Chapter 7

Deprivation and Capability: Household and Personal Aspects
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The pursuit of inclusive growth necessitates a view of poverty beyond the deficiency of basic needs and a shift towards thinking in terms of exclusion and relative deprivation. In line with the manifold aspects of inclusion and exclusion, poverty and deprivation must also be framed as a multidimensional problem and not merely a shortfall of income. Malaysia’s record in reducing absolute income poverty constitutes an undeniable, remarkable achievement. At the same time, and in line with the global shift towards more dynamic approaches to the problem of deprivation, the importance of framing household poverty in relative terms has been more widely accepted and practised. We therefore make the case for increasing emphasis on relative poverty, with reference to a fraction of median income. We also note how variations in the contribution of earned income to household income and in the number of income earners complicate the relationship between low household income and working poverty. Earnings inequality, as a closer reflection of capability, must be emphasised in the context of inclusive growth. This also shifts focus to the personal level, where earnings is more relevantly analysed instead of the household. Additionally, due attention must be given to household-earned income as well as personal earnings.

This chapter surveys prevailing spatial dimensions of deprivation – between states and regions – that are of particular social and policy importance, and profile head of household characteristics and living conditions corresponding with household income. Persistent disparities between Peninsular Malaysia and East Malaysia and between urban and rural areas, as well as gender, are placed in the spotlight, heeding Khoo’s (2012) and Ragayah’s (2008) exhortations to probe the dimensions of inequality that have been largely overshadowed by ethnicity. We examine deprivation primarily with reference to these spatial categories. We observe, as expected, that deprivation decreases on a continuum as income rises, without a clear demarcation below and above the absolute poverty line. We also observe that households receiving below half of median income generally exhibit significantly more socioeconomic deprivation, underscoring the case for increasing policy focus on relative deprivation.

We proceed to map human capability in Malaysia. This is more suitably assessed at the personal level, due to omission of multiple household members of varying age, gender, education attainment, labour force participation and occupational position when using the household as the unit of analysis and assuming the head as representative of the household. We compile and present profiles of education and economic participation across Peninsular Malaysia, Sabah and Sarawak, with particular attention to lagging capability development among Bumiputera minorities. Sabah, as the state with the highest official income poverty rate, accordingly registers relatively lesser socioeconomic attainments. However, we also observe starkly lower human capability in Sarawak and thus a major need for bridging gaps vis-à-vis the Peninsular, although the state’s rather low official poverty rate suggests only a minor catch-up. Regional differences in educational
attainment underscore the importance of closing quantitative, as well as qualitative, gaps across regions and between urban and rural areas. The chapter concludes with a discussion of policy implications.

### 7.2 Absolute poverty: income-based and multidimensional approaches

The account of Malaysia’s development has predominantly viewed poverty as income deprivation relative to an absolute threshold. Specifically, official accounts have tracked progress with references to poverty as captured in the headcount ratio, subject to a fixed poverty line. Notwithstanding these limitations, Malaysia has achieved a remarkable progress record, with poverty falling from 49.3% in 1970 to 23% in 1989 and 1.7% in 2012. Poverty rates within ethnic groups, states and in both urban and rural areas have declined, reflecting steady and widespread income growth among the lowest income households.

However, notable limitations and omissions remain. First, the general critiques of absolute poverty measurements apply. The binary framework, with households below or above an income threshold respectively classified as poor and non-poor, discounts variations in household characteristics and experiences. Since 2005, Malaysia has employed a method that goes beyond referencing household income to the poverty line and accounts for variation in cost of living and household size, across state and urban or rural location.

Based on these variables, a poverty line is calculated for each sampled household and its poverty status is gauged accordingly. Notwithstanding these improvements, poverty line measures, being hinged to a standardised basket of basic goods, are inescapably exposed to questions regarding the veracity of this determination of subsistence living. The process, abiding with the axiom of hierarchical needs, begins with minimal food requirements, followed by non-food items. However, the latter have been found to be widely underestimated (UN DESA, 2010). This may be true especially in urban areas, where Malaysia’s poverty line is perhaps more questionable (Khoo, 2012). Other areas of omission, especially intra-household inequalities and access...
to non-market goods as highlighted by Ravallion (1996), underscore the need for current poverty evaluations to be supplemented with further data.

Second, household income poverty has been inadequately evaluated for its relationship with the labour market. Aggregated gross household income obscures differences in contribution of earned income from different labour market sources (paid employment, income from self-employment) and other sources such as property income, current transfers and others, as well as variation in household size and head of household characteristics, suggesting a more nuanced analysis needs to be made. A snapshot of income sources and characteristics of Malaysia’s poor households points out some important information omitted from analyses thus far (Table 7.1). The difference in average income of poor households across Peninsular Malaysia, Sabah and Sarawak derives from differentials in poverty line income. The poor of Sabah and Sarawak, in accordance with higher cost of living, register higher income. This is counterintuitive to the East Malaysian states’ relatively lower economic development. However, isolating earned income, which as expected contribute the bulk of household income, reveals another picture. After accounting for variations in the number of income earners – which is higher in Sabah and especially Sarawak – we obtain lower income per earner within households in these states.

