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Household Wealth in Malaysia: Composition and Inequality among Ethnic Groups

(Kekayaan Isi Rumah di Malaysia: Pembahagian dan Ketidaksamaan antara Kaum)

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ABSTRACT

The paper studies the composition and inequality of wealth among the household per capita in Malaysia, using the 2007 Malaysia's Household Income Survey (HIS), focusing on the disparity among the ethnic groups. Real estate assets make up about 96% of wealth, while financial assets make up the rest. Consistent with findings with other countries, the distribution of wealth are more skewed than of income. The distribution of wealth shows that the top 10% of Malaysian households per capita control 35% of the country's wealth, while the bottom 40% own 8%. The decomposition of wealth shows that the Gini coefficient for savings is 0.98, while the figure for investment asset and real estate assets are 0.90 and 0.52 respectively. The distribution and inequality of wealth is more prominent among the Indians, followed by the Bumiputera and the Chinese respectively. Intra-ethnic, it is the Indian that has the least of ownership in wealth at 23.7%, and within the Bumiputera group, the figure are 14.7% and the Chinese 10.5%.

Keywords: Ethnic; inequality; Malaysia; wealth; Bumiputera

ABSTRAK

Kajian ini menyelidik pembahagian dan ketidaksamaan dalam bidang harta (wealth) di antara isi rumah, mengunakan data dari Household Income Survey 2007, dengan memberi tumpuan kepada jurang antara kaum. Kajian ini mendapati bahawa hartanah membentuk kira kira 96% daripada kesulurahan harta, manakala aset kewangan menyumbang 4%. Selaras dengan kajian antarabangsa, ketidaksamaan di dalam bidang harta adalah lebih tinggi daripada ketidaksamaan dalam pendapatan. Penagihan harta menunjukkan bahawa 10% teratas menguasai 35% daripada harta, manakala 40% tercorot mengusai hanya 8%. Penguraian harta menunjukkan bahawa pekala Gini untuk simpanan adalah 0.98, manakala bagi pelaburan dan hartanah adalah masing masing pada tahap 0.90 dan 0.52. Ketidaksamaan amat ketara di kalangan kaum India, diikuti kaum Bumiputera, dan kaum Cina.

Kata-kunci : Etnik; ketidaksamaan; Malaysia; harta; Bumiputera

INTRODUCTION

Wealth distribution or inequality is not a new subject. More than 2,000 years ago, Plato's Republic has raised the issue of unequal distribution of wealth, and cautioned of its consequences. He warned that if society wanted to avoid fatal disorder, limits on wealth at both ends should be set, and luxury and poverty should both be avoided. His student, Aristotle, also raised the same concern by arguing that social harmony could only be attained through an equal society. Modern philosophers such as Karl Marx and Adam Smith have also raised the same apprehension on unequal distribution of wealth.

The topic is still much relevant and alive, especially for countries with different ethnic groups such as Malaysia. In Malaysia, distribution of wealth is a sensitive issue due to the socio-economic-political structures of the country where the majority ethnic group, the Bumiputera (of which 82.2% are Malays), who relatively hold the political power, constitute the poorest segment with the lowest average income compared to the minority ethnic Chinese who dominate the economy. Malaysia, with its multi racial and multi ethnic population, consisting of 66.4% Bumiputera (of which 82.2% are Malays), 25% Chinese and 7.5% Indian in the year 2007, has inherited this huge inequality, a legacy of the British colonial policies. The income gaps between the racial groups, between urban and rural areas and between regions were wide. The imbalance in economic inequality compounded with unequal representation in the sphere of political power was a recipe for disaster. This created political and social instability resulted in a politically motivated racial riot in 1969. As a response, the government embarked on an affirmative-type New Economic Policy (NEP) in 1971 to address this inequality, with the ultimate aim of achieving national unity. The objectives of the policy were to eradicate poverty regardless of race, and restructuring of the society to eliminate the identification of race with economic function.

The policy managed to eliminate poverty, and narrow the income gaps between the races, but there is no comprehensive systematic study to calculate beyond the income indicators or corporate share on the level of economic inequality among the races. Income level or corporate ownership is not a true representation of one's economic well being. A better measurement would be the level of wealth. To get a reasonably complete picture of the economic well being of an individual or household requires more than the knowledge of income alone. Wealth is a better indicator as it represents an accumulated stock rather than a passing flow of resources. Although income is the standard way to study and evaluate family well being, it is not sufficient or a correct indicator of economic inequality or progress in social justice. Families receiving similar income, either from wages or asset, can experience a different level of economic well being depending on assets such as housing and consumer durables (Wolff 1998). The latter have attractive features such as providing economic security, not requiring a time/leisure trade-off, lighter taxation, and the possibility of being enjoyed without being consumed (Spilerman, Lewin-Epstein & Semyonov 1993, in Wolff 1998). The income sourced from assets such as financial investments or real estate rentals could support consumption and living, even if the owner is not involved in the labour market. Many wealthy individuals have low income but they are able to support their consumption due to their asset accumulation, or wealth. On the other hand, many families have zero or negative net worth despite having a regular income above the poverty line. Therefore, it is possible that families who are living below the poverty line income, based on current income, may be living quite comfortably based on asset accumulation, and that families with high income may also be living in poverty if their current income is cut off or reduced, due to their zero or minimal asset accumulation. Income inequality is a poor indicator of financial or economic stability. Therefore, the analysis of assets would be a more accurate way of getting a true picture of economic inequality.

