

## Assess the Success of the Malaysia Fiscal Stimulus Package in Response to the Economic Slow Down of 2009

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### ABSTRACT

*The global financial crisis has been hit hard the Malaysia economy and give the negative impact on overall economy and the labor market. According to World Bank Report 2009, Malaysian exports fell by 33.9 percent year-on-year in January and by 35.9 percent in April 2009. Since the beginning of the crisis the unemployment rate has increased compel the government to find the best solution in mitigating the impact of the financial crisis. Through the stimulus package introduced by the Malaysia Government, this policy has played a huge role in promoting employment by giving the tax exemption for doing business as well as stimulating the automobile industry by giving the rebate to buy a new car. The government allocating over RM60 billion aims to increase the employment through on job training programs organized by private sector and government link companies (GLC) especially for graduate. Through this program it able to create 50,000 vacant post and 13,000 contact posts in the public sector. Under the stimulus package, the government also allocate over RM19 billion to building the capacity for the future where RM2.4 billion has been spent for telecommunication, RM250 million for airport to expand the low cost carrier terminal (LCCT) to attract vacationers by adding the frequency of airways operation. Needless to say, the strategies taken by Government under the stimulus package able to drive Malaysia economy out from the great recession as hit by the neighboring countries.*

**Keywords:** economy stimulus package, unemployment, economy growth

### 1.0 INTRODUCTION

Since the depression of 1930s, the global economy especially in United States once again decline from the fourth quarter of 1973 to the first quarter of 1975. During that period the GNP decline by 6 percent from about USD 1.24 trillion to about USD1.17 trillion. Obviously this economic crisis made the unemployment rate increase from 4.8 percent to 8.7 percent by the second quarter of 1975. The planning to stimulate the economy was taken by the government of the United States. This plan is function to coordinate state and local budget related to actions

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with federal government efforts to stimulate economic recovery by establishing a system of emergency support grants to state and local government. The state and local government needs the additional financial assistance from federal to face the challenge of inflation and severe recession. During the depression, the major problem lead to the economic decline is high unemployment (Gramlich, E.M, 1979).

This problem causes the economic toward decline because the cyclical counter of the economic will completely collapse in order to boost the economic growth. To boost the economic growth, the US government has launched the program to reduce unemployment as a part of a major anti recession campaign. On 13<sup>rd</sup> of February 1979, the first anti recession legislation enacted was launched by the President Ford. This programs function to create a few jobs to public. During the recession, the unemployment rate is over 15 percent in the construction industry. Because of the pressure from state and local government officials the American Congress was passed a new and less expensive version of the anti recession legislation. To enhance the slot of jobs, the federal government proposed the program in order to stimulate the economic growth. During the ending period of September, 1977 new program was created by the federal government. The program called Local Public Works Program. The allocating in this program is over US 2 billion. The allocation in this programs function as a grant to state and local government to provide the employment opportunities especially in high unemployment area. The plan is also designed to support and sustain up jobs. The core piece of the package is direct government investment community infrastructure and road as well as support to small business and the prime sector in construction such as steel factories and at the same time able to stimulate the national economy.

Begin 1<sup>st</sup> July 1976, the America government had launched the anti recession fiscal assistance allocating over US 1.25 billion to help state and local government maintain services, avert lays offs on public employees and to avoid tax increase. This program was ended on September 1977. Allocations to state and local government based on the general revenue sharing formula times the relative unemployment rate for the jurisdiction. To stimulating the economic growth, the US government allocates the funds during the fiscal years 1977 and 1978. In this allocation, half of that amount going to the 48 largest cities. The 48 largest cities received more than 23 percent of the total Comprehensive Employment Training Act (CETA) allocations. The New York Cities received about US 836 million and US 6 million received to Tulsa. The largest of per capita in this economic stimulus package programs received to Alaska amount about US 211.74 (Ross, J.P & Calkins, S.E 1979). In 1997 several East Asian countries began to experience serious financial problems. In Malaysia, the ringgit came under speculative attack and also declined significantly. Many local enterprises closed down, and many thousands of jobs were lost. The rates of

unemployment and poverty rise significantly. The deteriorating condition of the real economy in turn adversely affected the confidence of investors (Khor, M., 2005).

The Malaysian economy is expected to experience the full impact of the global downturn in 2009. In response, several policy measures have been put in place with a primary focus on supporting domestic demand as well as mitigating the impact of the global slowdown on the affected segments of the economy. These included two economic stimulus packages of RM67 billion, amounting to almost 10 percent of GDP, aimed at supporting private sector demand, creating employment and training opportunities, easing the burden of the affected sectors as well as building long-term capacity of the economy. On 10 March 2009, Malaysia Prime Minister unveiled the Stimulus Package 2009 with an allocation of RM60 billion, which is made of RM15 billion for fiscal injection, RM25 billion for Guarantee Funds, RM10 billion for equity investments, RM7 billion for private finance initiative and off-budget projects, and RM3 billion for tax incentives. The Stimulus Package 2009 comprises the four thrust which be implemented over two years for 2009 and 2010 (The Malaysian Institute of Certified Public Accountants, 2009).

