COMMENT

2016 Budget to show economic strength

INCLUSIVENESS: It will reflect economy's ability to withstand external shocks

> **The budget** must set the right foundation and start the ball rolling to the ***realisation of the 11MP.***

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THE government will soon unveil the 2016 Budget, the seventh budget of Prime Minster Datuk Seri Najib Razak. With the backdrop of global economic uncertainties, plunge of the ringgit against major currencies, drop in crude oil prices, contraction in global demand, and with domestic political and social turbulence, many analysts and commentators have argued that formulating this budget would be one of the most challenging for Najib.

It is indeed a challenging time. But let us also not forget that ever since Najib took office in 2009, we have been living in challenging times. In fact, the past six budgets were also crafted amid daunting periods, both internally and externally.

In this sense, I believe that the 2016 Budget, like the budgets formulated since 2010, will demonstrate the economy's ability to withstand external shocks and unforeseen circumstances that have plagued or are going to affect it.

To begin with, many seem to forget that Najib took office at the time when the global financial and economic crisis of 2008-09 was at its peak, where the Malaysian economy contracted by 1.5 per cent in 2009.

International credit rating agencies, especially the big three (Fitch Ratings Inc, Standard & Poor's and Moody's Investors Service), had raised their concerns about the outlook of the economy when the fiscal deficit was at 6.2 per cent, which required the government to undertake unpopular yet important structural reforms to the economy, such as the implementation of the Goods and Services Tax (GST) and the removal of subsidies.

It is important to emphasise here that until today, the global economy has yet to recover from that crisis.

This year, instead of experiencing a contraction in gross domestic product (GDP), the GDP rate is projected to grow at between 4.5 per cent and 5.5 per cent, whereas the fiscal deficit would be reduced to 3.2 per cent of GDP.

In the next budget, I expect the targeted GDP would be at 5 per cent, in line with the average targeted growth rate under the 11th Malaysia Plan (11MP).

The deficit level is expected to be lowered to 3 per cent, placing us on the right track for a balanced or near balanced budget by 2020.

Unlike the previous budgets, which were based on the 10th Malaysia Plan (10MP), the 2016 Budget is premised on the 11MP, which prioritises more on inclusiveness and sustainability, rather than high income targeted under the 10MP.

And this is where the need to focus more on the people economy as opposed to capital economy comes into the picture. The aspect of inclusiveness appears to be more relevant than ever in the context of Malaysia's socio-economic conditions of the post-New Economic Policy (NEP) era.

This inclusiveness first needs to be understood. The latest book that discusses this subject is by French economist Thomas Piketty, titled *Capital in the Twenty-First Century*.

What captured my attention about Piketty's book is its vast data and the methodology employed, plus the possibility of this book to transform economics, though the central thesis of his book appears to be similar to the Marxist framework of analysis.

Karl Marx, the 19th-century thinker, argued that inequality happens when the salary paid to the workers is less than the values of which the workers produced. Marx views inequality as a source of instability in society and in the long run, has the ability to destroy the fabric of the organisation of economic production, known as capitalism and to be superseded by a new one, which is based on collective ownership, known as communism.

The 18th-century enlightenment thinker, Jean-Jacques Rousseau, on the other hand, believes that the origin of inequality is derived from *amour propre*, that is, in the process of socialisation, where humans tend to compare with one another and seek domination to create happiness. Rousseau argued that as society evolves, concepts like private property and labour are created to exploit the poor further.

Meanwhile, another influential enlightenment thinker, John Locke, and other classical liberals, see nothing is inherently wrong with inequality as the individual is rational and capable of making his own decisions guided by what he terms as the laws of nature.

And, obviously, the great classical economist, Adam Smith, was on the same wavelength with Locke.

For Smith, if inequality is a direct result of the workings of what he terms as the invisible hand, then it is okay as it is in harmony with the individual's self-interest.

But should we "equalise" everybody and everything? Does this promote justice?

Perhaps in this regard, the wisdom of Greek philosopher Aristotle is worth revisiting.

Aristotle taught us centuries ago about the concept of equality when he explains that: equality to the equal, and inequality to the unequal.

This message was reaffirmed by 19th-century German philosopher Friedrich Nietzsche when he argued: never make the unequal equal.

They seemed to illuminate the inflection point, or rather the possibility of achieving disutility when the pursuit of equality is being misunderstood.

It seems that in Malaysia today, the word "economics" carries a different meaning for technocrats and the people on the street. While the people on the street feel that the economy is not in good shape, technocrats appear to argue otherwise, highlighting the solid fundamentals of the economy.

Why the gap? Perhaps an explanation for this would be the relatively high levels of Malaysia's wealth and income inequalities, one of the highest in this region.

So the masses do not seem to benefit much as a result of good economic numbers, such as the GDP or the gross national income (GNI) per capita numbers as a result of the concentration of wealth and income of the few.

This, to me, should be the centrepiece of the 2016 Budget. In this aspect, the budget must set the right foundation and start the ball rolling to the realisation of the 11MP and eventually make Vision 2020 meaningful to the people.

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