

Turning the Gaze to Top Incomes

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Introduction

Oxfam's report "Time to Care"—coincidentally with the same title as our report published at the end of last year—revealed some shocking numbers, one of them being the richest 1% in the world have more than twice as much wealth as 6.9 billion people (that's almost 90% of the world's population). The report's release was impeccably timed to be right before Davos 2020, where global elites, including those in the top 1%, gathered to deliberate global pressing issues, including extreme inequalities.

In Malaysia, we definitely need a better understanding of the poor, for more effective policies and outreach, but we currently know more about the poor than we do about the rich, at least as far as data allows. There is also a tendency for us to think about poverty as a problem confined to people at the bottom of the income spectrum, remotely associated with processes that generate wealth for those at the top.

Richer poverty statistics

Official data tells us that poverty is at 0.4% in 2016¹. It is 1.0% in rural areas and 0.2% in urban areas. Sabah has the highest poverty rate at 2.9% while Johor, Melaka, Negeri Sembilan, Selangor and the Federal Territories, somewhat contentiously, have no poor people². We can further break down the numbers by ethnicity, gender and age group.

With the introduction of the Multidimensional Poverty Index, we now know the intersections between income and non-income deprivations. Multidimensional poverty, encapsulating both income and non-income dimensions, is at 0.9% in 2016, a drop from 1.1% in 2014³. We also know, for example, that 12.0% of households are living in overcrowded homes in 2016, and 15.0% do not have proper garbage collection facilities⁴. In addition to survey data, the government has a poverty database called the e-Kasih, established back in 2007, that contains household demographic information. It is a database used by the government to identify and deliver social assistance to the poor.

This is not to suggest that our poverty statistics are adequate, or that these measures are necessarily accurate reflections of realities on the ground, but it does compel us to ask if we have comparable information about the very rich—or those with top incomes. Another way to put it, do we have as clear a grasp of what's going on at the top 1% or the top 10% as what's happening to the bottom 1% or the bottom 10%?

Poorer top income statistics

The Human Development Report 2019, published by the United Nations Development Programme in December last year, with a clear pivot to inequality, has some statistics on Malaysia that give us a glimpse of those with top incomes, albeit limited. It shows that the top 1% in Malaysia has a 14.5% share of pre-tax national income, ranking 50 out of 142 countries in terms of income concentration, slightly higher than Singapore (14.0%) but lower than Thailand (20.2%)⁵. The top 10% has a 31.3% share of national income, whereas the bottom 40% has a 15.9% share, giving a Palma ratio of 2.0⁶, higher than the Philippines (1.9), Indonesia (1.7) and Thailand (1.5)⁷. The quintile ratio, or the ratio of the average income of the top 20% to the bottom 20% is at 8.2, again higher than the Philippines (7.2), Indonesia (6.6) and Thailand (6.0)⁸.

The number of the top 1% seems to be consistent with the results of Muhammed and Yang (2019), who produced the first and only set of distributional national accounts for Malaysia for the period 2002 to 2014 using national accounts, household surveys, fiscal data and demographic statistics. The paper shows that the top 1% share of pre-tax national income, after adjusting for

¹ DOS, 2017

² DOS, 2017

³ DOS, 2017

⁴ DOS, 2017

⁵ Conceição, 2019. The year is reported as 2010-2017 but further checks indicate that the exact year is likely to be 2014.

⁶ It is the ratio of the richest 10%'s share of gross national income divided by the poorest 40%'s share.

⁷ Conceição, 2019

⁸ Conceição, 2019

undistributed profits, is 15.0% in 2014, a decrease from 19.0% in 2002⁹. The paper further highlights that the proportion of Bumiputera in the top 1% has increased from 24.0% in 2002 to 33.0% in 2014 but is still under-represented given its population size¹⁰. On the other hand, the proportion of Chinese decreased from 72.0% to 60.0% but is still over-represented at the top¹¹.

The latest Wealth Report, published annually by Knight Frank, shows that Malaysia has increased its number of ultra-high-net-worth individuals—defined as individuals with a net worth of over US\$30 million, excluding their primary residence—from 557 in 2013 to 611 in 2018, a growth rate of 14.0%, slower than its regional peers i.e. the Philippines (26.0%), Indonesia (21.0%), Thailand (20%) and Singapore (15.0%)¹². Credit Suisse also produces a Global Wealth Report annually since 2010, and has data points on Malaysia, but marked the wealth data quality as “poor”.

The problem of poverty, the problem of riches

While these numbers give us a sense of the magnitude of riches, and some basis for comparisons, a lot more, and better quality data are required to further our understanding on the causes, consequences and characteristics of the extreme rich, as well as how they relate to the question of poverty. There are at least three reasons why it is important to shift our focus to top incomes when we think about poverty.

First, bottom incomes and top incomes are both rooted in the production and distribution structures of the economy. While the combination of effort and luck may determine individual income variation within a certain range, the remuneration structures of production and how individuals participate in them determine who emerge as losers and winners. To use a sports analogy, how hard you train and your family background may contribute to your career as a professional squash player, but the exclusion of squash from the Olympics means that you will never get an Olympic medal, no matter how good you are. It is important to recognise that the structural forces driving people into extreme poverty and extreme wealth could be one and the same.

Second, what happens at the top sets the expectation on how we think about the rest of the income distribution, including those at the bottom. Martin Ravallion, a prominent economist who works extensively on poverty and inequality measurements, in his lecture held in Malaysia on 17th January 2020, made the point that whether we view the distribution of A (1,2,3) or B(2,4,6) as more unequal depends on whether think in absolute (difference in level) or relative (difference in percentage) terms¹³. I would add that top incomes, especially how they are manifested in the various forms of conspicuous consumption, also fuels perceptions of inequality. Just take

⁹ Khalid and Yang, 2019

¹⁰ Khalid and Yang, 2019

¹¹ Khalid and Yang, 2019

¹² Knight Frank, 2019

¹³ Ravallion, 2020

distributions C (1,1,1,50) and D (2,4,6,8), for example, which one is more unequal to you, in both absolute and relative terms?

Third, those at the top and bottom incomes are linked through the tax and transfer system. Of course, the conventional way to think about this is how to extract enough tax from the rich to finance social assistance programmes for the poor. While legitimate, it tends to construct the relationship as one of “giving” and “receiving”: the active, productive rich giving to the passive, unproductive poor, a representation that is disempowering for the latter. We need to acknowledge that those at the top also receive transfers—tax exemptions, grants, concessions, investment incentives—and the poor also pay taxes, perhaps mainly in the form of indirect taxes. It gives us a more rounded view that the successes of the extreme rich cannot be attributed to effort alone, while the problems of the poor are not due solely to the absence of effort.

Richard Henry Tawney, the British economic historian, in a lecture entitled “Poverty as an Industrial Problem”, delivered at the London School of Economics in 1913, summed it up very elegantly, “(T)he problem of poverty, as our generation understands it, is not primarily why certain persons fall into distress. It is why the product of industry is distributed in such a way that, whether people fall into distress or not, large groups among them derive a meagre, laborious, and highly precarious living from industries from which smaller groups appear to derive considerable affluence... what thoughtful rich people call the problem of poverty, thoughtful poor people call with equal justice the problem of riches.”¹⁴

The dust of Davos is settling and the Oxfam’s findings reverberate, but the message is clear, it is insufficient to look at bottom incomes alone. We also need to turn our gaze to top incomes if we are serious about eradicating poverty and creating a fairer economy.

¹⁴ Tawney, 1914

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