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Rethinking ‘Who’s Rich?’ in Malaysia – Part 1: Lines and Meanings

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Introduction

In recent times, there has been a surge of discussions around Malaysia’s income classifications, sparked by the 2025 budget announcement. The T15, or top 15%, has come under scrutiny, as policymakers and the public alike grapple with what “affluence” truly means in Malaysia.

This focus on the upper end of the income spectrum, however, raises an equally pressing question: what about the middle? The classifications we currently use—B40, M40, T20-creates a problem by focussing on two things:

1) Giving the impression that these categories indicate the level of affluence on an absolute scale; that is, if you fall in the Top20, for example, you must necessarily be well-off, and

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2) Forgoing differences that exist within each category which would allow better discussions regarding scales and targets.

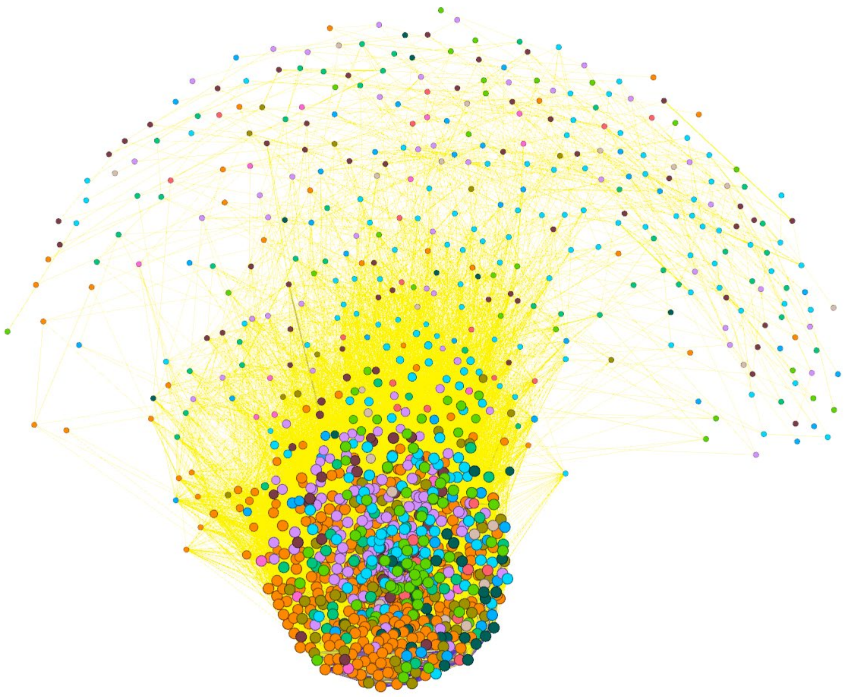
And it is critically important to remember that the income spectrum merely reflects a macroscopic view of the distribution of household incomes, not wealth! The logic of the classification means that attributing wealth and income is dependent on the actual state of the country. So, for example, if you go to a country considered economically poor, one could even find that the gradation of the scale merely indicates between the extremely poor and the poor.

At the same time, we wish to suggest that following our calculations below using the "Expenditure Space," t**he middle-income group in our country does not exhibit middle-class characteristics**.

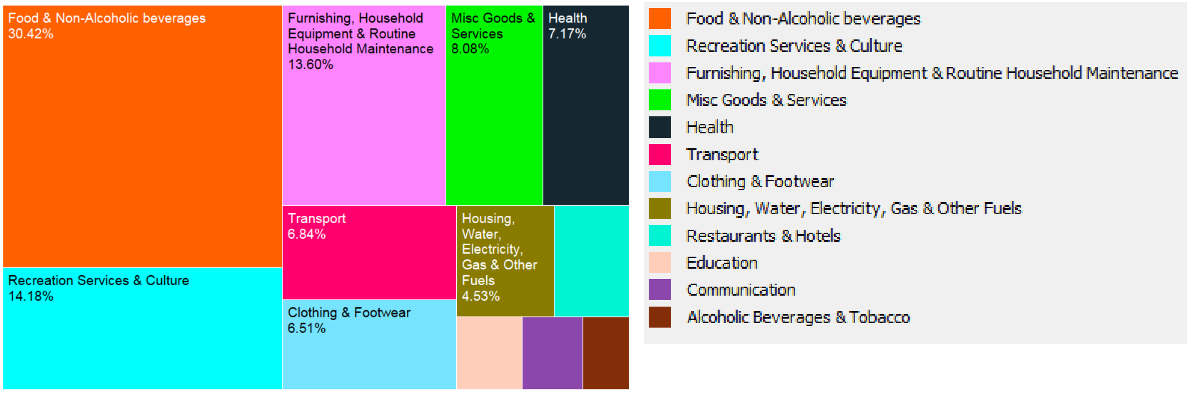
The Expenditure Space reveals characteristics of Middle-Class Consumption at T30