Third, Malaysia’s income-based poverty measurement, versus consumption-based alternatives, also charts underexplored territory. While income data marks an improvement over output-based data such as GDP per capita, as argued in Stiglitz, Sen and Fitoussi (2009), and while Malaysia’s Household Income Survey provides a consistent series of nationally representative snapshots, there is a

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Malaysia</th>
<th>Peninsular Malaysia</th>
<th>Sabah</th>
<th>Sarawak</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross Income</strong></td>
<td>RM935</td>
<td>RM877</td>
<td>RM988</td>
<td>RM958</td>
</tr>
<tr>
<td><strong>Earned Income (A)</strong></td>
<td>RM594</td>
<td>RM588</td>
<td>RM618</td>
<td>RM531</td>
</tr>
<tr>
<td><strong>Number Of Income Earners (B)</strong></td>
<td>1.21</td>
<td>1.12</td>
<td>1.24</td>
<td>1.40</td>
</tr>
<tr>
<td><strong>Income Per Earner (A ÷ B)</strong></td>
<td>RM493</td>
<td>RM526</td>
<td>RM498</td>
<td>RM380</td>
</tr>
<tr>
<td><strong>Household Size</strong></td>
<td>6.44</td>
<td>6.43</td>
<td>6.51</td>
<td>6.22</td>
</tr>
<tr>
<td><strong>Head Of Household Age</strong></td>
<td>46.7</td>
<td>47.6</td>
<td>45.7</td>
<td>46.8</td>
</tr>
</tbody>
</table>

continual lack of consumption-based data of matching frequency, which can supplement the income-based evaluations of inclusiveness, if not generate information more pertinent for evaluating material wellbeing.

Strikingly, Malaysia’s lower poverty rate compares to many countries with substantially higher income and lower inequality, raising questions on the suitability and plausibility of Malaysia’s poverty line. In the late 2000s, poverty in the OECD, measured at roughly 11% on the whole, substantially exceeded that in Malaysia. Even the esteemed equitable economies of the Nordic region, Finland, Sweden, Norway and Denmark, reported poverty at around eight per cent, while Japan and Korea put their figures at 15-16%. Aligning measurement to international norms will certainly raise – possibly steeply – the poverty line and subsequently the poverty rate. This need not negate Malaysia’s success story in reducing poverty over time. However, a one-off recalculation is most probably unacceptable given the attendant imperative to recalculate poverty lines across the historical trajectory, perhaps all the way to 1970—an onerous task. In view of these circumstances, efforts to broaden the concept of poverty and place increasing emphasis on relative poverty are arguably more fruitful at this juncture.

Indeed, the shift towards a multidimensional conception and measurement of poverty has progressed internationally and is underway in Malaysia, with the adoption of the Multidimensional Poverty Index. This acknowledges that poverty in capability, and in material wellbeing besides income, should be expressly accounted for, and not be ascribed secondary importance or merely assumed to derive strongly and directly from income poverty, such that income serves as a proxy for wellbeing. One who is both income and capability poor is worse off than another who is income poor but not capability poor. Omitting the capability aspect precludes such differentiation.

Multidimensional indicators of development stem from the premise that higher income, although a main constituent of human capability and freedom, does not singularly equate with these ultimate objectives. While income undeniably correlates with wellbeing and capability, the exclusion of non-income variables is unreasonable and unnecessary even in practical terms, in light of the increasing availability of national survey data that allows for broader evaluation.

The multidimensional approach is well established in evaluating development in the form of composite indicators. The most well-known and influential of these, the Human Development Index, comprises income, education and health indicators, which are broad yet highly informative and widely available across the world. Disparities between income-based and HDI-based rankings, reflecting the quantity, equitability and efficacy of investment in education and health, are highly instructive in highlighting situations where income levels do not translate commensurately into human development. Growth cannot be assumed to deliver development. The Malaysian Quality of Life Index (MQLI) has ventured to fill this space and shed light on the nation’s development.

1 Thailand’s endeavour in recalculating the poverty line and applying it retrospectively is notable. This exercise in 2013 revised the poverty rate from 8.3% to 19.1% for 2000, and from 14.8% to 35.3% for 1996.
experience across various aspects. The MQLI is an amalgam of 42 indicators under 11 components at the national level, and five components with 13 indicators at the state level for within-country comparisons.

Multidimensional poverty measurement, extending beyond income to broader needs, provisions and capabilities, draws on the same precepts as development indices. The UNDP introduced the Human Poverty Index in 1997, with longevity, knowledge and decent living standard as the principle components (UNDP 1997). In practice, the HPI referenced deprivation in survival (percentage not expected to live to 40 years), adult illiteracy rates and indicators of economic provisioning (access to water, access to health services, underweight children). Bourgignon and Chakravarty (2003) approach multidimensional poverty as a failure to meet “minimally acceptable” levels of monetary and non-monetary requisites for subsistence living, arguing that a shortfall in any one constitutes a state of poverty. Alkire and Foster (2011) propose an approach, adopted as the Multidimensional Poverty Index, which was published for the first time in the 2010 Human Development Report (UNDP 2010b) and is being applied to Malaysia.

Poverty measurement remains a contentious field. UN DESA’s (2010) Report on the World Social Situation incisively rejects a poverty line approach, stressing the persistent problem of pre-determining cut-off points which remains, regardless of the singular income dimension or a multidimensional framework. In place of the monetary-based approach, the report advocates universalism: basic rights and social provisions, with emphasis on social exclusion as an overarching framework. UN DESA further highlighted the multiplicity of deprivations and hence the need for broad social analysis, while also giving weight to the problem of vulnerability, thus shifting away from viewing poverty as a static condition and recognising flux and mobility in households’ states of deprivation.

Recognising the strengths, limitations and complementarities of different approaches, this chapter continues with an application of relative deprivation, as well as multidimensional mappings of human capability.

7.3 Relative deprivation

7.3.1 Household income

Absolute poverty measures will continue to be pertinent, especially for targeting certain transfers and allocating social assistance. However, inclusive growth demands information on the shapes and degrees of exclusion and inclusion. The case for centring relative deprivation in development perspectives and policies grows increasingly compelling, furthermore as Malaysia strives to foster an advanced economy and mature society.

