

Will the economy collapse if Pakatan wins GE13?

MalaysiaKini.com

May 3, 2013

By Subramaniam Pillay

COMMENT If Pakatan Rakyat comes to power, there will be change in many aspects of life such as education, health, ethnic relations, national unity, civil rights (especially freedom of the press), federal-state relationship, local government elections etc.

On the economic front, the BN propaganda machine has been coming out with doomsday scenarios if Pakatan wins in the coming GE. This article will address some of these issues.

Will Malaysia become bankrupt?

Technically, nation states cannot become bankrupt. What is meant by a country becoming bankrupt is when the government runs unsustainable budget deficits for many years in a row due to government spending exceeding tax revenues .

There comes a point where the government is unable to pay for salaries, pensions and other necessary spending.

Fortunately, given the victory of Pakatan in a few states in 2008, we can compare the performance of BN vs Pakatan governments.

bank negara fsrc building 010712 02At the federal level, Bank Negara data shows that the cumulative outstanding debt at the end of 2012 was RM502 billion.

This is almost double the RM267 billion debt that was outstanding at the end of 2007.

In other words, the BN regime in the last five years has borrowed as much as all the previous Alliance and BN governments put together.

During the four years of PM Najib Abdul Razak administration, the debt increased by 66 percent from RM306 billion to RM502 billion.

If we continue at this rate, in a decade or so, our national debt will reach an unsustainable level.

Basically, quite a bit of the economic growth in the last five years was due to

government spending by borrowing money.

NONEThe BR1M 1 and BR1M 2 were all paid out of borrowed money which eventually our children and grandchildren will have to repay with interest.

How did the new Pakatan governments in Selangor, Penang, Kedah and Kelantan do? Here we have to separate Selangor and Penang on the one hand and Kedah and Kelantan on the other.

The latter states like many other states which are not extensively industrialised have to rely on federal government transfers to fund their activities.

As is well known, Kelantan for the last 22 years and Kedah for the past five years have been deprived of a fair share of federal funds for projects.

Instead states like Pahang, Terengganu, Malacca and Perlis have been given more for voting in BN governments.

So the public in Pakatan-run state governments are being punished for exercising their freedom of choice.

In spite of this, the state finances in Kedah and Kelantan are satisfactory. In fact the state of Kelantan has been able to slowly reduce the outstanding debt to the federal government.

Kedah has been able to raise their revenue from timber royalties by having open tenders instead of passing on timber concessions to cronies.

Fortunately, Selangor and Penang which are richer states have a larger revenue base.

These two states under Khalid Ibrahim and Lim Guan Eng have done extremely well in terms of managing their public finance.

Selangor and Penang have surplus budgets. Reserves in Selangor have risen from RM0.6 billion to RM2.6 billion in the last 5 years, yet they have given out more in direct aid to their citizens (free water and other benefits).

How was it possible? Prudence in spending on projects by open tender, no corruption etc. so that they can get more bangs for their buck.

Secondly, they ensure better, more efficient collection of revenues without any

increase in quit rent or assessment rates. Both the local councils in Penang state (the MPPP and MPSP) are enjoying surpluses.

Thus based on the evidence so far, I am sure a Pakatan government will be able to fulfil their promises and yet improve public finances by sharply reducing corruption in spending and better collection of revenues.

Will foreign, local investors continue investing?

On paper, both the BN and Pakatan have strong pro-business policies encouraging investments. So investment flow will continue regardless of who wins.

In practice, there is a hidden cost in BN government policy implementation i.e. corruption.

Foreign investors prefer countries with less corruption, especially after the new anti-bribery laws that have been legislated in their home countries.

Again if we look at the evidence so far, in spite of the valiant attempts by the BN-controlled Malaysian Anti-Corruption Commission (MACC) there has not been any serious case of corruption in the Pakatan states.

In spite of his other faults, no one can accuse the Kedah Menteri Besar Azizan Abdul Razak of corruption.

As for Selangor MB Khalid, we all are aware of how the MACC and its former boss had to apologise in open court for casting aspersions on his integrity. It is the same with Tok Guru Nik Aziz and Lim Guan Eng.

