# Rising Inequalities Between the Richest and the Poorest

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DOI: https://doi.org/10.30880/hsp.2023.03.02.001

## Article Info

## Abstract

In many countries, income and wealth inequalities has increased in recent decades including Malaysia. Rising inequalities, as well as related disparity and fears, have fueled social discontent and constitute the primary driver of today's heightened political division. A more unequal society can diminish trust in public institutions and democratic governance. Global inequalities are threatening geopolitical stability. Rising inequality has become as a prominent political debate topic and public policy concern.

## 1. Introduction

According to the Department of Statistics Malaysia (2019c), a household refers to "a person or a group of persons who live together in a dwelling and make provisions (expenses) for essentials of living together". While household income refers to "the total incomes received (accrued) by members of households, both in cash or in kinds which occur repeatedly within the reference period (within a year, or more frequently)" (Malaysia, n.d.). Household income is an important area to study as the understanding of the pattern will shows the distribution and well-being of the households. In addition, it shows the ability of the household to purchase goods and services regardless of the economic condition such as inflation.
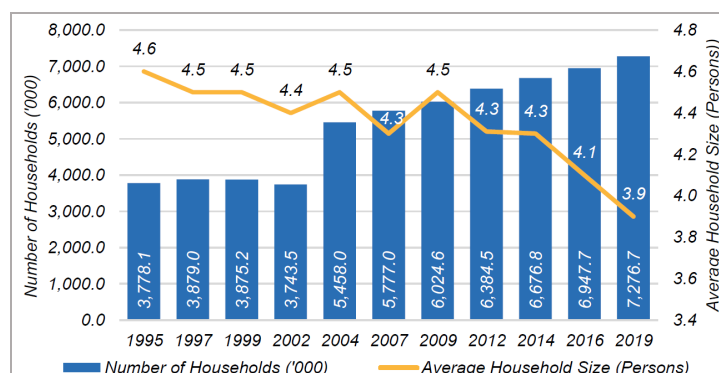


**Fig. 1** *Number of households in Malaysia, 1995-2019*
**Source** Department of Statistics Malaysia (2019c)

According to the report produced by the Department of Statistics Malaysia (2019c), the number of households in Malaysia was reported 7.3 million in 2019. This number has increased since 1995 where only 3.8 million households were recorded at that time. Nonetheless, there is a decline in the size of the household. Currently, there are 3.9 persons per household as compared to 4.6 persons in 1995. The size of the household is important as the largest the size of the household, the higher the living expenses required (Department of Statistics Malaysia, 2019c) to fulfill the need.

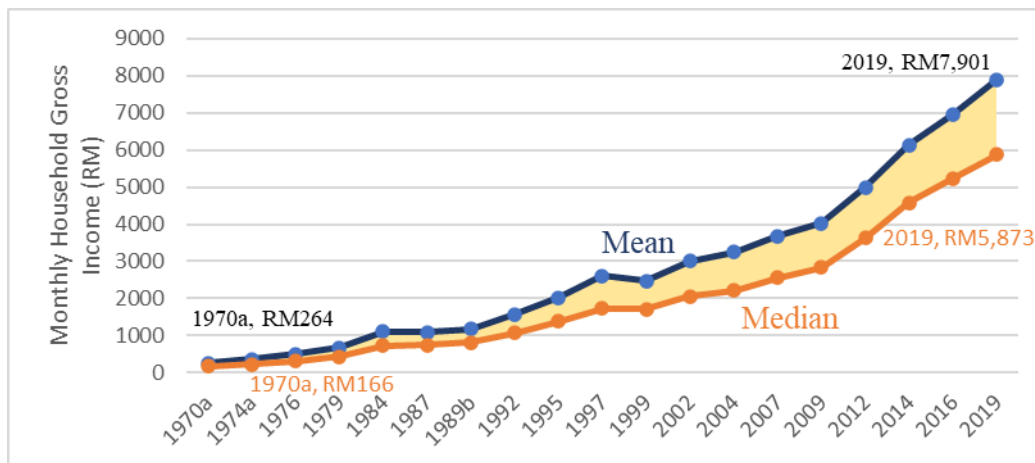## 1.1 Overall Monthly Household Gross Income, 1970 – 2019



**Fig. 2** *The Mean and Median of Monthly Household Gross Income*
**Source** Economic Planning Unit, Prime Minister's Department

Figure 2 shows the overall mean and median of monthly household gross income in Malaysia over a period of 50-year between 1970 and 2019. The graph shows the general trend of the mean and median have experienced growth, where in the year 2019, households have a higher income than they have in 1970. In 1970, the mean income was RM264 and by the year 2019, it had grown around 30-fold to RM7,901. While the median income grew around 35-fold from RM166 in 1970 to RM5,873 in 2019. Despite significant growth in the median compared to the mean household income during this time, the median still lags behind the mean.