In our research, we developed the "Expenditure-Space"[1], a model that maps household spending from basic needs to aspirational items. We examine how consumption patterns evolve as households become richer. These spending patterns reflect not only economic status but also social aspirations and vulnerabilities.

Figure 1: The Expenditure Space

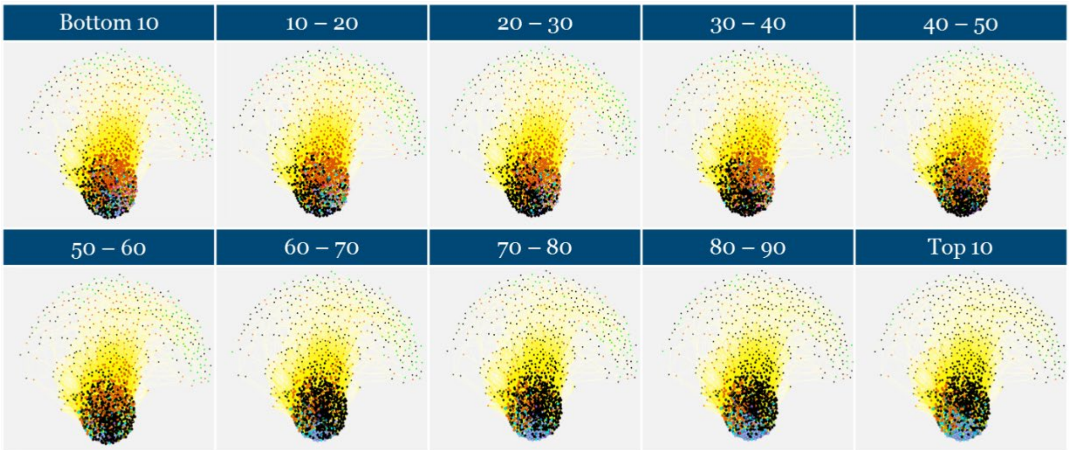


[1]Hawati Abdul Hamid, Ho, and Suraya Ismail (2019). Link: [Demarcating Households: An Integrated Income and Consumption Analysis]



The expenditure space exhibits a core-periphery structure[2]. Products at the core are mainly basic necessities, while those in the periphery represent aspirational consumption. We have found that as income increases, the diversity of spending also grows—households consume more different products rather than merely consuming more of the same items.

Figure 2: Dynamics of household consumption



Note: Nodes coloured in black represent items that the decile consumes in greater proportion as compared to structural consumption

However, our findings also reveal distinct patterns in middle-class consumption across Malaysia. From a consumption perspective, the bottom 20% (B20) primarily focus on basic needs, while the middle 50% (M50) navigate a complex spectrum of trade-offs. Interestingly, the top 30% (T30) exhibit characteristics more closely aligned with what we might consider middle-class, highlighting the limitations of our current classification system.

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[2] A fuller description is available in our report.

Table 1: Example of items from the Core category community classes @ Basic needs consumption

Expenditure category	Examples of items
Food	Rice, eggs, fresh meat, fresh seafood, fresh vegetables, potatoes, spices, sugar, coffee, tea, cocoa, honey, bread, butter, milk and other dairy products, chocolates, and sweets
Clothing	Garments, clothing accessories, shoes and other footwear
Housing related expenses	Imputed rent/actual rental paid, utilities (gas, electricity, water supply), non-durable household goods

Note: Goods and services listed here is not exhaustive.

