Gini coefficient

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Purpose

To present and discuss Malaysia's income inequality (Gini coefficient) within the context of IMD World Competitiveness Yearbook 2020.

IMD World Competitiveness Yearbook 2020

Sub-factor: Societal framework
Gini coefficient

Societal Framework

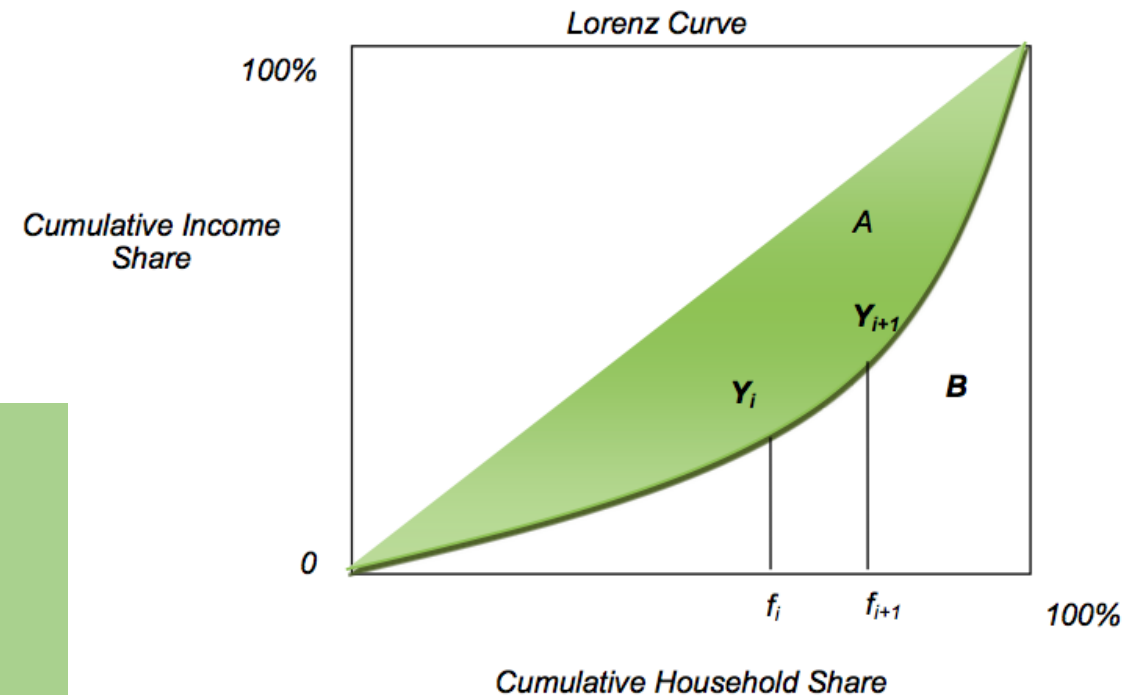| Code	Indicator	Description
2.5.01 [S]	Justice	Justice is fairly administered
2.5.02	Homicide	Intentional homicide, rate per 100'000 population
2.5.03	Ageing of population	Population over 65, percentage of total population
2.5.04 [S]	Risk of political instability	The risk of political instability is very low
2.5.05 [S]	Social cohesion	Social cohesion is high
2.5.06	Gini coefficient	Equal distribution of income scale: 0 (absolute equality) to 100 (absolute ine...
2.5.07 [B]	Income distribution - lowest 10%	Percentage of household incomes going to lowest 10% of households
2.5.08 [B]	Income distribution - highest 10%	Percentage of household incomes going to highest 10% of households
2.5.09	Income share held by lowest 60% - growth	Percentage change of household incomes going to lowest 60% of househo...
2.5.10 [S]	Equal opportunity	Equal opportunity legislation in your economy encourages economic deve...
2.5.11	Females in parliament	Percentage of total seats in Parliament
2.5.12	Unemployment rate - gender ratio	Ratio of the female and male unemployement rates
2.5.13	Gender inequality	Gender Inequality Index (UNDP)
2.5.14	Disposable Income	Female / male ratio
2.5.15	Freedom of the Press	Reporters Without Borders: World Press Freedom Score

