

Is There an Underside to Economic Growth?

A Mixed-Methods Analysis of Malaysia

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Abstract

This paper sheds light on a Malaysian paradox that may have lessons for the rest of the world. Despite high gross domestic product growth with concurrent sharp reductions in income poverty and inequality, there was widespread discontent in the country. The paper first documents various dimensions of the Malaysian “miracle” with diverse data. It then draws on qualitative, open-ended focus group discussions to go below the surface of the quantitative data to analyze how Malaysian citizens perceive these changes,

the challenges they face, and their sources of discontent. The findings reveal a broad consensus that while material living standards have improved, they have been accompanied by an underside such as a large “imbalance” between income and expenses, a need to rely on dual incomes and multiple jobs, growing indebtedness, increased stress, and polarization across ethnic groups. The paper argues that the Malaysian paradox may reveal something more general about the underside of economic growth.

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Is There an Underside to Economic Growth? A Mixed-Methods Analysis of Malaysia

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1. Introduction

In this paper we attempt to shed light on a Malaysian paradox that may have lessons for the rest of the world. Malaysia is widely celebrated for achieving high GDP growth with concurrent sharp reductions in income poverty and inequality (Stiglitz, 2007; Ravallion, 2020a, 2020b; Rongen et al., 2024). Yet, in a landmark election in 2018 the Barisan Nasional coalition, which had led the country for 60 years and steered it through its remarkable economic journey, was voted out of power, and Pakatan Harapan was elected instead. The 2018 election result was consistent with several public opinion polls showing a great deal of discontent with the state of governance. In the 2022 election Pakatan Harapan retained power as part of a “grand coalition.”

In this paper we begin by documenting various dimensions of the Malaysian “miracle” with a diverse set of data. We then draw on findings from qualitative, open-ended discussions with 56 focus groups sampled from across the country to go below the surface of the quantitative data to unpack and analyze how Malaysian citizens perceive these changes, the challenges they face, and their sources of discontent. We find a broad consensus that while material living standards have improved, they have been accompanied by a large “imbalance” between income and expenses, a need to rely both on dual incomes and multiple jobs, growing indebtedness, increased stress, increased polarization across ethnic groups, and a sense of both ethnic and regional exclusion.

We argue that the Malaysian paradox may reveal something more general about the underside of economic growth. To interpret our findings we draw on the

work of Karl Polanyi (1944) and Fred Hirsch (1976). Polanyi's book, *The Great Transformation*, has seen a resurgence of interest from both sociologists (e.g. Block and Somers, 2011) and economists (e.g. Stiglitz, 2001). In summary (and at the risk of missing the depth and complexity of his logic), Polanyi's argument is that economic life in general, and markets in particular, have always been deeply embedded within social and political relations. He argues that a self-regulating free market, as envisioned by liberal economists, is an unachievable utopia and that "such an institution could not exist for any length of time without annihilating the human...substance of society." The theory of self-regulating markets may work for commodities that were produced to be sold in markets, but not for what he calls "fictitious commodities" – land, labor and money – which were not. Land, labor and money require regulative protections from government in order to create democratic order and a stable society. Thus, for Polanyi, the pursuit of economic growth by unfettering the economy from regulations and government control, dis-embeds individuals and families from protective, reciprocal, social institutions and places them at the mercy of anonymous markets controlled by wealthy, politically powerful interests which creates dissatisfaction and social disorder.¹

¹ Polanyi's thesis has some parallels with Schumpeter's (1941) argument in *Capitalism, Socialism and Democracy* – currently cited mainly for its description of capitalism as "creative destruction." Schumpeter argued, reacting to Marx, that capitalism has within it the seeds of own demise because it requires entrepreneurs to actively engage in a process of creative destruction to succeed. The perceived limitations of this would lead via democratic processes to the formation of a welfare state which would place strong restrictions on the ability of entrepreneurs to function freely, leading to the demise of capitalism.

Fred Hirsch (1976) sees the relationship between growth and social institutions differently, arguing that there are “social limits to growth.” Hirsch’s work has been relatively neglected by economists but his was a seminal attempt to understand how economic growth could be limited by interdependent preferences that lead to negative externalities which produce “social scarcity.”² Writing at a time when, led by the Club of Rome report, concerns about the physical and environmental “limits to growth” were at the forefront of public debates (Meadows et al, 1973), Hirsch argued that in addition to possible physical limits to growth, social limits could affect well-being in ways that are “more immediate.”

Hirsch’s argument in brief (again with all the caveats associated with summarizing a complex book in a few paragraphs) is as follows: Once economic growth has reached a point where basic material needs are met, “...demands for goods and facilities with a public (social) character become increasingly active” (Hirsch 1976, page 4). This is because “...the satisfaction that individuals derive from goods and services depends in increasing measure not only on their own consumption but on consumption by others as well” (Hirsch, page 2).

Interconnected preferences also cause a shift from a competition for “performance” to a competition for “place” or, in other words, an increased preference for “positional goods.”³ Since consumption by others crowds you out in this zero-

² Hirsch was building on a very short essay by Roy Harrod (1958) that was the first to note that growth may have social limits.

³ To the best of our knowledge, this is a term Hirsch invented which was later picked up by scholars across various disciplines including economics.

sum game, generalized growth creates “congestion” and “social scarcity” and your well-being “depends on an increased extent on your relative position in the economic hierarchy,” which creates a “paradox of affluence” where most people feel much worse off even though they may be materially better off. “Consumers individually find that their access to socially scarce goods and facilities...is determined in accord not with absolute but with relative real income. The determining factor is the individual’s position in the distribution of purchasing power.” (Hirsch, page 6) This results in a loss in well-being; “...the frustration in affluence results from its very success in satisfying previously dominant material needs” (Hirsch, page 7).

Hirsch gives several examples of this in the book - we will highlight two important ones: (a) Education becomes increasingly subject to social congestion because its value now depends on the status of your credentials rather than on your years of schooling, because society has reached a point where almost everyone is reasonably well educated. (b) Common property resources, which are largely free in the early stages of economic development with easy access to land, water and clean air, become privatized and congested with growth to the extent that one has to pay high prices for things like access to greenery and space that used to be free.

A long empirical tradition in the economics of growth which analyzes cross-country macro-data has argued that growth contributes to greater well-being across a number of dimensions (e.g. Barro, 1997). In a more sophisticated analysis, Dollar and Kraay (2001) analyze 40 years of panel data from 92 countries to argue that “growth is good for the poor;” that incomes of the poor rise proportionately to increases in

average income. Easterly (1999) looks at 81 indicators of well-being with four rounds of panel data spanning a 40-year period for a large sample of countries and finds when the data are analyzed without country fixed-effects, 61 of the 81 indicators show a strong positive relationship and 12 show a negative relationship. With country fixed-effects only 10 of the 81 indicators show a positive relationship with growth. He speculates that country effects such as “resource endowments, access to the sea, ethnic fragmentation, social infrastructure, climate, and legal systems fixed factors really could be the dominant determinant of a country’s income and quality of life indicators.”

More recently there has been a growing body of research that provides a counterpoint to this literature by documenting several possible undersides to economic growth. Rising income can coincide with low levels of happiness in fast growing economies leading to “frustrated achievers” (Graham and Pettinato, 2006; Brockmann, Delhey, Welzel and Yuan, 2009; Knight, Ma and Gunatilaka, 2022). Affluent societies can also have citizens who face social exclusion and low living standards (Campbell, Converse, and Rodgers, 1976; Devarajan and Ianchovichina, 2018), and there is research that shows a weak relationship between GDP growth and social indicators (e.g., Victor 2019; Bleynt, Challú and Segal, 2021). An earlier line of research examines the social costs of growth (Crafts, 1997; Offer, 2006) and the macroeconomic cost of citizen discontent (e.g., Rodrik, 1999; Cerra, Lama and Loayza, 2021).

Our objective is to contribute to this literature by taking a bottom-up approach and directly analyzing the voices of Malaysian citizens. The transcripts of focus group discussions (FGDs) we conducted provided answers to five broad questions related to (a) intergenerational mobility, (b) cost of living, (c) the roles of government and the private sector, (d) aspirations, and (e) preferences for relative versus absolute income. This qualitative assessment of living standards covered three geographic areas of Malaysia – the wealthy and urbanized suburbs of Kuala Lumpur in the state of Selangor, the relatively poor states of Terengganu in east coast of peninsula Malaysia and Sabah located in the island of Borneo in East Malaysia. In ethnically diverse Selangor we also spoke to all three dominant ethnic groups - Bumiputeras, Chinese and Indians.⁴

Our paper is motivated both directly and indirectly by Martin Ravallion. We build on his work on poverty and inequality in Malaysia (Ravallion, 2020a and 2020b), his work on measuring the relationship between growth, income distribution and poverty (e.g. Ravallion and Chen, 2003), and on his recognition that well-being may be driven by non-economic, subjective, factors (Ravallion and Lokshin, 2000, Pradhan and Ravallion, 2000, Ravallion, 2012). More directly, Martin suggested to us that we include a question for our focus groups on their preference for absolute versus relative income (which he had used in his Georgetown classes). We analyze the responses to

⁴ Official documents and daily discourse in Malaysia generally refer to these three groups as distinct races. In this paper we opt for the terms “ethnicities” or “ethnic groups” for the same categorization. Bumiputeras comprise Malays and other indigenous ethnic groups.

this question, and the group discussion which ensued, in the latter half of the paper. Our paper is also influenced by a growing literature that uses qualitative methods to understand living standards from the bottom up (e.g., Kanbur, 2003; Morduch and Schneider, 2017; Rao, 2023).⁵

The rest of the paper is organized as follows. In section 2, using a host of survey data sets, we revisit the official account of the Malaysian miracle. In Section 3 we analyze the qualitative data from the focus groups, and in Section 4 we draw on our quantitative and qualitative findings and the work of Polanyi and Hirsch to draw some insights on why growth may have an underside. Section 5 concludes the paper and briefly discusses some implications for policy.

2. Malaysia's Economic Success: Miracle versus Paradox

Many consider Malaysia's economic performance a success story of inclusive growth with large reductions in poverty and inequality (World Bank, 1993; Stiglitz, 2007; Meerman, 2008). At the time of independence, Malaysia was a low-income country, with GDP per capita comparable to that of other Southeast Asian nations such as the Philippines. Its economy largely depended on agriculture and the export of raw commodities such as tin and rubber. A close to double-digit GDP growth rate in the following decades helped Malaysia leave behind its regional neighbors and graduate to the lower-middle-income category in 1969 and to an upper-middle-income country in 1992. The growth surge coincided with the country's rapid

⁵ We should note that Martin Ravallion, who was Vijayendra Rao's manager for several years, was extremely supportive of the use of qualitative work in development economics.

transformation from a plantation economy to a manufacturing exporter, driven by labor-intensive export-oriented industries such as textiles and electronics assembly. Yet in 2018 various opinion polls documented widespread social discontent over life-quality (World Bank, 2019). In this section, we offer an account of this paradoxical pattern in Malaysia's development trajectory using a variety of quantitative measures.