Establishing thresholds to mark relative deprivation is still necessary, although less strictly than in an absolute deprivation framework. Normative and practical considerations enter the fold. It is desirable that parameters correspond with a household that is representative of the general material wellbeing of members of a society. Median income, the level at which half of households have less and the other half have more, suits this purpose very well. Mean income, susceptible to be inflated by high outliers, is less appropriate
for benchmarking relative deprivation as a whole. However, the relative movement of mean and median generally correspond with changes in distribution, with the latter demonstrating a capacity to account for the effects of inequality on the common household. When mean income grows faster than median income, driven by rapid growth in the upper strata, inequality tends to rise. The Malaysia Plans, Malaysia’s official development documents and principal sources of income statistics, have neither centrally nor consistently reported median household income. However, the relative levels of median and mean household income can be computed from less prominent official sources (DOS, 2012). We observe that episodes of rising inequality, where the Gini coefficient increases (1999 to 2002), saw the median per mean income ratio decline (Figure 7.1). In other words, mean income growth exceeded median income growth. Whenever inequality was falling or static, the median-mean ratio increased—specifically from 0.681 in 2002 to 0.706 in 2009. Thus, median income, especially when juxtaposed alongside the mean, provides an appropriate and effective indication of inclusive growth, and in turn serves as a reasonable benchmark for relative deprivation.

The NEM invested a new policy commitment to relative poverty, in the form of a focus on the “bottom 40%” (NEAC, 2010). The concept and demarcation, however, lacked a clear direction and purpose, although its stratification of society into the top 20%, middle 40% and bottom 40% provided for some comparability across time. Most importantly, the bottom 40% constitutes a static measure and detracts from analysis of dynamics in the shape of distribution, as discussed above.

It follows from the efficacy of median income in representing material resources of the common household that the relative deprivation threshold can be set as a proportion of the median level. Half of median income presents a natural place to mark the relative poverty line. However, other thresholds, whether at 40% or 60% of the median, may also be computed and tracked over time (Garroway and de Laiglesia, 2012). Clearly, simplicity and flexibility work to the concept’s advantage, whereas absolute poverty measures hinge on a complex evaluation of what constitutes a minimal standard of living. A fixed proportion, whether the bottom 40% or 20%, inadequately accounts for dynamics in the shape of distribution and possibilities that incomes may converge toward the middle, which is desirable for inclusive growth. For 2009, Malaysia’s relative poverty at varying proportions of the median would be: 11.5% for the threshold at 0.40 of the median (or RM1,132), 19.3% for 0.50 of the median (RM1,415) and 26.4% for 0.60 of the median (RM1,680). This compares with the absolute poverty rate of 3.8% at the poverty line of RM800\(^2\). Concurrently, 66.6% of households received income below the mean, RM4,025.

Measuring relative deprivation based on a fraction of median income lends other angles for assessing progress, identifying households for social assistance, framing policies and setting a particular growth

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\(^2\)Poverty lines by region are, respectively, RM763 for Peninsular Malaysia, RM912 for Sarawak and RM1,048 for Sabah.
path. While median income is fixed at the middle point, the share of households earning less than half the median can change, based on the pattern of income distribution. A decline in this ratio corresponds with an increasing share of households receiving income closer to the median. Moreover, median-based measurement is in line with the transition from welfare transfers for the absolute poor towards inclusion and growth. Such a transition, we propose, is a basic feature of inclusive growth.

Importantly, the case for relative income deprivation also derives from its correspondence with deprivation in capability and in living conditions. Profiling various household characteristics corresponding with income, we find that rising income lowers relative deprivation, and that crossing the absolute poverty line does not mark a cut-off point. We disaggregate households, sorted from the poorest to richest according to sets of categories. This chapter’s presentation of such figures are based on two per cent income brackets, that is, starting with the profile of the poorest two per cent of households, then the two per cent with the next highest income, and so on, until the richest two per cent.

First and foremost, we consider the educational attainment of the head of household. As shown in Figure 7.2, the lower the household income, the lesser the educational attainment of the head of household. The educational profile rises as income grows—notably, on a continuum, and not drastically turning at any particular threshold. We situate the official national poverty line and various income lines in order to visualise relative deprivation based on these benchmarks. Passing the poverty line does not correspond with a substantial improvement in attainment. We can discern a steeper rise in the bottom eight per cent or so, with the share of heads with only primary schooling or less dropping from around 85% to just above 63%, and subsequently declining less robustly as income continues to grow. Interestingly, the proportion of heads of households with only primary level education falls from above to below 50% at about the half median mark. Primary

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**Figure 7.1:**
Household income: median per mean and Gini coefficient

schooling or less would fundamentally constrain opportunities and can serve as a clear indicator of relative deprivation. The educational profile of households thus underscores the utility of referencing a proportion of the median as a cut-off point for assessing relative poverty, and the unsuitability of the mean which is evidently propped up by the incomes of highly educated, and less representative, households.

Gender, spatial and ethnic dimensions are highly consequential to inclusiveness, both from a normative standpoint upholding equal access to capability as well as the broader, negative social ramifications of persistent exclusion, discrimination and inequality between groups. We next present distributional profiles of households, sorted from the poorest to the richest segments, with regards to demographic, geographic and socioeconomic variables (Figures 7.3-7.10). For simplicity’s sake, we apply 0.50 of median income as a relative poverty marker, but our findings will clearly hold at other conventional thresholds, whether 0.40 or 0.60.

Female-headed households are concentrated at the lower end of the household income distribution, forming more than half of the poorest two per cent of households.
above the 40th percentile. Notably, the share of female-headed households is below 10% among the richest one-tenth. Gender disparities and exclusion are starkly evident and will be discussed in more detail in Chapter 9.