## **2.0 LITERATURE REVIEW**

The financial crisis of 2007/2008 widely accepted and become a crisis of the real economy not only in the South East Asia Countries but also spreading in Euro area member countries like Ireland and Germany. Since the sharp deterioration of economy crisis across the world, Australia had not been hit as other countries but the Australian government has taken the early way or solution with a stimulus package worth US 10.5 billion in 2008 to strengthen demand. In early of the year 2009, the Australian Government launched another fiscal package call Nation Building and Jobs Plan will delivered US 42 billion to spurs the economic growth and creating job in Australia. The plan is also designed to support and sustain up jobs. The core piece of the package is direct government investment in school, housing, energy efficiency, community infrastructure and road and support to small business (Belke, A., 2009).

The Australian Government also given the smaller capital project to involve the most larger projects and will support the economic growth by delivering US 12.7 billion in payment to low and middle income Australians. This way can ease the Australians household burden and ability to increase spending was a key factor for the showing in the Australian economy. With this payment, the government hopes to deliver an immediate stimulus to the Australian economy to support growth and jobs. Efficiency of fiscal policy have three types analyzed scenario such as deficit-financed spending increase, a balanced budget spending increase

and a deficit financed tax cut, in which revenues decrease but government spending stays uncharged. There are several ways that the Australia government was practiced during the economy crisis. First solution is tax cut in general and the second ways is lower tax and higher transfers to households. The consumption will be most affected causes of the household additional income react to a tax cut by maintaining their consumption. This way will be an effective tool to prevent an ever sharper drop in consumption. Another ways that has been taken by the Australian government in mitigating the economy crisis is lower tax and higher transfers to corporate. Credit crunch investment will be strongly affected by the liquidity situation of enterprise because many corporate sector is a heavy borrower. This way would be allowed all corporations to postpone payment of corporate income taxes for one to two years. Postponing the payment of corporate income tax is able to help enterprise to make profit (Belke, A., 2009).

## **2.1 Keynes and Keynesian Theory**

The intellectual crisis was largely overcome by Keynes but the economic crisis proved more stubborn (Walton, P & Gamble, A., 1976). Keynes ideas were given added impetus by the great depression of the 1930s. After the great depression began in early 1930s, many economist in the United States advocated policies that later would be called Keynesian. It is interest to note that these policies were presented before the publication of Keynes's *The General Theory* (Harcourt, G.C., 1995).

Keynes concerned themselves with the determinants of the total or aggregate amount of consumption, saving, income, output and employment. They were less interested for example in how an individual firm decides on its profit maximizing level of employment than in the relationship between total spending in the economy and the aggregate of such employment decisions. Keynesian economist stressed more on the importance of effective demand as the intermediate determinant of national income, output and employment. Aggregate expenditures, said these economists, consist of the sum of consumption, investment, government and net export spending. Firm collectively produce a level of real output that they expect to sell. But sometimes aggregate expenditure is insufficient to buy all the output produced. As unsold goods accumulate, firm lay off workers and cut back output. That is, effective demand establishes the economy's actual output which some cases is less than level of output that would exist if there were full employment (Brue, S.L., 1994).

According to Keynesians, the economy is given to recurring booms and bust because the level of planned investment spending is erratic. Changes in investment plans cause national income and output to change by amounts greater than the initial changes in investment. Equilibrium level of investment and saving

those that exist after all adjustment has occurred are achieved through changes in national income, as opposed to changes in the rate of interest. Investment spending is determined jointly by rate of interest and the marginal efficiency of capital, or the expected rate of return above the cost on new investments. The interest rate depends on people's preferences for liquidity and the quantity of money. The marginal efficiency of capital depends on the expectation of future profits and the supply price of capital. The expected rate of profit from new investment is unstable and therefore one of the most important causes of business fluctuations. Keynesian pointed out that wages tend to be inflexible downward because of such institutional factors as union contracts, minimum wage law and implicit contracts. In period of slack aggregate demand for goods and services, firm respond to lower sales by reducing production and discharging or laying off workers not by insisting on wage cuts. Price also sticky downward, declines in effective demand initially cause reductions in output and employment rather than declines in the price level. Deflation occurs only under condition of extremely severe depression. Keynesian economists advocated that the government should intervene actively through appropriate fiscal and monetary policies to promote full employment, price stability and economic growth. To combat recession or depression government should either increase its spending or reduce taxes, the latter increasing private consumption spending. It also should increase the money supply to drive down interest rates in the hopes that this will bolster investment spending. To counter inflation caused by excessive aggregate expenditure, government should either reduce its own spending, increase taxes to reduce private consumption spending or reduce the money supply to raise interest rates which will dampen excessive investment spending (Brue, S.L., 1994).