However, there is very little information on the exact level of wealth between the different ethnic groups and its distribution among the races in Malaysia, despite the seriousness of the issue. In addition, given the sensitivity of the relationship with regard to the unequal distribution of economic resources, it is important to study these inequalities as it has an impact on the race relations between the different ethnic groups. Given Malaysia's intricate relationship between politics and economics that are interlinked and has always been seen through the lens of ethnicity, it is crucial to have a complete understanding of the issues in order to determine the appropriate policy responses to avoid the recurrence of social and political conflicts.

Thus, the main focus of this paper is the disparity gap on household ownership and distribution of wealth by racial groups. It will focus on horizontal inequality rather than vertical inequality. Horizontal inequality is the inequality between groups - such as citizenship, race, ethnicity, religion, gender, region, and others. Vertical inequality refers to inequality between individuals or households with respect to income, consumption and asset. Vertical inequality can be decomposed into two elements: between group inequality and within group inequality. The analysis will concentrate on the component of wealth i.e. real estate holdings (land and houses) and financial assets (savings and stocks). In most international studies on wealth, the portfolio composition of wealth includes the same components such as home equity, business equity, financial assets, stocks and savings from income, although the concentration of different assets among household varies from one country to another. Our aim is to find out what are the differences in wealth between the non-Bumiputera compared to the Bumiputera.

Much has been written on the distribution of income and income inequality in Malaysia (see e.g. Ragayah (2009); Jomo (2004); Ragayah (2004); Ragayah (1999); Shireen (1998); Ishak & Ragayah (1990); Jomo & Ishak (1986); Ragayah (1978) and Ishak & Ragayah (1978)), but little has been done on distribution of wealth, perhaps due to unavailability of data. This is quite surprising considering that Malaysia has among the highest level of income inequality in the region, comparable to those countries in Latin America and Africa. In 2003, the income share received by the highest income decile (measured by Gini) was 39.2, a high concentration compared to just 22.5 for Singapore, 28.5 for Indonesia and 32.4 for Thailand (Leete 2007). Although there is no data on household net worth in Malaysia, there is reason to expect more extreme concentration of wealth in Malaysia compared to income. In all countries where household net worth data is available, Gini coefficient for household wealth is always more than the Gini coefficient for household income (OECD 2008; Davies, Sandstrom, Shorrocks, & Wolff 2006). Wolff (1992) in his study of wealth inequality in the United States for the period of 1960 to 1980s, shows that although household income gap between the African American and Whites in 1989 is 63%, the wealth owned by the former is just 10% of what is owned by the latter. This reflects that a large number of African American families have zero net worth, and the plausible explanation for this wide wealth gap is the crucial role played by intergenerational transfer in household wealth accumulation. He argues that if this is the case, it may take several generations for the wealth gap to narrow to the level of income gap. It would be interesting to see if the pattern is the same in Malaysia as it is in the United States. This is especially so since many argued that the pro-Bumiputera NEP has managed to close the income and corporate wealth gap between the Malays and the non-Malays, and as such concluded that NEP must be dismantled. However, as shown by Wolff, the income disparity is not reflective of the net worth or economic well being of a household or individual, and to rely solely on income indicator is misleading and erroneous.

DATA AND METHODOLOGY

The main data used in this study is derived from the Household Income Survey (HIS) 2007 obtained from the Economic Planning Unit (EPU). The main objective of the HIS is to collect information on the pattern of income distribution classified by various socioeconomic characteristics in Malaysia. The survey was carried out by the Department of Statistics to collect information on household income and identify poverty groups. For HIS 2007, a total of 38 083 households were covered, which was more than 1% of the Malaysian population. It is generally accepted that the survey had used a consistent and comparable income concept and approach based on the guidelines manual issued by the Department of Statistics (see Ragayah 2008, Shireen 1998). It is noted that " the overwhelming result of cross checking of data is that the surveys have been extremely well conducted, and it is likely that they are amongst the most reliable of surveys conducted in the developing world" (Bhalla and Kharas (1992), quoted in Ragayah (2008):.4).