Spatial inequities are encapsulated in the share of households in urban and rural areas of Sabah, Sarawak and Peninsular Malaysia across varying income levels (Figure 7.4). Rural areas in all three regions comprise a disproportionately higher share of the lowest income households. The problem is more acute in Sabah, where 53% of households earn below half the national median, followed by Sarawak (39%) and the Peninsular (34%). This picture is consistent with the higher official poverty rates computed for the East Malaysian states: 32.8% for rural Sabah and 5.3%
for Sarawak, compared to 2.1% for the Peninsular, which translates to 43.3% of Malaysia’s poor households being in Sabah and 11.8% in Sarawak—although only 8.3% of Malaysia’s households reside in Sabah and 8.5% in Sarawak. Notably, households in urban Sabah and especially urban Sarawak areas are present in all strata, including the topmost. Poverty line differentials – with the less advanced East Malaysia states imputing higher poverty lines – certainly contribute to the disparity in poverty rates.

The ethnic composition of households across the income range constitutes another aspect of the inclusion/exclusion dynamic. Malaysia’s official sources have tracked household income according to the three main Bumiputera, Chinese and Indian groups, and traced interethnic inequality over time. One shortfall of these available indicators is, again, the homogenisation of everyone classified under the Bumiputera banner. We have also not been presented the ethnic profile across the full distribution. Thus, we compute the share of ethnic groups from the poorest to richest households (Figures 7.5 and 7.6). Malay presence is quite proportionate on the whole, except for noticeably underrepresentation in the highest income regions, while Indian households are evenly distributed at all levels. Chinese households account for a substantially smaller share of the lowest income households and see their proportion steadily increase as we ascend the income scale.

Bumiputera minority groups are most disproportionately concentrated in the low-income regions (Figure 7.6). We profile the two largest Bumiputera
minority groups in Sabah and in Sarawak, the Kadazan and Iban respectively, while merging the rest due to their small sample. The Orang Asli of Peninsular Malaysia also appear few times in the survey, consistent with their proportion of the population. However, we include the group here in view of their acute situation. The income poverty rate for the Peninsular Orang Asli was officially put at an astounding 50% in 2009. More in-depth considerations of the community’s situation confirm the multiple deprivations the community faces (Rusaslina, 2012).

In this snapshot we see that the Orang Asli, Kadazan and other Sabah Bumiputeras are particularly concentrated in the lowest income regions, and their share consistently declines such that they occupy a tiny sliver at the highest income levels. The same can be said, though to a lesser extent, of the Iban and Sarawak Bumiputeras. Emphatically, disparities across Sabah, Sarawak and Peninsular Malaysia – and between urban and rural areas – constitute primary challenges for inclusive growth. The composition of household income of these groups also shows the predominant contribution of earned income to gross income, and important differences across groups. Notably, median incomes of Orang Asli lag by the largest margin, and earned income in Sarawak’s Bumiputera groups is notably low, although supplemented relatively more by other income sources.
Differences between states within the Peninsular also prevail, but are arguably less severe and pressing.

### 7.3.2 Household living conditions

It is reasonable to assume that relative deprivation in living conditions correspond with household income, but this relationship is not automatic. It is ultimately an empirical issue. Malaysia’s Basic Amenities Survey, appended to the Household Income Survey, provides data on living quarters that we can plot against household income. The condition of living quarters is visually and subjectively evaluated by survey enumerators. We find that the lowest income households are much more likely to occupy houses whose condition can be described as deteriorating (Figure 7.7). A small section is considered dilapidated, but this share becomes negligible above the 10th percentile. A house’s type of toilet impacts on hygiene and material comfort. The proportion of flush toilets increases with income (Figure 7.8). Pour toilets comprise the majority at the lowest income levels, while “Other” types are also present but are basically absent above the half median line. Notably, the half median income line, much more than the absolute poverty line, marks a reasonably dependable cut-off point, with these deprivations substantially lower on the upside.

Public provisions, capturing both household access to services and the socio-political empowerment of communities, are also pertinent to our consideration of living conditions. Piped and treated water, the most basic of necessities, bears direct consequences on health and wellbeing.
A lack of reliable and convenient garbage disposal detracts from quality of life. A lack of piped and treated water, as well as garbage collection, amount to major deprivations. Of course, the extent and equitability of these provisions are also a function of distance; remote areas, with relatively lower income, are harder to service.

However, the correspondence with income is stark. Figure 7.9 portrays low-income households obtaining water from wells, public taps, or piped but untreated sources. These proportions, especially for well-drawn water, decline as income rises. Garbage collection is more sharply associated with income, with the share of households enjoying this service at the place of residence increasing continuously from the poorest to the richest (Figure 7.10). About 70% of the poorest households have no garbage collection.

To obtain a composite snapshot of living conditions – while continuing vital spatial distinctions – we map living and health conditions for Peninsular Malaysia, Sabah and Sarawak. We are unable to narrow the geographic scope due to the absence of data at more disaggregated levels (See Appendix Table B7.1 for a list of data sources). For standardisation across different scale of numbers, each statistic is computed as a ratio of the overall Malaysia average. We opted for this method, instead of normalisation based on maximum and minimum values as used to derive the Human Development Index, as well as the Thailand Human Development Report’s (2009) instructive Human Achievement Index\(^3\). This is due to the lack of variation stemming from three observations, which would merely yield one scoring 0, another scoring 1 and a third in between.

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\(^3\) Thailand’s Human Development Report (2009) obtained data of 40 indicators at the provincial level (76 provinces).
This map of living conditions assembles descriptive statistics extracted from the raw data of the Household Income Survey of 2009 and the National Health and Morbidity Survey of 2011, as well as figures reported in the Yearbook of Statistics. A number of these indicators—specifically, health facilities—are also incorporated into the MQLI, for the same reason of availability at the regional level. The picture that emerges shows the all-encompassing disparity between Peninsular Malaysia versus East Malaysia, while revealing some interesting points of differentiation.