On the other hand, for the past few decades, we are having a series of financial scandals from the BN led governments: PKFZ, NFC, 1MDB scandals just to name a few.

Basically it is difficult for Umno-BN to eradicate corruption as it has become part of the DNA of the BN parties; one has to raise a lot of funds to win in party elections and after winning one has to recoup the spending and earn some "returns on the investment"!

Thus it is not surprising that Selangor and Penang were the largest recipients of FDI and local investments in the past 5 years.

So a new Pakatan government will actually lead to a surge in investment from both

local and foreign investors as they will not have to pay any extra under the table payments.

However, this does not exclude the possibility that Pakatan at some time in the future may also become increasingly corrupt.

To prevent that we need a very vigilant public. As citizens, we should always demand accountability and transparency.

Will a Pakatan gov't be better economically?

Under both regimes, on the average we will be better off than now because Malaysia is in a good neighbourhood, i.e., China, India and Indonesia which are large and rapidly growing markets.

However, the major difference will be on the distribution of income and wealth.

The BN has implemented policies which have led to a sharp rise in inequality. They attempt to partially redress this by giving out handouts which they hope will make the poor feel better.

protest at nilai negeri sembilanThe Pakatan on the other hand is attempting to make an important structural change, i.e., to have a sharp reduction in foreign unskilled or low-skilled labour in the next 5 to 10 years.

This will lead to a rise in the wages of the lowest income groups. As labour cost increases, firms will tend to adopt new technology which will boost the productivity of the worker to justify paying him or her the higher wage.

This in turn will lead to training and upgrading of skills among the currently low income low-skilled Malaysian workers.

In economic growth theory, it has been shown that such a move will lead to a virtuous cycle of further upgrading of technology and productivity growth accompanied by rising wages. Ultimately this will enable Malaysia to break away from the middle income trap.

Unfortunately while the problem has been analysed well in the New Economic Model reports that were unveiled when PM Najib first took power, they have been unable to slow down the growth of foreign labour as the BN is a captive of the capitalist class in Malaysia.

Will the stock market collapse? In the short run, there might be some turbulence but in the medium to long run, stock markets reflect economic performance; so markets would do well.

Will the ringgit collapse? Definitely not; there will be more capital inflow and less capital outflow thus leading to a gradual appreciation of the ringgit.

Can Pakatan Rakyat leaders manage the economy?

There are many in the Pakatan leadership who have the necessary experience. To name a few:

Anwar Ibrahim was DPM and finance minister; (coincidentally, the only time we had budget surpluses in the past 40 to 50 years;

Khalid Ibrahim and Lim Guan Eng: successful administration of economically vital states; and,

Husam Musa: former banker, successfully managed Kelantan state finances to bring down debts;

In addition to the experienced leaders, there is a very large pool of talent among the rising leaders in Pakatan, eg, Tony Pua, Dr Dzukefly Ahmad, Rafizi Ramli, Charles Santaigo and many others.

In fact one can argue that Paktan has been able to attract a bigger portion of young intellectuals and technocrats than the BN.

Person-for-person, Pakatan will not have a problem matching the present line-up of the BN cabinet.

Let us not forget that in the end, the services of the government are actually delivered by public institutions like the civil service, Bank Negara, public universities, Permodalan Nasional Bhd, Khazanah Nasional Bhd etc.

Just because there is a new government, it does not mean teachers will not turn up at school or nurses and doctors will stop working.

In fact, many of the senior professionals in the public and quasi public sector will continue to be there to provide the technical expertise. Hopefully, with less political interference, they will work more professionally.

Finally, there is a large pool of experts including private sector economists, retired senior civil servants and Malaysian academics both from home and abroad who will be more than happy to serve the nation if there is a clean regime in place.

In conclusion, on the question of economic management, it is clear that Pakatan can definitely do better than BN at least in the first five years.

So, if you choose not to vote for PR, it should not be because you think that the economy will collapse under a new PR government.

On the other hand if you have been hesitating to vote for change on economic grounds, I hope this article has reassured you to go ahead and vote for change.

Copyright © 1999-2012 Mkini Dotcom Sdn. Bhd
Source: <http://www.malaysiakini.com/news/228932>