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Budgets are about making best decisions

FINITE RESOURCES: It is all a matter of which priority exceeds another

LAST week my colleague, Datuk Dr Muthiah Alagappa, wrote on the dangers of big government and creating dependency mindsets among the populace.

He argued that this made countries far weaker rather than stronger, and much less rather than more resilient.

Coincidentally, I had wanted to write about the same thing, using the budget as a case in point.

Now that the 2013 Budget has been tabled in Parliament, amid praises and protests, I think it is important to reinforce the points he made.

Let me start by saying it is a sign of the times we live in that no part of public life appears untouched by politicking.

Not even something as unifying as the Merdeka Day celebrations had been spared from unprecedented partisanship.

Life is political, of course. But this does not mean that each and every aspect has to be manipulated to gain one's own ends.

And when it is the public purse that is the object of contestation,

bells ought to be sounding loudly in our heads to warn us of the dangers ahead.

The ruling ethos in this country, and, indeed, many countries, is that the government has both the ability and responsibility to take care of citizens — or at least a segment of citizens — literally from the cradle to the grave.

But whether this is in fact the case is a question that bears careful examination.

First, governments that have tried to assume cradle-to-grave responsibilities have largely failed to deliver, in many cases spectacularly so. Even the much-touted Scandinavian model has been financially stressed, along with their less productive European counterparts.

And this is not so much an opinion as it is an empirical observation and a matter of public record.

Second, do governments even have the ability to comprehensively care for its citizens?

To the man on the street, the

immense political, legal and administrative powers that the state has imply that this is the case.

Again the wealth of experience seems to contradict this.

Loose budgets, ones that pander to the public, and designed without proper forethought spell trouble with a capital T. Just ask the International Monetary Fund and European Central Bank.

To a certain degree, political gamesmanship is present in most democracies. For many, contestation is the whole point: so that the public gets the best deal.

But the polemics went far beyond what I thought was positive or productive. What I found particularly worrying was the lack of realism that seems to have permeated the debates.

It is apparent that some did not understand even the rudiments of public finance and budgets.

There has been an almost child-like innocence as to what budgets are and what they are

supposed to achieve.

Governments simply do not hold the answers for all the country's woes. Simply put, budgets are decisions on how to spend a relatively fixed amount of money in a fiscal year.

That amount of money is the revenue it will receive in the coming year plus the deficit that it will run and, therefore, borrow.

More of one expenditure item means less of another. There really is no "free lunch". It is all a matter of which priority exceeds another.

And if the debt burden exceeds what is safe and sustainable, what is spent in one year will even have to be taken back in the form of taxes and/or expenditure cuts in another.

The lack of understanding of having to make the best use of a finite amount of public money, which is, after all, economics, is troubling.

For this reason, budgets should not, cannot and must not be treated as a soft touch by any segment of the community.

Budgets should not, cannot and

must not create entitlements and sinecures that are difficult if not impossible to remove later.

Budgets cannot solve all the long-standing problems of entrenched poverty and income mis-distribution.

If they could, this country would have achieved its goals of social and redistributive justice a long time ago.

Budgetary allocations can help but they cannot solve all the problems of low investment, efficiency, productivity and quality.

In many cases, the additional public resources compromise and complicate these goals rather than boost them.

There is even no evidence that running a fiscal deficit will boost economic output and employment each and every time, as is commonly believed.

In short, budgets are about decisions to make the best use of the finite amount of public resources in a given year.

Politics play a part in these decisions; they are not the sum-total of them. steve@isis.org.my



Prime Minister and Finance Minister **Datuk Seri Najib Razak** and his deputy, **Tan Sri Muhyiddin Yassin**, with a copy of the 2013 Budget after it was tabled in Parliament on Friday. NST pic by Abdullah Yusof



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