

Subsidies should go to the right groups

Malaysiakini.com

May 24, 2011

The government should embark on proactive measures to ensure the poor and low income segment do not fall into abject poverty once the subsidy rationalisation is implemented.

A well targeted and administered social safety net in the form of direct income transfer, cost of living allowance or voucher system for the affected items are among the possible measures, said RAM Holdings Bhd group chief economist Yeah Kim Leng.

"Over the longer term, it is only through effective education, training and income-enhancement opportunities that will enable the poor to escape the poverty trap and vulnerability to inflation," he told Bernama today.

He said if the price adjustments were compared with that of other countries, especially those in the low and middle-income groups, the Malaysian government's response to global energy and commodity price shocks has been less harsh, partly because the country has been blessed with abundant natural resources.

Despite the subsidy reduction, retail prices of essential consumables such as rice, flour, sugar, cooking oil and non-food items such as petrol and cooking gas, remain below market prices, the difference being absorbed by the government through the subsidy system.

"There are strong economic and social justifications to keep the subsidies but it should not be at a level that jeopardises the financial health of the government as well as the ability of the economy to cope with further price increases," Yeah said.

He reminded the people of the negative impact if government-run commercial entities such as Petronas and Tenaga Nasional Bhd, continue to bear the heavy burden of maintaining big subsidies to the people.

Government's commercially run entities could be run down if their financial health is impaired by too high subsidies to the extent that they can generate adequate profits to sustain their operations and to invest in capacity expansion or exploration activities for their long-term viability, he added.

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