

12 MP Mid-term Review Kick-Off Conference

Inclusivity and Reducing Inequalities

6 December 2022



Why do we care about inequality?

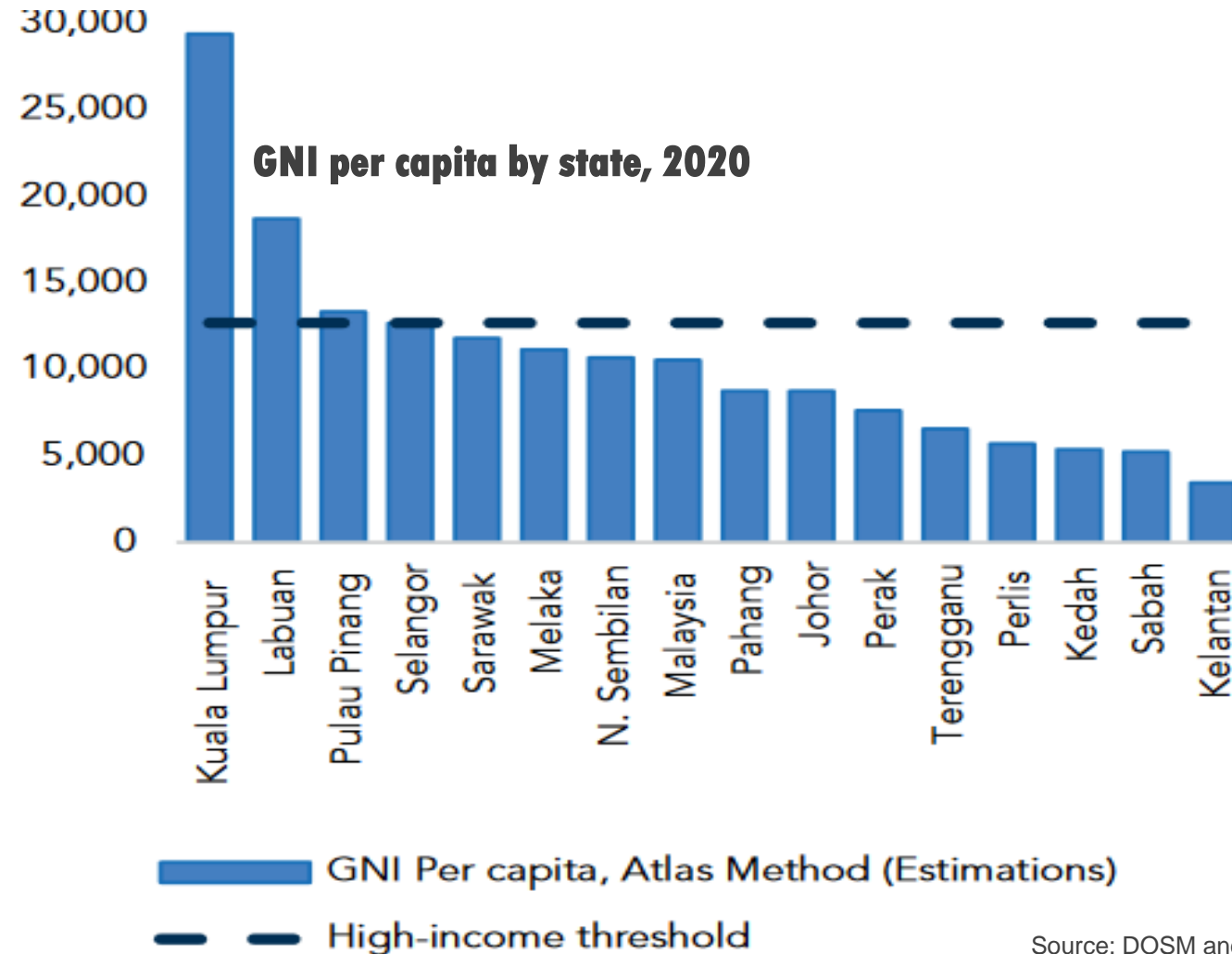
SOME INEQUALITY IS GOOD...

