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Towards a new social agenda

M I E R S C A N

By Mohamed Ariff

It is not easy to write on income distribution in Malaysia, given the paucity of data and the political sensitivity of the issue.

Available data clearly shows a general improvement in income inequality from the mid-seventies to early-nineties with reversals taking place until the Asian financial crisis in 1997. The Gini ratios (the lower, the better) show that income inequality declined in 1997-99 under the influence of the financial crisis, but has risen subsequently.

Malaysia's affirmative actions in the guise of the New Economic Policy (NEP) has played a critical role in reducing poverty and inter-ethnic income disparity, although intra-ethnic income inequality has widened. Reductions in the incidence of poverty are not inconsistent with the increases in income inequality, as the former relates to absolute poverty while the latter refers to relative poverty.

Blaming the worsening income inequality in recent times on trade liberalisation and globalisation is fraught with pitfalls, as there is no solid theoretical or empirical basis for such an assertion. Malaysia's impressive economic growth in the seventies, eighties and the early nineties could not have taken place in the absence of trade liberalisation and globalisation.

And, Malaysia's NEP could not have worked in the absence of rapid economic growth. The NEP was not about disruptive redistribution, taking from some and giving to others. The NEP strategy to reduce inter-ethnic disparity was through active Bumiputra participation and contribution to the growth of the economy so that no one is worse-off. In other words, the pie has to expand sufficiently to ensure that every one gets a bigger slice. It was not therefore surprising that the NEP had to be quietly shelved in the mid-eighties when the economy suffered a recession.

In the Malaysian context, economic growth and income distribution have been the two sides of the same coin. Economic growth is thus crucial for successful affirmative action. The improvements in income distribution, both intra- and inter-ethnic, in the early years of the NEP were attributable in no small measure to the rapid growth of the economy. However, to the extent that economic growth was input-driven, not productivity-driven, this was not sustainable.

The worsening income inequality in the early nineties had much to do with the influx of migrant workers in the economy. There were concerns that wage increases would render Malaysian exports uncompetitive, the policy response to which opened the floodgates to foreign workers who kept wages down. In the absence of guest workers, increases in labour costs would have been contained, despite rising wages, through productivity gains, which would have translated into lower Gini ratios. As wages were depressed, income distribution became increasingly skewed.

During the Asian financial crisis, income inequality showed some improvements, as the brunt of the crisis fell largely on the top 20 per cent of the households. The impact on the bottom 40 per cent was somewhat mild, as the crisis did not translate into massive unemployment for the locals. Besides, the rural folks could benefit enormously from both the high prices of rubber and palm oil, which were denominated in US dollars, and the depreciation of the Malaysian ringgit, during the crisis years.

In recent times, Malaysia has been experiencing “jobless growth”, with no significant improvements in the unemployment rate, despite 5-6 per cent growth of gross domestic product. This may have much to do with the fact that the Malaysian economy is moving up the value chain, away from labour-intensive operations to skill/ knowledge-intensive activities. Job creation is crucial for reducing income disparity, for the benefit of economic growth cannot penetrate down in the absence of it. Not only is Malaysia generating fewer and fewer jobs, also roughly one-fifth of these go to foreigners, contributing unwittingly to the widening income disparity.

Although inter-ethnic disparity has narrowed, intra-ethnic income inequality has widened for all ethnic groups in Malaysia. This is particularly worrisome for the Bumiputra community, which has the highest Gini ratio. This suggests that the distribution of the NEP benefits has been extremely uneven and that the NEP does not trickle down significantly.

The perception is that the bulk of the NEP benefits accrues to the top echelon of the Bumiputra community. Apparently, it is those with correct political connections or affiliations that stand to gain most from the affirmative agenda, although it cannot be denied that all Bumiputras have gained from the NEP one way or another.

As politics in Malaysia is race-based, political parties tend to champion the cause of their own community, in a parochial fashion, to stay in power. As the problem of widening income inequality cuts across ethnic boundaries, a new approach is needed, focusing attention on all marginalised groups in all communities. Despite three decades of affirmative action, there are still far more marginalised people in the Bumiputra community than in any other. This calls for a *new* NEP with affirmative action aimed at all marginalised segments of society without any racial overtones. Such a focused approach will ensure that more Bumiputras will gain than ever before, along with other deserving people, in this blessed land of plenty.

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