United States, and Mercosur among Brazil, Argentina, Paraguay, and Uruguay.

In the case of Mercosur, it was again Menem who, on several occasions, proposed the first steps toward destroying monetary sovereignty. In December 1997, during a meeting of the heads of state of Mercosur, the Argentine President announced that "Argentina will encourage the creation of a single currency." His Strategic Planning Secretary, journalist and geopolitician Jorge Castro, followed on Jan. 5, 1998, with the proposal that, taking advantage of Menem's presidency of Mercosur during the first half of 1998, Argentina should "make a formal proposal for a single currency, which would have political and economic significance." At the end of that same month, at the Davos Forum in Switzerland, Menem proposed the creation of "a Mercosur Central Bank."

In April 1998, Sir Leon Brittan, the agent of Her British Majesty, serving as vice-president of the European Union, used his tour of the Mercosur countries, to advise all the countries of the region to adopt a common currency similar to the euro.

In 1998, the international financial oligarchy tried to use the economic and financial chaos provoked by the IMF, first in Indonesia and then in Russia, to impose upon these countries an Argentine-style currency board, as the only means to achieve exchange "stability." Fortunately, neither country accepted that mafiosi "offer."

Cavallo leads the charge

One of the leading promoters of currency boards has been speculator George Soros's asset, Domingo Cavallo, the former Argentine Economics Minister who implemented the convertibility plan in Argentina. In fact, Cavallo was the envoy used to try and sell the idea to the Russians last year, who failed. Now, Cavallo has come out *against* Menem's proposal to dollarize Argentina—for tactical reasons. Menem committed a "whopping error" in proposing dollarization just for Argentina, he explained. "This time, Menem's political nose failed him, for lack of advice." According to the former minister, the first thing that Menem had to have done, was to tell Brazilian President Fernando Henrique Cardoso: "Colleague, when are you going to realize that the solution for Brazil is Argentina's regimen?"

For Cavallo, the Argentine President is forgetting the ultimate objective of convertibility: "The virtue of Argentine convertibility is that it leaves open the possibility of having a common currency with the rest of the region, and that some day, this currency could prove to be better than the dollar. This way we could create a subregional Monetary Union, or we could tell the Americans: if you agree that this Union be continental and not only South America, we won't discard it out of hand." That is, according to Cavallo, the first step to be taken is the adoption of a currency board by Brazil, and from there, establish dollarization in all of Mercosur.

Commentaries

Time to go for exchange controls

Malaysian Prime Minister Datuk Seri Dr. Mahathir bin Mohamad, speech on Jan. 22 at the 50th anniversary dinner of American International Assurance company, as quoted and paraphrased in the *Business Times,* Kuala Lumpur, Malaysia, Jan. 23. *The AIG is a wholly owned subsidiary of the giant American Insurance Group. Present in the audience were AIG Chairman Maurice Greenberg and Senior Vice President and General Manager Edward Bush. The theme was "Globailize, yes, but only if there is regulation."*

"Globalization can be good—just as capital flows can be good if regulated. . . . We should welcome globalization but we must ensure that it will not be open to abuses." He said that Malaysia is unprepared for the abuses of the free flow of capital and is fortunate to have been able to deal with the "foretaste of globalization" in the form of ringgit devaluation and sudden capital flight.

"But we now see the preparations being made by the rich in order to take advantage of globalization. Huge banks, industries and utilities are being formed through mergers and acquisitions. Each of these is bigger than most of the developing countries. Each can literally swallow up these countries.

"There is no doubt that their intention is to monopolize the field that they are in. The tiny banks, industries and utilities in the developing countries will be swallowed up by them once the borders are down.

"In any case, it will not be possible to compete with these giants. Their economies of scale will be simply unbeatable." The Prime Minister added that "governments cannot protect [them]. Protection of businesses owned by nationals will be labelled cronyism and nepotism. Only foreign takeovers will be free of such accusations.

"Eventually, the foreign giants will take over everything. The competition will be among them. We will all work for them.

"Globalization can mean this. We have to ask ourselves whether we want to be employees of international foreign-owned giants, or owners and managers of our own little banks and industries."

Dr. Mahathir said "the intellectuals and social activists" are still jousting at their favorite windmills. But real thinking people, concerned nations, must focus on what is being prepared for us. We have seen what capital flows across borders can do to us. When the giant corporations of the world step over our borders, will we have the benefit of scale and size, or will we be just sat upon and squashed?