In 1970, the median value depicts that 50 percent of total households in Malaysia received an income of RM166 or less with a mean value of RM264. While, in 2019, the median value depicts that 50 percent of total households in Malaysia obtained an income of RM5,873 or less which is far from the mean value of RM7,901. This means that, from the year 1970 until now, 50 percent of households in Malaysia still earn below the average household income. In fact, the gap between the mean and is median household income widening from year to year.

The significant differences between mean and median show that the mean is influenced by the outliers. In this study, the outliers are the high values of household income by some of the households. This causes the mean to increase and making a distance far away from the median. Hence, it illustrates that there is an increase in the income inequality among Malaysian households. It is a big problem as the income inequality will disturb the development growth of the economy (Kennedy, Smyth, Valadkhani, & Chen, 2017) and will hinder Malaysia's aspiration to become a developed nation. Consequently, become an important area of study.

On the other hand, as the mean value analysis doesn't provide a more accurate representation of the majority of the monthly household gross income in Malaysia, the median value analysis will be used. This is because it will give a better picture (Chiripanhura, 2011) to assess the living standards of Malaysians. However, the mean value analysis will be used in the case that the median value is not available.

## 1.2 Monthly Household Gross Income by Income Group, 1970-2019

In Malaysia, the monthly household gross income can be categorized into three different income groups: Top 20 (T20), middle 40 (M40), and below 40 (B40). These three categories had percentages of 20 percent, 40 percent, and 40 percent respectively of the total households. Table 1 shows the income threshold for these three different income groups for the years 2019, 2016, and 2014.

Based on the Department of Statistics Malaysia (2019c), the threshold for the highest income group of 20% households (T20) in 2019 refers to households with an average monthly income of RM10,960 and above. The 40% middle-income (M40) household group refers to households with average monthly income ranging from

RM4,850 to RM10,959. While the lowest 40% household income (B40) monthly group refers to households with an average income below RM4,849. The income threshold for 2019 is different from 2016 and 2014. The threshold value is not fixed as it has been revised to reflect household income for the year under review. Nevertheless, the range of income is increasing signifies the increase in household income.

**Table 1** The income threshold for the year 2019, 2016, and 2014

| Year ＼ Income group | Income threshold | | |
|---|---|---|---|
| | **2019** | **2016** | **2014** |
| **B40** | < RM4,849 | <RM4,360 | < RM3,852 |
| **M40** | RM4,850 – RM10,959 | RM4,360 – RM9,619 | RM3,852 - RM8,319 |
| **T20** | > RM 10,960 | >RM9,619 | > RM8,320 |

**Source** Department of Statistics Malaysia (2019c), Hamid, Ho, and Ismail (2019)
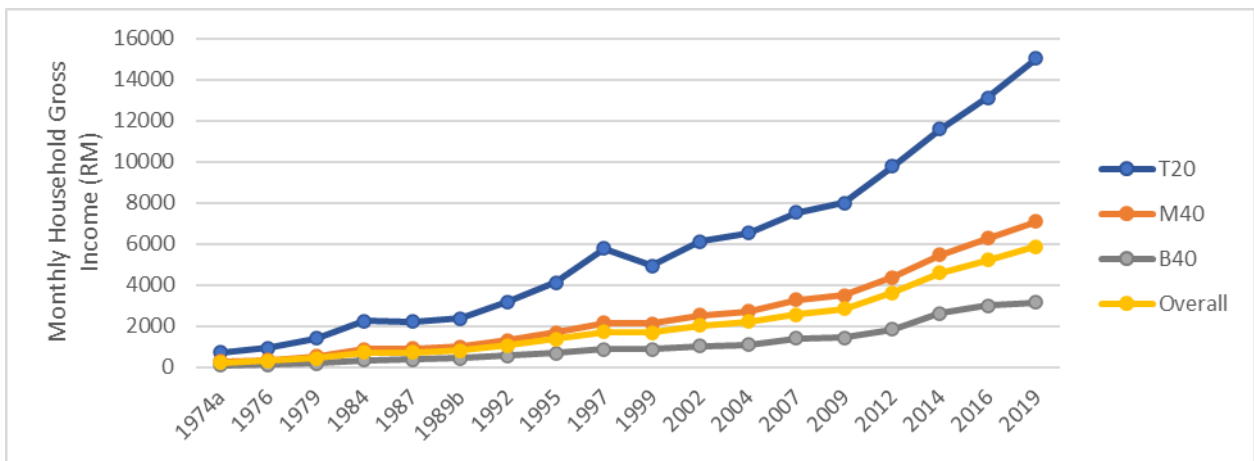


**Fig. 3** *The Median of Monthly Household Gross Income by Group Income, 1974-2019*
**Source** Department of Statistics Malaysia (2019c)

