FORUM

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ARE SUBSIDIES THE BEST WAY TO SPEND OUR PRECIOUS TAX RINGGIT?

MY Say

BY RASHDAN M RADZI

Last year, we spent RM67.4 billion on subsidies and social assistance, RM40 billion more than we did in 2021. It was a record amount. At the same time, funding made available to upgrade our roads, ports, hospitals, rural clinics, public universities, schools, housing and other necessary infrastructure needed to help Malaysia become a prosperous nation amounted to RM32.7 billion, or roughly half of the total subsidies and social assistance.

This year, we are poised to spend a little less, but still, at RM58.6 billion, the budgeted amount for subsidies and social assistance was 1½ times more than for education, health, housing and transport combined.

Is this a good way to spend our tax ringgit? What benefit do we gain from such hefty spending on subsidies and social assistance, and what are we forgoing as a result? Are we conscious of what trade-off we are in effect making and if it is "worth it" in some sense?

Subsidies borne by the government are incurred largely as a result of price controls administered on a range of key necessities, such as the Automatic Pricing Mechanism (APM) introduced in 1983 for pricing retail transport fuels.

Notionally designed to provide price stability for end-consumers, these controls are in practice often coupled with the further aim of keeping prices affordable to help alleviate cost-of-living pressures for the lower-income households.

Subsidies play a crucial role in this regard as they help ensure the objectives can be met without putting supply availability in jeopardy. That we have been able to enjoy price affordability for sustained periods of time, along with a generally high degree of supply reliability, must count as one of the more underappreciated realities of our national economy today.

This is possible only because the government partly pays for what the rakyat consumes and thereby ensures that the commercial incentives for suppliers to continue engaging the Malaysian market are kept adequate.

Thus, despite international crude oil prices climbing about US$30 per barrel over the last 30 months, compounded by a 13% depreciation of the ringgit against the US dollar, Malaysian drivers on RON95 petrol still pay the same RM2.05 per litre as they did in March 2021.

At this price, it is one of the lowest in the world and, in fact, 30% cheaper than it is in Saudi Arabia, the world's largest oil exporter whose annual production volume is 25 times larger than Malaysia. In addition, our stations have remained continuously well supplied and there are no cases of shortage of petrol and diesel.

By keeping prices of essentials highly affordable, subsidies in effect also provide us with additional means of spending that allow us to buy things that contribute more meaningfully to our quality of life. To give us a sense of just how significant this effect might be, take the case of the fuel subsidy.

Based on information released by the government, we know that this constituted about three-quarters of last year's total amount of RM67.4 billion, or RM50.8 billion. This works out to a little over RM1,550 per person per year, or roughly RM130 per person per month or about RM490 per household per month, given the average size of a Malaysian household of 3.8 persons.

To place this figure in context, consider that out of the average Malaysian household's monthly expenditure of RM5,150 in 2022, roughly 45% was spent on essentials and 55% on discretionary spending.

If we suppose that a household's perception of quality of life or subjective well-being is more likely to be driven by directional changes in this portion of spending, rather than the overall level — no one gets a kick out of having to pay more for mundane necessities, presumably — then the critical question that needs to be asked is how significant is this supposed RM490 fillip compared with the average household's monthly discretionary spending?

The answer works out to 18%, which is not an inconsequential number. To put it plainly, close to one in every five ringgit that the average household had been able to spend last year on things beyond meeting their basic needs was made possible thanks to the fuel subsidy.

While subsidies have done much to facilitate price stability, supply security and affordability for the rakyat, this however has been achieved alongside many unintended consequences. A good many of these, readers will probably already be familiar with.

We find that the highest-earning one-fifth of Malaysian households, a group that requires no or less economic assistance, benefit about 1.8 times their fair share of the fuel subsidy, assuming this was equally distributed across the population.

This anomaly reflects the well-known shortcomings of the current mechanism to disburse the fuel subsidy where it is undifferentiated at the point of sale, linked to consumption volume and invariably the result of a "lowest common denominator" approach where controlled prices are set.

