

The Role of Small and Medium Sized Firms in 21st Century Socialism

Though we have had several formal discussion sessions within the party regarding what we think the Socialist Economy should look like, there are still many important issues that we haven't discussed in depth. Among these are

- Private ownership of small firms/businesses (SMEs).
- The role of the market in regulating/coordinating the SMEs and in the distribution of goods and some services to the population.

I think there are some among us who are a little afraid of addressing such as issues because of the fear that we might be seen to be “deviating from socialism” or being pro capitalist etc. But I think it is important to address these issues honestly and if necessary depart from socialist “orthodoxy” and think outside the box. 21st Century Socialism has to avoid the mistakes of the socialist experiments of the 20th century (and this is not to deny the achievements and the great sacrifices made by millions in these societies!), and we can only do so if we are able to address various aspects of the socialist society that we are talking about openly and without posturing! Our analysis must be rigorous and based on a realistic appraisal of the structure of the Malaysian economy at present. Only then will we be able to impress the skeptics – and they constitute the majority in our society – that we have our feet on the ground and talk sense!

I want to use this paper to generate discussion on how a Socialist government might want to handle the SMEs. But before going into that we need to remind ourselves of the structure of the Malaysian Economy, so that we can keep things in perspective.

Structure of The Malaysian Economy^{1,2}

Sector		M'sians employed
Small scale agriculture	Padi farmers, rubber & oilpalm smallholders, vegetable farmers, cattle rearers, FELDA settlers, Orang Asli n Indigenous peoples of Sabah & Sarawak, Fishermen	2 million
State	Federal and States	1.5 million
Formal	All firms which pay EPF and SOCSO to employees	6.0 million
Informal	Firms which do not pay EPF and SOCSO Owner operated and family businesses.	2 million

The SMEs are to be found in both the formal and informal sectors of the economy. Let us look at the sizes of the SME (Small and Medium sized Enterprises) in Malaysia.

Businesses in Malaysia 2005^{3,4}

Sector	Number of Employers in Firm				Total
	1 – 10 workers	11 – 50 Workers	51 – 100 workers	>100 workers	
Agriculture & Fisheries	32 417	1 724	345		34 487
Manufacturing	25 291	9 790	2 448	3 257	40 793
Construction	4 345	3 828	931	1 243	10 347
Mining	23	127	53	28	231
Services	429 773	38 202	4 775	4 775	477 525
	491 849	53 671	8 552	9 303	563 375

Source: Prime Minister's Dept. Answer to Question in Parliament. 14/6/2011

(Quoting Survey of Businesses in Malaysia in 2005 by Statistics Dept)

The table above, unfortunately does not give the number of owner-operated businesses. The number of such businesses would be I think of at least the order of the firms with less than 10 workers (ie 500,000). However the figures recorded above reveal that for businesses with 1 or more employees –

- There are 477,525 firms in the Services Sector, making up 85% of all the businesses in the country with 1 or more employees!
- Small businesses (with 10 employees or less) number 491,849 or 87.3% of all businesses.
- There are 53,671 medium sized firms (with 11 to 50 workers) constituting 9.5% of all businesses.
- The bigger firms (with more than 50 workers) only make up 3.2% of the total number of firms in the economy!

Role of the Services Sector in the Malaysian Society today

The table above shows that a huge majority of businesses in Malaysia are in the Services Sector. These are a very varied group and include grocery shops, retail outlets for all sorts of consumer goods such as footwear, clothes, furniture, electrical appliances, etc. They also include repair shops for vehicles and appliances, restaurants, coffee shops, foodstalls, stalls in the markets, medical and dental clinics, legal and accounting firms, tuition centres, barber shops, school bus

operators, and many others. Collectively they provide the network to channel much needed goods and services to our population.

However, as these businesses are operating for profit it is possible that they might do the following

- Sell low quality products
- Overcharge, or hoard to cause prices to rise
- Underpay or otherwise mistreat their workers
- Cause environmental pollution
- Manipulate prices if they get big enough such that they attain oligopolistic power.

Obviously any government, socialist or not has to make sure that the SMEs do not misbehave in any of the manners described above. In Malaysia, the town councils for example, are tasked with checking the cleanliness of eateries, the accuracy of weighing scales and the price labeling of products in markets, etc. Other government departments carry out similar monitoring and regulatory roles.

So, how should a socialist government handle the SMEs in the Services Sector. Abolish private ownership and the operation of the market, or permit both, but with good regulations and proper enforcement of these?

The Soviet Model

Private ownership was not allowed in the USSR. All retail outlets were owned by the State and they received goods as based on the economic plan. The workers in these retail outlets were salaried by the State, and whether or not their customers were happy with the goods or service provided they received their pay. The same model was adopted in much of China, and later in Vietnam.

