

# Rethinking the role of government



**FOLLOWING** the global financial crisis (GFC) in 2007-08, it became clear that mainstream economics, which advocates for unbridled capitalism and overemphasises the efficiency of free markets, were detached from reality and if left unchallenged, could pose a serious risk to society as seen through the devastating effects of the GFC and widening disparity of wealth.

It was therefore imperative that alternative views to the mainstream neoclassical synthesis be considered so that governments can make better decisions in developing more egalitarian economies for its people. To this end, Sage 3 Sdn Bhd has authored a report entitled "Rethinking Economics: A Framework for Malaysia to Escape the Middle-Income Trap" (RE) with the objective of stimulating meaningful debate and consideration of alternative perspectives amongst policymakers when formulating economic policies going forward.

One of the ideas of RE worth considering is rethinking the role of governments as a catalyst for innovation and accelerate growth as opposed to popular belief that governments are inefficient while the private sector is associated with dynamism and efficiency.

## Historical misconception on the role of government

Recent paradigm shifts on the measurement of value, which gave rise to the dichotomy of prices

and value, highlights that the current definition of value understates government productivity. For example, the GDP only records the cost of building a hospital but excludes the enormous value that government creates by providing quality public healthcare resulting in a healthy population.

Besides being a provider of public goods (education, infrastructure, healthcare), governments can and do in fact create substantial value by developing or funding innovation through various grants and tax breaks for research and development. For example, the internet, Google's search algorithm, 75% of the revolutionary drugs and functions of iPhones - GPS, Siri, touchscreen display - all represent prominent examples of the key role that governments have in their development.

## Government's role in driving innovation

RE advocates that when the private sector is unable or unwilling to invest, governments have a strategic role to play in developing critical industries where radical risks are present. Here at home, the rubber and palm oil industries were actually state initiatives that created vast new opportunities. State funding in the 90s produced successes in the technology and construction sectors.

The Multimedia Super Corridor (MSC) leapfrogged Malaysia into the information and knowledge age and facilitated the growth of regional and international data and call centres. Eventually, the program was able to attract high value services, e.g. Hewlett-Packard to relocate

to Cyberjaya. Moreover, MSC also fostered new local ICT-driven business models resulting in multiple successes e.g. AirAsia, Jobstreet.com, Grab, etc.

The past support and initiatives from the government to the industrialists have produced tangible success. In my view, opportunities given by the government in the late 80s and 90s have led to success stories such as IJM and Gamuda.

We acknowledge that the same cannot be said about the motor industry in the past in which similar opportunities were given but success was hindered due to its monopoly status and lack of market discipline. In contrast, there is competition/market discipline in the construction and technology sectors.

Oil and gas, airline and rail industry are further examples of industries in which private sector is willing but unable to invest at the pioneering stage of the industry, in particular for emerging economies. Due to the radical risks involved, governments had to take the lead to advance these industries. However, once the private sector is capable of participating in the now-developed industries, the government should review its participation in these industries.

In this respect, the Malaysian government should review its role in Malaysia Airlines, Tenaga Nasional, Petronas, Telekom, commercial banks etc, given that decades have passed since their original investments in these industries and the emergence of private sector participants. If government participation continues, imposition of market discipline on these businesses/industries will certainly be

questioned. A fair, disciplined and orderly market is the bedrock for innovation and competitiveness of an industry in a capitalist economy.

## Conclusion

It is critical that government intervention must produce optimum results without compromising the transparency and good governance of mission-critical projects. Finally, the taxpayer should be rewarded when it takes on the high risks as stated above, be it for innovation or high-risk ventures e.g. funding/facilitating large infrastructure projects that are eventually privatised.

In this respect, the merger of Development Financial Institutions, perhaps as National Investment Bank, could enable the government to be rewarded for taking on the risk of providing patient capital with a share of the entrepreneurial returns when the projects succeed.

The bold initiatives implemented by the Malaysian government to restructure the economy after the mid-80s crisis produced spectacular growth and facilitated wealth creation. It is this type of boldness and self-confidence that is required of Malaysians if our nation wishes to re-emerge as the Asian Tiger economy.

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