

INEQUALITY, PUBLIC EXPENDITURE AND MALAYSIA'S NATIONAL RICE POLICY

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Analisis tentang sektor padi ini menumpukan perhatian khusus terhadap keberkesanan dasar beras negara bukan sahaja dari segi peningkaian pengeluaran tetapi juga dari segi pembasmian kemiskinan dan kecukupan pemasaran dan penggunaan beras tempatan. Hasil kajian ini menampakkan bahawa usaha meningkatkan hasil pengeluaran negara telah berjaya. Walau bagaimana pun, peningkatan daya pengeluaran tidak begitu berjaya mengatasi masalah kemiskinan. Tambahan pula kos memproses dan memasarkan hasil tambahan yang dikeluarkan juga terlalu tinggi. Ini dikaitkan dengan bentuk campurtangan LPN dan pergelutannya dengan sektor swasta.

This analysis of the paddy sector focuses upon the effectiveness of the national rice policy in terms not only of the increase in yields but also its success in poverty eradication and processing and marketing the increased output to the market. The first of these objectives has met with considerable success. However, the growth generated by the increased output has not been very successful in eliminating poverty. In addition, the cost of processing and marketing the increased output has been very costly indeed. This is attributed to the LPN's intervention in the market and the resulting struggle with private capital.

INTRODUCTION

Public expenditure in Malaysia's rice sector increased very considerably after independence (Goldman, 1975; Mokhtar, 1981; Muhammad Ikmal, 1987). This is aimed not only to increase the contribution of domestic rice to the country's consumption but also to increase the incomes and eradicate poverty of rice producers simultaneously. The discussion below is an attempt to evaluate the effectiveness of the country's rice policy. I will first begin this discussion by examining the efficacy of the country's rice policy in eradicating poverty in the irrigated Muda area, the most advanced rice-growing region in Malaysia. This will be followed by an analysis of the drive towards increasing the composition of domestic production to the country's rice consumption.

POVERTY IN MALAYSIA'S "RICE BOWL"

The Muda area is Malaysia's largest and most advanced rice-growing region. It covers 96,000 hectares, of which 90,000 hectares are irrigated. Rice farms in the Muda area are predominantly small. In 1975/76 two-thirds (66.2%) of the number of farms were less than six *relong*.¹

The poverty line income in 1981/82 is estimated to be about \$60 per capita, or \$300 per household (Chamhuri, 1985 : 8; Gibbons, 1984 : 11). In the main season of 1981/82, the average price of paddy (including the price subsidy of \$16.54 per 100 kg.) for the whole of the Muda area was \$46.81 per 100 kilograms (or \$28.31 per *pikul* (LKPM, 1983a)).² The average yield in the same season was 4,702 kilograms per hectare (LKPM, 1983b). Deductions (for moisture content, unripe grains, etc.) amounted to an average of 12.5 per cent of gross yield. This means that the net yield amounted to 4,114 kilograms per hectare. Consequently, the average gross income amounted to \$1,925.80 per hectare, or \$554.00 per *relong*. Each farmer received an additional \$680.46 (4114 kilograms x 0.1654) in the form of a price subsidy. Thus, the mean gross income that could be obtained from paddy cultivation was about \$2,606 per hectare, or \$750.00 per *relong*.

The cost of production for an owner-operated farm in the same season averaged \$948.20 per hectare or \$272.86 per *relong* (LKPM, 1985). Therefore, net income obtained from an owner-operated hectare of paddy land was \$1,658.06 (\$477.14 per *relong*). This net income per *relong* from paddy cultivation differs from Wong's findings (1983 : 111), which observed that owner-operators obtained about \$421 per *relong*. The poverty line income then was \$1,800 per season. Therefore, an owner-operator would have to cultivate a minimum of 1.09 hectare (3.8 *relong*) in order to secure an income just above the poverty line. In 1975/76, owner-operators totalled 25,587 (or 61% of all farms), about 60 per cent (15,401) of which were under four *relong* (Gibbons *et al.*, 1981 : 175).

¹One *relong* is approximately 0.7111 acre or 0.28777 hectare. Conversely, one hectare is approximately 2.4711 acres or 3.4750 *relong*; almost half (46.7%) were below the median farm size of four *relong* or 1.18 hectare in 1975/76 (Gibbons *et al.*, 1981 : 98).

²100 kilograms is approximately 1.6536 *pikul*.

The average rent then amounted to \$560.69 per hectare (\$161.35 per *relong*). Therefore, tenants had to meet an average total cost of \$1,508.89 (948.20 + \$560.69) per hectare or \$434 per *relong*. If it may be assumed that the mean yield of tenants is the same as owner-operators, then the mean net income that could be obtained from the sale of produce of a rented hectare of paddy land amounted to \$1,097.37 (\$2,606.26 - \$1,508.89). Therefore, this means that tenants required at least 1.64 hectare (about 5.7 *relong*) to rise above the poverty-line income. One-fourth (11,175) of farmers in the Muda area were tenants; 7,749 or 69 per cent operated less than 5.9 *relong* in 1975/76 (Gibbons *et al.*, 1981 : 112).