Background

Income inequality

- An important dimension of welfare.
- Significant implication on poverty eradication policies and programmes.
- Gini coefficient is the most common measure, based on the Lorenz curve.
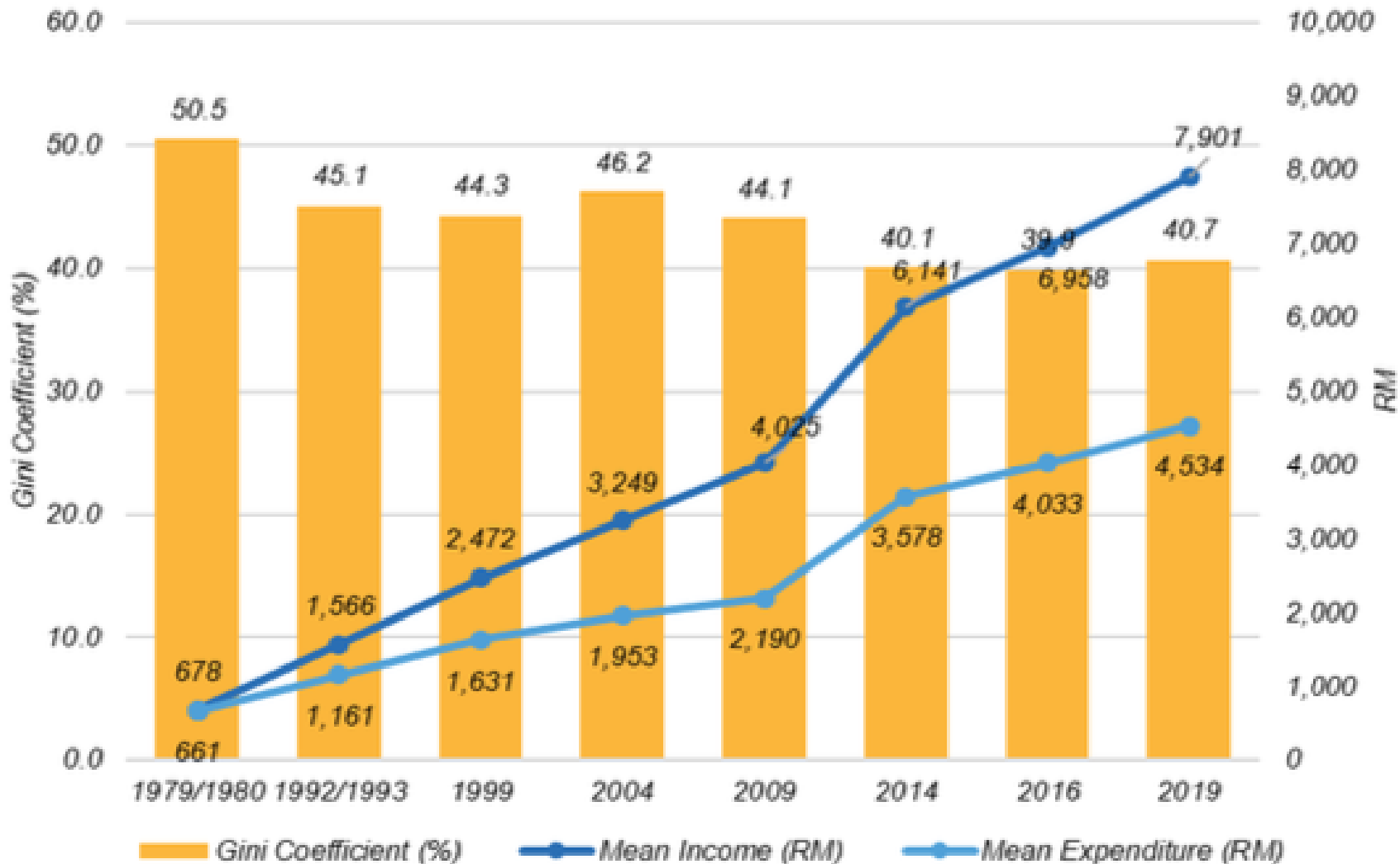
Gini coefficient