There were many problems with this model. For one, the supply of goods to the various outlets was by the overall economic plan. If there were shortfalls in the quantity or in the quality it had to be addressed by complaining through the bureaucracy. The bureaucrats must have been overwhelmed with complaints, and the suppliers no doubt had their “valid” excuses. In the market model, such inadequacies are automatically sorted out by the market mechanism itself – the retailer can order more if there is a shortfall, and could change the supplier if there were deficiencies in product quality. No need for time consuming bureaucratic form-filling!

The planned economy worked quite well for the USSR as far as heavy industry, energy needs, transport development and other infrastructure development. And in fact we in Malaysia (like

many other countries) have five-year plans to coordinate the development of our economy. But planning down to the retail level as was attempted in the Soviet model led to a whole lot of inefficiencies in the supply of goods and services to the consumer and much wastage of manpower in managing the delivery chain bureaucratically.

Karl Marx and Adam Smith

We socialist are repulsed by the greed of the big capitalists, and so we tend to view private ownership of the means of production as the root of all evil in society. However we have to admit that Adam Smith had a point. In an economy comprising only of SMEs, the competition between the SMEs for business opportunities would ensure that goods and services are delivered to the population in the most efficient way possible, without any intervention of the State – as long as all the families in that population have adequate income. This is Adam Smith's model of a free competitive market!

We have also fallen prey, like most people in society, to the loose and imprecise use of terminology. The “free market” is taken as a synonym of “the capitalist system”. We need more precise terminology! The term market should be taken to mean a method of distributing goods and services by means of the pricing mechanism. And we need to appreciate that relying on the market mechanism to distribute goods doesn't necessarily mean that all the means of production are also in private hands. Goods produced by factories controlled by worker committees for example, can also be distributed through a market mechanism. And there is no reason why a socialist government cannot intervene in this pricing by giving subsidies, or by setting price ceilings etc.

Ownership of their own small SMEs, and the right to enjoy a major portion of their profits (after tax deductions), would make the owner-operators more responsible for the quality of the goods or services that they are providing the public, and would help in the setting up of an efficient market system for distribution of consumer products.

The market we have today is definitely not “free” in the Adam Smith sense. Today's market is controlled by the oligopolies who collectively determine the prices of particular goods. Adam Smith's “invisible hand” – the pricing mechanism – has been handcuffed by the oligopolistic power of the largest chains and conglomerates.

There are many industries that cannot be run by numerous small businesses. Industries that need huge capital outlays such as power plants, highways, banks and hospitals cannot be left to private capital. The State has to step in, initially to regulate, but in the longer run to introduce democratic control of these entities – we need to be creative to develop mechanisms to enable

workers as well as local councils to send elected representatives to sit on the management board of these big companies. The danger of co-optation is ever present, and safeguards such as strict limits to the length of tenure, strictly enforced guidelines regarding annual wealth declarations have to be made the norm for all those elected to represent the ordinary citizens on these boards.

The Economy in 21st Century Socialism

I would propose the following as the main features of the socialist economy that we are working towards –

Planning – essential to coordinate the development of infrastructure, energy, health and education services, transport, land use, urban development, environmental issues etc. But definitely not down to the retail level.

Large firms - should legislate that there is more and more worker control over the management of these firms. Should also work towards State ownership of these firms.

SMEs - their role in efficient distribution of goods and services has to be recognized. They require regulation so that they do not cheat customers or give inferior goods, or mistreat their workers. Local councils, which should be under the democratic control of the people should be given a major portion of the job of monitoring and regulating the SMEs in their region. But SMEs can be owned and operated by individuals, and they should be free to source their inputs from primary and secondary sectors through the market mechanism.

Market mechanism – to help in the distribution of goods and services to the population. However the State should intervene to subsidize the cost of essential goods, as our government is already doing (rice, flour, cooking oil, sugar, gas subsidies).

Nationalization - Certain sectors should be taken over by the State including – Education, Health Care, Water, Electricity, Public Transport, Housing, Rubbish collection and Power Generation. We will need to develop mechanisms that ensure that these nationalized bodies perform efficiently. There has to be transparency in how these bodies operate, and there should be involvement of community representatives in the management of these entities.

