LESSONS FROM THE PAST

The Asian crisis has invited comparisons with previous episodes of major economic crisis. Latin America and, to a lesser extent, Africa are the most obvious examples from the 70s and 80s. Others pointed to the parallels with the more recent collapse of the Soviet Union. The similarities include the implied failure of a development model, and the need for widespread restructuring of government private-sector relations, corporate practices, and the financial system as a whole.

Based on the work of the Inter-American Development Bank[3], there are a number of possible lessons from Latin America's "lost decade" of the 80s: First, the need for safety nets to be given high priority and to be put in place quickly. Second, the need to protect investment in human capital in affected households, for example through income or consumption transfers, to ensure that families keep children in school. Third, the mobilization of foreign resources for social funds, especially at a time when line departments responsible for social welfare are in disarray.

Social funds should be designed so that they benefit those who are most directly affected by the crisis. At the same time, line departments such as health and education should be protected as far as possible from government spending cutbacks. Finally, governments should consider delaying the removal of general subsidies on goods that are most intensely consumed by the poor and which make up a large portion of poor households' budgets.

Others, however, pointed out that the countries that have fared best in the current crisis are those with the most liberal (albeit well-regulated) trade and investment regimes, such as Hong Kong, Singapore and Taiwan. They suggested that the problems in Indonesia, Thailand and South Korea have more to do with incomplete liberalization and/or poor regulatory practices than with liberalization gone amok.

It was also pointed out that it is a consistent feature of economic crises that external scapegoats be found, whether it is the IMF, foreign currency speculators, conservative economic doctrines, or something as nebulous as "globalization." This kind of reaction has been seen not just in developing economies, but even in the United States which has a tendency to turn protectionist and insular when faced with domestic economic problems.

RESPONDING TO THE CRISIS: POLICY DIRECTIONS

A number of bilateral aid packages have been assembled in response to the social dimensions of the crisis, chiefly directed at Indonesia. A rough comparison of selected aid packages, including assistance from Canada, is shown in Annex A.

The Asian Development Bank has also approved or proposed social-sector program loans for Thailand and Indonesia, similar to World Bank "social funds" that were put in place for Latin America and Africa during the 80s and early 90s. It would seem that the design of the ADB social funds has as much to do with generating support from a broad spectrum of the population for tough economic measures as they have to do with mitigating the effects of economic reform on the existing poor and the "new" poor. It was pointed out that social funds have a tendency to be directed at the most vocal or politically powerful groups. Thailand's self-initiated "social fund," for example, was initially targeted at urban groups who were the most vocal, but likely not the most vulnerable to increased poverty.