

2020 BUDGET

FORGET THE BUDGET DEFICIT

The upcoming budget should be expansionary to steady and strengthen our economy

THE national budget serves three fundamental purposes. First, it caters to the needs of the citizenry. Second, it charts the socio-economic development of the nation. And third, it ensures national competitiveness on the back of sustainable productivity.

However, in pursuing these agendas, the upcoming 2020 Budget will invariably be tempered by the following seven key challenges.

First, the world is teetering towards recession as advanced countries increasingly adopt populist policies, restrict exports and disrupt global supply chains by their tit-for-tat escalation of tariffs in an increasingly intractable trade war. Further, countries — developed and developing alike — are cutting interest rates to depreciate their currencies to make their economies more competitive. Competition for foreign investments is intensifying.

Second, like a forest fire, the cost of living is raging. It compounds poverty and inequality even as it dilutes safety nets — transfers, welfare and subsidies — offered to vulnerable groups in society. Low-income families face difficulties — from affordable housing to dwindling household income. The excessive household debt, equivalent to 83 per cent of the national output, is emblematic of such hardships. If left unaddressed, it could lead to impoverishment.

Third, Malaysia is urbanising more rapidly than the global rate. By next year, 80 per cent of Malaysia will be urban. By 2050 almost all parts will be urban. A rapidly urbanising population will exert greater pressure on health, infrastructure, clean water supply and affordable housing.

Fourth, Malaysia is also ageing. By next year, one in 10 Malaysians will be more than 60 years old. The concern is not so much ageing per se but its implications on healthcare, welfare and living arrangements.



A technical and vocational education and training (TVET) carnival held in Seremban last month. TVET should be intensified as we enter the artificial intelligence age.

Fifth, as Malaysia experiences the ill-effects of climate change, deforestation, air and water pollution, and transboundary haze have also caused the environment to suffer.

Sixth, productive capacity for long-term growth needs to be built. The share of development expenditure in the total budget, which now is only 18 per cent, needs to be enlarged in an expanding budget.

Seventh, our education system needs to be reformed. Every year, over 200,000 students graduate from institutions of higher learning. A staggering one in five graduates, the majority of whom are degree holders, cannot get a job upon graduation.

The resolution of these complex challenges provides rich fodder for the upcoming budget. They will surely heap greater pressure for deficit budgeting.

Take the economy. Although we are not in recession, the global economy is in a parlous situation. We need to future-proof our economy even as the global economy reels from the damaging effects of trade and currency wars. This would require a stimulus spending to pump more money into the economy. It would require greater funding of devel-

opment to build productive capacity for future growth.

Also, as the alarm bells of a possible recession grow louder, our competitiveness needs to be sharpened to increase our exports and attract foreign investments to enjoy the prosperity and jobs that these investments bring.

These will require greater funding for research and development, innovation and the pursuit of new growth areas. The private sector, the innovation laggard, cannot be relied on to shoulder all alone the responsibility of sustained productivity improvement.

Greater public funding is required for upskilling the labour force, more so given the challenges of the fourth industrial revolution. Education too should be skewed to meeting the needs of industry. Technical and vocational education and training (TVET) should be intensified as we enter the artificial intelligence age. TVET should impart practical industry-related skills. It should not just be another platform to secure a diploma.

By World Bank standards, inequality remains severe despite the government's best efforts over the last 50 years. Safety nets

need to be fortified to cushion the poor from the ravaging effects of the rising cost of living. Affordable housing and healthcare should also be a priority as the nation urbanises and ages at the same time. All our untiring efforts at building a prosperous society will come to nought if the quality of life deteriorates. Greater funding therefore needs to be shunted to prevent environmental degradation.

Sure, such inflationary budgeting will screw up our budget deficit. It worsens our debt position, drives up interest rates and deters private-sector investment. But our interest rates are low enough to take the hit. Of what use is Germany's surplus budget when the country is headed to a recession, its economy shrinking in the second quarter of this year?

We should therefore cast aside our obsession with the budget deficit. That can wait for better times to roll in. It is better to spend now and steady the economy than wait for a steep downturn and then spend even more to contain it.

The writer, who is a professor at the Putra Business School, wishes all Malaysians Happy Merdeka.

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