

Working for Welfare: Inequality and Shared Vulnerability among the Malaysian Middle Classes

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Abstract: The predominance of wage employment in Malaysia can be observed from employment status data. Its predominance at this stage of economic development is not unique to Malaysia as it is a consequence of capitalist development observable around the globe. This expansion of wage employment is also accompanied by a shift in social protection systems around the world. Malaysia is at an early stage of moving in a similar direction. It is within this conceptual shift the Malaysian employment-based social protection strategies are examined. It addresses the underlying reality that working today is not only for the purpose of earning a current subsistence wage for many, but also to protect incomes in the future via a system that is pegged to the current income. The framework for the analysis is premised on the social and economic stratification perspective, more specifically in relation to social classes, inequality and vulnerability, especially for the middle classes. By taking this approach, this paper contextualises the Malaysian case in the same vein as other economies at a similar stage of development in Latin America and Southeast Asia, where the vulnerability of the middle classes is shown to be on the increase while earned or purchased welfare is increasingly seen as inadequate.

Keywords: Employment, inequality, middle classes, vulnerability, welfare
JEL classification: I30, J30, O10

1. Introduction

The predominance of wage employment in Malaysia can be observed from employment status data which categorises people into three groups, namely, employees, own account, and unpaid family workers. In 2013, the employees comprised almost 74%, and own account workers as well as unpaid family workers totalled 22%. The share of employers on the other hand is predictably small, resting at about 4% in 2013 (Department of Statistics, 2013). While the numbers of own account workers as well as unpaid family workers show a declining trend, the number of employees continues to rise in line with Malaysia's economic development, especially after the implementation of the New Economic Policy (NEP) in 1971. The predominance of wage employment at this stage of economic development is not unique to Malaysia. It is a consequence of capitalist development observable around the globe.

The expansion of wage employment is further accompanied by an evident shift in the social protection systems around the world. These systems are now increasingly becoming employment-based as the old Keynesian state-sponsored 'redistributive welfare system' is subjected to increasing pressure to ensure its fiscal sustainability. A variety of purchased welfare or social insurance systems have emerged in its place (Midgley 1999;

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Jenson & Saint-Martin, 2003; Morel, Palier, & Palme, 2012). The aim of purchased welfare is to insure workers against the risk of income loss hence facilitating lifetime income smoothing. Programs based on this concept are financed out of premiums privately administered by unions and employers. In this case both contributions and benefits depend on employee earnings. The fast disappearing redistributive welfare system on the other hand, which focused more on poverty relief, is financed by general tax revenues, with no link between contribution and benefit, hence making it more costly (Butter & Kock, 2003).

Malaysia is at an early stage of moving in a similar direction. Whether this earned or purchased welfare is sufficient is the subject of a mild but ongoing debate among Malaysian stakeholders. Driven by issues of fiscal sustainability, hence viability of existing systems, this move is happening in the midst of growing evidence that formal social protection provisions in Malaysia, either from the welfare or social insurance perspectives, are inadequate. Calls for reform to address the weaknesses of existing systems and to widen the coverage to include those in the informal sector have been made by many (Ragayah, Lee, & Saaidah, 2002; Saidatulakmal, 2013).

It is within this conceptual shift that the employment-based social protection strategies in Malaysia are examined. It addresses the underlying reality that for most people, working today is not only to earn a current subsistence wage but also to protect future incomes via a system that is pegged to their current incomes and the 'pay as you go' (PAYG). The thematic question throughout this paper then, is whether this system is effective and viable in providing social protection for workers, given the volatility of the global economy that is characterised by economic crises and natural disasters. These circumstances are increasingly threatening the world of work and employment creation, making exposure to financial risk and vulnerability the norm rather than the exception.

The framework for analysis is premised on the social stratification perspectives of social classes, inequality, and vulnerability. The focus is on vulnerability, particularly among the middle classes, given their size and role in Malaysia's economic growth and development, especially in terms of income, consumption, status, and political ideology. Besides, the welfare of this group is also a major agenda in Malaysia's future planning as found in the New Economic Model (NEM) and the Eleventh Malaysia Plan (11th MP) whereby the targeting of the middle classes through policy instruments appears pivotal to Malaysia's aspiration to become a developed and a high-income nation by 2020. In this context, this paper raises the issues of shared vulnerability among the social classes, particularly the fragmented middle classes, by giving another perspective to the case of successful shared prosperity as presented by the recent World Bank (2014) on Malaysia.

By focusing on the vulnerability and impoverishment of the middle classes, this paper attempts to analyse the Malaysian case in a similar vein as that of several other economies at a similar stage of development, such as those in Latin America and South-east Asia. The impoverishment of this group is attributed to unemployment, inflation and the decline in purchasing power as a result of the crisis (Galassi & González, 2012; Lopez-Calva, Rigollini, & Torche, 2012; Birdsall, Graham, & Pettinato, 2000; Birdsall, Lustig, & Meyer, 2013; Banerjee & Duflo, 2008; Ravallion, 2009; Minujin & Comas, 2009; Huynh & Kapsos, 2013). Many World Bank studies on the vulnerability of the middle classes in Latin America that emerged in the 1990s were motivated by what became known as the 'Mexican peso crisis'

in 1994. Although that is not happening in Malaysia yet, there are worrying trends such as rising household debt, reduced purchasing power, and an escalating housing cost that could negatively impact this group.

2. Data, Concepts and Methods - The Middle Classes, Inequality and Shared Vulnerability

Although social stratification or class analysis is not the method used to inform and formulate Malaysia's public policies, the NEM appears to be targeting those with incomes above the poverty line (PL), including the middle classes (NEAC, 2010). This reflects an acknowledgement by policy makers and recently reaffirmed in the 11th MP. The middle class, identified as the middle 40% (M40) of the population by income category is also considered vulnerable, and not just the bottom 40% (B40) (Economic Planning Unit, 2015). This section follows these new policy trails for the purpose of identifying this diverse group, and highlighting their vulnerability.

