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Abstract

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Malaysia's 2008 Budget: Much ado about Nothing?

Liew

A bloated government excessively dependent on petroleum income; a lacklustre manufacturing sector; and a shortage of decent jobs are key challenges for Malaysia in the years ahead. Malaysia's 2008 Federal Budget announced on 7 September 2007 fails to address these problems, but worse still, could exacerbate them.

The much hyped budget, the fourth to come from Premier Abdullah Badawi, has turned out to be an insipid one, with few policy innovations for dealing with future challenges. Many had expected it to be a budget aimed at winning votes, but rather oddly, it was devoid of any goodies for the urban "chattering" middle class.

Deputy Prime Minister Najib Razak actually claimed that it was "not an election budget". The chinese newspapers did not magnify much in the Budget, and merely resorted to front-paging the new arrangement that allows housing loan repayment through Account II of the Employees' Providence Fund (EPF), a state managed retirement resource.

Nevertheless, the RM 176.9 billion budget is the costliest ever in Malaysia's five decades of independence. It is 10.9 percent higher than the previous one and nearly three times that of the RM 64 billion Budget of 1998 (not accounting for inflation).

The size of the sum alone, something quite unimaginable just a decade ago, makes it hard to believe that the government does not have the elections in mind when it deliberated this package. In fact, tidbits for the government's voter heartland - inevitably the rural heartlands and the constituencies of UMNO leaders - were adroitly extended various initiatives that facilitate transfers of cash and favours. Unfortunately except for securing votes, such handouts cannot be expected to generate economic synergy for broad-base national growth.

One such example is an allocation of RM 22 million to increase home stay activities for tourists in 47 selected villages. This looks reasonable at first glance until one asks 'who gets what, when and how'. Budgetary allocations over the last decade leaves one with the impression that the impact of the 1997/8 economic crisis went very deep, and the fiscal habits adopted then have never left Malaysian economic thinking.

The last five budgets of former Prime Minister Tun Dr. Mahathir Mohamad, i.e. those that came after the crisis and before he finally retired, registered an average increase of spending of around 12 percent per annum. Prime Minister Abdullah Badawi attempted to reverse the trend in his maiden budget (for 2005) but quickly abandoned fiscal discipline in the subsequent year when unhappiness among UMNO supporters became evident.

The main chunk, operating expenditure, doubled between 2001 and 2008 from RM 62.2 billion to RM 128.8 billion, coinciding with a period of massive public sector expansion and the explosion of what has been termed 'supplies and services'. The size of the federal payroll was 894,788 in 2000 while last Friday's budget provided for 1,197,293 federal positions. 'Supplies and services', which, according to the government, include 'professional services, maintenance and repairs, rentals and materials,' skyrocketed from under RM 14 billion in 2003 to RM 25.5 billion in 2008.

Further, development expenditure, which essentially refers to government-funded construction activities, is also at its all-time high, RM 48.1 billion. This spending spree contradicts the image that the Abdullah administration has been selling to the financial community, i.e. that it has successfully reined in the fiscal deficit from 5.5 percent in 2000 to 3.1 percent in 2008.

These figures were possible thanks to the high international oil prices. In 2007 and 2008, around 40 percent of government revenue comes from oil-and-gas-related income. While oil prices have rarely fall below US $60 per barrel since 2003, nothing is permanent in the world's most volatile trade. The fear now is that if oil prices should suddenly fall, what would it entail for Malaysia's budgetary dreams? Cutting state spending would not be a political walk in the park by a stretch - no recipient (be it a civil servant or service contractor) will let go without putting up a noisy fight.

Apart from policy inertia and political expediency, the need for near permanent pump priming and a massively bloated bureaucracy reflects a grave matter for concern: skilled manufacturing, which usually absorbs surplus population, generates decent employment and provide opportunities for the nation to climb up the value-add ladder, has not expanded in the past decade.

The budget does not aim to remedy the decline of the manufacturing sector but instead sidesteps the structural question by focusing on agriculture, property, tourism and financial services as key drivers for growth. Indeed, the budget speech hardly mentions the manufacturing sector at all. Government leaders share the myth that as long as the country produces enough for the increasingly expanding world halal food market and receives a good share of Arab investments in financial instruments and properties, the economy will do fine.

What seems to be forgotten is that these sectors generate very few jobs. For instance, the modernisation of farms is usually accompanied by a reduction of per unit labour input, while financial services require no more than a few young graduates clicking away at their computers even at the most expansive periods.

The government also seems to believe that electronics sector has left Malaysia for cheaper destinations and that it is hopeless to try to reverse the trend by improving skills and competitiveness.

But then, perhaps it does have an emergency plan. When unemployment becomes a serious matter, the nanny state will, after some obligatory public castigation of its wards - readily take the unemployable into its fold. That way, one can also secure votes for future elections. It is a tried and tested *modus operandi*.

In the long run, every concerned observer has to wonder if the Malaysian economy is a house of cards. If so, when will the next wind come along to blow it down?

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