On the basis of the figures above, owner-tenants with farms that were constituted fairly equally between owned and rented land parcels would have obtained about \$1,378 (\$2,606 - \$948.20 - \$280.35) from a hectare (\$397 per *relong*). This means that farmers would have to operate no less than 1.31 hectare or 4.5 *relong* before they could earn an income level that just exceeded the poverty-line. Owner-tenant farms below four *relong* in 1975/76 totaled 1,711; this amounted to 19 per cent of owner-tenanted farms (Gibbons *et al.*, 1981).

TABLE 1
PER UNIT INCOME LEVELS BY TENURIAL STATUS, MUDA AREA, 1981/82

	Owner		Tenant		Owner-Tenant	
	Ha.	Rel.	Ha.	Rel.	Ha.	Rel.
Av. Yield (kg.)	4,114	1,184	4,114	1,184	4,114	1,184
Av. Price	\$46.81 per 100 ^g kg.					
Price Subsidy @ \$16.54/100kg.	680	196	680	196	680	196
Gross Income	2,606	750	2,606	750	2,606	750
Less : Cost of Production	948	273	1,509	434	1,228	353
Net Income (\$)	1,658	477	1,097	316	1,378	397

Source: LKPM (1983a; 1983b; 1985)

Taken together, owners, tenants and owner-tenants who fell below the poverty farm-size in the main season of 1981/82 totalled 24,859. The study by Gibbons and others (1981) covered 46,547 farmers altogether. Thus, a little over one-half (53 per cent) of all farm households in the most advanced rice-growing area in the country earned incomes below the poverty line in 1981/82.

This is a little higher than the 46 per cent maximum poverty incidence estimated by Gibbons (1984 : 17-18) for 1982. The "maximum poverty" concept takes into consideration incomes of the head of household, the spouse's and children's and all monetary contributions from other members of the family. On the other hand, "minimum poverty" takes into account incomes earned by all household members. About 35 per cent of all farm households were found below the poverty line by this latter measure. By Wong's estimate (1983 : 40), 41 per cent of farm households in the Muda area were poor. This estimate is based upon a poverty line income of \$49 per capita instead of the \$59 used by Gibbons (1984). About 54 per cent of farmers in Wong's study (1983 : 40) earned less than \$59 per capita. However, my estimate above has not yet considered income earned from other sources, as income obtained from the sale of paddy forms only a portion of total household income. This is particularly true for poor households, who are often impelled to make ends meet by selling their labour in farm and/or non-farm employment. Mustafa (1985 : 44) reported that only 58 per cent of the income earned by poor farmers, defined as those operating less than four *relong*, in the Muda area are derived from paddy cultivation. Of the remaining 42 per cent, two per cent are from income obtained from cultivation of other crops, 16 per cent from other agriculture (largely from sale of labour to other farmers) and 24 per cent from non-agricultural employment. The high composition of non-paddy income among poor farmers is corroborated by Wong (1983 : 37), who found that income from other sources constituted about 39 per cent of total income.

According to Gibbons (1984), about 46 per cent of all Muda households were poor in 1982. They were comprised largely of farmers who cultivated less than four *relong*, who could not secure \$300 per month even when 40 per cent of their incomes were from other sources (Mustafa, 1985 : 44). This suggests that their income from paddy cultivation is very much lower than what was estimated. This four *relong* cut-off is actually based upon the costs and income of tenants. Gibbons (1984 : 7) estimated that a tenant's net income was about \$413 per *relong*. By adding the \$125 paid out by the tenant as rent, an owner-operator's net income amounted to \$538 per *relong*. This means that an owner-operator's poverty-line farm size is 3.3 *relong* (approximately 0.95 hectare).

My estimate of the net income of owner-operators in Table 1 points to an even lower minimum farm size. According to this estimate, an owner-operator obtains about \$477 per *relong* (\$1,658 per hectare). Assuming that other income sources contribute 40 per cent to their total income, then their total income was about \$795 per *relong* (\$2,763 per hectare). Therefore, the poverty-line farm size for owner-operators then was 2.3 *relong* 0.66 hectare (see Table 2 below). If this can be accepted, then only those with farms approximately below 2.5 *relong* can be considered poor. Assuming that the distribution of farm size in 1975/76 has remained the same, then no more than 11,574 owner-operators were poor (Gibbons *et al.*, 1981 : 175) in 1981/82.

TABLE 2
NET INCOME (ALL SOURCES) PER UNIT AREA (RELONG) BY TENURIAL STATUS

Source Of Income	Owner-Operator	Tenant	Owner-Tenant
Paddy	477	316	397
Other	318	211	265
Total	795	527	662

The mean net income for tenants amounted to \$1,097 per hectare, or \$316 per *relong*. Should this form only 60 per cent of their income, then their total income would have amounted to \$1,828 per hectare or \$527 per *relong*. Therefore, the poverty-line farm size for tenants was about one hectare (3.5 *relong*). About 5,681 tenants cultivated less than four *relong* in 1975/76 (Gibbons *et al.*, 1982 : 175).