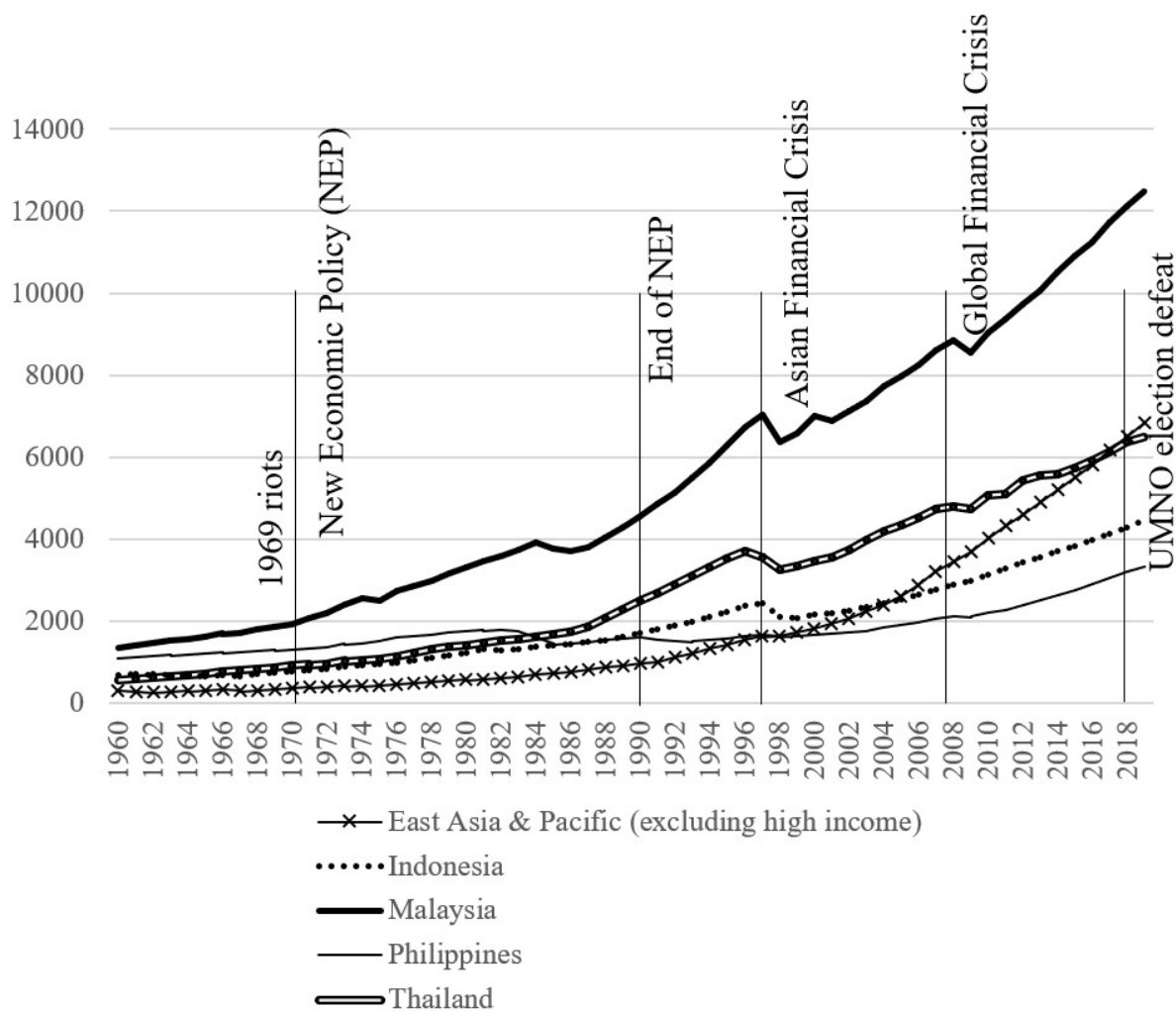
Figure 1 provides a brief timeline of Malaysia's economic and political journey over the past 65 years. A race riot in 1969 led to the launch of the New Economic Policy (NEP), a 20-year long affirmative action program targeting the majority Bumiputera population. Since then, Malaysia's GDP per capita rose steadily, helping it to leave its ASEAN neighbors behind. This trend is remarkable not only because the country successfully survived two major external shocks (both regional and global crises), but also because poverty fell sharply from 50 percent in 1970 to single digits by the 1990s. In other words, macroeconomic success coincided with a steady fall in the population below the government's poverty line income (PLI). Based on official statistics, extreme poverty is no longer much of an issue. The national poverty rate declined from 49.3% in 1970 to just 0.4% in 2016.⁶

Some social groups and geographic locations were historically much poorer than others. Yet income poverty fell everywhere, and among all ethnic groups, along with visible improvements in living conditions. Not only was poverty reduction a

⁶ Trends for recent years based on an updated PLI are also consistent with the past pattern of poverty reduction. The official PLI uses a single reference consumption bundle, with the monetary value varying by state and urban/rural area according to average local prices.

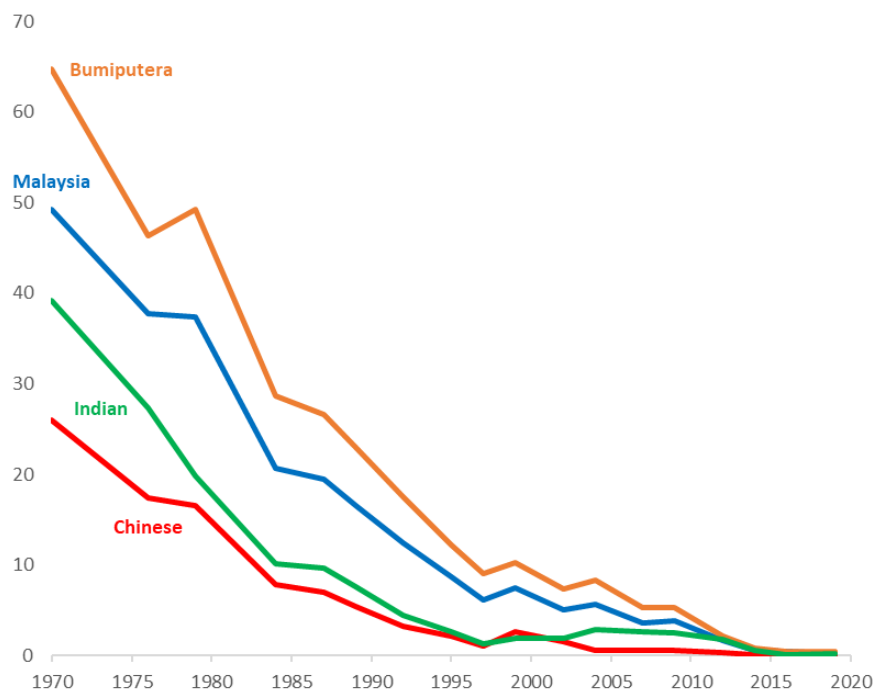
cross-ethnic groups phenomenon (**Figure 2a**), but average household income across ethnic groups increased steadily over the past five decades (**Figure 2b**). Regardless of the definition of poverty used, Malaysia is thus considered a major success in reducing poverty despite having its high levels of ethnic and religious heterogeneity (**Figure 3**). Perhaps more impressive, a similar pattern of rapid poverty reduction is found when using a “weakly relative” poverty line that allows the real poverty threshold to increase in line with national income (Ravallion, 2020b).

Figure 1: Trends in GDP per capita (constant 2010 US\$), 1960-2019



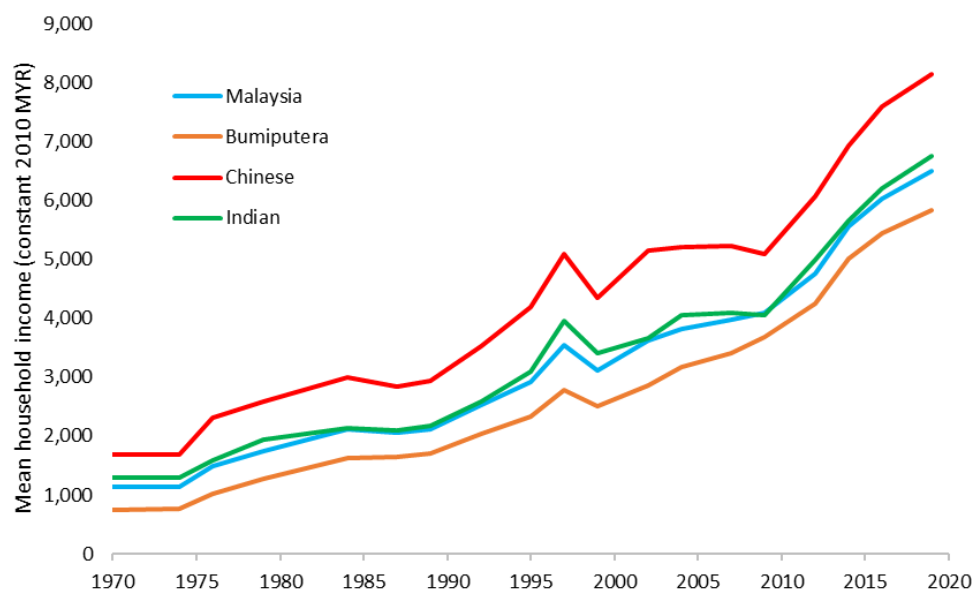
Source: Authors, based on World Development Indicators.

Figure 2a: Poverty rates (headcount ratio) by ethnic group, 1970-2019



Source: Department of Statistics, Malaysia (2020). Notes: Based on old national PLI. Ethnicity is based on the identity of the household head. This is an updated version of the figure reported in Ravallion (2019).

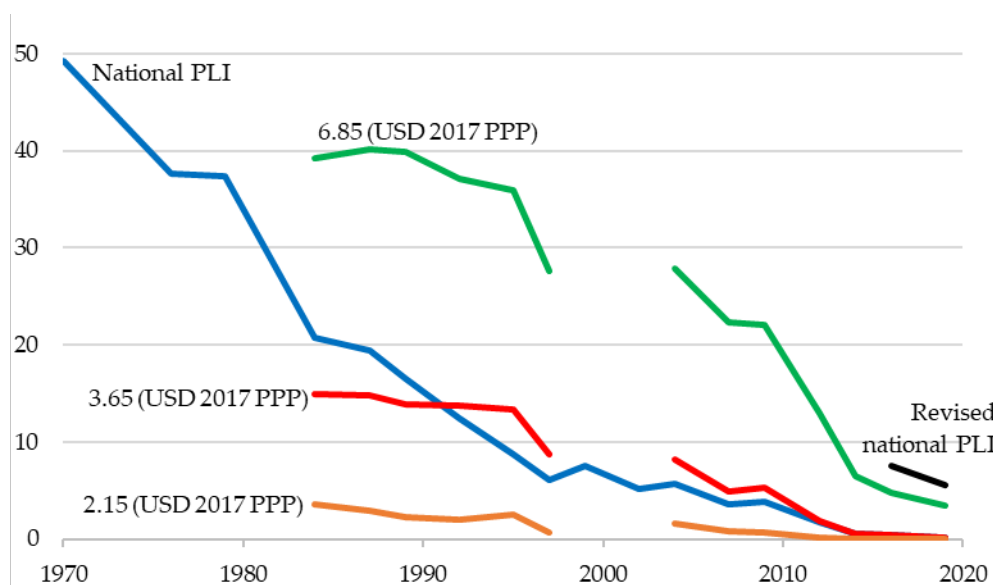
Figure 2b: Mean real household income, national and by ethnic group, 1970-2019



Sources: Authors' calculations, based on nominal income from DOSM (2020) and CPI from IMF (2024). Notes: Mean monthly gross income data corresponds to households; ethnicity

refers to that of the head of household. Data prior to 1976 refer only to peninsular Malaysia. Data from 1989 to 2019 refer only to Malaysian citizens. This is an updated version of the figure reported in Ravallion (2020a).