Living conditions in the Peninsular exceed those of Sabah and Sarawak across all parameters being compared, including both private purchases such as living quarters, and public provisions such as electricity, water and garbage collection, and access to health personnel, which comprises a public-private mix (Figure 7.11). Sarawak fares relatively better than Sabah in all measures except for electricity, while a higher proportion of households in Sabah receive 24 hour supply. This may be a function of Sarawak’s greater land area and larger distances of communities for power lines to cover—however, garbage collection services have greater reach in that state. Average health insurance coverage and access to health personnel and facilities are exceptionally lower in Sabah and Sarawak. Lower income households generally depend more heavily on public health services. Malaysia’s public

Average health insurance coverage and access to health personnel and facilities are exceptionally lower in Sabah and Sarawak.

**Figure 7.11:**
Household living conditions and access to health services

![Radar chart showing household living conditions and access to health services in Peninsular Malaysia, Sabah, and Sarawak.](image-url)

Sources: See Appendix Table B7.1.
health expenditure, low by international yardsticks, enters the picture here (Chan, 2012). Equitable access to health services, as well as basic utilities, are highly pertinent to inclusiveness and quality of life. More broadly, social protection and workplace regulation are instrumental to safeguarding the wellbeing of the deprived, vulnerable, and marginalised, and for fostering a just, healthy and dynamic society (Box Article 7.1)

7.4 Human capability

7.4.1 Educational attainment

Malaysia has steadily grown and developed human capabilities, reflected in shifts in the educational and occupational composition of the population and workforce. Young people are the main beneficiaries of increased opportunities to pursue diploma or degree level study. Enrolment in tertiary education, as a percentage of the 20-24-year-old population, burgeoned from 25.2% in 2000 to 39.8% in 2010. The share of tertiary educated people in the employed population rose from 3.6% in 1980 to 13.9% in 2000 and 24.2% in 2010, while those who only have primary schooling dropped from 43.6% in 1980 to 26.4% in 2000 and 16.7% in 2010.

This growth in higher formal qualifications corresponds with an increasing proportion of workers in occupations demanding more skills, knowledge and expertise. The changing occupational profile is less striking than in education but still broadly indicative of expanding capabilities in society. Managers and professionals accounted for 15.6% of employed persons in 2011, up from 13.5% in 2000. The share of technicians has declined slightly, while that of clerical and service workers – which largely demand post-secondary qualifications – rose from 24.3% in 2000 to 30% in 2011, by about the equivalent margin as the proportional decline in low-skills production and agricultural workers, from 39.5% in 2000 to 33.2% in 2011. Notably, machine operators and elementary workers in 2011 comprise a quarter of the employed population. The distribution of the low-skill industrial and agricultural occupations across regions and genders warrants exploration in the interest of inclusive growth.

We proceed to survey and synthesise outcomes associated with capabilities. Subjective evaluations of wellbeing, which as pointed out by Stiglitz, Sen and Fitoussi (2009) could shed further light on the subject, are unavailable. The degree of inclusiveness in attaining human capabilities is most appropriately evaluated not at the household level, but at the personal level. We first consider the educational attainment of adults—the population aged 21 or above. As shown in Figure 7.12, sizeable disparities hold between Peninsular Malaysia and East Malaysia, with Sarawak registering the lowest educational profile. Urban and rural disaggregation accentuates the disparities, with rural Sarawak, where 64% of adults have only primary schooling or less, lagging starkly behind the rest (See Appendix Figures B7.3 and B7.4). Thus, while Sarawak registers lower household poverty rates and better living conditions on average than Sabah, the state’s human development at the personal level lags further behind.

The regional gaps lead us to probe these outcomes according to ethnic groups (Figures 7.13 and 7.14). On the Peninsular, Malay educational attainment is marginally above the rest. Orang Asli show markedly low results*. The Indian community is

*While the Orang Asli subsample in the Household Income Survey is very small, the exceedingly low education attainment – with 63% of the group’s labour force having no schooling or only primary schooling – is not surprising. The Orang Asli secondary school completion rate of 30% falls far below the national average of 72% (Ministry of Education 2013, p. 4-21).
Figure 7.12: Educational attainment of adult population

Source: Household Income Survey 2009, authors’ calculations.

Figure 7.13: Educational attainment by ethnicity: Peninsular Malaysia

Source: Household Income Survey 2009, authors’ calculations.
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Social protection contributes to inclusive growth by providing access to income security, access to basic services and opportunities to individuals with limited assets and capabilities (Handayani, 2010). The range of necessary and possible interventions is very broad and varies across countries, including old age income programmes, pensions, healthcare insurance, public social services, cash transfers, work and wage regulations, unemployment insurance and other institutions.

The Employees Provident Fund (EPF) and Social Security Organisation (SOCSO) are Malaysia’s principal social protection institutions for private sector workers, who comprise 90% of employment, and their dependents (See Appendix Table 7.3 for an overview of all programmes). The EPF provides for old age income through mandatory employee and employer.
contributions to personal accounts, while SOCSO offers protection against the risk of employment injury, invalidity and death for workers earning below RM3,000 per month, on the “once-in-always-in” principle. Employees in the public sector may opt to participate in the EPF instead of the government pension scheme – although few do – but they are excluded from SOCSO membership. The public pension scheme accounts for a major portion of old age income, given the sector’s substantial one-tenth share of employment. There are no mandatory social protection schemes for the self-employed and informal sector workers in Malaysia. However, voluntary participation in the EPF by the self-employed is allowed on a voluntary basis through the EPF’s 1Malaysia Retirement Savings scheme introduced in January 2010 (EPF, 2010, p.80).