If it may be assumed that the size of the land owned and rented by owner-tenants are roughly equal, then their mean income was about \$397 per *relong*. If this represented merely 60 per cent of their total income, then their total income amounted to \$662 per *relong* (\$2,300 per hectare). Therefore, the poverty-line farm size for owner-tenants was about 2.71 *relong*, or 0.78 hectare. A total of 888 owner-operators cultivated less than 3 *relong* (Gibbons *et al.*, 1981 : 112).

Thus, a total of 18,143, or 40 per cent of the 45,601 covered by Gibbons and others (1981) in 1975/76 could be considered poor. This estimate is lower than Gibbons' (1984), but similar to Wong's (1983 : 40), although the poverty-line income used here is similar

TABLE 3
TOTAL INCOME AND POVERTY-LINE FARM SIZE BY TENURIAL STATUS

Tenurial Status	Income By Source		Min. Farm Size (<i>Relong</i>)	No. Below Min. size	% Poor
	Paddy	Other			
Owner	477	318	2.3	16,000	25.4
Tenant	316	211	3.5	7,875	12.5
Owner-Tenant	397	265	2.7	1,197	1.9
Total	-	-	-	25,072	39.8

to Gibbons'. Presently, the total Muda farm household population is about 63,000 (Syed Ahmad, 1986 : 1). Therefore, as Table 3 shows, the total number of poor households is about 25,000.

SUBSIDIES AND POVERTY

However, the estimate above includes, as it was noted earlier, the contribution of subsidies in the calculation of income from paddy cultivation. Let us, therefore, look at the situation without subsidies. This line of inquiry is a little different from one which seeks to gauge the extent subsidies decrease the incidence of poverty. For apart from addressing the latter question, the former additionally paves the way for questions pertaining to the political economy of subsidies in the paddy sector. The significance of this difference lies in the fact that questions of poverty and the amount of subsidies are not strictly about how much subsidies we spend, or how much more we need to spend in order to eradicate or reduce poverty, or keep the paddy sector afloat; it is also about why we spend so much money when it is common knowledge that chances of getting out of poverty for about half the farming population in the Muda area are almost nil.

Rice farmers in this country benefit from two main forms of subsidies; the fertilizer and price subsidies. As I mentioned earlier, farmers receive, since August 1980, a price subsidy of \$16.54 for every 100 kilograms sold to licensed paddy traders. This means that a farmer gets about \$680.46 for every hectare he cultivates, or an equivalent of \$195.82 per *relong*. For the second form of subsidy, farmers receive two bags of urea, four bags of compound and one bag of Amophos for every 0.405 hectare (one acre or 1.406 *relong*) they cultivate, up to a maximum of 2.43 hectares (six acres or 8.4 *relong*). It costs about \$231.58 per hectare or \$66.64 per *relong* (Chamhuri, 1985 : 6). The cost of maintenance for the irrigation facilities in the Muda area is also heavily subsidized. The estimated operating cost is about \$175 per hectare (\$87.50 per hectare per season), or \$50.35 per *relong* per year (Syed Ahmad and Baharuddin, 1984 : 33).³ This includes salaries and allowances, transport dan travel, maintenance of infrastructure, roads, buildings, vehicles, etc. Salaries and allowances and maintenance of infrastructure form about 77 per cent of this total. Farmers only pay about \$20.75 per hectare, or \$5.97 per *relong* for irrigation (Kementerian Pertanian, 1979). This forms only 12 per cent of the total.

³ This include salaries and allowances, transport dan travel, maintenance of infrastructure, roads, buildings, vehicles, etc. Salaries and allowances and maintenance of infra-structure form about 77 per cent of this total.

TABLE 4
SUBSIDIES IN THE MUDA AREA

Type Of Subsidy	(\$) Per Hectare		(\$) Per <i>Relong</i>	
	Season	Year	Season	Year
Price	680	1,360	196	392
Fertilizers	232	464	67	134
Maintenance	77	154	22	44
Total	989	1,978	285	570

As we can see from Table 4 above, farmers in the Muda are very heavily subsidized; amounting \$989 per hectare, or \$285 per *relong*. This means that the total cost of subsidies for the production of paddy (i.e., excluding the cost of marketing, storage and milling undertaken by the Paddy and Rice Marketing Authority, LPN) in the Muda area (90,00 hectares) is about \$89 million per season, or \$178 million per year. The break-down for the three respective forms of subsidies are as follows: price subsidy - \$122.4 million;⁴ fertilizers subsidy - \$41.76 million and maintenance subsidy - \$13.86 million. In 1982, the net value of the Muda area's total paddy production was about \$467.5 million.⁵

⁴ The actual expenditure for the paddy price subsidy for Kedah/Perlis was \$97.4 million in 1984 and \$121.7 million in 1985 (LPN, 1986? : 33). The total expenditure (in million \$) for the price subsidy for the country as a whole between 1981 and 1985 are as follows: 1981 = \$176.79 ; 1982 = \$176.63; 1983 = \$175.27; 1984 = \$164.2; 1985 = \$200.9 (LPN, 1986? : 67); fertilizers subsidy - \$41.76 million and maintenance subsidy - \$13.86 million. In 1982, the value of the Muda area's total paddy production was about \$467.5 million.

