

The views expressed in this paper are those of the author and do not necessarily reflect the views or policies of the Asian Development Bank. The Asian Development Bank does not guarantee the accuracy of the data presented.

Inequality and Determinants of Earnings in Malaysia

BRANKO MILANOVIC

Abstract

The paper looks at the changes in the characteristics of the working-age population, and at inequality and determinants of earnings in Malaysia. Between 1984 and 1997, Malaysia's real per capita GDP increased by about 70 percent and real wage of a manufacturing worker by 30 percent. This was accompanied by changes that look almost like a stylized picture of fast development. Participation rates for both men and women increased for all age groups; the average number of years of schooling went up from 8 to 9.2 years; and among the working-age population, the share of wage-workers increased to the detriment of the rural self-employed. The flip side of this picture, however, is that growth seems to have been fuelled principally by increased labor participation, longer working hours, and, indeed, improved education. Inequality of earnings, measured by the Gini, remained stable between 1989 and 1997, but other measures of inequality (like decile ratios) show a significant relative wage improvement among the bottom deciles, and relative wage decrease on the top. Women are "discriminated" (in the matters of earning) to the tune of 16-20 percent, and the bias has recently increased. The tendency for ethnic Chinese to earn more than members of other groups is estimated at 31 percent.

Branko Milanovic is with the Policy Research Department of the World Bank. This paper is to be delivered at the **Asia and Pacific Forum on Poverty: Reforming Policies and Institutions for Poverty Reduction**, to be held at the Asian Development Bank, Manila, 5-9 February 2001.