Public health services are substantially subsidised by the government through tax revenue, alleviating financial burdens and facilitating access to healthcare for middle-income and especially low-income households. Health insurance coverage, however, affects the accessibility of major health treatment. Calculations from the 2006 National Health and Morbidity Survey show that 80.2% of households with income between RM500 and RM999 do not have coverage, whether through government guarantee, employer-provided insurance or privately purchased insurance, compared to 5.5% of households with income above RM5,000 (Appendix Table 7.2). Undoubtedly, the public health system is available for any Malaysian, insured or otherwise, at highly subsidised rates. However, an arguably underfunded system and gravitation toward private healthcare adversely impact accessibility and quality of health services for the majority (Chan, 2013; Chee, 2008).

There are a number of cash transfer programmes targeted at the poor as well as assistance for small businesses and the self-employed, including the Bantuan Wargamas for the elderly, e-Kasih, 1Azam, and 1Care programmes. The government also subsidises various essential consumer items such as food and petrol, and provides one-off cash transfer assistance such as BR1M. While considerable in amount, the effectiveness of these basically unconditional transfer programmes in fostering social inclusion and generating productive capacity remains unclear.

In the labour market, the Employment Act (1955) provides some degree of protection through stipulating the benefits for termination and layoffs but, importantly, there is no formal scheme for protection against the risk of unemployment as well as a lack of systematic incentives for employing disabled or special needs persons, or for retaining senior workers beyond retirement. There are also no universal assistance schemes for family and child benefits and no formal provisions for maternity, except for paid maternity leave of 60 days in the private sector as stipulated by the Employment Act (applicable to workers earning below RM2,000 per month) and 90 days in the public sector.

In comparison to various Asian countries, Malaysia’s social protection demonstrates significant breadth of coverage, but lacks depth in terms of adequacy of provision and efficacy of administration (ADB, 2011). EPF
membership illustrates the contrasting profile of greater achievement of breadth over depth. Its membership in 2011 represented about half of the labour force. But with 70% of EPF contributors having RM150,000 or less at the time of retirement, the accumulated savings of the vast majority is inadequate to sustain livelihoods through advanced years.

Malaysia’s official disposition toward workers and labour market institutions has placed emphasis on increasing flexibility and curtailing security, precluding possible synergies between social security, representation and productivity (NEAC, 2010). Minimum wage was implemented in 2013 in acknowledgment of unacceptably low wages in the labour market. However, the vast majority of bargaining over wages and conditions occurs outside of worker organisation. Unionisation rate has continuously declined in recent decades and the average size of unions has continuously shrunk. Growth in membership is also disproportionately found in the public sector, which does not engage in collective bargaining. In the private sector, only 4.9% of workers were unionised in 1985, and 3.6% in 2005.

Malaysia seeks to break out of a low-wage and low-productivity cycle but its labour regime has largely militated against greater worker representation and work security, and drifted toward increased utilisation of contract labour and entrenched dependence on low-skill foreign workers. The officially documented number of foreign workers burgeoned from 870,000 in 2000 to 1.8 million in 2005 and 2.3 million in 2011, the vast majority of whom are low skilled. The actual number, including undocumented workers, is closer to four million, according to government estimates (Bernama, May 17, 2012). Contract labour, moreover if they are foreign migrant workers, are more vulnerable and less likely to be trained due to their transient terms of employment. These conditions arguably inhibit progress toward a “high road” of high productivity, dynamic up-skilling and mutually enhanced opportunity and security.

Figure 1:
Unions and contract labour

Sources: Authors’ calculations from Malaysian Trades Union Congress, Yearbook of Statistics, and Annual Survey of Manufacturing Establishments.
Notes: This article draws substantially from Soh (2013), “Social Safety Net” (Background Paper Number 6).
7.4.2 Mapping capability

Next, we perform some composite human capability mapping, along the lines of the living conditions illustrated above (Figure 7.15). Education and labour market outcomes feature most prominently in view of the importance of educational access and quality on people’s capacities to lead empowered lives, obtain basic needs, exercise freedoms and expand choices. We report the educational attainment of adult populations of the three regions, relative to the overall Malaysia average, at secondary, post-secondary and university degree levels. We refer to average school examination scores as a proxy for quality of schooling. Across these education metrics, Peninsular Malaysia outperforms Sabah which in turn registers higher scores than Sarawak except for school exam scores, in which both states find parity. This reflects, at a very general level, disparities in quality of schooling, which is increasingly consequential for accessing tertiary education and facilitating upward mobility.

In the labour sphere, we consider the female-male and rural-urban gaps within the three regions. There is no significant variation in the gender gap in labour force participation and earnings. It should be noted that a value of one here denotes equivalent levels of gender disparity across the regions—it does not signify equality between men and women. We include a score for the share of low skill jobs, as an indication of the quality of work. Since a higher value on the original ratio equates with a value-reducing outcome, we apply its inverse. The skill composition of jobs is lower in Sabah and Sarawak to Peninsular Malaysia.

In terms of monthly earnings, disparities between groups and between the regions are instructive. The rural-urban gap is larger in Sarawak, followed by Sabah and then Peninsular Malaysia. This suggests that urban areas of Sabah and Sarawak lag behind urban areas of the Peninsular to a lesser extent than the corresponding relationship within rural areas, consistent with our earlier finding that urban households of East Malaysia are represented across the income spectrum, including the topmost levels. Accordingly, the gap between earnings at the 90th percentile of each region—the level at which 90% earn less—is smaller than the gap at the median or the 10th percentile. Indeed, disparities between Peninsular Malaysia and the other states are greatest at the 10th percentile, followed by the median, then the 90th percentile. The lowly paid workers of Sabah and Sarawak are behind their counterparts in Peninsular Malaysia to a greater extent than better paid workers.