This study will estimate gross wealth per capita based on the sum of the following components: financial assets and real estate holdings. These two components, financial assets and real estate holdings, are derived from the 2007 Household Income Survey. The methodology for deriving at the financial assets and the real estate is as follows: the financial asset is derived from the extrapolation of sum of income from interest (e.g. bank deposits, bills, bonds, loans, etc) and dividends (e.g. from ownership of shares, unit trust, etc). In HIS, the interest and dividend income is coded as INCS 33 and INCS 34 respectively. The extrapolation of interest will give us 'total savings', and dividends will gives us 'total investments'. Different yields are assigned to both interest and dividends respectively to get the value of total savings and total investments. The yield assigned to savings is 2.5%, which is the average of 12 months fixed deposit at a rate of 3.71% and conventional bank savings rate of 1.30% in the year 2007. The yield assigned to investments is 5.8%, which is based on the returns from the Employee Provident Fund (EPF) in the year 2007. The real estate asset refers to ownership of residential property. This is derived from the imputed rent of owner occupied house and rent from houses or other property – including both land and house. (The code from HIS 2007 from imputed rent from owner occupied house and rent from other house and property are incs22 and incs23 respectively. Incs23 includes both land and house, but since we cannot isolate them, the sum incs22 and incs23 is referred to as real estate. Otherwise, it could be labeled as house and land separately). In order to get the value of the real estate, a gross rental yield is assigned to the sum of rent of owner occupied house and rent from houses or other property, and the property value is then calculated as the annual rental value divided by the rental yield. The assigned yields are as follows: 4% for urban areas and 3% for rural areas for all the states, except for Kuala Lumpur where the assigned yield is 5%. (The figures for the yields are from several Malaysian property developers and reputable real estate agents. The exact yields are not available from official reports). The official exact figures for the yield based on property location and types are not available. As such, the yields are derived from alternate sources. This extrapolation technique has been done by other researchers in wealth studies. Stiglitz (1969) and Meade (1964) studied the distribution of wealth based largely on a technique for estimating the size distribution of wealth among the living by inflating the statistics of the estate left by the deceased in a particular year, with a multiplier incorporating the mortality rates applicable to the deceased. Davies et al. (2006), in the study of the world distribution of wealth, argued and showed that it was possible to use regression method to calculate net worth based on disposable income per capita.

EMPIRICAL RESULTS

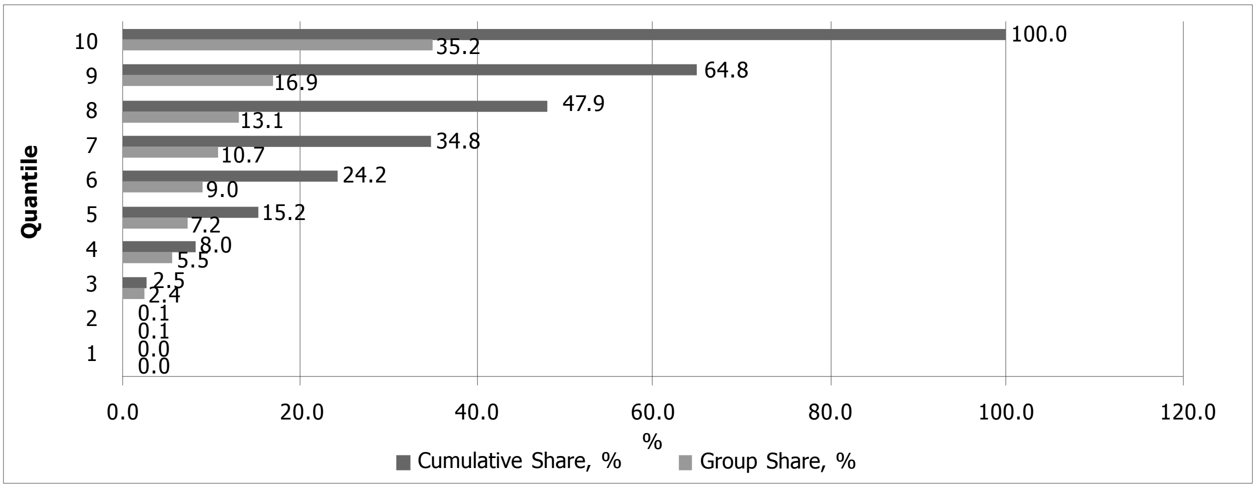
DISTRIBUTION

The analysis from Household Income Survey 2007 showed that about 15% of Malaysian households had no wealth. Although the figure of Malaysians without wealth seems high, in comparison, the percentage was much lower when compared to the situation in the United States in 1995 where the percentage of Americans with zero wealth then was 18.5% (Wolff 1998: 2). However, the Americans have more financial assets than Malaysians, as their figure for zero financial assets stood at 28.7% while in Malaysia it was 38%. The figure was higher in Korea in 1998, where 40% of its household had no savings or financial assets (Leipziger et. al, 1992: 40). Closer to Malaysia, it was reported that the half of the rural and urban households in Indonesia had zero financial wealth in 1997 (Frankenberg et al. 2003: 306, in Davies & Shorrocks 2005: 17).