Figure 3: Poverty headcount ratio at different poverty lines, 1970-2019



Sources: National and Revised National PLI from DOSM (2020). PPP poverty lines from World Bank Poverty and Inequality Platform (2024). Notes: Data prior to 1976 refer only to peninsular Malaysia. Data from 1989 to 2019 refer only to Malaysian citizens.

At the time of the country’s independence in 1957, differences between ethnic groups in wealth, income and skills were very high. During the colonial era, Malaysia’s plantation economy attracted a large immigrant workforce, mostly from China and British India, who were employed in the extractive industries (e.g., tin) and cash crop production (e.g., coffee and rubber). On the other hand, native Malays (who constitute a large majority of the Bumiputera nationally and in peninsular Malaysia) were left in low productivity agricultural activities with little commercial prospects; ethnic identity was institutionalized by associating ethnicity with economic function. Chinese dominated commerce and trade while educated Indians took up professional jobs (e.g., doctors and civil servants). Uneducated Indians continued in plantation jobs

while the Bumiputera remained in traditional subsistence farming. Owing to these historical differences in occupation between Bumiputera and other race groups, large inter-ethnic differences in poverty rates persisted even a decade after the country's independence (see **Figures 2a and 2b**).

Subsequently, a wide range of redistributive interventions were undertaken to help a majority Bumiputera obtain parity with non-Bumiputera in income and wealth. Following the racial riots of 1969, the government prioritized reversing these historical inequalities. The New Economic Policy (NEP) introduced in 1970 had two broad objectives: (a) poverty eradication regardless of race, and (b) restructuring society to eliminate the identification of race with economic function. A range of quotas and targets were introduced to eliminate ethnic differences in land ownership, public sector employment, access to education, and ownership of private companies. Since the Bumiputera population was largely concentrated in rural areas, the NEP also favored agricultural development and assistance in asset accumulation through new land development initiatives.

In later years, there was also a shift in policy with a more growth-focused strategy to reduce poverty instead of ethnicity-specific targets (Henderson *et al.*, 2002). During the 1980s and 1990s, a period of sustained high macroeconomic growth rates, a boom in labor-intensive manufacturing exports and a steady increase in non-agricultural employment coincided with a fall in Bumiputera poverty. Similarly, there was a sharp increase in Bumiputera representation in secondary schools and

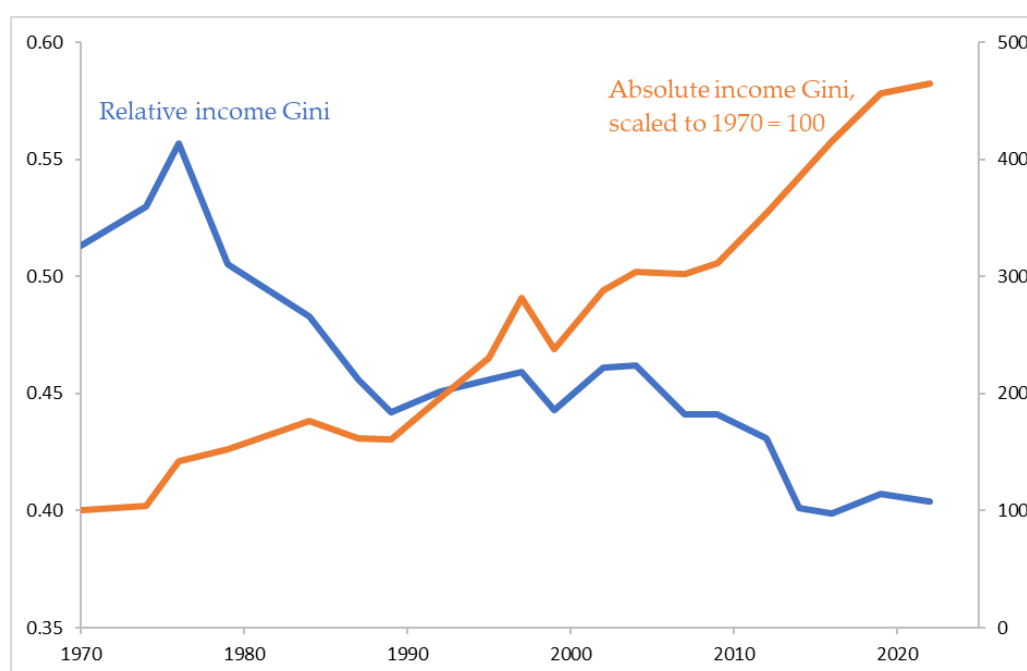
universities and among professionals and managers. Ethnic differences in high school completion and corporate equity ownership also narrowed.

These changes were also reflected in significant intergenerational mobility in educational attainment – across all ethnic groups, adult children reported higher educational attainment compared to their parents. Thirty-seven percent of Bumiputera children raised by parents with either primary education or less had tertiary education (Khalid, 2018). The figure is similar for Chinese, though much lower (10 percent) for Indians. Similarly, intergenerational occupational mobility among children born to low-skilled parents increased. About 25 percent of Bumiputera children with low-skilled parents had high-skilled jobs, compared with 39 percent among Chinese. Higher educational mobility appears to have facilitated occupational mobility: children with a university diploma are more likely to have high-skilled jobs compared with those without tertiary education.

Evidence also indicates that the reduction in poverty benefited from both ethnicity-based redistributive measures and economic growth. Bumiputera communities gained from ethnic redistribution in the 1970s though the absolute gains faded in later decades (Ravallion, 2020b). While ethnic redistribution still mattered for reducing poverty, the growth in average income growth during 1980-2000 was more important. During the 2000s, the economic growth rate has been inclusive, benefiting the bottom 50% and middle 40% income groups more than the top 1% (Khalid and Yang, 2021). Equally, there has been a substantial decline in relative inequality (**Figure 4**).

Overall, between 1981 and 2013, poverty headcount ratios fell dramatically. Despite the success in reducing poverty and inequality, there remain concerns over uneven spatial gains from growth. Subnational disparities still exist, indicating systematic patterns of social exclusion. During the 2000s, poverty fell at a faster rate in Peninsular Malaysia compared to East Malaysia and has become more concentrated in Sabah with a 19.5 percent poverty rate (Asadullah et al., 2023). The figure for the northeastern state of Terengganu is 6.1%.⁷ Sabah also performs poorly in socioeconomic outcomes. This highlights the growing influence of location instead of ethnicity as a correlate of chronic poverty.

Figure 4: Long-term inequality trends based on relative versus absolute Gini of income per capita, 1970-2022



Source: Authors, based on DOSM data. Notes: Data prior to 1976 refer only to peninsular Malaysia. Data from 1989 to 2019 refer only to Malaysian citizens. Using DOSM aggregate data for calculating Gini and mean income underestimates income inequality compared to conventional methods.

⁷<https://www.malaymail.com/news/malaysia/2020/07/10/statistics-dept-malaysias-new-poverty-line-income-is-rm2208-over-400k-house/1883285>.

Among other emerging trends in quantitative indicators, at the national level, relative income inequality fell between 1970 and 2019 (Gini coefficient of 0.513 and 0.407 respectively). Decomposition analysis reveals that reduced income inequality *within* ethnic groups was a major contributor to falling inequality at the national level (Table 1). The reduction in within-group inequality was most pronounced for the Bumiputera, but also substantial for Chinese and Indian Malaysians. This was bolstered by a reduction in inequality *between* ethnic groups, as differences in mean incomes across ethnic groups narrowed.

Table 1: Decomposition of income inequality by ethnic group, 2004–2016

	2004	2007	2009	2012	2014	2016
<i>Within-group inequality (Theil L index)</i>						
Bumiputeras	0.378	0.348	0.373	0.327	0.282	0.273
Chinese	0.338	0.317	0.318	0.303	0.281	0.276
Indian	0.333	0.334	0.349	0.376	0.298	0.274
National	0.406	0.375	0.384	0.354	0.307	0.300
<i>Between-group inequality</i>						
	0.041	0.036	0.025	0.029	0.024	0.026

Source: Authors, based on DOSM data. Notes: Inequality indices are Theil L index, also known as the mean log deviation (MLD), based on household income per capita.

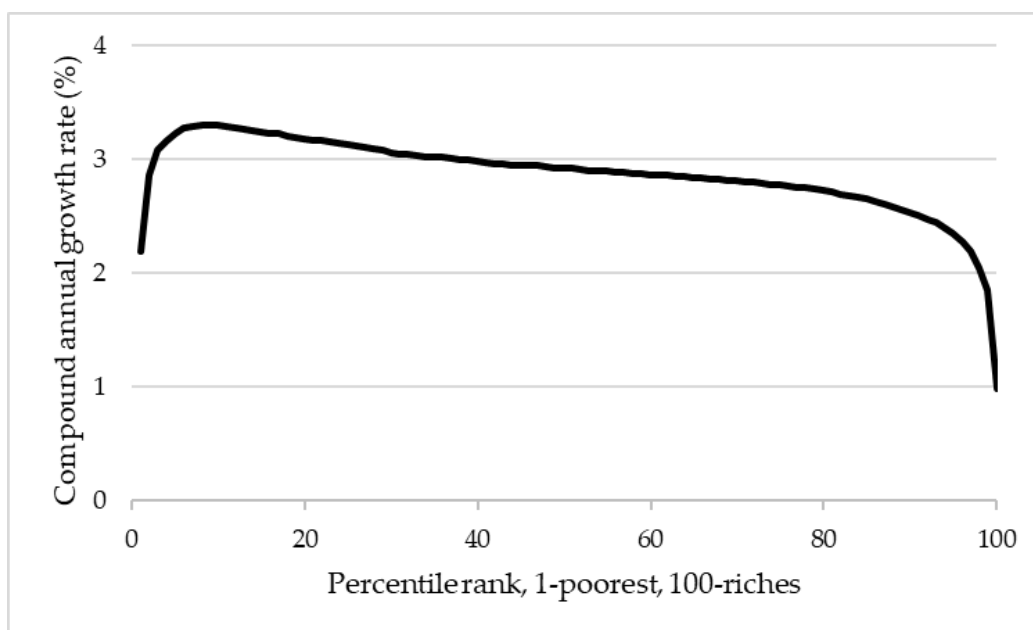
However, while relative inequality was decreasing, absolute inequality was increasing rapidly. That is, poorer Malaysians were gaining a larger share of total income, but the currency-denominated income gap between poor and rich was

expanding.⁸ Our own analysis of recent data (**Figure 4**) confirms these trends, showing that since 1970 absolute income inequality has increased fourfold despite the fall in relative income inequality. Rapidly increasing absolute income inequality is likely a source of discontent for many Malaysians.⁹ Furthermore, according to official statistics, in urban areas, non-monetary deprivations in living standards -- crowded living spaces (proxied by the average number of people per bedroom) and access to health care facilities -- remain serious challenges. However, consistent with the official data on absolute income poverty, the overall incidence of multidimensional poverty is low at 2.6 percent in 2019 (DOSM 2020).

