



ECONOMICS COUNCIL  
RESEARCH PACK  
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## **Introduction/Overview**

With the rapid globalisation and development of education all over the world, the salary rewards for the highly-skilled and educated employees have plummeted at a rate significantly higher than the rise of income earned by the efforts of the labor with low-skilled or unskilled jobs. This brings about the issue of income inequality, that has been growing markedly over the past few decades by every major statistical measure. This is a serious threat to economic and social development all over the world and few to zero economies have been able to implement a concrete solution.

It is crucial to note, however, that income inequality and poverty, although inter-related are not the same. In other words, poverty is most likely a more serious issue if income inequality is greater. Income inequality can have serious negative effects if it is not taken seriously.

For starters, countries suffering from extreme income inequality simultaneously suffer greater from serious health problems like chronic diseases and obesity therefore leading to a lower life expectancy. Just the perception of inequality also makes the average person feel poorer, which leads to stress and riskier decision-making (for example, trying to win the lottery to win short-term cash to ease burdens) can both lead to negative long-term effects economically and physically.

Next, income inequality also causes increasing social exclusion to the youth and low-skilled workers. As the OECD and Asian countries Gini coefficient's have risen, unemployment rate, especially among youths have also plummeted. This can cause social tensions to escalate and therefore affects how people collaborate and share resources in an economy as well as undermines effective collective decision-making.

Politically, concentration of wealth in the riches might contribute to risk of political capture, where the ruling elite might prevent implementation of productive policies to solidify economic superiority.

Income inequality can also hinder human capital accumulation. It may inhibit future investment in human capital among the lower income households. These economic, social and political effects will then undoubtedly hinder economic growth in a country.

According to OECD, who uses the Gini coefficient as a measure of income inequality (which is based on the comparison of cumulative proportions of the population against cumulative proportions of income they receive, and it ranges between 0 in the case of perfect equality and 1 in the case of perfect inequality),

South Africa (0.62), Costa Rica (0.48), Brazil (0.47) & Mexico (0.46) are among OECD countries with worst income distribution.

Income inequality is a major problem that does not shy away from our beloved Malaysia. According to the United Nations Human Development (UNHDP) report, the richest 10% in Malaysia control 38.4% of economic income whereas the poorest 10% only 1.7%. Using the earlier measure, Malaysia manifests a Gini coefficient of 0.43, a figure highest among all other South-East Asian countries.

Even more worrying, after taking into consideration taxes and transfers, the figure only drops by 0.02 by 0.41. The average OECD country's Gini coefficient drops by 0.14 after taxes and transfers. Therefore, there is a clear need for a more progressive taxation system with higher top tax rates, more generous tax allowances for people in the lower income brackets and a better transfer system that provides greater social security to help reduce income inequality that very well exists in Malaysia.

## **Definition of Key Terms**

### ***Inequality***

Economic inequality is the difference found in various measures of economic well-being among individuals in a group, among groups in a population, or among countries. Economic inequality sometimes refers to income inequality, wealth inequality, or the wealth gap. Economists generally focus on economic disparity in three metrics: wealth, income, and consumption. The issue of economic inequality is relevant to notions of equity, equality of outcome, and equality of opportunity.

### ***Income***

Income is the consumption and savings opportunity gained by an entity within a specified timeframe, which is generally expressed in monetary terms. However, for households and individuals, "income is the sum of all the wages, salaries, profits, interest payments, rents, and other forms of earnings received in a given period of time."

### ***Racial***

Racial is the happening between people; of or involving a particular race or different races

### ***Geography***

The study of the features and systems of the earth's surface, including continents, mountains, seas, weather and plant life, and of ways in which countries and people organise life within an area

### ***Economic systems***

An economic system (also economic order) is a system of production, resource allocation and distribution of goods and services within a society or a given geographic area. It includes the combination of the various institutions, agencies, entities, decision-making processes and patterns of consumption that comprise the economic structure of a given community. Economists often divide economic systems into the free-market economy (a.k.a. the Laissez-faire economy), command economy (a.k.a. planned economy) and the mixed economy. However, since most economies in reality are mixed economies, the degree of mixing is also a key feature in determining the leaning of their economies.

### ***Taxation***

A means by which governments finance their expenditure by imposing charges on citizens and corporate entities.

### ***Transfer Payments***

In economics, a transfer payment (or government transfer or simply transfer) is a redistribution of income and wealth (payment) made without goods or services being received in return.