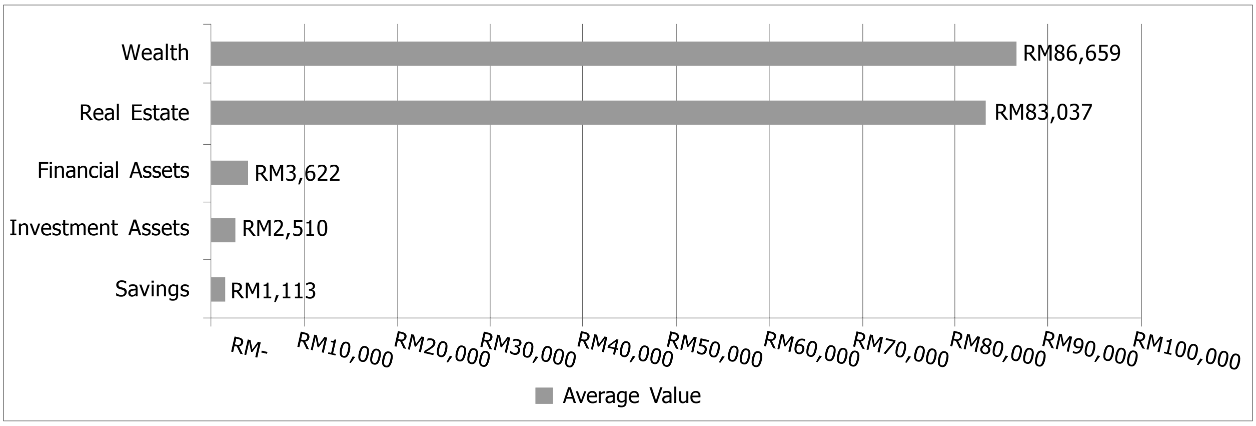
The average wealth holding of a Malaysian in 2007 was RM86,659, while the median was RM71,534. The overall distribution of the wealth holdings is shown in Figure 1 below. The top 10% households accounts for 35.22% of the wealth distribution, while the bottom 10% has nothing. The bottom 40%, meanwhile, had just 0.15% of the top 20%; their overall ownership of the wealth holdings equalled to just 8%. The average wealth of the bottom 40% stood at RM39 334, while the figure for the top 20% was RM124 737, translating into a disparity of 0.31.

The decomposition of wealth showed that the bulk of the wealth, or about 96%, comprised real estate assets, while the financial assets contribution to the wealth holdings was quite negligible at about 4% (Graph 1). This is consistent with the composition of wealth in other countries, where the majority of the wealth consisted of real estate or tangible assets, rather than liquid monetary

FIGURE 1. Distribution of Wealth in Malaysia in 2007



Source: HIS 2007



Source: HIS 2007

assets. In Canada, half of wealth was held in terms of real estate (Matteo 1997), in the United States the figure was 44% (Wolff 1998), China 67% (Gustafsson et al. 2001) and in Korea and Indonesia, the figure was 90% and 70% respectively (Leipziger et al. 1992).

Wealth was better distributed compared to real estate assets or financial assets, at least for the bottom 40%, but not when compared to the income distribution (Table 1). The financial asset holdings distribution was the worst, followed by wealth, property assets, and income. The bottom 40% had a cumulative share of 14.5% in income, and slightly more than half of that amount in wealth, and zero in financial assets. The top 20% controlled nearly all of financial assets (95%), while the corresponding figures for wealth, property assets and income were about half of the total holdings.

Table 1. Distribution of Wealth in Malaysia in 2007

Distribution of Household Per Capita	Wealth	Financial Assets	Property Assets	Income
Top 20	52.1%	94.9%	50.9%	49.8%
Middle 40	39.9%	5.1%	41.7%	35.7%
Bottom 40	8.0%	0%	7.5%	14.5%

Source: HIS 2007

The skewed distribution of wealth in Malaysia in 2007 was not as extreme as compared to several developed countries a decade or two ago (Table 2). For instance, the top 20% of households in the United States had 84% of the wealth, while the figures for Korea and Sweden were

TABLE 2. International Comparison on the Distribution of Wealth for Top 20%

Country	Year	Top 20%
Korea	1998	60
Australia	1966	54
France	1975	69
Canada	1970	74
Sweden	1975	80
United States	1995	85
Malaysia	2007	52

Source: Davies (1979), Harrison (1979), Kessler and Masson (1987), Shorrocks (1987), and Spant (1987), in Leipziger, et al. (1992: 59). Figure for Malaysia is from HIS 2007.