Figure 3 shows the median of the monthly household gross income based on the three income groups (T20, M40, and B40) and including the overall household income (regardless of the income groups). It shows that the median for group T20 and M40 groups is above the overall median household income standard with T20 leaving far above from the standard overall income, while M40 hovering around the standard overall. On the other hand, the graph shows that the B40 group is left behind where their household income does not even reach the standard overall median household income.
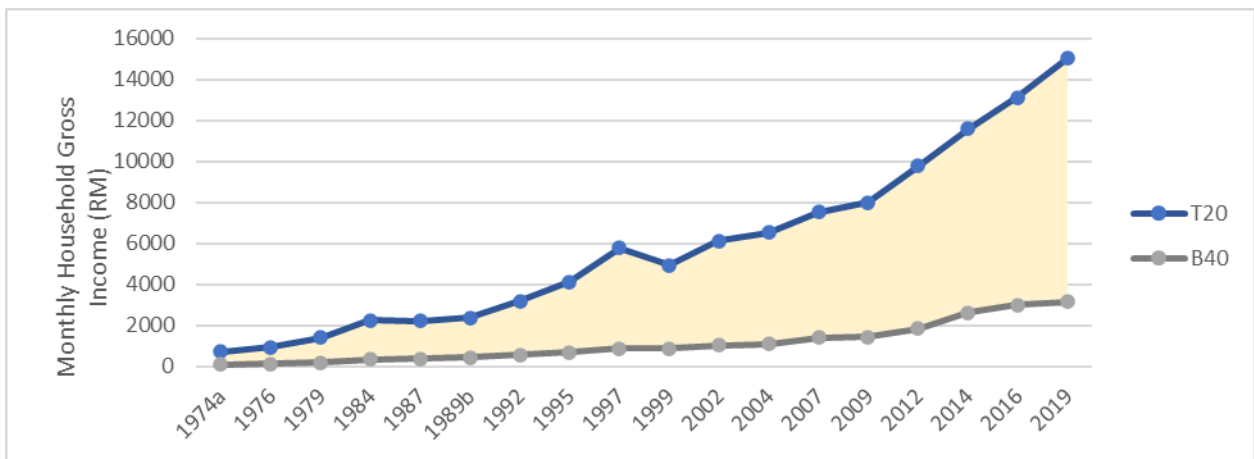


**Fig. 4** *The Median of Monthly Household Gross Income Disparity between T20 and B40 groups, 1974-2019*
**Source** Department of Statistics Malaysia (2019c)

Furthermore, using income disparity between the highest monthly household gross income (T20) and the lowest (B40) as in figure 4, this study found out that the household income gap continuously widening. Since

1974, the income disparity has almost grown 19-fold. It shows that the rich become richer and the poor become poorer. In addition, the B40 as the main focus of attention of the Malaysian government is still far lagging behind. Consequently, the B40 continuously became the government's focus in providing financial assistance to uplift their status (Ministry of Economic Affairs Malaysia, 2019).

Moreover, in 2019, the Department of Statistics Malaysia has further developed a more detailed household classification. Where the T20, M40, and B40 groups have been expanded into 10 categories based on 10 percentiles with the aim to facilitate planning and monitoring in closing the income gap between households (Department of Statistics Malaysia, 2019c). Table 3 shows the income threshold for each category for the year 2019. There is a total of 10 clusters with B1, B2, B3, and B4 grouped under B40, while M1, M2, M3, and M4 grouped under M40, and lastly, T1 and T2 grouped under T20.

**Table 2** Income Classification

| Decile group | | Income share (%) | Median household income (RM) | Mean household income (RM) | Income threshold (RM) |
|---|---|---|---|---|---|
| **B40** | B1 | 2.4 | 1,929 | 1,849 | Less than 2,500 |
| | B2 | 3.5 | 2,786 | 2,803 | 2,500 - 3,169 |
| | B3 | 4.5 | 3,556 | 3,561 | 3,170 - 3,969 |
| | B4 | 5.6 | 4,387 | 4,395 | 3,970 - 4,849 |
| **M40** | M1 | 6.8 | 5,336 | 5,346 | 4,850 - 5,879 |
| | M2 | 8.2 | 6,471 | 6,477 | 5,880 - 7,099 |
| | M3 | 9.9 | 7,828 | 7,841 | 7,110 - 8,699 |
| | M4 | 12.3 | 9,695 | 9,730 | 8,700 - 10,959 |
| **T20** | T1 | 16.1 | 12,586 | 12,720 | 10,960 - 15,039 |
| | T2 | 30.7 | 19,781 | 24,293 | More than 15,039 |