"Measure of the deviation of the distribution of income among individuals or households within a country from a perfectly equal distribution. A value of 0 represents absolute equality, a value of 100 absolute inequality".
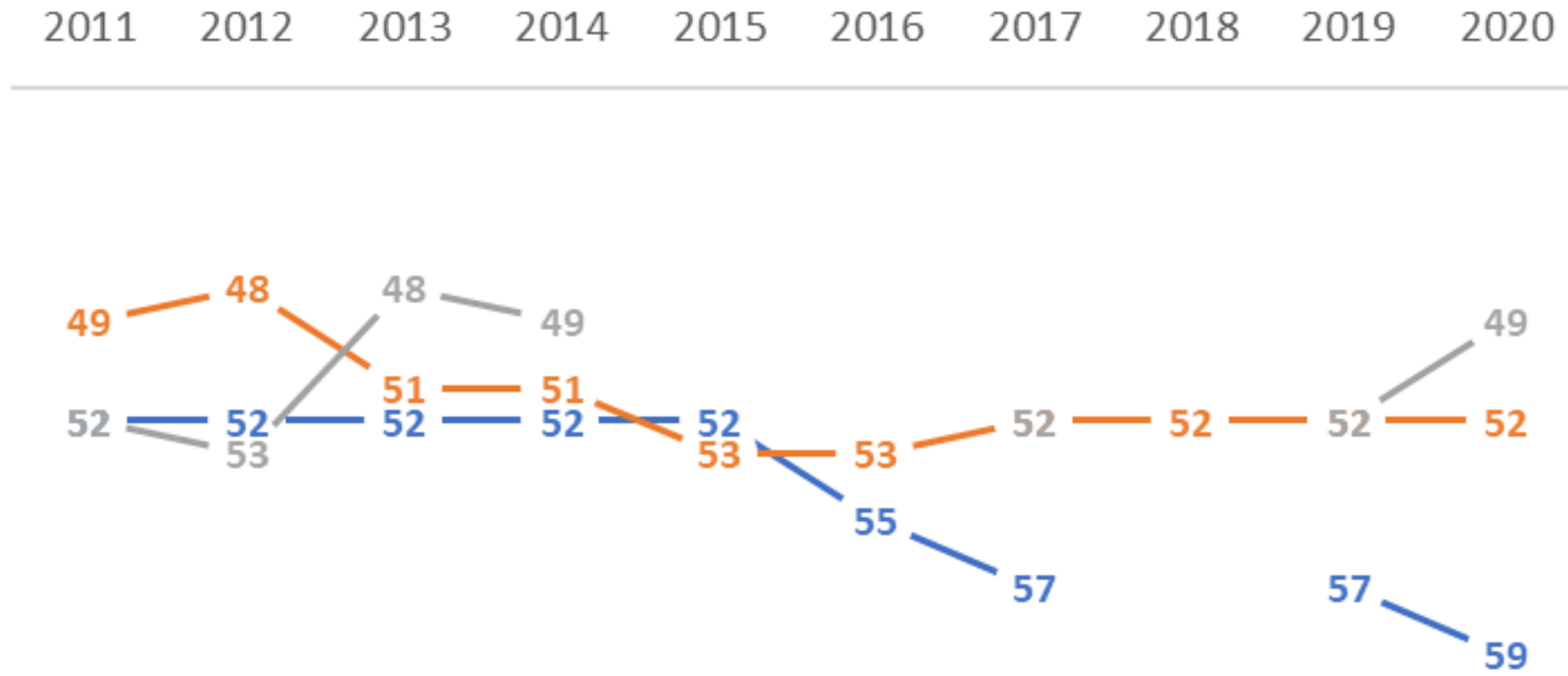
3 pillars to reduce inequality

