

Q&A : subsidies should be tailed off slowly
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In this final part of a three-part interview with MCPX Malaysiakini, former prime minister Dr Mahathir Mohamad argued that the government should hike oil prices 'a bit more gently so people will not feel it so much'.

Malaysiakini: The government has introduced five economic corridors and are pumping money into them. Will it work? Is it the right step towards achieving our Vision 2020 or is it just a matter of fooling the voters?

mahathir interview 050308 virtueMahathir: I wouldn't be able to say it precisely but we're dealing with huge figures going up to trillions of dollars and extending to the 12th Malaysia Plan. We can't guarantee (that the projects will continue) even the 10MP and we're now in the 9MP, so people would notice that these are big figures and they might not finish.

I think in that sense the government is also not being very smart. You see, making promises during elections is easy but later you will find that you will not be able to deliver. I would rather not make promises. All the things that were done during the time I was prime minister were not the result of promises. I never promised to build the Twin Towers, I never even promise to build the Penang bridge - I just went ahead and built them.

Looking at the Motorola issue, the government is trying to give away RM1 billion to retain the company in Penang. So people are worried about the dipping of FDIs (foreign direct investments) in the country. Do you think it is wise for the government to issue such contract to retain these FDIs in Malaysia?

Well, in such situations, the government will do what it can to retain the foreign investments so they can offer (such contracts). But whether they can offer to everybody is a different matter.

The government has argued that the economy is doing well at 6 percent-plus growth and yet we don't feel it on the ground. Why is that?

I give you an example. If a man earns RM1 million a year - and he is among 1,000 people - the average earning of these 1,000 people is 1,000 dollars per year. Whereas actually the 999 will earn nothing at all. That is the problem with statistics and averages.

I used to tell people in my speeches that a man can drown in a river that its average depth is two feet. So when we play with averages, we can make things look good especially when we skew things to make it look good. That is why although the economic growth is there but it doesn't translate into jobs for the people or into better income for the people.

This is a reality but of course the opposition appears not understand that either (laughs).

Are you saying that this economic growth is different from the one during your

time where you saw more people benefitting from it?

Well, our purpose for industrialisation for example is to create jobs. Actually that was the purpose to industrialise to create job and therefore we attracted businesses which are labour-intensive. So people feel it. They can get jobs and people who get jobs spend money, other people get benefit from.

Let's take a bank for example. A bank wants to achieve growth. If it lends one billion dollars to two companies it would have made a huge profit for itself but that doesn't translate into profits for a lot of people. The small investors may feel the banks are neglecting them and in fact this is their complain that the banks now have reduced in numbers, they deal only with the big projects and as a result the small man do not get any attention. So the small man is going to feel unhappy but we publish figures that the banks are making billions of dollars.

If your focus is merely on profitability it may result in people on the ground not feeling and not getting a portion of the wealth that has been created.

So you think the government has not been creating enough jobs?

Well, that appears to be the problem.

What about the issue about inflation? The government has been saying that inflation is at 2 per cent but people have felt that it is much higher than that. You were former finance minister, what do you think?

mahathir interview 050308 mum You see, you cannot escape this inflation because this inflation is largely generated by factors outside the country. The increase in the price of oil is real. It increased by almost 300 percent. It is impossible for the government to meet that by subsidising (it). They can subsidise, but not fully. Perhaps the government could increase the price of oil a bit more gently so people will not feel it so much.

The other thing is the exchange rate regime. Instead of controlling the exchange rate and benefit from the strengthening of the Malaysian ringgit, they allowed the Malaysian ringgit to float and when it strengthens, you get no benefit because you cannot use that to control the prices in the country.

Strictly speaking when the ringgit strengthened you pay less ringgit for the same goods. So therefore, people should actually get 20 percent more income by the strengthening of the ringgit but the government prefers to float.

So you prefer that the ringgit be pegged?

It should be pegged. China pegs the ringgit. What are we ashamed about? What do we care about what the IMF (International Monetary Fund) says? We thumb our nose at the IMF and we still get away with it.

But what about inflation - the rate is definitely more than 2 per cent.

That can only be countered by working on how to increase the income. One is, of course, the exchange rate which I mentioned just now. The income of the workers especially must be increased. The unfortunate thing is that while the government is in full control of the income of civil servants, it is not in full control of the income of people in the private sector and the ordinary paddy farmers and things like that. They have to be taken into consideration.

There are ways for doing these things but the focus must be there. If you are very concerned that people are feeling the inflation then you have to work out so that the inflation will be there but it does not affect those people because their income has also increased.

Do you think the 2 percent inflation rate is a reflection of what's happening or the Finance Ministry cooking up the numbers?

Well, I cannot say (laughs) but I can say that the man on the street feels it very much. What they can feel is the rise in price of 12-13 percent and you say this 2.5 percent so how can that be right? But again the 2.5 percent is an average but what they are talking is oil price, about food price, so it is not an average.

So we have a situation where the government's promises are not fully implemented and the opposition is not fully equipped to question about what's happening and the media is fully control by the government. So what choice has a voter got to make an informed decision?

