

Dr M: Understand inflation fully

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KUALA LUMPUR, Mon. — The people must understand fully the meaning of inflation so that they can help contain and overcome it, Datuk Seri Dr Mahathir Mohamad said today.

The Prime Minister said inflation was a phenomenon that was not deeply understood by the people and this made it difficult for them to combat it.

"For most people, the priority is high wages. But we fail to take into account whether such high wages would enable us to buy more things than before.

"What is important is the purchasing power, which can be adversely affected if the price of goods rises together with an increase in wages. If wages rise by 100 per cent, and if the cost of goods also rises by 100 per cent, then we can't buy more than before.

Dr Mahathir said this in an interview with a panel of editors over Radio Televisyen Malaysia tonight.

Stressing his point, the Prime Minister said it must be realised that wage increases alone would not bring much benefit. A wage increase would be beneficial if one could buy more things than before.

But a wage rise usually caused prices of goods to also increase. This was seen when there was no accompanying increase in productivity. Dr Mahathir said any society which wanted to progress must increase its purchasing power, which in turn could be improved through higher productivity.

"This is what we should concentrate on. If everyone understands this, then they would be very careful about wanting to get better pur-

chasing power when they get a pay rise.

"This is better than what is happening in some countries where the purchasing power is ... on the decline. In these places, inflation exceeds 100 per cent a year.

"This means that an item which costs RM1 in January would cost RM10 at the end of the year. This would be meaningless even if we get a 10-fold wage increase. This is what we should avoid," Dr Mahathir said.

He added that any country which was undergoing rapid economic growth would always be threatened by rising prices and a high cost of living. If the country was not careful in controlling inflation and rising prices, then all the economic growth would be negated.

Asked if inflation could be caused by foreign exchange,

and whether this was extensive, the Prime Minister said inflation could also be due to the action by other countries.

He said that if the value of the ringgit was increased, production costs would also increase. But this could be countered if there was an increase in productivity.

"For instance, when the value of the yen increased, the Japanese acted to reduce production costs by becoming more efficient. They organised their work so that they could be more productive and efficient.

"In the end they succeeded in reducing production costs even though there was an increase in the value of their currency. As an example, they used robots which can produce more goods with a smaller number of workers. We too could move in that direction," he said.