**Source** Department of Statistics Malaysia (2019c)

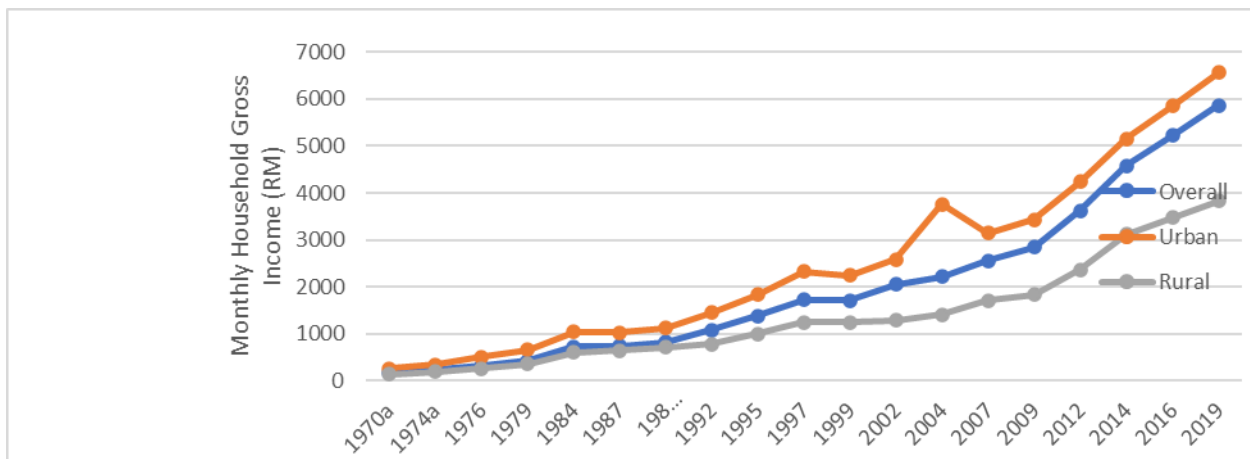## 1.3 Monthly Household Gross Income by Strata, 1974 – 2019



**Fig. 5** *The Overall Median of Monthly Household Gross Income by Strata, 1974-2019*
**Source** Economic Planning Unit, Prime Minister's Department

Studies on household income can be classified into strata (urban and rural areas). Figure 5 shows the median monthly household gross income based on the urban and rural areas. Both areas have experienced an increase in household income. Nevertheless, the rural is still lag far behind the standard overall household income. In

addition, the gap between urban and rural areas becomes more significant. It shows that the urban area has higher household incomes as compared to rural areas. Next, this study will look in-depth to gain more insight into how household income in the urban and rural area differs from income group (T20, M40, and B40).
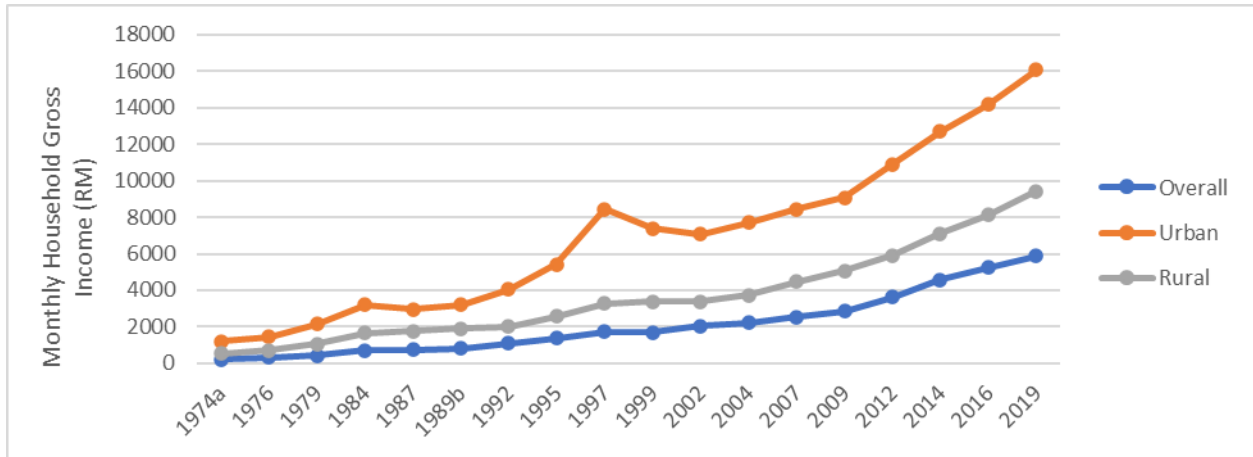


**Fig. 6** *The T20 Median of Monthly Household Gross Income by Strata, 1974-2019*
**Source** Economic Planning Unit, Prime Minister's Department