60% and 80% respectively. In fact, the share of wealth of the top 20% of Malaysia was much lower than other countries. The distribution of wealth at the bottom 40% in Malaysia was better than in the United States as in the latter, the bottom 40% had just 0.2% of wealth, and 0% of financial assets (Wolff 1998: 6). Using household balance sheet and survey data, Davies et al. (2008) estimated the level and distribution of global household wealth and found that the top 10% of the world households accounts for 71% of wealth, with a net worth averaging USD 44 024 (in per capita purchasing power).

INEQUALITY

Consistent with other findings that show inequality for wealth is higher than income, the Gini coefficient for wealth in Malaysia in 2007 was 0.5182, higher than the Gini for income which stood at 0.441. In terms of assets, the Gini for financial asset was the highest at 0.90, followed by real estate at 0.521. However, the wealth Gini coefficient for Malaysia was lower compared to Gini coefficient of global household wealth, and much lower compared to other developed countries in the last one or two decades (Table 3). In fact, the figure for Malaysia was the lowest compared to the rest of the countries listed in Table 3. Malaysia's distribution of wealth and its inequality is not an outlier or extreme to that of other countries.

TABLE 3: International Comparison on Gini Coefficient in Wealth

Country	Year	Gini-coefficient
World	2008	0.8
USA	1998	0.76
France	1986	0.71
Germany	1998	0.69
Canada	1984	0.69
Italy	1987	0.6
Sweden	1985	0.59
Korea	1988	0.58
Japan	1984	0.52
Malaysia	2007	0.52

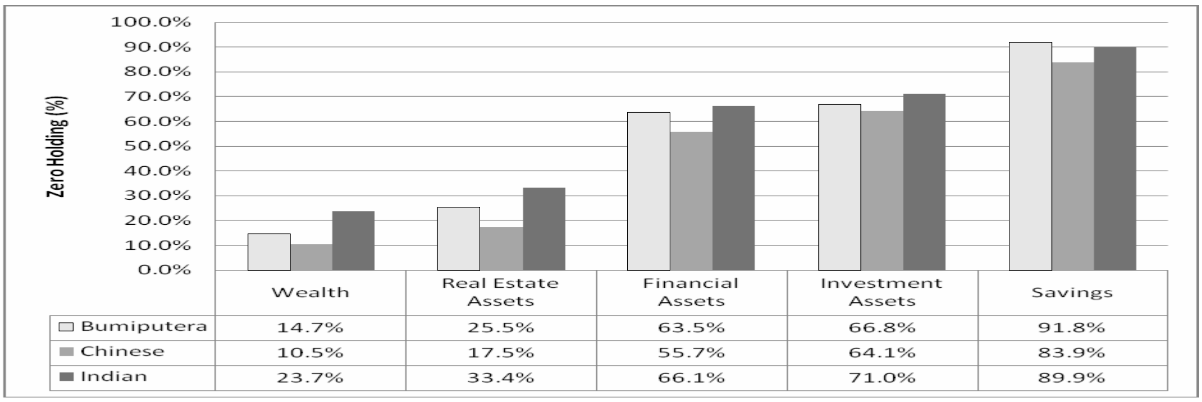
Sources: Davies & Shorrocks 2000, Table 1, and Davies et al. 2008, Shapiro and Wolff 2001, p.17

ETHNICITY

The analysis by ethnicity showed that the majority of the 14.3% of Malaysians without wealth were mainly the Bumiputera, followed by the Chinese and the Indians. In 2007, more than 72% of Malaysian without wealth was the Bumiputera, while the figures for the Chinese and the Indians were 17% and 10.7% respectively. This is not surprising as the Bumiputera has the lowest income and more concentrated in the rural areas compared to richer urban non-Bumiputera, especially the Chinese. However, if we examine within each ethnic group, it was the Indian that has the least of ownership in wealth where 23.7% of them did not have wealth compared to 14.7% of the Bumiputera and 10.5% of the Chinese. Intra-ethnically, the Chinese had the least proportion of its members with zero holdings in every asset classes, while the Indians had the most of its members in the zero-ownership category for every asset, except for savings, for which the Bumiputera had the most members with zero savings (Figure 2).

