



NOBEL WINNER'S ADVICE: Laureate tells govt: spend with caution

Published on Jun 17, 2005

Economist John Prescott calls for lifting barriers, allowing foreign competition and building integrated road system

The government should remove all barriers to efficient production and at the same time it should not increase its spending unless it can get returns at least at market levels, said Nobel laureate Professor Edward C Prescott.

Speaking at a seminar on "The Role of a Central Bank" organised by the Bank of Thailand yesterday, Prescott prescribed a set of dos and don'ts for Thailand to achieve long-term growth and prosperity.

A champion of the market mechanism, Prescott, now a professor at Arizona State University and senior monetary adviser for the Federal Reserve Bank of Minneapolis, said most poor countries were good at erecting barriers to riches. If all the barriers were to be removed, the market or businesses would take care of themselves by creating growth and prosperity.

"My advice to the Thai government is to be bad at making Thailand poor. Then Thailand will become one of the rich countries," he said.

Prescott also demystified the exaggerated role of monetary and fiscal policy. Conventional economic belief is that monetary and fiscal policy, if managed well, makes a difference in promoting growth. But Prescott argued that investments financed by businesses in a favourable environment were the real factor that drives economic growth.

The US economic boom of the late 1990s is generally attributed to the miracle of Alan Greenspan, the US Federal Reserve chairman, who choked off inflation and created an environment for the boom. But Prescott stressed that Greenspan deserved no credit for the US boom.

Using the methodology that Finn Kydland and he developed and for which they were awarded a Nobel Prize, it was found that monetary policy had little consequence on real output and employment. Prescott did not find productivity or longer hours by US workers as the factors behind the boom.

So what was the real major factor behind the US boom of the late 1990s? Prescott stressed that the answer lay in the huge investments financed by US entrepreneurs during the period. These entrepreneurs worked hard and received below-market compensation. But when their companies went public or were taken over by bigger firms, they amassed huge capital gains.

Prescott went on to suggest that Thailand should become more economically integrated with the wider world. Thailand should also permit foreign direct investment and competition from foreign companies.

"Thailand should invest in the equivalent of a US interstate highway system. This will lead to economic integration of regions, higher productivity and less regional disparity of income," he said.

The government should set up mandatory personal savings accounts. But it should leave the Bank of Thailand alone to do its job in maintaining an efficient payment and credit system. Once the financial markets develop further, they will channel savings to productive investment in the most efficient way, he said.

Prescott met Prime Minister Thaksin Shinawatra at Government House for an hour and a half to discuss economic issues. He also delivered his speech on barriers to growth organised by the Sasin Graduate Institute of Business Administration at the Dusit Thani Hotel. He is scheduled to have an audience with His Majesty the King today.

During a question-and-answer session, Dr Ammar Siamwalla, the well-known economist, asked whether the central bank should intervene a lot, a little or not at all in the foreign-exchange market. Prescott replied that central banks should focus on stabilising prices to give the people greater certainty in paying for goods and allow their currencies to move with market forces.

MR Pridiyathorn Devakula, the Bank of Thailand governor, admitted that the Thai central bank does intervene in the foreign-exchange market because it can't allow a free-float exchange rate, while China, Hong Kong and Malaysia are still fixing their currencies.

Chalongphob Susangkarn, president of the Thailand Development Research Institute, asked about the impact of Asian central banks' accumulation of foreign reserves by buying US bonds. He wondered whether the financial markets would be disrupted if these central banks were to switch to other currencies.

Prescott replied that he was not worried about this problem since the US bonds held by foreign central banks represented a fraction of the US debt.

Thirachai Bhuvanath-naranubala, the secretary-general of the Securities and Exchange Commission, asked whether it was a good idea to separate the role of bank supervision from the central bank. Prescott replied that managing monetary policy and supervising a sound banking system were joint duties of a central bank, which should remain independent.

Pridiyathorn added that the central bank should continue to supervise financial institutions to help maintain economic stability. For instance, in 2003 he spotted a bubble in the real-estate sector and quickly imposed prudential measures on banks to curb speculation. He followed suit with other prudential measures to curb a credit-card boom and subsequently a personal-loan boom.

"If we [had no control on bank supervision], we would have had to rely on the interest rate policy, which would have had broader implications on the economy," he said.