Following Ravallion and Chen (2003) and Ravallion (2019b), we examine the overall changes in income distribution by estimating the growth incidence curve (GIC) for the period 1984-2019 (**Figure 5**). This helps us understand the evolution of pro-poor growth. Reassuringly, the poor benefited the most -- the growth rate in average household income per capita was as high as 3.30% at the 10th percentile while the lowest value was at the very top. Income growth was positive at all quantiles which is consistent with the notion of broad-based reductions in poverty regardless of the poverty line chosen. Higher growth rates for poorer percentiles also helped reduce relative income inequality during the 2000s (**Figure 4**).

⁸ A simple example helps illustrate this. If everyone's income increases by 10 percent, relative inequality is unchanged, but absolute inequality increases because that 10 percent increase represents a larger income increment for richer households.

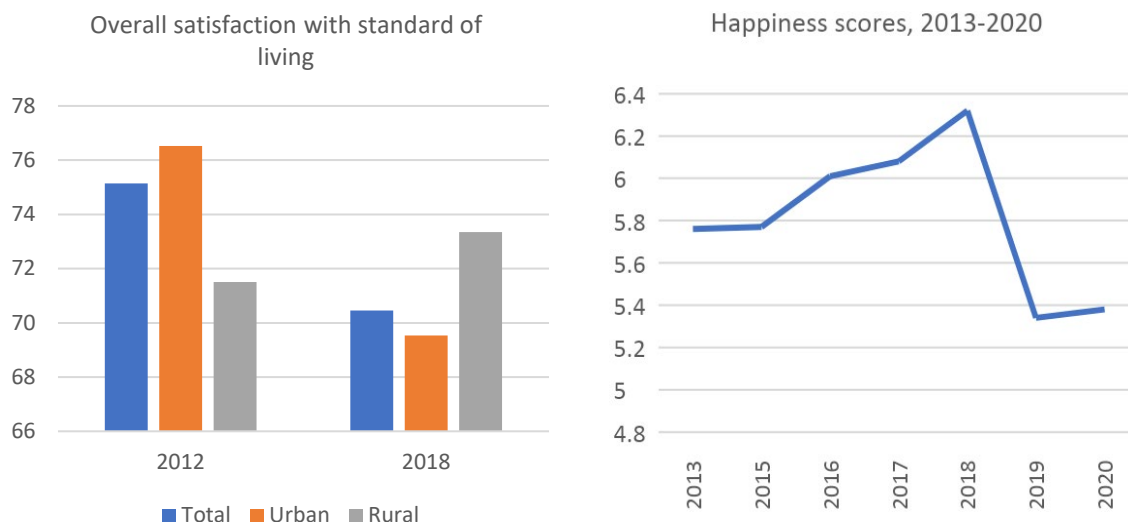
⁹ The literature shows that about half of survey respondents perceive inequality in relative terms while the other half perceive it in absolute terms. See, for example, Amiel and Cowell (1992), Harrison and Seidl (1994) and Ravallion (2020a).

Figure 5: Income growth incidence curve for Malaysia, 1984-2019

Source: Authors calculations using percentile-level grouped data in World Bank's PIP database (World Bank 2024). Original data source is DOSM's Household Income and Basic Amenities survey. Notes: Ethnicity- or region-specific GICs are not reported because disaggregated data are not available from PIP database.

In sum, Malaysia's success in poverty reduction is remarkable on many counts, considering its multi-ethnic population and historically high levels of inequality. Our analysis of past and recent rounds of quantitative survey datasets confirms that economic growth in Malaysia has been broad-based. Our review of the quantitative evidence also suggests that both support-led and income-mediated channels have combined to facilitate poverty and inequality reduction, but challenges remain in terms of regional disparities in income and widening absolute income gaps between the rich and the poor.

Figure 6: Trends in Life Satisfaction and Happiness



Sources: Satisfaction with standard of living from Gallup World Poll. Happiness scores from the Global Happiness Survey.

Perception data from the Gallup World Poll and the World Happiness Survey for Malaysia indicate increasing dissatisfaction among citizens over living standards (World Bank, 2020) (see **Figure 6**). A large percentage said that they have experienced a decline in their standard of living between 2012 and 2018. The happiness score showed a sharp decline between 2018 and 2019. Overall, satisfaction with the standard of living among Malaysians decreased from 76.5% in 2012 to 69.5% in 2018. It is this discord between trends in official statistics and data on citizen perceptions that motivates our research. In this context we conducted focus group discussions to first, probe further and second, understand better, the social dimensions of living standards that are not adequately captured in official statistics. We elaborate on our research design in the next section.

3. Focus Group Analysis

3a. Methodology

We conducted 56 focus group discussions (FGDs) in 2019 with a total of 473 respondents representing three ethnic groups, spread across three regions, an exercise we call the Malaysia Living Standards Qualitative Survey (henceforth, MLSQS). The FGDs were organized using a semi-structured discussion format which was built on five broad questions to generate open and free discussions (see **Table 2**). We also asked a question on people's preferences for relative versus absolute higher incomes that also resulted in a discussion that we analyzed. There was also a short quantitative exit survey collecting basic socioeconomic data on respondents.

Fieldwork was conducted in three states: Selangor (which covers the Kuala Lumpur suburbs), Terengganu, and Sabah on Borneo island. For respondent recruitment in study states, we relied on a snowball sampling approach and selected people with self-reported incomes that placed them in middle-class, lower middle-class and poor categories. Thus, our qualitative data reflect the views of people in the lower half of the Malaysian income distribution.

The FGD sites were selected in consultation with government bodies, community leaders, and NGOs. Several pilot sessions were conducted to ensure a level of standardization in how questions were posed, clarified and probed (Sattin-Bajaj 2018). To ensure diversity among participants, the team recruited from a variety of locations: workplaces such as schools, private companies and hospitals, religious institutions, low-income housing complexes, vegetable and fish markets, street

hawker shops, NGO contacts, and using snowball sampling where a selected individual was asked to introduce the researchers to other possible respondents given a set of criteria. For further details on site and respondent selection, see **Appendix Data Note A**.

The FGDs were conducted with a sequence of open-ended questions covering broad topics (listed in **Table 2**). Moderators were trained to use the questions as guides to generate discussions rather than to elicit narrow answers to the questions. The discussions lasted between 30-120 minutes and were digitally recorded (after taking the permission of respondents). All recordings were translated into English for analysis.

Table 2: Research Domains and Questions

Domain	Question
<i>1. Intergenerational change</i>	How is your life different from that of your parents' generation?
<i>2. Cost of living</i>	Compared to 5 years ago, is your life easier, harder or the same? Why?
<i>3. Government</i>	What is the role of the government in shaping these changes?
<i>4. Private sector</i>	What is the role of the private sector in shaping these changes?
<i>5. Aspirations</i>	What are your hopes and dreams for your country?

We used an Excel spreadsheet to map and track codes and wrote analytical memos to dig deeper into the data and identify example quotes from the transcripts so that respondents' own voices could be highlighted. Seven main themes (or "codes") emerged which were mapped onto separate tabs in the coding spreadsheet. The main codes included: (i) positive aspects of intergenerational change, (ii) negative aspects

of intergenerational change, and issues related to: (iii) cost of living, (iv) indebtedness, (v) ethnic relations, (vi) the role of government, and (vii) aspirations.

In each tab that represented a main code, all 56 transcript file names were listed in the first column. As transcripts were read, every new topic that emerged was added as a “sub-code” in the top row. We tracked whether a “subcode” was discussed in the transcript by color coding the cell against that transcript. If it did not emerge in the data, the cell was left blank.

Using a spreadsheet allowed us to track topics that emerged consistently across discussion groups and whether there were inter-ethnic or inter-regional differences, while note-taking allowed us to pay close attention to the language and expressions that respondents used to describe their views and current conditions. Consistent with the majority of studies that use qualitative data, we did not use Qualitative Data Analysis (QDA) software (which is a means of coding textual data with simple classifying software) because the size and scope of the study did not warrant it (Deterding and Waters 2018).¹⁰

¹⁰ Deterding and Waters (2018, Page 12) in an analysis of articles using qualitative methods in top sociology journals point out, “Only a minority of articles (40 percent) explicitly mentioned use of QDA software (typically NVivo or ATLAS.ti).”

3b. Findings: Qualitative Account of the Malaysian Miracle

Three themes on intergenerational improvements from the qualitative data are consistent with the quantitative trends we report above. Table 3 shows the percentage of FGDs in our sample that report intergenerational improvements in education, poverty levels and infrastructure. Seventy percent of the FGDs in Peninsular Malaysia and 47 percent in Sabah reported positive changes in education. Forty-four percent of groups in Peninsular Malaysia and 60 percent in Sabah detailed intergenerational improvements in poverty, income and standards of living. Finally, forty-five percent of FGDs in Peninsular Malaysia and 67 percent in Sabah reported improved infrastructure over the last generation. Note that these numbers do not tell us that the other FGDs reported no improvements along these three dimensions, but rather that the respondents did not specifically mention these themes or, as we shall discuss in the next section, expressed more nuanced sentiments.

Improvements in education levels

Respondents across Malaysia narrated the stark difference in education levels between their parents', their own, and their children's educational attainment.

My parents did not go to school. I went to Form 2 only. My children are still studying.

I want them to go to university. [Bumiputera, Selangor]

Rural participants, particularly from Sabah, mentioned improvements in education access.

Children today have many more advantages compared to before. We walked to school barefooted. Now you have a lot of boarding schools or hostels. [Rural Sabah]

Table 3: Focus Group Level Responses on Improvements in Living Standards

Theme from qualitative coding	% of FGDs that mentioned improvement	
	Peninsular Malaysia	Sabah
Improvements in education	70.7	46.6
Improvements in poverty, income, and standards of living	43.9	60
Improvements in infrastructure	45.2	66.6

Source: MLSQS 2019 data.

Improvements in poverty levels

Respondents across ethnicities and regions noted a mobility out of poverty as jobs moved from agriculture to industries, requiring less physical labor and paying more.

Twenty-five years ago, we moved from rubber plantations to industries. The money came from these opportunities. [Bumiputera, Selangor]

An increase in the availability of professional jobs led to improved incomes.

In my parents' generation, jobs were not professional. They lacked technical knowledge, they only did business. There were less middle-income groups. Now there are more professionals and more middle-income groups. [Chinese, Selangor]

Respondents have witnessed their community members moving from poverty to middle-income to even upper middle-income categories.

After struggling and overcoming the poverty stage, they have come to the middle-income stage. There are still poor Indians. But there are also those who took a lot of effort to study and become upper middle-income. [Indian, Selangor]

Newer job opportunities have transformed the life of rural Malaysians as well.

Physically-wise and opportunity-wise they had it tougher than us... you can't deny. After all, we were a very poor nation 40 years ago...now you hear of villagers becoming doctors and lawyers... [Multiple respondents, Urban Sabah]

Improvements in infrastructure

There has been significant improvement in infrastructure development, particularly in road connectivity, exemplified by the experiences of the narrator below.

My nephew died 25 years ago. We took him to the hospital through jungle roads. It took too long. The roads are better now. There's development. [Indian, Selangor]

Recent improvements in rural roads and bridges have enhanced living standards by making interior villages more market-accessible.