⁵ This is based upon the estimate that yields amount to 4.1 ton per hectare, that the price was \$468.10 per ton, while the price subsidy was \$165.40 per ton. This means that the total value of subsidies form about 38 per cent of the Muda area's output value.

TABLE 5
PER *RELONG* CONTRIBUTION OF SUBSIDIES BY TENURIAL STATUS

	Owner-Operator	Tenant	Owner-Tenant
Paddy Income	477	316	397
Other Income	318	211	265
Total Income	795	527	662
<i>Less :</i>			
Subsidies	285	285	285
Net Income	510	242	377
Contribution of Subsidies:			
As % of Paddy Income	60	90	72
As % Total Income	36	54	43

The contribution of subsidies becomes very much more evident when seen in relation to farmers' incomes. Table 5 above shows that the contribution of subsidies varies with tenurial status. The contribution of subsidies towards farmers' incomes is particularly high when it is seen in relation to farmers' income derived from paddy cultivation; subsidies form 60, 90 and 72 per cent of the paddy incomes of owner-operators, tenants and owner-tenants respectively. The contribution of subsidies remains sizable even when they are compared to farmers' total income, amounting to 36 per cent for owner-operators, 54 per cent for tenants and 43 per cent for owner-tenants. The indicators employed above (subsidies as proportion of total net production of the Muda area, and as proportion of farmers' incomes) show very clearly that farmers in the Muda area are quite heavily dependent upon subsidies for their production. It is obvious, therefore, that without subsidies their incomes would be much lower and the incidence of poverty higher.

TABLE 6
CONTRIBUTION OF SUBSIDIES AND MINIMUM FARM SIZE

Tenurial Status	Income/ <i>Relong</i> *		Poverty Line (min. farm size)	
	With Subs.	Without Subs.	With Subs.	Without Subs.
Owner-Operator	\$795	\$510	2.3	3.5
Tenant	527	242	3.4	7.4
Owner-Tenant	662	377	2.7	4.8

* Includes income from other sources

As Table 6 shows, without the aid of subsidies, the minimum farm size necessary to keep farmers at the poverty line is 3.5 *relong* for owner-operators, 7.4 *relong* for tenants and 4.8 *relong* for owner-tenants. If the size distribution of land operation today remains similar to that of 1975/76, then about 15,400 owner-operators operate less than four *relong* (Gibbons *et al.*, 1981 : 175), 8,619 tenants operate less than 7.4 *relong*⁶ and 1,711 owner-tenants operate less than four *relong* (Gibbons *et al.*, 1981 : 9). This gives a total of 25,730. The total number of farmers covered in the study by Gibbons *et al.* amounted to 45,601. This means that about 56 per cent of farmers in the Muda area would be considered poor if they do not receive any form of subsidies. The total number of farm households in the Muda area is estimated to be about 63,000. Thus, 35,280 farm households would fall into the poor category if all the subsidies are withdrawn.

As I have estimated earlier, about 40 per cent of farmers in the Muda area are poor even while they are provided with different forms of subsidies. Therefore, this means that the \$178 million a year allocated to rice farmers in the form of subsidies, representing about 38 per cent of the value of the Muda area's output, is able to reduce the incidence of poverty by a mere 16 per cent. Thus, although the total value of subsidies is very high and plays a very important role in sustaining the Muda economy, the manner in which the subsidies are allocated has not been effective enough to combat poverty among those with small farms.

The main reason why such a large allocation has not been sufficiently effective in reducing the incidence of poverty is related to the fact that the distribution of subsidies is dependent upon farm size. Since poverty is very closely related to farm size, the amount of subsidies the poor could lay their hands on is very small. As a result, only a small section of the poor could benefit adequately to emerge out of poverty. Although each farmer is entitled to fertilizer subsidies equivalent to 8.5 *relong* or 2.4 hectares, all farmers operating much larger farms have no problem claiming them. All the operators of large farms I studied in 1981/82 and 1985/86 (Muhammad Ikmal, 1985, and forthcoming), including one who operated 190 *relong*, have managed to get the supply of subsidies for their whole farms. This is done by registering each of their household members and names of acquaintances (poor neighbours, farm labourers) to a particular permissible farm area. As a result, a large portion of subsidies allocated to the paddy sector is appropriated by operators of large farms. In other words, the distribution of subsidies is a class-determined phenomena.

⁶The estimate made by Gibbons *et al.*, 1981 : 112) is based upon a different set of class categories. My estimate above is derived by adding all tenants with farms below six *relong* with one half of the number of tenants found in the 6 - 8.9 *relong* category.