1. Public services, which include education, health and social protection

2. Progressive taxation, including corporate income tax and tax collection

3. Labour, which includes women's rights in the workplace and the minimum wage

Malaysia's Gini coefficient

IMD ranking: Consistently ranked below 40 (2011 – 2020)

IMD World Competitiveness Yearbook 2020

- Gini coefficient of 41.00 (2015). Ranked at 49 out of 63 countries.

- UNDP Human Development Report. Data source: World Bank

WCY Criteria	2.5.06 : Gini coefficient			2020 Value	41.00	2019 Value	46.30
Factor/Sub-factor	SOCIETAL FRAMEWORK			2020 Rank	49	2019 Rank	52
Economy Ranked #1	Slovenia	2020 Value	24.20				

- Outdated data (2015) used in the rank, compared to DOSM data for 2016
  - Direct comparison with Gini coefficient produced by the DOSM is not possible as DOSM's figures are for year 2014, 2016 and 2019.

- Over 10 years (2011 – 2020), consistently ranked below 40th position.

Key authorities

No	Authority	Plan or policy
1	Economic Planning Unit (EPU)	1) Shared Prosperity Vision 2030 (2nd objective is to address wealth & income disparities, target Gini coefficient of 34.00.) 2) 12th Malaysia Plan (RMK-12)
2	Ministry of Finance	Ministry of Finance Cash transfer (*Bantuan Sara Hidup*)
3	Inland Revenue Board (LHDN)	Cash transfer Act 53 Income Tax Act
4	National Wages Consultative Council	National Wages Consultative Council Act 2011

Drivers to current ranking

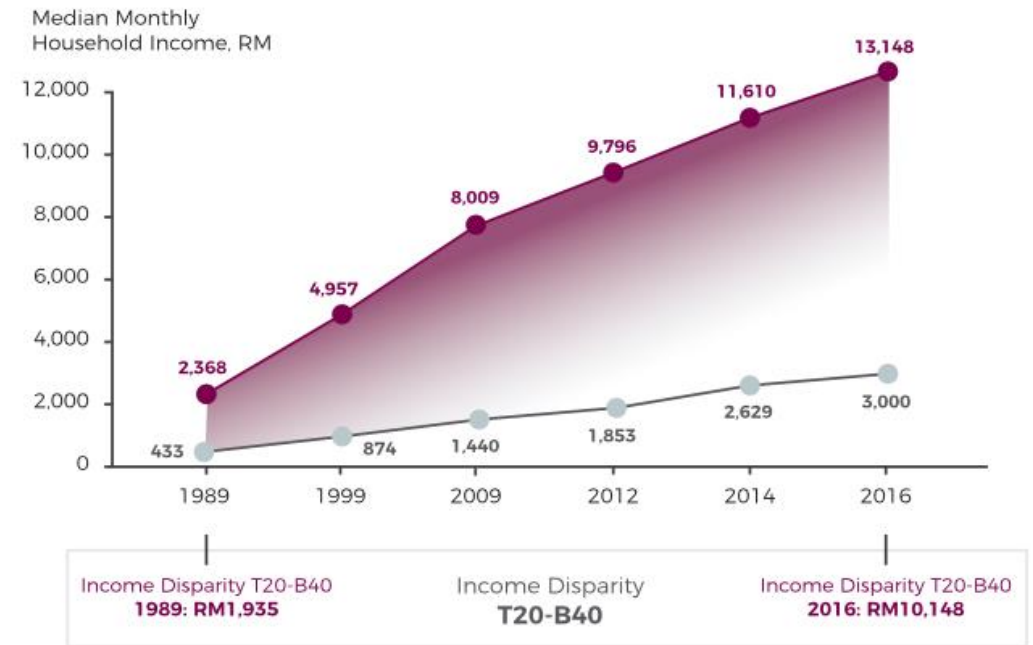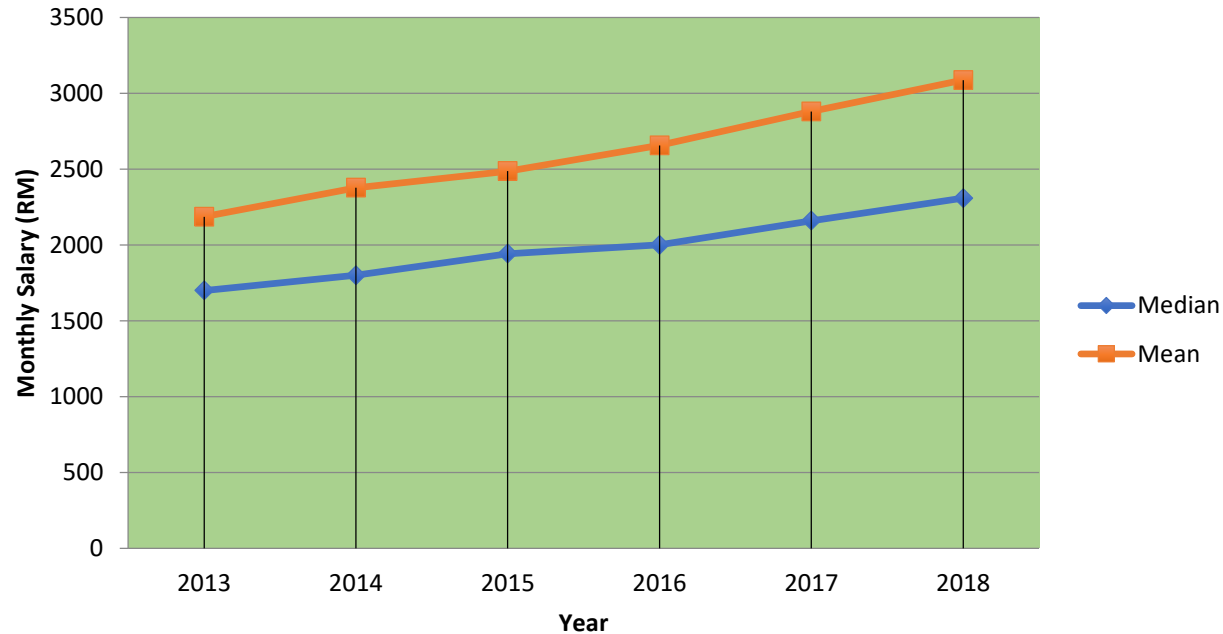## Improvement in Malaysia's ranking (2019 to 2020).

