COMMENT | 12MP: In search of a realistic new socio-economic strategy

Malaysiakini

28 October 2021

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COMMENT | The 12th Malaysia Plan (12MP) as unveiled by the Ismail Sabri Yaakob government is a re-affirmation of the New Economic Policy (NEP) and continuation of the existing approach to both macro-economic management and intervention in the economy.

The great significance of the Pandora Papers is that it is another sign that the NEP has skewed wealth creation towards an elite group within society.

Since the formulation of the NEP, economic regulation has focused on redistributing wealth rather than creating it. This was well hidden during the high GDP growth years but has become much more apparent during the slower growth rates of the last decade.

The 12MP target offers no improvement in the GINI index. While mean monthly income has increased from 2016 to 2019, the overall GINI coefficient has actually increased from 0.399 to 0.407, pointing to a widening of income inequality. This is at a time where Malaysia's GINI ranking is at the top of Asian inequality.

The issue that needs to be addressed is that the B20, or bottom 20 percent of income earners, share comes to only 5.9 percent of the national income, while the T10, or top 10 percent of income earners, share is 30.7 percent of national income.

The 12MP will do nothing to reverse this situation.

The incidence of relative poverty has increased from 15.6 percent in 2016 to 17 percent in 2019, and is continuing to increase rapidly. Economic statistics are lagging behind and may be distorting our understanding of what is happening on the ground.

Economic recovery and relief is set to be delayed with little contained within 12MP to assist. Elevated unemployment and inflation are not taken into account.

Thus, we expect the economy to go into 2022 much worse off

Recommendation 1:

Focus on wealth creation and targeted social safety net

The nation needs to move from wealth and equity redistribution to wealth creation. This requires doing away with creating millionaires to nurturing a prosperous Keluarga Malaysia as officially expressed.

It also means protecting the buoyancy of the households through a safety net and creating employment and economic opportunity for all, rather than promoting economic rent-seeking opportunities for the connected elite through government intervention and regulation.

Recommendation 2:

Making macro-policy more agile

With poverty and unemployment increasing, the macro policy requires effective micro-economic initiatives to have an aggregate effect. This requires developing and implementing effective programmes.

The priority areas that should be focused on are building income among the bottom 40 percent of people; assisting SMEs which employed 48.9 percent of the workforce or seven million people before the pandemic began in 2019; providing safety net assistance; and implementing targeted regional and urban development where the poor reside.

Recommendation 3:

Building income particularly among the B40

One of the key strategies in building income across the B40 is increasing wages, both to reduce poverty and decrease income inequality. This is perhaps one of the most challenging aspects of policy.

The bottom end of the labour market has an estimated two million migrant workers who exert a downward pressure on wages. In addition, working conditions are extremely poor and even dangerous, indicating a catastrophic failure of the Department of Labour to develop and enforce safety standards.

The next problem is cultural. Jobs traditionally undertaken by migrant workers are seen by today's younger generation as totally undesirable. Local employers complain about the spasmodic attendance and poor productivity of local employees.

Attention must be focused on SMEs which employ almost half of Malaysia's workforce.

Recommendation 4:

Assisting more SMEs

The 12MP document was scant on identifying the most critical issues facing Malaysia's 1.15 million SMEs today. The major problems SMEs face include liquidity issues and the inability to grow, access to appropriate technology, the inability to develop relevant skill sets, and lack of ability to collect market information, and gain customers.

Countless government programmes to assist SMEs have only reached a small number of those in need.

Too many SMEs have found the conditions to obtain assistance too difficult and banks have imposed strict loan conditions, such as collateral, support documentation and past performance record.

Rather than create another agency to assist contractors to get paid quicker from the government, a national factoring scheme could be put into place to expedite quicker payments and increase the velocity of money around the economy.

There should be a radical shift in education towards part-time to teach basic SME finance, management, marketing and technology skills.

Industry 4.0 and digitisation are well and good, once the nation's SMEs develop a critical level of health, so they are skilled up and ready to expand. Unfortunately for most of Malaysia's SMEs, this is not now.

Long extended lockdowns have taken a toll on SMEs, with more than 30,000 closings last year, and the closure of 30 percent of retail shops. Immediate tax relief is necessary to assist landlords lower rental and leasing costs to occupying SMEs to assist them to survive.

Recommendation 5:

Safety net assistance

For those not employed, the solution is putting income into the hands of those who need income assistance and protection. This requires a total overhaul of Malaysian social and economic safety net programmes.

