

## A difficult task

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Should subsidies be reduced when inflation is worsening? How much should it be reduced? How should low-income earners be assisted after subsidy reduction? All these are thorny problems.

Would the vulnerable communities and national economy be able to accept subsidy reduction before wages are increased and inflation is under control? The minimum wage policy has been mentioned since last year and it was said that the bill would be tabled in the Parliament in June or July.

The minimum wage policy is expected to be implemented at the end of this year or early next year. However, it is only an estimation. Would the Malaysian Employers' Federation (MEF) opposed to the policy again? How much would be the minimum wage in Malaysia? The minimum wage ruling for security guards, which has been taken effect on 15 February 2011, has not been observed by many security companies. Would there be any changes to the national minimum wage policy?

There should never be a double standard for the minimum wage policy. If only local but not foreign workers can enjoy it, it would encourage employers to hire more foreign workers. If the minimum wage is set at RM900 per month and is applied also to 1.9 million of illegal foreign workers, the country would then lose its "reputation" of low labour cost.

Local and foreign investors in manufacturing and plantation industries which rely on cheap foreign labours might disinvest and move their production bases to Vietnam and Indonesia. After the implementation of minimum wage, would the annual increment range be linked up with productivity? If productivity is increased, wage increment would weaken the competitiveness of Malaysian products in the international market. When the manufacturing and plantation industries enjoy the minimum wage policy, service and other sectors would as well ask for increment, such as the recent pay increment for teachers, which has been protested by most teachers who have not been benefited.

Similar cost and technical issues must first be solved or the minimum wage policy would not be able to be implemented this year. Even if it is implemented at the end of this year, subsidy reduction would be started in June. How are the people going to deal with the rise of living cost in the intermediate period after the subsidy cut and before the wage increment?

Therefore, the government must speed up its effort in solving the problems of the minimum wage policy. Otherwise, it might trigger public discontentment if the subsidies are cut but wages remain stagnant. It is not conducive to winning votes in the next general election.

The second question is, what subsidies should be cut? The government is trying to create least harm and it is reported to be considering between RON 95 and power prices.

Petrol price hike would affect all consumers as cars and motorcycles are now necessities of life. If RON95 is increased by 10 sen per litre, the inflation rate might reach 4%.

As for power prices, the scope of tariff hike could be set and average families might not be affected. If natural gas subsidy is reduced and independent power producer's concession contract is reviewed, the government could save up to billion of ringgit. If they should choose one between RON 95 and power prices, of course they should take the latter option.

The third question is, how should they maintain the momentum of domestic demand after subsidy reduction? The country achieved 4.6% of economic growth in the first quarter, which was worse than expected and the inflation rate in April was 3.2%, which was higher than expected. The current market is generally quiet and if subsidies are reduced, it might worsen the situation. Also, price hikes, including vehicle spare part prices to be increased by 10% to 20%, together with higher imported food prices would cause many families fail to make ends meet.

How should they make the choices? It is indeed a difficult task.