- **Generates incentives:**
 - Study
 - Work hard
 - Invest
 - Innovate and take risks

...BUT NOT ALL

- **Inequality of opportunity: unfair**
- **Affects aspirations: incentives do not change behavior in the absence of mobility**
 - Poor may come to think of their places in the social order as fixed and unchangeable
 - The feeling that one has little power and few resources diminishes goals

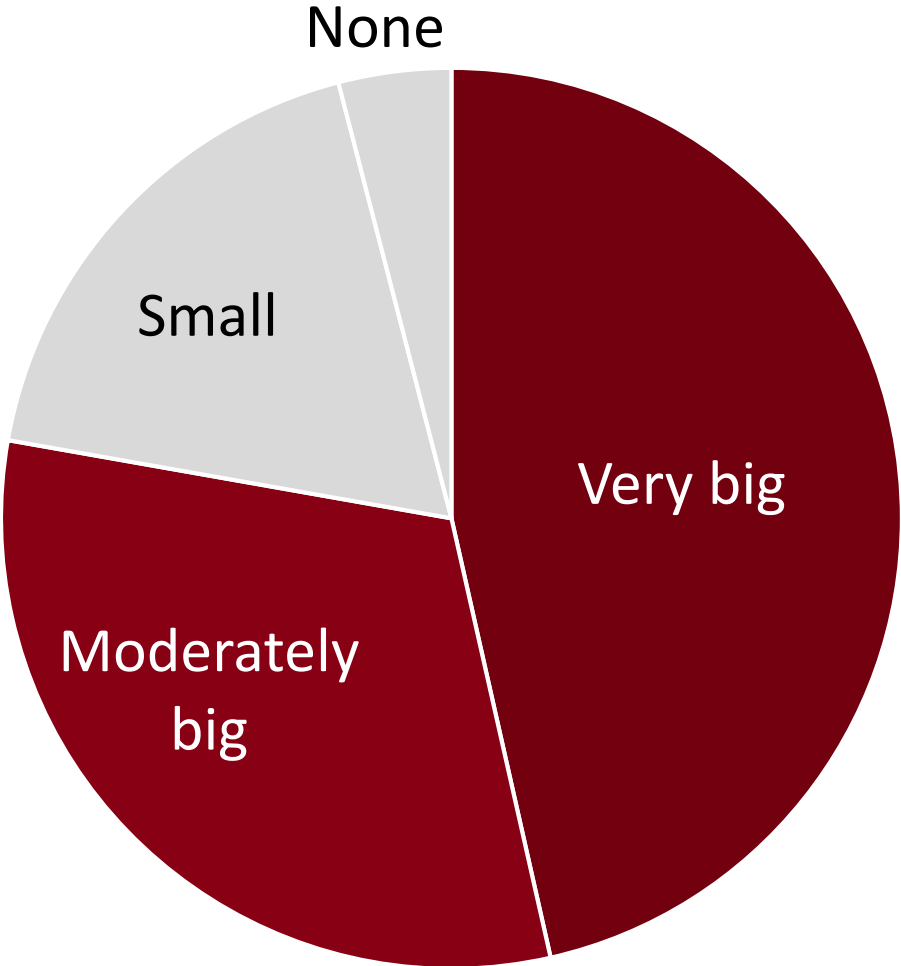
EQUITY: Malaysia is near high-income but some people and places are being left behind



Source: DOSM and World Bank staff calculations

STABILITY: Most Malaysians consider inequality a “big problem”

How big a problem is the gap between rich and poor?



Lower inequality can drive both Malaysia and its people's aspirations

- **EFFICIENCY:** Cross-country evidence indicates higher inequality is bad for growth
 - Lower human capital accumulation
 - Lower investment because of political and economic instability