Distinct differences between urban and rural economies compel us to map capability separately (Figures 7.16 and 7.17). The range of indicators narrows, as some data are unavailable at urban/rural breakdowns. As expected, we find the capability gap between the Peninsular and East Malaysia to be lesser on the whole within urban areas. Peninsular scores are, across the board, slightly above 1.0, and the figures for Sabah and Sarawak are all above 0.6. In terms of educational attainment, Sabah and Sarawak lag behind the Peninsular but do not vary much between them. The earnings gap is largest at the 10th percentile, followed by the median, then the 90th percentile. The urban working poor in Sabah and Sarawak
The earnings disparity between Sabah and Sarawak relative to the Peninsular is outstandingly high.
Figure 7.16:
Human capability map: urban areas of Peninsular Malaysia, Sabah, Sarawak

See Appendix Table B7.1.
Notes: 1) All scores per overall urban Malaysia mean or overall urban Malaysia percentile; 2) Low skill jobs include agricultural workers, elementary workers and operators and assemblers.

Figure 7.17:
Human capability map: rural areas of Peninsular Malaysia, Sabah, Sarawak

Sources: See Appendix Table B7.1.
Notes: 1) All scores per overall rural Malaysia mean or overall Malaysia rural percentile; 2) Low skill jobs include agricultural workers, elementary workers and operators and assemblers.
the public provision of social services. Malaysia has maintained a respectable record in public social spending. Federal government expenditure figures, based on the five-year Malaysia Plans, show broadly sustained and mildly increasing operating and development expenditure, especially from the 1980s (Appendix Figures B7.6 and B7.7). From 1991 to 2010, education and training constituted 22-25% of operating expenses, while health accounted for six to eight per cent. The efficiency and effectiveness of this spending, however, warrants scrutiny in view of concerns over quality of public education and health services. Among expenditure designated as development expenditure, education, training and health show an upward trend over time, even tracing back to the 1970s. However, health services remain a minor share, comprising 4.8% of the most recently completed Malaysia Plan (Ninth), 2005-2010.

The efficacy of these expenditures – efficiency of delivery and amounts that actually arrive to designated recipients – remains largely unexamined. Widespread concerns over education quality for instance raise questions on the targeting and monitoring of education spending. Data on higher education and health funding also indicate increasing dependency on private sources. The National Higher Education Loan Fund's (PTPTN) loan data are illustrative. In subsidised public education, we observe no clear trend over time, with approved loans relative to enrolment averaging 29% between 2002 and 2011 in public institutions. At the same time, loans for study in private institutions increased markedly from 6.4% in 2002 to about 16% over 2005-2010, then rose again to 20.7% in 2011. This raises concerns over accessibility of higher education to children from low-income households.

7.5 Conclusion

In this chapter, we discussed the importance and timeliness of shifting towards relative deprivation as a guiding principle for economic and social policy. The concept and measurement of income poverty in an absolute framework – referenced to pre-determined poverty line income (PLI) – remains pertinent, especially for evaluating households’ ability to meet basic needs and for targeted social assistance, but is clearly inadequate for assessing inclusiveness. We make the case for systematic conceptualisation and evaluation of relative deprivation, complemented by multidimensional considerations of absolute poverty, of which efforts are officially in progress.

Relative deprivation, referenced to median household income, constantly and directly focuses on problems of exclusion and inclusion. We adopt 0.50 of median income as a reference threshold. The consistent application of this simple and powerful method of measuring relative poverty is more important than the exact threshold. There is no inherent reason to attribute more veracity to 0.50, versus 0.60 or 0.40 of the median. Indeed, all of these can be computed and relative poverty compared over time and space with reference to various thresholds. The efficacy of benchmarking a proportion of the median level for evaluating relative poverty is corroborated by our findings, in which households with income below half the median exhibit substantially
lower living standards, in terms of both privately acquired and publicly provided goods and necessities. Declining poverty, measured by the population share falling below a fraction of median income, also corresponds with gravitation of incomes toward the middle, consistent with the objectives of inclusive growth. Our analysis of household income finds that gender, ethnic and spatial disparities remain, with Bumiputera minorities in Sabah and Sarawak particularly overrepresented in low-income segments. Regardless of poverty measure, poverty is most acute in the rural areas of Sabah and Sarawak, drawing attention to issues of economic opportunity and land alienation (Aeria, 2012; Rusaslina, 2012). We also highlighted the limitations of referring to gross household income, as has been the practice, which omits important data regarding household earned income, which is in turn more closely linked to human capabilities.

Some policy implications arise. Transfer-based programmes that target low-income households, most notably e-Kasih and BR1M, can help alleviate financial burdens to some extent, but should not be thought of as poverty eradication since the transfers are one-off, transient, and has no impact on capabilities. Public provision of health facilities and utilities remain lacking in some areas, and while schooling access and enrolment have reached high levels, schooling quality increasingly impacts on completion of secondary schooling, continuation to post-secondary education and, subsequently, employment and earnings prospects. Programmes oriented around income generation, especially the various employment, credit and commercial assistance schemes under 1Azam and microcredit through AIM, warrant continuation and effective implementation (See Box Article 5.2).

This chapter also explored aspects of human capability in Malaysia, providing an overview of educational attainment and multidimensional mapping. In terms of basic education, Malaysia has attained fairly broad access, although important disparities between groups warrant urgent attention, especially the Orang Asli of the Peninsular and the Bumiputera minorities of East Malaysia. Education quality impacts on upward mobility and is, arguably, increasingly consequential toward participating in and benefiting from economic growth (Box Article 7.2). Particular attention to the developmental needs of children from marginalised communities and households is also needed (Box Article 12.1).