- Minimum wages implementation
- Increases in cash transfer amounts (BR1M) in 2015.

- Households < RM3,000/month, RM650 to RM950
- Households RM3,000 to RM4,000/month, RM450 to RM750

Low performance over 10-years period (2011 – 2020), below 40th position.
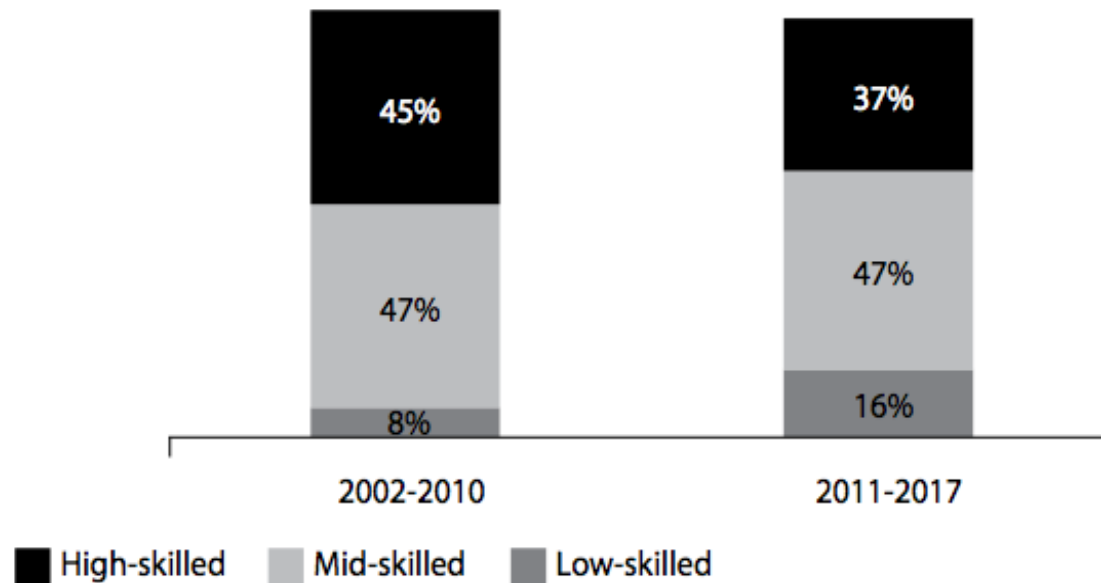
- Low absolute income
- New job creation is low skilled.
- Abundance of foreign workers.