In 1975/76, 47 per cent of farms in the Muda area were less than four *relong*. The total area operated by these farms amounted to only 17 per cent of the Muda area. On the other hand, farms larger than 12 *relong* formed only ten per cent of farms but 31 per cent of the area. If operators of large farms can claim the fertilizer subsidy proportionate to their whole farm area, then the distribution of the fertilizer subsidy is similar to the distribution of farms. This means that farmers operating less than four *relong*, comprising 47 per cent of all farm households, get about 17 per cent of the fertilizer subsidies, while the ten per cent of farms larger than 12 *relong* get about 31 per cent of the fertilizer subsidies.

The distribution of the price subsidy is also dependent upon the distribution of farm size. This is because the amount of subsidies one receives is dependent upon output. Thus, if all farmers, regardless of their tenurial status and farm size, attain a similar yield.⁷ Then the distribution of the price subsidy is similarly heavily biased towards large farms. Thus, almost one-half of the Muda farmers whose farms are less than four *relong* receive only 17 per cent of the total price subsidy disbursed, while those operating more than 12 *relong*, comprising 10 per cent of the Muda farm population, get about 30 per cent of the price subsidy. This explains why the amount of subsidy received by farmers operating small farms is insufficient to enable them to rise above the poverty line.

The study by Wong (1983 : 36) shows that differences in the amount of the price subsidy received per unit area is insignificant. However, due to differences in total production arising from differences in farm size, farmers operating less than three *relong* received an average of only \$227, whereas farmers operating more 12 *relong* received an average of \$2,218 (Wong, 1983 : 35).

Operators of very large farms, above 35 *relong*, I studied in 1985/86 (Muhammad Ikmal, 1989) claimed that their yields were slightly higher (about 1.35 tons per *relong*) than the Muda average of 1.184 tons per *relong*. This means that such wealthy farmers obtained no less than \$7,815 per season from the price subsidy. Six of the 33 very large farms covered in this study operated more than 100 *relong*. Therefore, they obtained no less than \$22,329 per season, or \$44,658 per year.

⁷ Operators of large farms I studied in 1985/85 often claim that their yields are higher than neighbouring small farms. This, according to them, is because they use a lot more fertilizer and labour (replanting, weeding, etc.). Lim's study (1985 : 34) corroborates this finding, and shows further that the difference in yields of large and small farms is negligible.

Compared to other farm categories, the contribution of the price subsidy towards total net income is also markedly smaller for farmers with less than three *relong*. Wong found (1983 : 38) that the contribution of the price subsidy towards total net income for farmers with less than three *relong* amounted to only 18 per cent. On the other hand, the corresponding contribution of the price subsidy for farmers operating more than 12 *relong* amounted to 42 per cent.⁸ This is largely because operators of small farms are often compelled to sell their labour in order to compensate for the small income obtained from rice cultivation.⁹

The small contribution of the price subsidy towards total net income for small farm units in the Muda area is comparable to what paddy farmers in less developed rice-growing areas and economically more diversified regions obtain. For example, the price subsidy forms about 16 per cent of total household income in Pasir Putih (Kelantan), 13 per cent in Besut (Trengganu) and Tanjung Karang (Selangor), and 10 per cent in Seberang Prai (Chamhuri, 1985). Except for Tanjung Karang, non-farm incomes in these areas are very high, constituting 63, 71 and 63 per cent respectively.

The large amounts of expenditure for development in the rice sector is aimed to (a) generate growth, so that the country could minimize its dependence upon imported rice and (b) eradicate poverty among rice farmers. The first of these *appears* to have been achieved, as the rice sector has grown tremendously in both area (through double cropping) and increased productivity. The incidence of poverty has also been reduced; in the Muda area, poor households have declined from 68 to 46 per cent between 1972/73 and 1982 (Gibbons, 1985 : 11). Thus, the incidence of poverty is still quite high, particularly when it is considered in light of the fact that well over a billion ringgit was pumped into the Muda rice economy (for irrigation and drainage, subsidies, institutional development and

⁸ Generally, operators of very large farms (particularly chinese) have other forms of investment (such as machine-contracting, rice-trading, real estate, etc.). Therefore, the contribution of the price subsidy to total net income would be smaller than farmers whose investment is restricted to paddy cultivation only.

⁹ As the Menteri Besar of Kedah attested, 'farmers get very little profit from planting padi and may even suffer losses after six months of toil and hardship'. He subsequently called upon farmers to participate in trade and industry to supplement their incomes. 'This is the only way for them to improve their living standard as the Government cannot increase the price of rice in the market'. (*The Star*, September 1986).

other facilities) in the six years between 1980 and 1985,¹⁰ double cropping had been introduced for nearly twenty years and that productivity has increased by about 30 per cent between 1965-69 and 1982.

PUBLIC EXPENDITURE, LPN AND THE FAILURE OF THE NATIONAL RICE POLICY

The large amount of public expenditure invested in the Muda area has generated considerable development over the last twenty years. It may even be argued that it is due largely to state expenditure that the Muda area has grown into what it is today. State protection against cheap imports, generous allocation for the development of drainage and irrigation facilities and intervention, through the provision of cheap credit and alternative marketing channels, has freed the rice peasantry of the obstacles that once hindered their development (Muhammad Ikmal, 1985, 1987). But it is precisely the development and proliferation of state-sponsored institutions that is increasingly impeding the further development of the rice industry. I wish to demonstrate that the tremendous increase in paddy production has not necessarily lessened the country's dependence upon foreign imports, and that this is due to the increasing control of the marketing and milling sectors by the state.

