

Letter to Members of Parliament

Written by Tengku Razaleigh Hamzah
Monday, 03 November 2014 18:16 -

Y.B. Member of Parliament.

Y.B. Tuan,

With the utmost respect to you as responsible Members of Parliament duty-bound to serve the interest of our beloved Malaysian people, I am writing to you about some critical economic issues besetting our country today, affecting the rakyat and impacting on our future generations. Avoiding the “business-as-usual” debate on the 2015 Budget tabled by the Government now on-going in the august House, I choose this route in order to underline the seriousness of the matters involved. The negative impact of the current Budget proposals, I believe, will most immediately be felt by our middle-class, recent graduates, first time employees and the poorer income groups. While endorsing the “people economy”, the Budget 2015 does not seem to give them priority over the “capital economy”.

2. From the current perspective, we can only see that the nation is moving headlong in the wrong direction, that current economic trends are not sustainable, which, if not corrected, will lead to a crisis, which we can ill afford, sooner than we can safely anticipate, nor can we get out of it without much hardship to our ordinary citizens. Such a crisis will threaten the future peace, prosperity and security of our nation.

3. The 2015 Budget projects that GDP growth rate next year will likely be around five to six per cent, which is thought to be sufficient as envisaged in the Economic Transformation Programme (ETP) to push the country forward to achieve developed status by 2020. This forecast may be overly optimistic given the current global economic threats and our own model of growth that depends so much on our external markets and the optimism of foreign interests in our economy. As noted in the 2015 Economic Report, the downside risks are at higher odds that may impel an economic shock through our body politic. More importantly, these figures conceal some forewarnings that are not highlighted. I think the Government has been ignoring these signals towards a global economic reset, begun with the 2008 subprime crisis in the US and sovereign debt issues in the Eurozone, which is now shifting its focus to Asia with the slowing down of the Chinese economy and the Modi government’s recharging of the Indian economy. While rocking all boats, only those prepared with anticipatory reforms will be able to weather the incoming storm.

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4. In terms of government fiscal management, the tipping point, induced by an external economic collapse such as a crash of the US Dollar or a debt default by 1MDB, would throw our financial sustainability into a spin. The rule of thumb for sustainability (whether it can be funded by current output together with net foreign inflow) for any given year is that the sum of government debt (in 2014 around RM41 billion) plus outstanding loans of commercial banks and households (now totaling RM1,273 billion) - making up to RM1,314 billion - must NOT be more than five times the sum of government revenues (that is, $5 \times \text{RM}225\text{b} = \text{RM}1,125\text{ billion}$). Clearly this rule of thumb has been breached!

5. A good part of this deficit and the national debt overhang arises on the operating budget side from tax expenditures to support consumption to achieve growth, for example through the BRIM awards, and to finance the public wage, subsidies and pension obligations. This consumption-based expenditure, together with the high energy and food subsidies given to industry and the public to sustain aggregate demand, is itself not sustainable. This type of expenditure to boost the economy does not add to the capacity building through investment that is necessary to enhance future economic growth. But the Government still persists over the last five years in driving a consumption-based pump-priming to compensate for the weakening growth fundamentals on the revenue side, including exports. I believe it is more fruitful to provide allocations for the growth of the agricultural sector to enhance food security and stop foreign exchange outflow through the import of food. This is more beneficial in the effort to support the cost of living of the masses in times of economic emergencies.

6. The problem with our public finance is not so much on the revenue side, but on the expenditure side. The increase in public sector fixed overhead costs cannot for instance be at the expense of development expenditure, especially when so much more is needed to bring up the economic status of Sabah and Sarawak in terms of social infrastructure and basic amenities compared to the Peninsular states. The share of the latter expenditure has been decreasing as the operating budget increases, from in excess of 30 per cent a decade ago to about 15 per cent of the total budget proposed for 2015. With the Auditor-General exposing wastage, profligate spending, unaccountable losses, and sheer incompetence and intransigent corruption, both petty and in high places, we are excused from any restraint to express our anger and intolerance as taxpayers and ordinary citizens at the current state of affairs. There are efficiencies that can be had to enable cutting back on the secularly rising operating budget over the years. I would have recommended that an Auditor-General office be established in every ministry and government agency to ensure necessary compliance and accountability in public spending. An Office of Ombudsman answerable to Parliament should also be established on the executive side besides the Public Accounts Committee of parliament. At the same time, we need to control and eliminate corruption by strengthening the Financial Procedure Act through its revision and amendment.