Low income

- 50 % of Malaysian workers earned below RM2,500 per month (2013 - 2018).
- Median income from RM1,700 per (2013) to RM2,308 (2018).
- Increasing income disparities as highlighted in WKB2030 document.

Low-skilled job creation

New jobs created are low-skilled.

Abundance of foreign workers

Abundance of foreign workers

- To investors, Malaysia is seen as a **low cost country** due to its **relative ease in hiring foreign workers at low cost**.
- Employers are able to keep salary low, affecting salary levels of local workers.
- Foreign multinationals relocating lower value-added processes to Malaysia, moving higher productivity & higher value-added processes to other countries

(Bank Negara, 2018).

Recommendations

1) Improve poverty eradication policy & programmes

2) Improve income of lower income & vulnerable households

3) Implement a more progressive tax system.

Recommendations

Improve poverty eradication policy and programmes	1. Adopt & develop **targeted, customised** and **evidence-based** programmes using **data**.	405,441 poor households is (poverty rate 5.6 %). Lowest income groups (B1 & B2 groups) only owned 5.9 % of total income. Multidimensional poverty (MPI) adopted in RMK-11.
Improve income of lower income and vulnerable households	2. Enforcement of Minimum Wages Order 2020.	3. Improve cash transfer programme (*Bantuan Sara Hidup)* through **microtargeting.** Poverty Line Income (PLI) increased from a monthly household income of RM980 to RM2,208 in 2019 4. Encourage new investors to adopt living wage as minimum wage.
Implement a more progressive tax system	5. Gradually increase income tax rate for top income earners.	

Minimum wage

Minimum Wages Order 2020, effective 1 February 2020 (National Wages Consultative Council Act 2011 [Act 732]).

• Minimum wage of RM1,200/month for 56 city councils and municipalities

• Minimum wage of RM1,100/month for other administrative areas
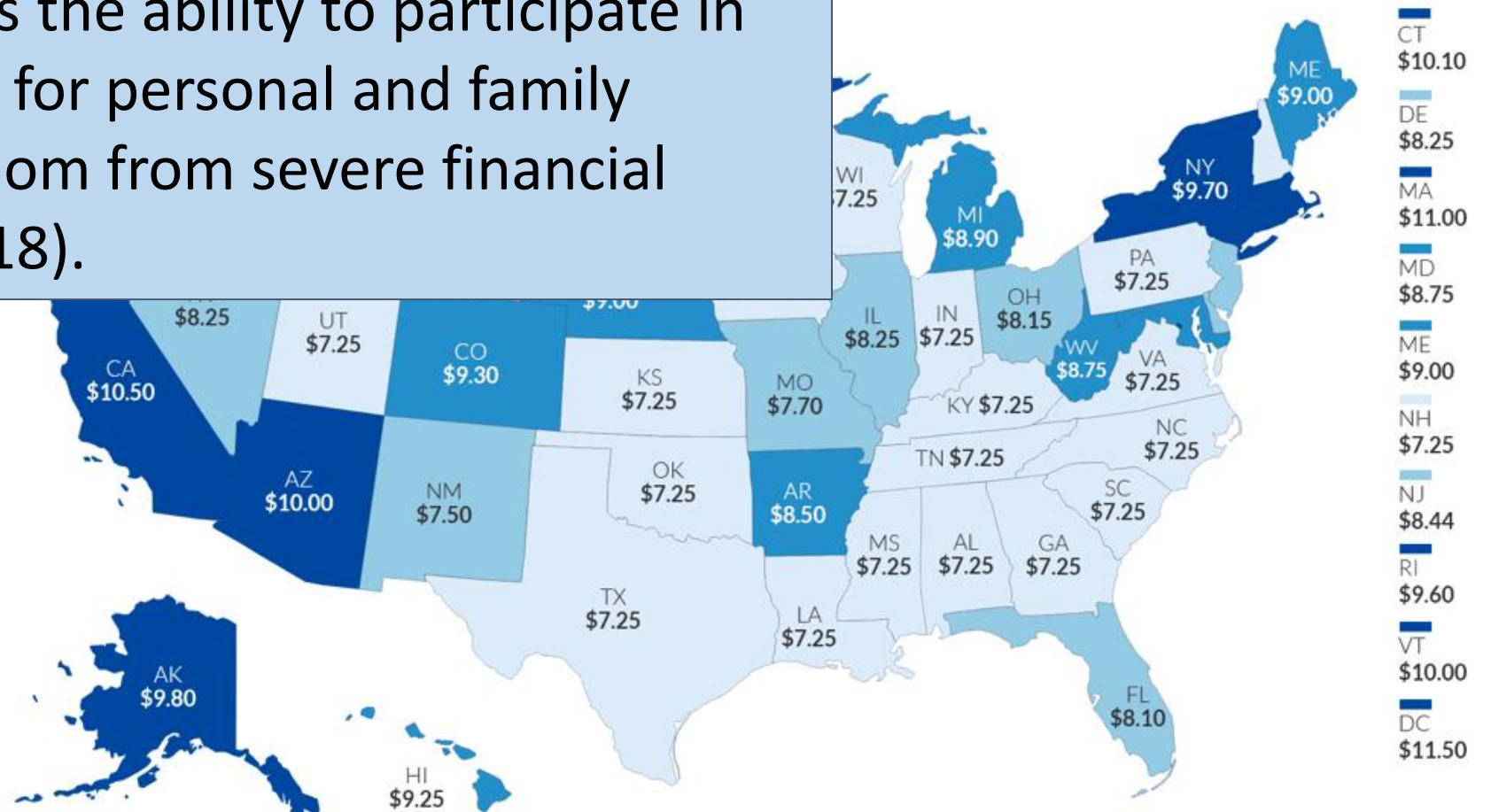
Source: Kementerian Sumber Manusia