It is fairly evident from the discussion above that the large amounts of public expenditure directed to the rice sector have laid greater emphasis upon securing sufficient local rice supplies than upon eradicating poverty. Therefore, the success of Malaysia's rice policy may be gauged from its ability not only in production but also in consumption terms. In other words, the national rice policy may be said to have failed if the country's increased production is not marketed, milled and/or stored properly.

¹⁰ Between 1980 and 1985, a total of \$230 million would have been spent on infrastructure facilities in the Muda area (Wong, 1983 : 1). In addition, farmers in the Muda area receive about \$93 million annually (*Berita Harian*, 28.7.1983), or \$558 million between 1980 and 1985) in the form of price subsidy and about \$41.7 million per season (\$231.58 per hectare x 90,000 hectares x 2 seasons), or \$250 million between 1980 and 1985 from the fertilizer subsidy. Thus, no less than \$1 billion have been spent in the Muda area between 1980 and 1985 alone. This has yet to include the operating costs and written-off losses of the different agencies (such as MADA, LPN) and the price support program, which guarantees a certain minimum price for rice.

This latter role is now largely under the control of the state's National Padi and Rice Marketing Board (*Lembaga Padi dan Beras Negara*, or LPN for short). This is not only because it is the country's sole paddy/rice enforcement agency, but also because this enforcement agency is simultaneously very heavily involved in buying paddy and importing, marketing and milling rice. It not only controls the country's rice stockpile but also the number of importers, wholesalers, buyers and millers, the price of paddy and rice as well as its movement from one state to another.

Being an enforcement agency and a business enterprise simultaneously, the LPN is involved in a conflict of interest. This is because it may employ its authority to guard its business interests and *vice-versa*. This conflicting role has a detrimental effect upon the market. This is because the LPN may compete effectively even while it sustains substantial losses from its own policies, since its losses may be more than met by outright government grants and by its own manipulation of the market.¹¹

The LPN's income never exceeded its expenditure between 1981 and 1985 even though it controls the country's rice trade. (LPN, 1986 : 67). On the other hand, private trading and milling concerns have to absorb such losses, resulting in closures, further surrendering an increasing share of the market to the LPN, which is always hard pressed to buy the extra paddy because its limited resources are incapable of storing and milling them sufficiently. As a result, a significant portion of the paddy produced locally is lost. Thus, the LPN is actually subverting the country's rice policy, which protects local producers from foreign competition so that they would meet the country's demand. The LPN's remarkable expansion in the rice industry is indicative of its increasing control of the rice trade. In 1972, the LPN bought a total of 125,234 tons of paddy. This increased to 560,157 tons in 1985. The amount of paddy the LPN bought in 1972 was approximately eight per cent of the total paddy produced.¹² Its share of the total paddy marketed has since increased to 35, 33, 33, 30 and 46 per cent in 1981, 1982, 1983, 1984 and 1985 respectively (LPN, 1986). It has also increased its milling and drying capacities. In 1972 the LPN had four integrated milling and drying complexes. In 1985 it had 25 integrated complexes, five drying and four milling installations. This makes it the single largest paddy merchant and miller in the country. Therefore, the success of the country's policy of reducing its dependence upon foreign supplies rests, to a large extent, upon

¹¹The LPN's income never exceeded its expenditure between 1981 and 1985 even though it controls the country's rice trade. (LPN, 1986 : 67).

¹²This is based upon a total production of 1,565,117 metric tons.

the LPN's efficiency and its ability to balance its role as an enforcement agency and as a competitor in the market.

The LPN was established to control the supply and marketing of padi in order to meet the interests of paddy producers and rice consumers as well. This role is, in itself, a directly contradictory one, since any increase in the price of rice would bring about an increase in the cost of labour in the urban economy. Similarly, maintaining the price of rice at a constant level amidst increasing costs has an adverse effect upon the well-being of paddy producers. The last time the price of rice was increased was in January 1979, when the price of long grains was increased from 38.03 per 100 kilogram in 1973 to \$46.90. Two further increases favouring producers have been implemented. However, these were mediated through the price subsidy, thereby insulating the urban sector from a possible increase in the price of labour; the first in 1980 when farmers received an additional \$3.31 for every 100 kilogram of paddy sold, and the second in 1981 when the price subsidy was increased to \$16.54.

Initially, the price subsidy was given out only through licensed rice millers, eliminating small illegal rice millers from the paddy industry, thus increasing the share of large licensed millers and the LPN (Wong, 1981). The long queues afforded owners of large rice mills to increase deductions for moisture content.¹³ Consequently, farmers turned away by the increased deduction for moisture content formed yet longer queues at LPN's milling complexes. Being a public body that services the needs of paddy producers, the LPN had no choice but buy the paddy even when it clearly did not have the capability to store and mill them.¹⁴ The LPN's share of the paddy trade was estimated to have increased from 20 to about 50 per cent between 1979 and 1980 (Wong, 1981 : 12). As a result, about six thousand tons of paddy went to waste.

