

Eligibility for fuel subsidy

THE government recently announced that the fuel price cap would be removed starting next year and the fuel subsidy would be targeted towards the B40 income group only. However, it has since been announced that the subsidy would also be extended to M40 households that own no more than two cars and two motorcycles.

The most apparent issue with the targeted scheme had been the possibility of unfair exclusion, where the B40 group is said to be an "arbitrary threshold" as it does not reflect the many dimensions of well-being. This means that a household may be wrongly classified as an M40 household using the existing classification method, and therefore it would be excluded from receiving the fuel subsidy.

I am not advocating for a redefinition or the reclassification of households into "accurate" groups, as there are other aspects about the fuel subsidy that we should look at. The argument is that it should be extended to a wider range of recipients, and a blanket



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subsidy is (at least for now) the best way to achieve that.

Fuel subsidy is most often associated with cost of living. The rationalisation of the fuel subsidy would intuitively lead to a higher cost of living for those who would be excluded from receiving it. While the targeted fuel subsidy would be able to lower the B40 group's cost of living burden, the M40 would have to shoulder a heavier burden considering that 14.4% of their income is spent on transport, according to a report by Khazanah Research Institute.

From January to November 2018, the government spent RM4.89bil on blanket fuel subsidies (RON95 and diesel). In November alone, RM209.1mil was spent to subsidise diesel and RM4.1mil on RON95 (a mere 1.9% of the total fuel subsidy in that month).

If we were to annualise the amount, it would be roughly RM49.2mil being spent on RON95 subsidies across 12 months. The 2018 Budget was roughly RM280bil, which means that subsidies for RON95 took up only

0.018% of the budget.

Furthermore, in order to ensure compliance with the regulations of the targeted fuel subsidy, the government would need to spend on resources to track the number of vehicles each household has and ensure that the number reported is correct.

However, subsidies shouldn't be justified by cost alone; costs and benefits of every aspect should also be considered.

As with most policies, the more complex it is, the more it will be prone to leakages and abuse. The targeted fuel subsidy mechanism is at best a cash transfer scheme to households. This is because the subsidy isn't provided on the account of actual usage but rather on ownership of a certain number of vehicles.

This means that a household that uses public transport would be eligible for the same amount of subsidy as one that depends on private vehicles.

In this case, the household that uses public transport would be receiving double subsidy, as public

transport is usually subsidised.

This represents a leakage since the fuel subsidy isn't entirely spent on fuel, which brings out the point that the targeted fuel subsidy scheme is in some sense similar to cash transfers to the household, and this is not what the policy is intended to be!

I've read an argument that a cash transfer mechanism for fuel subsidy would give households control over how the money would be spent. Hence, a household that spends less on fuel can spend the money on other items.

My question is, if it isn't earmarked for fuel consumption, why is it named "fuel subsidy"? The amount could be included as part of the Cost of Living Allowance (*Bantuan Sara Hidup Rakyat*) since money from this programme isn't earmarked for specific usage, unlike fuel subsidy, which should only be spent on fuel, I believe.

This contrasts with subsidies, where a household would have to consume the subsidised good in order to receive the subsidy.

This is crucial because house-

holds that spend more on fuel would receive a subsidy amount proportionate to their fuel usage.

Of course, some would argue that subsidies are economically inefficient because they would encourage over-consumption. This has some truth on the macro scale, where commuters may switch to driving, but this is unlikely as fuel price is just one of the considerations of car ownership and driving.

For individuals who are already driving, cheaper fuel prices do not mean they will drive longer distances. This is because driving requires time, and the longer the time an individual spends driving, the less benefit he or she will get.

To illustrate, let's say you want to get a loaf of bread. The shop in front of your house sells this at 90 sen, but you know there's a bakery 20km away that would pay you 90 sen to buy its bread. Assuming that fuel is free, would you drive all the way to this bakery to get the free bread?

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