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# Are people victims of unintended consequences?

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***CUMULATIVE EFFECT:** What started off as a good goal ended up detracting from social welfare*?

THE law of unintended consequences states that the actions of people, and especially of government, always have unanticipated or unintended effects.

This is a subject that some might expect to find in populist discount bin books, but it is something that scholars have taken seriously for centuries. History is full of well-intentioned regulations that went terribly wrong because their consequences were not well thought through.

These include examples of tariff and tax hikes, government spending blowouts, price and interest rate caps, and a long list of others. Each of these started off with an arguably good goal, but ended up detracting from social welfare.

One recent local example was when the chairmal1 of Majlis Amanah Rakyat (Mara) announced that to commemorate its 50th anniversary, a 50 per cent discount would be given to those who had taken student loans, provided they were settled in one lump sum.

Questions could have been asked as to whether this was the best use of public funds and the effects it would have on the future repayment of borrowers, but not too many people gave it a second thought, perhaps thinking that it was a once-off celebratory affair.

More media attention was given, however, when the 50 per cent discount was then extended to loan defaulters and those who had failed to complete their studies.

A right-thinking person would conclude that those who had been faithfully repaying their student loans on time would be left wondering whether they should have done so given that they would have received a bigger absolute discount if they had a bigger outstanding balance. And while no student would presumably deliberately fail to complete his studies to access the discount, consider whether he would have the same incentive to complete his studies, let alone excel.

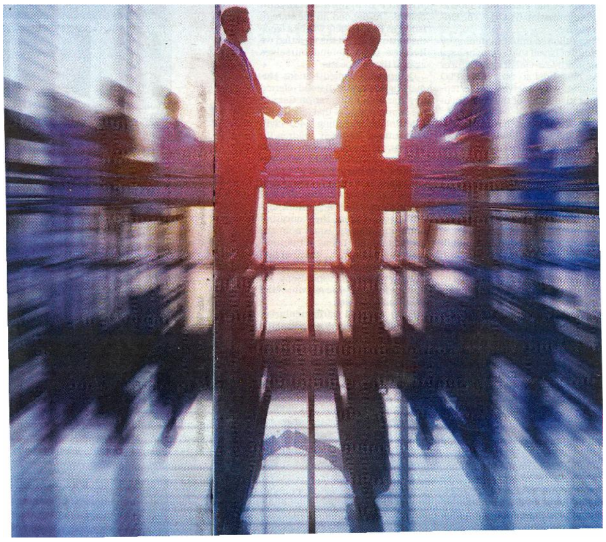
Once the idea is planted in the mind that a student loan is something that is less than a legal obligation that must be discharged, and is something that can be easily forgiven or quickly converted to a grant, it is exceedingly hard to remove.

It can be taken as an entitlement and eventually undermine the financial system.

Mara undoubtedly had the best of intentions, presumably to clean up its books, realise more cash and faster, and reduce its defaulters' list, all in the name of reducing the financial burden of its students, but it may have unwittingly fallen foul of the law of unintended consequences in doing so.

In 1936, an influential American sociologist, Robert K. Merton, identified five reasons why policy decisions were taken despite their possible unintended consequences. The first two were obvious, viz. ignorance and error. Good information is not always available and policymakers are not always prepared to search, compile and analyse it when it is.

In Malaysia, leadership competence and capabilities are also not something that can be taken for granted. Even in the best of circumstances, that is, when there is rigorous and evidence-backed decision-making, there is still scope for miscalculations and error.



*History is full of well-intentioned regulation that went wrong because their consequences were not well thought through*

Policy decisions also have to be made under conditions of risks and uncertainty and there is no sure way to guarantee against undesirable outcomes.

The third reason is one that needs to be carefully watched in democracies and dictatorships alike: immediacy of interests.

This is the situation where a particular action is so much in the interests of decision makers that they are prepared to ignore any negative unintended effects.

For this reason, development, public procurement and industrialisation policies can be pursued over extraordinary lengths of time even though their debilitating effects on efficiency, productivity and even social equity and justice have become known.

This is especially true when policies, be they economic or social, are overtly politicised.

The fourth and fifth causes of unintended consequences, values and self-defeating predictions also have some role to play.

In the case cited above, the values of entitlement and derogation of individual moral responsibility lead to a situation where there are strong disincentives to doing one's best and in being a model citizen.

The cumulative effects of unintended consequences are that it makes an economy fragile, lethargic and unsustainable.

To paraphrase an economic journalist, the difference between a bad policymaker and a good one is that the bad policymaker confines himself to visible effects, while the good one accounts for the seen and unseen.

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