

2013 BUDGET: Boost purchasing power

New Straits Times

16 August 2012

By Irwan Shah Zainal Abidin, Universiti Utara Malaysia, Sintok, Kedah

ON Sept 28, Prime Minister Datuk Seri Najib Razak will table the budget for 2013, which is his fourth budget since he took the helm in April 2009. The 2010 Budget was his first with the theme "1Malaysia, Together We Prosper", followed by 2011 Budget ("Transformation Towards a Developed and High-Income Nation") and 2012 Budget ("National Transformation Policy: Welfare for the Rakyat, Well-being of the Nation").

The 2013 Budget, which is Malaysia's short-term development plan, must be seen in the context of Malaysia's five-year economic blueprint -- the 10th Malaysia Plan (10MP) -- which covers the years from 2011 till 2015. The 10MP incorporates both the "way of thinking" of the Government Transformation Programme, which outlined the six (now seven) National Key Result Areas and the New Economic Model (NEM). Under 10MP, 12 National Key Economic Areas have been identified and are now being put under the Economic Transformation Programme.

The 10MP, on the other hand, must be viewed in light of the long-term development plan of the National Transformation Policy (NTP), which spans the period from 2011 until 2020 and the fourth National Outline Perspective Plan (NOPP). The NTP, which was announced during the 2012 Budget, will supersede the National Vision Policy, which began in 2001 and ended in 2010, whereas the NOPP will replace the Third Outline Perspective Plan, which covered the period from 2001 to 2010.

Acronyms aside, there are essentially two crucial aims that the past three budgets were trying to achieve, that is, to manage the increasing cost of living and to transform the economy to become a developed and high-income country in 2020. Therefore, I would expect strategies, programmes, and initiatives crafted in the 2013 Budget to again be directed towards achieving these two aims.

As for the aim of managing the soaring cost of living, it is important that the strategies and programmes formulated for this coming budget be less of a temporary, quick-fix and one-off aid basis. Instead, the government should find ways to increase the purchasing power of the people and stimulate domestic consumption in such a way that can reap the highest multiplier effect in the economy. Examples of these measures are: reducing personal income tax and increasing the real property gains tax.

The other strategy is to create a more competitive environment in the market. The non-competitive market structure, such as monopoly and oligopoly, are still prevalent in certain industries and has caused unnecessary hikes in goods and services. The recent increase of cement prices on Aug 1 by RM1 per bag of 50kg or RM20 per tonne is a case in point, where the cement market has an oligopoly market structure.

By promoting competition in the market, like imposing regulations and doing away with protectionist measures, firms are forced to compete, and this would eventually increase the level of productivity and efficiency. As a result, not only would prices go down, but wage rates would go up.

With regard to the second aim, that is, in an effort to transform the economy to become a developed and high-income country, first of all, a very fundamental question needs to be asked: is becoming a high-income economy equivalent to transforming the economy? Well, it may be, but it certainly is not identical. This is just a transitional process and not exactly transforming the economy.

Transforming the economy must mean that the following issues are being addressed convincingly: money politics, corruption, cronyism, nepotism, favouritism, leakages, abuse of power, market inefficiency and unequal distribution of wealth.

To transform the economy, it requires more than just achieving the numbers and statistics targeted.

Therefore, measures and strategies on structural and institutional reforms are needed in the 2013 Budget to really transform the economy. Towards this end, it is timely for the government to reconsider again the setting up of the Equal Opportunities Commission that was proposed in the New Economic Model Part I blueprint. This commission can promote inclusiveness in the economy, eventually enhancing Malaysia's global competitiveness.

In addition, the 2013 Budget needs to further detail the six strategic reform initiatives introduced with a specific objective of enhancing Malaysia's competitiveness level. Besides this, other initiatives need to be introduced such as strengthening the regulatory framework, advocating transparency and accountability, introducing an open tender system, reducing barriers of market entry and democratising the access of information.

The other issue is about tax reforms. The 2013 Budget cannot be silent when it comes to the Goods and Services Tax (GST), a broad-based tax system which can enhance government revenue in future.

I am not expecting the government to introduce the GST next year, but the government should at least give a clear time-frame on when it is going to be put in place to substitute the current Sales and Services Tax (or SST) system.

In transforming the economy to become a developed and high-income country, the 2013 Budget must reflect the spirit and aspirations of Vision 2020, as outlined by former prime minister Tun Dr Mahathir Mohamad in February 1992, which is to make Malaysia "a united nation, with a confident Malaysian society, infused by strong moral and ethical values, living in a society that is democratic, liberal and tolerant, caring, economically just and equitable, progressive and prosperous, and in full possession of an economy that is competitive, dynamic, robust and resilient".

In analysing the budget, it is impossible to detach its relationship with the timing of the 13th general election which must be called before April next year.

Therefore, I would predict the budget to be an election budget, but hope that the measures will be less populist.

Copyright © 2012 The New Straits Times Press (Malaysia) Berhad.

Source: <http://www.nst.com.my/opinion/letters-to-the-editor/2013-budget-boost-purchasing-power-1.125760>