## **Presentations/Case Study**

### Session 1: Best System?

In this section, you will be split into groups of 6. Each group will be a representative from either the government, the opposition, Council of Elders, Khazanah Nasional Berhad, Bank Negara Malaysia and university economic lecturers as the expert representatives will present on what system they think is best to solve the problem of income inequality.

#### Guiding Questions:

- a. Is pursuing income equality worth sacrificing other macro-economic goals?
- a. What economic system is best to overcome the problem of income inequality and why?

### Session 2: A Way Out?

In this section, each group of 6 will be split into 2 groups of 3 in an attempt to make solutions more dynamic. Keeping what each individual is representing, each body of representation will therefore, now have 2 groups of 3 coming up with a solution that they think will be best suited to solve the problem of income inequality.

#### Guiding Questions:

- a. What is the most effective solution to the problem of income inequality?
- a. To what extent is this measure practical and achievable?

## **Current Affairs**

According to the UNDP 1997 Human Development Report, and the 2004 United Nations Human Development (UNHDP) report, Malaysia has the highest income disparity between the rich and poor in Southeast Asia, greater than that of Philippines, Thailand, Singapore, Vietnam and Indonesia. The UNHDP Report shows that the richest 10% in Malaysia control 38.4% of the economic income as compared to the poorest 10% who control only 1.7%. However, according to official statistics from the Prime Minister's Department, inequality has been decreasing steadily since 1970, with the Gini coefficient dropping to an all-time low of 0.40 in 2014.

With less than 1 percent of Malaysian households living in extreme poverty, the government's focus has shifted toward addressing the well-being of the poorest 40 percent of the population ("the bottom 40"). This low-income group remains particularly vulnerable to economic shocks as well as increases in the cost of living and mounting financial obligations. Income inequality in Malaysia remains high relative to other East Asian countries, but is gradually declining. For example, from 2009 to 2014 the real average household incomes of the bottom 40 grew at 11.9 percent per year, compared to 7.9 percent for the total population of Malaysia, thus narrowing income disparities. Following the removal of broad-based subsidies, the government has gradually moved toward more targeted measures to support the poor and vulnerable, mainly in the form of cash transfers to low-income households.

Even though efforts by the government to reduce income inequality, many Malaysians appear to be increasingly concerned about income inequality. According to a 2014 Pew Global survey, 77% of Malaysians think that the gap between the rich and poor is a big problem. The government has acknowledged that inequality remains high, and that tackling these disparities will be Malaysia's "biggest challenge" in becoming a high-income nation.

While income inequality remains as the primary standard to measure disparity in Malaysia, many researchers prefer to view this problem from a different façade - racial economic inequality. This issue is ultimately sensitive in nature due to the multicultural society our country possesses, yet it remains as one of the most frequently debated issue. The main motion of debate is on how different races in this country experience economic growth in this country. While the ethnic Malay population is commonly portrayed as a society living in rural areas, this is not necessarily true in the 21<sup>st</sup> century. One good example is statistics from the National Census 2000, Department of Statistics Malaysia, which indicates that



the Malay population currently living in Kuala Lumpur constitutes 43.6% of the city while Chinese at 43.5% and Indian at 11.4%. Statistics also shows that generally the Chinese populations tends to have higher income and receive higher education as compared to other races in this country. In 2012, Chinese Malaysians had the lowest poverty rates among major ethnic groups in Malaysia, with a rate of 0.3% compared with the Bumiputera rate of 2.2%. On the other hand however, Chinese incomes are more unequally distributed than. Those of Malays or Indians. Despite the fact that the average income of Malaysian Indians exceeds that of their Malay counterparts, there exists substantial portion of the community who are poor, with 40% of Malaysian Indian claimed to be at the bottom rung of the income ladder. The important question we have to ask ourselves is: why is there such inequality? And how can we fix it?

Regional Disparities or imbalance refers to a situation where per capita income , standard of living, consumption situation, industrial and agriculture and infrastructure development are not uniform in different parts of a given region. During the Eighth Plan period, the focus of regional development was to raise the standard of living and quality of life as well as attain balanced social and economic development across regions and states. All states recorded economic growth and as a result of which the standard of living in rural and urban areas improved. Nevertheless, development gaps between states and rural-urban disparities widened during the period. Gross Domestic product .the central region accounted for 41.1 per cent of the national GDP in 2005 with manufacturing and services sectors as major contributors. Meanwhile, the eastern region which is agriculture-based, Accounted for only 11.5 per cent of the national GDP. In terms of states, Selangor accounted for the largest share of the national GDP at 23.0 per cent in 2005 with the manufacturing and services sectors accounting for 53.5 per cent and 41.2 per cent, respectively (Malaysia, Economic Planning Unit, 2006).