2.1 The 11th MP: Towards a Middle Class Society

The recently released 11th MP echoes the NEM's focus on addressing economic vulnerability while emphasising Malaysia's agenda for uplifting its current B40 households (approximately 2.7 million citizens) to create a larger middle class. The B40 are identified as households with a mean monthly household income of RM2,537. The aim of this policy thrust is to ensure that Malaysia's prosperity can be shared regardless of gender, ethnicity, socio-economic status, and geographic location. This will be achieved through measures to increase the income and wealth of the B40 households by spurring their income growth. Post-secondary educational achievement will enable the upward social mobility of the B40 into the middle classes. With the expected increase in the number of B40 household members attaining tertiary qualifications from 9% in 2014 to 20% in 2020, their mean household income is expected to double from RM2,537 in 2014 to RM5,270 in 2020. Hence the middle class society is expected to account for 45% of the Malaysian population by 2020.

Attention is also given to the middle class or M40 households. These are households that are within the income range of 41% to 80% of the household income distribution spectrum. In 2014, the M40 households' income ranged between RM3,860 and RM8,319, with a mean and median of RM5,662 and RM5,465, respectively.

Currently there are 2.7 million M40 households of which 83% reside in urban areas, and 85.9% live in Peninsular Malaysia. Hence, the Malaysian middle class is a Peninsular Malaysia urban phenomenon. Therefore, issues relating to geographical location, particularly for M40 in Sabah and Sarawak, demand more attention. Strategies to support this group include initiatives to increase their earning capacity to cope with the higher living costs, and home ownership, including being able to live within a reasonable proximity to their place of work. Proposed measures cover a range of options such as enhancing their educational attainment, upgrading their skills, and private sector-driven investment. Hence, strengthening the business ecosystem to provide the support and environment for M40 household entrepreneurs to thrive is an imperative.

2.2 *The Middle Classes in Economic Development*

Birdsall (2010) suggests that the middle class constitutes the backbone of democracy, ensuring social and political stability by fostering social cohesion and mitigating tensions between the poor and the rich (Lopez-Calva & Ortiz-Juarez, 2011). King (2008, p.1) observed an increase in academic interest in the new urban middle class in South-east Asia in the last two decades. They are seen as an important component of the *nouveau riche* defined primarily by the acquisition and deployment of an advanced level of education or specialist knowledge. The emergence of this new politically diverse middle class is seen largely as a state-generated phenomenon since the 1970s (Hattori, Funatsu, & Torii, 2003). Hsiao & Wang (2001) describe the middle class in South-east Asia as 'a class in the making' comprising three main segments, namely the 'new middle class' (salary-earning professionals and administrators), the 'old middle class' (small proprietors, and the self-employed who are often referred to in the Marxist tradition as the *petit bourgeoisie*), and the 'marginal middle class' (lower-grade white collar clerical and sales and service workers, and small proprietors who deal with more routine tasks, who are sometimes referred to as a 'lower middle strata').

2.3 *Identifying the Middle Classes*

As evident from the voluminous literature on social classes, the concept, definition, and measurement of the middle classes remains problematic with little consensus amongst researchers. Studies by scholars on the vulnerable middle classes in Latin America and other developing countries offer further insights into this. Authors such as Birdsall et al. (2000), Banerjee and Duflo (2008), Ravallion (2009), Minujin and Comas (2009) and Huynh and Kapsos (2013) adopted some variation of income categories (income deciles, percentages of the median) to define, identify, and measure the size of the middle classes. The oft-quoted income measure of Banerjee and Duflo (2008) identified the middle class in developing countries as households living between USD 2-4 daily per capita and USD 6-10 as lower and upper bounds. Birdsall et al. (2013, p.1) identified the middle class as people living in households with income per capita between USD10 and USD50 per day, adjusted for purchasing power parity. The International Labour Organisation (ILO) defines the working poor as individuals who work but live on less than USD1.25 a day per family (Kapsos & Bourmpoula, 2013). Ravallion (2009) cites Thurow's (1987) definition of the middle class as those earning 75% to 125% of the median income. Lopez-Calva & Ortiz-Juarez (2011) use a cut-off point of USD 10 Purchasing Power Parity (PPP) but use regression on panel data.

Lopez-Calva et al. (2012) utilised what they termed as a 'fixed' definition of the middle class. Using the index of economic wellbeing (IEW), they identified the middle three quintiles as the middle classes, while defining the bottom quintile as the lower class, and the top quintile as the upper class. Based on the IEW, they identified the three classes in Mexico and Chile. The lower class comprised the bottom 20% of the income distribution hierarchy, the middle class the middle 60%, and the upper class is composed of the top 20%. They identified the middle classes as the segment not currently experiencing poverty, but vulnerable to falling into a deprived economic situation that prevents the satisfaction of basic needs, and lacking the economic assets to ensure complete protection against poverty, hence their vulnerability.

2.4 Approaches to Vulnerability

Despite the growth in social safety net and social protection literature, which depicts social protection as instruments for responding to risk and vulnerability, there is no universal concept of vulnerability. Alwang, Siegel, and Jorgensen (2001) offer a review of the different approaches, concepts, and definitions of vulnerability while Draxler (2006) focusses more on risk, uncertainty, and welfare in the context of globalisation and risk management in Europe. Galassi and González (2012) observe that the term 'vulnerability' has appeared in intellectual and government discourse in Latin America for several decades. They however concluded that when the term is used to refer to 'social vulnerability', it is usually confused with poverty, and in response, Galassi and González (2012) attempted to study social inequality in Latin America using a multi-dimensional concept of vulnerability. They believe this can offset the limitations of a one-dimensional approach to poverty, which Malaysia is also advocating in the 11th MP. By combining class analysis and social vulnerability analysis, they consider it possible to attain a complete picture of social inequality of individuals and households, as this approach would expose the underlying structure of society that leads to risk and vulnerability.