This problem surfaced yet again in 1985 and 1986. The bottleneck associated with the bumper harvest in 1984/85 may be overlooked, since it was, to some extent, caused by the widespread cultivation of the high-yielding but brittle IR-42 seed variety. The cultivation of the IR-42 seed variety declined considerably but the marketing and milling problems persisted right up to 1986. Therefore, the problems faced by the industry was a structural one.

¹³Private millers have resorted to buying large quantities of paddy during the dry season and limit purchases to a minimum during the wet harvest.

¹⁴The LPN's share of the paddy trade was estimated to have increased from 20 to about 50 per cent between 1979 and 1980 (Wong, 1981 : 12).

Paddy merchants have indicated a declining interest in buying paddy. This is probably partly due to congestion at the rice mills and the fact that they have been burdened with extra administrative costs (though licensed to buy paddy, they do not issue the price subsidies). Rice millers are increasingly reluctant to buy paddy directly from farmers, but have preferred to mill for the LPN instead.¹⁵ This is because a sizable proportion of the paddy produced by this country is of poor quality, fit for the production of animal feed and fertilizer.¹⁶

This has been compounded by the increased cost of drying, while the price of rice has remained unchanged since 1980. Their decreasing role has also been due to the increased importation (legally and illegally) of Siamese rice, a much preferred variety in this country. As a result, a large number of mills had to suspend operations. In 1986, 46 of the 56 Malay rice mills in the Kedah/Perlis region was reported to be in difficult straits and had to stop operations (*The Star*, September 8, 1986). A large number of Chinese mills also stopped operations at the same time, aggravating the bottleneck in LPN's rice mills even further.¹⁷ LPN mills too are faced with the same situation, but the difference is that the state absorbs their losses, some of which are met by generating profit through the lucrative rice-import trade. Thus, the LPN is increasingly eliminating its competitors by its force of authority. The force of LPN's authority is so strong that the Peninsular Malaysia Federation of Rice Millers Associations issued a statement on September 10, 1986 that the LPN should limit its functions to a supervisory and enforcement role only.

¹⁵ In this connection the Chairman of the Kedah-Perlis Malay Rice Millers Association said that 'we have to absorb \$10.60 in losses for every 100 kg of padi that we process'... 'That is why we cannot afford to buy padi directly from farmers and have instead been processing padi for LPN whereby we can choose better quality padi and cut losses' (*The Star*, September 9, 1986).

¹⁶ The Chairman of the Kedah-Perlis Malay Millers Association alleged that the LPN loses about \$160 million every year, due to the purchase of about 385,000 tons of low quality paddy. This amounts to about 55 per cent of the country's yearly production (*The Star*, September 11, 1986). The low quality paddy, peasants argue, is not due to their carelessness but to the poor varieties the Malaysian Agricultural Research And Development Institute recommend and the long wait they have to bear at the mills.

¹⁷ About 27 of the rice mills owned by Malays in Kedah were on the brink of collapse in May 1987. Another 34 were dependent upon the LPN's assistance for survival. Almost all of the mills owned by non-Malay owners were said to be operational. (*New Straits Times*, May 15, 1987).

The costs of the long delays at the LPN complexes are high. The cost of transportation (by lorries) has increased from \$1.50 to \$3.50 per sack (or *guni*, each of which is approximately 75-80 kilograms). Sometimes, the paddy due for sale turns reddish or germinates. Consequently, deductions for moisture content, etc., at LPN mills are reputedly high (private mills imposed lower deductions in 1985, *Watan*, January 29 - February 1, 1985), a complaint that continues to persist until today (*Utusan Malaysia*, January 11, 28, and February 23, 1989). The long queues have also precipitated irregular practices (for example, farmers have to pay extra to expedite their sales or even to get their sacks back) by LPN officials. Farmers also have to bear with an unchanging paddy price while the cost of paddy production has increased. As a result, the increased cost of marketing paddy has cut into the farmers' incomes further.

Thus, it is clear that the LPN's increasing control of the rice industry has brought about chaos, causing long delays, increasing the cost of transportation and, subsequently, the cost of easing delays. In addition, the state had to absorb all the losses incurred resulting from prolonged storage of paddy, improper storage and disposal of rice, while the private sector finds it increasingly difficult to compete effectively with the LPN.

The excess paddy stock which the LPN buys reluctantly often went to waste. Milled rice are also not disposed efficiently. In November 1986, LPN complexes in the Muda area had old stocks amounting to about 10,000 tons of rice (*New Sunday Times*, November 11, 1986). This meant that the LPN could continue to further buy paddy at the risk of not being able to dry, store and/or mill them efficiently, or that they sold old stocks at very low prices. Apart from the loss of revenue to the LPN, the disposal of old stocks at such prices also undercut rice wholesalers of their market. For example, in 1985 the Kedah Rice Wholesalers Association claimed that the LPN was selling a sack of Grade B2 rice at \$81.33 in the southern states of Peninsular Malaysia. On the other hand, rice wholesalers buy Grade B2 rice at \$78.21 per sack, upon which an additional \$5.50 had to be added for the cost of transport. This meant that they could only dispose their stocks at \$83.71 per sack, as a result of which they lost about 50 per cent of the market (*The Star*, April 30, 1985).