In the meantime, public debt levels have risen more than fivefold in real terms since 1997, virtually doubling its share in relation to the economy to 60.3%. It would be prudent to prevent this debt ratio from rising much further. As it is, the cost to service government debt already consumes nearly one ringgit in every five that the federal government collects by way of taxes.

Stabilising this ratio will create new urgencies that shape the government's fiscal strategies moving forward. New revenue sources must be found, while spending priorities need to be reassessed and reprioritised. The urgency to address our record-high subsidy and social assistance bill must be appreciated from this perspective.

So, what has to be done?

Of late, there has been a steady chorus of those calling for targeted subsidies. This would undoubtedly be a welcome improvement over the current system. However, targeting does not so much address the deeper root causes of subsidy dependence as to simply reduce the magnitude of the problem. Therefore, it cannot constitute a long-term solution.

Another option would be to effect price decontrol coupled with cash assistance for selected households. Its key attraction is that it operates in concert with the market mechanism rather than distorting it, which helps safeguard economic efficiency.

Some even see this as possibly being the nascent steps towards an ultimate long-term goal of universal social welfare provision akin to what we find in the more advanced social democratic countries of Europe.

This is indeed a relishing thought, but then one cannot have social democratic levels of welfare provision without social democratic levels of taxation, and one suspects there is hardly the appetite among Malaysians for this, for now.

Rice security cannot be left in the hands of private enterprise

ALTERNATIVE views

BY M SHANMUGAM

No country in Asia has been spared from the upheaval involving the price of rice. Even India, the world's biggest producer and exporter of rice, is facing a tumult from the rise in the price of the staple food for most Asians.

In India, where more rice is produced than consumed, farmers, millers and the population at large are unhappy with the initiatives taken by the Narendra Modi government to tackle the rising prices of food items.

If the price hike for rice is such a big issue in India, what more in Malaysia, which imports its top staple?

Unlike in India where the farmers are vocal, the voices of the paddy planters in Malaysia are hardly heard because they are a contented lot. The paddy planters are guaranteed sales at RM1,700 per metric ton. The RM1,700 price includes a government subsidy of RM500 per metric ton.

But the grouses of millers, wholesalers and consumers are loud, making the rising cost of rice a political issue.

The domestic millers claim that they have been marginalised over the years because the big companies control the source of paddy and, consequently, the rice milling business. The Malay Rice Millers' Association contends that its members are having difficulty in getting an adequate supply of paddy to operate the mills.

They say that the bigger companies pay a higher price to local planters, hence small millers are unable to get their supply from the domestic market. To compound matters, the millers say that they are not allowed to import unprocessed rice for milling. As a result, the mills complain that they do not have enough volume to operate viably, causing many to shut down.

As for the wholesalers, their grouse is that the government-controlled price of RM2.60 per kg is not profitable for them to operate as securing supply is becoming increasingly difficult and more expensive.

There is also the issue of the big price difference between local and imported rice that is selling on an average of RM3.20 per kg. Industry executives have said that there is not much difference between imported and local rice for some varieties.

So, speculation is rife that domestic wholesalers are repackaging the locally produced white rice as the imported variety and selling it at a higher price. There is also speculation of hoarding taking place in anticipation of higher rice prices in the coming months.

Hoarding and disruption in the supply of controlled items is common when there is a price hike. It happens everywhere, including in countries that export rice.

For instance, when India banned the export of some varieties of rice, this caused a disruption in supply in Thailand, which is the second-largest exporter of rice. The traders in Thailand were not committing to future trade because of price volatility.

In Malaysia, instances of hoarding have not been uncovered so far. But there is no end to reports of shortages. Hypermarkets complain that they are not getting the normal supply of rice.

The entity responsible for ensuring a stable supply of rice in Malaysia is Padiberas Nasional Bhd (Bernas). It is the sole importer of rice and has the mandate to ensure the stability of the domestic rice market. It maintains a stockpile of 290,000 metric tons of rice, which serves as a reserve. In return, Bernas has been given the monopoly of managing the rice needs of the country up to 2031.