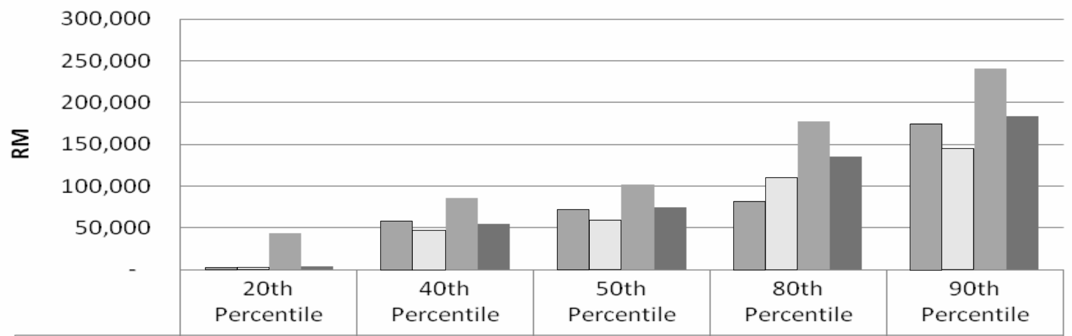
As with savings, investment assets, financial assets and real estate assets, the Bumiputera had the lowest wealth among all the ethnic groups, with an average wealth of RM72 872. The Indians had 20% higher than the Bumiputera, at RM87 229 while the Chinese had the highest average wealth, at RM128 325, which were 76% and 47% higher than the Bumiputera and the Indians respectively. The ranking does not change even if the calculation is calculated by percentiles (Figure 3). The median wealth of the Chinese was RM102 076 which was 170% more than the Bumiputera, and 136% higher than the Indians. However, the gap is much wider for the bottom 20th, where the Chinese wealth was nearly 20 times higher than of the Bumiputera, and 12 times more than the Indians. Clearly, the Chinese poor (in terms of wealth ownership), is much better than the Bumiputera's and the

FIGURE 2. Intra-Ethnic Zero Ownership by Asset Classes in Malaysia, 2007



Source: HIS 2007

FIGURE 3. Wealth by Ethnicity in Malaysia in 2007 in Percentiles



	20th Percentile	40th Percentile	50th Percentile	80th Percentile	90th Percentile
Malaysia	3,311	58,501	71,534	82,501	174,401
Bumiputera	2,299	47,801	60,000	110,001	145,000
Chinese	44,001	85,301	102,076	176,925	240,793
Indian	3,840	55,001	74,650	135,001	183,051

Source: HIS 2007

Indians' poor. In fact, the bottom 20% of the Chinese had wealth nearly equivalent to the wealth of the bottom 40% of the Bumiputera, meaning that a 'poor' Chinese is not much different that an average Bumiputera.

The components of wealth show that the major source of wealth for Malaysians was from real estate assets (Table 4). For the Bumiputera, 97% of their wealth composed of real estate assets, while the figure for the Indians was almost similar, at 96%. The Chinese had a smaller share compared to other ethnic groups; its real estate contribution to wealth was slightly lower at 94%. The Chinese financial asset contributions were higher compared to the Indians and the Bumiputera; the Chinese savings constituted 2.2% of wealth, compared to just 0.8% and 1.2% for the Bumiputera and the Indian, respectively. This is not surprising, as the rich tends to have higher proportion of their wealth in financial assets compared to the poor, while the poor normally would have most of their assets in real estate, mostly in the form of house.

TABLE 4. Wealth Decomposition by Asset Classes by Ethnicity, Malaysia, 2007

Asset Classes	Bumiputera	Chinese	Indian
Savings	RM 567	RM 2,795	RM 1,026
Investment Assets	RM 1,853	RM 4,629	RM 2,058
Financial Assets	RM 2,419	RM 7,423	RM 3,083
Real Estate	RM 70,453	RM 120,903	RM 84,146
Wealth	RM 72,873	RM 128,326	RM 87,229

Source: HIS 2007

The distribution of wealth by asset classes shown in Table 5 is skewed, although it is better than the distribution of financial assets. For the Bumiputera, the top 20% controlled half of the overall wealth (50.8%), while the middle 40% controlled 41.6%. The bottom 40% however, had a cumulative share of 7.6%. The distribution among the Chinese was slightly more equal than the Bumiputera; the bottom 80% had half of the wealth, at 50.2%, compared to 49.2% of the Bumiputera. In addition, the bottom 40% of the Chinese also had a bigger share of the total wealth compared to the Bumiputera or Indian, as they controlled nearly 12%, as against 7.6% of the Bumiputera and just 3.6% of the Indians. The most unequal distribution of wealth among the ethnic group was among the Indians. The top 20% had 54%, compared to just 50.8% and 49.8% of Bumiputera and Chinese respectively. The bottom 40% had the lowest share of just 3.6%, less than half of their Bumiputera counterparts.

TABLE 5. Distribution of Asset Classes by Ethnicity in Malaysia in 2007 (%)

	Wealth			Real Estate Assets			Financial Assets		
Distribution	B	C	I	B	C	I	B	C	I
Top 20	50.8	49.8	54.0	50.8	49.6	54.3	94.5	92.6	95.8
Middle 40	41.6	38.4	42.4	42.2	38.8	42.7	5.5	7.4	4.3
Bottom 40	7.6	11.9	3.6	7.0	11.6	3.1	0.0	0.0	0.0

Source: HIS 2007. B = Bumiputera, C = Chinese, I = Indians.

