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Are both the B40 and M40 'Poor'?

Evidence from an intergrated income-expenditure analysis

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This view was prepared by Gregory Ho Wai Son and Dr. Suraya Ismail, researchers from the Khazanah Research Institute (KRI). The authors are grateful for the valuable comments from Adam Manaf Mohamed Firouz.

Author's email address:
gregory.ho@krinstitute.org
suraya.ismail@krinstitute.org

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Introduction

How is poverty measured? In Malaysia, official statistics on poverty is computed using the 'Cost of Basic Needs' (CBN) approach. Nutritionists first construct a basket of food necessary for 'sustenance'. While the basket contains mostly the same items used as a standard of sustenance, the amount differs from household to household based on their composition and dependencies. Then the cost associated with purchasing the said basket is computed for each household in different localities. The result is the Poverty Line Income (PLI), which works out to be RM980 in Peninsular Malaysia over the year 2016, assuming a family of 4.

Malaysia supplements the food poverty line with a non-food poverty line. This line is inferred from the average non-food expenditure of households close to the poverty line. The rationale for this is the assumption that the consumption of non-food items displaces the consumption of food for poor families.

Keeping that definition in mind, Malaysia claims to have driven poverty down to 0.4% by 2016. However, this definition of poverty is; first and foremost, measured by gross income which includes other components of income, for example imputed rent and transfers. By factoring in imputed rent, homeowners appear to be enjoying higher welfare levels compared to renters. Furthermore, the picture becomes more complicated when the spending patterns of households earning RM980 do not necessarily coincide with the basket as prescribed by the nutritionist.

The other 'problem' is the line itself. Deaton (2006) claims that any measure, relative or absolute is subject to the "Micawber Problem"[1]. In essence, Deaton argues,

> "…Why should everything depend on such a tiny difference? …And why do we say that someone who is just below the poverty line is poor, and thus a candidate for transfers, while someone who is just above it, whether by sixpence or by six annas, needs no help and can be safely left to their own devices? Even if we could precisely set the poverty line, and even if we could precisely measure each person's income, neither of which conditions are close to being met, it makes no sense to treat such similar people so differently."

The Micawber Problem appeals to a more intuitive view of poverty—that even if one can precisely generate some line to demarcate households, how useful is it to demarcate between those who fall below it and those sitting slightly above it? The difference, if there are any, would be minimal. Essentially, the Micawber Problem highlights the problem of using a singular measure of poverty.

Consumption as a proxy of well-being

In our latest report, 'Demarcating Households: An Integrated Income and Consumption Analysis'[2], we argue following Beinhocker (2006) that,

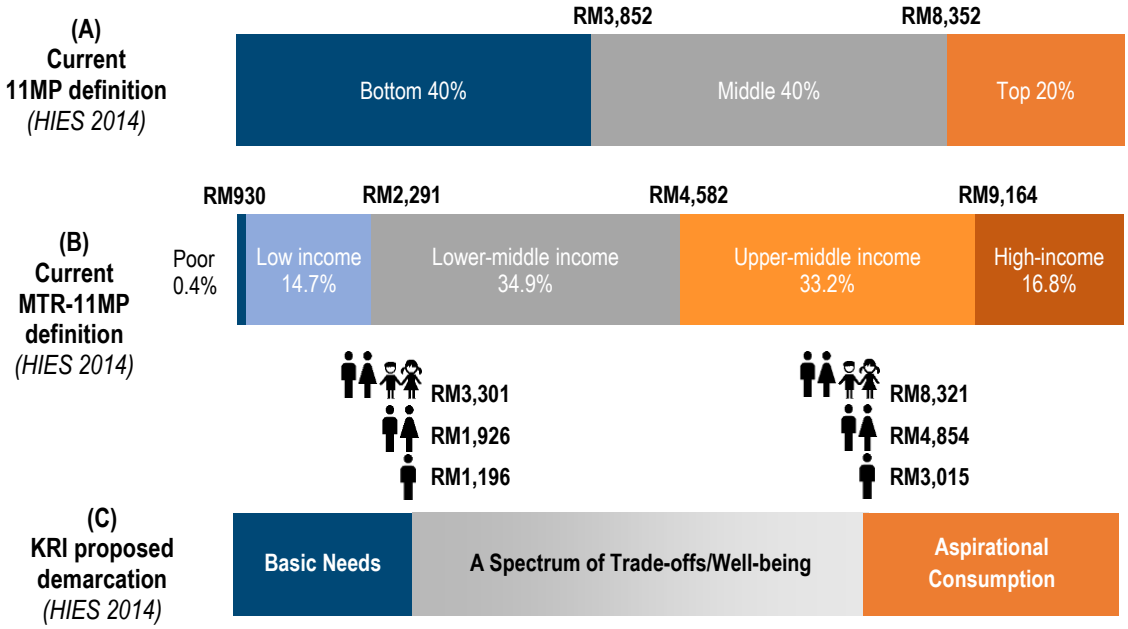
> "…when it comes to well-being, it is less about households' level of income, but more about the diversity of items that income can buy…"

The level of wellbeing that a household enjoys can be proxied through the diversity of items they are able to buy. Without making any prior assumptions on the items that people should or should not buy, we looked at the items households consume across the income distribution.

Figure 1(c) below describes our findings from an integrated income-consumption approach as compared to the Figures 1(A) and 1(B) which outlines the current demarcations employed by both the 11th Malaysia Plan (11MP) and Mid-Term Review (11MP-MTR).

