

LETTER | Implementing civil service pay adjustment

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LETTER | The government has announced a new salary scheme and pensions for public servants and pensioners. Most agree that this adjustment is long overdue.

While civil servants deserve the pay hike, my concern is to handle the increment so that the impact of the money supply will not give rise to another round of inflation.

To some extent, Malaysia has just “reined in” high inflation which was essentially due to disruptions caused by Covid-19 pandemic and the subsequent war in Ukraine.

Now with another war looming in the Middle East, Malaysia must be very careful with money supply and probably another round of inflation.

High inflation in the past has caused the prices of most products and services to go up significantly. The lower rate of inflation now does not mean that the prices have come down. It only means the rate of price increase has slowed down, but prices in absolute terms are still much higher than a few years ago.

We should be wary that the increase in salary in the public sector could be easily nullified by another round of inflation, making the salary increase meaningless.

More so, non-public servants not receiving any new salary adjustment too will suffer the consequences.

Hence, it is important to take certain precautions to mitigate the negative effects of huge salary adjustments.

Exercise prudence

First, civil servants must exercise prudence on higher income received. Those who are in a position to save and invest should do so to increase their own financial security and to reduce inflation pressure.

Spending every cent of the increased income will only lead to the status quo in no time - higher wages lead to higher inflation which in turn needs another round of wage increase. It is important for the authorities to take notice of this.

Second, authorities must make sure there are no price gouging and profiteering by traders taking advantage of the higher income given to civil servants.

When there is a temporary demand shock arising from higher wages, the practice

of price gouging and profiteering - by increasing the prices of goods and services to a level much higher than is considered reasonable will usually occur.

Increasing the salary of civil servants is the easy part. The more challenging part is managing the economy, particularly on prices, inflation, and interest rates after the wage increase.

We certainly do not want a situation where higher wages lead to higher prices which in turn lead to another round of higher wages.

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