

Popular populism? Najib's Budget 2013 gamble

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Oleh Bridget Welsh

COMMENT Prime Minister Najib Abdul Razak has announced the second election primer budget full of goodies, extending from bonuses to civil servants to handouts to lower income households.

This budget is Najib's latest fiscal effort to secure him a solid victory in the 13th general election that has to be held before the end of June next year.

The budget is a continuation of a historically unprecedented pattern of direct government transfers to woo political support that has broadened in scope, increased in amount and moved development policy from needs based initiatives to what appears to be a coordinated regime political survival programme.

Najib's main campaign strategy to win political support has been to offer financial rewards, and he has used his position as premier in an attempt to buttress his political position.

With something for everyone, he is clearly trying to increase his popularity through a variety of populist initiatives. Given his priorities, will this budget actually secure his political fortunes?

Although at first glance it is difficult to see through the mass of ringgit allocated, the measures introduced Friday were carefully aimed at different constituencies. Foremost is an effort to secure Umno's traditional base - older voters, civil servants and lower income Malaysians.

The 1.3 million civil servants have been Umno's political foundation. The party was formed by many civil servants, and although former civil servants only comprised less than 20 percent of the party representatives today, it is estimated that every Malay family has a relative who is a civil servant. Importantly, they are spread out across political constituencies nationwide, comprising a tipping group in tight races.

Of special focus are teachers, who are influential opinion-makers in local communities, a group that has become increasingly quietly critical of the incumbent coalition.

They received special attention in the budget, with greater training opportunities, improvements in education content and the upgrading of school facilities - the latter factor has been a persistent complaint especially for older schools. Najib's is shoring up the barricades to diminish the possibilities of changing loyalties.

This is the second out-of-the-norm allocation for civil servants in less than a year, and suggests that the political support for Najib within the bureaucracy is not as secure as it once was.

While the budget announcement actually amounts to a one-month bonus (not one and a half, as half a month was distributed for Hari Raya Aidilfitri), this is a calculated act based on a recognition that a split in the bureaucracy could lead to BN losses.

Rumblings in the civil service began last year over the flawed pay scheme that favoured the higher ranks in the service and was seen to unfair to lower and middle ranks. They involve not just issues of pay, but corruption, promotions, and a sense that the civil service is being side-lined in governance decision-making with organisations such as Pemandu taking the lead.

Many in the civil service have also been quietly worried that the direct transfers will actually curtail their ability to have funds to carry out their programmes and run their offices, as one feature of Najib's governance has been reductions in budget allocations to the operating funds of departments.

Najib's knows his political position is at stake and is extending personal pocket-book oriented financial incentives as an olive branch.

Essential to BN

Similar base-protecting measures are directed at senior citizens, whose low pensions have made them more vulnerable to rising costs. Older voters have been the most loyal to Malaysia's governing coalition and least likely to change loyalties. They have witnessed first-hand the developmental changes in infrastructure and seen qualitative improvements in Malaysia's hardware.

Now they face increasing difficulties in making ends meet, especially with regard to health care, as Malaysia is aging. Today 5.1 percent of the Malaysia's 29.5 million population is over 65, with greater numbers living longer in the expanding population. With more senior citizen benefits in the budget, the aim is to keep Malaysia's Merdeka generation within the BN fold.

The third group central to the BN's political fortunes are lower income groups. An estimated 53 percent of Malaysians make under RM3,000 in monthly income. Last year they were eligible to apply for the one-off payment of RM500 in the Bantuan Rakyat 1Malaysia (BR1M) cash transfer programme (although income alone is not the only determinant of eligibility).

Five million Malaysians received a total of RM2.6 billion. The budget allocates another RM500 to this group and extends the range to single-earners under RM2,000, aged 21-30, broadening the umbrella to include as much as 60 percent of the population.

The total allocated to cash transfer spending involved has risen sharply another RM3 billion. This programme is especially targeted for Malaysians in Sabah and Sarawak. Thirty-seven percent of the governing coalition's seats are from the two states and over the last year, these states have become more politically competitive with the advent of a Borneo political

awakening.

Disproportionally these states are poorer, with Sabah having the highest incidence of lower incomes nationally. The cash transfer initiative is aimed at reducing the income imbalances, but it is not a sustainable initiative. At its heart it is political, aimed at assuring the seats the government needs to hold its majority. The programme's wide eligibility assured that a large share of possible voters will gain - at least short term.

