

Resolve, not ignore, income disparity gap
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The difference between what the rich and the poor earn (the income disparity gap) remains wide and needs the government's urgent attention.

In a fair and just society, economic growth should benefit everyone. Unfortunately this is not happening in Malaysia in spite of years of economic growth. We have now an aristocracy of wealth where a small group of Malaysians are very rich (22 billionaires at the last count) whilst many others are barely scraping by.

We have on one hand people living in spacious multi-million ringgit homes whilst on the other hand there can be as many as 21 people crammed together in a low cost flat. The statistics prove that the inequality gap is a major problem:

- * The bottom 40% of households have an average income of RM1,222 whilst the top 20% households earn an average of RM8,157.

- * 58% of households earn less than RM3,000 per month. (In 2009, the Federal Territories Minister recommended that any urban household with less than RM3,000 would be considered poor)

- * Income growth has been strong only for the top 20% of Malaysian income earners, particularly since 1990

- * The disparity within the urban group remains high with no improvements in the last decade

- * In 2007, Malaysia's Gini coefficient was 0.441 an improvement of 0.462 in 2004. However in 1990, the Gini coefficient was 0.442, which means that we have hardly made any progress in addressing the problem of income inequality since that time. (Gini coefficient is a measure of inequality ranging from 0 to 1, with 0 representing absolute equality and 1 representing absolute inequality).

Much needs to be done to enable both the rural and urban poor to break from the vicious circle of poverty. Being poor, they face problems relating to nutrition, health and education. A significant portion of Malaysian children are undernourished with about 15% found to be underweight and stunted.

When these children grow up without good academic qualifications, they end up with jobs that do not pay decent wages. They remain poor like their parents and so will their children and grandchildren unless the chain of poverty is broken.

It is not only a question of equity that all Malaysian should get to share the country's economic growth. If the problem of economic disparity is not seriously looked into, it will lead to social problems for example increase in crime rates. Furthermore, the more equal societies grow faster than less equal ones.

The unresolved income disparity gap clearly shows that we have a structural problem. We should stop pursuing the model of economic development imported from the west but instead adopt a model which meets our own needs and beneficial to all sectors of the population

Thus the government should be spending more money on education and health care programmes specifically designed to help the poor. It should also decrease disparities between rural and urban investments by ensuring that employment opportunities are more widely available in the rural areas.

Funds that are needed to run programmes to narrow the income inequality gap should come from the very rich, who after all have a moral obligation to help their less fortunate country men.

We recommend the following taxes be used to narrow the income inequality gap:

a) Inheritance tax/estate duty - Introduce either inheritance tax (which will be paid by the beneficiaries) or estate duty (which is paid by the deceased's estate). Many countries (for example the USA, UK, France, Germany, Netherlands and Canada) have implemented either the inheritance tax or the estate duty.

Malaysia too had the estate duty until it was repealed in 1991.

The proposed inheritance tax /estate duty should have a low starting threshold and a progressive structure. Such a tax will help the country move towards a just society.

b) Personal tax - The government should stop reducing the personal income tax rate for the higher income earners. It should instead increase the rates to collect more funds for income redistribution.

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