It is often alleged that the LPN imports heavily in order to off-set its colossal losses (*The Star*, April 3, 1985).¹⁸ This allegation is not unfounded, as the LPN's importation of rice has increased considerably. As we can see in Table 7 below, LPN's rice imports have increased from 21 to 39 of the country's output, and from 15 to 25 of the country's consumption between 1981 and 1985.

¹⁸ A few of the operators of large farms I studied in 1985/86 were also rice millers. They often complained that they had difficulties disposing their stocks because the LPN was flooding the local market with imported rice.

TABLE 7
LPN's RICE IMPORTS AS PROPORTION OF
MALAYSIA'S OUTPUT AND CONSUMPTION

Year	(1)	(2)	(3)	(1) As % of	
	LPN's Imports	Output	Consumption	(2)	(3)
1981	241	1,137	1,620	21	15
1982	388	1,038	1,606	37	24
1983	378	961	1,475	39	25
1984	424	861	1,436	49	30
1985	421	1,093	1,684	39	25

Source: LPN (1985 : 21); Jabatan Perangkaan (1986)

LPN's profits from the import trade amounted to about \$45.6 million in 1984. This increased to \$90 million in 1985, suggesting a direct relationship with the increased losses it incurred in 1985. In 1984, the LPN incurred a loss of \$18.3 million from its trade in local rice, whereas its total loss in 1985 amounted to \$80 million. Therefore, this suggests clearly that the LPN employs its authority at great expense to reproduce its role as the buyer of the last resort, as saviour of the peasants' marketing problems. However, as I have described above, this was largely precipitated by its own design. It was the LPN which eliminated the small illegal millers. The LPN was also partly responsible for the saturated rice market.¹⁹ The increasing elimination of the private sector has thus brought the state into direct conflict with producers, often deflected or solved at the state's expense.

It is thus clear that the congestion at the LPN mills and in the market was precipitated by the LPN's competition and conflict with the private sector. The private millers insisted on maintaining a certain level of profit. The LPN challenged this by getting the state to absorb its losses and by flooding imported rice into the market. The cost of this tussle between state and private capital has been very high indeed, definitely higher than the cost of importing rice. Losses are incurred at all levels. Irregular practices, increased cost of transportation and the decline in the quality of paddy during the long queues have cut into the incomes of farmers. Inefficient storage and disposal of paddy and rice by the LPN has caused huge losses. Private millers have also lost millions of dollars on account of their underutilized capacity and inability to meet the LPN's onslaught

¹⁹ The LPN is also responsible for its failure in curbing the illegal importation of rice. An estimated 150,000 tons is smuggled into the country annually (*The Star*, September 8, 1986). This is about 18 per cent of the country's annual output.

in the market. In the end, a large part of the allocation spent on the infrastructure for producing paddy is lost because a very large proportion of the paddy produced did not reach the consumers, either because of the decline in quality in marketing and storage or because of congestion caused by the importation of foreign rice, both of which were largely attributed to the LPN. The LPN's move to mill its large supplies of paddy to private millers, particularly after 1986, has undoubtedly reduced losses. However, this temporary measure has not really overcome the long delays and, therefore, the high cost of transportation and disposal at the LPN mills. It has recently considered paying the price subsidy in cash and allowing farmers to sell their paddy to any authorized buyer, instead of LPN and LPN-appointed commercial rice mills only (*The Star*, June 13, 1988). The introduction of these measures must be seen in relation to the struggle between the LPN and the private sector for control over the paddy and rice industry. Whether they would actually succeed in reducing the losses that have characterized the industry for some time remains to be seen.

CONCLUSION

The discussion clearly emphasizes the need to re-examine the national rice policy so that the large amounts of public expenditure spent on the paddy sector do not go to waste. The state has waged a two-pronged strategy to generate output and eliminate poverty. The first is production-based, where the state provides the basic physical and institutional infrastructure, such as drainage and irrigation, and other support services (credit, fertilizers, etc.), while the second is aimed at the level of the market, particularly through the LPN. It was pointed out that efforts aimed at increasing production have generally succeeded, but poverty remains an important problem even after massive amounts of money have been spent. The analysis clearly indicates that this is because the distribution of public expenditure is highly biased towards the wealthier classes. As a result, only a very small proportion of public expenditure reaches the poor. As for the second strategy, the increasing role of the state in marketing and milling, particularly through the LPN, has subverted the role of the private sector in the market without substituting a more efficient system. Producers, traders, millers and the LPN have incurred heavy losses; worse, the LPN's role in the market has actually given rise to considerable spoilage, as a result of which a substantial proportion of the rice produced locally is not consumed. Thus, although the production of local paddy has increased tremendously, the country remains heavily dependent upon imported rice. It is clear, therefore, that the state, ironically, has subverted the national rice policy.

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