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7. The rising cost of living is the most urgent issue in the economy. The raft of knock-on price increases subsequently in transport, electricity and food items etc. act to increase the build-up of pressure on the cost of living now facing the people. The issue of the rising cost of living affects everybody, but impacts the middle and lower income classes more than others. The main causes of rising prices are insufficient supplies to meet rising demands. Hence more could be done to liberalize the economy. We must monitor the cost of electricity to ensure its affordability among the people. The same goes for road toll charges. It must be reviewed to ensure that unavoidable cost increases must be reasonable. If a road toll cannot be avoided, then the government must find ways not to burden the people. More licenses, less quotas, a greater ease of doing business especially for small and medium businesses and traders, should be considered.

8. The cost of housing has been rising in major urban centres, and house prices have been accelerating due to demands engendered by foreign and local investors, not just for higher-end properties but also the lower cost categories. Affordable housing, even with the 1Malaysia Prima Homes Plan, is currently beyond the reach of fresh graduates and the lower middle class who are facing the spectre of unemployment or low wage employment and heavy debt. In this regard, I would like to see the government, through Bank Negara, reviewing the private housing loan programme of commercial banks for houses below RM250,000 which should be based on service charge rather than on compound interest.

9. Next year's implementation of the Goods and Services Tax (GST), although having a one-time impact and is then dissipated through the rest of the economy, is bound to add to this pressure on living costs. In order to ease the rising burden on the rakyat, I would like to propose that the implementation of the GST be postponed until the economy is consolidated and strengthened. It is hoped that our economy would enjoy a rapid and a long-term high growth. Should there still be a need to implement the GST, it is hoped that the rates will be recalculated.

10. Beyond that macro-picture, I am seriously concerned about the high personal and household debts that are reaching critical levels, now in excess of 87 per cent of GDP, due to housing mortgages and car loans, study loans, credit card and personal (through Ar-Rahnu or Ah-Long) consumption charges that are pushing debt repayment ratios close to 30 – 40 per cent of household incomes. This situation has led to the acceleration of personal bankruptcies and mental pressures on families, and is not sustainable in the best of times, what more in an economic crisis. Yet, while it is most needed now, along with unemployment insurance, the government has been tardy in amending the bankruptcy laws and provisions, and the enhancement of other safety nets such as for medical expenses.

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11. In as far as bankruptcies are concerned, it is worthwhile for the government to limit the bankruptcy period to, say, 12 months. This will ease the pressure against the bankrupt apart from sparing him the embarrassment of his situation. In striving for equity, the loan providing institution should provide a breather through moratoriums meant to postpone the application of the provision of the bankruptcy law while the borrower makes the effort to repay the loan. This would certainly be helpful to families with limited excess savings when they face unexpected emergencies. It should be noted that many government pensioners and private sector retirees are hard put in making ends meet now in the effort to face the ever-rising cost of living on their limited pensions and EPF savings.

12. Corruption itself adds to the cost of living and is a burden to all. When development projects, big or small, have a political mark-up imposed on contract awards and taken up front, little much is left to contractor profit margins that can only be charged to end-users, that is the taxpayers and consumers. To quote a columnist recently, the insufficient checks and balances continue to dog the country's economy, thus leading to increasing concentration of power within the executive branch and persistence in rent-seeking behaviour, patronage politics, opaque governance practices and pervasive corruption. Is it any wonder then that Malaysia is perceived as among the world's worst countries on integrity?

13. Besides corruption, we also need to be vigilant against the occurrence of any and all forms of economic sabotage to the detriment of our national resources and wealth to benefit our future generations. It is for this reason of instituting checks and balance that reforms of the Official Secrets Act and the Universities and University Colleges Act, a freer press, and a freedom of information legislation are required. The restoration of the reputation of the courts and the enforcement agencies, including independence and enhanced power of the anti-corruption agency, SPRM, must be set in train if we are serious about tackling this cancer in our political system, bureaucracy and society in general. Even the Standing Orders of Parliament and the structure of the Senate may have to be reformed in order to respectively allow for private members bills and greater independent representation of the states in our system of fiscal federalism.

14. Worse, whether it is a consequence of government policies or not, the distribution of wealth in the country, as expected, is extremely skewed. The wealth of Malaysia's top 10 per cent exceeds those of the bottom 70 per cent, and about 12 per cent of Malaysian households have no wealth at all. In fact, the wealth of the top one per cent, in 2012, is much higher than the whole of the bottom 40 per cent combined.