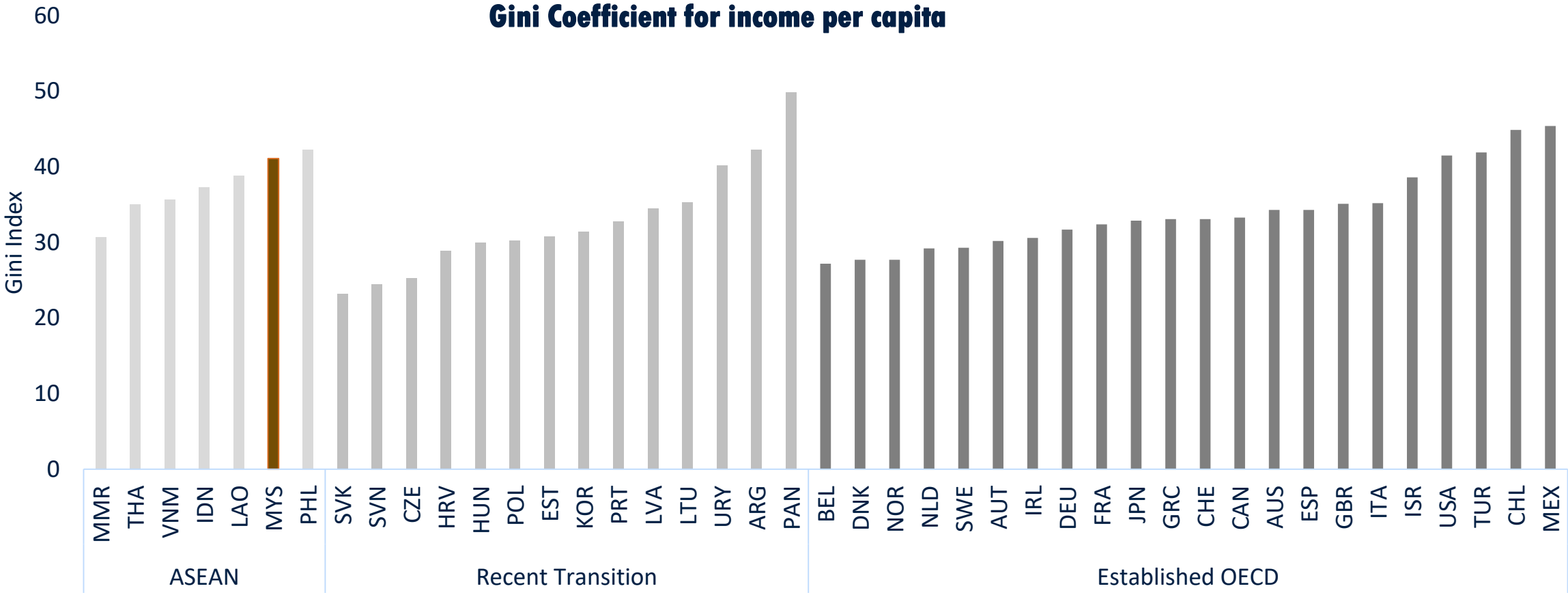
EQUITY

STABILITY

EFFICIENCY

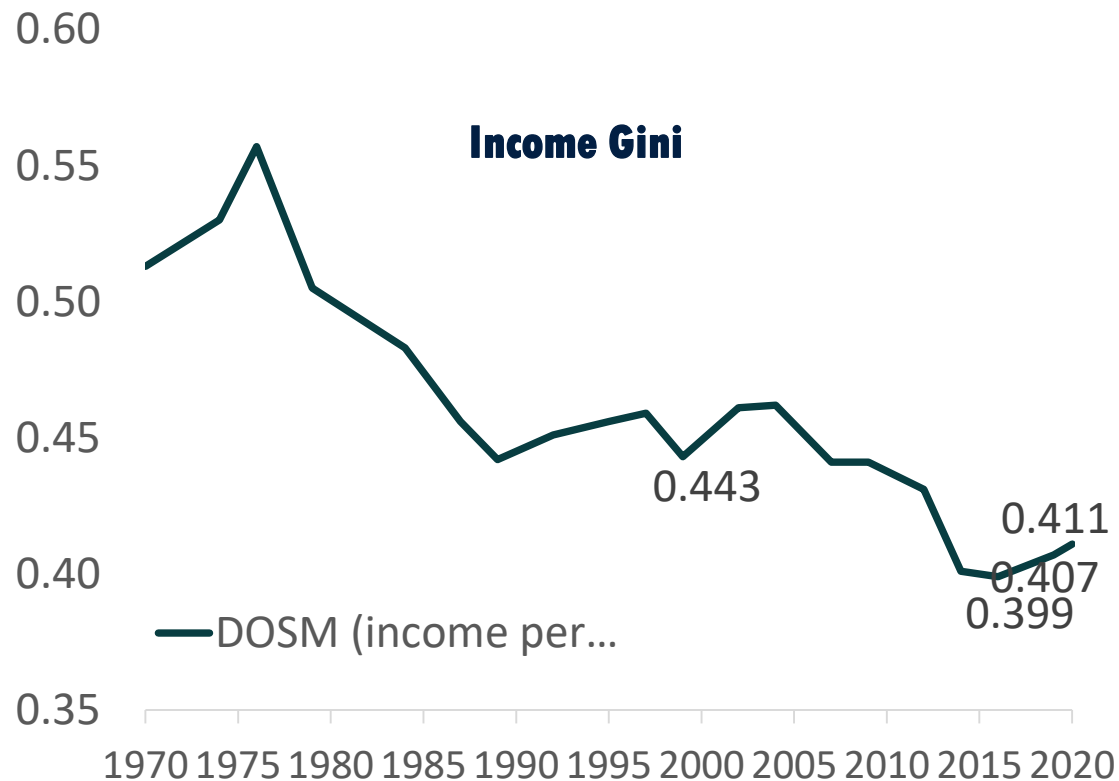
**Transition to HIC
through social
contract for
inclusive growth**