Figure 6 shows the median monthly household gross income for urban and rural areas for group T20. As can be seen in figure 5, since 1974, the urban and rural T20 lies above the standard overall median household income. This signifies that the T20 have higher household income as compared to the standard overall regardless they are in the urban or rural areas. Despite that, the T20 urban area has higher household income compared to the rural area.
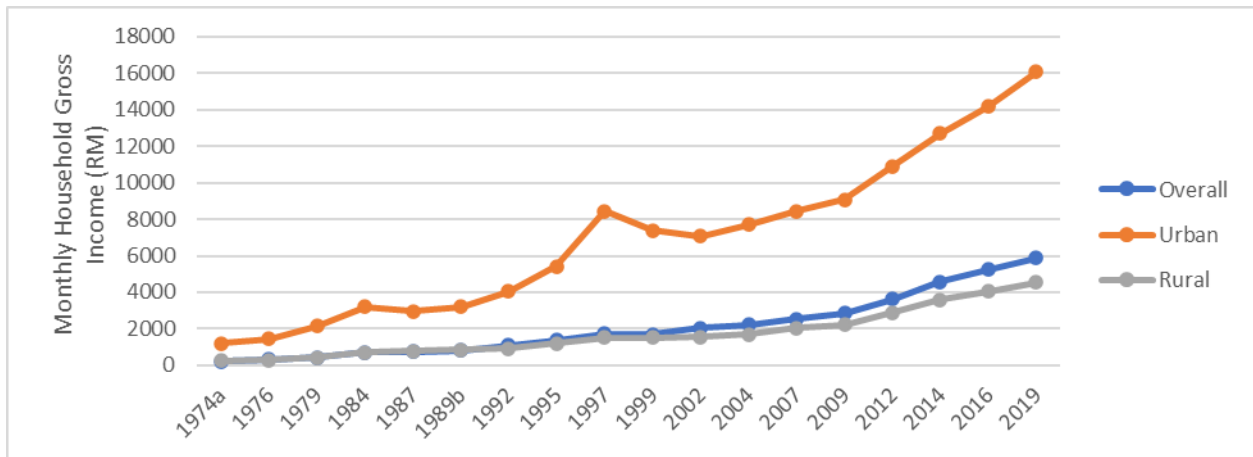


**Fig. 7** *The M40 Median of Monthly Household Gross Income by Strata, 1974-2019*
**Source** Economic Planning Unit, Prime Minister's Department

Figure 7 shows the household income for the M40 group in urban and rural areas. It shows that since 1974 the urban M40 group has higher household income and lies far above the standard overall household income in Malaysia. Currently in 2019, the household income for urban becomes RM7,830 while the standard overall household income is only RM5,873. However, it is surprising that since 1994, the M40 group in rural areas has lower household income (RM928) than the standard overall household income (RM1,077). Since then, the household income for the M40 group in the rural areas has less than the standard overall household income.
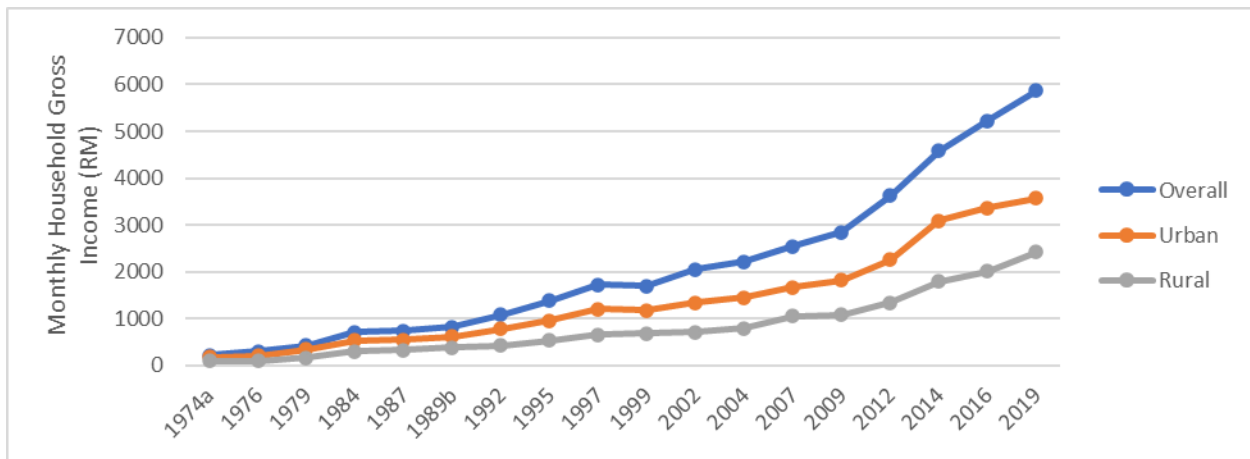
**Fig. 8** *The B40 Median of Monthly Household Gross Income by Strata, 1974-2019*
**Source** Economic Planning Unit, Prime Minister's Department

Figure 8 shows that since 1974, the B40 group is left behind regardless of whether they are in urban or rural areas. This signifies poverty exists in both urban and rural areas. In general, figures 6, 7, and 8 show that M40 and B40 in rural areas having low household income as compared to the urban area. Moreover, B40 in urban areas also have lower household income as compared to the standard overall household income.

Therefore, the Second Malaysia Plan (1971-1975), was developed with one of the main aims to correct the imbalance of the economy within the rural and urban areas (Government of Malaysia, 1970). During 1970 – 1980, the opening of new land in the rural and urban areas has created new job opportunities for households that contribute to a higher income (Government of Malaysia, 1980). The main aim is to develop the economy by emphasizing the rural area. Therefore, this program was developed to help specific focus groups such as farmers, estate workers, and fishermen. Despite many programs wore developed to help improve the standard of household living in the rural areas, the monthly household gross income for M40 and B40 in rural areas are still far behind the standard overall household income. Meaning that the aims to correct the imbalance of the economy within the rural and urban area has yet to be achieved.

