

The BN's or PM's fatal remedy?
Malaysiakini.com
Jun 13, 2008
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Granted, the price of crude oil as on Wednesday (June 4) was US\$125 (RM404) per barrel and has been increasing ever since. A saving of RM13.7 billions were expected when the announcement of the fuel subsidy cuts were made on that historical day. Petrol prices were raised by 41% to RM2.70 from RM1.92 effective June 5, while the price of diesel was increased by RM1 to RM2.58, a jump of 63%.
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As if that wasn't excruciating enough, the government simultaneously announced that effective July 1, electricity rates will be raised by 18% for households and 26% for industrial and commercial users. A double whammy!

Inflation floodgate opens wide

The impact? Doubtless, a wide-ranging ramifications for both consumers and businesses. The various daily media carry the full impact of this unfolding catastrophe. The cost of living and cost of doing business, already escalating, will soar up even higher! After foolhardily opening widely the floodgate of inflation, the BN government is now desperately mitigating its full knock-on impact through various rebate measures. Weird.

One could vividly recall that Domestic Trade and Consumer Affairs Minister Shahrir Samad was repeatedly saying that there will be no fuel hike right up to late Wednesday morning. It will not be raised until August, he reassured. Well, one could equally recall the promise by the deputy premier during the launching of the BN manifesto on February 2008 that there shall be no fuel hike in 2008. After a four- hour cabinet meeting on that historical Wednesday the premier frantically made the bizarre announcement, as if an Armageddon is to befall the nation, if we failed to do so.

The question one wishes to ask the premier would definitely be, why took on such drastic action? Irresponsible, if I were to be polite and or plainly reckless, if I were to be in my parliamentary or default mode. While the knee-jerk response of the rakyat was to immediately make a beeline for the petrol stations up to 1 am on Thursday morning, rest assured that the rakyat is not taking this lying down, this time round.

No matter how the government attempts to rationalize its action, the public will not stomach it. Especially not after the last general election where the BN not only suffered a bloody-nose but was literally 'massacred'. They now come face-to-face with a more well-informed citizenry or a more 'enlightened' voters. Thanks to the 'New Media' that has empowered the rakyat to make informed decisions. That's why they simply couldn't hoodwink them anymore, not anymore.

The attempts at comparing our petrol prices with non-oil producing neighbours like Thailand and Singapore were both ludicrous and pathetic. Let's not compare with the affluent OPEC states. To cite but a few examples Nigeria is charging her citizens at RM0.32 per liter and Iran at RM0.35 per liter. Indonesia that has become an oil-importing nation is charging RM1.85 per liter. President Chavez could maintain charging the Venezuelans RM0.16 per liter and the economy still remains robust.

But before we go on the debate, let's get a few things straight.

Macroeconomics 101 - Subsidy or no subsidy

Firstly, subsidy or no subsidy is a matter of choice for the government of the day, as is also on taxation and all its various types; the direct or indirect tax. To increase or reduce it is also a matter for the government of the day to decide. These are the stabilization policies with which any government is capable of 'moderating' so as to achieve certain targets in the macroeconomics, namely growth, inflation and employment. This simply put, is the Fiscal Policy, while the government could also moderate the Monetary Policy that involves the money supply and changes in the interest rate by the BNM.

Getting into the debate proper, any subsidy or a payment by a government agency to producer of goods, intended to make prices lower is beneficial for the rakyat. The subsidy will also have the effect of raising the income of the rakyat. The fuel subsidy, being an important component of all products of food, transport and services, is undoubtedly important, as it not only makes the fuel prices lower but more importantly it avoids the inflationary pressure once the price of fuel is raised, when the subsidy is reduced or withdrawn.

Let's hear the government side of the argument. The subsidy is no longer tenable because of the spiraling global crude oil prices. The government would have had to spend RM33 billion for the fuel subsidy this year, if they have not cut its subsidy by RM13.5 billion. The fuel subsidy, said the second Finance Minister is equal to our development budget annually. We could ill afford this. We could do a lot more with that money. Admittedly logical and sound but do we end there?

The real beneficiaries

Well, in May 2006, the government reduced its subsidy by RM4 billion promising to upgrade the public system of transportation. Is our public transport better off or worse off now? So were the less-off segments of our society or the marginalized rakyat aided by the cut in the subsidy after all, as they presumably will be utilizing the public transport most? So where did the RM 4 billion go to? So, who were the real beneficiaries? By extension, who will be the beneficiaries of the current subsidy cut of RM13.7 billions? Which lucky (read crony) companies will be awarded new projects and who benefited most from insider information and racking in millions on the TNB shares that shot up after the announcement on its tariff increase?