The Malaysia Economic Monitor (World Bank, 2014) on the other hand, reiterates the issues surrounding the definition of vulnerability without advocating any particular concept. Vulnerable households are identified as those at risk of falling below the poverty line (PL). Based on a simulation exercise and taking an approach similar to India and Vietnam, their study identified the poor (<PL), the vulnerable (PL–2.5xPL), and an aspirational class (2.5xPL–Mean). Based on this approach, in 2004, the poor in Malaysia constituted 6%, the vulnerable 27%, and the aspirational class 35% of the population. However, by 2014 the aspirational class is deemed to have grown to 51% while the vulnerable and the poor declined to 15% and 1%, respectively.

2.5 Identifying the Middle Classes in Malaysia

The interest in the middle classes in Malaysia, at least in the sociological literature, is centred on the analysis of their political identity and their consumption patterns, particularly that of housing and consumer goods, rather than about inequality. Social class analyses in the economic literature is either non-existent, or tend to focus more on income following the trend set by the research interest at the World Bank. In his attempt to address the issue of the role of the middle class in Malaysian politics, Saravanamuttu (1989) uses Giddens' (1973; 1982) concept of a three-class system based on market capacity. Thus for Saravanamuttu (1989), the middle class in Malaysia is defined in terms of the possession of educational or technical qualifications. They include: i) professional and related workers, ii) administrative and managerial workers, iii) clerical and related workers, and iv) service workers (excluding the manual component). His classification is however very similar to that of the International Standard Classification of Occupations (ISCO), which also forms the basis of official labour statistics in Malaysia. In his more recent work, Saravanamuttu (2013, p. 338) refers to the existence of considerable literature on the Malaysian middle class, its class fractions, and their social and political ramifications. Here he cites the concept used by Crouch (1984) who uses car ownership and television ownership as proxies for the middle class. He also summarises the classification of Embong (1998) of the 'new

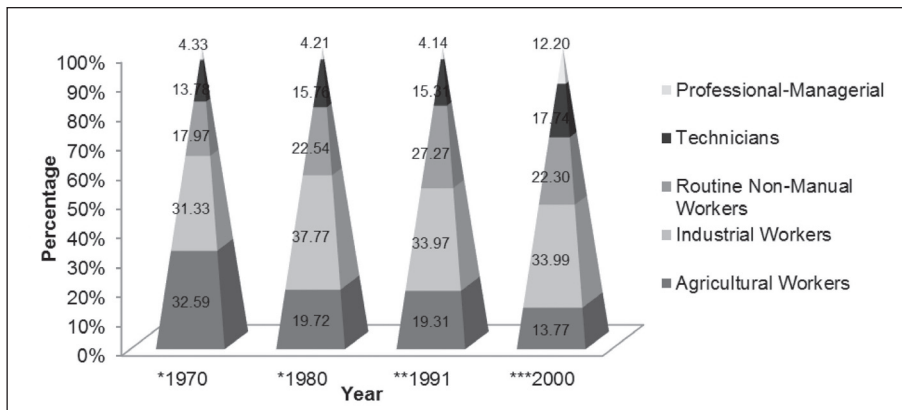


Figure 1. Social stratification in Malaysia (1970-2000)

Notes: * 2% sample Census data (1970 & 1980); ** 2 digit Census data (1991); and *** 2 digit Census data(2000).
Source: Department of Statistics Malaysia (2014b); Shamsulbahriah (2015)

middle class’ as comprising the professional, technical, administrative, and managerial categories and the ‘lower middle class’ as consisting of clerical, sales, and service workers.

Shamsulbahriah (2010) identifies the class structure of post-colonial Malaysia as comprising four main components: the small employers (or the *petit bourgeoisie*), the peasantry, the salaried middle class, and the working class. It is the stratification within the salaried middle class that the fragmentation of Malaysia’s middle classes is evident. In an attempt to show this, she identified the components of the middle classes in Malaysia as the professional managerial group (PMC), technicians and routine non-manual workers. The working class comprised both industrial and agricultural workers as shown in Figure 1.

2.6 The Inequality Pyramids: A Working Definition of the Malaysian Middle Classes

The income-based definitions outlined above are useful in so far as they provide a measure as to how far or how near groups are to poverty, or to being the ‘near poor’ and ‘new poor’ (Galassi & González, 2012). Focusing solely on income classes, however, moves the discussion away from the process of social stratification that is continuously shaping the structure of inequality by constantly ranking individual positions on the inequality pyramids. As observed from Malaysian literature, the analyses of Malaysia’s class structure and the identification of the middle classes are quite dated. This is partly due to the difficulty in obtaining and extracting information on class and social stratification to be used as the basis to derive Malaysia’s class structure and to locate the middle classes using official statistics in general. Increasing data aggregation and changes in classification make it even more difficult to maintain consistency. Furthermore, these data do not capture deeper elements of inequality located at the heart of stratification analysis.