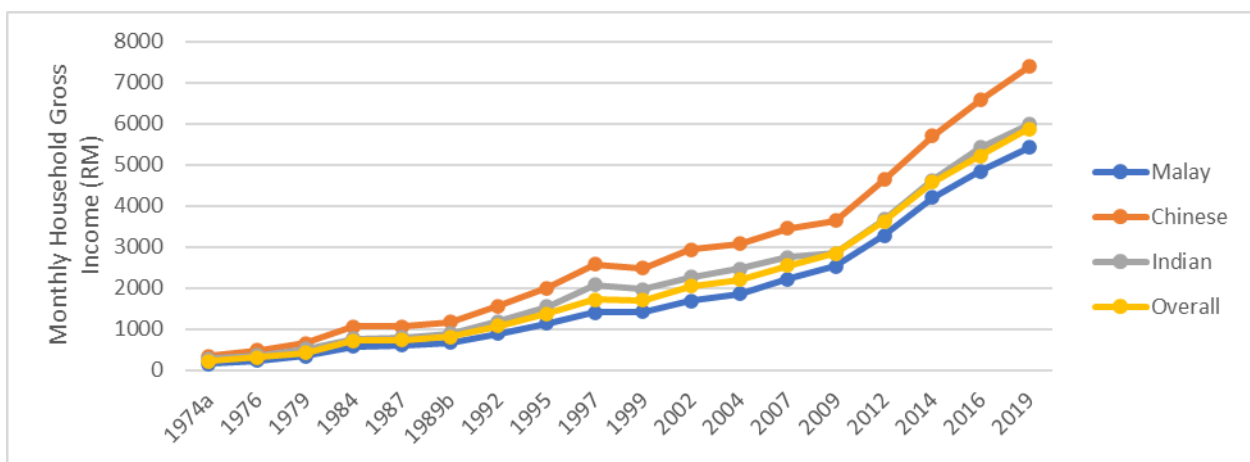## 1.4 Monthly Household Gross Income by Ethnic, 1974 – 2019



**Fig. 9** *Median Monthly Household Gross Income for Main Ethnic in Malaysia*
**Source** Economic Planning Unit, Prime Minister's Department

Figure 9 shows the median monthly household gross income for main ethnicities (Malay, Chinese, and Indian) in Malaysia. All ethnicities are shown an impressive increase in their household income. In 2019, the household income for Chinese is RM7,391 as compared to in 1974 which is only RM268. Indian received RM5,981 household income as compared to RM198 in 1974. While Malay received RM5,420 as compared in 1974 with RM120.

Although there is an impressive increase in household income for all ethnicities, the Chinese ethnic has the highest increase of household income leaving other ethnicities behind. While Malay household income is below

the standard overall income. This illustrates that Malay ethnic are still lag behind other ethnicities. The gap between the highest (Chinese) and the lowest (Malay) is becoming increasingly wide in 2019.  Next, this study will look in-depth at the income groups (T20, M40, and B40) based on ethnicity to see the differences.
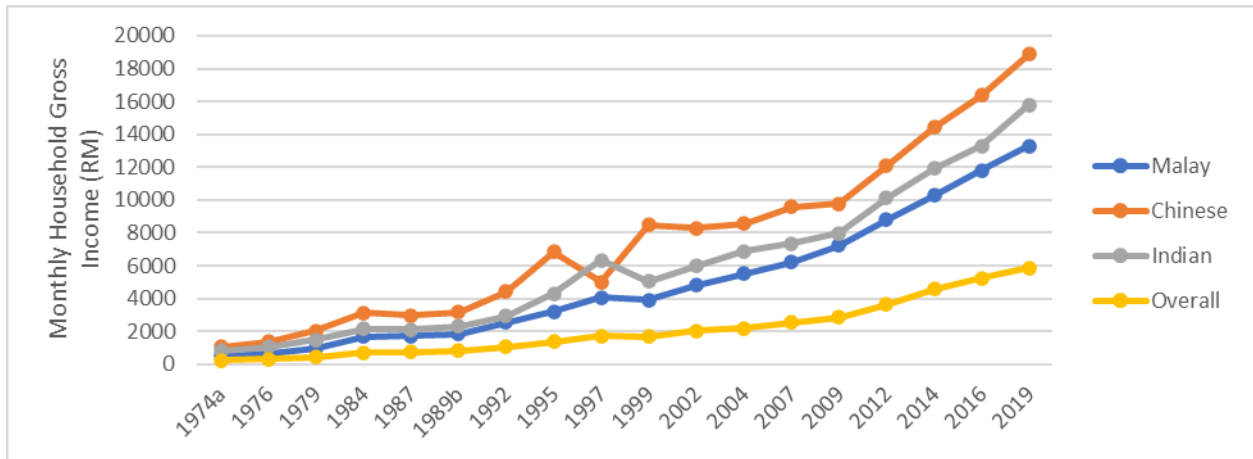


