. This relates to achieving macroeconomic stability while at the same time increasing the resilience of the financial system. To a significant extent this has been achieved. Despite the magnitude of the adjustments we have experienced in our financial market, a significant segment of our economy continues to function with a relatively high rate of employment. Similarly, in our financial system, while strains are being felt, the intermediation function continues to operate. Malaysia will therefore continue with its efforts to strengthen its fundamentals and build the foundations for future growth. However, given the buildup of risks that have now emerged in the regional and global financial markets, the Government of Malaysia has decided effective today, 1 September 1998, to implement a series of measures to insulate the Malaysian economy from the risks and vulnerabilities of such external developments.

4. The overriding objective of the new measures is to regain monetary independence and insulate the Malaysian economy from the prospects of further deterioration in the world economic and financial environment. In the process, the nation would be adequately prepared to minimise the impact of a possible global economic crisis and a breakdown in the international financial system. The experience of other countries have shown that those which instituted measures to insulate themselves from external developments were in a better position to meet the challenges of adverse global developments. The new measures are based on the following considerations:

- (i) To limit the contagion effects of external developments on the Malaysian economy,
- (ii) To preserve the recent gains made in terms of the policy measures to stabilise the domestic economy and
- (iii) To ensure stability in domestic prices and the ringgit exchange rate and create an environment that is conducive for a revival in investor and consumer confidence and facilitate economic recovery.

These measures will be removed should normalisation in the global financial environment take place.

5. To effect a stable exchange rate regime and insulate the domestic economy from adverse global developments, selected new exchange controls are being introduced. These changes, however, will not affect the business operations of traders and investors nor the normal conduct of economic activity and will continue to guarantee the following:

- General convertibility of current account transactions,
- Free flows of direct foreign investment and repatria-

tion of interest, profits and dividends, and capital, and

- Result in minimal inconvenience to the general public.

6. The changes are directed at containing speculation on the ringgit and at minimising the impact of short-term capital inflows on the domestic economy. The measures on regulation of currency being carried by travellers are no different from those being applied by several other countries, including developed countries. The main changes in the exchange control rules are as follows:

- External Accounts: Approval is required for transfer of funds between External Accounts. Transfer to residents accounts are permitted only until 30 September 1998; thereafter, approval is required. Withdrawal of ringgit from External Accounts require approval, except for the purchase of ringgit assets.

- Authorised Depository Institutions: All purchases and sales of ringgit financial assets can only be transacted through authorised depository institutions.

- Trade Settlement: All settlements of exports and imports must be made in foreign currency.

- Currency held by Travellers: With effect from 1 October, 1998, travellers are allowed to import or export ringgit currency of not more than 1,000 ringgit per person. There are no limits on the import of foreign currencies by resident and non-resident travellers. The export of foreign currencies by resident travellers is permitted, up to a maximum of 10,000 ringgit equivalent. The export of foreign currencies by non-resident travellers is permitted, up to the amount of foreign exchange brought into Malaysia.

Conclusion

7. These measures represent a means to an end. Malaysia has previously applied administrative controls to achieve specific objectives. The track record shows that once these objectives were achieved, the administrative controls were withdrawn. This was the case in early 1994, when Malaysia experienced massive and destabilising capital inflows. Malaysia is committed to the market mechanism and the trend towards liberalisation. But the benefits of the market can only be realised in an environment of stable and efficient global financial markets. Hence, once there is discernible normalisation of the currency and financial markets, Malaysia will return to the previous arrangements of free capital flows. As we are embarking into uncharted territory, the measures announced today will be implemented flexibly to deal promptly with any problem that might emerge. A task force has been set up to attend to these issues. A communication centre has also been established up to deal with public queries (the contact telephone numbers are: 293-2330, 292-8736, 294-5741, 291-4827).

8. In conclusion, it is important for the people of Malaysia in general and for the financial sector in particular, to fully understand and support these efforts aimed at insulating and reviving our national economy.