

Budget 2013 showdown: BN vs Pakatan
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Review by Lee Wei Lian

SEPT 29 — Now that both Budget 2013 from the ruling coalition and the shadow budget from the opposition have been presented, let's take a look at how the two budgets stack up against one another.

This is the last budget before the general election and the stakes are high. Barisan Nasional (BN) has had a lot of experience in crafting budgets and surprised no one when it dished out cash and other goodies, particularly to the younger generation who are a significant chunk of the newly registered electorate and are an unknown quantity in terms of their voting inclinations.

It scored some points however for not going overboard with spending as expected by some economists and still managed to pare down its expected budget deficit to four per cent from an estimated 4.5 per cent this year.

Pakatan Rakyat (PR) is a relative novice when it comes to federal budgets and presented one that appears to be much more geared toward reforming the economy than the one from the Najib administration which appeared to have more-of-the-same type policy tinkering rather than sweeping fundamental changes.

You can't really blame Prime Minister Datuk Seri Najib Razak for not wanting to rock the boat too much and going back for more of the same approach that delivered impressively higher than expected GDP growth this year despite economic slowdowns elsewhere in the world.

But PR's budget, on the other hand, is more exciting as it really shows teeth when it comes to tackling things like monopolies, cartels and downsizing the state's involvement in business.

Not everything in the two budgets can be compared directly but one of the things that can be put side by side is the fiscal numbers. So we start off with:

The Balanced Budget Category

Budget deficit
BN: 4 per cent
PR: 3.5 per cent
Winner: PR

BN managed to cut the projected deficit from 4.5 per cent this year to 4 per cent in 2013 but it wasn't enough to beat PR. BN can say of course that PR can promise anything since it is less accountable as it is not in power.

PR meanwhile has talked a lot about eliminating corruption, leakages and wastages but all that effort appeared to yield only a slightly better deficit number than BN's. Still, the slight

improvement is enough to give it an edge over BN in the eyes of ratings agencies and economists.

Economic Development

BN's approach appears to be via a sprinkling of incentives based on wish lists from industry groups while PR's approach looks to be tackling things at the fundamental level by boosting the country's intrinsic competitiveness.

BN advocates incentives such as tax relief for R&D, a RM1 billion fund to boost domestic investments, incentives to take over foreign firms, incentives for the tech industry such as income tax relief for Angel investors and recognising intellectual property as collateral, and a RM10 billion Working Capital Guarantee Scheme for SMEs.

PR has gone for the reform route for development, saying that it will seek first to purify the economy of toxicities and flush out rent seeking, corruption, cronyism by dismantling cartels, abolishing monopolies so that the economy can more easily flourish free from the scourges of distortions and inefficiencies. By aggressively reducing state capitalism by reforming the role of GLCs, it also promised to make entrepreneurship the bedrock of the economy.

Winner: Both approaches have their merits. BN's incentive-based approach is safe but boring and PR's reforms are more exciting and have the potential to send the economy to first-world status. A hybrid approach would be best as SMEs shouldn't have to choose between a working capital guarantee scheme and a business environment free from cartels and rent-seeking. But based on the potential value that the approaches will bring over the long term, PR wins this one.

Education

A country's future is won or lost in its schools. BN recently launched an education blueprint devised with input from experts but surprisingly cut its education budget drastically from RM50 billion in the last budget to RM38.7 billion in 2013. The prime minister did say that they wanted to "look at the outcome of each child per ringgit spent" during the blueprint launch so maybe they found ways to cut out wastage and increase efficiency.

PR, on the other hand, had little to say about education in the budget and the most noticeable thing was that it wanted to abolish the National Higher Education Fund (PTPTN). While the intention is good and some restructuring of PTPTN might be in order which includes a certain degree of debt forgiveness, and its proposed fee subsidies for private education is a good idea, wiping out PTPTN debts could backfire as it would give students a sense of entitlement and increase their reliance on the government. Many ex-students who paid back their PTPTN loans are already complaining that they should have waited.

Winner: BN admitted Malaysia's poor showing in international testing and vowed to improve it via the new blueprint. The apparent cut in education spending is puzzling but PR's move to wipe out PTPTN debt smacks of populism and vote-buying. What kind of message does that send to students? That they don't have to pay back debts? Based on this and its recent blueprint which drew mixed reviews but was nevertheless a step in the right direction, BN wins education.

Personal Income

BN has once again committed to direct cash transfers to the low income to help with the rising cost of living. PR, on the other hand, says that it will increase money in the pocket indirectly by making cars cheaper via excise duty reductions, toll abolishment, waiver of PTPTN and savings from lower fuel and transportation charges.

BN also cut income tax rates for taxable income up to RM50,000 but tax experts expect that this is just in preparation for the introduction of GST.

Winner: Both have their pros and cons. Direct cash transfers can help in times of economic slowdown as it boost domestic consumption. It however can also be perceived as a vote-buying tactic and is one-off so it is not sustainable. A one-percentage point cut in income tax is not much when you consider that other countries have income tax as low as 11 per cent for RM300,000 in taxable income or have higher income tax than Malaysia but offer better public services in exchange. PR's approach by increasing income by removing economic distortions is more sustainable so it wins this one although it's a hold-your-nose winner as it includes PTPTN waivers as part of its income boost.

Housing

Housing is a big issue as many have complained that putting a roof over their head has become more unaffordable.

BN's approach has been via increasing real property gains tax (RPGT) by five per cent in the first two brackets to combat speculation and also to spend RM1.9 billion to build 123,000 low-cost houses.

It would also make it easier for young people earning less than RM5,000 to get loans for a house.

PR proposed to build 100,000 affordable homes within the price range of RM130,000 to RM300,000 to be built by a National Housing Board with an injection of initial seed capital of RM5 billion in 2013.

Winner: Both advocate more public housing but BN tackles the issue of property speculation via RPGT while PR does not. BN though could be setting the stage for financial problems by making it even easier for people earning less than RM5,000 to own their own homes without coming up with so much as three months' instalments in savings, let alone a downpayment which really appears to promote irresponsible lending. I call this a tie with no clear winner.

Public Transport

Both said they are committed to improving public transport.

BN didn't have much new to say about it other than discounts for KTM for those earning less than RM3,000.

PR, on the other hand, vowed to decentralise transport planning and make it a more local issue and said it would review the MRT in favour of BRT (Bus Rapid Transit).

Winner: Both are for public transport. PR's fetish for BRT however is worrying as it looks to cities like Bogota and Johannesburg rather than cities like Zurich and Tokyo which are world leaders in public transport and use rail as their backbone rather than buses. Buses are OK for short hops but nobody likes to sit on a bus for long durations. PR's push for more local

transport planning is good but BN wins this as while it admits BRT has its place in some situations, it is less ideological about BRT.

Verdict

PR wins in more categories overall — Balanced Budget, Economic Development and Personal Income.

BN wins in Education and Public Transport with Housing being a Tie.

BN has a more cautious and Santa Claus-like approach in its budget with more policy tinkering, incentives and goodies and the conservativeness could be a reflection of its status as an incumbent.

PR has a bolder, more progressive and reform-minded approach to the budget which could be reflection of its challenger status.

Which do you prefer?

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