By the way, we are still a net exporter of oil. The Petronas Group delivered another record performance for the financial year ended 31March 2007, amidst a more complex and increasingly challenging global oil and gas industry environment. A total revenue of RM184.1 billion were recorded with a Profit Before Tax of RM76.3 billion. Petronas has a total asset of RM294.6 billion.

Talks of Petronas' oil drying up come 2014 are contrary to its report. Even the Minister is selectively ignorant. The Group's continuous effort to replenish the nation's hydrocarbon resources have resulted in a fairly constant reserve life for Malaysia – an average of 20 years for crude oil and condensates and 34 years for natural gas reserves respectively, at current rate of production. One of the Group's significant achievements in the Exploration

and Production sector during the year was its success in replacing more hydrocarbons than what was produced in Malaysia, with a respectable Reserves Replacement Ratio (RRR) of 1.8 times, which is among the highest in the industry (based on 2006 report).

Let's do a back-of-the-envelope arithmetic together. Incidentally an audited account of Petronas has never been presented in Parliament. We are often told that we produce 650,000 barrels of crude oil per day, while consuming approximately 400,000 barrels. We have still a net of 250,000 barrels to be exported per day. We were also told that for every US\$1 increase in crude oil price, we are in to make an extra RM200 million per year approximately. Hence, from the last fuel hike back in May 2006 when the crude price of oil was US\$65 per barrel, with US\$125 per barrel as on last Wednesday, the increase is US\$60.

Assuming, not much changes in every other costs, we should have made a whopping RM12 billion from the price hike in global crude oil from May 2006. With the willingness of the 'repentant' PM and his 'remorseful' Cabinet to be on 'austerity drive', i.e. 10% cut in various allowances after their last bad outing in the 12th GE as an 'atonement' for all their excesses and 'sins of omission and commissions', we are in to save a cool RM2 billion. Wish they knew about 'austerity' a lot earlier. Hundreds of billions could have been saved and invested in our Sovereign Funds for our grandchildren! Mind you, Malaysia has one of the highest resources per capita in the world. But where are we now?

Our back-of-the-envelope calculation shows that this could take care of the RM13.7 billion in the extra subsidy required as to take for the increase in the global crude oil price. But this surely wasn't the way the government would like to go. She has in fact taken a 'bold' step in an attempt at dismantling the entire fuel subsidy approach which she now neither believes to be any longer tenable nor desirable.

The PM's Waterloo

While this writer may be willing to concede that subsidies especially coupled with the multi-layered price-control and the BN's APs cum monopoly policies, have created huge distortions in the economy, misallocation of resources, leakages, huge bailouts and protection of uncompetitive industries, doing it the 'BN Way' may be more aptly described as the 'medicine killing the patient' – The Fatal Remedy!

The writer can't help sharing that he has a hunch that the premier is again deliberately ill-advised as to 'finish-him-off' altogether, albeit politically. So the BN's remedy may turn out to be equally fatal for him – his Waterloo of sort.

Given a citizenry that has long been pampered by the BN misguided populist policies on price control and subsidies, the need for a more holistic and integrated policy change is all the more pressing. With it, would be the need to revisit the concept of prioritization in development, of sustainable growth, of attaining global competitiveness, of avoiding crony practices, of avoiding wastage and excesses and remaining prudent both in fiscal and monetary policy and exercising good governance. The long-outstanding dire low wages scheme needs to be revisited. Above all, we would like to remain caring and yet provide opportunities for all to be enterprising and competing fairly. The Pakatan Rakyat federal government will surely like to do it "Our Way".

A thorough deliberations and discourse is surely in order. Not here though. As for now, the writer's critique on the fuel hike hinges on the fact that the policy changes are indeed precipitating the disastrous cascade of fatal injury to all. To the lower-income groups, talk of

changing lifestyle is simply nonsensical.

Recalling a parliamentary debate, a BN minister explained that food accounts for the 33% of the CPI, while fuel, transport and communications contributed 15.9% of the CPI weights. With a 41% petrol hike and up to 26% in electricity tariff, we are about to witness an inflationary pressure that may very well be unprecedented. Some are already predicting it to be as high as 7%.

With the government admitting that private consumption accounted for more than 50% of the GDP and growth is essentially domestically driven, we are now set to witness a slowing down or a meltdown of the economy. With lower disposable income and a rising debt burden, weaker private consumption growth, the impact on the overall macro-economy will be even more gruesome.

It doesn't really matter to the rakyat whatever the growth number or CPI may eventually be. However, it certainly will hurt them most when food could no longer be on the table, as the exorbitant prices will be very prohibitive while the holes in the pockets getting deeper. The knock-on social impact, on the back of an already overburdened nation plagued with crimes, are both immensely scary and onerous.

In this sense, the policy prescription has been regrettably irresponsible and ostensibly reckless.

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Source : <http://www.malaysiakini.com/news/84418>