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Mahathirnomics at its best

TRUE to expectations, the 2002 Budget continues with the deployment of fiscal initiatives to stimulate economic activities and protect the economy from any full-blown recessionary effects. Its comprehensiveness serves to spur growth, redress inequality by ensuring the equitable distribution between the urban-rural income, the high-low income earners and the developed-and-less developed States; and, restrain inflation.

True, the budgetary allocation of RM100.52 billion will incur a deficit of five per cent of GDP. In the neo-liberal ideology dominating public policy debates, a deficit budget is a cause for concern. But these ideologues neglect the fact that with the country's strong economic fundamentals, notably a low inflation, and comfortable level of foreign reserves, the Government's manoeuvrability is substantial. Hence, it can undertake expenditures without the fear that plagued some economies elsewhere that an expansionary expenditure could trigger off an inflationary spiral. Additionally, the economy is not burdened by high interest rates. An increase seems unlikely for as Prime Minister and Finance Minister Datuk Seri Dr Mahathir Mohamad pointed out, monetary policy will continue to be accommodative in terms of fuelling business sentiment and consumer confidence to complement fiscal stimulus.

As a growth-inducing strategy, the Budget is a mix of Keynesian monetarism and supply-side cure whereby monetary policy is used to control inflation, fiscal expansion to create demand and tax cuts and breaks to stimulate growth of real output. But contrary to wide speculation, the Budget ignores the neo-conservative's call for a reduction in corporate tax. As Dr Mahathir said, the rate is still competitive compared to many developed countries because unlike them, Malaysia does not impose tax on dividends. This, coupled with the broad and yes, neo-liberal tax concessions to increase the dynamism of the private sector and invigorate domestic investment, the effective tax rate on private investment is not as burdensome as some countries in the region.

As a domestic-led growth Budget, the private sector and the public have a crucial role to play. Both domestic investment and consumer consumption must increase to create national wealth. In wealth-creation, a ringgit spent is a ringgit earned.

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