

# MAHATHIR'S FIRST YEAR IN OFFICE

## Growth relatively better than others

**Question:** How bad really is the economic situation in the country presently? Or how good is it? And how has the current situation affected the planning of the various projects under the Fourth Malaysia Plan?

**Answer:** It is relatively bad, relative to what we were used to before. Before we were used to growth of 8 per cent, now it is reduced to 5 per cent. Therefore, in our estimation it is bad. But in the eyes of the world it is still extremely good because most countries in the world are experiencing negative growth or very minimal growth. So I would say that, relatively, we are not as well off now as before. We must take things seriously because any tendency to be complacent may result in a further slide. And a slide, once it takes place it is very difficult to reverse. That is why we have made the country aware of the situation. We try to get them to understand what the government is doing. Why do we talk about prod-

ing. This is a good exercise. It will make our staff very much more careful about the way they prepare the budget and the way they expend the budget.

**Q:** Should the tasks set for HICOM be cut in view of the slower prospects of world-wide economic growth? For instance, should plans for cement plants be extended over a longer period and the cold rolling mill shelved for the present?

**A:** The normal tendency is to cut back during a period of recession. But before this is done we have to think whether the cutback is going to affect the situation immediately or is it going to affect the situation at the end of three, four or five years. We know that the world economy tends to fluctuate; there is a peak period, there is a trough, and there is a peak again. This is the cycle that goes on all the time. If you invest during a trough, the project will come on stream during a peak. That is when you rake in

of 1981 or end of 1981 or the middle of 1981 and so on. But it has gone on for quite a considerable length of time. So we cannot say with any degree of certainty when the economic recovery will take place but general opinion puts it as at about the end of 1983 or beginning of 1984. It used to be end of 1983 but now they have added "or." So the crucial factor here is, of course, the leadership of the world. At this moment we have two leaders who are extremely stubborn, who have very strong ideas about economic management. And no matter what the economists tell them, they are going to stick to their guns. So if the economists are right and they are wrong, then of course the recovery will be later.

**Q:** Who are two world leaders?

**A:** Your guess is as good as mine.

**Q:** Datuk, when we planned our budget last year, the assumption made by our own economists was rather too optimistic. The basis for the price of rubber, tin and petroleum was way above the present level. Of course there is an element of chance in all these. But the frightening thing is that we were wan-

check the slide at least to alleviate hardships faced by the rubber smallholders?

**A:** Well, we are putting the burden on the big estates, largely the government-run estates, in order to cut back our production. Also, the dealers are asked to hold bigger stocks since we want to reduce supply by 175,000 tons. So that is one measure that we are taking. But the fact is the demand for rubber is not there. We just can't sit down and cry; we have to do something about it ourselves. Other people will not respond to our pleas because they have their own problems, but I think if we are prepared to tighten our belts for a short while, we may have better times later. But if we are not prepared to tighten our belts now, the better times may not come about as early as we expect.

**Q:** And there is also talk of one negative effect of this downturn in rubber prices. Some smallholders are in the present situation neglecting their holdings, and are depending on planting alternative cash crops. Later on, when recovery comes, it will be difficult for them to go

activity, why do we have to cut expenses etc. This we are doing publicly because there is nothing worse than people who are euphoric, starry-eyed. They think the world is wonderful and then suddenly they find a big hole, and they just fall into it. Then, of course, it is too late to do anything.

**Q:** There was recently the announcement there is an across-the-board

cut in the budget of the government by 12 per cent and that for next year there will be another 12 per cent cut. How will this affect the government departments? Some sources are saying that one possible effect of the cutback will be greater efficiency in the government. This of course presumes that there has been wasteful spending or at least that the budget had all the while had a cushion every year. And cuts could lead to more useful spending.

**A:** In the past, one of the things that we noticed was that there was a tendency to over-budget. For example, in any one year you will find at least two supplementary budgets. And if we total them up, of course the amount is very big. But at the end of the year when the accounting is done, you find that you have expended less than what was originally budgeted in the first place even without the supplementaries. This showed that we were not very good in terms of budgeting. So now we are having another try to make sure that we budget for actual spend-

the money. By just investing at a peak period, you may end up coming on stream during a trough. You are then going to loose money. Most of the investment involving high costs, would take several years to mature, may be three years, may be four years. To panic and say since the situation is bad now, we should stop investing for the future, will make recovery more difficult. We have to remember that no recession can last forever. There must come a time where there is an upturn. What we are

thinking about is that we should be ready when the world economy picks up again in about three to four years time. By that time the investment that we are putting in — which is really low-cost investment because it is being made during a trough — will produce the yield which you expect during a peak. If you try to invest during a peak the cost also will be high and the yield will come during the trough. Then you are in trouble.

**Q:** Datuk, in the government's estimation, how long will this present recession last? It is a difficult question to answer but, of course, you must have a certain idea if you want to make a decision.

**A:** I am not an economist, I am only a doctor. This is very difficult for me to predict. People have been talking about recovery, you know, since 1980. They were talking of a recovery at the end of 1980. When the time approached, they said no, it would be at the beginning

off.

**A:** We are not the only ones who were way off (in our forecast). The whole world was way off. There are people who were even further way off than we were. Our projections are not so bad. But some people have been proved totally wrong. You can blame our projections with the benefit of hindsight. But when we were drawing up the Fourth plan, people were saying why we put development expenditure at \$42 billion. Why not more to stimulate growth, they asked.

**Q:** In the past we had constantly budgeted for growth. But what the government is doing now may give the impression that it is worried and this may affect the thinking of the people as a whole. This in itself is a worrying thing.

**A:** Well it is very difficult for us not to create that kind of impression. The people as a whole have faith in the record of the government. For example when in 1975 there was a recession, we reacted immediately by cutting back rubber production and even ministers' salaries by five per cent — people have forgotten that of course.

Although we were expecting a longer recession, there was a recovery and our projections were all wrong for the better. We were wrong because we underestimated our revenue and now we are wrong because we overestimated it. So that cancels our mistake.

**Q:** What measures have been brought in to

back to tap rubber.

**A:** That may be so but I think for the moment of course what they do is quite good in terms of reducing production of rubber. We cannot force them to produce rubber which is low in price if it doesn't give them fair income. So I think if they switch to other crops, I think it is well and good. I think the world could do for sometime without the usual supply of rubber.