**Fig. 10** *Median Monthly Household Gross Income T20*
**Source** Economic Planning Unit, Prime Minister's Department

Figure 10 shows the monthly household gross income for group T20. Generally, all group T20 ethnicities can be proud to have a household income that beyond the standard overall household income. Moreover, their income is far above the standard of overall household income (RM5,873) especially for Chinese (RM18,876) followed by Indian (RM15,799), and lastly Malay (RM13,299).
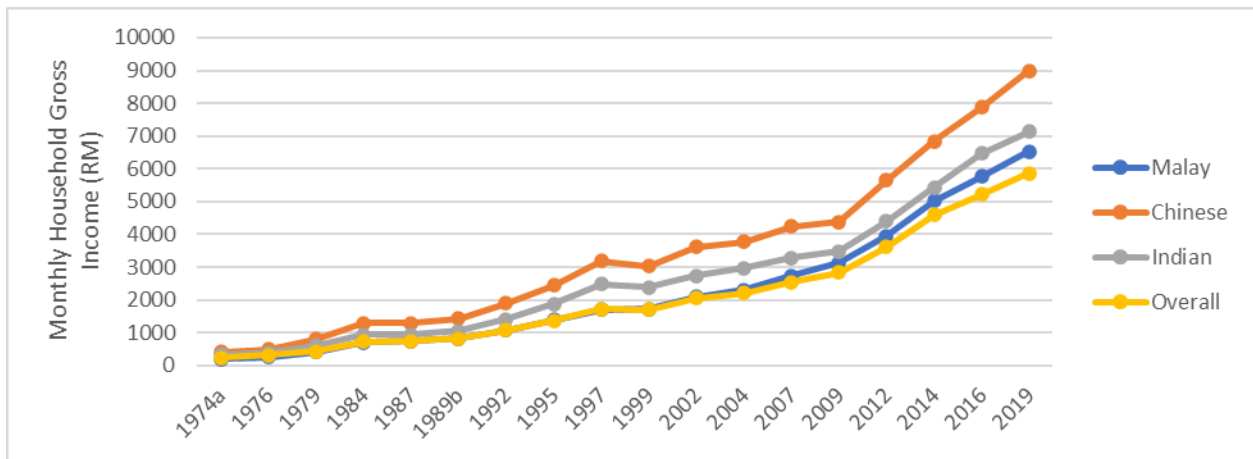


**Fig. 11** *Median Monthly Household Gross Income M40*
**Source** Economic Planning Unit, Prime Minister's Department

Figure 11 shows the median monthly household gross income for group M40. Same as the group T20, the M40 household income for Malay, Chinese, Indian also above the standard overall household income. Nevertheless, the figure show Malay and Indian line graph hovering the standard overall household income. This shows that the household income for M40 especially Indian and Malay just above the standard overall household income.
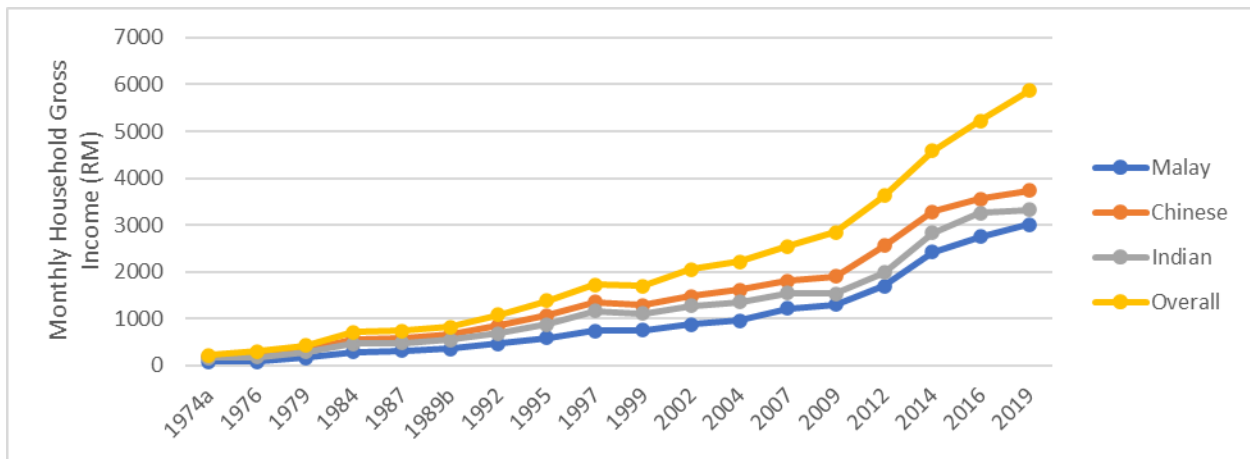
**Fig. 12** *Median Monthly Household Gross Income B40*
**Source** Economic Planning Unit, Prime Minister's Department

Figure 12 shows that all ethnicities for the B40 group are left far behind the standard overall household income (RM5,873) in Malaysia. In general, there is an increase in the monthly household gross income for each ethnicity (Malay, Chinese, and Indian) regardless of their income group (T20, M40, and B40) from 1974 until 2019. Nevertheless, figures 10, 11, and 12 show that Malay ethnic are left behind regardless of whether they are in group T20, M40, or B40 ever since 1974. While Chinese has the highest household income followed by Indian. Although the household income for Malay ethnic has also increased significantly since 1970, still, not being able to catch up with the other ethnicities. Hence, leaving huge income inequality between Chinese (the highest) and Malays (the lowest).

