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Unconventional Measures For Extraordinary Times: No Excuse For More Abuse

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Fiscal and monetary measures needed to fight the economic downturn, due to the COVID-19 pandemic and policy response measures, require greater government accountability and discipline to ensure success by minimising abuse besides improving contagion containment measures.

Such measures should prioritise providing relief to the vulnerable, prevent the recession from becoming a depression, and restore progress. They must help the most vulnerable, especially those in the informal sector and casual employment, restore aggregate demand and accelerate productive investments, technological progress and output growth.

Unconventional solutions need to be considered for implementation as conventional wisdom is part of the problem. This is an extraordinary situation, requiring unconventional policy responses to mitigate the loss of livelihoods and incomes, often due to disruptions caused by government policy responses to the pandemic.

With the neoliberal counter-revolution against Keynesian economics and development policy from four decades ago, counter-cyclical fiscal policies have been eschewed in favour of annually 'balanced budgets' and 'fiscal consolidation'.

Meanwhile, there are widespread concerns that bolder expansionary fiscal policies are likely to be abused by typically short-termist governments of the day, tempted by macroeconomic (ethno-)populism, and unconcerned about the medium- and long-term consequences of increased spending, borrowing and debt.

Only much better governance, transparency and accountability can minimise harm due to likely 'leakages' and abuses associated with increased government borrowing and spending. Such fiscal policies typically involve governments borrowing, especially by selling bonds and other securities, including to central banks.

Publics often presume that governments tax first in order to spend. In fact, they usually spend first, and then tax. Poorly accountable governments often take advantage of real, exaggerated or imagined crises to pursue more populist macroeconomic policies to secure regime survival and benefit the politically well-connected.

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Helicopter Money

One recent controversy is over 'printing money' to finance such measures instead of via increased government debt or borrowing. For Keynesians, printing money is not inflationary when economic resources are not fully employed or utilised.

Monetary authorities in the West enabled or 'nudged' commercial banks to lend more at lower interest rates without fear of raising prices. Hence, unconventional monetary policies, including 'quantitative easing', in the last decade were not inflationary.

The term 'helicopter money' was originally used by Milton Friedman over half a century ago as a 'thought experiment' to consider the consequences of a one-time increase in money supply.

However, the term is now used to refer to increasing money supply by various means, ostensibly to catalyse economic growth. Some advocates invoke modern monetary theory (MMT) to claim that governments can indefinitely increase fiat money supply (quantitative easing) without any adverse consequences such as inflation.

In developed economies, easy money due to such measures has actually accelerated wealth accumulation by a privileged few, although economic growth remained modest. Real wages have gone down despite full employment before the pandemic. Thus, printing money, especially in the US and UK, has helped the rich more than others.

Very importantly, developing countries do not enjoy the degrees of freedom enjoyed by developed economies in terms of monetary policy sometimes termed to the 'exorbitant privilege'. Hence, simply emulating quantitative easing (QE) is likely to have different consequences in developing countries, including so-called 'emerging market' economies.

Counter-Cyclical Fiscal Policy

Successive Malaysian governments since the turn of the century have abandoned the consistently counter-cyclical fiscal policy of the 1990s under former Prime Minister Mahathir Mohamad and then Finance Minister Anwar Ibrahim.

Before the 1997-1998 Asian financial crisis, the government ran budget surpluses when the economy was booming with industrialisation accelerating from the late 1980s. This changed with the 1998 Budget, announced by Anwar in October 1997, following the downturn following the currency crises.

Since then, counter-cyclical fiscal policy discipline has been lost, especially after the economy recovered in the new century. Subsequent governments have borrowed increasingly, even raising the self-imposed, announced official public debt limit.

Meanwhile, the government set up special purpose vehicles, especially for infrastructure projects heavily reliant on borrowed funds. These government-guaranteed liabilities were not reported to Parliament at all until very recently.

Neither were they seriously reviewed by the Auditor-General's office or the Public Accounts Committee. Worryingly, many such projects will never pay for themselves, but have been means to unaccountably access foreign finances.

For instance, the actual East Coast Rail Link (ECRL) project costs are believed by industry insiders to be less than a quarter of what Malaysians were asked to pay for it, even before considering deferred interest and other costs.

But it is not the contractors from China who will get most of what Malaysians will have to pay for the ECRL boondoggle for decades to come, but rather the Malaysian and other enablers.

In the Malaysian Budget for 2021, some spending items, previously deemed current or operational expenditure, are now categorised as development or capital spending. This may enhance the illusion of fiscal balance by ensuring that at least operating expenditure is covered by revenue.

There has to be much stricter scrutiny of government debt, borrowing and spending as well as government-guaranteed liabilities. Unfortunately, Malaysia's political economy seems likely to continue to conspire against improved transparency, accountability and commitment to sustainable development.