

# Reflections on a petrol price rise

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MY first instinct on receiving the phone call telling me of the recent 30 sen petrol hike was one of disbelief.

To my mind, something of this order was simply impossible. It would have been political and economic suicide and I was sure that it was untrue.

I ignored the queue of cars at the petrol station as I headed home.

A year earlier, a similar rumour had come out empty and earned an angry rebuke from the Prime Minister. On that occasion, the speculated rise was only 20 sen.

My reactions, on finding out that the price rise was indeed real, were, in quick succession, confusion, panic, and then, pain.

A barrage of questions came to mind. How much more am I going to pay? What am I going to have to cut back? Why did the government do such a thing?

In addition to myself, I am the father of two college-going students, both with cars, so it was not going to be a pretty sight.

I groaned at the thought of my ample belt having to be tightened.

Then thoughts turned to the miserable state of my investments. The stock market was going to have to negatively react to this event. I jotted down sell orders of those counters I thought had to be jettisoned.

As an economist, it has become second nature to try to estimate the impact of every new development on inflation, interest rates and output.

Phone calls around to a few friends were of not much help. They were too shell shocked for any decent conversation.

The next morning, the newspapers carried details that had been missing the night before.

As I sat at my desk taking it all in and trying to figure out what it meant, the realisation hit me: It had all actually been quite cleverly thought out!

The way that it was conveyed and justified to the public may have left something to be desired but at least I could see the irrefutable logic.

Thinking back, I should have remembered that no administration wants to preside over a flaming economic mess. (For some strange reason, we sometimes think of those in government as prone to spontaneous acts of irrationality.)

In a roundabout way I was correct: The government did not commit political and economic suicide.

By the time a reporter from a Chinese daily called for my comments, I was ready. At the end of the interview, he remarked how well informed and understanding I was. "If only he really knew", I thought to myself.

In the days that followed, public reaction has more or less run the same range of emotions, except perhaps the last.

Opposition political parties have denounced the move. They could hardly be expected to do otherwise. Even the wing of a component Barisan Nasional party has protested.

Businesses are up in arms, as are consumer groups who are rightly afraid of the knock-on effects to other goods and services.

Even my friends in the financial markets with cushy jobs and fat expense accounts are unhappy – though in private, not in public.

Amidst all the noise, we have missed the quiet cries of desperation from those unable to make ends meet and the eerie silence from those who have long since given up trying.

It has now been three days and I have had an opportunity to reflect and journalise some of my thoughts about the event.

These are personal and I don't expect everyone to agree with it. I do it simply to learn from it and sharpen my thinking for the next bolt out-of-the-blue. There are six points.

The first and most blazingly obvious is that the Malaysian public does not like nasty surprises.

The advantage of quick and unexpected decisions is that there is no time to raise any effective opposition to them. The last thing one wants when implementing painful policies is to have protracted negotiations that water them down.

In this particular case, negative reactions at the increase were not unanticipated but it seems that the depth of the resentment at the quantum may well have been.

An object lesson for the future may be that the ground needs to be much better prepared for such unwelcome events. Contingency plans and feedback mechanisms need to be put in place well before the event and not after.

Nice surprises, however, are welcome any time.

Second, there are always elements of a Prisoner's Dilemma in these situations. Faced with a depleting wallet, it is always in my interest to construct arguments, rhetorical or otherwise, as to why the government should continue to subsidise the social good.

In other words, whether or not I agree with the reasons for the fuel hike, I should openly oppose it. In this way, the government will at least have to think twice about the next increase.

Third, information and logic helps only to a point. The dilemma for many is that while they intellectually understand the situation, they will not be emotionally able to accept it unless these are somehow internalised in their collective psyche.

Lesson: Unless you can feel that those in authority somehow identify with your situation, it is unlikely that you will identify with the solutions.

Fourth, in any successful democracy, there is a real danger of policymakers formulating and defending policies using what are essentially 'middle class' spectacles. It is reasonable – make that obligatory – to demand that the most advantaged Malaysians make sacrifices and lifestyle changes. This is hard to accept when it is addressed to the least advantaged.

The lesson is that the way the message is framed can be as important as the message itself.

Fifth, if I don't perceive the problem as being a shared one, I am unlikely to own the solution. If no one else is tightening their belts (including the government), then why should I? In short, policies and policy rhetoric have to be relatively consistent with one another if they are to be believable.

Sixth, Malaysians fall into three separate constituencies. There is absolutely no basis to subsidise the middle to upper-class. Not only that but it would be positively inequitable to do so.

There is also no good valid reason to subsidise business and industry except in the short-term. The costs of distortions created by the fuel subsidy can be enormous and amount to many times more than the subsidy itself.

The poor, however, do deserve government support on the grounds of equity but certainly not of the kind exhibited by the diesel subsidies for fishermen. This is misplaced largesse. Even here, the amount of subsidy cannot be allowed to grow without restraint.

At the end of the day two thoughts come to mind.

One, if having gone through the ceiling, world oil prices go through the roof, Malaysians will be blessing the government, not cursing it as they are doing today.

Two, every subsidy has to be paid for whether by this generation of Malaysians or the next. Not all subsidies are bad but most certainly are. Fritter away our oil this decade and the taxpayers of the next decade – my children and their children – will have to import and pay for it.

I don't know about you but I want to eventually leave Malaysia a better place than when I appeared here.

That somehow makes the present kafuffle worth it.

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