

Move to align prices could hurt later, say analysts
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By Lee Wei Lian

KUALA LUMPUR, March 8 — Putrajaya's latest move to streamline prices in rural areas with cities through a RM200 million financial assistance programme could distort the economy and create dependency on subsidies in the long run, said analysts.

The Domestic Trade Ministry announced on Monday the allocation to fund transportation costs to lower prices of necessities in rural areas. Most of the funds are for remote areas in Sabah and Sarawak, which are also seen as a "fixed deposit" vote bank for the ruling Barisan Nasional (BN) federal government whose five-year mandate expires next year.

Datuk Dr Mohamed Ariff, distinguished fellow at the Malaysian Institute of Economic Research (MIER), said the transportation assistance amounted to taxpayers having to subsidise rural consumers.

Wan Saiful such assistance could encourage rural consumers to become dependent on government subsidies. — File pic

"It is pretty obvious that there is subsidy involved in this standardisation exercise. The RM200 million allocation by the government says it all," Ariff told The Malaysian Insider.

"This is tantamount to the urban consumers subsidising their rural counterparts. It, of course, risks distorting the economy."

Wan Saiful Wan Jan, chief executive of the think-tank Institute of Democracy and Economic Affairs (IDEAS), said that such assistance could encourage rural consumers to become dependent on government subsidies.

He pointed to how petrol subsidies over the years had helped create a society dependent on cheap fuel. Putrajaya underwrites part of the retail price for both diesel and the RON95 petrol grade, spending RM15.9 billion in fuel subsidies last year. It has allocated RM17 billion for 2012.

"It might be popular now but it would create long-term problems 20 years down the road," he said when contacted.

Wan Saiful also noted that while Prime Minister Datuk Seri Najib Razak had said that the welfare state mooted by Pakatan Rakyat would blunt competitiveness, his administration was "ironically" doing what was prescribed under the welfare state concept.

"This type of intervention (price standardisation) is exactly what the welfare state is supposed to do," he said. "It is another indication of policies being introduced not based on the big picture or vision but what is popular or pragmatic."

He said the government should be more innovative and engage thinkers to come up with more market-driven solutions to address issues.

"If the price difference is serious then think about market-based solutions and not turn Malaysia into a welfare state that they are complaining about," he said.

The think-tank chief suggested that non-government initiatives to help the rural consumers were preferable to subsidies.

RAM Ratings chief economist Yeah Kim Leng said that while rural transportation assistance and price standardisation was socially desirable, the government could also start looking into market-driven approaches such as the establishment of bulk-buying co-operatives in rural Peninsular Malaysia.

"Give opportunities to people to manage themselves," he said.

Yeah also noted that while assistance programmes were needed to help rural poor, the government should bear in mind that it not distort the local economy.

He said that if transporting gas cylinders to rural communities was expensive, perhaps the government could look at alternatives such as solar power.

"They should look at which option is more efficient," he said.

Domestic Trade, Co-operatives and Consumerism Minister Datuk Seri Ismail Sabri Yaakob said on Monday that RM191 million of the transport assistance was allocated to Sabah and Sarawak while the remainder would be channelled to states in the peninsula.

He also said that a 14kg gas cylinder in Bario, Sarawak that costs RM148 before price standardisation now costs RM27, which was the same as urban areas.

The Najib administration had committed itself to gradually rationalising subsidies to reduce economic distortions and cut its budget deficit as part of its reforms.

Some subsidies, such as for sugar, rose however by RM567 million to RM33 billion as the government tried to put the brakes on inflation.

Critics claim that the apparent slow pace of subsidy rationalisation was due to the need to head off a potential backlash over the rising cost of living ahead of national polls due by early next year.

Barisan Nasional leaders such as Deputy Prime Minister Tan Sri Muhyiddin Yassin countered however that there was no agenda behind government assistance apart from the well-being of the public.

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