

## A Socialist Take on the 2012 Budget

Thank you Speaker, Sir, for giving me this opportunity to address the House on the 2012 Budget. I would like to start by referring to 2 articles that appeared recently in our newspapers. On 13<sup>th</sup> October, Starbiz carried an article that said,

*"The Philippine President unveiled a 72 billion peso (US 1.7bil) stimulus package of public works and poverty reduction projects as a weakening global economy forced the country to cut growth forecasts."*

On the same day there was another article in the Star which said among other things, *"The Monetary Authority of Singapore warned that the headwinds from slower global growth will mean slower growth in Singapore in the next few years."*

It is clear that our neighbours are worried. They are aware that there is a real possibility of a global recession, and they are lowering their forecasts for growth of their GDPs. But we in Malaysia appear oblivious to this! Our Finance Minister declared during his budget speech that our GDP will attain an overall growth rate of 5.5% for 2011. This is despite the fact that (annualized) growth rate for the first quarter was only 4.5% and that for the second 4.0%. Yet our Finance Minister remains confident that we can attain 5.5% for 2011, and that we will grow our GDP by between 5 and 6 % in 2012.

Our Finance Minister claims that our "fundamentals" are strong. What fundamentals may I ask? We are a trading nation – about 53% of the goods and services we produced in 2010 was exported. Which among our "fundamentals" can protect us from a global downturn in demand?

But our Government is in denial. They claim that a downturn in Europe will not affect us much as we have diversified our trade. According to their statistics for the period between January till July 2010, exports to Europe ranked 4<sup>th</sup>, only RM 39.8 billion, compared to Singapore (RM 48.6 bil), ASEAN, and China (RM 46.7 bil). Therefore, argue the Government Planners, a recession in Europe will not have much of an effect on us!

What kind of thinking is this? Are they really that confused? Sure, Singapore was the number 1 destination for our exports for that period. But would Singapore have consumed most of what she imported from Malaysia? Surely not. Singapore would have exported to other countries including to Europe.

Another argument that our Government trots out is that the slow rates of growth in Europe and the US will not affect us much because of the much faster rates of growth in China and India. Mr Speaker, the GDP of the European Union region was USD 16.2 trillion in 2010 according to the IMF, even larger than the GDP of the USA which stood at USD 14.5 trillion! Taken together the GDP Europe and the US represents close to 50% of the Global GDP which stood at USD 62.9 trillion in 2010.

In comparison the GDP of China in 2010 was USD 5.9 trillion while that for India USD 1.6 trillion. So to argue that the 7 to 10% growth rates seen in these 2 countries will offset a

downturn in Europe and America is not based on fact. It is mere wishful thinking. And it does not take into account the fact that economic growth in China and India is based to an extent on the demand from the EU and the US.

Permit me to quote an article from the Business Times on 10/10/11 which said "*The European Union is the world's biggest buyer of Chinese exports - worth about USD 380 billion in 2010 - and a collapse in demand could trigger heavy job losses in China*". And that is the sober truth of the matter! So the government's estimation that the Malaysian GDP will grow between 5 to 6 % in 2012 is not only unrealistic but also irresponsible!

Why do I say "irresponsible"?

The Annual Budget is the economic plan for the Nation. Through it the Government of the day informs the public and the business community how the government intends to steer the economy especially in times of uncertainty and turbulence! We need a realistic budget to reassure all parties that the government knows what it is doing.

The Government says it wants to reduce the budget deficit to RM 43 billion for 2012. However the government's income is predicated on a GDP growth of over 5%. Taxes, which make up about 70% of the Government's income is forecasted to be RM 135.6 billion. What if we only grow at 2 to 3 % because of the downturn in Europe and America? Definitely tax revenue will drop. But Public expenses will remain the same. It is almost certain that our deficit for 2012 is going to be much higher than the RM 43 billion forecasted!

