

CONCLUSION

Government Fiscal Policy

"Malaya ranks as the largest producer of natural rubber and tin in the world, producing about 36% and 33% of the world's natural rubber and tin supply respectively." The greater part of these commodities are exported and earn a large proportion of the export income. In fact, rubber accounts for over 3/5 of the total value of exports from the country while the contribution of tin is less. But the prices of these commodities have always been subject to violent fluctuations as can be seen from Table 4-I. The fluctuations in the price levels of these two commodities are determined by forces of supply and demand in the international market which are closely related to political and economic conditions throughout the world. This situation affects not only the private incomes from exports but also government revenue and the general level of economic activity in the country. The resultant variation in government revenue is shown in Table 4-II. The price fluctuations give rise to great variations in people's incomes and here we will examine how fiscal policy can help to reduce instability in the economy.

With reference to the fiscal policy the Federation Government has declared that its primary task in the field of finance under normal circumstances is to achieve a balanced budget on current account taking one year with another. But nowadays economists believe that to achieve a balanced budget in both good and bad years is not a good thing. They think that governments should have a budget surplus when there is a boom causing inflationary tendencies and a deficit in the budget when for one reason or another depression threatens and there is a decline in the general level of economic activity in the country.

In Malaya, high prices for rubber and tin give rise to inflationary tendencies. This results in increased government revenue from export and import duties and income tax a year later. But government expenditure does not rise at the same rate because expenditure plans for any year are

Lim Cheng Yah - Post War Economic Development of Malaya - A Preliminary Study, Ekonomi Volume IV, No.1 December, 1963, page 11.

prepared, a year ahead and they cannot be changed easily so that outgoings tend to lag behind any increase in revenue. For example, when the average annual price for rubber was 80.25 cents per pound (free on board, Singapore) and that for tin was \$369.34 per picul, total government revenue amounted to \$762 million. In the following year as a result of an upswing in the prices of these two commodities government revenue increased to \$890 million. But expenditure did not rise at the same time so the result was that there was a surplus of revenue over expenditure to the extent of \$51 million. Hence we see that the desired policy of having a budget surplus in times of inflationary conditions is achieved without any conscious or deliberate economic policy or planning on the part of the government.

TABLE 4-I

MALAYA: AVERAGE ANNUAL PRICES OF RUBBER AND TIN (f.o.b. Singapore), 1947-1962

Year	Rubber (cents per lb)	Tin (\$ per picul)
1947	37.31	n.a.*
1948	42.15	n.a.*
1949	38.19	294.48#
1950	108.18	367.00
1951	169.55	527.00
1952	96.07	480.08
1953	67.44	363.92
1954	67.30	353.59
1955	114.16	365.50
1956	96.76	387.05
1957	88.75	373.19
1958	80.25	369.34
1959	101.56	396.94
1960	106.08	393.75
1961	83.54	447.72
1962	78.20	467.71+

Source: Silcock & Fisk, op.cit., page 247.

*No quotation.

#Average November-December.

+January-June.

During a depression revenue falls quickly because low prices for rubber and tin result in less export and import duties being collected. But here again government expenditure does not fall so rapidly because the basic expenditure plans cannot be changed quickly. So once again automatically, a deficit will be the result. For example, in 1957 the average annual price for rubber was 88.75 cents per lb. and that for tin was \$373.19 per picul. The result of this was that government revenue totalled \$801 million and expenditure was \$787 million and the final outcome was that there was a budget surplus of \$14 million. The same however was not the case in the following year, when the price for rubber fell to 80.25 cents per lb. and the tin price declined to \$369.34 per picul. The result of the fall in the price of these two commodities was that government revenue fell to \$762 million and there was a budget deficit of \$86 million. Although the amount of expenditure in 1958 compared to that in the previous year has increased by quite a lot, this may not reflect the response of the government to a fall in the level of general economic activity, i.e. to inject purchasing power in the hands of the public. It may be more true to say that expenditure increased because of a larger number of commitments of the Federal Government. Generally a surplus or a deficit is the outcome of external factors beyond the control of the government.

Normally, when a deficit occurs in the accounts of the Federal Government it may not be due to government expenditure having increased in order to inject sufficient purchasing power in the hands of the public but because the estimated has not been realised. On the other hand, revenue government cuts its expenditure when times are not so good. This is bad for the economy for what is now needed is the pumping of sufficient purchasing power into the community in order to maintain employment and consumption levels. From all this it appears that the government is more concerned about inflationary conditions and not enough about the depressions and since this is the case it has devised various means to fight inflationary tendencies.

Since 1951, the government has imposed special taxes on the rubber industry at times of high prices for rubber. They are designed to keep inflationary tendencies under control. This shows that the government is very concerned with keeping inflation under control and has imposed "a variable tax designed to be anti-inflationary".² It has been "conscious of the need to control inflationary pressures by budget surpluses when rubber and tin prices are high even though there are in fact some automatic

² Silcock & Fisk, op. cit., page 257.

controls (e.g. the initial accrual of large profits abroad) that help to limit these pressures."³

We may now enquire whether the Federal Government has used the budget to combat depressed economic conditions in the country. The answer is that it is much less conscious of such a policy during a depression. There is little evidence to show "that the government has increased expenditure or reduced taxation deliberately to create a deficit when export prices are low."⁴

It was mentioned earlier that expenditure plans are not changed easily. This situation, however, only applies to current or ordinary expenditure. On the other hand development expenditure tends to fluctuate more sharply than ordinary expenditure. This could be due to the fact that current expenditure is not easily reduced without causing a disruption in government activities. Thus for instance when the terms of trade deteriorate due to a fall in the prices of rubber and tin government normally cuts down the development expenditure rather than cutting current expenditure. This was demonstrated on July 21st 1964 when the Finance Minister announced that the Second Five Year Plan would be slashed by \$100 million. This cut, he said, was necessary in order to divert more resources into the defence build-up necessitated because of Indonesian aggression. For a start development projects totalling \$50 million have been labelled 'less priority' and the money saved will be spent on defence. However, this will not affect essential projects underway but only those of 'lesser priority' which have not been started. (See Appendix).

Another feature of the public finance in Malaya is that the great fluctuations in the prices of rubber and tin make it difficult to estimate with any degree of accuracy the revenue that could be realised in the following year. The differences between estimated figures and actual results as shown in Table 4-II make it difficult to interpret what the government policy has been. It may be thought that estimated surplus or deficit might be evidence of policy but it could also be that actual surplus or deficit was the result of unforeseen events.

Finally, the government finds a lot of difficulty in estimating its revenue accurately because a lot of it is dependent on the prevailing prices of rubber and tin. In future with more varied sources of revenue and less reliance on these two commodities the government will be in

³Silcock & Pisk, op.cit., page 258.

⁴Ibid., page 257.

a better position to estimate revenue than at present. If it can achieve this then the policy underlying its budget will be more readily seen than is the case now when actual results are quite different from the estimates of revenue.

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