At the risk of over simplification and following the author’s earlier work on class and the structure of inequality, this paper resorts to the use of occupational and income data available at the time of writing to derive Malaysia’s inequality pyramids, delineate social classes, and identify the middle classes. Stratification and class inequality is demonstrated primarily by using the Labour Force Survey (LFS) data for occupational and income

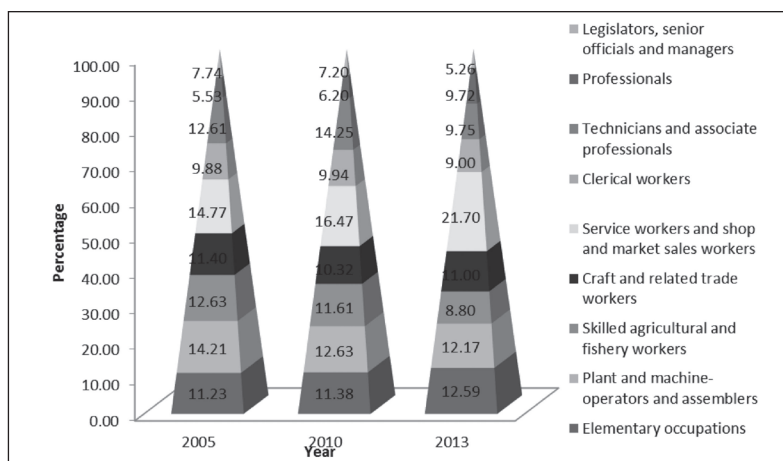


Figure 2. Occupational stratification (2005-2013)
 Source: Department of Statistics, Malaysia (2014b)

stratification as proxies. As already observed, occupational data already embodies various dimensions of occupational characteristics that correspond to the different levels of occupational prestige and status. It also embodies a set of criteria for class determination used in both the Marxist and Weberian perspectives to derive the class structures of developed societies. These criteria include components of work and market situations, credentials, autonomy, manual or non-manual job functions, as well as the prevalence of the service or labour contract on the occupational hierarchy as shown in Table 1. In this way, the identification of the middle classes in contemporary Malaysia is also derived from elements of social class and not just income as the problems of definition are as yet to be resolved.

3. Findings - Employment-Based Welfare and Shared Vulnerability of the Malaysian Middle Class

The inequality pyramids constructed from a class perspective revealed that the majority of Malaysians were found at the lowest levels of the class structure as agricultural and industrial workers, where vulnerability is strongest as shown in Figure 1. Furthermore, the structure of occupations in Malaysia is a reflection of this structural and endogenous nature of inequality already discussed. This is the structure of the labour force upon which the employment-based social protection strategy is built. Occupational stratification in Malaysia for 2005 and 2015 shows more of the same, whereby a large segment of the Malaysian workers are found at the bottom half of the pyramids performing elementary jobs, working as plant and machine-operators, and agricultural and fishery workers, as well being found at the bottom half of the white collar occupations such as service and clerical jobs with low skills, and having low wages and low levels of social protection even in the formal sector as shown in Figure 2.

The fragmentation of the middle class is evident from Figure 2. At the top of the pyramids are legislators, senior officials, managers, and professionals or components of the Professional-Managerial Class, as described in Table 1. In descending ranking would

Table 1. Criteria for class determination

Class position	Work/market situation/job description	Ownership	Employment status
Professional- managerial Higher grade professional Higher grade administrators Managers Business salesmen	High ranking professionals, managers and administrators in public and private enterprises; job functions include the conception and execution of task; highly autonomous with a great deal of authority and control over the labour process; except for managers and artists, entry requires tertiary or artists equivalent professional qualifications.	Credentials talents	Employees white-collar salariat Contract service
Technicians Lower grade professionals, lower grade administrators, technical assistants	Lower level professional and technical workers; work tasks may involve organising and supervisory functions, lower level decision-making; requires limited professional and technical knowledge in various areas of specialisation; entry requires mandatory qualifications and training or legally recognised professional qualifications; semi-autonomous, allowing some control of work process and/or labour of others.	Credentials	Employees white-collar salariat Contract service
Routine non-manual Routine clerical, sales workers, routine clerical, personal service workers	Job function involves performing pre-determined and highly routine tasks; entry requires very low skills and training.	Non-manual labour	Employees, white-collar salariat Contract service
Working class Skilled industrial, unskilled industrial, agricultural	Job function involves performing highly manual tasks requiring considerable physical effort; no direct control over work process; skill-specific or low qualification.	Manual labour	Employees blue-collar wage employe Contract labour

Source: Shamsulbahriah, K.A. (2010)

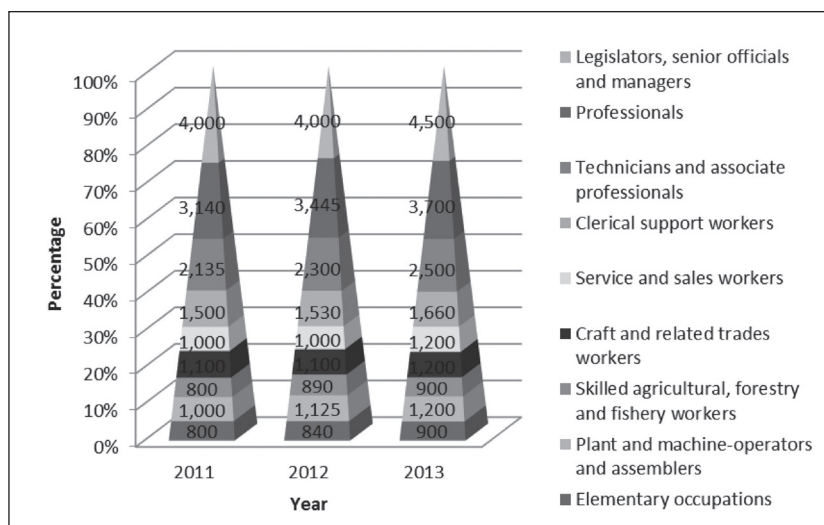


Figure 3. Occupational and income stratification (2011-2013)

Source: Median monthly salaries & wages by occupation, Malaysia, 2011–2013 Labour Force Survey Report, Department of Statistics, Malaysia (2014b)

be the class of technicians and associate professionals, clerical and service workers. These groups are governed by service contracts. Those at the bottom or the working class are craft workers, industrial workers such as plant and machinery operators, agricultural workers and those performing elementary jobs governed by labour contracts.