"At the moment we can still fight against the trend." Dr. Mahathir said that Malaysians must learn to rely more and more on themselves and be cautious in accepting proposals from others.

"We welcome globalization, deregulation, liberalization and borderlessness, but we must know what all these mergers and acquisitions and the consolidation of giants are all about.

"Are they preparing for a world invasion, for worldwide monopolies, for economic hegemony? If they are, and it looks as if they are, then if we cannot halt them, we must appeal for time."

Dr. Mahathir also spoke out against the use of the IMF "to prise open our markets to pick up things on the cheap."

"Do not accuse us of cronyism if we try to protect our people from these predatory giants. We do not fight for independence only to be trampled under and made worker bees to foreign queens."

Malaysia, he said, is a small country which survives and prospers through open trade, not aid. "But we know that there is no perfection in any system devised by man. Man will always find ways to absue anything designed for their good. They will always find loopholes."

He spoke of possible global deflation due to the destructive activities of currency traders and stock market raiders. "Today we are seeing the effects of that destruction. Real business and real profits are no longer contributing to the growth of the world. For a time there will be make-believe wealth in the form of inflated share prices.

"But the share prices do not reflect the real business or the profits made. They are just figures on the screen. Interest rates cannot be lowered forever in order to support the share market. Nor can the economists and the media talk up the market indefinitely. Sooner rather than later, the bubble will burst."

And when it does, he said, Malaysia will also be affected. "So our problems are far from over. We must be prepared for a possible worldwide deflation. They say it would not happen. But they have been wrong many times before. And they can be wrong again."

Clovis Rossi, "Why Not?" *Folha de São Paulo,* Brazil, Jan. 23:

Rossi writes on the subject of Malaysia's success with capital controls, as opposed to what is happening in the International Monetary Fund showcases, Thailand and South Korea.

"On Sept. 1, Malaysia adopted exchange controls, a measure which violates hegemonic ideology, which commands that everything be left to the will of the markets.

"Analyses poured out, that the country had jumped into the most profound abyss, and would never emerge from the darkness. Yesterday, the *Far Eastern Economic Review,* an ultraliberal magazine, evaluated the almost five months of exchange controls. Theoretical conclusion: 'Those who supported [exchange controls] have some reason to celebrate.' Factual data: the local currency has stabilized; interest rates dropped (from 10.2% to 6.5%); exports grew (2%), strengthening their international reserves (which increased by $2.5 billion); the sales of cars and real estate stopped falling; the capital market improved, and the weakened banks are being restructured.

"Of course, the magazine could not let the relative success of this violation of liberal principles pass without comment. Therefore, it adds that other problematic economies of Asia, particularly Thailand and South Korea, which follow the IMF's liberal orthodoxy, exhibit similar data. That's an exaggeration, when it is known that the Thai economy collapsed by 8%, and that of Korea fell by 7%.

"But, even if it were true, we have the following: the application of the liberal recipe or of interventionism, leads to the same results, in the liberal analysis. In other words, reality, at least until now, disproves the theory that the markets harshly punish the daring.

"What does this have to do with Brazil? Everything. If the rigid exchange policy of the period of Gustavo Franco failed; if the transition to a free float is becoming more turbulent than was foreseen, the alternative of exchange controls tends to become the only path. It is worthwhile to know that it was not the end of the world for Malaysia."

"Courage to Change," editorial, *Folha de São Paulo,* Brazil, Jan. 24:

"It is time to change paths, to abandon the belief in the market's ability to organize the economy, which should not be reduced to submission to the empire of speculation. On the other hand, the alternative is centralization [exchange controls], if possible with the support of the IMF. Operations with foreign reserves would be rationed by the Central Bank. It is a high-risk measure, but the crisis has reached the point which does not permit painless outcomes. A centralization would allow interest rates to drop, since such high rates would no longer be necessary to stop the outflow of dollars, blocked by the exchange controls. . . .

"The principal objection to centralization is, that by blocking the flight of capital, they discourage its entrance. But capital is no longer entering, despite the high interest rates. Exchange centralization is a temporary and insufficient measure. Beyond this, it is urgent to abandon the passivity towards foreign trade, public finances, and social policies. It is necessary to prepare a return to development, and make viable the battle against misery. Some economic sectors could be protected. It is not a matter of protecting inefficiency or reestablishing protected markets, but of creating the conditions so that, within a determined time, they can become competitive. It is fundamental to stimulate exports and provide financing for small and medium companies. . . ."