Living wage

Living wage refers to an income level needed for a household to afford a minimum acceptable living standard, which includes the ability to participate in society, the opportunity for personal and family development, and freedom from severe financial stress (Bank Negara, 2018).

Living wage: KL (2016)

	Single	Couple without child	Couple with two children
Estimates of a living wage (RM/month)	2700	4500	6500
Key assumptions	Rents a room. Eats out more often, cooks occasionally. Drives less, uses more public transport.	Rents a one bedroom apartment. Eats out half of the time. Owns two vehicles (a motorcycle and a car).	Rents a three-bedroom apartment. Cooks most of the time, eats out during weekend. Owns two vehicles Pays for private extra classes.

Progressive tax system

"Taxes and transfers have a significant redistributive impact, with inequality in income *after* taxes and transfers (measured by the Gini coefficient) was about 25% lower than for income *before* taxes and transfers (OECD, 2012).

No	Country	IMD rank for Gini coefficient in 2020	Max. income tax rate
1	Slovenia	1	50 percent
2	Belgium	7	50 percent
3	Sweden	13	57 percent
4	Malaysia	49	28 percent

Multidimensional Poverty Index in 11th Malaysia Plan

Dimension	Indicator	Deprivation cut-off	Weight
Education	Years of schooling	All HH members 17–60 years have < 11 years of education	1/8
	School attendance	Any school-aged children (6–16 years) not schooling	1/8
Health	Access to health facility	Distance to health facility > 5 km & no mobile health facility	1/8
	Access to clean water supply	Other than treated pipe water inside house and public water pipe/standpipe	1/8
Living Standards	Conditions of LQ	Dilapidated or deteriorating	1/24
	No. of bedrooms	More than 2 members per room	1/24
	Toilet facility	Other than flush toilet	1/24
	Garbage collection	No facility	1/24
	Transportation	All HH members do not commute via private or public transport	1/24
	Access to basic communication	Does not have consistent fixed line or mobile phone	1/24
Income	Mean monthly HH income	Mean monthly HH income < PLI	1/4

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Conclusion

- Gini coefficient improved to 41.00 in 2020 compared to 46.30 in 2019.

- However, performance is consistently poor, below 40th position since 2011.

- Recommendations: improve the poverty alleviation programmes & initiatives to improve income of the lower income groups.

- Sustainable improvement can be achieved through long term planning - Shared Prosperity Vision 2030 (target Gini coefficient of 34.00). Initiatives should be incorporated in RMK12.

- Strategies outlined – stakeholders engagement to improve measurement process, resource prioritisation & improvement in data collection and management.