Table 2: Example of items from the Periphery category community classes @ Aspirational consumption

Expenditure category	Examples of items
Food/alcohol	Fresh milk, butter, sundry goods, wine, spirits and liquors, cigarettes, food away from home
Housing related expenses	Maintenance and repair of dwelling, carpets and floor coverings, furniture and furnishings, cooking appliances, air-conditioning, washing machines, refrigerators and freezers, household appliances, domestic services
Transport	Petrol, motor cars, motorcycles, maintenance of personal transport equipment
Health	Public and private healthcare services, medical products, dental services
Education	Secondary and tertiary education
Recreation, sports and culture	Sport equipment, cultural services, packaged tours, television, photography equipment, musical instruments, gardening items, pet related products, lottery
Miscellaneous	Jewellery, insurance, social protection

Note: Goods and services listed here is not exhaustive.

To further clarify these distinctions, we drew upon the work of Jayadev and Currid-Halkett, identifying markers of the middle class:-

Table 3: 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, and Reddy (2015) and Currid-Halkett (2017)

Some of these markers include spending on education and lifestyle goods, a focus on social mobility, and the desire to insulate themselves and their households from adverse risk events. Our findings help describe how the different segments allocate their resources between essential needs and aspirational items.

Discussion

Not all the B40 are poor by absolute standards

To identify households that are poor, Malaysia uses the Poverty Line Index (PLI). The PLI is an index of how much money a household (of varying sizes and attributes) would need to fulfill food requirements as proposed by the Ministry of Health's Malaysian Dietary Guidelines (2020). Additionally, there is a non-food component that considers the monies required to acquire a set of basic non-food items. The PLI is an aggregation of these two sub-indices. Absolute poverty measures are useful for policymakers to identify, target, and prioritize those who lack basic necessities, starting from the most deprived household to the least. As of July 2023, the DOSM reports that absolute poverty stood at 6.2% and relative poverty at 16.6% of total households[3].

The Struggles of Middle-Income Households

Unlike middle-class households, middle-income households face tremendous financial difficulties. Middle-income households often face difficult trade-offs, choosing between immediate and longer-term needs. By mapping these decisions through expenditure patterns, our model reveals a middle-income group that is struggling, often stretching resources to meet present requirements, much less those in the future.

This sandwiched class is often overlooked in policymaking. They are not poor enough to qualify for government assistance but remain vulnerable to financial shocks. At the same time, they lack the disposable income to enjoy the aspirational consumption characteristic of the middle class, leaving them in a precarious economic position.

It is hard to operationalize the definition of 'the rich'

At the other end of the spectrum presents a number of difficulties, especially when compared to the well-established benchmarks used to identify poverty. Poverty measurements often rely on clear, objective thresholds—like the national poverty line or basic needs indices—that are grounded in the simplicity of need. These benchmarks focus on whether individuals can secure fundamental necessities such as food, shelter, and healthcare. In contrast, affluence is a multifaceted concept that extends beyond income to include assets, investments, property ownership, and even social capital.

Defining affluence is inherently context-specific. In wealthier countries, affluence might imply owning luxury assets or significant financial investments. However, in lower-income nations, a household considered 'rich' might only have the means to secure what is deemed a decent living standard in that context. This relativity makes it even more challenging to establish a universal

[3] DOSM (2022a)

benchmark for identifying 'the rich.' This **complexity of wealth** makes it difficult to establish a universal standard for what constitutes being 'rich' in Malaysia.

Conclusions

In this analysis, we have shown that Malaysia's current income classifications—B40, M40, T20—oversimplify the realities of household income and consumption. Our findings suggest that characteristics of a middle class emerge only in the top 30% of households, challenging the assumption that the T20 is uniformly affluent. Meanwhile, the middle-income households, despite their critical role in the economy, often find themselves excluded from both assistance and aspirational opportunities, leaving them vulnerable to financial instability.

As policymakers grapple with excluding the 'rich' from benefits, they must ask: are our current classifications sufficient for addressing Malaysia's socio-economic complexities? Perhaps the real challenge lies not just in identifying 'the rich' but in ensuring that interventions reflect the full spectrum of both the vulnerabilities and aspirations of households.

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