

04/10/1997

Budget needs to grasp the nettle to overcome crisis

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THE 1998 Budget on Oct 17 is less than two weeks away.

We are in a financial crisis. The stock market and the ringgit are under attack by unscrupulous foreign currency manipulators and some fund managers.

The war against the ruthless financial manipulators and those who want to depress and dominate developing countries will go on, so we must strengthen our defences with urgency.

They would join forces at their convenience and at their chosen times, to attack us. They would encourage and coerce us to liberalise so that they will be able to gain much more from open competition because of their superior strength.

We would gain some but only incidentally. See what happened to Thailand. The country liberalised its markets too soon and got whacked. Even the latest United Nations Report has advised against rapid liberalisation. So what can the Budget do?

We have to learn from the lessons of the crisis. We have to prepare for renewed attacks that I am convinced will come again and again, whenever we have weaknesses. Deputy Prime Minister Datuk Seri Anwar Ibrahim, who is also the Minister of Finance, stated at the International Monetary Fund/World Bank meeting in Hong Kong recently that we have to put our house in order.

The Budget, therefore, must review policies and seek new directions to ensure that we move away from the crisis. It must include tough measures to anticipate and resist further attacks. We have to strengthen our national socio-economic resilience or decline. But how do we do so?

Political unity is a fundamental prerequisite. Any weakening and worse still any internal division would be exploited by those who would like to suppress emerging developing countries, and profiteers.

As Prime Minister Datuk Seri Dr Mahathir Mohamad has said, corruption would lead to higher costs and inflation. It would also weaken our capacity to compete in the export markets.

We have thus to ensure that the most competitive get the huge contracts. Otherwise, we would be accused of corruption and nepotism, in which case our national credibility would be eroded and our scarce resources wasted.

The National Development Policy should increasingly concentrate on small and medium-scale Bumiputera and non-Bumiputera businesses, and not favour mainly the big businessmen who should be able to look after themselves by now!

The big businessmen could form consortia with promising small and medium-scale businesses, to help them expand. We need to move away from the dubious practice of picking a few potential winners who may in the end, let us all down, because they have not learnt to struggle to move up.

As Economic Adviser to the Government Tun Daim Zainuddin has said: "Even a (man) needs to rest a little when he is tired."

I believe that the economy is tired. There is nothing wrong, therefore, in attaining about seven per cent economic growth instead of aiming for eight to nine per cent annually.

A little slowing down will help the economy catch its breath. It will reduce the balance of payments deficit, the currency will strengthen and the risk of higher inflation will decline. The economy will then consolidate and strengthen.

If employment opportunities decline, that will be good. Then some of the approximately 1.5 million foreign workers who will lose their jobs will want to return to their respective countries.

The gradual reduction in the number of such workers would alleviate the social ills situation. Robberies and rapes would be fewer, leaving the police free to put greater pressure on the remaining criminals.

The Budget could also provide more funds and tax incentives to the many non-governmental organisations that are doing a first-rate job of alleviating poverty and suffering.

Just as the Government has privatised many of its responsibilities, it also needs to provide more funds to efficient NGOs to run orphanages and homes for the elderly.

Private education and health institutions could also be given more incentives to provide better facilities to meet rising public demand for better social services.

Conditions could be imposed by the Government to ensure that the poor are catered for and not deprived, as is now the case with some private institutions. There could be more cross subsidisation. The rich could help the poor.

The Budget should moderate the profits of privatised entities. It should seek to define "reasonable rates of profit" for the different privatised projects.

The Budget should strengthen the supervision of privatised services like transport, health, education and garbage collection. The provision of vital supplies like electricity and water should also be better monitored for efficiency and cost control.

Privatisation should not be seen by the public as one way of benefiting a few, at the expense of the masses. There is no point paying more to get less. Then the whole purpose of privatisation would be defeated. The public might ask for a return to the old days when one paid less and even got better services.

Income distribution is becoming more and more skewed with rapid economic growth. The rich are getting richer while the poor are getting relatively poorer. This is understandable in a capitalist market economy.

However, the accumulation of vast wealth by some must indicate monopolistic situations, lack of competition, corruption or plain greed. Wide income disparities can cause social discontent and even disruption. One way is to increase income taxes but this is not practical, if we want to attract domestic and foreign investors.

But we could consider taxes on excessive consumption and property accumulation at the highest levels of wealth and income.

In the short-term, it is acceptable to introduce import duties on luxury items to overcome our balance of payments problems. We could get back to meeting our Asean Free Trade Area and World Trade Organisation obligations when the balance of payments improve.

However, the main thrust of our efforts should be to reduce expenditure, and to increase productivity and exports. We should take advantage of the weaker ringgit to raise exports, and reduce imports for big projects especially from countries with strong currencies. The private sector too must cut down its mega projects.

It is most disconcerting to notice 'stop-gap' measures on the recruitment of foreign maids and other workers. It gives the impression that we are uncertain about how to manage foreign labour. We have to be much more decisive, otherwise we would undermine public confidence in the Government.

The Budget may well be in surplus again. This would be due to the prudence exercised by Anwar and his Treasury officials.

But we need to do more in these critical times. The Budget for the whole public sector including the State Governments and the statutory bodies should also show bigger surpluses.

Privatisation has helped the Federal Government to accumulate substantial surpluses. But the statutory bodies that have not been privatised could still perform more efficiently. They too need to increase savings.

Bank Negara could keep a tighter rein on the banks on a continuous basis. Pulling in the reins only when the lending to less productive sectors have exceeded acceptable limits, may be too late. I do not know why the lending guidelines cannot be enforced more stringently right through the year.

If tighter discipline is enforced consistently, then even money supply could be restrained before it gets too high and intolerable. Better to be conservative rather than careless.

The annual Budget dialogues are very useful in obtaining the views and feedback of businessmen and NGOs. But it would now appear that we need to consult the private sector and even the foreign fund managers more often, throughout the year, to get a better feel of the economy. We may think we are doing well but others may perceive us differently - as has been the case - and that is apparently what matters!

Also in a crisis, we have to listen to a wider cross section of our people. By listening to only a few rich local businessmen we may get a distorted view of the situation. Furthermore, the big businessmen may have their own agenda or axes to grind.

In the final analysis, it is the top civil servants who have no vested interests and who have had wide and long experience in macroeconomic management who would be able to give the best advice.

As the Prime Minister had stated at the recent Umno general assembly, we tend to be restrained even in our constructive criticism. In this whole currency crisis, the academics and even Opposition and political leaders have been relatively quiet. Why have they kept so quiet? Is it because we have become a very "sensitive society"?

I hope for our own sanity and progress that there is more constructive criticism and better and faster Government response.

Externally, the Prime Minister has criticised the currency manipulators. He has made his point at Santiago in Chile too. Now, let us concentrate on domestic policies and see what the IMF can do against currency manipulators.

Finally, the Budget would have to change gear and change directions for the economy to face the latest, as well as the new challenges of the early 21st century.

The Budget has to be tough, imaginative and realistic. I believe that our innovative Minister of Finance will again rise to the challenge in the Budget, which should show the way out of our problems and to the clear road ahead. Our hopes are high. We have great expectations.

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