Real benefits of an equal share of the pie

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THE controversy over the extent of Bumiputera ownership in the corporate sector brings back memories and a sense of *deja vu*.

It shows again the importance of and abiding concern with distribution, i.e. sharing the outcome of development, which I feel lies at the heart of it.

Still, clearer thinking, a better sense of balance, the restoration of a proper perspective and a restatement of the fundamental objectives of development are direly needed. The drift in the debate on ownership and control needs to be re-steered and must be given its proper developmental context.

When I returned from overseas in late 1969 just after the race riots in May as a government scholar, I was assigned to the Economic Planning Unit (EPU). Work on the seminal Second Malaysia Plan, and on the New Economic Policy (NEP), was just starting within and outside the EPU, and the air was electric with excitement and uncertainty.

The results from the first-ever large ownership survey of limited companies from the Department of Statistics, which subsequently became the basis for measuring ownership, were made available and it was a shock to see that Malays owned less than one per cent of total share capital in 1970.

More shocks came through when the income survey showed that about half of households in 1970 were in absolute poverty, with Malays accounting for the bulk of the poor, and that income distribution had worsened over the 1957-70 period.

These findings provided the underpinnings of the NEP and the surveys were continued and supplemented by statistics from various institutions, incorporated in the nine development plans and eight mid-term reviews of the plans, which were all endorsed by Cabinet and Parliament for the past 35 years.

There was, therefore, ample time and opportunity to question not only the statistical sources and methodologies but also the findings.

Those involved in the NEP were very much aware of the problems associated with measurements, not only of ownership but also of poverty and income distribution, and the importance of statistics and methodology in areas that were freighted with sensitivities.

As the aim was to measure ownership and control of wealth, we knew that we would need to measure the real value of assets, financial and non-financial, including share capital. But because there were no statistics available then on other forms of wealth, the planners had to make do with share capital.

We anticipated also that with growth and structural changes, the pattern of ownership and control would also change and postulated increasing ownership concentration and the growing importance of ownership by institutions. All these needed to be tracked and assessed.

More recently, with financial integration, dis-intermediation and growth of the capital market, costs of finance, changing patterns of foreign direct investment and their financing, would all lead to changes in the relative importance of share capital as a source of finance for investment.

Comprehensive, detailed, regular and timely statistics, especially on income, ownership and employment by ethnic groups, must be collected. But somewhere down the line, as growth gained greater priority and distribution went out of fashion, statistical and analytical work in these areas lost steam and was sidelined.

A focus on income can inject a different perspective to ownership. The average household does not depend a great deal on its ownership of share capital for income. There is a positive association between level of income and income derived from share capital: The higher the income, the higher the income derived from share capital. Income derived from wages and salaries account for the bulk of total income and could reach more than 75 per cent of total national income with the remainder derived from capital of all types, including share capital in the form of profits and dividends.

There are, of course, other benefits than income that can be derived from gaining ownership and control of enterprises. Income from capital in a capitalist economy does not exhibit sharp changes and its share to total income could even remain fairly constant in the long term.

A continuing attack on poverty — i.e. a pro-poor growth strategy, improving the distribution of income and reducing inter-ethnic income disparities — must fall more on ensuring better returns to labour, raising labour productivity, shifting labour to high productivity sectors and restructuring employment patterns at all levels.

Overall, income inequality during the 1995-2004 period has widened but this widening has been accompanied by a reduction in the incidence of poverty and a fall in Bumiputera ownership of share capital from 20.6 per cent in 1995 to 18.9 per cent in 2004. While the Bumiputera-Chinese income disparity ratio has narrowed slightly, it still remains sizeable (1:1.64 in 2004).

The Ninth Malaysia Plan does put much greater emphasis on human capital and this must be the way to go if we are to improve the distribution of income and to reduce inter-ethnic income disparities. Increasing Bumiputera ownership and control of enterprises can make a contribution to human capital development.

Does equity or distribution matter for economic growth and poverty alleviation? It should matter, as unequal distribution of assets, opportunities and political power can generate "inequality traps" which mutually reinforce inequalities in different areas.

There is some appeal to the argument that the emphasis on distribution will be bad for growth. The World Bank, among others, has acknowledged that the dichotomy between policies for growth and policies focusing on equity is false as the distribution of opportunities and the growth process are jointly determined.

Greater equity or less inequality can be the foundation for long-term growth and the alleviation of poverty. Increasingly, it has been argued that inequality does matter as far as poverty is concerned: The higher the level of inequality, the less will be the impact of growth on the level of poverty. Growth will have a stronger impact on poverty reduction if the level of inequality is low.

New evidence also suggests that high and rising inequality can depress economic growth and that at the high-income end, too, much inequality can be bad for growth.

It would seem to be sensible that planners and policy-makers continue to devote attention to inequalities, including ownership inequality, in all its forms, and to introduce new policy instruments or to revise the existing policy instruments that would reduce inequalities. There are real benefits to be gained from development strategies that take distribution explicitly into account.

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