The corresponding median incomes for these occupations from 2011 to 2013 are also low as shown in Figure 3. Those earning below RM3000 per month comprise more than half of Malaysian workers. Going to the top of the occupational and income hierarchies, we find that half of employees have a median income of RM4500 while half of those at the bottom earn RM900 or the current minimum wage. Presented differently in Figure 4, the wage income in Malaysia demonstrates a classic champagne glass development model whereby a large proportion of jobs is concentrated at the bottom while more income circulates at the top and is slow to trickle down.

3.1 Employment-Based Welfare and Social Income

There are two oft referred-to components of social protection in the literature that are widely accepted today. The first is social assistance/social care designed to transfer resources and support, normally in the form of cash to groups in poverty, including the eligible elderly population. This can be considered as a last resort social safety net for those in need. The second is social insurance which is mostly based on earnings and relates to contribution. The aim in this case is to pool resources based on the insurance principle. This could be in the form of retirement pension and disability benefits, as juxtaposed Fig against the social wage components shown in Table 2. Malaysia has already operationalised these basic social protection tools comprising the social assistance or Pillar 0 and the informal family pillar (Pillar 4). The social insurance components comprises Pillar 2

Table 2. Employment-based welfare: the five-pillar social protection typology and social wage components

Social wage component SI = SP + W (Wb + Wf) + CB (FT + LT) + EB (NWB + IB) + SB (C + IS + D) + PB	Employment-based social protection Occupation Formal employment	Wage (RM) (median income 2013)	World Bank Five-Pillar Typology for Pension Reform Core objectives of pension systems
W = Money wage/income from work (basic wage + bonus) High income	(Public and private sector) Legislators, senior officials and managers Professionals	4,500	3 Third Pillar
PB = Private income gained through private investment and insurance	Open access/ affordability/ financial literacy	3,700	[Voluntary taking many forms; defined benefit (DB) or defined contribution (DC)] Voluntary saving schemes, life/ health insurance, bond, savings & stocks, PNB, BNM, Securities Commission 1Malaysia Retirement Savings Scheme (Introduced in 2010) PRS: Private Retirement Schemes (Introduced in 2011)

	2	Second Pillar
(Private sector)		
W = Money wage/income from work (basic wage + bonus)	4,500	
EB = Amount of benefits provided by the enterprise/firm/employer (Non-wage-benefits provided by firms + contingency, insurance type benefits provided by firms to workers)	3,700	
	2,500	[Mandatory defined contribution plan with independent investment]
	1,660	
	1,200	EPF LTAT
	1,200	
	900	
	900	
(Public and Private Sector)		
W = Money wage/income from work (basic wage + bonus)		1
EB = Amount of benefits provided by the enterprise/firm/employer (Non-Wage-benefits provided by firms + contingency, insurance type benefits provided by firms to workers)	4,500	First Pillar [Mandatory with contributions linked to earnings; pay as you go & publicly managed] Civil service pension and Retirement Fund Incorporated (KWAP)
	3,700	
	2,500	

Continued next page

Table 2. From previous page

	Clerical support workers	1,660	Objective of replacing some portion of lifetime pre-retirement income
	Service and sales workers	1,200	Civil Service Pension Scheme (unfunded defined benefit)
	Craft and related trades workers	1,200	SOCSSO - Work injury and Disability (funded defined contribution)
	Plant and machine-operators and assemblers	1,200	
	Elementary occupations	900	
	Skilled agricultural, forestry and fishery workers	900	
	Open access Residual approach		4 Fourth Pillar
CB = Value of benefits/support provided by the family (family transfers + community transfers including income from charity and non-government organisations)			[Informal support; social programs for healthcare or housing, & individual assets]
			Informal intra-family sources or intergenerational support; financial/non-financial, healthcare and housing
Social protection floor			X

SP = Self-production (self-consume/bartered/sold)

			0	Zero Pillar
W = Money wage/income from work (basic wage)	Plant and machine-operators and assemblers	1,200		[Non-contributory social assistance financed by the state, fiscal conditions permitting]
Low wage/irregular/informal	Craft and related trade workers Elementary occupations	900		
SB = The value of state benefits in the form of insurance or transfers (universal state benefits + insurance-based income transfers from the state for contingencies needs + discretionary means-tested income transfers from the state)	Skilled agricultural and fishery workers	900		Zakat, other poverty and welfare assistance programs, i.e. Single Mothers Assistance, Older Persons' Aid (Bantuan Orang Tua), Disability Worker Allowance.

Sources: The first column is derived from the composition of social wage in Standing (2008). The third and fourth columns were adapted from the World Bank Multi Pillar Taxonomy (Holzmann & Hinz, 2005, pp. 7 - 8), Holzmann (2013), and Tengku Aizan (2012)

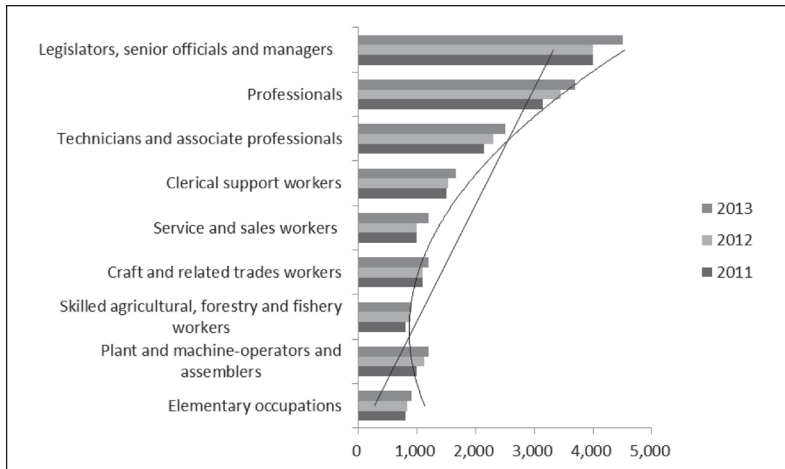


Figure 4. Occupational and income stratification: champagne glass development?