### **3.0 MALAYSIA STIMULUS PACKAGES IN MITIGATING THE IMPACT OF GLOBAL SLOWDOWN 2009**

#### ***First Thrust: Reducing unemployment and increasing employment opportunities***

In order to reduce the unemployment the government has allocated RM 10,000 per student to encourage Malaysian to pursue Master or PhD. The Malaysia Government also implemented training programs such as Graduate Employability Scheme (GEMs) through various Government agencies, including government linked companies and the private sector. Almost 63,000 staff was recruited by the Government to fill vacancies and serve as contract officers in various Government agencies (Mohd Najib Tun Abd. Razak, 2009).

### **Second Thrust: *Easing the burden of the Citizen***

Malaysia government has launched the stimulus economic packages to encourage the economic growth. In this stimulus package, the government increases the home ownership. In this Stimulus Package, a total of RM200 million was allocated to build 6,500 units house for vulnerable citizens by National Housing Company. Currently investment sentiment in housing sector is weak, given that both developer and buyers appear to be adopting a cautious attitude to build and to own houses. Therefore to stimulate the housing sector, the government proposes that house buyers be given tax relief on interest paid on housing loans up to RM 10,000 a year to 3 years. It is the practically solution make by the government. The Malaysian Government also improving the public infrastructure. Apart from building capacity for the future, these efforts will also promote greater activities in the construction sector and stimulate domestic demand. Reducing cost of doing business is another way taken by the government and will reduce the levy payment rate for all employers for a period of two years. From that the employers will save million of Ringgit in business cost. Profit can encourage the production level. It can give more income to the government later with the tax. The Government proposes that employers who employ workers retrenched be given double tax deduction on the amount of remuneration paid. The amount of remuneration eligible for this deduction shall not exceed RM10,000 per month and is limited to 9 up to 12 months remuneration per employee. This incentive is applicable to workers employed from 10 March 2009 to 31 December 2010.

### **Third Thrust: *Assisting the private sector***

The automotive sector is among the major industries with potential for further development. The industry has produced many vendors, including original equipment manufacturers and has generated many job opportunities. In the current economic situation, the sales performance in the automotive industry has not been encouraging and many companies in the automotive supply chain are facing difficulties. These companies have to be assisted to enable them to continue operations, despite facing low demand and rising costs. For this, the Government will provide an additional allocation of RM200 million to the Automotive Development Fund to continue supporting the development of the automotive industry and vendors. In addition, as a joint effort between the Government and the private sector, the Government will assist in the auto scrapping scheme for PROTON and PERODUA. Under the scheme, a discount of RM5,000 will be given to car owners, who trade in their cars, which are at least 10 years old, for the purchase of new PROTON or PERODUA cars. The Government will finance part of the discount borne by PROTON or PERODUA. This scheme is intended to stimulate car sales.

#### **Fourth Thrust: *Building capacity for the future***

Off Budget Project was proposed by the government. Off Budget Project mean the budget authority, outlays, and receipts of certain Federal entities that have been excluded from budget totals under provisions of law. Most of the off-budget amount is from the Social Security trust fund, with a minor amount from Postal Service revenues. The Government has also identified investment projects worth RM5 billion that will be implemented on off-budget basis. Among the projects in this category are LCCT at KLIA and the expansion of Penang Airport at an estimated cost of RM2 billion and RM250 million. The low cost concept for airlines travel most popular in Malaysia nowadays such as Air Asia and Fire Fly. This will be an opportunities to passengers to uses the services in good prices. The implementation of the LCCT project at KLIA can accept the increasing of the airlines operation at KLIA. Now we have a new airlines company such as Jetstar that will be operate on 1 July 2009 from Singapore to LCCT KLIA. This Off Budget Project will stimulating the economic growth because it will attract more foreign vacationers and also the investors using the LCCT KLIA. A 50 percent rebate on landing charges will be given for two years effective April 1, 2009 to all airlines that operate from Malaysia. The other Off Budget Project is improve telecommunication infrastructure. This project is important to make sure that our country can compete with other development countries. We also can promote our country using internet to other countries. We also can help to catalyst the economic growth. This project provide about 300,000 premises especially in Klang Valley and industrial site such as Bayan Baru, Senai and Kulim. That can reduce unemployment throughout this project. Nowadays the public can surf the internet to get more information faster and easier. For example is e-government, K-economy and so on. Electronic procurement will expanded through the e-procurement to enhance transparency in the management of government procurement.