Swing group political targeting

To complement this initiative are special measures for fisherman, retired military personnel and hawkers, all of whom experience high levels of vulnerability but are decisive constituencies.

Fishermen are notably actors in multiple seats in Perak, Kedah, Terengganu and Johor, many of them competitive such as Pengerang. This shows careful thought on the groups that will matter in close races.

This budget is also extending outreach to another important political group. The focus on youth is clear - graduate employability task force, entrepreneur funds and smart phone allocations.

It is sweetened by a first home programme, although the actual delivery of these will not be before polls and some of this measure is repackaging of programs introduced last year. Voters under 30 make up 25 percent of the electorate, and whoever wins will need youth support to do so.

A boost, blip or backfire?

This politically crafted budget rests on the underlying assumption that Malaysians are motivated by bread-and-butter concerns and pocket book enticements sway support. No question, Malaysians are concerned with the economy, and this factor historically has been decisive at polls. Jobs, salaries prices, and economic management are dominant issues.

Yet, the impact of financial cash rewards is less known. Surveys show that less than 10 percent of Malaysians admitted to receiving benefits tied to elections before this year and most of these were in Sabah and Sarawak. These 'gifts' are highly symbolic and often spent quickly. In close races spending can be the determinant, as has happened in by-elections.

We have also seen that targeted financial incentives, as occurred in Terengganu in 2004 through the allocation of wang ehsan, can have their effect. Monetary incentives are seen to disproportionately sway those with lower education and lower incomes, when the amounts involved are well beyond their usual incomes.

These earlier measures were markedly different than what is happening now. The current allocations are government transfers from taxpayer money openly given at a time of high

political polarisation and greater competition.

They are not party funds, but the people's money. By using public funds so openly Najib faces a potential backlash from voters, as the spending could be seen as an indication of weakness rather than strength, particularly the focus of the measures on the traditional base of Umno.

The fact is that many Malaysian voters recognise the political nature of the allocations. And no matter how often the government denies the political rationale and points to initiatives that address broader problems in society - and there are measures in this budget that do so, such as the programme for health - they cannot step away from the reality of the political interests that embedded in this spending bonanza.

This strategy also faces the risks as it is short-term and shallow. The first round of BR1M did give Najib a boost, but it was short-lived and actually quite small, a few percentage points in his popularity. Like the electoral gifts, this money will be spent quickly.

Importantly, it did not markedly sway support for Umno, whose popularity remains at record lows. The budgetary spending will very likely have to be followed by additional gifts during election time, which are also reaching unprecedented financial amounts.

Election timing will be crucial for these measures to have a political impact. Any delay beyond one month of distribution will diminish any budget bonus Najib hopes to get. Voters forget easily, especially after the money is spent. The timing of budgetary distributions suggests a February or March polls.

Broader questions

The scope and amount of goodie spending raise broader issues the country's economic management. Najib now has to contend with the criticism from some that he is primarily concerned with his own political interest.

He has had consistent and higher deficit spending - every year he has been in office, making the country's finances more precarious longer term. This places the country in a less robust fiscal position at a time of global economic uncertainty and bucks the trend internationally of greater fiscal prudence.

Cash transfer programmes moreover are not seen to generate long-term economic growth or development aims. While they are likely to give a boost to consumption, they are unlikely to bring back significant revenue in the government's coffers.

The benefits for the private sector are mixed at best, as the link between Najib's budget and growth is not clear. Real questions are being raised - about the size of the debt, the size of the revenue base, the sources and sustainability of growth, and importantly, the impact on development.

The questions are even more serious when one considers the longer term effects on ordinary people. The high spending now will only make for a more austere cuts and reforms later, bringing to the fore the real possibility of the introduction of a goods and service tax (GST).

For every person who receives funds now, there is a real possibility that they will have to give much more back to the government through a GST tax later. It also will make the challenges of resilient solutions to inequality harder, as it is challenging to move out of a sense of dependence and entitlement that are the product of repeating cash transfers towards genuine sustainable transformation.

Najib hopes that Malaysian voters will ignore these longer term questions at the polls. He hopes the spending will give him and his party the security they appear to need. He is hoping that his populist spending will make him popular. He is taking a gamble.

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