Source: Department of Statistics, Malaysia (2014b)

(mandatory defined contribution plans such as the Employees Provident Fund (EPF) and *Lembaga Tabung Angkatan Tentera* (LTAT) (or Armed Forces Fund Board), and Pillar 1 (defined benefit/matching contribution systems such as the Civil Service Pensions and the Social Security Organisation (SOCSSO)).

3.2 Components of Social Income

The components of social wage is examined more closely in this section in order to highlight its implications on an employment-based welfare strategy for Malaysian workers against the social protection Pillars available. Standing (2008, p.4) decomposed the components of social income as comprising of up to six income sources, which has been adapted in Table 2:

$$SI = SP+W+CB+EB+SB+PB$$

SI = Social income

SP = Self-production (self-consumed/bartered/sold)

W = Money wage/income from work (basic wage+bonus)

CB = Value of benefits/support provided by the family (family transfers+community transfers including income from charity and NGOs)

EB = Amount of benefits provided by the enterprise/firm/employer (non-wage-benefits provided by firms+contingency, insurance type benefits provided by firms to workers)

SB = The value of state benefits in the form of insurance or transfers (universal state benefits+insurance-based income transfers from the state for contingencies' needs+ discretionary means-tested income transfers from the state)

PB = Private income gained through private investment and insurance

The above composition of Social Income is further disaggregated as follows:

$$SI=SP+W(Wb+Wf)+CB(FT+LT)+EB(NWB+IB)+SB(C+IS+D)+PB$$

Wb = Base or fixed wage

Wf = Flexible part of the wage (bonuses, etc.)

FT = Family transfers

LT = Local community transfers, including income from charity, non-governmental organisations, etc.

NWB = Non-wage benefits provided by firms

IB = Contingency, insurance-type benefits provided by firms to their workers,

C = Universal state benefits (citizenship rights)

IS = Insurance-based income transfers from the state in case of contingency needs

D = Discretionary, means-tested transfers from the state

According to Standing (2008), casualisation of labour as a result of globalisation has led to a steady restructuring of social income. An increasing share of worker remuneration is now coming from money wages, which are becoming increasingly insecure. As such, he calls for new ways of providing income security in order to avoid anxiety and alienation. His conclusions support the view of the author that an employment based welfare strategy is limited in protecting workers, especially in the context of rising insecurity and 'flexicurity'. The global backdrop below should also be considered in assessing the effectiveness of social protection instruments.

3.3 The Rise of Labour Market Flexibility and 'Flexicurity'

Globalisation has created a seamless world that allows the intensification of capital and labour mobility. The relocation of capital from developed to developing countries has been accompanied by rising unemployment in the country of origin, labour market flexibility, casualisation of labour, the rise of part-time and sub-contracting work associated with the growth of the informal sector in developing countries. In tandem with this development is the lowering of social protection and the weakening of union power where 'flexicurity' and 'insecurity' became additional contenders for social protection agenda.

3.4 'Flexicurity' Approach to Social Protection

Flexibility of labour markets has been accompanied by a 'flexicurity' approach to social protection provisions in Europe. 'Flexicurity' embodies a policy strategy to enhance the flexibility of labour markets, the work organisation and labour relations on the one hand, and to enhance employment and income security of weaker groups in and outside the labour market on the other (Schmidt, 2006, p. 10). According to Schmidt (2006), this policy strategy is limited in relevance to small parts of Europe only. In particular, because the social wage is being eroded everywhere, and regular employment is increasingly treated as a luxury that cannot be afforded by many. Given the present climate of casualisation and informalisation of labour and the rise of 'flexicurity' as a policy measure in developed countries, can Malaysia or any country afford not to provide universal social protection for their citizens?

Furthermore, data on components of gross domestic product (GDP) by income approach in Malaysia showed that the share of wages in Malaysia has been more or less



Figure 5. Malaysia: GDP income approach (1971-2013)
 Source: Department of Statistics Malaysia (2014a)

stagnant at around 35% since the 1970s as shown in Figure 5. As already observed, wages are low, as seen from the data on median income. Under the circumstances, it is imperative that the implications of an employment-based welfare strategy, the structural dimensions of inequality and its impact on human security be given due consideration in designing social protection instruments.

This is crucial as the prevalent low wages in Malaysia makes access to private and voluntary tools for social protection and products under Pillar 3, such as private retirement schemes (PRS), limited to only those who find it affordable and are able to take risks. Furthermore, choosing among the PRS products sold by banks assumes a high degree of financial literacy that would enable consumers to distinguish a good sales pitch from sound financial advice. As banks are not social protection institutions and are driven by profit motive and not social protection provisions, there are no guarantees on returns on PRS products sold. As it is, coverage under Pillars 2 and 1 in Malaysia is already limited and small in amount. Furthermore, when companies go bust, Pillar 2 also disappears. Pillar 1, supported by the government may hold temporarily through bailouts. Pillars 0 and 4 would still be the last resort and make the proposed universal protection Pillar X an absolute necessity.

