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Spend more to boost economy

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A COUPLE of months ago, when the US was about to invade Iraq, Finance Minister II Datuk Dr Jamaludin Jarjis met with media representatives. The

message that he was trying to deliver was this - that as far as the economy was concerned, the Government wasn't twiddling its thumbs and was

aware of the things that needed to be done.

The global economy, in which Malaysia as a trading nation is very much a

part of, was in a funk. The question then was not whether there would be a

war or not, but what its likely impact on the economy was. Answering this

question required making a calculated guess on the duration of the war, from which the impact on the economy could be deduced.

Although it was essentially a public relations exercise, as there was a

general unease affecting business and consumer confidence, Jamaludin nevertheless indicated that the Government was also taking the opportunity

to prepare a wide ranging economic package that would address the worry over the war, and much more.

At the time, the Severe Acute Respiratory Syndrome (SARS) had not even entered our vocabulary and face masks were only worn by dentists and doctors in surgeries.

Yesterday, Prime Minister Datuk Seri Dr Mahathir Mohamad announced what

was essentially a supplementary budget with a broad range of targets, from

handling the immediate economic fallouts of SARS and the war to what, at the end of the day, is an attempt to improve the corporate competitiveness, create new sources of growth, encourage private investments and improve the nation's delivery systems.

But if there is anything in the announcement that is constant, it is the

attempt to promote consumption by giving people more disposable income and

making it easier for them to spend.

This is an immediate aim of the package - to get people to spend money that will soon find its way into their pockets, through the various initiatives of the package.

Cynics would quickly jump up and say the package is an election ploy, what with the bonus for civil servants and government-owned companies.

But

there is an economic rationale to the whole thing, never mind if it somehow coincides with the political motives.

Money is not useful if it is kept dormant, whether under the mattress, in Employees Provident Fund (EPF) or in banks. It has to be spent or

invested for it to be able to do what it is meant to be, which is to grease the economy.

One of the natural reactions in uncertain times, as we are in now, is to save and consolidate. Most people will likely postpone purchases or not spend at all, especially if they think there are rainy days ahead. But that would only bring us deeper into the quagmire of economic inactivity.

For example, the half-month bonus for civil servants alone is expected to add a further RM500 million disposable income into the system.

Once money is in the system, it is likely to be spent and will do its multiplying magic to extend the ringgit beyond its face value. A conservative estimate puts every ringgit spent would be stretched 1.5 times when it is put into the system.

The cut in EPF contribution by workers is expected to release about RM183 million every month in the hands of consumers. Annualised it is RM2.2 billion, and could add as much as 0.5 percentage point to the nation's gross domestic product.

The bonus for civil servants and employees of government-owned companies will also likely serve as a suasion for the private sector to do likewise, which at the end would mean more disposable income in the market.

Furthermore, the lower interest rate via a 50-basis-point cut in Bank Negara Malaysia's intervention, will make purchases of big ticket items, such as cars and houses, more attractive.

The various incentives to buy houses with tax breaks and new government incentives will make the initial financial outlays towards home ownerships more bearable.

And these again should be manifest itself in the multiplier effect of the ringgit, since major purchases such as these tend to promote further consumption - car stereos, sport rims, security grills, curtains, et cetera.

If there is anything that could really help the economy now, apart from all the bigger plans that will take time to gestate, it is the people who don't stop spending.

A strong domestic consumption should help carry the country through this rough patch, and hopefully, continue to remain a significant element of the economy.