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The long and winding road to high income



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ETP'S THE RIGHT PLATFORM: The true significance of economic growth relies on what we do with the increased income



A mini market owner in Petaling Jaya who has benefited from the Transformasi Untuk Kedai Runcit (**Tukar**) programme. **Inequality of opportunity** coupled with barriers to high educational attainment are still significant **stumbling blocks** that prevent the trickling down of **wealth** for all communities.

WITH the Economic Transformation Programme (ETP) in place in 2010, Malaysia is now looking to make the big leap towards a knowledge-based economy.

The target is to achieve the status of a high-income nation by 2020 with a gross national income (GNI) of just over RM1.7 trillion -- that is double the GNI of RM660 billion in 2009.

What does it mean for households? If GNI per capita doubles from RM23,700 per year in 2009 to the targeted RM48,000 per year in 2020, can households appropriately anticipate a parallel twofold increase in income? Contrary to this expectation, many factors strongly suggest otherwise.

GNI and household income are neither the same nor are they measurements of the same thing. In the *Household Income and Basic Amenities Survey Report 2009* by the Department of Statistics Malaysia, the average household income was reported to be RM4,025 per month.

Taking the average household size to be around 4.31 would give us a monthly income of RM934 per capita. From this, we can deduce that one household member earned RM11,208 in 2009, which is nowhere near the GNI per capita income level of RM23,700 in the same year.

What GNI measures is total economic activity (as derived from the gross domestic product) combined with net income earned from assets abroad. On the other hand, household income is the aggregate income of all household members including salaries and wages, commissions, retirement benefits and dividends.

There is no direct correlation between the two. But there are also other reasons as to why we cannot expect household income to increase proportionately following increases in GNI.

Let's start with income inequality. Based on the *Household Income and Basic Amenities Survey Report 2009*, the mean household income for the top 20 per cent of urban households is RM11,312 while the top 20 per cent of rural households earn a mean income of RM6,028.

About 44.2 per cent of households in Malaysia still earned less than RM2,500 in 2009, down from 56.2 per cent in 2004. Meanwhile Bumiputeras rate the highest between the three races in terms of inequality of income share which can be worrying, considering 60 per cent of the population are Bumiputera.

An increase in GNI per capita does not immediately translate into the doubling of household incomes because it does not necessarily result in reductions in income inequality. Inequality of opportunity coupled with barriers to high educational attainment are still significant stumbling blocks that prevent the trickling down of wealth for all communities.

Another killjoy is the declining share of global corporate income paid to labour which ultimately translates into diminishing household income share in national income. One reason for this is the trend in increased corporate savings from increased profits.

Furthermore, the observed global decline in the price of investment goods is causing firms to increasingly substitute capital for labour. Thus, even with the ETP's targeted increase in private investment, the prospective increase in gains from corporations would accrue mostly to the owners of capital than the labour.

While the trends are not implying a fall in income earned, they are certainly not denoting the probability of a doubled increase in household income.

Let's not forget the implications on tax incidence. The position is the same in most developed countries: governments are not likely to charge large corporations high taxes because economic growth is driven by the private sector, even if this means a widening of income gap.

So, an increase in GNI may mean higher incomes and richer Malaysians but there is potential for the wealth to be enjoyed by only a certain smaller segment of the population while the masses have to bear with the increased living costs.

Another important factor is the structure of the economy. Here, the strategy of job creation is crucial in creating an environment for the development of the sectors which are expected to generate high income growth.

However, the creation of 3.3 million additional jobs in National Key Economic Areas does not mean that everyone will be able to gain from the thriving businesses. Labour mobility is a salient impediment.

Further, to achieve a high-income nation's labour profile, Malaysia must reduce dependency on cheap foreign labour and transform from a low-cost manufacturing industry to one that is innovative and knowledge-based.

We need both the hardware (machines, equipment and land capital) and the software (human capital). Currently, Malaysia's skill base, as proxied by education attainment, is still narrow.

The intensity of brain drain can also hurt prospects of domestically operated businesses in the service sector. Without the right skills to match the direction of economic activity, it is unlikely that we would achieve the kind of economic growth that would lead to the doubling of household incomes.

While it is important that the public is appropriately informed about the improbabilities of doubling household income, the crux of the matter is to recognise an important theme: the true significance of economic growth relies largely on what we do with the increased income.

The implementation of the ETP is the right platform to launch Malaysia's economy into the high-income trajectory. Indeed there are positive correlations between economic growth and standard of living, but these are contingent on local socioeconomic and inequality conditions.

Without stringent enforcement and specific policies to reduce income inequality and increase equality of opportunities, efforts to meet the 2020 target would be futile if not everyone can benefit from the increased economic growth.