Income inequality is high relative to peers



Moreover, after a long decline, inequality was rising before COVID and may get worse

RISING BEFORE COVID...

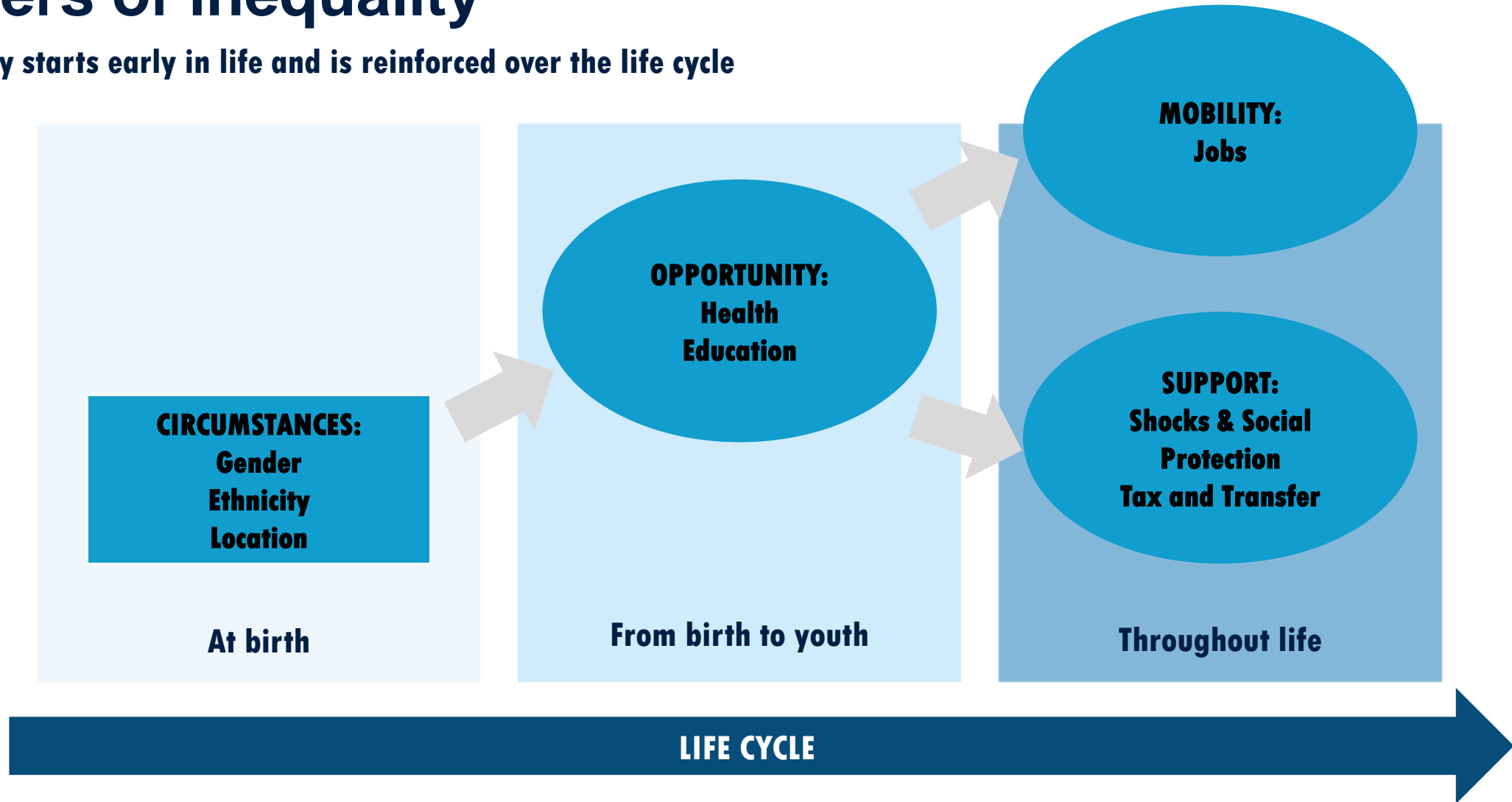


...GETTING WORSE?