Thanong Khanthong

The Nation

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■ *Thanong Khanthong*
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Prescott's prescription for PROMOTING GROWTH

Do...

- Remove barriers to efficient production.
- Be bad at making Thailand poor, then Thailand will become a rich country.
- Create an efficient payment and credit system.
- Become more economically integrated.
- Allow foreign direct investment and competition from foreign companies.
- Set up mandatory personal savings accounts.
- Invest in the equivalent of a US interstate highway system.

Don't...

- Increase government expenditure unless the returns on these investments are at least equal to market levels.
- Subsidise inefficiencies.
- Use monetary and fiscal policy to foster growth.
- Borrow short-term money to finance long-term investment.

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See Expert [4A]

Comment: Abandon populism ■ 10A



Prescott

X
7
X

US expert meets premier

■ From 1A

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TOUCH


Economic databases are key in managing the business cycle

Edward C Prescott, the co-winner of the 2004 Nobel Prize in economics, will be in Bangkok in the middle of next month to give a lecture entitled "Barriers to Riches" at the invitation of Chulalongkorn University's Sasin Graduate Institute of Business Administration.

Prescott, an American, shared the prize with Finn E Kydland, a Norwegian. The Nobel committee recognised the two for their contributions to macroeconomics, particularly "the time consistency of economic policy and the driving forces behind business cycles".

A key figure in the area of theories on business cycles and general equilibrium,

cially the inflation and employment figures, which are highly detailed, accurate and timely, to determine its moves.

These key figures form the basis of the Fed's decisions on monetary policy and fund rates (which dictate interest rates), which are pivotal in managing the course of US economic activity.

The quantity and quality of economic information available in the US also helps the players in the private business sector to constantly adjust their business plans so that they are in line with the prevailing economic conditions.

Consumers, the third engine of economic growth, are also generally

Top economist to speak here

■ *The Nation*

THE AMERICAN NOBEL Prize-winning economist Edward C Prescott is to share his unconventional thinking with a Thai audience of academics, administrators, politicians and company executives.

The Sasin Graduate Institute of Business Administration at Chulalongkorn University announced yesterday that Prescott would deliver a special lecture on "Barriers to Riches", in Bangkok on June 16. The event was being supported by the Bank of Thailand, the UOB Radanasin Bank and the Bank of Asia.

It will follow by one month a lecture by Professor Paul Krugman, who will speak on "Warning System: Positioning of Thailand and Southeast Asia" on May 17 and 18.

Prescott won the 2004 Nobel Prize in economics jointly with Finn E Kydland, "for their contributions to dynamic macroeconomics: the time consistency of economic policy and the driving forces behind business cycles".

See Prescott [6B]



Edward C Prescott

Prescott to lecture in Bangkok

■ **From 1B**

Sasin institute's director, Professor Toemsakdi Krishnamara, said the Thai audience would benefit from Prescott's ideas and concepts.

His lecture would come at a time when, despite its recovery from the 1997 economic crisis, Thailand's economic expansion relied mostly on export growth. The ratio of poor people without purchasing power was still rather high and this opposed the strengthening of the economic foundation, which was necessary if the problems of poverty and unfair income distribution were to be solved.

"We believe this lecture will give the audience a different concept, as Prescott is an unconventional thinker who has written more than 70 principal papers addressing topics like business cycles, economic development, general equilibrium theory, banking and finance and economic policy," said Pongsak Hoontrakul, a senior research fellow at Sasin.

Besides the Nobel Prize, Prescott has also received the prestigious Erwin Plein Nemmers Prize in Economics for "major contributions to new knowledge or the development of significant new modes of analysis".

Currently, he is an economist at the Minneapolis branch of the US Federal Reserve and at Arizona State University.

He is regarded as a major figure in macroeconomics, especially in theories of business cycles and general equilibrium. In his "Rules Rather Than Discretion: The Inconsistency of Optimal Plans," published with Finn E Kydland, he analysed whether central banks should have strict numerical targets or be allowed to use their discretion in setting monetary policy.

Prescott's Bangkok lecture, at a gala dinner, targets administrators, politicians, businessmen and company executives. Tickets are Bt5,000.

Net proceeds will be given to His Majesty the King in recognition of his efforts to eliminate poverty in Thailand.