BOOK REVIEW

Income Inequality and Poverty in Malaysia by Shireen Mardziah Hashim, Lanham, Md., Rowman & Littlefield Publishers, 1998, xxv + 243pp.

This book is based on the author's doctoral dissertation submitted to the University of London. Income distribution is a very important topic in Malaysia, but at the same time it is a very difficult topic to research there because detailed data on income distribution has not been published, even though household income surveys have been conducted regularly. Income distribution is a very sensitive issue in Malaysia because it is related to that country's complex social structure, which is composed of Bumiputera (mainly Malays), Chinese, Indians, and others. The government seems to be afraid that income distribution data could be used to rekindle conflicts among these ethnic groups. Bumiputera account for the majority of the population and dominate politics, while the Chinese dominate the economy. The stability of Malaysian society depends on a balance between these groups. If income distribution data were published, it could be used politically to damage this balance, regardless of what the statistics really indicate.

It is a fact, however, that the economic gap among the ethnic groups has been declining since the early 1970s, when the New Economic Policy began aiming to restructure society. The 1970s and 80s were periods during which the Malaysian government devoted itself to restructuring society by improving the economic situation of Bumiputera. Even though the economic gap narrowed during this period, the Malaysian government is still cautious about divulging data on income distribution to the public. This indicates that a narrowing income gap in itself is not seen simply as a good sign for the society. For example, this narrowing income gap may have been attained at the cost of other ethnic groups, especially the Chinese. Thus, income distribution in Malaysia is a more complicated issue than in other countries; and the situation cannot be understood by simple inequality indices, such as the Gini coefficient. Unfortunately, the published information is limited to such basic indices as mean and median income according to ethnic group. Therefore, the success of income distribution studies in Malaysia depends on access to unpublished data or how well income distribution is estimated with limited data.

Shireen Mardziah Hashim was fortunate enough to gain access to the unpublished data on income distribution. She used this data, as well as other scattered data, to show the conditions of income distribution and poverty in Malaysia, including Sabah and Sarawak. Sabah and Sarawak have, with few exceptions, not been included in the study of income distribution in Malaysia. Therefore the analysis of Sabah and Sarawak is one of the important contributions of this book. However, its most important contribution is as a source of the information that has not been published up to this time, and thus can be used for further analysis of the Malaysian income distribution.

The Book's Organization

Chapter 1 presents a brief review of economic development in Malaysia since attaining independence in 1957 and explains its sources for income distribution analysis. Since what kind of data was used for the analysis is crucial, we will quote this part at length, for it relates to the book's overall reliability and justification.

> It is important to note that no primary data sources are used in this study. Although unpublished data from HIS [the Household Income Survey] 1980, 1984, 1987, and 1989 have been used to examine the different aspects of Malaysian income inequality and poverty, the data were processed by the Department of Statistics . . . . The Gini coefficient, mean income and median incomes used in this study are obtained directly from the Department of Statistics. Although access to raw data was denied, detailed information on income and poverty by state was available from the Household Income Surveys. Other measures used, such as the Theil Index, the Atkinson Index, incidence of poverty and poverty gap, were calculated using these secondary sources. (p. 23)

The author uses mainly the data processed by the Department of Statistics in order to estimate some indices. Even though the data she obtained is not primary, but rather processed, it will be very useful for further analysis. This point will be discussed later.

Chapter 2 is composed of two parts. The first part is a theoretical survey of income inequality focusing on the Kuznets inverted U-curve hypothesis,[1] regional income inequality, and poverty. The second part surveys the research to date on income inequality, regional inequality, and poverty in Malaysia, the last section of this part presenting official estimates of poverty from 1970 to 1990. The data is presented for Peninsular Malaysia, Sabah and Sarawak, by industry, rural/urban areas, and ethnic group. It is shown that the incidence of poverty decreased rapidly during the 1970s and 80s. In comparison to poverty, income inequality is mentioned very briefly, due to the fact that the official data on income inequality is much more limited than that on poverty. Only mean income by ethnic group is shown, but it indicates that inequality among ethnic groups has been narrowing since the 1970s due to improvements in income level of Bumiputera relative to Chinese and Indians.