Our capability mapping highlights areas in which Sabah and Sarawak are lagging behind, particularly in educational attainment and personal earnings. Importantly, we find the earnings gaps between rural areas of Sabah and Sarawak relative to rural Peninsular Malaysia to be larger than corresponding comparisons of urban areas. Larger disparities between low earning workers of East Malaysia compared to their counterparts on the Peninsular, and nearly equal earnings levels among top earners across all regions, reinforce the assessment that capability deprivation is concentrated in rural areas. Additionally, human capability in rural Sarawak ranks lower than in rural Sabah, suggesting that the considerably lower official income poverty rate of Sarawak may not be capturing important aspects of socioeconomic development.
While Malaysia has continually expanded schooling provisions, there is growing concern towards the declining quality of Malaysia’s education institutions and the implications on mobility and inclusiveness. Primary schooling was made legally compulsory in 2003. Public school enrolment reached 94% in 2011 and total enrolment is presumably at or close to 100% after including private and other schooling options. Enrolment rates have also risen in secondary schooling, reaching 86% at the middle secondary level (ages 12-14) and 78% at the upper secondary level (ages 15-16) in 2011. Attrition from the schooling system constitutes a major challenge, particularly in rural areas where socioeconomic development is generally lower and private schooling a more limited option. Attrition is also higher among boys than girls, even after accounting for technical and vocational streams, reflecting systemic problems in educating and retaining male students.

Malaysia has maintained relatively high education spending, although a considerable proportion of schools, particularly in rural areas, suffer from lack of access to basic infrastructure and facilities or deteriorating conditions (Siti Zaleha 2013, p.29). This raises questions on the efficacy and integrity of public expenditure in education.

Shortcomings in academic performance have animated public discourses and received official acknowledgement in the Malaysia Education Blueprint 2013-2025 released in September 2013, which reported Malaysia’s lagging scores in international standardised tests. The Trends in Mathematics and Science Study (TIMSS), in particular, provides a means of tracking progress in teaching these basic subjects.

Malaysia’s eighth grade TIMSS performance is highly instructive. In mathematics, the share attaining high performance dropped from 36% in 1999 to 18% in 2007 and 12% in 2011, while in science the figures were 24% in 1999, 18% in 2007, and 11% in 2011. These falling trends, however, apparently diverge from Malaysia’s middle secondary assessment (PMR), in which the proportion scoring A in 2008 and 2011 was sustained at 30% in mathematics, and increased from 17% to 26% in science. As noted in the Blueprint, the orientation of TIMSS towards comprehension instead of mere content makes it a more credible and relevant benchmark for high income nation aspirants.

Tertiary education enhances capability, boosts income and facilitates mobility. Various challenges in employment of Malaysian graduates underscore the problems in the education system. Employer surveys repeatedly note deficiencies among graduates in English proficiency, technical and communication skills, work attitude, and other positive attributes (World Bank, 2005; World Bank, 2009; Jobstreet 2011 survey, cited in the Blueprint). As increasing portions of the population access tertiary education, quality differences at this level naturally grow in significance.

The capacity of domestic tertiary institutions to narrow schooling gaps is wanting – indeed, tertiary education may widen gulfs, such as between overseas and domestic institutions.
domestic degree holders – and constitutes an urgent area of need. A long-term decline in the earnings premium for holding diploma- or degree-level qualifications captures both the effects of the increased share of workers with these qualifications as well as deterioration in education quality (Appendix Figure 7.5). The standard and quality of local education from basic to higher levels require an overhaul to be equivalent to or better than internationally recognised standards of education.

Disparities in education outcomes, according to location, gender and school type, are highly pertinent to inclusive growth. National examinations, for their standardised form and national coverage, help shed light on education inequalities within the nation. As reported in the Blueprint, urban-rural gaps in average school scores remained stable at 8-10 percentage points across 2004 to 2011 for SPM, but declined from eight percentage points in 2004 to about four percentage points in 2011 for UPSR. Gaps between states are worryingly high; Sabah, Sarawak and Perlis record the lowest average school scores in both UPSR and SPM in 2011. The dire conditions of Sabah and Sarawak especially demand policy attention and public resources.

Importantly, socioeconomic development and gender correlate with school performance. Schools with a larger share of students benefiting from the poor student’s trust programme (KWAPM), perform weaker than other schools less dependent on this aid. Private schools using the national curriculum scored six percentage points higher than public schools in SPM. Alongside the higher attrition of boys from schooling, gender gaps also exist in grade point averages; female students are outperforming male peers by increasing margins at all levels.

Another aspect in the education system concerns school type, which bears consequences for academic attainment and national integration. National schools do not reflect the national ethnic composition, especially at primary level, where enrolment comprises 94% Bumiputera, three per cent Indian and one per cent Chinese. Gravitation of non-Bumiputera to Mandarin-medium and Tamil-medium schools have increased, with the percentage of Chinese attending vernacular schools rising from 92% in 2000 to 96% in 2011, and correspondingly for Indians, 47% in 2000 to 56% in 2011. Differentials in national exam performance between vernacular and national schools have narrowed in recent years, according to official sources. Of course, these trends, plotted from national examination results, only explain a fraction of the fragmentation problem in the schooling system.

Solutions to these manifold, complex and deep-seated education problems and dilemmas demand comprehensive reforms, political courage and societal participation. The problems stem from a multiplicity of factors, including the schooling system but also family, community and school governance. The potentiality of teachers and lecturers, participation of parents, communities and institution leaders must be harnessed, and autonomy and freedom cultivated, to arrest the education system’s systemic decline, and only then can it be reversed.

Note: This article draws on Siti Zaleha Sani (2013), “Education and Inclusive Growth” (Background Paper Number 5).