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Rafizi's push for consumer action good but actual policies would be better, analysts say



Rafizi said analysis of inflation data showed a major factor driving prices up was the inelasticity of demand, a term economists use to describe a situation where consumers still buy the same amount of goods even as prices are inflated. — Bernama photo

KUALA LUMPUR (Jan 27): Economy Minister Rafizi Ramli and others responsible for addressing Malaysia's living cost crisis must quickly develop direct solutions to the issue and prevent the government from appearing hands-off in the matter, according to analysts.

Analysts polled by Malay Mail said this was because the Pandan MP's advice for consumers to shun businesses charging above market rates was technically correct, real-life conditions were not always as neat as in theory.

Universiti Sains Malaysia political science professor Ahmad Fauzi Abdul Hamid pointed out that the public expected some form of government intervention or even price controls — at least in the short term — as these were within its ambit and authority.

“While it’s true that the public has a role to play on the demand side, portraying as if the government is powerless on the supply side will only cement the image of this Pakatan Harapan-Barisan Nasional (PH-BN) government as one of a neo-liberal disposition.

“Brought to the extreme, such a belief might potentially damage Datuk Seri Anwar Ibrahim’s reputation as a caring prime minister; one can refer to the free market convictions of short lived British prime minister Liz Truss as a recent example.

“And right-wing ideologues in the United Kingdom look to Singapore as a viable economic model based on a so-called ‘Singapore-on-Thames’ post-Brexit vision. With Anwar himself having stated that the government was somehow impotent vis-a-vis banks in regulating the OPR (overnight policy rate), and Housing and Local Government Minister Nga Kor Ming seeking advice from Singapore HDB (Housing and Development Board) experts, it’s fair for people to wonder whether this government is slowly drifting towards embracing laissez faire economics during these challenging post-Covid economic times,” Ahmad Fauzi said when contacted.

Laissez-faire is an economic theory from the 18th century that opposed any government intervention in business affairs. The driving principle behind laissez-faire, a French term that translates to “Let it be”, is that the less the government is involved in the economy, the better off business will be, and by extension, society as a whole.

After being appointed the prime minister, Anwar insisted that combating the country’s cost of living crisis and restoring the economy would be his administration’s overriding objectives.

In November 2022, Malaysia’s inflation remained elevated at 4 per cent year-on-year compared to October but prices of food and non-alcoholic beverages continued to register an upward trend, staying above the 7 per cent range to become the lead component driving up the consumer price index.

Food and drinks make up the most of the average household income expenditure, accounting for up to 30 per cent according to official data. From this, over 11 per cent is spent on eating out, according to Rafizi.

Rafizi, when referring to the inflation data (for the food component), said the highest driver is prepared food, suggesting consumers spend a huge sum of their income dining out. This sustained demand and willingness to pay prices set by sellers were likely due to the lack of pricing transparency, the minister said when suggesting consumers may lack incentive to change their consumption behaviour because they are unaware of cheaper alternatives.

He told consumers that they were also partly responsible for the continued rise in food prices in Malaysia, as he called for a “collective” effort to rein in soaring inflation.

The Pandan MP said analysis of inflation data showed a major factor driving prices up was the inelasticity of demand, a term economists use to describe a situation where consumers still buy the same amount of goods even as prices are inflated.

But Nusantara Academy for Strategic Research senior fellow Azmi Hassan said Malaysians remember when Rafizi had mocked previous administrations over a similarly simplistic approach to rising prices.

Given Rafizi's image as an intelligent and savvy policy maker, Azmi said Malaysians would rightly be hoping for more from the minister beyond common-sense advice alone.

"People genuinely expect more from him and there are also groups waiting to pounce on him since he was very vocal during his Opposition days. He has the whole ministry behind him now and it's not remiss for people to feel sad or feel that his remarks were unexpected.

"Perhaps he didn't have to suggest we don't go to these high-priced outlets. Price of raw food, supply chain disruptions, pandemic, Ukraine-Russia war as well as global climate change has affected everything around us so if we boycotted restaurants, we may be boycotting the majority of restaurants," he told Malay Mail.

"However, Rafizi was just sworn in a few months ago; I hope in the coming months as he continues to learn the lay of the land and his experience and knowledge of the trade grows we will see him formulate good policies," he added.

On January 21, Rafizi criticised restaurant owners who maintained their prices even after the cost of raw goods fell. He said it was vital for these businesses to cooperate in lowering their prices in line with those of the ingredients in order to help improve the people's spending power and ease their financial burden.

He said consumers also should be more proactive in response to changes in the prices of goods by avoiding restaurants and other food outlets that offer food and beverages at unreasonable prices.

Economist Dr Nungsari Ahmad Radhi concurred with Azmi's points for the inflation and rising cost of food, adding that it correlated with rising energy prices.

He also said the weak ringgit, due among others to the US Federal Reserve's aggressive hikes of interest rates, has also made all imports more expensive. The only thing that could be done here, he said, is to have Bank Negara Malaysia (BNM) try to intervene.

He then suggested that market liberalisation would help mitigate the cost-of-living crisis at the moment, saying that permits and licences for trade and import could be eliminated to improve efficiency.

More fundamentally, however, he said the crux of the crisis was due to Malaysia's chronically stagnant wages.

“In my view, inflation in Malaysia is about low income. Income levels that are so low that inflation has significantly eroded purchasing power hence consumption and therefore quality of life. Short-term solutions are about safety nets like cash transfers. Longer-term solution about making Malaysia — Malaysians and Malaysian firms more productive and competitive. Only then can we increase overall wages, the best hedge against inflation,” he told Malay Mail.

“The longer-term solution will take time and political capital — to transform the economy into one that is able to generate higher paying jobs. This requires more firms to be competitive and enter export markets. Which requires productive and capable human resources. More effective schools and colleges and universities, a facilitative legal environment and a return of investors’ confidence in all kinds of national institutions including the government.

“Of course, inflation is about affordability: the loss of purchasing power because income is low and eroded by inflation. So, do income augmentation programmes — cash transfers, etc — to targeted households. This is done. But this sort of thing is transitory while prices remain high.

“Rafizi is not wrong in saying that consumers need to be better consumers by buying from the cheapest sources. This eliminates whatever profiteering there is. Of course, this requires information and searching for information can be costly. Consumer groups and associations should be doing this and disseminate information for consumer use,” he added.

On Wednesday, Rafizi doubled down on his insistence that consumers were responsible for driving inflation, saying that dining out was among the main drivers of the problem.