The average mean monthly household income increased from RM2,472 in 1999 to RM3,249 in 2004, growing at 5.6 per cent per annum. The highest mean monthly income was recorded in Selangor at RM5,175 while Kelantan recorded the lowest at RM1,829 in 2004. However, the income gap between the state with the lowest income and the state with the highest income narrowed from 1: 3.12 in 1999 to 1: 2.83 in 2004. All states except Wilayah Persekutuan Kuala Lumpur recorded a decline in the incidence of poverty in 2004, based on the new poverty line income. The incidence of poverty remained high in the less developed states of Sabah, Terengganu and Kelantan (Malaysia, Economic Planning Unit, 2006). The development gaps between states are also reflected in the attractiveness to new manufacturing investment in certain states. During the Plan period, the direction of investment was skewed towards the more developed states. Selangor, Johor, Pulau Pinang and Melaka remained as the major choices of location for both domestic and foreign investment due to the availability of adequate and good

infrastructure, proximity to air and sea hubs, financial centres and support services. A total of 4,807 manufacturing projects was approved with a proposed capital investment of RM132.4 billion of which RM73.6 billion or 55.6 per cent were intended for these four states. Among the less developed states, Sarawak was the exception as it ranked third after Selangor and Johor in terms of new manufacturing investment approved during the period. Meanwhile, Perlis and Kelantan attracted the least investment at RM83.0 million and RM474.9 million (Malaysia, Economic Planning Unit, 2006).

On average, women in Malaysia get paid 79 sen to a ringgit earned by men. This is based on the average gender pay gap published in the Salary and Wages Survey Report 2016 released by the Department of Statistics Malaysia. When we break down the gender gap in income according to occupation, we found that skilled agricultural, forestry, livestock and fishery workers have the highest wage gap at 31%. Using the average pay per hour of a male. The pay gap for managers in Malaysia is only 12%, but it almost doubles for professionals at 23%. The World Economic Forum recent “Gender Gap Report” ranks Malaysia 104 out of 144 countries, indicating that gender economic inequality is a very real issue in Malaysia.

There can be multiple measures in which we could identify economic inequality in Malaysia. Let it be income, racial, geographical or gender economic inequality, we should recognise the enormous difficulties in solving this puzzle. No matter the measure, we should be united, as Malaysians, to overcome this challenge which will enable us to be a high-income nation in the near future.

**References:**

<https://inequality.org/facts/income-inequality/>

[https://en.wikipedia.org/wiki/Income\\_disparity\\_in\\_Malaysia](https://en.wikipedia.org/wiki/Income_disparity_in_Malaysia)

<https://themalaysianreserve.com/2017/03/31/malaysia-ranks-high-on-income-inequality/>

<https://data.oecd.org/inequality/income-inequality.htm>

<https://inequality.org/facts/income-inequality/>

<https://www.comparehero.my/blog/income-inequality-malaysia>

## **Links for further reading**

Definition of Economic Terms

<https://www.economist.com/economics-a-to-z>

Consequences of Income inequality as well as its benefits (a different & unique viewpoint)

<https://sevenpillarsinstitute.org/consequences-economic-inequality/>

Keynote Speaker's (Dr Muhammed Abdul Khalid) Blog on Income Equality (includes key statistics)

<http://colorinequality.blogspot.com/>

Ways to reduce global equality (includes some interesting and unorthodox methods)

<https://inequality.org/great-divide/8-ways-reduce-global-inequality/>

Oxfam International's Report on Income Inequality

<https://actions.oxfam.org/international/inequality-index/petition/>

Star's take on Oxfam International's Report on Income Inequality

<https://www.star2.com/living/2018/01/29/people-income-inequality/>

OECD's Data on Income inequality in OECD countries

<https://data.oecd.org/inequality/income-inequality.htm>

OECD's Reports related to income inequality and poverty

<http://www.oecd.org/social/inequality-and-poverty.htm>