



Think tank wrong, govt should continue spending, say economists

PETALING JAYA: Several economists have voiced disagreement with a think tank that called for an immediate reduction in government spending to combat inflation.

They said continued spending amid the Covid-19 pandemic would spur economic activities, create jobs and have other positive effects on economic recovery.

The Center for Market Education (CME) yesterday said an immediate reduction in expenditure to pre-pandemic levels would prevent a further rise in inflation.

It said the additional money supply created by expansive fiscal policies had worsened the risk of inflation and was threatening economic recovery.

It described the current inflation rate as the result of “government overspending and monetary mismanagement”.

CME made the statement on the heels of an announcement by the statistics department that Malaysia’s inflation rate increased 2.2% in September from a year earlier, led by hikes in transport costs and the prices of food and non-alcoholic beverages.

Goh Lim Thye, who teaches economics at Universiti Malaya, noted that the economic climate remained volatile and the spread of Covid-19 variants was adding to the uncertainty about the speed of recovery.

“Thus, it is expected that the authorities and policymakers would continue to spend to cushion the pandemic’s impact and boost economic activities,” he told FMT.

“With global flows of foreign direct investment expected to be slow, the government should spend more to boost domestic economic activities and to create more employment opportunities.”

Goh said inflation could be attributed to higher demand or increases in production costs and he added that the 2.2% increase was expected due to the rise in the price of commodities such as rubber, cotton, crude oil and palm oil.

He said it was “not accurate” to relate inflation to overspending and that a detailed investigation would be required to justify the claim.

Shankaran Nambiar, a research fellow at the Malaysian Institute of Economic Research, said government spending was important given the current situation.

“It is naive to think that the inflation rate has gone up because of overspending by the government,” he said.

“The government has had to step in to spend for a number of reasons. It has to support ailing companies, particularly from the MSME sector. Otherwise, they would have folded, increasing job loss and bringing about failure to make good their bank loans.”

He also said the extent of distress to households would have increased if the government had not stepped in.

Barjoyai Bardai of Universiti Tun Abdul Razak said “this is the time” for governments to spend, noting that analysts across the world would welcome government initiatives to spur the economy.

“When you create inflation in the economy, it will increase demand and production,” he said.

“Usually inflation will go hand-in-hand with employment. Production capacity then increases, and that will boost recovery.”

In the International Monetary Fund’s Fiscal Monitor published early this month, the agency noted that government spending in countries such as the US and the UK had played a crucial role in supporting economic recovery.

Malaysia’s Budget 2021, amounting to RM322.5 billion, was the largest ever announced. Budget 2022, set to be tabled tomorrow, is expected to allocate more resources to public healthcare and provide larger aid packages to mitigate the effects of the pandemic.

<https://www.freemalaysiatoday.com/category/nation/2021/10/28/think-tank-wrong-govt-should-continue-spending-say-economists/>