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Not enough incentives to make people save more

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THE Government's campaign to raise savings is praiseworthy but it begs many questions.

Why are we asked to save more when we are one of the highest savers in the world?

We already save about 39 per cent of our gross national product.

It is the rich who can save more, but can the majority who are not rich do so?

Financial Capability

Recently, the Deputy Prime Minister and Minister of Finance, Datuk Seri Anwar Ibrahim stated that the "Government is paying close attention to the country's financial capability, as it is the prime factor in managing the economy".

Is there a connection between the campaign to save and our "financial capability"?

The minister has also said that "more efforts should be undertaken to further strengthen the economy".

Strengthening the economy calls for more investments.

However, the domestic investment is constrained by the amount of domestic savings that are available and foreign investment is volatile and unreliable.

The rich can be persuaded to save more. But what can we do to increase savings among the poor?

Obviously, we increase the awareness of the need to save and provide more incentives.

But how much savings can be raised by the man in the street - not much really.

The call to save may not be entirely due to the need to obtain more funds for investment.

The reason could be that the Government wants us to actually consume or spend less.

Also by spending less we could reduce the demand for goods and services, thus helping to reduce prices of these goods and services. This must be part of the logic of the savings campaign.

Difficult for Poor to Save

Otherwise, it is difficult to understand how the lower income group - the farmers, fishermen, factory workers, clerks, teachers and junior executives - can actually be expected to save more.

The lower income group has a tough time making ends meet.

After they have provided for their basic needs there is really not much left to enjoy a better quality of life.

The people need to spend some of their income on upgrading their standards of living.

They need to have better amenities like electrical goods, air conditioners, refrigerators, better clothing, improved standards of housing and more entertainment for their families.

The fact that we have already saved so much is in itself impressive.

So we may be expecting too much if we want the lower income group to save more.

Instead, what can be done is to ensure that the small savings that are kept under mattresses are safely kept in banks, insurance schemes and unit trusts.

Prime Minister Datuk Seri Dr Mahathir Mohamed has encouraged the small savers to save more prudently.

This advice is very positive and financial institutions should take this proposal as a challenge to mobilise the small man's savings to give him a better return.

Will the big boys in business respond favourably?

Finance Institutions to Do More

Financial institutions are not under much pressure to encourage small savers.

They are still relatively protected from foreign competition and can afford to be quite comfortable and complacent.

Stockbrokers, financial dealers and analysts are unduly well paid because of this insufficient competition.

Banks and insurance companies make handsome profits so they do not see the need to be more aggressive to promote savings among the poorer groups.

I suppose these additional efforts will reduce profits and lower their capacity to pay higher salaries and bigger bonus to their financial managers and staff.

So why rock the boat, they may ask.

The Minister of Finance and the Governor of Bank Negara could get the financial institutions to do more. Now that more financial institutions are merging, it will be easier to get them to compete and become much more efficient.

This way, these financial institutions will be able to use some of their high profits to promote savings more aggressively.

These bigger institutions should also use more of their enhanced profits, through better economies of scale, to provide more attractive incentives to save, even if it means reducing their profits.

Fair Profits

Here I would urge the authorities to consider what could be reasonably regarded as "fair rates of profits" for financial institutions and indeed all these monopolistic privatised entities.

After all, the finance managers have been given exclusive licences to establish financial institutions like banks, insurance companies, stockbroking houses, etc.

The public are compelled to use their somewhat "monopolistic" services.

So the authorities have the moral right to fix reasonable profit margins.

The profits beyond this reasonable profit margins could be ploughed back as incentives to encourage the lower income groups to save more.

Big businesses should not be allowed to benefit at the expense of the small saver.

Foreign Investment

The need to save more in order to reduce the dependence on foreign investment is the most persuasive argument for the savings campaign.

Malaysia's wealth and modernisation have been largely due to the large and responsible foreign investments. But there are dangers too.

A large part of the balance of payment deficits on the current account are due to the high outflow of the profits from the foreign multinational companies.

Last year, an estimated RM11 billion was sent out of our economy as compared to our current account deficit of RM14 billion.

This trend is unhealthy and unsustainable and there must be a solution to the problem.

One way is to depend less on foreign investment which will result in a lesser outflow of profits.

More domestic investment will mean more profits retained at home.

Domestic Investment and ICA

But how do we encourage more domestic investment?

Domestic investment can be increased by more savings only up to a point. More savings could be accumulated locally but still invested abroad.

This is more likely now with the Government's encouragement of "reverse investment", that is, getting Malaysians to invest abroad such as in China, India, Vietnam, Latin America and Africa.

Furthermore, domestic investment need not increase unless of course we relax the terms and conditions of our policies towards non-Bumiputera investors.

Many non-Bumiputeras face numerous problems such as constraints in getting land and obtaining approvals from the myriad of authorities, and the restrictions imposed by the Industrial Co-ordination Act.

So we are caught in a bind unless we loosen up our rules and regulations and liberalise the economy.

Wastage

There is another obstacle to increasing savings.

This is the perception that increased savings but need not lead to productive investments.

More developments could lead to more opportunities for refusals and constraints for investments and ultimately wastage of funds through corruption.

So why save more when some of it will be wasted through inefficient approval systems and even bad management?

The glaring example of wastage and inefficiency due to mismanagement is seen in the case of the Perwaja Steel fiasco.

We now learn that the Government will absorb about RM6 billion in losses incurred by Perwaja Steel.

In the final analysis, it is the taxpayer's money and he will ask why his taxes are being utilised so wastefully.

In this context, where is the incentive to save, beyond what is really needed for a rainy day?

People will tend to reduce savings if they believe that their savings are not properly managed in sound investments.

We must aim for higher productivity, otherwise our credibility will be eroded.

We also have a problem with credibility.

How can we expect the low income groups to save when our policies seem to reward the rich?

Take the rise in toll electricity, telecommunications and water charges after privatisation.

Should we not have more cross-subsidisation to benefit the poor or set limits to the high profits of these privatised entities?

What about the prices of petrol? We fill in our own tanks now but the petroleum companies benefit from the lower wage bill of not having petrol attendants.

They do not pass the savings to the consumers in the form of lower petrol prices.

Is this fair?

Does this encourage the man in the street to save?

Conclusion

It is obviously important to increase savings.

However, it is even more relevant to ensure that savings are efficiently utilised.

The country and people need to benefit more from the high economic growth resulting from sound investment.

People will save more when they benefit from saving.

The challenge is to convince them that they are benefitting more by saving more.

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