The more educated voters, I think, can have access to alternative information but the people in the rural areas only hear what is told to them. Their ability to make an assessment is very much less.

Nevertheless, what is important is not so much the speeches, the media but the reality of the price going up. You see, that is something that they feel. So that will influence them more than all the speeches and all these corridors and all that. So (even if) there is a corridor, I am not going to get anything. What I know is that I am paying a higher price for food and fuel.

But the government comes out countering that we are the cheapest in the region compared to Indonesia and Thailand. The rural folks might be taken by these comparisons and still think things are cheap.

petrol price hike protest 2 100306 klcc towerNo, some of them would say 'what do I care what is happening in other countries' (laughs). This is Malaysia, we are also benefitting from the price of oil rising up to US\$100 (per oil barrel). We are selling more than 350,000 barrels per day. So the situation is not quite the same as another country which exports one to two million barrels a day whose population is 200 million. You see, it is not the same.

I think the average voter will not go so far. What he is going to be concerned about is what he has to pay out of his pocket. That is what he feels. Some (people) can be influenced, not all. Some, of course, will say "Oh, the government says it is cheaper in Malaysia, let's vote for the government". There will be some who will not be convinced.

Petronas is being made an election issue - you are presumably still Petronas advisor...

(Laughs) It is a cynical job. I don't advise on anything. A lot of people come to me and ask me 'please intercede with Petronas and give me a petrol station'. My job is to pass on their application to Petronas so I can't determine anything.

So you're the postman?

I am the postman. I've been a postman a long time ago.

They don't consult you on key issues regarding Petronas?

No, they don't.

We're going to be a net oil importer in about three years' time. Does that worry you?

Not in three years' time, eventually yes. If the number of cars going on the road increase at the present rate then very soon, we will be consuming more oil than we produce. But that will come in about 10 years' time.

It worries me because of the mentality that it has created through subsidy. There comes a time that you cannot subsidise, you don't have enough money. We have seen other countries that subsidise oil prices and then found themselves in terrible economic situation because we cannot continue to subsidise, people are unhappy and the whole economy will be very upset.

But you were the one who brought in subsidies.

I brought in subsidies, yes, but I inherited that from other governments and the amount of subsidies is very small at that time. The number of vehicles was also not so big.

So you're in favour of subsidies being removed altogether?

No, it has to be tailed off slowly. You will increase (prices) but the increase should be within what you can afford for the future but eventually the subsidies may have to be stopped altogether because (the government) just don't have the money.

A lot of people say that the Petronas money is linked to the implementation of the New Economic Policy (NEP), using its money for subsidies. If Petronas has no money and there are no more subsidies, will we have the money to continue with NEP?

Petronas is a big source of income for the government, beyond that it is for the government to decide what to do with the money. Petronas actually collects more money than the whole

internal revenue. And then the government will, of course, have to make use of the money judiciously.

In my time, I went for big projects which have spin-off effects but at that time the amount of money earned by Petronas was very small. So it is not true that the NEP is dependent on Petronas. The NEP was financed - or the job opportunities created were mainly - by growing the economy, and to grow the economy the government must invest.

Of course, the private sector also invest but the government investment is very important as I told you that when the government invest, it gets back the money through taxes and other means. So the government is duty-bound to invest to create that momentum for the growth of the country. And when the country grows economically, bumiputeras will have the opportunity. If there is no growth, there are no opportunities.

But we have heard from the current administration that it inherited the big budget deficit from your administration - that's why they have to cut the deficit by reducing the projects and that's why the economy has gone down because there are no big projects.

They said they have a pretty big deficit but do you know how much? We hardly borrow any money from outside. If we borrow at all, number one, it is to benchmark our creditworthiness. Number two, the Japanese for example offer you loans at 0.7 percent, it would be stupid not to take that money. We will keep our money and invest somewhere and take Japanese money. There was no deficit.

If there had been deficit, do you think all these things would have gone up? There was no deficit. There was no reason at all to say that the mega-projects caused the deficit in the government budget. There is a deficit, but deficit budgeting is very normal in a government. You see, you don't always have a surplus budget. You can budget for a certain amount for deficit but the deficit would not stop the country from (having) the government investing in projects.

Now, of course, they want to invest in mega-projects, the cost is 50 percent more. The (double tracking) railway, for example, the budgeted amount for six years was RM14 billion from Johor Bahru to Padang Besar with a spur line coming into Kuala Lumpur. They stopped that and now they are talking about reviving it. But from Ipoh to Padang Besar, it cost RM12 billion - 50 percent rise in the cost. You see, this is not the way to overcome a deficit, that is a way to increase your deficit (laughs).

But credit-rating agencies won't be too happy...

No, that's why we say we benchmark it by asking for loans raised in New York, for example, and we find that our credit worthiness is very high.

They are rushing asking us, 'please borrow'. I know, they come and see me. But our policy is not to borrow unless the terms are very favourable. So we are never lacking in creditworthiness. We are always creditworthy. Anybody, any bank would want to lend to us. It is we who did not want to borrow. That was the policy of the government.

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