Sky bridges and covered walkways in the Golden Triangle, Kuala Lumpur is one of the Off Budget Project. Government has spend about RM100 million. The government realizes that the living cost has increase including transportation cost. So this project will give advantages to public. Before that government has built the infrastructure such as LRT, PUTRA and public transportation. It will help public to avoid the traffic jams. As we know, Kuala Lumpur is a busiest city. In this stimulus package government will also provide the Sky bridges and covered walkways in the Golden Triangle to ensure that the traffic flow smoothly. It show that the government concern about public needs. This project will give advantages for estimate 1 million people in Kuala Lumpur. To further boost private investment activities, the government will assist the implementation of projects through PFI and public-private partnerships by providing funds amounting to RM2 billion. Private companies will be invited to bid for the funds. PFI projects to be implemented must have the following characteristics. First the

private sector will implement, finance and assume project risks. The project's revenue must be generated principally from the private sector, and not from Government sources. Second the Government financial assistance will only constitute a small proportion of the project investment cost. The assistance is intended to act as a tipping point, whereby the assistance enables a marginally non viable project to become viable and third projects to be implemented must be in strategic sectors, such as education, health and tourism and have high spillover effects to create sustainable job opportunities and enhance the nation's competitiveness (Mohd Najib Tun Abd. Razak, 2009). The Government will introduce a new program where permanent resident status would be considered for high-net-worth individuals bringing more than US\$2 million for investments or savings in Malaysia. In addition, highly skilled foreign professionals may also be considered for permanent resident status.

Table 1: Malaysia Economic Growth 2010

<b>Annual Report 2009</b>						
<b>Gross Domestic Product by Kind of Economic Activity at Constant 2000 Prices</b>						
	2005	2006	2007	2008	2009p	2010f
	RM million					
Agriculture	35,835	37,701	38,224	39,769	39,929	41,175
Mining and Quarrying	42,472	42,030	42,881	42,550	40,926	41,933
Manufacturing	137,940	147,154	151,789	153,744	139,448	148,455
Construction	14,685	14,639	15,332	15,657	16,548	17,157
Services	230,043	247,099	270,903	290,538	297,995	312,565
Less: Undistributed FISIM <sup>1</sup>	17,742	18,385	19,730	20,786	22,270	23,728
Plus: Import duties	6,017	5,287	5,521	6,839	6,642	5,824
<b>GDP at purchasers' prices<sup>2</sup></b>	<b>449,250</b>	<b>475,526</b>	<b>504,919</b>	<b>528,311</b>	<b>519,218</b>	<b>543,380</b>

*Sources: Department of Statistics, Malaysia and Bank Negara Malaysia*

<sup>1</sup> Financial intermediation services indirectly measured

<sup>2</sup> Numbers may not necessarily add up due to rounding

*p* Preliminary

*f* Forecast



According to the table above, the economic stimulus package in Malaysia seems to be successful. It can be proved by the noticeable increase in manufacturing, construction and services. Compared to 2009, the manufacturing incomes rise from RM 139,448 million to RM 148,455 million in 2010. Construction and services also shown the increase compared to 2009. Investment in school, housing and infrastructure seems able to stimulate the economic growth. In Malaysia, given the smaller capital project to involved the larger project can support the economic growth. This way can ease the low and middle income in Malaysia and able to increase the spending and encourage the demand for the goods and services. Currently, the investment sentiment in housing sector is weak. To stimulate the housing sector the Malaysia government proposed that house buyers be given tax relief on interest paid on housing loan. So the demand for house will goes up. The construction in housing sector running actively and can create the job opportunity to decrease the unemployment rate.

#### **4.0 RECOMMENDATION**

The comparative study between the strategy taken by the government during the financial crisis in 1997 and economy slowdown in 2009 should being conduct in the next publication to perceived the successful of the fiscal program. The ways how the government tackles the both crisis should be prime concern to study and identify the factors which effect the economic growth. The financial crisis also affects the economy growth in the neighboring countries. For the next publication, we also could expand the research scope to assess the success of the fiscal program between Malaysia and neighboring countries in mitigating the impact of the economy slowdown.

#### **5.0 CONCLUSION**

To stimulating the economic growth, we can conclude as generally across the countries that face the economic recession. In Malaysia, the core piece of the package is direct government investment in community infrastructure and road and support to small business. Another way is tax cut in general, lower tax and higher transfers to households. The consumption will be most affected causes of the household additional income react to a tax cut by maintaining their consumption. Lower tax and higher transfers to corporate is the best solution to stimulate the economic growth. Credit crunch investment will be strongly affected by the liquidity situation of enterprise because many corporate sectors are a heavy borrower. This method allows all corporations to postpone payment of corporate income taxes for one to two years. Postponing the payment of corporate income tax is able to help enterprise to make profit.

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