- **Employment scarring**
 - **Employment interruptions were worse for women, young workers, those with low education and low-income individuals**
- **Learning losses average 1.3 years**
 - **But poor children have fared worse**
 - **They already had lower attendance before COVID and were less likely to continue learning from home during the pandemic**

Drivers of inequality

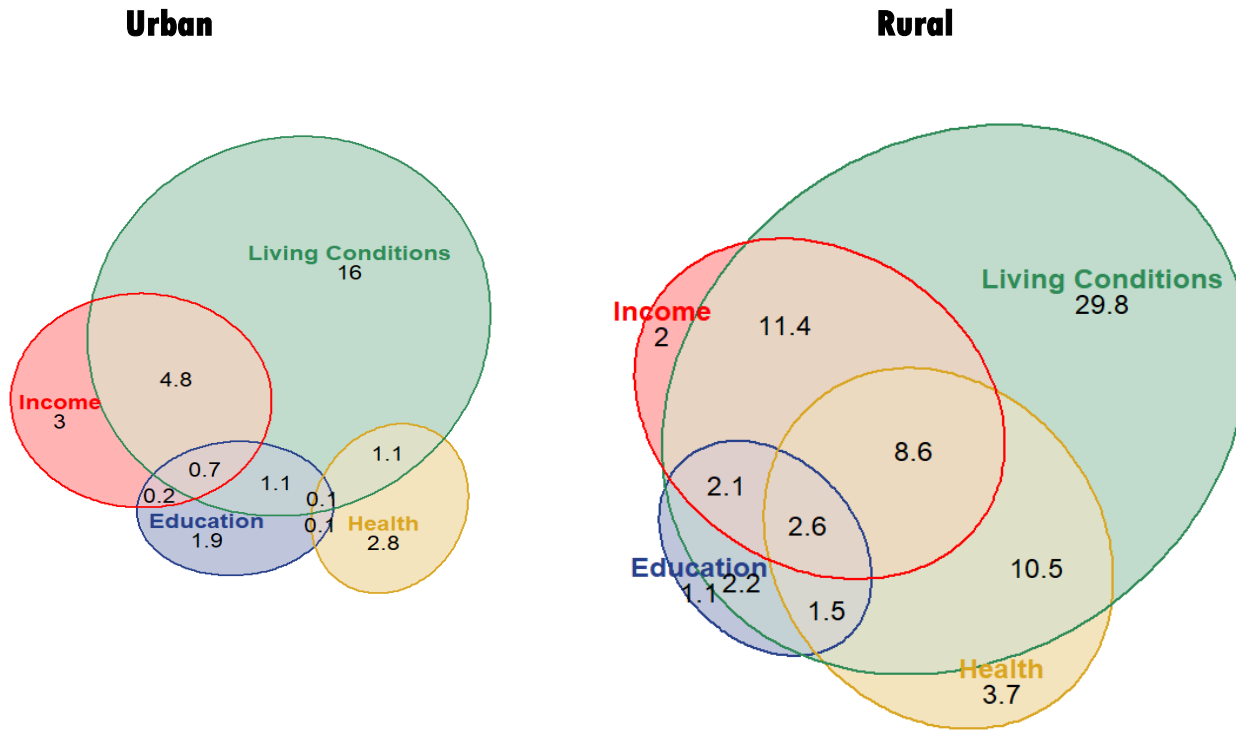
Inequality starts early in life and is reinforced over the life cycle



EPU / DOSM / World Bank Inequality Report and inputs
to 12MP Mid-term Review

Addressing inequality means better policies for places...