To come to this village from town might have taken you...3 or 4 hours. We had to walk everywhere. But by 2014, we received new roads. And that has really changed our living standards. It really helped in getting our produce out to sell. [Rural Sabah]

Respondents mentioned the availability of different modes of transportation and it is now common for almost everyone to own cars.

You didn't see any cars here...if you had a motorcycle, you were really considered quite well off, what more a car. The difference is quite stark. [Rural Sabah]

Respondents drew vivid contrasts to highlight the improvements in housing quality.

Big families lived in very small plank houses. Roofs leaked on rainy days. Now we live in the new 21st century. [Multiple respondents, Chinese, Selangor]

3c. The Downside of Progress

The narrative data also reveal the disenchantments among Malaysians that are not completely captured in quantitative data (see section 2 and Appendix Note B).

Table 4 reports two themes. Ninety percent of the FGDs in Peninsular Malaysia and 87 percent in Sabah reported an “imbalance” between income and expenses, and 73 percent of FGDs in Peninsular Malaysia and 47 percent in Sabah had statements that families now needed dual-earners and multiple jobs to meet basic needs.

Imbalance between income and expenses

Participants narrated *why* they did not feel that their lives were better-off compared to the previous generation despite visible signs of progress. Incomes have climbed but so has the cost of living without concomitant wage increments, making respondents feel poorer than the income class ascribed to them by official statistics.

Table 4: Focus Group Level Responses on Decline in Living Standards

Theme from qualitative coding	% of FGDs that mentioned declines	
	Peninsular Malaysia	Sabah
Imbalance between income and expenses	95.1	86.6
Need multiple jobs/ households need dual earners/insufficient jobs	73.1	46.6

Source: MLSQS 2019 data.

Standards of living are significantly better, but respondents feel trapped by the endless cycle of monthly instalments that must be paid to maintain such standards. This is similar to the detailed qualitative analysis of financial diaries conducted in Bangladesh, Ethiopia and India (Collins et al., 2009) and the United States (Morduch and Schneider, 2017). Luxuries of the past have become present-day necessities. Increased education levels and jobs diversification is muted by tight competition in a market saturated with university-educated job seekers. Infrastructure has improved, but not without negative impacts. Participants long for what their parents' generation had - fewer needs, more immovable assets, and simpler pleasures of good food and clean air. These points are highlighted below in the voices of the Malaysians who shared their experiences in the FGDs.

Across regions, ethnicities and income classes, participants explained that their lives were not "in balance," because incomes are not enough to pay for monthly expenses and maintain a certain standard of living, captured poignantly in the quote below.

At month's end, I feel like going insane because I never have enough to settle all basic payments. Need to pay the house mortgage, car loan, children's education and needs, water bill, electricity bill...To survive, we take an advance salary to spend for the rest of the month and roll the expenses. Salary is not enough to meet the daily basic needs for today's living standard. [Multiple respondents, Indian, Selangor]

An income of RM 3,000-4,000 per month (\$630 - \$830) is in a lower middle-income category according to official Malaysian definitions, but a respondent noted that such an income actually puts them in the category of the “urban poor”.

...our status is urban poor even though our income is RM 3,000-4,000 because things in the city are expensive ...[Bumiputera, Selangor]

A rural respondent concurred with this view of the “urban poor” - those with reasonable incomes who do not “look” poor, but are unable to manage financially.

There’s a term “miskin bandar” [urban poor]. For those who have an income of RM 3,000 in Kuala Lumpur, but can’t survive and pay bills...I feel sad...Although they don’t really look poor, in terms of finances, they are poor. [Rural Terengganu]

Participants oftentimes wondered how previous generations could raise large families on incomes that were significantly lower.

I have experienced a time when I earned RM 900 to feed 9 children. This was in 2004-2005. Cost of living then was low. [Bumiputera, Selangor]

At present, it is a “nightmare” to even support a small family.

A total income of RM 800-1,000 in the older generation could support 6 or more. Now, you can barely support 3 people and even that is a nightmare. [Chinese, Selangor]

Life was easier in previous generations because what seems like modest incomes in retrospect still allowed Malaysians to build assets. A respondent explained how her single mother could afford to buy a comfortable house on a teacher’s salary.

My mother was a single parent, a teacher and was able to afford to buy a house on her salary. A nice house. A big house. I mean, a good corner lot. Too big for us. But no, I cannot afford to buy such a house anymore. [Chinese, Selangor]

The best that young Malaysians can hope to own is a car, which is in sharp contrast to the immovable assets that their parents owned.

If you talk about education, we have it better. If you talk about assets, my parents had land, had houses. I have nothing. Just a car. [Urban Sabah]

What used to be reasonably easy to attain with low incomes - owning a home, eating healthy food and breathing clean air - now seem out of reach.

Things were less complicated. You could lie on a hammock on a windy day and just chill and relax and sleep for two hours. Right now that kind of life is a privilege in Kota Kinabalu [the capital of Sabah]. [Urban Sabah]

By contrast, what used to be luxuries have now become necessities. Owning a car is now necessary for survival.

You must have your own transport. No car, cannot survive. [Chinese, Selangor]

Development gains of better roads or the affordability of cars are lauded as important national advancements (as discussed in the previous section), but the gains are not viewed as uniformly positive. Too many cars leads to wasted time in traffic jams that negatively affect wellbeing.

The roads are pretty...but when I look at the long lines of vehicles in the morning, I get a headache thinking about parents going to work and children going to schools...we waste our time in traffic jams. [Multiple respondents, Bumiputera, Selangor]

Table 5 - Individual Responses to the Question: *Compared to five years ago, is your life harder, easier or is there no difference?*

Individual Responses by %							
	All	Selangor				Terengganu	Sabah
		All	Bumi	Chinese	Indian		
Harder	55	61	59	66	58	46	51
Easier	19	14	09	29	05	24	25
No difference	24	25	31	04	36	24	24
Total participants	473	227	74	70	83	109	137

Source: MLSQS 2019 data.

Table 5 reports individual responses as to whether participants thought that their lives were harder, easier or the same compared to five years ago. Fifty-five percent said that their lives were harder and only 19 percent said that it was easier. Residents of Selangor were more likely to say that life was harder (61 percent) compared to residents of Terengganu in eastern Malaysia (46 percent) or Sabah (51 percent).

Dual-income earners and multiple jobs

Malaysians feel financially secure only through dual incomes and multiple jobs. Multiple jobs ensure greater financial security but also feel like a trap.

Most of the people in my salary range actually work two jobs. Having two jobs makes it more secure. I cannot go up. I cannot go down. Yeah, I am stuck here. I am trapped.

[Chinese, Selangor]

Women are now earning outside the home so that the family can be better supported financially.

I work for the government. I have a second job. My wife has her own business. She is into the food business. We cannot depend on one job only with the current situation. The wives have to work too. [Urban Terengganu]

No savings and growing indebtedness

An outside observer may conclude that young Malaysians are spending their disposable incomes in frivolous ways, but one respondent noted that this is because prices are too high to invest in real assets or build any savings.

The prices are so high, young people cannot afford any real assets. But they buy something else to give themselves. You go to any bubble tea shop. It's ridiculous [to see so many people there]. It's all they can afford! [Chinese, Selangor]

Respondents depend on loans because survival is difficult on their current incomes, given their commitments on housing, car, student and other loans. This is consistent with the Malaysian central bank's data which showed high debt service ratios among

lower income households, resulting in limitations for household savings and consumption on other items.

Moderator: Anybody here who has no debt? Anyone?

All: We all have debts one way or the other. [Rural Terengganu]

Increased stress and unhappiness

The advances made by Malaysian society are not necessarily viewed as a net positive.

In the past, we just lived comfortably by rewarding ourselves with good food for working hard. It was that simple. Now we have different needs and wants. We are suffering. [Bumiputera, Selangor]

Material needs have been met at the expense of mental, emotional and spiritual health.

Something that can be provided physically, we children are better off. But something that is about the mind and the soul, we are not better off. [Chinese, Selangor]

Those days even in small houses we used to sleep well. Now, even with three-storeyed houses, we can't sleep in peace. [Indian, Selangor]

Our parents' generation was prone to heart attacks. But now mental health issues due to the economic situation grips the younger generations. [Urban Terengganu]

Increased polarization between ethnic groups

Older Malaysians of all three ethnic groups rued the increased polarization in society, fondly recalling their school days when friendships formed easily and transcended ethnicity because students were blind to the idea of 'race'.

Fewer people are united now. In the past, I was in one class with Indians and Chinese and we communicated well. It is not the case right now. [Bumiputera, Selangor]

I am in my late 50s. During my time, this idea of race...I had no clue...we were blind to it. I had all kinds of friends. [Chinese, Selangor]

Previously, school students mingled all the time except during vernacular classes when they studied their native languages, but now the separation seems permanent.

When we were studying all the three races were together. Students were separated only in one period to learn their native languages. But now, the children are segregated all the time...the Bumiputera stay together, the Indians are within themselves, the Chinese are not bothered about anyone else. [Indian, Selangor]

Inter-regional differences: Terengganu and Sabah versus Western Malaysia

The FGDs also highlighted stark regional differences. Despite overall national developmental gains, participants in Terengganu and Sabah mentioned that there remained great unevenness in the trajectories between Western Malaysia and their regions. The strongest lament was around unemployment and underemployment, which emerged consistently across FGDs in Terengganu and urban Sabah. It is easier to get a college degree compared to their parents, which raises expectations of higher income and a better standard of living, but job opportunities that match their investment in education are very scarce.

Back then it was harder to go to university. But once you graduated, you would be guaranteed a job. Now it is difficult to get a job. Since there are many universities and too many graduates, job opportunities have become limited. We don't want to work in factories. Jobs should match our investment in education. [Urban Terengganu]

In these areas, the only jobs available for many with university degrees are in the gig economy.

I see graduates working in retail. But they studied so much. There are people with Masters degrees. Job? Grab Car driver. So wasted! [Urban Sabah]

Parents worried about their educated children remaining unemployed and being dependent on them.

Life is harder! Harder because it is harder to find work. Children that graduate from university still depend on us. [Urban Sabah]

Those who move to cities from smaller towns and villages in the hopes of earning more are disappointed when they realize that the higher cost of living in bigger cities does not make the move viable.

...with a RM 5,000 salary in Kuala Lumpur (KL) and RM 2,500 salary in Terengganu, the quality of life is about the same. And we have people working in KL who returned to Terengganu because of this. [Urban Terengganu]

As one respondent succinctly concluded:

It seems like a trap. The leaders wanted to bring progress and see Malaysia as a developed country. But the people cannot afford it. [Rural Terengganu]

A resident of urban Terengganu bitterly concluded that the east coast of Malaysia is the country's "stepchild."

East coast is the stepchild. There are no jobs here. [Urban Terengganu]

An issue that was particular to Sabah was that infrastructure gains had been uniform in Peninsular Malaysia, but was much spottier in Sabah. Sabahans yearned for development to reach the interiors of their state. Rural respondents' claims were still about meeting basic infrastructure needs that had largely been met in the rest of Malaysia: roads, electricity, Wi-Fi connectivity and schools.