Chapter 3 tests the Kuznets inverted U-curve hypothesis by time-series data and by cross-sectional data. The Kuznets hypothesis asserts that income inequality increases at earlier stages of economic development, while it decreases at later stages. In order to prove this hypothesis by time-series data, we need data which covers both stages. Malaysia is one of the rare cases where data is available at both stages, and the results of the time-series analysis support the Kuznets hypothesis. This result is not surprising, because we know that income inequality worsened in the 1960s and improved in the 1980s. However, we must be careful about the comparability of data. This chapter's Table 3.1 gives the following Gini coefficients from 1957/58 to 1989: 0.412 in 1957/58, 0.444 in 1967/68, 0.513 in 1970, 0.530 in 1973, 0.557 in 1975, 0.567 in 1976, 0.508 in 1980, 0.480 in 1984, 0.459 in 1987, 0.447 in 1989. The problem with these figures is that the Gini coefficients in the 1970s seem to be too high. The reasons for such doubt are: first, whether such large changes in the Gini coefficient could occur within so short a period. Secondly, there is the question of whether

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[1] Simon Kuznets, "Economic Growth and Income Inequality," *American Economic Review* 45, no. 1 (1955).

income inequality worsened when the New Economic Policy was adopted to reduce the income gap among ethnic groups, a point that relates to the evaluation of the policy. The data set for this analysis includes several surveys on household income, which may not be comparable to each other. Furthermore, even for a same household income survey, the resulting Gini coefficient may be different according to the methodology of estimation. Thus it is very important to check the comparability of the data used for testing the Kuznets hypothesis. Compared with the reviewer's estimates,[2] the figures in the mid-1970s seem to be too high. The high Gini coefficients in the mid-1970s seem to emphasize, or exaggerate, changes according to the Kuznets hypothesis. However, this does not mean any denial of the conclusion. Even if the figures for the mid-1970s were not so high, they still indicate changes according to the Kuznets hypothesis. Therefore, we have no objection concerning the author's conclusion to support the Kuznets hypothesis in the case of Malaysia.

The latter part of Chapter 3 is devoted to testing the Kuznets hypothesis by cross-sectional data: that is, state data. Malaysia comprises thirteen states and the Federal Territory of Kuala Lumpur. Thus, there are fourteen observations for the years 1984, 1987, and 1989. However, Sabah and Sarawak (and sometimes Kuala Lumpur) are excluded from the sample to obtain significant results. A test was done for each year. The results oppose Kuznets inverted-U. The estimated curve is not an inverted-U, but just U shape. This indicates that income inequality in both poorer and richer states was larger than in middle-income states. The author attributes high income inequality in the poor rural states to landownership and the government's policy for poverty alleviation. She argues that the poverty alleviation policy improved the income levels of the relatively rich rather than the poor. A problem with this cross-sectional analysis is again the comparability of data. The Kuznets hypothesis refers to changes in income inequality of an economy. Therefore, when using cross-section data, we must distinguish those factors which resulted from economic development and those which are peculiar to the economy. A related problem is whether the level of economic development can be measured by per capita GDP by state, which is used as an explanatory variable. The author also uses mean household income instead of per capita GDP, but obtains more or less the same results. The author adds the share of agriculture in GDP and population growth rate as explanatory variables in addition to per capita GDP, as is usually done for estimating the Kuznets curve. In this case, the results support the Kuznets hypothesis. However, there arises another problem. Which variable indicates the level of economic development: per capita GDP or the share of agriculture in GDP? Generally, either can be used as an indicator of economic development. Thus, we face the problem of how to measure "economic development."

Chapter 4 analyzes in more detail income inequality in Peninsular Malaysia from 1979 to 1989 based on the Household Income Surveys of 1980 (referred to 1979), 1984, 1987, and 1989. The first section deals with overall inequality and concludes that the income inequality declined in the 1980s. This decline was largest during the period 1984–87, due to a severe recession. However, even in the following period, when the Malaysian economy attained high economic growth, income inequality was still declining. If recession has an effect to decrease income inequality, the question arises as to why income inequality kept

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[2] Yukio Ikemoto, "Income Distribution in Malaysia: 1957–1980," *Developing Economies* 23, no. 4 (1985).

declining in the following period. One explanation may be that there was a time lag from economic recovery to rising income inequality. If so, we might expect that income inequality might have been rising in the early 1990s and declining after the economic recession in the late 1990s.