Percentage of population living in poverty, by dimension



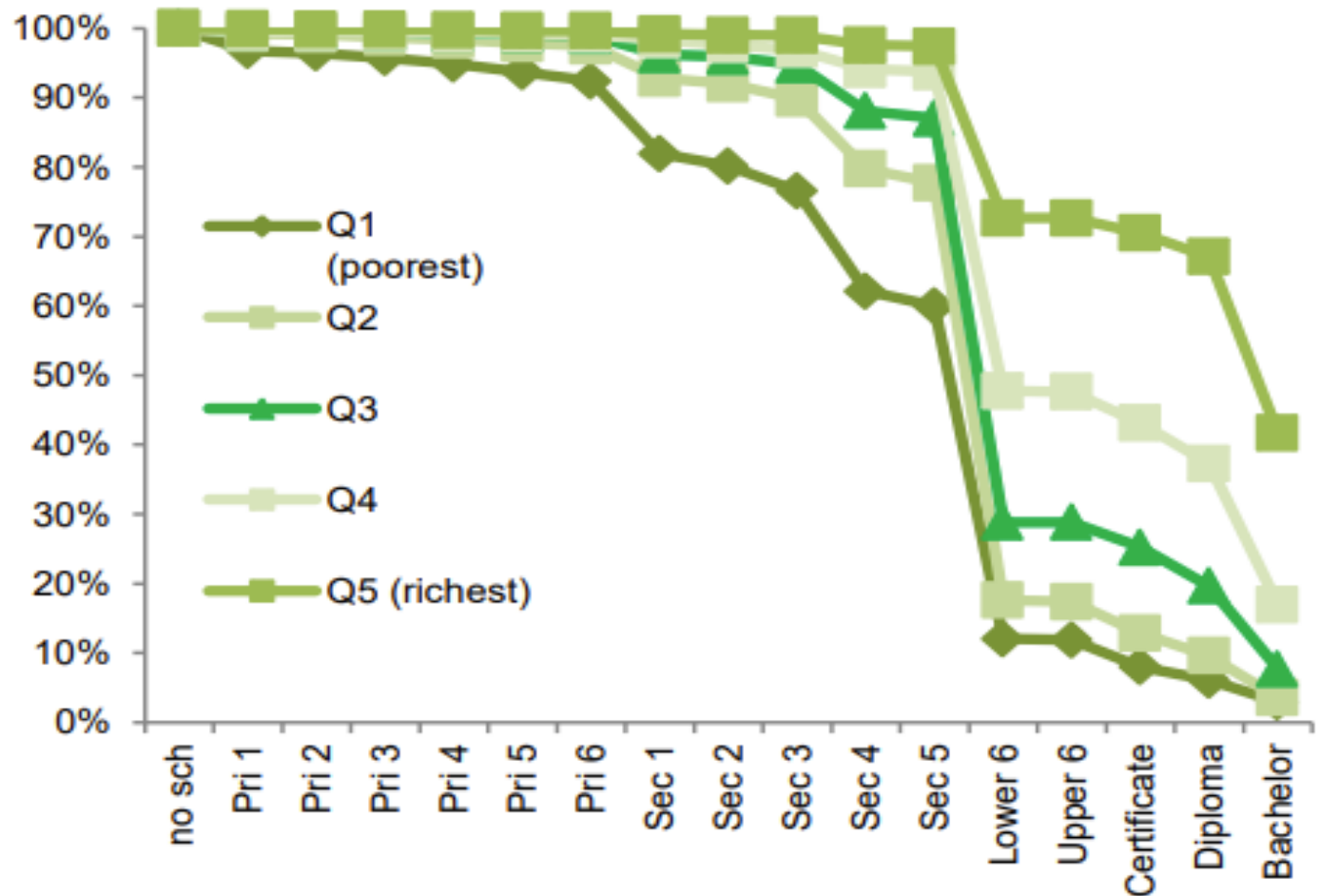
Source: World Bank staff calculations using HIS data from DOSM

- **Urban and rural (and provincial) deprivations show different patterns**
 - **Rural multidimensional poverty is not only higher than in urban areas...**
 - **...the same rural households are more likely to be poor on different dimensions**
- **Policies need to take into account spatial and geographic considerations**

...and better policies for people

Significant disparities in educational attainment remain

Schooling (19-25 years) by wealth quintile



Source: HIS 2012, DOSM and World Bank staff calculations

Fiscal policy helps reduce inequality in Malaysia but not by as much as in peer countries

Reduction in Gini Index of inequality after fiscal policy (percentage points)