The disparity ratio among the ethnic groups in wealth holdings showed that the gap between the Bumiputera and the Chinese was bigger compared to the disparity gap between the Indians and the Chinese. The wealth disparity ratio between the Chinese and the Bumiputera was slightly better than the gap in real estates, and much better compared to the disparity gap in other asset classes (Table 6). For example, the disparity gap in wealth between the Bumiputera and the Chinese was 1:1.76, but the gap in savings was about 1:5. To put things into perspective, the disparity ratio in wealth of 1:1.76 is nearly equivalent to the gap in income between the Bumiputera and the Chinese in the year 1990. If the

TABLE 6. Disparity Ratio in Asset Classes by Ethnicity in Malaysia in 2007

Asset Class	Bumiputera: Chinese	Bumiputera: Indian	Bumiputera: Chinese
Savings	1: 4.93	1: 1.81	1:2.72
Financial Assets	1:3.07	1:1.27	1:2.41
Investment Assets	1:2.50	1:1.11	1:2.25
Real Estate	1:1.72	1:1.19	1:1.44
Wealth	1:1.76	1:1.20	1:1.47
Income	1: 1.54	1:1.20	1:1.28

Source: HIS 2007

reduction of the income gap that took nearly two decades between the Chinese and the Bumiputera were to be reduced by 22%, and should the trend also apply to wealth, then the parity in wealth between the Bumiputera and the Chinese can only be achieved in the year 2060.

Another way of looking at the disparity gap among the races is to compare using the Chinese ownership at RM 1 as the base. In other words, for every RM1 in wealth owned by the Chinese, the corresponding figures for the Bumiputera and the Indians were 57 cents and 68 cents respectively. The disparity in wealth between the ethnic groups was better than the disparities in financial and real estate assets, but worse compared to income. Table 7 below shows the disparity ratios between the three main ethnic groups for the different asset classes. Clearly, it was the Bumiputera who were the worst off compared to the Chinese and the Indians in every asset class. Despite the New Economic Policy that supposedly increased the asset ownership of the Bumiputera, they remained the poorest group. As there is no time series data in wealth holdings, it is not possible to analyze the trend of wealth ownership and its gap among the ethnic groups. But the fact remains that despite the decrease in income differentials among the ethnic groups, the gap in other asset classes, notably in wealth, remains wide, especially between the Bumiputera and the Chinese, and more so in the bottom quantile.

TABLE 7. Differences in Asset Ownership by Ethnicity in Malaysia, 2007

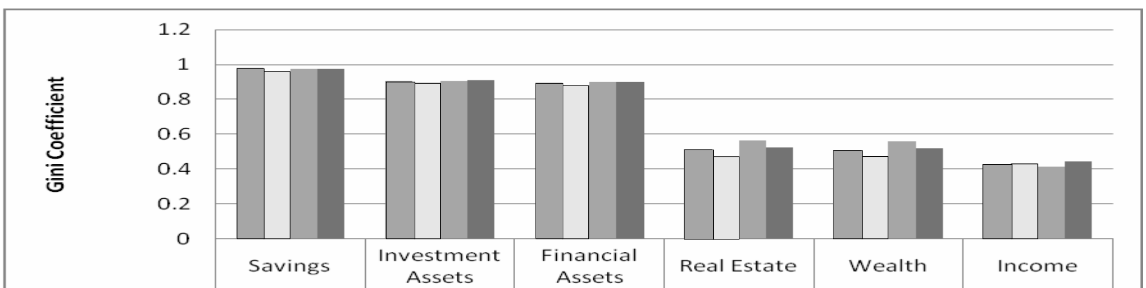
Asset Class	Chinese	Bumiputera	Indian
Savings	RM 1.00	RM 0.20	RM 0.40
Financial Assets	RM 1.00	RM 0.32	RM 0.49
Investment Assets	RM 1.00	RM 0.40	RM 0.54
Income	RM 1.00	RM 0.57	RM 0.78
Real Estate	RM 1.00	RM 0.58	RM 0.70
Wealth	RM 1.00	RM 0.65	RM 0.68

Source: HIS 2007

Some of the critics of NEP argued that pro-Bumiputera economic policy has created an extreme inequality among the Bumiputera community, but the figures prove otherwise. The Gini coefficients show that the wealth inequality in 2007 was highest among the Indians (0.559), followed by the Bumiputera (0.5103), while the Chinese had the lowest inequality (0.4725). This is the reverse of inequality in income, where the highest inequality occurred among the Chinese ethnic group, followed by the Bumiputera, and lastly by the Indians. Comparison in Gini coefficient for all asset classes, excluding income, showed that inequality was the highest in savings and the lowest in wealth, for all ethnic groups (Figure 4).

