NEW STRAITS TIMES

03 April 2012

Should Malaysia save more or less?

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IS savings a curse or a blessing? Looking at how major economies are desperately trying to boost consumption growth and avoid recession through cheap money policies, one could be forgiven for thinking it is the former rather than the latter.

Cheap money, that is low interest rates, makes savings unrewarding. It also threatens to penalise savers when inflation starts to edge upwards by reducing real purchasing power.

So, why are there these disincentives to savers? I think there are at least three reasons.

FIRST, rising interest rates threaten the health of the financial sector. In an age where financial institutions reign supreme, this not only threatens to choke off economic activity but also an industry that is a powerful growth-driver in its own right.

SECOND, many governments are constrained by what they can spend. Financial markets generally view rising government deficits as evidence of fiscal irresponsibility. Many democratic ones also find great difficulties in getting their government spending plans passed by their legislatures.

THIRD, with governments unable to run large deficits, and with private investors spooked by the great uncertainties and volatility, boosting consumption and reducing savings is an easy way out. If income is not consumed, it is obviously saved.

It is blazingly obvious that the most troubled economies today are the ones that save too little rather than too much. Mediterranean European countries (but also the United States) have debt problems, which they hope to cure with even more debt.

Meanwhile, Asian economies, many of which have been savers, are -- even if not exactly sitting pretty -- in a much better position. Indonesia, which has managed to bring its public spending and debt under control, has even been promoted to investment grade by major credit rating agencies.

The conundrum faced by economies that save is that they are being pressured to spend more (that is save less), even as their governments are being encouraged to spend less. This places an extraordinary dependence on private spending, made up of course of investment and consumption.

Faster growing ones like China, which are overheating, have taken the decision to slow their economies. Others, with lower growth rates than China, now have to make the delicate decision whether to slow or speed up. Malaysia is among them.

So, should Malaysia save more or less? Gross national savings was estimated to be 34.7 per cent of gross national income (GNI) last year, with an excess of savings over investment of around 11 per cent of GNI. These figures are huge and the main reason touted for being able to weather any economic downturn.

There has been a great deal of discussion about debt lately, from whether Malaysian households are borrowing too much, to whether the country can go the way of highly indebted countries such as Greece and Portugal. Malaysia is a different kettle of fish.

Still, no one should be so arrogant as to say that we will never find ourselves in debt problems. The probability or likelihood may be low or high but the only way it can be zero is if we do not borrow at all. Much hinges on what we believe will be future economic growth rates.

When economists confidently predict that the current level of indebtedness is, or is not, excessive, they are invariably making implicit assumptions about the future, in particular income, consumption, savings and investment behaviour. And these are hard to predict with any certainty at the best of times.

The Federal Government is a net borrower by virtue of the fact that it runs a budget deficit. The private sector contributed 80 per cent of total savings, and of this, private corporations accounted for almost all of this. Household savings (which are not reported) are believed to be marginal.

Going forward, if Malaysia is to grow at all, the private sector will have to invest more and, consequently save less. Households, on the other hand, will need to save more and consume less. The public sector, which has been hyperactive of late, will also need to tighten its belt. It must save more.

A lot will, therefore, depend on the ability to create a liberal, conducive and productive environment for genuine private investors. Failure to do so will have far-reaching consequences.