If our government takes a realistic look at the global economic situation, it would realise that default in sovereign debt in countries such as Greece is almost a certainty. This has the potential to shake the banking system in the West and precipitate a sharp downturn. The capacity of many European countries to refinance their private banks in their countries is severely curtailed by the size of public debt in Western countries. Public debt in Greece has reached 147% of GDP. But public debt for Germany has already exceeded 80% of their GDP, while that in the US stands at 99% of the GDP of the US.

If we are realistic, if we are responsible, we can take several steps to protect the most vulnerable in our society from the effects of a serious downturn. We could, for example implement a Retrenchment Fund. During a time of recession, some workers will experience "lock-out" where their employers run away because they have no cash to meet their commitments. This happened to the Nikko workers in Butterworth not too long ago. And workers in this situation get no compensation at all. Even the pay for the last month of work may not be paid to them. If there were a retrenchment fund, this group of workers will get some relief!

Many families face problems keeping up with loan payments when there is a downturn. The government should set up a fund to help such families restructure their debts so that they do not lose their homes or their businesses because of the downturn. We have set up Danaharta and Danamodal for the big companies. Why not something similar smaller for the ordinary citizens?

A government that is sensitive to the needs of its people will set up several funds and programmes that can help the ordinary citizens if a recession were to take place. But to be prepared in this way, the government must first recognize the risk of a recession. Unfortunately our government is in denial. They reject the possibility of a recession possible. We shall continue to enjoy a 5.5% growth rate says the Finance Minister.

Speaker Sir, the world economy is facing a serious problem! If a recession were to occur this coming year, it will be a very different kind of a recession compared to the ones we have faced in the past. Let me explain that a little.

Usually when a recession occurs, most Governments will use the Keynesian strategy of "counter-cyclic spending" to prop up aggregate demand so as to lessen the severity of the downturn and to stimulate the economy. However it will be difficult to use this strategy in 2012 because this is a recession that has been precipitated by run-away Sovereign Debt and the near bankruptcy of governments! They are not in a position to make large "counter-cyclic" spendings. Which private fund would be prepared to lend the governments such large sums of money? So, it is likely that the 2012 recession will be severe and prolonged.

### **What is the source of the current economic malaise?**

This is a crucial question, for it is based on this understanding that we can devise strategies for overcoming the very serious economic problems that are facing the global economy.

We, the socialists, believe that a major cause of the current crisis is sluggish growth in global aggregate demand. Investors produce goods and services in the expectation they can sell these and make profits. A shoe manufacturer is not driven by a love of shoes. Nor is it his hobby. He produces shoes to sell for a tidy profit! If he can't sell all that he can produce, then he will scale down his production. And so too with manufacturers of televisions, cars and air-conditioners.

The problem now is that there is insufficient demand to absorb all the goods that can be produced by the factories that already exist. There is an excess in productive capacity in relation to the total buying power of the consumers. This means that there aren't enough opportunities for the funds that the richest 1% hold to invest in new factories. Therefore the owners of this excess capital have to find other places to park their money and earn some profits. That is why there has been an exponential growth intrading in shares, commodity futures, foreign exchange and of course derivatives.

Let me give you a concrete example – towards the end of last year, the US Federal Reserve attempted to stimulate job creation in the US by engaging in "quantitative easing". The Federal Reserve bought back government and corporate bonds up to an amount of USD 600 billion, about 5% of the US GDP! The expectation was that the increase in liquidity would reduce the cost of capital and reduce the cost of investments

But this didn't work. The excess liquidity went into the financial sector and created "bubbles" of financial activity in many bourses throughout the world. Very few jobs were created in the US.

This underlines my assertion that sluggish aggregate demand is a major cause of the current economic malaise.

**Why is Aggregate Demand sluggish?** Mr Speaker Sir, about 70% of aggregate demand in the Us and Europe comes from the general public, about 15% comes from government and another 15% from the corporate sector. In the past 20 years there has been a hollowing out of the income of the general public in the West. Many firms have relocated to Third World countries where the pay is a fraction of that in the developed world. Although the jobs lost in the West has been replaced by new jobs in China, Vietnam and other such countries, global aggregate demand has been affected adversely. The aggregate buying power of the people of the world has been compromised.