Nevertheless, at every comparable variable, the Chinese had more wealth than the Bumiputera or the Indians, and the gap in wealth was much wider compared to the gap in income, and more prominent as the bottom quantile. The plausible explanation for this wealth gap is the crucial role played by intergenerational transfers in household wealth accumulation. If this is so, it may take several generations for the wealth gap to narrow to the level of the income gap (Wolff 1992). Another plausible explanation is the level of discrimination by the Chinese against the non-Chinese, especially in the labor market. This could explain the disparity in wealth by ethnicity despite having the same academic qualification. This is consistent with the study by Milanovic (2006), CMI (2005)

FIGURE 4. Gini Coefficients for Asset Classes by Ethnicity in Malaysia in 2007



	Savings	Investment Assets	Financial Assets	Real Estate	Wealth	Income
Bumiputera	0.9786	0.903	0.896	0.515	0.51	0.43
Chinese	0.9611	0.897	0.88	0.474	0.473	0.432
Indian	0.9763	0.903	0.901	0.564	0.56	0.414
Malaysia	0.9767	0.908	0.9	0.521	0.518	0.441

Source: HIS 2007

and Schafgans (1998), where it showed that the unexplained premium of about 20%-40% on wages and earnings for the Chinese could be attributed to discrimination, mainly in the private labour market.

SUMMARY

This study has modest aim; to analyze the distributions and the determinants of wealth in Malaysia, focusing on racial differences between the Bumiputera and the non-Bumiputera. Our examination of HIS 2007 has given us some important results. The median wealth was only RM71 534, and there is great heterogeneity in wealth holdings. The top 20% percent held more than 52.1% of all wealth, while the bottom 40% held less than 8%. The distributions of liquid assets (financial assets) were very extreme; the top 20% had nearly 95% of all financial assets, while the bottom 80% had only 5%. What this means is that majority of Malaysians had very limited financial resources in relation to their normal consumption and expenditures. The economic insecurity is alarming as the average of Malaysian household wealth sufficient to sustain current expenditure in case of income loss is 3.2 years, while those at the bottom 40% is 2.6 years, and the bottom 10% could not survive even one month. Unlike most calculations that use financial wealth as measurement, we use overall wealth because families could sell their houses if their income falls to zero. However, if we measure using liquid assets, the average savings of a Malaysian household is enough to cover just 1.8 months of monthly expenditure, while their financial assets could cover about 6 months of monthly expenditure. Unsurprising, the wealth Gini coefficients stood at 0.518, while the Gini coefficients for financial assets stood at 0.90. However, we also found that the ownership, distributions and inequality of wealth is very colour blind.

Policy implications indicate that inequality may increase in the near future. The government policies are currently encouraging disparities in wealth, both between class and between ethnicity. The policy implication is based on two areas: tax structure, and education policy. Tax structure and the higher education policy in Malaysia are pro-rich and penalizing the poor. The poor or middle class Malaysians, who has limited sources of income from financial assets or real estate assets have to pay higher tax compared to the rich, whose income mostly come from non-labour sources. The poor and the middle class seem to be taxed much more heavily than the rich, as their capital gains are not taxed at all. In addition, there is no death tax or inheritance tax in Malaysia, thus, would perpetuate inequality. In education, the liberalization in terms of fees in public universities would have an impact towards the poor. By 2015, some 50% of public funds for higher education will be disbursed based on the needs of the government, and 25% of all public university places will be fee-paying seats. Currently, the government subsidizes all seats in public institutions of higher learning at the rate of 90%. Students only have to pay a relatively smaller fee for critical courses compared to those in private institutions, made possible because the government subsidized nearly RM8.5 billion a year in order to maintain these low tuition fees. However, it is predicted that by 2020 as many as 90% of higher education students will have to go through a private institution to obtain their degree. The financial constraints are making it harder for the parents to finance the education of the children. In addition, the meritocracy system is penalizing the rural, mostly Bumiputera, students as they lack better schools, infrastructure and teachers while the urban students have the better facilities and infrastructures. The poor students who are discriminated in the admission process have limited opportunity in gaining admission compared to the well-equipped rich urban students. Unlike the rich students who could afford to enrol in the private institution, the poor has nowhere to go as the higher cost of tertiary education in private colleges or universities is a serious obstacle. The result will be the share of the poor acquiring higher education will probably decrease relative to the rich, and since majority of the poor are Bumiputera, the ethnic gap will also widen.

What this study would also like to raise is to show that that the unreflective use of income as the standard way to measure economic well being is misleading and outdated, and has and will contribute to a serious underestimation of the magnitude and scope of overall distribution and inequality. Focusing on flawed measurements would mean that the economic policy that seeks to aim for just and equitable society and narrowing racial differences are doomed to fail. One of the intentions of this paper is to bring widespread attention to the urgent need for new thinking for the policy maker. Wealth would tell a better picture. Correct and immediate policy changes are required to address this unjust imbalance, as not only that it is unfair and detrimental to economic growth and well-being, but also will creates divisions and strains relations amongst the people, and could tear the country apart.

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