Current BN Government Programs for SMEs

When discussing how we intend to deal with the SMEs we should also take into cognizance the following facts –

- From 2004 till 2009, the 7 biggest GLCs spent RM 2.4 billion to develop 1,854 vendors under the “Vendor Development Program”. (Source - Parliamentary Qn 47: 9/6/2010)
- Between 1987 and December 2010, AmanahIkhtiar Malaysia gave RM 4.83 billion as loans to 253,671 people – 193,303 Malays, 42,959 Sabah Bumiputras, 12,851 Sarawak Bumis, 2,598 Indians, 509 Chinese, 495 Orang Asli. (Parliamentary Qn 15: 22/3/2011)
- In 2010, the Government carried out 200 programs costing a total of RM 786 million to improve the capacity and skill of 270,000 SMEs. (Parliamentary Qn 23: 11/10/2010)
- Between 1998 and 31/1/2011 TekunNasional gave out loans totaling RM 1.6 billion to 177,597 businesses. (Parliamentary Qn 19: 23/3/2011)
- Special Revolving Funds administered by Bank Negara Malaysia gave loans totaling RM 542.6 million to 2,568 SMEs between January and July 2011. The Micro-Financing Scheme gave out RM 221.9 million for 11,983 applicants in the same period. (Economic Report 2011/2012. Ministry of finance. P 153)

Bumiputra SMEs have been the recipients of this governmental largesse. I use the term “recipients” deliberately and avoided the word “beneficiaries” because excessive funding on lax terms and the absence of strict requirements to perform may not actually help in the development of a Bumiputra entrepreneurial class. But that being said the current practice would have developed certain expectations that we have to deal with.

Our (Socialist) Outreach to the SMEs

1. Recognize their role in the economy. They will not be expropriated – but they will be regulated to ensure that they are fair to their customers, their workers and to the environment. They will be helped to continue playing their role of distributing goods and services in a socialist economy.
2. We recognize the economic pressures on these SMEs
 - a. From hypermarkets and big chainstores
 - b. Due to economic downturns
 - c. Difficulty in getting credit
(and we should have concrete proposals how we intend to address each of these – eg loan facility on easy term during times of economic crisis)

Also

 - d. Too many SMEs selling same product in a locality means all would be poor. So need to regulate numbers.
 - e. Low income of the population means smaller market for the SMEs. Socialist programme of better income distribution would boost the internal market and improve conditions for the SMEs.

3. Social protection for the SME owners – some kind of pension program that perhaps they can contribute to? Also Universal health coverage.

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I have been turning over many of these ideas for quite some time. But what I have presented here is definitely not meant as the finalized blue-print for 21st Century Socialist Economy. The purpose of this paper is to stimulate a discussion among us so that we can clarify our thoughts and sharpen our arguments, for we still have the really difficult task of convincing the 99% who are fed-up with Capitalism but are still very wary about Socialism!

Kumar

29th November 2011

Notes.

1. Employment by Sector in 2010 ('000)

Agriculture ^a	1,390	
Mining & Quarry	43	
Manufacturing	3,382	
Construction	766	
SERVICE SECTOR		
Electricity, Water and Gas	100	
Transport ^b , Storage and Communication	683	
Wholesale and retail trade, Accommodation & Restaurant	2,226	
Finance, Insurance, Real Estate & Business Services	839	
Government ^{c,d}	1,249	

Others services	1,258	
Total ^{e,f}	11,937	

Source: Economic Report 2011/2012. Mins of Finance. P 109

- a) There were 400,493 rubber small holders in Malaysia in 2009. (Parliamentary Qn 4: 24/11/2010)
There were 112,635 FELDA settlers in 2010. (Parliamentary Qn 38: 25/3/2010)
There are 534,000 padi planters and nationwide. (Economic Report 2011/2012.Mins of Finance. P 16)
129,622 Malaysian fishermen received incentive payments in 2010. (Parliamentary Question 1: 19/10/11)
- b) Taxi Permits in Peninsular Malaysia : 28,292 as of 31/12/2007 (Parliamentary Qn 68: 15/5/2008)
- c) Police Force : 96,378 as of 31/5/2008. (Parliamentary Qn 10: 23/6/2008)
- d) Army Personnel : 101,630 as of November 2008. (Parliamentary Qn 5: 13/11/2008)
- e) 153,470 students entered Public Colleges and Universities (IPTAs) in 2009. (Parliamentary Questions – Written Reply 183/185) This number represents about 1/3 of the total cohort for that age group.
- f) As of December 2009, there were 716,085 students who owed PTPTN a total of RM 3.2 billion.

2. Foreign Workers Registered with the Immigration Department 31/12/2010

Sector	Number
House maid	247,069
Construction	235,010
Manufacturing	672,823
Services	165,258
Plantations	266,196
Agriculture	231,515
Total	1,817,871

Source: Parliamentary Question No 1: 4/4/2011

3. Some Pertinent Facts regarding Businesses in Malaysia
 - a/ In 2009, only 119.553 businesses paid company tax. (Dato Donald Lim Siang Chai in Parliament 21/3/2011. Hansards P22)

4. EPF Annual Report 2009 (P 59)
Registered Employers : 453,716
Active members : 5.79 million