

# GST is good economics and right thing to do

**FISCAL SUSTAINABILITY:** Teething problems can be overcome once system is firmly in place

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**I**N about two months, the finance minister will be presenting his 2015 Budget, a public policy statement which is anxiously awaited.

As always, a national budget contains proposed revenue measures and government expenditures, as well as the means to finance the deficit. Many expect the Goods and Services Tax (GST) to be implemented in the forthcoming budget, as promised in the 2014 Budget.

The GST is long overdue and, in fact, was suggested by Tun Daim Zainuddin, as early as in 1987.

GST must be implemented if the target of fiscal balance is to be attained in the foreseeable future. The GST, if introduced, will replace the current sales and services tax.

Many professional bodies and individuals support the proposed GST. It is the right thing to do. However, as always, there may be opposition from quarters who are not in favour of new tax measures.

The government should never succumb to the pressures to defer its imposition under any guise whatsoever. It is the right thing to

do if fiscal sustainability is to be achieved. In the context of Malaysian society, which relies much on public expenditure for essential services, such as education, and public health, a rise in revenue is always welcomed.

The government needs the revenue to meet operating expenses which are large, and to provide public good, such as defence and internal security, as well as essential social goods and services such as education, health and public roads. Hence, like it or not, government expenditures will always remain important for economic and social development.

GST is a consumption-based tax and, as consumption is a major component of aggregate demand, GST will generate much revenue to the coffers.

In the beginning, there may be issues, such as the effect on price level and issue of implementation. These are teething problems and

should not derail the government's effort to implement the tax. They can be overcome, once the system is firmly in place.

To be sure, the GST has been implemented by many governments and they cannot be wrong. Any objection to the proposal is mainly political and does not hold much ground on economic reasoning other than on the issue of its initial impact on price level, a complaint already acknowledged and will surely be addressed.

On the inherent regressive nature of the tax, this can be minimised by zero-rating or exempting basic essentials, which are used by the low-income population. Again, this is readily addressable.

One challenge facing this budget is looking for ways to enhance the productivity and efficiency of public expenditures. The government must be ready to shed unnecessary expenses. It must be ready to pass



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to the private sector, public expenditures in areas where there is adequate private sector capability to undertake them, and also where there is willingness on the part of the public to pay for such services.

It would also be good to explore more market-based pricing of certain public services in order to improve allocation of resources and reduce subsidies.

One area to consider is raising public tertiary education tuition fees in public universities. The differential between public tuition and private tuition fees is currently very large and has to be narrowed. Unlike the 1960s and 1970s, we could have now reached a stage when social return to tertiary education is lower than its private return.

Tertiary education, then, was a matter of necessity. Now, only selected disciplines remain critical. What is more essential to the nation is more advanced skill training for our workforce. This is not to say that we should not assist students from low-income households. We

should. We need to examine all these further.

Needless to say, the practice of providing subsidies needs a good revamp. The leakages are plenty, with many abusing the facility (such as smuggling out diesel) and many also taking it for granted.

If we do not change all these, the implication of financing these practices is, upon public financial position. Perhaps it is also worth knowing that the burden can be upon the income of our future generations who are not in the workforce yet. Is it right doing so?

Yes, these are easy suggestions but is it politically palatable? The current political situation may have relegated good economic policies to be bad politics. This should not be the case.

In the long run, good economics is good politics. This is what transformation is all about — pursuing good policies for long-term sustainable economic and social development. With good and effective communication, surely society can be convinced of the benefits of good public policies.