

Heavy subsidies not sustainable

By [Mazlena Mazlan](#)

REFORM NEEDED: Policy cannot stand the test of time due to population growth

ALTHOUGH it has been two weeks after Hari Raya, the festive mood hasn't subsided. Free food is flowing everywhere. It wouldn't be an exaggeration to say it is the feasting month, one that almost all Malaysians love.

Talking about celebration, there's not much to celebrate as far as the country's economy is concerned.

Growth for the first quarter of the year at 6.2 per cent, although looks good, hinges largely on last year's poor economic performance. Prices are rising with inflation rate hovering around 3.5 per cent in the past few months, leading to Bank Negara raising rates last month amidst concerns over levels of household debt.

Tough times are coming. Word is going around about the possibility of a fresh round of subsidy rationalisation in the next month or so. This would mean a further adjustment in prices. It also means that people would need to tighten their belts a bit more. A bit more painful, but really, it is necessary.

The reason? Subsidies are like free meals at Raya open houses. They are loved by everyone. But for the host, the bigger the guest list, the higher the expenses. And the cost grows with family size, too.

But unlike a Raya party where how much the host spends is none of the guests' business, how much the government spends in subsidies will affect our current and future economic wellbeing.

At the time of our independence in 1957, our population was 6.3 million. When the New Economic Policy was introduced in 1971, it had grown to 11 million. The current headcount is around 30 million, and is estimated to balloon by another 10 million by 2040.

Looking purely from the demographic point of view, subsidies as they are currently provided are simply unsustainable.

According to a paper by the Malaysian Institute of Economic Research (MIER), the subsidy bill in 1990 was RM500 million. In 2010, the amount had magnified multifold, to RM23 billion. Imagine what the bill would be as we add another 10 million people in the country.

It is therefore imperative that the government reform its subsidy policies, and soon. This is the bitter truth that many people realise but refuse to swallow. The longer a reform is delayed, the more painful it would be when it finally comes.

There is no such thing as a free lunch. Or to go back to the open house analogy, there is no such thing as free Raya meals. As the size of the hosting family grows, it can no longer invite each and

everyone they know. Invitations would need to be more selective. Unless the host is willing to borrow and pay more heftily in future.

It can sometimes be annoying that some people like to show whose party can attract a bigger crowd than others, although at the expense of a much tighter belt in the future. In the case of subsidies, it is unfortunate that we are reaching a point where political parties are racing to the bottom to get the “Most generous and rakyat-minded party” award.

Except that a truly rakyat-minded party won't spoil the people with a wrong sense of entitlement. Yes, we are living at a time when cost of living is rising. There are therefore, two options the government could make in its subsidy policy at times like this.

The first one is to choose the path of keeping prices of everything low. In other words, abandon subsidy rationalisation, and pursue active price controls. But by keeping all prices low, income growth will also be suppressed. Not to mention that, contrary to many people's beliefs, the government simply has no power to control prices of most goods because prices are a result of supply and demand. And as argued above, it is simply too costly and unfeasible.

The second option is to commit to rationalise subsidies, while allowing modest price increases which would not interfere with market forces. In other words, instead of artificially keeping prices low, subsidy rationalisation is accompanied by market-friendly steps to offset price increases by encouraging competition, reducing red tape, and facilitating more efficient processes in the supply chain. Meanwhile, price control should continue only for those in need, and complemented by income support.

Our subsidy policy must be underlined by the principle of exceptions and exclusions. Times have changed. So must our subsidy policy. It is no rocket science that our existing subsidy policy cannot stand the test of time simply due to population growth. The subsidy bill is like a growing boulder behind one's back. He'd better put it down before he gets squashed.



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