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Rethinking ‘Who’s Rich?’ in Malaysia – Part 2: Some considerations

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Introduction

In Part I, we examined how consumption patterns challenge the idea that the T20 automatically implies affluence. It bears repeating that the usual demarcations (B40, M40 and T20) are not absolute measures to distinguish between the wealthy or the poor, the haves and have-nots. Instead, they are merely intended as a guide to show the relative differences that exist within a given society.

This is critical because the point is often made to use these demarcations as a shorthand for distinguishing between the affluent and the poor. However, they merely represent how the economic spread in a given country is distributed.

Bearing all this in mind, then, the usefulness of the demarcations becomes more apparent. In other words, **these demarcations only reveal who’s relatively richer or**

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poorer, not truly 'rich' or 'poor' in an absolute sense. For example, A T20 classification in Malaysia may still be markedly below the median income in a high-income country.

With this perspective in mind, we can focus on actually supporting households based on need, rather than reflexively equating T20 or T15 with wealth or B40 with poverty.

The Problem of Benefit Cliffs

There are significant challenges when setting eligibility criteria to determine which individuals or households should be excluded from what has normally been seen as a universal benefit. This phenomenon is best captured by what has been described as 'benefit cliffs'. A benefit cliff occurs when a small increase in household incomes may lead to a disproportionate loss of benefits.

This dynamic can be especially punishing for households whose earnings hover near those eligibility cutoffs. They might avoid better-paying work or upskilling if even a small jump in salary means forfeiting multiple forms of aid. In the worst cases, social mobility suffers because the incentive to "move up" is diminished by the real possibility of falling off a financial cliff.

To see how this plays out on the ground, consider Sam, a single parent juggling two part-time jobs. Sam's monthly budget is precariously balanced, covering essentials like rent, utilities, school fees, and groceries. Finally, Sam receives a modest pay bump—on paper, great news. Unfortunately, that slight increase nudges Sam above the income threshold for subsidized housing. Overnight, the benefit Sam depended on disappears, and the small salary gain can't offset the new housing costs.

What was meant to be a step forward becomes two steps back. Sam's predicament highlights how small changes in income can trigger steep penalties. Instead of celebrating new skills or a higher-paying job, some families feel compelled to limit their earnings to avoid losing critical support. This is the classic benefit cliff in action.

There is a trade-off between the increase in income that incurs a much greater penalty in terms of loss of benefits, which leads to most families being financially worse off. A tiny salary increment might seem beneficial, but if it causes them to lose vital subsidies—childcare, housing, or healthcare—it can leave them worse off. These disincentives can effectively lock people into a holding pattern, discouraging the very progress that might improve their long-term prospects. Why gamble on progress if you risk falling off a cliff?

It is important to note that in most cases where a person's income is near the eligibility threshold that subsequent increments in income need to be significant enough to overcome the 'penalty' of losing the value of that increment. Much care must be taken so that families and households that fall within the periphery of these boundaries are not necessarily disadvantaged by possible financial increments.

There are reasonable arguments to suggest that this situation may create disincentives for those who suffer from the punitive effects of the eligibility criteria- this will certainly be the case if such boundaries do not consider the trade-offs discussed earlier. Therefore, any attempt to impose eligibility criteria must be cognizant of this dynamic. Otherwise, the idea in principle that the most well-off members of society ought to be responsible proportionately for the costs of public services and amenities will be compromised because we might end up punishing those who may still require access to these forms of government subsidies rather than those who are affluent enough to no longer need it. There is a key balance here that can be best served by employing, for example, a more sophisticated matrix that captures the evolving circumstances facing members of society that fall across the very different existing economic categories.

Conclusions

The clearest lesson here is that **it is simpler to design to include different groups** in society as compared to identifying a criterion for exclusion. A simplistic understanding of who benefits most from a subsidy, for example in the price of fuel, may compromise our abilities to draft policies that will benefit both the least well-off as well as the population as a whole. It is critical that policy prescriptions understand the very different kinds of economic trade-offs that occur within our society. This will allow us to think more effectively about the nature of growth and distribution in the economy and how the benefits accrued could be distributed more efficaciously across the different economic classes.

References

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