Some form of universal income-testing, which could be based on a fund or insurance scheme basis, is required to assist those who fall into unemployment, sickness, incapacity, or otherwise fail to earn an adequate income.

According to economist Geoffrey Williams, a scheme to cover the above contingencies of 1.24 million households currently below the relative poverty line income of RM2,937 per month, would cost RM10.2 billion, or 3.2 percent of the government's annual budget.

A safety net scheme could be partnered by a universal income-tested pension scheme, built upon the current Employees Provident Fund (EPF) system. Currently 6.9 percent, or 2.23 million people are aged 65 or above, and this percentage is growing as fertility and death rates are declining.

According to EPF statistics, 46 percent or 2.7 million workers have less than RM10,000 saved. This means that only a small number of people at retiring age have enough funds to stay out of poverty. This situation is worsening.

Overhauling the pension system is a must if a crisis in aged poverty is to be averted in the near future. One approach discussed below could be channelling Petronas profits to the EPF to fund a universal pension scheme.

Recommendation 6:

Targeted regional and urban development

Today there are many communities without sealed road access, clean water, telecommunications, and even electricity.

Besides visible poverty, there are many pockets of hidden poverty in Sabah, Sarawak, Kelantan, Terengganu, Perlis, Kedah and urban areas in all the states, where local authorities and responsible agencies do their best to hide these problems.

There are too many development projects that just become white elephants and assist relatively few, except to provide opportunities for corruption in the development and building process.

Community organisations like Pakos in Sabah that assist remote local communities are shunned as competition by government agencies when they should be partners.

By far the biggest problem in regional development and poverty eradication is that communities are told what they need, rather than asked what they need. This has caused massive wastages and corruption over the decades. This development paradigm needs radical change.

At the same time, according to the World Bank, between 20 and 30 percent of the budget for public contracts is wasted due to either mismanagement or corruption. If these leakages could be prevented, this would solve much of Malaysia's fiscal problems, allowing the government to allocate more to income support, pensions, SMEs and poverty eradication. This should be one of the government's highest priorities.

Recommendation 7:

Institutional reforms

Malaysia’s civil service is bloated, inefficient and an environment that is feeding corruption. There is much wastage of financial resources and over-staffing across many ministries and agencies.

While the civil service has been automating many jobs through IT, employee numbers have been rapidly growing, rather than declining through increased productivity.

The civil service costs 47.4 percent of the total operational spending within the annual budget. In 2019, this amounted to RM122 billion. This budget could realistically be cut down by 25 percent or RM30 billion or more without operational loss of efficacy.

Staff numbers within the civil service have grown to a bloated 1.71 million employees, even though systems and procedures have been computerised. The 12MP plans an even greater expansion of the civil service, mostly for the purpose of monitoring markets within the economy, which is unnecessary.

The government needs to bite the bullet in reducing the size of the civil service and implementing a “flexible and varied” contractual scheme to ease the burden of paying the ever-rising emoluments.

In addition, there are many federal and state-owned government-linked companies (GLCs) that are debt-ridden, loss-making and their outputs compete with private enterprise providers. These loss-making and debt-ridden GLCs should be identified and closed to save further wastage.

The above savings could be channelled back into safety net assistance schemes to alleviate poverty since the 12MP is claimed to be a rakyat first approach.

Creating a universal income-tested safety net is the redistribution game-changer Malaysia needs right now.

Conclusion

Finally but not lastly, Minister in the Prime Minister's Department (Economy) Mustapa Mohamed said the RM400 billion tagged to be spent through 12MP is the highest in Malaysia's history. It's not the size which counts but the effectiveness of what is spent that is important.

Funding the growth of the public sector, setting up new agencies and departments and incurring more debt will be counterproductive.

It is urgent to look at policy innovation, which the 12MP unfortunately lacks. There are examples that can be drawn from and utilised within the Malaysian context for the betterment of policy-making.

One approach to assist in financing a Malaysian safety net could be by channelling Petronas profits to the EPF to fund a scheme, similar to the highly successful government pension fund of Norway.

Covid-19 is forcing change throughout the region and the world. There is going to be an economic scramble and battle to recover. If Malaysia does not gear up with a realistic, competitive and sustainable economic recovery plan, it will very quickly fall behind the rest of the region. The 12MP in its present form has missed this opportunity.

Source: https://www.malaysiakini.com/columns/597003