

Higher cost of living – PM ignorant of real economic situation

MalaysiaKini.com

Apr 3rd, 2016

Steven Sim

MP SPEAKS I refer to Prime Minister Najib Razak's [statement](#) in Parliament on March 30, 2016, that the high cost of living is not due to the Goods and Services Tax (GST) or other government policies, but because of low level of education which then limits the people's income.

I do not know which is more frightening, that our prime minister (PM) is ignorant of the economic situation of our country, or that our finance minister is ignorant.

I will highlight five problems with the PM's conclusion on the high cost of living plaguing Malaysians.

1. Cost of living on rise since April 2015

First of all, since the introduction of GST, the Consumer Price Index (CPI), which is used to measure inflation, has been on the increase. By the end of April 2015, the first month when GST was implemented, CPI increased 1.8 percent when seasonally compared to April 2014. In July 2015, four months after GST, CPI index was 3.3 percent higher than the same month a year earlier.

Now, almost a year later, last month February 2016, the CPI index rose 4.2 percent from February 2015, two months before the implementation of GST.

Evidently, inflation is more than twice what the government projected in the 2016 federal budget at 2 - 3 percent.

In other words, there is a real increase in cost of living for all Malaysians regardless of education and wages.

2. Bank Negara: Inflation due to government policies, GST

Secondly, in January this year, after the PM's budget revision, Bank Negara governor Zeti Akhtar Aziz said that the spike in inflation was "due to adjustments made to prices caused by subsidy rationalisation and the GST".

Thus, Bank Negara confirmed that rise in prices was due to government policies including GST. This echoes the conclusions of reports from other financial houses as well.

Before the implementation of GST, the government itself has warned of [rise in CPI](#), although it predicted that inflation will taper after one year.

3. Inflation hits middle class families the most

Thirdly, the high cost of living actually hits middle income families the hardest. And these are some of the highest educated ones among our workforce.

It has been demonstrated that by the introduction of GST, middle income households will have to pay more with a negative cash outflow of up to RM1,000 a year (2013 calculation, this may vary with current income tax benefits).

This is due to their higher household expenditure, and their ineligibility for government cash transfer programmes such as BR1M.

Government policies are generally [blind to the middle class](#) as it focuses on assisting the lowest rung of the society and boosting private capital-driven growth by the upper class. Hence, middle income households are forced to spend more, pay higher tax, and reap lesser benefits.

4. Even with high education, many are unemployed

Fourthly, today in Malaysia, a high education is not a guarantee to getting a job, much less a high paying one.

According to reports by the Malaysian Employers Federation (MEF), there are over [200,000 unemployed graduates](#) in Malaysia, not including those who have completed their diplomas, certificate programmes and SPM.

MEF also projected that the situation for graduate unemployment will [worsen in 2016](#) with only 40 percent of fresh graduates able to find employment, down from 65 percent in 2015.

This is consistent with the overall [projection](#) of a worsening unemployment in the next years, for example, by the Human Resource Minister Richard Riot.

My colleagues and I have highlighted on numerous occasions the main cause for the low employability of our graduates: a tertiary education system needing reform. The government acknowledged this problem by spending billions on retraining programmes and yet refused to deal with the root of the matter.

5. Low wage and the middle-income trap

Fifthly, even if we have a job, our salary does not commensurate with the rising cost of living and we are a nation stuck in the middle-income trap with wages being stagnant.

Let's just look at salaries of university graduates:

According to the latest Salaries and Wages Survey Report by the Department of Statistics, the median monthly salaries of workers with tertiary qualification in Malaysia is RM2,940. This means, 50 percent of working graduates in Malaysia are earning below RM2,940.

Compare this to Singapore, where the [median salary](#) for graduates is S\$3,200 (approx RM9,200).

In general, salaries and wages are still low in Malaysia.

Data from the Employees Provident Fund (EPF) shows 62 percent of its active members earn less than RM2,000 a month and 96 percent earn less than RM6,000 a month.

Compensation of employees (CE) as a percentage of our GDP is 34.9 percent, while income to capital (employers) ratio constitutes over 60 percent. Compare CE in Singapore (41.1 percent of GDP), South Korea (43.2 percent), Taiwan (46.2 percent) and Japan (51.9 percent).

In the midst of this low-wage situation, the government plans to further flood our job market with low-skill, low-wage migrant workers, driving competition to the bottom for everyone.

1MDB dragging everyone down

The prime minister has shown that he is far removed from the life of normal Malaysians. He is also unaware of the dynamics in our economy. Hence it is no wonder that his administration continues to introduce policies detrimental to normal Malaysians.

However, the Najib administration's greatest damage to our economy is the 1MDB scandal, the mother of all financial scandals. The case is now being pursued by investigators from no less than six countries, the latest being Luxembourg.

Without resolving this, our country and our economy will continue to be in the state of "**crisis of confidence** and credibility" which is dragging everyone down.