

Vital to consider household size, expenses'

By **ZAKIAH KOYA**
zakiah@thestar.com.my

PETALING JAYA: If the effects of household size when setting the cut-offs are not taken into consideration, it can lead to misclassifications of households, say economists.

Using household income alone for identification could cause the government to end up having to categorise everything else, they opined.

Dr Suraya Ismail, a director of Khazanah Research Institute, said the current practice of identifying households in the B40 group does not adjust for different household sizes, composition and the economies of scale arising from living together.

"The terms T20, M40 and B40 are a distribution of household incomes. It is just a percentage, not based on any exact criteria. It was first created by the World Bank in the 1970s and 1980s to compare between countries whether the B40 of Country A was worse or better off than the B40 of Country B. That is all it was meant to do.

"However, what Malaysia did was to take the B40 as a shorthand for the poor, which is wrong. Additionally, the M40 is seen as the middle class, which is also wrong. We have written on this extensively back in 2018 in our report called 'Demarcation of Households'.

"This approach (of using the categories) does not capture situations in which households may have a higher income but also a high number of dependants.

"For example, two households with a monthly income of RM10,000 each would probably be classified as the top 20% households.

"However, if the first household is smaller, these two may not be enjoying the same standard of living.

"A simple approach would be to consider household per capita income. However, there are cost savings and the economies of

scale effects from living together, which result in lower expenditure per household member for a larger household.

"Standardising household income by utilising an equivalence scale could help provide a better estimate of living standards that would be comparable across households with different compositions," said Suraya, who is also a member of the National Costs of Living Council.

"Not considering the effects of household size when drawing the cut-offs could lead to misclassifications of households, placing those who might be in the lower income group (e.g. B40) into higher income groups.

"Results from our analysis found households' ranking in the income distribution changed after their incomes were adjusted to account for household size. Some 80.2% of households that were initially identified as B40 remained as B40, while the residual B40 households were reclassified as M40.

"Among households that were initially in the M40 group, around 70% remained in the same income group, while another 20% moved down to B40 and 10% moved up to T20.

"Similarly, for households which were initially in the T20 group, only 78.4% remained in the same income group and the rest was pushed down to M40," she added.

Universiti Kebangsaan Malaysia economist Prof Tan Sri Dr Noor Azlan Ghazali said with such a

categorisation, even the countries which have the highest income per capita such as Luxembourg would then have B40s (despite them earning well enough to live by).

Prof Noor Azlan, who had served past governments in various economic councils, said "we seem to have overused the relative income demarcations, which are actually labelled so to see where one stands to the rest of the citizens".

"Instead of stating that T20s should pay more, the government should rather look at pricing

based on consumption. If you are poor, but you use more electricity, then you are just paying more. There are T20s who use a much cheaper car to move around, as compared to a lower-income earner who might use a more expensive car.

"Policies should be made along consumption lines. If this is not done, the government would face what we economists call the problem of identification," he said.

"The issue is the pricing mechanism of the utilities - it must be priced along with the consumption pattern.

"If the provider is a monopoly (such as Tenaga Nasional or highway operators) or an 'almost-monopoly' such as Tabung Haji - the economic logic is they will discriminate against the inelastic consumers.

This might then end up being abused.

"The government must then come in and ensure the pricing mechanism is according to the consumption pattern, rather than the classification of household incomes," said Noor Azlan.

The experts' caution comes after Prime Minister Datuk Seri Anwar Ibrahim announced yesterday that T20s may have to pay more for electricity tariffs and haj trips.

Income classification by household			
Household Group	Median Income (RM)	Income Range (RM)	
B40	B1	1,929	Less than 2,500
	B2	2,786	2,500 - 3,169
	B3	3,556	3,170 - 3,969
	B4	4,387	3,970 - 4,849
M40	M1	5,336	4,850 - 5,879
	M2	6,471	5,880 - 7,099
	M3	7,828	7,110 - 8,699
	M4	9,695	8,700 - 10,959
T20	T1	12,586	10,960 - 15,039
	T2	19,781	15,039 or more

Source: Household Income and Basic Amenities Survey Report 2019, Department of Statistics Malaysia

The Stargraphics