There is a lot of development in Peninsula. They have good roads. We are still using rivers for transport. [Rural Sabah]

The primary school is 5 km from here. But the secondary school is 30 km away. Many students drop out of school because of transport issues. Not everyone can get into hostels. Maybe like a quarter of them quit. [Rural Sabah]

Look at your handphone. There's no signal at all. We are still on walkie-talkie in this area. We want connectivity. [Rural Sabah]

Sabahans also expressed strong sentiments about the exploitative relationship between peninsular Malaysia and Sabah. Sabah's rich natural resources are extracted by private companies based in peninsular Malaysia in ways that do not deliver local benefits.

In my opinion, everything that Sabah produces, the rest of Malaysia takes it and profits from it. But we are still poor. [Rural Sabah]

The privatization of land has infringed upon the rights of the indigenous, and rural Sabahans are increasingly being alienated from their ancestral lands, cultural resources, livelihoods and local economies.

The land belongs to the Orang Asli [indigenous people] from the time of our ancestors. On it we do everything, from planting to using it as a burial ground...then the government decides that the land is more suited to be given to companies.

Companies compete to get the contract to develop the land. The existing economy is destroyed...these companies claim to want to develop the local people by providing job opportunities, but the result is only the transfer of ownership of land. When I look at all this, I see people losing their home. Their land. The rich will become poor. Because now they have to purchase the land/house that was theirs to begin with. [Rural

Sabah]

Respondents in Sabah also reflected on the meaning of poverty and how it is defined by the standards of a modern cash economy. Rural Sabahans who own and live off their land never go hungry and do not consider themselves poor even if they are cash-poor. The quote below is striking because it corroborates the sentiments expressed by Malaysians in other regions: the unmet desires of owning property and building assets.

I don't consider myself poor. To the world's view, having no money is poor. I maybe

have RM 10 or so with me. I consider myself rich because I have land and I can get food from the nature around me. We don't have to buy anything with money. I think I am rich. I don't think that I am poor based on the government's definition. I can still survive today as long as I have land. All my cats and dogs sleep with me. I'm alright. I'm not ashamed. I'm not going hungry. When you don't have your land, you lose everything. [Rural Sabah]

4. Discussion

Our in-depth qualitative assessment of life quality across multiple ethnic groups and geographic locations has produced nine themes that are shared across all groups. These include three positive and six negative themes. Among common positive themes, across all regions and ethnic groups, participants agreed that there were more types of jobs, requiring less physical labor and providing more income. Second, across all regions and ethnic groups, respondents also agreed that there have been substantial improvements in educational levels, when respondents compared themselves to their parents. Third, participants agreed that there were significant improvements in communication infrastructure development, particularly on road networks, and better transportation facilities, including the ability to afford a car.

All these findings are consistent with the quantitative data on Malaysia. Yet when asked to reflect on the quality of their life compared to the past, their verdict was very different. Fifty-eight of FGDs in our sample agreed that their life is harder compared to five years ago and this was also true across ethnic groups for the following reasons:

First, an “imbalance” between incomes and expenses. Migrating from rural areas to cities was not always productive given the mismatch between salaries and the cost of living in cities. Participants pointed out that the previous generation raised large families on such little income because previously the money had more “value.” Importantly they said that “what used to be luxuries have become necessities.”

Second, while there is an overall improvement in quality of housing materials, there was a lack of affordable housing. The previous generation could afford decent-sized housing without feeling financially burdened. Third, respondents talked about being overworked – having to get by only through dual-earner households and, often, multiple jobs per earner. The fourth theme is the difficulty of keeping their heads above water on their incomes. Households have high and rising debt and little savings, forcing some into bankruptcy. Fifth, there is increased stress and unhappiness in their lives compared to previous generations. The sixth theme is related to increased polarization and reduced inter-ethnic social relationships.

How should we interpret these findings? First, we would reiterate the point that our qualitative sample reflects the views of people in the lower half of the income distribution. However, they do help understand the Malaysian paradox by highlighting serious gaps and mismatches in quantitative assessments of living standard. But the observation that official data does a poor job in capturing income poverty and inequality is not new (e.g., see Ravallion, 2019; Metcalf, 2021)¹¹ and we

¹¹ For a contestation of the official narrative, see Ravallion (2019a; 2019b).

do not believe that it is a complete explanation - though a revision of household survey instruments may be warranted. The question is whether this is a Malaysia-specific story, or whether the Malaysian paradox is indicative of something deeper about the nature of economic growth.

To understand this, we return to Polanyi and Hirsch. Our qualitative evidence is consistent with both their arguments. Polanyi's thesis is that economic life is deeply embedded within social relationships, and that pro-growth "capitalist" policies by turning land and labor into "fictitious commodities" force individuals to fend for themselves subject to the whims of dis-embedded markets, with much weaker social ties. Our qualitative findings are consistent with this. Despite improvements in material well-being, our respondents repeatedly expressed a sense of anomie, a longing for a time when life was simpler, less stressful and more socially connected.

Our evidence is also consistent with some of Hirsch's logic for why there may be "social limits" to growth. The six negative themes that we observed, despite Malaysia's extraordinary success in meeting its citizens' material needs, are consistent with the logic of social scarcity. In the process of meeting material needs, economic growth has led to the privatization of many things. Many people complain about public goods and services that used to be free, costing a lot of money and in particular a loss of access to open space and land. Those in the middle and lower end of the distribution have to live in congested multi-storied public housing blocks to secure access to city jobs and some have to additionally work extra hours and double jobs to cope with high cost of living. This has led to increased indebtedness and stress.

Equally, while inter-ethnic inequality has declined, polarization and segregation have increased - citizens of different ethnicities do not socialize much less than they used to. In other words, while relative inequality has sharply decreased, social exclusion has become more salient although hidden in official narratives/data on inequality.

This is also consistent with previous empirical research on the downside of economic growth. For instance, Offer's (2007) work on the US and the UK in the 1940s and 1950s argues that well-being lagged behind affluence in these societies. He describes a range of social and personal disorders, including family breakdown, addiction, mental instability, crime, obesity, inequality, economic insecurity, and declining trust *despite* rising material abundance, thus hinting at the social and psychological costs of growth.¹²

Such literature is limited for developing countries.¹³ Some notable quantitative studies include Graham and Pettinato (2006), Graham, Zhou and Zhang (2017) and Devarajan and Ianchovichina (2018). Graham et al. (2017) talk about the "paradox of progress" in China, how those with insufficient rest and leisure are significantly less satisfied. Urban and educated respondents are also more likely to report depression.¹⁴ Graham and Pettinato (2006) report greater frustrations in terms of relative concerns among the upwardly mobile in Peru. Another study by Devarajan and Ianchovichina

¹² For a more recent work on ill-being and working-class poverty in affluent societies, see Deaton and Case (2020).

¹³ One of the earliest essays is Schneider (1993) who wrote about the underside of the Chilean economic miracle -- high decade-long GDP growth and low inflation by 1990 coinciding with high inequality and poverty in post-Pinochet Chile, leading to OECD membership by 2010.

¹⁴ In an accompanying essay on the paradox of progress, Graham and Pinto (2018) also share similar evidence on India and the US.

(2018) examined the puzzle of revolution in the Arab world at a time of low-income inequality. The authors traced this to falling happiness and perceptions of declining standards of living which they attribute to dissatisfaction with the quality of public services, lack of jobs, and rising corruption. These perspectives also apply in Malaysia.

However, one crucial element of Hirsch's argument does not seem to apply. Urbanized areas of Malaysia seem to be less concerned by social status and position than rural areas. In the next section we analyze the responses to the question on relative versus absolute income.

4a. Relative versus Absolute Income

We asked respondents to express a preference between two scenarios:

Scenario 1: You earn RM300 and the average person earns RM200

Scenario 2: You earn RM600 and the average person earns RM800

Scenario 2 was clearly superior to Scenario 1 in providing a higher income, but in Scenario 1 the person earned more than the average person and thus had a higher relative income. They were then asked to justify their response in the FGD, which allowed us to probe Duesenberry's (1949) relative income hypothesis which argued that utility may be determined both by a higher own income, and one's income relative to others. We collated responses for individual participants in the FGDs to this question, which we summarize in Table 6.

Table 6: Survey of Relative versus Absolute Income

	N	% Choosing Higher Relative Income	% Choosing Higher Absolute Income
Selangor	230	26.9	63.8
Bumiputera	66	12.2	62.2
Chinese	77	17.1	81.1
Indian	87	48.2	50.6
Terengganu	99	44	41.3
Sabah	107	70.1	29.9

Note: The responses do not add to 100 percent because some respondents did not provide an answer to the question.

A clear preference for higher relative income (70 percent) is only apparent in the less economically developed and more rural state of Sabah. In the dense, congested urban area of Selangor, both Chinese (81 percent) and Bumiputera (62 percent) respondents preferred higher absolute incomes. Indian respondents were equally split, as were respondents in Terengganu in eastern peninsular Malaysia.

Preferences for absolute income

The reasons given for preferring higher absolute income were often quite straightforward across ethnic groups: worrying less about money and saving more.

We have so many commitments to pay, that's why I want more. [Bumiputera, Selangor]

Chinese respondents chose higher absolute incomes for different reasons. Some viewed social status with disinterest:

I'll get what I should get, it doesn't matter if others have a higher salary than me.

Others viewed an interest in social status to be a negative characteristic:

...the choice of 300 is for people with ego characteristics. I have room for advancement if I choose 600 ringgit...I believe that the 600 is only temporary. I don't mind being lower than others in what I earn. I'm sure that I'll get 800 as well someday.

Some feared social exclusion by earning more than others:

I didn't choose the first scenario because if I get 300 ringgit while others earn 200, they know I earn RM300, and they will try to exclude me and not cooperate with me.

Indians in Selangor had a more mixed response. Those who preferred high absolute income had similar responses to the Chinese and Bumiputera respondents.

I don't really care about others. I need more money.

Preferences for relative income

Several other Indians, however, wanted the scenario that offered higher relative standing because as one said,

Most of us will choose the first scenario because we want our salary to be more than everyone else.

In Terengganu where people were equally split between higher relative and absolute incomes the stated reasons for wanting a higher relative income were all related to social status:

It is OK if I get 300 ringgit so long as I get more than other people around me.

Some said that they deserved to earn more than others.

I want more than the others because I work hard; obviously I deserve more.

Others went so far as to say that earning less than others would have negative social consequences.

In our life we must earn more than other people. If we earn less, then our life would be difficult.

One respondent was concerned not with higher social status but what he perceived to be a larger income gap,

The income gap in the second village is too high. I prefer the first village.

Even those respondents in Terengganu who said they preferred the higher absolute income scenario expressed their preference in social terms.

I picked number two because everyone will be well off although I might get a little less, but I'm OK with it. I'm happy to see other people get more than me. They might help me when they see that I'm poorer than them.

Sabah, which is the most rural of our three locations, was overwhelmingly in favor of relative income and some of the reasons given were quite simple,

Because I want to be richer than others [laughs].

This theme of wanting to be better off was explained in different ways by other respondents. One who seemed to step directly out of the pages of Deussenberry said,

I prefer if I am better off than most people. Although it is only a difference of 100, but it means I can buy a few more things for myself compared to the average person. Being more than average is a comfort feeling, that you are in a safe place. You are not right at the minimum line, it means you can afford and still live a comfortable life.

Similarly, another respondent expressed a clear desire for higher status explaining that it would feel "safe",

I feel I can live more luxuriously compared to others. I am at a higher living standard than others. I am at a safe level.