The income inequality among main ethnic in Malaysia can be traced back to the year 1957 when Malaysia gained independence from Britain. At the time of independence, British colonialism had left Malaysia with a significant income inequality gap between the main ethnic comprising Malay, Chinese, and Indian. These main ethnics groups were divided based on the economic activities where most Malay living in the rural areas and work as farmers and fisherman, Chinese people settle in urban and mining areas, and dominant in the business, and the Indians living in the estate as a laborer. Therefore, as discussed earlier, the living areas of each of the main ethnicities lead to differences in household income.

Subsequently, in 1970, the New Economic Policy (NEP) was introduced by the late Tun Abdul Razak Hussein Onn with the aim to eradicate poverty and reducing ethnic inequality. Since then, the government's efforts to eradicate poverty have been successfully achieved (Ikemoto, 1985). The poverty rate was 49.3% when the NEP was introduced (The Economic Planning Unit, 2010) and decrease to 0.4% in the year 2016 (Ministry of Economic Affairs Malaysia, 2019). It shows a significant reduction in reducing poverty in Malaysia. Nevertheless. The aim of reducing ethnic inequality still not being achieved.

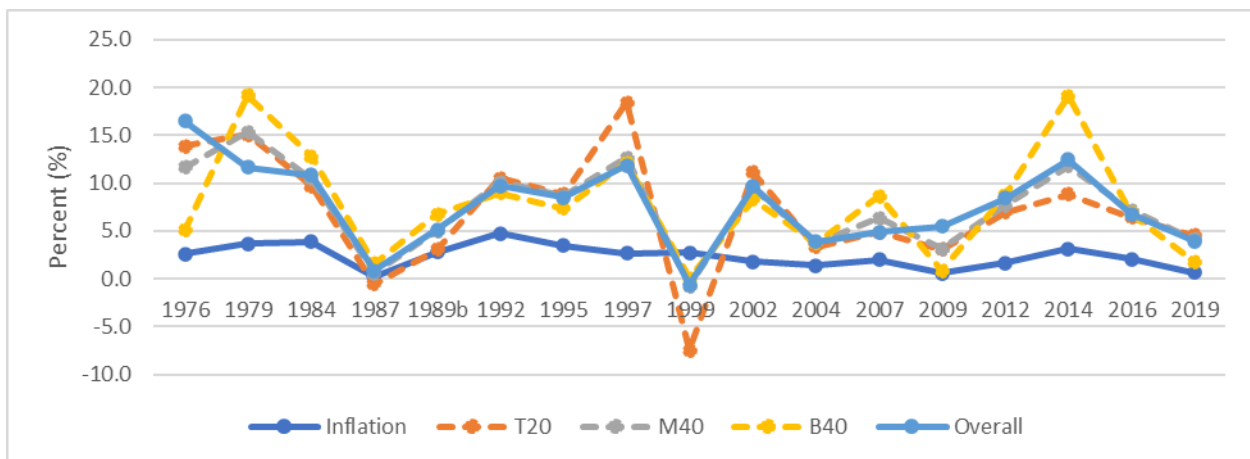## 1.5 Monthly Household Gross Income Rate and Inflation Rate, 1976-2019



**Fig. 13** *Median Monthly Household Gross Income Rate and Inflation Rate, 1976-2019*
**Source** Economic Planning Unit, Prime Minister's Department

Figure 13 shows the trend of the median monthly household gross income rate and inflation rate. Malaysia generally has a low inflation rate as compared to other middle-income countries (Islam, Abdul Ghani, Mahyudin, & Manickam, 2017). Inflation is defined as the increase in the prices of goods and services over time (how much prices have changed). In simple terms, inflation will reduce the purchasing power of households, and they would not be able to afford to buy as much as before. It can be measured using the Consumer price index (CPI). Inflation is one of the important factors that have an impact on household income (Alaloul, Musarat, Liew, Qureshi, & Maqsoom, 2021). This is because employees as part of the household tend to request higher salaries to cope with a higher cost of living. While employers will increase the salaries to keep the employee. In this case, employee salaries will increase and subsequently household income.

According to the Department of Statistics Malaysia (2019c), the inflation rate is correlated with the household income rate. Since 2002, the growth rate of households become more stable where it lies above the inflation rate. The higher increase in household income rate than the inflation rate indicates that households should be financially stronger. On the other hand, higher inflation rate also can lead to higher income inequality (Narob, 2015). This is because inflation will push households especially under the group of B40 further into poverty as the goods and services become too high and unaffordable to them.

## Acknowledgement

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