This chapter also analyzes income gaps among ethnic groups, which is the most important issue in Malaysia. This part reveals that any economic situation affects each ethnic group differently. For example, "the recession affected Chinese households more than Malay and Indian households" (p. 90), indicating that declining income inequality is attained at cost to some ethnic groups. This is the reason why equality of income distribution measured by such overall inequality indices as the Gini coefficient cannot be simply adopted as a national goal in the case of Malaysia. The limitation of traditional inequality measurements will be discussed later.

Chapter 5 deals with Sabah and Sarawak. These two states have been all but excluded from the analysis of income distribution in Malaysia to date. This may be due to a lack of data, and/or the geographical distance and socioeconomic differences between these two states and Peninsular Malaysia. In any case, this book is a pioneering effort in this respect. The author compares the Gini coefficient of Sabah and Sarawak with that of Peninsular Malaysia and concludes that "compared with Peninsular Malaysia, improvements—as indicated by the declines in the Gini coefficient—seemed to be slower in Sabah and Sarawak, implying that government policies may not have been as effective there—especially in Sabah—as in the West" (p. 106). Contrary to this comment, which emphasizes differences, it would seem to be more interesting to focus on the similarities among them. This chapter's Table 5.11 indicates that the Gini coefficients of the two states and Peninsular Malaysia changed in the same direction and that the difference among them remained less than 0.018 for each year. It would have been interesting to pursue why this similarity could have occurred between such diversified regions.

Chapter 6 analyzes regional inequality; regions correspond to states in Peninsular Malaysia. The methodology used is decomposition of the Theil index and Williamson's indicator, and the data used is household income, per capita GDP, and labor productivity.

Chapter 7 examines the incidence of poverty, including Sabah and Sarawak. Here the details of the methodology for estimating the poverty line adopted by the Malaysian government is shown. Then the author examines official Poverty Line Income (PLI) and points out the possibility of an underestimation of poverty in Malaysia. "The basic flaws with the official Malaysian PLI are: a) the use of the CPI to adjust the PLI over time, b) failure to allow for differences in urban and rural living costs, c) failure to consider differences in household size, d) failure to allow for changing consumption patterns as income grows" (p. 162). Concerning the second point, the Malaysian PLI does not distinguish between urban PLI and rural PLI, because the cost of living in rural areas is not much different from that in urban areas. The author criticizes this point and estimates her own urban PLIs, indicating an underestimation of urban poverty by the official PLI. This point is indeed important for the refinement of poverty measurement, but a more interesting question may be whether the PLI differs among ethnic groups. The cost of living might be different according to the life style or culture of each ethnic group. Unfortunately this point is not explored.

After examining poverty line income, the poverty profile is shown for the year 1989.

Although the incidence of poverty decreased rapidly, the composition of the poor remains the same as that in 1970, to which Anand[3] is referred. That is to say, the poor are mainly Malay, live in rural areas, and receive little or no formal education. In the conclusion to this chapter some results of regression analysis are presented to show that education is effective in decreasing poverty incidence.

The last chapter discusses some factors which affect income distribution and poverty. Those factors discussed are rural development programs and human resource development. The former includes General Programs, New Land Development Programs, In-Situ Development Programs, and departmental programs, while the latter focuses on education. The author suggested that some of the rural development programs may be aggravating income inequality in rural areas.

Education policy, such as the restrictive quotas in tertiary education for non-Bumiputera students, has caused resentment among these groups. Any inefficiency which may be caused by such quotas may be justified by a national policy that gives higher priority to restructuring society rather than economic growth. An interesting point mentioned is that as a result of this policy, ethnic Chinese students studying abroad increased, so "when tertiary enrolment at overseas institutions are included, the Malaysian tertiary population is more ethnically balanced" (p. 214). This indicates that to view education policy as inefficient is a very static view, in the sense that it may neglect the dynamic effect to internationalize the people and upgrade education levels as a whole.

The Data

One of the important contributions of this book is the previously unpublished detailed data on income distribution in Malaysia that it contains. As mentioned above, the Malaysian government has been very cautious in making public sensitive information that may cause political disputes, especially between Bumiputera and non-Bumiputera groups. This may be the reason why statistics on income distribution have not been published, thus concealing the income gap among ethnic groups and avoiding use for political purposes, irrespective of what they really indicate.

Several surveys on income distribution have already been conducted in Malaysia. The Department of Statistics has conducted Household Income Surveys every two or three years since 1980, but unfortunately only some summary statistics, such as mean and median data, have appeared in government publications.