3.5 Shared Vulnerability among the Middle Classes

Looking at Malaysia’s inequality pyramids from 1970 to 2000 as shown in Figure 1, occupational stratification from 2005 to 2013 as shown in Figure 2, and income stratification from 2010-2013 as shown in Figure 3, it is evident that the majority of workers appear trapped in a self-replicating inequality structure. Hence the vulnerable are vulnerably located at the bottom of the inequality pyramids. Workers in these groups have low skills/ low educational levels, low income and savings, and have labour power as their most important asset.

Table 3. Percentage distribution of households by income classes in Malaysia (1970-2012)

Income class	USD per day	1970	1992	2002	2012
Upper middle class 5001 and above	50.52	0.10	3.80	14.70	33.60
Middle middle class 3,001 - 5,000	30.31 - 50.51	0.20	7.30	17.70	27.80
Lower middle class 2,001 - 3,000	20.21 - 30.30	0.50	11.30	18.70	16.00
New poor 1,001 - 2,000	10.11 - 20.20	2.40	30.00	29.90	17.80
Near poor <1000	10.10	7.50	30.80	15.40	4.50
Poor <500	5.05	89.30	16.80	3.80	0.50
Total		100.00	100.00	100.00	100.00

Note: Estimate exchange rate at USD 1.00 = RM 3.30 at the time of writing

Source: Household Income Survey (HIS) Data, EPU (2012) [Cited from Shamsulbahriah (2015)]

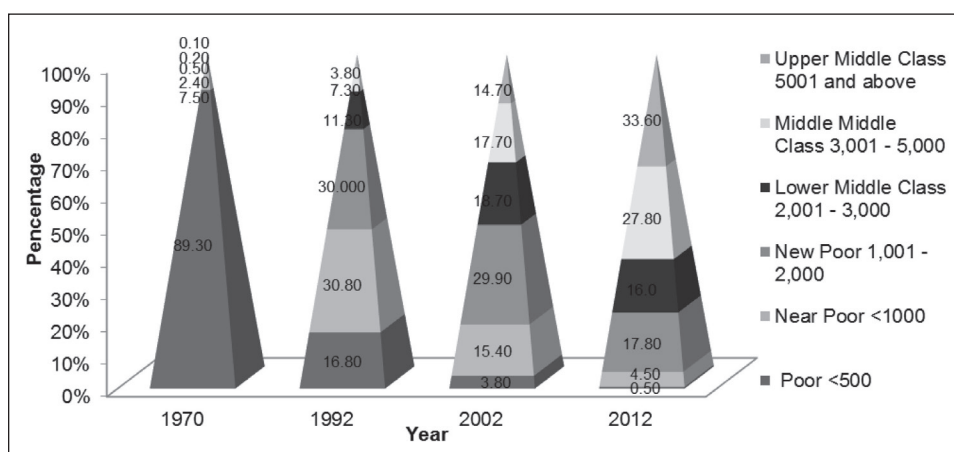


Figure 6. Percentage distribution of households by income classes in Malaysia (1970-2012)

Source: Shamsulbahriah (2015)

While the class and income pyramids capture characteristics of vulnerability from individual class and income perspectives, data from the Malaysian Household Income Survey (HIS) depicts the vulnerability of Malaysian households. The majority of Malaysian households, irrespective of race, are found at the bottom of the income pyramids as well, falling within the income range of USD10-USD50 a day (Shamsulbahriah, 2015). This income range has also been used by the Government to identify vulnerable groups for subsidy targeting under the NEM. The lower end begins from the Poverty Line Income (PLI) of RM860 per month and the upper end is up to household incomes below RM3000 and RM3001-RM4000 per month for *Bantuan Rakyat 1 Malaysia* (BR1M) beneficiaries.

Using this income range allows for visibility of social stratification, differentiation and fragmentation of the Malaysian income classes. Those at the bottom of the pyramids can be considered as the working poor. This group could be further differentiated as the ‘near poor’ and the ‘new poor’ as shown by Table 3 and Figure 6. Shared concerns for these

groups and segments of the upper middle class as well, relates to the rising cost of housing, healthcare, transport and fuel, general rising cost of living, rising debt burden, bankruptcies due to inability to keep up with housing loans, car loans and credit card repayments, and a lack of sufficient, comprehensive, consistent and reliable social safety nets.

The above findings were of no surprise as inequality is self-replicating. The main driver of vulnerability is in fact the social stratification system, a system which is endemic and responsible for reproducing the structure of occupations, social classes, and inequality in society. As confirmed by these empirical findings, the inequality structures have not changed much. The majority of Malaysians remained at the bottom of the pyramids in low skilled and low income occupations constituting the all-time vulnerable classes.

The concentration of the majority of workers at the bottom of the inequality pyramids is also a reflection of the low levels of education and skills of Malaysia workers. The education system seems to prepare the majority in Malaysia to be employed at the bottom of the occupational hierarchy, and to consequently occupy the bottom of the inequality pyramids. The rise to the top is slow and restricted to a small group. More importantly, these positions determine the levels of social protection available under an employment-based welfare system. This implies lower levels of social protection for groups at the bottom of the inequality structure and higher for those at the top as highlighted in Table 2.

3.6 Shared Vulnerability and Informality

Bearing in mind the structural nature of inequality discussed and its impact on formal employment, how can an employment-based welfare strategy protect those in the informal sector? Answering this question is an imperative given the climate of insecurity and casualisation of labour and labour market flexibility in the world of work.

The role of the informal sector in mitigating risk, for instance, needs to be recognised. This sector has been interpreted as having two faces. The first has long served as a sector of last resort/survival during crises as well as a source of complementary/seasonal income. The 'invisible' nature of unskilled informal work attracts a diverse group of workers such as women working from home, and migrant workers hiding from the authorities, providing fertile grounds to enable abuse by employers and employees alike. The second serves as a sector of choice for the mobile elites or skilled salariat at the top of the employment hierarchy moving in a borderless employment market and small businesses, some associated with the expansion of the shadow economy. This group is comprised of owners of 'esoteric knowledge', either in the form of education and skills, cultural or political leverage or all three (Shamsulbahriah, 2015). Inadequate social protection coverage applies more to the earlier group, whose main asset is their physical labour. Increased casualisation for this group makes money wages insecure and an insufficient part of social income. Furthermore they are constantly at risk of unemployment.

