

# Responsible spending will reduce the budget deficit

**DIFFICULT** times require a vigorous response to counteract their negative impact. Accordingly, the government, as did countries around the world, recently introduced a bazooka-like fiscal stimulus of RM295 billion. This was necessary to counteract the contraction of the economy following the Covid-19 lockdown.

It was for this reason that Japan's fiscal policy over the last decade has been expansionary. Without it, Japan could have suffered a great depression like that of the United States in 1933. In this pandemic, Japan's fiscal-stimulus package is 40 per cent of its gross domestic product (GDP). Ours is nearly half that ratio. Former US president Franklin Roosevelt, too, introduced a massive fiscal-stimulus package to confront the Great Depression in 1929-32.

The US, Japan, Britain, Canada, France, Italy, Singapore, Brazil, Chile, Peru, Israel, Saudi Arabia, South Africa and Pakistan,



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among others, will see their budget deficits widen by more than 10 per cent. Ours is estimated to hit six per cent. It is not the highest ever recorded — we incurred 7.0 per cent in 2009. But what makes this widening deficit scary is that it continues the worrying occurrence of budget deficits every year since 1998.

The trend is understandable. The government had to battle the ill-effects of the 1997/98 East-Asian Crisis and the 2008 global financial crisis. These crises set us back on our journey to become a high-income nation. And even

the recent four stimulus packages were not able to prevent some 50,000 workers from being thrown out of work.

Deficits would necessarily need to be financed by debt. Our debt-service charges this year will dangerously skirt close to the statutory limit of 15 per cent of yearly operating expenditure, and we are sure to breach the statutory debt to GDP ceiling of 55 per cent. But we can take consolation that the spike in the debt ratio will be within the 60 per cent limit that the World Bank considers sustainable and uninjurious to the economy.

Although we are not rooting for a budget surplus, it will be good to have one further down the road, as it offers the government more resources to improve the country's productive capacity through infrastructure development, health and education.

For now, the government estimates the budget deficit to be between three and four per cent in

the immediate years following the pandemic.

We can attempt to reduce the size of debt as a percentage of GDP while simultaneously running a budget deficit, but we will have to increase taxation.

With more revenue collected, the government can pay off its debt and reduce its debt ratio. During these trying times, however, it might be unfair to impose additional taxes. Furthermore, increased taxes will be politically unpalatable.

Converting budget deficits into a surplus can take many years. They require austerity and fiscal discipline. Denmark and Norway suffered deficits in 2009 in the aftermath of the global financial crisis, but through years of austerity, they finally posted budget surpluses.

As with taxation, austerity too is untenable as there are other fiscal challenges ahead.

Malaysia is urbanising fast. By year end, 80 per cent of the coun-

try will be urban.

Its population is growing old. By 2035, 15 per cent will be above 65 years. The country will therefore need more and better health-care, housing and infrastructure.

It will also need increased social safety nets for the vulnerable group now that, with the revision of the household poverty rate to RM2,208, the poverty rate is 5.6 per cent. Adding to this is the expenditure that will be required to green the economy to counter global warming.

If additional taxation and austerity are politically unappealing, we can then take counsel in what Justin Trudeau, the Canadian prime minister, said of budgetary balance: "I think growing an economy is a good way to help with a deficit, but ultimately, it's about fiscal discipline and responsible spending — and smart decisions."

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