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Targeted subsidies best solution

SUPPORT FOR LOW-INCOME HOUSEHOLDS

TARGETED SUBSIDIES BEST SOLUTION?

But finding the correct mechanism remains huge challenge, says economist

AZANIS SHAHILA AMAN
KUALA LUMPUR
bt@nst.com.my

THE government is right to address the subsidies issue as the rich are benefiting from them more than the poor, said economists.

However, they said finding the right mechanism was a huge challenge, especially as no one really knew how to "target" fuel subsidies correctly.

Titawansa member of parliament Datuk Seri Johari Abdul Ghani, highlighted on Monday the importance of targeted subsidies, as the government had

spent RM51 billion in subsidies last year compared with RM8.3 billion in 2017.

Citing Saudi Arabia as an example, Johari said its government slashed blanket subsidies that only benefited high-earners in 2016, and this allowed for cash aid to be given directly to low-income earners.

Malaysia University of Science and Technology economist Dr Geoffrey Williams said Johari was right to highlight the issue.

"There are two ways you can deal with this and he (Johari) has mentioned one, that is to target incomes, not products.

"He used the example of a cash

transfer system for low-income groups in Saudi Arabia. This means although removing subsidies and price controls may cause prices to rise, the incomes of low-income groups are uplifted and they can thus afford that.

"This targets support at the income level, not at the product level, and is more effective," he told the *New Straits Times*.

Williams said the assistance provided in the 2023 Budget for households with income below RM2,500 was exactly this type of scheme and was the start of a "Universal Basic Income".

He said an alternative was to set tiered prices like with the electricity tariffs.

"There can lower tariffs for low-income households and higher tariffs for high-income households. This can be done because

we have the data on household income and the billings are direct to households.

"A similar tiered pricing scheme can be applied for petrol so those buying more would pay more," he added.

Bank Islam Malaysia Bhd chief economist Firdaos Rosli said the biggest problem with targeted subsidies was that no one really knew how to do it correctly.

The "show-me-your-MyKad" method where the recipient would enjoy a fuel subsidy (via a lower retail petrol price, presumably) was notoriously complex to administer, he added.

"If one can use another person's bank card to make a purchase, MyKad is no different. Besides, what if a Malaysian is a taxpayer in a foreign country, say in Singapore, but refuels in

Malaysia? What about a foreigner who is a taxpayer in Malaysia?"

The "show-me-your-engine capacity" method, where fuel subsidy will be given to motorcycles with 125cc capacity and below and cars with 1,300cc and below was not a foolproof solution as well, he added.

Firdaos said nowadays, engine capacity did not necessarily determine the car price and, by extension, an individual's income level.

He said the income supplementation method via universal cash transfers might be a good solution.

Meanwhile, Deputy Finance Minister I Datuk Seri Ahmad Maslan said yesterday that the government was still studying the mechanism for targeted subsidies.