4. Conclusion

Addressing weaknesses in the social protection system in Malaysia requires some stock-taking of global and national challenges. Hence, issues relating to expanding coverage, addressing informality, and ensuring fiscal sustainability must be contextualised within an appropriate framework for analysis. In this regard, the fact that social protection systems around the world are increasingly becoming employment-based rather than welfare-

based as can be observed from the shift from DB to DC, the impact of globalisation on labour market flexibility, the resulting decline in the money wage component of social wage, and the rise of 'flexicurity' as an emerging social protection paradigm, must be taken into consideration. At the same time, endogenous factors such as structural inequalities that give rise to vulnerability drivers in the form of structural unemployment, and the predominance of low income occupations resulting from low levels of skills, as well as high cost of living, and rising household debt, cannot be ignored in addressing social protection issues in Malaysia. Empirical evidence and discussions throughout this paper also raised some policy concerns with regard to the points discussed below.

4.1 The Limitations and Effectiveness of an Employment-Based Welfare System

It is also clear from the discussions that an employment-based welfare system using occupation and higher education as the vehicles to attain higher income and access to social protection tools, whether public or private, is in itself limited. These criteria also define the social protection path of those in the formal sector. As is increasingly evident from the global trend, the risk of unemployment and market crash are making people less able to depend on an employment-based welfare system for survival in times of crisis. The highly educated at the top of the occupational hierarchies such as professionals, company executives, doctors and lawyers, for example, are also susceptible. Moreover, this group also tends to invest in the stock market, mutual funds, PRS, foreign currencies, etc. It has been proven that many in this group are at risk of losing their investments during stock market crashes. Unemployment at the top is also increasingly evident from the inability of Malaysian graduates to find jobs, and increasing retrenchments of workers in the financial sector. If social protection is dependent on jobs to provide a steady income that can pay for social security packages, it is unclear what would be available to workers when jobs are lost, what its impact on all social classes will be, and whether social welfare will wither away as well.

4.2 The Structural and Endogenous Nature of Inequality and Its Impact on Welfare

From the above discussion it is logical to conclude that the structure of inequality is endogenous to the system from which vulnerability stems. The room at the bottom where vulnerability is strongest cuts across class, sex, and ethnicity in Malaysia (Shamsulbahriah, 2015). Whilst vulnerability drivers of these diverse groups include a host of factors from low skills, low income, low savings, crises, and other global dynamics, Malaysia is also facing the disintegration of the traditional family system resulting from divorce, late marriages, emigration, a rapidly aging population, and labour market issues such as insufficient post-retirement employment opportunities, and inadequacy of post-retirement income. Mainstreaming endogenous and structural inequalities in deriving a comprehensive social protection strategy would serve Malaysia well in achieving its aspiration to become a developed nation where social protection is available for all.

4.3 Lessons from Developed Countries

In relation to this, the subprime mortgage crises 2008 in the United States of America (USA) should be a lesson for Malaysia. As a result of a significant policy shift over the past 25 years, Americans have had a much larger share of their retirement assets invested in

equities than they did in the past (Butrica, Smith, & Toder 2009). Over this period, employment-based pensions have switched from traditional DB plans that require employers to manage retirement savings to DC plans that place the investment responsibility on workers and their fund managers. Under the DB plan, retirees have a guaranteed lifetime income. This is not so with the DC plan, as retirees receive what they (and their companies) have contributed whilst they were employed.

During the boom period, many American DC retirement savings (or 401(k)) plans were invested in homes, stocks, real estate investment trusts (REITs), and other paper assets. The subprime mortgage crises of 2008 and the consequent investment asset value loss has left many of these investors much poorer, and some jobless, homeless and impoverished. This includes many educated professionals at the top of the pyramids, young and old. Those who were able to subsequently find work earned less than before. This paper found that the poor, the middle class, and the affluent professionals are all at risk as they are dependent on jobs to provide income for current as well as retirement consumption. In the USA today, more elderly people are ill-prepared to provide for themselves as they approach old age, as they are likely to live longer than their parents. For the first time in generations, the next wave of retirees in the United States will probably be worse off than the current elderly (Hymowitz, 2014).

The conclusion from the discussions and the empirical evidence available thus far, reflect the overall ongoing erosion of workers' welfare, hence reinforcing their vulnerability. Not all members of the middle classes will be spared. Given the structural nature of inequality and the crisis-prone social protection tools currently available, the concept and approach to social protection chosen should incorporate these structural issues. Social protection provisions should not be limited to meeting income needs with public transfers or regulated insurance. While developed countries invested in social protection during times of prosperity, they have also come full circle in relying on informal means of social protection as a response to rising structural unemployment, fiscal constraints, crises, and uncertainties. Malaysia too should consider alternative means and approaches to social protection and learn from these experiences.

Broadening the framing of social protection analysis to include structural dimensions such as inequality, and putting human security and welfare at the pinnacle of social protection provisions on which everything else rests could be a step in the right direction. In this way the security and dignity of human life can be better protected, freeing people from vulnerability, and enabling them to contribute to nation building and development. Labour could then be more humanised and not simply reduced to a mere factor of production. As a start, this paper proposes an introduction of a minimum universal social protection pillar called Pillar X using the existing Pillar O as its basic foundation. This pillar is necessary because social protection tools as they are available now do not guarantee the welfare of all Malaysians.

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