A rural respondent in Sabah said,

If we are fishing, we will pick the big fish. Same goes for salary. If we get to pick salary, of course we pick the one with a bigger salary.

Even those respondents living in relatively urban areas of Sabah expressed a preference for higher relative income saying that it would show that they were doing better than others:

We pick 1 because if we are business people we want to thrive. Not that we want to put others down, but it is a business. It's ideal if we are making slightly more than others.

Then they can see that we are doing better, even if we may all be selling the same thing.

Another respondent expressed his desire for higher relative income as being "greedy" saying:

Those who chose 1 are, like, a bit greedy. So I am a bit greedy. But my thinking is, if you're always putting yourself at the bottom you're going to drown. In anything, if I don't have more in terms of money, I know I will have more in other areas. This is so I won't continually feel bad about myself and lose myself and drown.

Higher social status thus made a lot of respondents feel that they were doing well, they felt "safe", but some also said that this would drive them to work harder,

I'm just thinking, for example, if I get my first job with this pay, RM300, I will be motivated to work better because my pay is better than those who are earning

RM200. Those who are earning less are those who have been working for longer than I but still I am given more. So I will work.

Another desire expressed was a sense of fulfilling social obligations; by earning more than others you could help those less fortunate than yourself rather than be at the receiving end of charity:

If I am the richer one, it means I am of value and I am able to help others. But if I had picked Scenario 2, I wouldn't be able to help anyone.

Another respondent expressed a similar sentiment,

When you've got more, you have, I think, some ethical consideration to give some of your money to the less fortunate. The other one, you are on the receiving end.

5. Conclusion – Polanyi and/or Hirsch?

Respondents from Malaysia's most economically developed region of Selangor had a greater preference for higher absolute income, while Sabah, which is one of Malaysia's poorest regions, had a much greater preference for positional income. This seems to contradict Hirsch's key argument. But it is entirely consistent with Polanyi.

There is a large anthropological literature that shows that "traditional" societies are more hierarchical. There is a broad consensus that traditional societies are more collectivist, and that individuality is more characteristic of modern, economically developed, societies (e.g. Triandis, 2015). With this, it is not at all surprising that

economic development and its emphasis on modernity and individuality will make people less concerned about positionality, rather than - as Hirsch argues - more so.¹⁵

However, we would argue that modifying Hirsch in a manner that is consistent with Polanyi's key notion of the social embeddedness of economic life may explain our qualitative findings, while not going so far as to make the case that growth has "social limits."

Economic development and improved material well-being may result in a higher threshold for what constitutes a minimal standard of living. Preferences are inter-connected not in the sense of a desire for higher positional status, but in the sense of Dusenberry's (1949) "demonstration effect" - the drive is not as much to signal superior status but to show that your living standards are in accordance with social norms. Lagging behind that norm leads to a loss of self-esteem and a sense of being deprived. This shows the salience of the documented rise in absolute inequality in people's perception of their well-being.

Consistently high economic growth causes the socially acceptable consumption basket to become steadily bigger with time, and more expensive. For people at the lower end of the income distribution this results in an "imbalance" between income and consumption. The threshold for what are considered "basic needs," or a minimal

¹⁵ Writing in the 1960s, the French anthropologist Louis Dumont (1966), for instance, argued that traditional Hindu society is deeply socially embedded within the caste system and belongs to what he called "Homo Hierarchicus," where a preference for hierarchy is internalized and economic interactions between castes are hierarchically driven. He contrasted this with what he considered the Western concept of economic man - Homo Economicus - which emphasized individual progress and equality.

consumption basket, rises. This results in a constant search for higher income which makes social scarcity more salient. For instance, if the basket includes consumption of common property resources (which were experienced for free, or very cheap, by one's parents), access to these goods will get scarcer as national income rises because the increased reliance on markets will privatize what used to be public. Education will also be subject to social scarcity, as Hirsch argues, because, controlling for quality, the returns to education fall with growth because of increased competition which creates increased competition for more "prestigious" or "higher quality" education rather than just completing schooling or obtaining a degree.

Furthermore, economic growth and marketization by increasing the necessity for individual competition and reducing the need for collective action also reworks the social structure of the economy by reducing the scope for social interaction. In the Malaysian case this was possibly exacerbated by the highly successful effort to equalize ethnic inequality with aggressive affirmative action policies which may have increased ethnic polarization.¹⁶

This has implications for policy: a singular focus on raising rates of economic growth and improving material well-being is perhaps not enough. Growth can have an effect on the social fabric and negatively affect well-being because of social scarcity. Interdependent preferences and the consequent need to maintain a need to maintain a socially acceptable standard of living can cause a great deal of stress and

¹⁶ This is entirely consistent with the history of capitalism in Western Europe (Appleby, 2010).

indebtedness. Social scarcity also leads to congestion - in education, jobs, housing, and access to common property resources by increasingly subjecting them to the market and thus reducing access by people who are relatively less well-off. It could also reduce social interaction and increase polarization. All this calls for a greater emphasis on policies that repair social scarcity and congestion by emphasizing collective action rather than an exclusive focus on market-based solutions.

Rather than make the rather extreme case that growth has “social limits”, our findings suggest that repairing this dynamic requires that policy moves away from neoliberal recipes towards what Stiglitz (2024), following Polanyi, has recently described as “progressive capitalism.” This puts human “freedom” at the forefront by emphasizing the creation of a “good society” that takes imbalances in power and social relations seriously. One example of how this could work in the Malaysian case can be drawn from the work of the Malaysian think tank Think City (Think City, 2021), which has been a pioneer at developing such solutions. They create community-based credit institutions to rebuild deteriorating housing stock and revive neighborhoods, work with communities to develop community-based solutions to manage common property resources, and build systems of citizen engagement to improve urban governance and manage neighborhoods.

We also believe that our work has implications for measuring poverty and well-being. The “imbalance” between income and basic material needs reported by several of our respondents suggests that, particularly in high growth contexts, the basket of consumption goods considered to be necessities and the income cut-off for poverty

needs to be regularly reviewed. Moreover, focusing exclusively on quantitative data from household surveys to measure changes in living standards, poverty and inequality can hide *how* people experience economic growth and its underside. A richer understanding would require that quantitative data, including surveys that measure consumption, should become more reflexive by engaging in an active dialogue with qualitative data (Rao, 2023). New methods in machine learning now permit researchers to both collect and analyze qualitative data at scale with representative samples (e.g. Ashwin et al 2022). This will allow for a richer understanding of the challenges faced by human beings that is more cognizant of the interconnections between economic, social and political life.

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Appendix Data Note A

The data collection effort was jointly supervised by a World Bank team in collaboration with the University of Malaya's economics department where 56 open-ended focus groups were conducted across Malaysia, in which a total of 473 individuals participated. In this note, we provide additional information on site and sample selection, research team, participant recruitment and moderation.

Sites and sample

We selected three broad regions in Malaysia to cover peninsular as well as East Malaysia - the broader Kuala Lumpur (KL) region in western peninsular Malaysia, Terengganu state in eastern peninsular Malaysia and Sabah state on the island of Borneo. The states and specific in-state locations were chosen after consultative meetings in each region with local stakeholders (academics and representatives of government and civil society organizations). The selection of specific in-state locations was also informed by district-level analysis of the 2016 Household Income Survey to help ensure adequate numbers of participants in each income group.

Of the 56 focus groups, 27 were held in the greater KL region (in Selangor state), and as ethnicity is an important source of variation in western Malaysia, we conducted nine focus group discussions each among Malaysians of Bumiputera, Chinese, and Indian descent. Urban-rural differences are important in Terengganu and Sabah; hence, 14 discussions in Terengganu and 15 discussions in Sabah were split between urban and rural areas. We further split the groups by income and age. Participants between 25-40 years were classified as "young" and those 41 and above were classified

as “old.” We also recruited participants on the basis of the common Malaysian categorization of income levels – bottom quintile, second quintile, and the union of the third and fourth quintiles – by asking them to which income group they belonged (most Malaysians would have no trouble identifying themselves into each of these groups). With the exception of rural Sabah, we had separate focus groups in each region and ethnicity for these income and age groups. In rural Sabah, because of its low income levels, all residents fell into the B20 group.

Table A1: Region and ethnicity-wise breakdown of FGDs

Region	State	Ethnic groups	No. of FGDs
Western Peninsular Malaysia	Selangor (Greater Kuala Lumpur)	Bumiputera	9
		Chinese	9
		Indian	9
Eastern Peninsular Malaysia	Terengganu	Rural	9
		Urban	5
	Sabah	Rural	9

East Malaysia (on Borneo)		Urban	6
TOTAL			56

Research team, participant recruitment, and moderation

A team of seven local researchers were trained over five days on the logistics and ethics of participant recruitment, discussion moderation, and data management. Focus group discussions were conducted in a language common to all the participants in the group which in the case of Bumiputera was Bahasa Malaysia, the Chinese was Mandarin, and Indians was Tamil. Among the higher income groups, participants frequently preferred English. In Sabah, while most participants spoke Malay, in some cases we had to translate some questions into their native language.

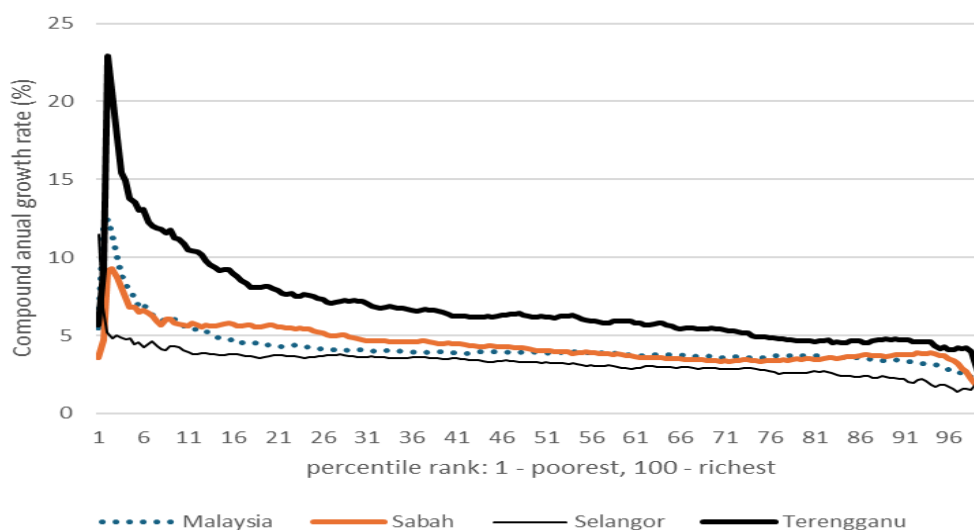
The respondents were assured that their names and other personal information (other than age, income group and gender) would not be recorded, that their responses would remain confidential, and that recordings of the discussions would not be shared. Hence the discussions tended to be free and open with respondents sometimes disagreeing with each other.

APPENDIX NOTE B: Revisiting the dissonance between incomes and prices

To better understand the dissonance between incomes and the cost of living in our qualitative analysis, this section provides additional/complementary evidence on trends in income and prices using various official data sources. The objective is to understand whether citizen frustration captured in qualitative data is consistent with trends in relative increases in wages vis-à-vis prices.