Government expenditure also contributes to aggregate demand. However the income of government has been eroded over the past 25 years due to several factors including the translocation of firms to Third World countries, as well due to progressive reduction in the rate of corporate taxes. In Malaysia too we witness the lowering of corporate tax. In 1988 it stood at 40% of profits. Today it is only 26% and there are parties asking for a further reduction. Sibgapore and Thailand only charge a 19% corporate tax. These parties argue that if we wish to compete for FDI, we need to make our corporarte tax more competitive.

If we can conceptualize the world as divided into 3 main groups – the bottom 80% of society which will include most people in the society, government, and the richest 1% comprising of high net-worth individuals. In the past 20 years these high net-worth individuals have seen their wealth multiply! While the real income of the bottom 80% has remained static!

Please permit me to refer to an article that appeared in Starbiz 17/10/2011. Not the paper of the Socialist Party, but a mainstream paper. In the article entitled "America's Primal Scream" a section reads

*\* the 400 wealthiest Americans have a greater combined net worth than the bottom 150 million Americans;*

*\* the top 1% of Americans possess more wealth than the entire bottom 90%;*

*\* In the Bush expansion from 2002 to 2007, 65% of economic gains went to the richest 1%.*

### **The way out for the people is actually quite simple!**

- The wages of workers has to be increased;
- contractualization of labour, which reduces the wage rate and induces job insecurity should be limited to work of a seasonal nature;

- the laws that inhibit trade movement development have to be loosened and trade unions promoted;

- Corporate tax has to be increased.

Quite simple, but almost impossible to implement in any one country because of the fear that there will be corporate flight! There is a (not unreasonable) fear that the measures listed above will drive away investors, reduce FDI inflows and lead to higher rates of unemployment!

Therefore the only way that these changes can be implemented is if they are adopted by a network of countries all agreeing to raise their minimum wages by say 20%, and raise corporate taxes by 10 percentage points. Our country is currently negotiating the Trans Pacific Partnership with several other countries on the Pacific ocean rim, as well as the FTA with the European Union. These are Trade Agreements that are premised on ensuring the interests of the corporate sector. What we need are trade agreements that put the needs of people first – agreements that incur tariffs on goods from countries that do not implement the measures detailed above regarding wage and corporate tax increases.

Can our government be one of the pioneers of this new global economic order? Can we play a role in developing a more people friendly global economy?

Another strategem that would help is the "**Tobin Tax**". James Tobin, a former Nobel Prize laureate for economics, suggested 35 years ago that currency trade be taxed a flat 0.5% upon the volume traded. Since then there have been other economists who have suggested that this tax be expanded to cover trading in commodity futures as well as derivatives. Again, such changes cannot be implemented unilaterally in one country. There could be capital flight! It has to be implemented in a network of countries.

Can our government bring ideas such as these to international forums? These ideas have to be extensively debated before they can be adopted.

**The ordinary people of the world looking for a new deal.** For a world order that is more inclusive and fair. They are fed up with the present order where the richest 1% not only get an ever increasing share, but also now hold governments at ransom – refusing to lend money to governments unless those governments promise to cut down provision of basic services to the people!

This, I think is the real meaning of the Wall Street Occupation, and of the Arab Spring, as well as of the protests of workers, young people and other ordinary citizens in so many countries in Europe – England, France, Spain, Ireland and Greece!.

The people of the world are clearly fed-up and they want a fairer world order. But is our government even aware of this? Do they understand even a little of what their ordinary people of the world are asking for?

Our Government remains straightjacketed by pro-corporate economic philosophy premised on a neo-liberal analysis of the economy! The 2012 Budget clearly shows that the BN government is incapable of thinking outside the neoliberal “box”. They clearly do not have the capacity to lead this country in these challenging times. Quite frankly Speaker Sir, they do not have a clue as to what is going on in the world economy!

I therefore wish to urge fellow Malaysians, think carefully and vote for change in the soon to be held 13<sup>th</sup> General Elections. We are overdue for a change at Federal level! The future of our country and our children depends on this!

Thank you Mr Speaker.

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