The author of this book was very fortunate to be able to gain access to the unpublished data. Another case that was able to use unpublished data is the aforementioned Anand's analysis, which used the Post Enumeration Survey of the 1970 Population Census, enabling an analysis of income distribution in much more detail than the present book. The difference in methodology between the two may be due to the level of detailedness of the data they were able to use; while Anand employs more detailed raw data, Hashim uses "no primary data sources . . . the data were processed by the Department of Statistics."

Not only does Hashim's book contain limited data compared to Anand, but also in this reviewer's opinion does not make full use of the data she has gathered. This may be because

[3] Sudhir Anand, *Inequality and Poverty in Malaysia: Measurement and Decomposition* (New York: Oxford University Press for World Bank, 1983).

there were conditions laid down for using and analyzing the data before access was granted. Some of this reviewer's work on Malaysia's income distribution referred to by Hashim aimed to estimate income distribution with very limited mean, median, etc. Therefore, if she had been able to apply various methodology to the data she accessed, information on the acuteness of income distribution and further analysis on the characteristics of income distribution and poverty in Malaysia may have been attained.

Such methodology for estimating income distribution with limited data may have had been a cause for the government to limit the data it published. One can only hope that the Malaysian government will be more open concerning the detailed data it possesses on income distribution, in order to encourage more research and reveal the true situation of income inequality.

Income Inequality and National Objectives

The last chapter of this book discusses some factors affecting income inequality and poverty focusing on the role of the government. Policy-wise, Malaysia had been forced to consider simultaneously two different objectives, growth and equity, in order to maintain national unity. Although this is true for any country, it is more crucial for Malaysia due to growth cum equity being closely related to conflicts that exist among its ethnic groups. High economic growth was needed to restructure the society (i.e., decrease income gaps among ethnic groups) without damaging national unity. Whether economic growth is accompanied by inequalization of income or not is exactly what the Kuznets hypothesis deals with. We usually imagine that economic growth is accompanied by a worsening income distribution, but this is only half the story. The Kuznets hypothesis insists that a trade-off exists only at the earlier phase of the U-shape curve. At the latter phase, economic growth is accompanied by equalization of income distribution and the trade-off disappears. The time-series regression analysis of Chapter 3 indicates that Malaysia has already entered this latter phase during the 1980s. It is generally believed that Malaysia can attain economic growth, improvement of income distribution, and alleviation of poverty by a "redistribution through growth strategy." It could be argued that Malaysia's success in attaining both growth and equity is merely the result of entering the second phase of the Kuznets curve. If so, there is no implication for other countries except to promote economic growth. On the other hand, it is also arguable that government policy worked to change the shape of the Kuznets curve, which may have resulted in the shortening of the earlier phase; and if this is the case, there are some useful implications for other countries. Unfortunately, the regression analysis adopted by Hashim is not sufficient to show which scenario applies to the Malaysian case. It seems necessary to go beyond the simple framework of proving the existence of a U-shape curve and analyze the relationship among the Kuznets curve, economic policy, and other factors.

Nevertheless, there is a more substantial problem concerning income distribution studies in Malaysia. As already mentioned, what is important in the Malaysian context is not overall income equality, but equality among ethnic groups. We all know that equal distribution of income is desirable, but it is not that simple. For example, if general equality is attained at the impoverishment of one ethnic group, that group will not be satisfied. Such conflict occurs in other countries, but what makes the Malaysia's case so serious is the fact that the

trade-off between growth and equity closely relates to conflict among ethnic groups. There-fore, the overall inequality measured by the Gini coefficient and other indicators must be interpreted very carefully in the context of Malaysia.

Lastly, we should mention the limitation to the income inequality argument as a whole. This is not to deny the importance of income distribution studies, but it is important to keep its limitations and meaning in mind. The limitation of income as a measure of inequality is a point emphasized by A. K. Sen,[4] who proposes an alternative, "function" or "capability," which indicates more directly well-being and freedom among the people. If we measure the inequality in Malaysia in terms of capability rather than income, we just may come up with a different image of Malaysian society.   (Yukio Ikemoto)

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[4] For example, Amartya K. Sen, *Inequality Reexamined* (New York: Russell Sage Foundation; Oxford: Clarendon Press, 1992).