Compared to other ASEAN countries, annual real wage growth in Malaysia has been low (World Bank, 2023). To probe further, we reproduced the GIC using employment income. Figure B1 confirms that, during 1984-2016, wage growth has been pro-poor, which is also consistent with the trends in overall income gains from growth (see Figure 5). This is also true for each of our three study states, although the employment income GIC has been relatively flat for the state of Selangor (Figure B2). However, this may not have increased wages sufficiently in the long run. Figure B3 reports trends in median employment income during 2004-2016 across our three study sample states. Slow wage growth is evident even for the state of Selangor. Moreover, there is significant regional disparity. Sabah not only has the lowest median income, it also saw smaller increases in wage income, averaging RM 56 per year compared to RM 79 and RM 88 in Terengganu and Selengor, respectively.

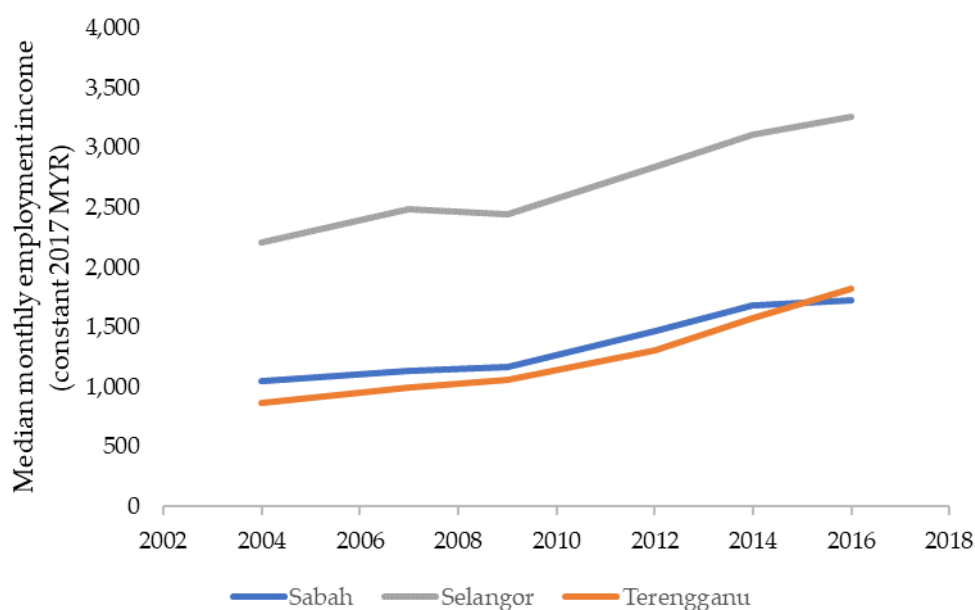
Figure B1: Employment income growth incidence curves for Malaysia, 2004-2016



Source: Authors’ estimates from national Household Income Survey data collected by the Department of Statistics, Malaysia (DOSM). Employment income comprises wage and self-employment income of the working-age population (ages 15-64 years). Employment rates by gender are stable over time, minimizing concerns about biases owing to compositional changes among those with employment income.

Between 1984 and 2016, the employment rate among men fell from 75.8 percent to 72.5 percent while for women it increased from 39.7 percent to 41.3 percent. This is partly attributable to young men staying in school longer and entering the labor force later. The slight increase for women is a combination of that same longer schooling trend, which was more than offset by institutional efforts to increase female labor force participation.

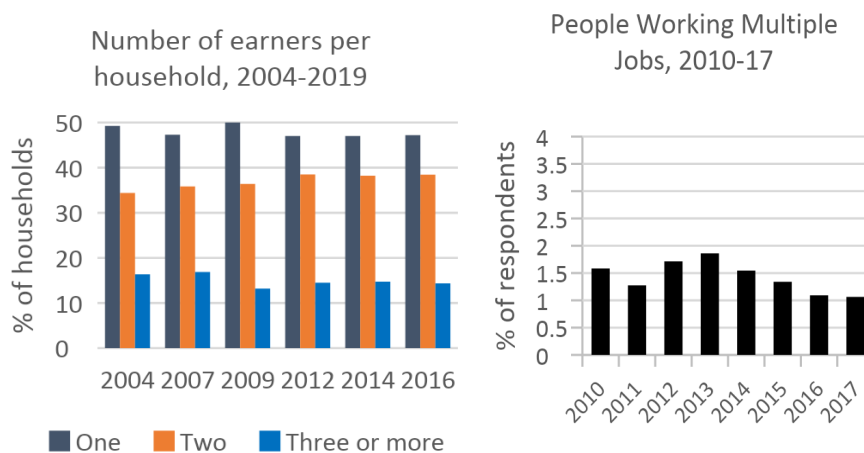
Figure B2: Trends in median monthly employment income, 2004-2016



Source: Authors' calculations using Household Income Survey data from DOSM.

Insufficient employment income growth may have pushed Malaysians to work longer hours. In the absence of comparable individual level data on hours worked, we use two blunter measures, the number of earners per household and the proportion of workers holding multiple jobs. **Figure B3** summarizes the findings for these measures using household survey data. There is some evidence that between 2004 and 2016, more members of the same family are engaged in outside employment though there is no evidence that the same person is taking up more than one job.

Figure B3: Trends in number of income earners per household and people holding multiple jobs



Sources: Authors’ estimates from DOSM’s Household Income Survey and Labor Force Survey datasets.

Turning to prices, the apparent discord between quantitative and qualitative data on high cost of living could be attributable to inflation misperception. Another possibility is that, for our study respondents, the official measure of inflation based on the standard CPI is not an accurate measure of the costs that they face every day since the CPI is only a summary measure based on average consumption patterns and average prices. The majority of our qualitative study respondents belong to lower-income households, with consumption patterns that deviate from the national average, especially in spending a larger portion of the household budget on food. Therefore, they may experience a higher rate of inflation if food prices rise more quickly than the prices of non-food items. Similarly, there is considerable heterogeneity in the inflation rates across different states. For example, over the past

15 years prices have tended to increase more rapidly in heavily-urbanized Selangor than they have in Sabah or Terengganu. Lastly, CPI omits investment outlays, including home purchases, a key component of living costs, especially in Malaysia where three-quarters of the population are owner-occupiers.

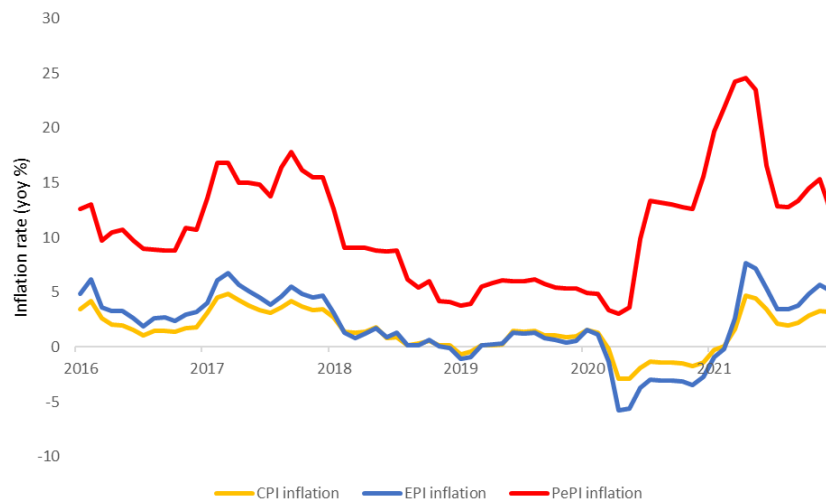
To this end, **Figure B4** reports trends in standard CPI vis-à-vis two additional indices. The Everyday Price Index (EPI) uses a reference basket consisting only of items purchased at least once a month, based on research showing that the prices of frequently-purchased items have a greater weight in consumers' perceptions of inflation than items purchased infrequently. The PePI (Perceptions Price Index) includes the same frequently purchased items as the EPI, but only counts price increases because it has been shown that consumers tend to remember price increases more than decreases, such that they perceive inflation to be higher than it really is. A number of patterns are noteworthy. First, based on the standard CPI, the rate of inflation has been moderate during 2016-2021. Second, this is true even if we use EPI as an alternative measure of inflation. In Figure B4, the movement in CPI and EPI data are highly correlated with little indication of systematic downward bias in CPI when compared to EPI. Third, although not reported here, there is no evidence that poorer households experience an inflation rate that is significantly higher than the standard CPI. For the years 2016-2019, trends in the CPI measure specific to consumption patterns of lower-income households (i.e., households with a monthly earning less than RM 3,000) does not show significant differences with the overall inflation rate based on standard CPI (World Bank, 2023). Fourth, in contrast to CPI and EPI, data on

PePI shows significant perception bias, i.e., consumers tend to remember price increases more. The gap between PePI and CPI is also large during 2018, the year preceding our qualitative survey.

Lastly, in the absence of the CPI series for low-income households at the state level, we are unable to assess comparative price levels because. Nonetheless, our analysis of standard CPI data indicates considerable regional variation. Average prices have risen much more rapidly over the years in Selangor than in the more rural states such as Sabah and Terengganu (Figure B5).

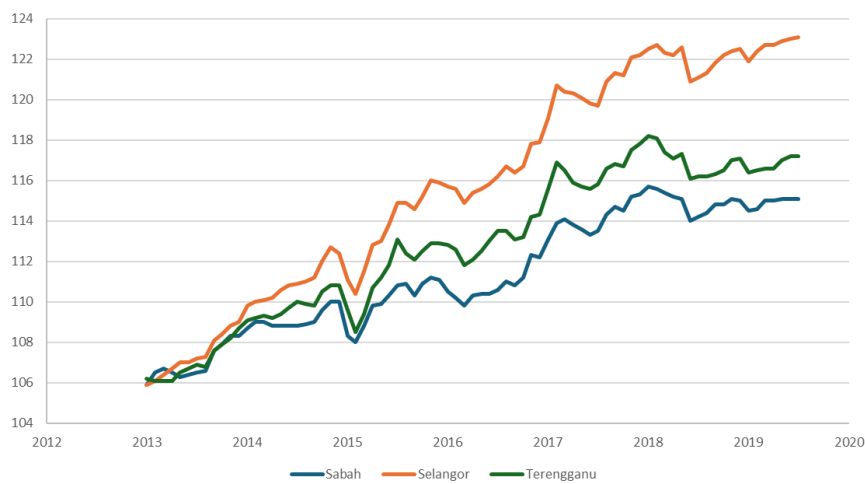
In sum, regardless of the overall and low-income group specific figures, price increases on most goods and services have been low and stable. This is also true of core inflation, i.e., excluding items with administered prices and items with more volatile prices such as food commodities (World Bank, 2023). If anything, the standard CPI data show a moderating rate of inflation in recent years. However, there is a significant difference in the average increase in prices across locations as evident from trends in CPI data for Selangor, Sabah, and Terengganu. Such differences may have contributed to differences in purchasing power and higher perceived cost of living.

Figure B4: Trends in CPI, EPI and PePI , 2016-2021



Sources: EPI (Everyday Price Index) and PePI (Perceptions Price Index) data from Bank Negara Malaysia. CPI data from the Department of Statistics.

Figure B5: State-wise Trends in CPI, 2012-2020



Source: Department of Statistics, Malaysia (regular issues of CPI reports). Each series refers to total CPI by state (2010 = 100 in each state). Data for Sabah also include the Federal Territory of Labuan while data for Selangor also include the Federal Territory of Putrajaya.