[1] Wilkins Micawber is a character in Charles Dickens' novel, David Copperfield
[2] Hamid et al. (2019)

Figure 1 : Current and Proposed Demarcations



First, the existing demarcations outlined in both the 11MP and 11MP-MTR classifies households based on household total income[3], without making any adjustment for different household size and composition. We believe this practice is problematic as it is inadvertedly biased towards smaller household sizes. In our analysis, household total incomes have been adjusted for different household sizes and composition[4]. As can be seen in Figure 1(c), the KRI-proposed demarcation gave three permutations of household composition as examples. Second, the current practice places the Middle 40 of the distribution as the 'aspirational/middle-class'[5], inferring a set of attibutes on households without the attending evidence. The group is conventionally viewed as financially strong households and therefore, in no need of government aid nor support.

Below are our 3 main findings:-

1. **Households within the Bottom 20 of the income distribution consume basic needs only**
   At the bottom 20%, we found that household consumption was limited to 'basic needs' only. The products that households consumed were mainly food, shelter and clothing. Interestingly, some of these households purchased prepaid mobile cards and ASTRO; consumed nasi lemak, nasi campur and Nescafe when eating out; suggesting that these items may now be also considered as part of 'basic needs'.

[3] EPU (2010), EPU (2018)
[4] More information on this can be obtained from here.
[5] The definition of the middle-class was absent in the 11MP

2. **Households in the Middle 50 of the distribution initially perceived as the strong "aspirational-class/ middle-class" were merely consuming more of basic needs but with more product differentiation**

As we move up the income distribution, we would expect to find the "aspirational/middle-class" households in the M40 (refer to Table 1 below). However, instead of finding the "aspirational-class", rather surprisingly we found that a high proportion of the M40 group showed remarkably similar consumption patterns to the top end of the B40. Households in this middle 50% group were experiencing a spectrum of trade-offs in their choice to consume. These trade-offs are not between ballet classes or short holidays to Bali, but more of consuming more varieties of basic needs.

We found that households mainly purchased more varieties of food and household furniture. There is a clear broadening of consumption choices. For example; when eating out, items such as fried chicken, satay and pizza now begins to constitute a significant proportion of these households' spending. Only when we move further up the scale, payments for 'aspirational goods' (such as after school private tutoring) begin to feature more frequently.

3. **Households in the Top 30 of the income distribution exhibit the consumption pattern of the "aspirational-class/middle-class".**

Table 1 : Consumption characteristics of the aspirational class

Product Description	Aspirational Traits
Insurance premium on property, accidents, education	Capability to insulate themselves from adverse risk events
Hiring professional services - domestic servants, security services and other services	Capability to get other people to manage tasks, freeing up time for themselves to perform other functions
Conspicuous goods – vacation packages, paintings, artificial flowers, wine, whisky, reflexology and massages	Possessing the commodities that signal 'class' and give themselves a sense of exclusivity

Source: Adapted based on Jayadev, Lahoti et al. (2015) and Currid-Halkett (2017)

We found only the T30 households of the income distribution consuming aspirational goods (as described in Table 1 above). More apparent, the T30 households do not exhibit the same constraints in trade-offs as observed in households below them. They can pay for babysitters, take music and dance classes, pay for tax consultation fees and day-care services for the elderly and disabled.

The T30 households consumption patterns are significantly different from both the B20 and M50. Our findings suggest that these pronounced traits qualify them as the "aspirational/middle-class" households in Malaysia. Therefore, there are only 30 percent of households in this category as opposed to existing demarcations that delineates this group at 60 percent of households (i.e. adding the M40 and T20 together).

Many government policies across countries are focused on the creation or expansion of the "middle class", which might be loosely interpreted as a strong group that exhibits aspirational consumption. Apart from being the entrepreneurial group that brings about innovation, the middle class also contributes by generating demand for aspirational goods and services such as education or other high value-added services. This group, in essence, is crucial

to stimulate the demand for local consumption due to its stable economic standing. More than just accruing economic benefits, Aristotle describes his ideal state as comprising a large middle class whose role is to mediate between political extremes and to provide support for a more stable society[6] .

Implications

Policy Implications:

- Refrain from using the B40 group as a shorthand for the 'poor'.
- The need for a broader conversation on the degree to which our government should intervene as part of a rights-based approach and our choice of a poverty standard.
- The need to focus on expanding the aspirational group as part of both the Shared Prosperity Vision 2030 and as an economic basis to propel our nation forward.

Policy implication 1

Our findings have several policy implications. The first and most pressing would be to refrain from using the B40 group as a shorthand for the 'poor'. If the intended goal is to extend social assistance to households that survive only by fulfilling basic needs, the B40 demarcation would have benefited an additional 20% (1.33 million) of households who may not need assistance in this manner. However, if the policy aspiration is to assist households achieve aspirational status, the B40 demarcation would exclude a large portion of households in the middle of income distribution who are still constrained by financial concerns and exhibiting trade-offs in their consumption patterns. We find that the use of B40 as a means of government targeting is both too narrow and too wide at the same time.

Policy implication 2

Second, Professor Philip Alston's (United Nations Special Rapporteur on extreme poverty and human rights) report on Malaysia's poverty being at around 15% has spurred several deliberations on the incidences of poverty. We find that while our results inch closer to the report's findings, Malaysia needs to have a broader conversation on the degree to which our government should intervene as part of a rights-based approach and our choice of a poverty standard.

Policy implication 3

And finally, there is also a need to focus on expanding the aspirational group as part of both the Shared Prosperity Vision 2030 and as an economic basis to propel our nation forward. Thirty percent of households (T30) in the aspirational group as depicted in our study is not a sufficient percentage for the latter's objectives. Theoretically, this group is said to stimulate the demand for higher-order goods and services, generate jobs in the market and mediate between political extremes in society. However, government's policies surrounding the expansion of this group should differ significantly from social policies targeting poverty.

[6] Jayadev et al. (2015)

For a more detailed analysis, please refer to our latest report—Demarcating Households: An Integrated Income and Consumption Analysis.

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