15. The government's position as reflected in the Budget address is to divide the country into

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two economies: the capital economy and the people economy. The latter refers to the world of capital, enterprise and big investment, while the latter consistent with the New Economic Model refers to the bottom 40% of households in terms of income distribution. This is an unfortunate even dangerous classification. To solve the issue of inequality and achieve social justice in a rich and favoured nation such as ours requires treatment of all classes of stakeholders in the nation. Economic growth must involve and benefit all, not through distinctions of capital and work.

16. The status of inequality and imbalance, and the issue of fairness in economic benefit remain the main faultline in our society. These economic cleavages tend and can lead to dissatisfactions among the communities and the breakdown of social cohesion built over the decades of our now maturing nation. They take on emotional overtones and extremism, and have led to racial envy and biases and prejudice that undermine the underlying and potentially unifying values of our ethnic diversity. In view of the issue being closely linked to economic activities, I would like to suggest that the government and relevant agencies draw up policies favouring local contractors and suppliers, including those from Sabah and Sarawak, in the awards of contracts, both major and minor.

17. Going forward, the challenge of achieving a high-income economy is our ability to create quality and high-paying jobs, especially for new entrants into the labour force who have higher post-secondary and tertiary qualifications; not the low paying jobs that are now being filled by foreign workers in plantations, construction business and assembly-based manufacturing. Shifting to a service-oriented economy may be part of the answer to this economic restructuring, but we cannot abandon higher-valued manufacturing altogether while maintaining our industrial competitiveness by importing such foreign labour to keep our unit labour costs down. Longer term sustainability of economic growth requires the enhancement of the knowledge content of our manufacturing and service industries, which require innovation, technology and new entrepreneurship. This will increase productivity which, in turn, will raise wages and salaries. This involves not just the up-skilling of our labour force, but also the provision of correct incentives and institutions to support such value-added growth. I wonder whether the New Economic Model is sufficiently geared towards the above tasks.

18. Achieving social justice and fairness is where the work of economic reform is most important and most urgent. These involve reform of the tax system in its separate treatment of capital and labour, the handling of labour market discrimination in the public and private sector, policies that improve the wage share of gross national income, and practices that achieve equality of opportunities and outcomes. Moving to a higher wage regime and away from a cheap labour policy involving guest workers in order to maintain our competitiveness is not an insurmountable task. This is so because data show that productivity, especially in the manufacturing sector, has been rising steadily over the years, but the wage-productivity gap has

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also been widening. As an immediate remedy, on top of the minimum wage law, I would suggest that a productivity-indexed bonus system be implemented by both the government and private sector employers. This is one of the more critical issues if the goal of inclusive development for Malaysia is to be achieved.

19. In spite of criticisms in the House, civil society and the media, especially social media, the Government leadership has continued to ride over these critical faultlines in our economy in the proverbial “three-monkeys” fashion, pushing through a “roll-over” budget that routinely moves the tough questions that need to be addressed immediately further down the road to the next budget and five-year plan. The critical issues involved are of a structural nature not easily tackled via routine annual provisions.

20. I would submit that the national task to address the economic faultlines above will require new and bold ideas. These ideas need to be implemented over the next five to 10 years with supporting institutional reforms to reset the nation on the right path as promised by our founding fathers. These reforms require considerable political will to put them into effect; they cannot be undertaken piecemeal.

21. I am afraid for our economic situation. In truth we urgently need comprehensive economic reforms and institutional adjustment for resetting the economy in order to put our people out of harm’s way.

22. The people expect bold changes and even bolder leadership. We certainly cannot deny them the answers to their concerns and aspirations. Leaders should be more sensitive to the demands and feeling of grass roots. We must always be concerned about their worries and aspirations. The reality is that there is a need for change now; otherwise, as a nation, we are doomed to the status of a failed state. This is what we have to answer for to our future generations.

23. You may think that I am a pessimist. No, I am not. I am a passionate believer in the capacity and capability of our people and especially of our youth who are going to inherit this beloved country, lead it to the global stage and sit hand in glove with countries of the first world. This, then, is the challenge before us and I know we can rise to it tackle it with our collective wisdom.

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Thank you.

Yours truly,

(Tengku Razaleigh Hamzah)

Member of Parliament Gua Musang