



Bridging the Gap

While certain quarters are uneasy with the call to reintroduce the New Economic Policy, implemented in the proper context, such a growth-with-distribution policy will prove to be beneficial to all and sundry.

WORDS DO send signals and create positive or negative overtones. Certainly, in our social context, the phrase 'new economic policy' tends to send out different signals and garner different responses from different people. The debate on the New Economic Policy (NEP) was reactivated in the last Umno meeting, which endorsed the need for the continuation of some aspects of the policy, which the gathering called the 'New National Agenda'. The endorsement of the policy by the gathering did create some social ripples.

Some people elect to believe the implementation of the policy would lead to another direct intervention by the government to only benefit the Malays and other indigenous groups. This perception is not totally true; the impact of any programme is not a zero-sum game (one sector gains while others lose). All sectors will gain from any intervention through the income and employment multiplier effects.

In the United States, the implementation of a similar policy has been referred to as the affirmative action programme. Some nations undertake such policies to reduce regional imbalances. In Indonesia, they are called the transmigration programme. In reality, many developed and developing countries have some form of interventionist policy to address economic imbalances between sectors, regions and income groups. The essence remains that it is an important policy prescription, perhaps also an important political agenda, to address economic and social disparities. Only the thrusts and priorities differ between countries.

As stated by Shakespeare, a rose by any other name smells as sweet. Therefore, reducing social imbalance is an important policy target of many societies, and Malaysia is no exception. It is a noble objective.

In a way, the policy for growth with equity did not start with the outbreak of interethnic clashes in 1969. The late Tun Razak pursued the policy of rural development

vigorously in order to raise incomes in the rural areas. Our Felda schemes, under this policy, became one of the most successful land settlement schemes in the world, at least in meeting its original objectives.

Even as early as the fifties and sixties, many development economists were frowning upon the real meaning of development. Economic growth without addressing low-income levels, unemployment and quality of life is not economic development. Names such as Kuznets, Dudley Seers, Myrdal, and Mahbob Ulhaq as well as our very own Royal Professor Ungku Aziz were prominent names concerned with the issues of poverty and social disparity. One social scientist named his book *Urban Bias in Planning* in view of the tendency for economic growth to benefit primarily the urban areas. Isn't this concern still relevant?

Although we had successfully addressed absolute poverty in the 1970-90 period, the problem of disparity, I think, has reared its ugly head again. Household income data after 1997 displays that it has. The implementation of major construction projects surrounding the greater Klang Valley region after 1990 surely has concentrated growth and prosperity in this highly urbanised region again, which in the seventies, already accounted for a major portion of gross domestic product (GDP). The awarding of some privatisation projects to a few concessionaires could have militated against household income inequality too.

Notwithstanding the noble aims of the NEP projects, it must be mentioned that the benefits of these projects, such as agricultural modernisation, had benefited other sectors of the community as well, especially among the suppliers and owners of raw materials and services. All projects involve the construction of structures and facilities. Of course, the long-term benefits may accrue to rubber and coconut smallholders, padi farmers and fishermen, who experience increases in productivity, but the final benefits

of public contracts and tenders to suppliers of parts, materials and services are equally plenty and the ultimate suppliers invariably are not always among the Bumiputeras and the poverty groups.

Those who control the supply chain will benefit most from all projects and expenditures. And the low-income groups hardly control the supply chain.

If our published statistics are any guide – showing that the Bumiputera community controls only about 18% to 19% of the corporate ownership in the country – then is it too simplistic to conclude that possibly up to 80% of the development project expenses under the NEP had flowed out to the non-Bumiputera sector? If 80% is on the higher side, then 40% to 50% is definitely in the range, having regard for the non-Malaysian share of the total corporate wealth.

This is one form of leakage, a systemic one. Ali-Baba business arrangements are another form of leakage. There is another systemic leakage, a more underlying concern. The rise in income from improvements in productivity is deposited in the banks, which, in turn, move the funds out to where the returns on capital are higher – to finance the towns and urban areas or non-agricultural projects. A Muda regional study by the World Bank in the seventies, estimated that this leakage was about 70%. What with Kemubu, Jengka, Kesedar, Johor Tenggara and other major development projects such as the numerous Felda schemes?

The benefit from the increase in productivity and income created value added to other economic activities, such as processing, distribution, manufacturing and services. The multiplier effects of these activities benefited all members of the community and amounted to many billions of ringgit.

Thus, whenever something is done in the rural areas or elsewhere in the name of the NEP, the non-rural sectors and the suppliers of materials, inputs and services tend to benefit, perhaps much more. There is, therefore, no grounds at all to question the implementation of any form of policy aimed at growth with distribution or equity. It is indeed good for all.

However, the dynamics of the concern must be reappraised. Any intervention should be based on the need to effectively reduce disparity, to bring the low-income

population to a more competitive position and to ensure that all sectors of the population benefit, irrespective of race, from any development initiative.

There is, therefore, no cause to believe that the growth-with-distribution policy, however it is called, should not be continued. On the contrary, it should be pursued in the name of social justice because the original targets have not been fully attained, as the past two economic crises have led to the deferment of the full implementation of the policy. There is every reason to reactivate it.

Furthermore, the implementation of a growth-with-distribution policy is consistent with the needs and foundation of an enduring multiracial society like ours, based on the promotion of the sharing of political power. This sharing has to be buttressed with the sharing of economic prosperity too. This is the basis and foundation of the political economy of this country. It is not mainly

the question of a social contract. It is the basis of the long-term and durable social and political stability of the nation. To allow a large section of the community with political majority to live in low-productivity and low-income sectors such as agriculture and public services is grossly unjust and will only perpetuate the seeds of discord and suspicion. Their incomes and savings will continue to lag behind their counterparts in the high-income and high-

productivity sectors. The vicious cycle of inequality may again be reinforced.

High-income levels mean a high savings rate and a high capacity to acquire modern assets and properties as well as skills, which, in the final analysis, determine the extent and nature of social and economic imbalance (or balance).

The Government should, therefore, revisit its growth-with-distribution policy and carry it out in a more effective manner and with a definite sense of greater accountability and transparency, and based on the principles of good governance. This is how I see the element of integrity in national economic planning, ie, its relevance and currency of development policy, and its instruments, to the need to address the issue of economic justice in the context of our political economy. It is good that we all reflect on this matter. **mb**

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