While Bernas' mandate is to ensure that rice supply is undisrupted, it is owned by an individual, Tan Sri Syed Mokhtar Albukhary. Other than its finances, there are few details on how Bernas has evolved since it was taken private in March 2014.

Bernas has been profitable and paying out healthy dividends to its shareholders in the last three years from 2020. Between 2020 and 2022, it paid out a total of RM996 million.

Everything was fine for Bernas until the price of rice, which has been stable for years, started to move up following India's restriction on exports.

Apart from India, the other major rice producers are Thailand, Vietnam and Pakistan. After India imposed export restrictions on white rice varieties except basmati, traders in the other rice exporting countries also reduced their sales.

This was in anticipation of prices moving higher and the traders wanting to take advantage of the situation. The trickle-down effect is the price of rice in importing countries such as Malaysia going up and causing a disruption in supplies.

Following the rice price hike and shortages, the role of Bernas, which has had the monopoly to import rice since 1995, has come under scrutiny. Has it been investing enough in the rice industry so that there is no disruption in supply?

> The government can take on an unprofitable venture or even subsidise farmers. But why would Bernas be motivated to take up such responsibilities as it is a private entity driven by profits?"

More importantly, how big a role has Bernas played in promoting paddy farming to improve Malaysia's self-sufficiency level?

Malaysia's self-sufficiency levels have deteriorated over the years. It was an average of 72% between 1990 and 2009. The targeted level from 2011 to 2020 was 70% but it was not achieved.

Under the National Agrofood Policy 2.0, the targeted self-sufficiency level of rice from 2021 to 2030 is 80%. The target is lofty, considering that the self-sufficiency level now is 62.6%.

Can the Ministry of Agriculture and Food Security together with Bernas achieve the target of 80%? It is highly unlikely as large-scale farming of paddy takes a lot of effort, requires land and involves a gestation period when growing the crop is not profitable.

The government can take on an unprofitable venture or even subsidise farmers. But why would Bernas be motivated to take up such responsibilities as it is a private entity driven by profits?

Moreover, Bernas with its network of rice mills and warehouses probably makes more money from the trading of rice, including handling the imports.

Why would it want to increase the self-sufficiency levels of the country, which would reduce the dependence on imports of rice?

Currently, Bernas is the de facto caretaker of the rice industry and the needs of the staple food for the country. Among others, its task is to handle the paddy subsidy scheme for the government so that farmers enjoy consistent returns on their produce. Bernas is also responsible for ensuring the national supply of rice.

It should be left to do that until the concession ends.

But Bernas cannot be depended on to develop large-scale farming and to build up the rice milling industry.

The government should lead the initiative to achieve the 80% self-sufficiency level. It cannot be the responsibility of a private enterprise. E

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This brings us to the deeper question of why there should fundamentally be any discussion about providing subsidies, or social assistance as its equivalent, at all — at least in the context of ensuring that Malaysians have a decent quality of life.

It is surely nothing short of perplexing, if not vexing, that at a time when we stand more prosperous than ever before in our history, at least to judge from our income per capita levels, dependence on subsidies and social assistance for our general well-being is also at its highest.

Are our expectations of quality of life truly running ahead of our means? Or is this really symptomatic of deeper structural issues besetting the Malaysian economy where not everyone is sufficiently on board its train of wealth creation?

This is not to detract from the more immediate, real and pressing trade-off decisions that will need to be made over the coming months about how best to pare down our bloated subsidy and social assistance bill.

However, unless due care is taken to ensure that these decisions, including discussions that will necessarily precede them, are properly contextualised against these deeper structural economic issues, there is the danger that we lose sight of the appropriate solution space and thus embark upon courses of action from which it would be difficult to recover if the need arose.

Ultimately, it is not from the charity of the public purse nor forcible economic transfers from the haves to the have-nots that we ensure the well-being of ordinary Malaysians or the better public services they would rightfully expect from their government, but rather from the opportunities that a reinvigorated, flourishing and inclusive Malaysian economy will provide.

Let us bring this dimension into our discussions too. E

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