



The Dynamics of Public Opinion towards Inequality in Malaysia

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Abstract:

Globally income inequality is on the rise. With growing income inequality, market outcomes are no longer Pareto efficient as it is benefiting only a small group of individuals. Working with the World Values Survey data, this paper aims to provide an additional perspective on income inequality in Malaysia. We find evidence that individuals' underlying beliefs, ideologies and education level are important determinants of their attitudes toward income distribution. In addition, the paper concludes that individuals' preference for income distribution is significantly shaped by the experiences and economic condition in their local communities. States that are poorer and more ethnically diverse prefer more equal income.

Keywords: The New Economic Policy, income inequality, beliefs, preferences, redistribution, World Values Survey

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1.0 Introduction

The increase in economic disparity over the past few decades has inspired extensive research into the determinants of economic inequality. Even though worldwide income inequality has shrunk, largely because of high development in China, the severity of the still remaining inequality is clear from the fact that the top 1% of the world's population is drawing 50% of the world's income and the other 99% is sharing the other half of the resources (Milanovic, 2005, 2013).

Researchers have argued that inequality is not politically sustainable and may lead to negative growth (Benjamin, Brandt & Giles, 2011; Grosfeld & Senik, 2010; Herzer & Vollmer, 2012). Moreover, the evidence on the determinants of income inequality seems inconclusive (Neckerman & Torche, 2007; Rodríguez-Pose, 2012; Zhou, Biswas, Bowles, & Saunders, 2011). It is not surprising because a majority of studies on inequality are either based on panel data or focused on the richer West. The contrasting findings¹ may be caused by the inclusion of certain countries which may influence the overall results (Atkinson & Brandolini, 2001; Bjørnskov, 2004).

According to the World Bank Povcalnet database, Malaysia's Gini index has been on a downward trend since the late 1970s. Gomez, Saravanamuttu and Mohamad (2013) add that developing countries such as Fiji, South Africa and Zimbabwe have looked to the "Malaysian model" to foster affirmative action favoring the majority ethnic group. A report by the Asian Development Bank has also listed Malaysia as one of the Fast Growing Converging Economies in the region (Sharma & Sood, 2011). Looking beyond Malaysia's economic success, it is evident that the country has come a long way since the 13th May 1969 racial riot. The racial riot served as a wakeup call to policy makers to correct economic imbalances amongst ethnic groups² (Ragayah, 2008). Since then, Malaysia has been rapidly pursuing redistribution of

income via the introduction of the NEP or New Economic Policy (Hashim, 1998; Ragayah, 2008).

More than two decades after the NEP, it is evident that the socio-economic landscape in Malaysia has changed drastically (Department of Statistics, 2013). The question now is how has Malaysia's historical background affected the perception of income inequality in the country? Malaysia's unique position as a country with a multiethnic society requires further examination especially as the country balances between affirmative action on one hand and meritocracy on the other hand (Gomez, Saravanamuttu & Mohamad, 2013). A case study of Malaysia is emphasized here since the country has remained free from social strife based on ethnicity even though preferential policies are in favor of the majority Bumiputera. This paper seeks to provide a subjective view of inequality using the public opinion platform.

The potential contribution of this paper is pertinent as an individual's preference of inequality is somewhat linked to an individual's preference for redistributive policies. Often an individual's perceived level of inequality may affect his/her political outlook and voting behavior (Bartels, 2008; Bjørnskov, 2008). Favorable public opinion has been noted as an important indicator of public support for government policies. Regardless of whether these perceptions of inequalities are founded upon economic grounds, such perceptions will likely affect the citizens' attitudes (Andersen & Fetner, 2008) and government policies (Weakliem, Andersen & Heath, 2005). Furthermore, it should be an area of concern if most citizens in a country perceive income inequality to exist due to the Government's unfair policies (Acemoglu & Robinson, 2006). As seen in the case of the Arab Spring, this may lead to political upheavals to contest the perceived exploitation.

1.1 Theoretical considerations of attitudes to inequality

Although research on societal opinions about attitudes to inequality has a long tradition in sociology, it has drawn considerable attention more recently among economists as well. What determines an individual's tolerance towards income differences? Previous studies have drawn on the public choice argument of the self-interested median voter hypothesis (Romer, 1975; Meltzer and Richards, 1981); tunnel effect (Hirschman & Rothschild, 1973) and prospect for upward mobility hypothesis (Bénabou and Ok, 2000).

On top of these conventional determinants of attitudes, the political sociology literature suggests that evaluation of income distribution is affected by the social justice norms. Hans-Jürgen and Heien (1999) suggest that attitudes can be the product of socialization in a specific type of welfare regime. According to this theory, through the daily experience of the regime's institutions, structure and ideology, people are assumed to absorb part of this ideology which results in a certain pattern of attitude towards inequality.

The launching of the New Economic Policy (NEP) in 1971 was a watershed in the Malaysian economic policy history with the overriding goal of national unity. This policy was adopted for a period of 20 years. The NEP ended in 1990, but the legacy of the government affirmative action policy continues. People in the country socialized under this regime are expected to exhibit regime-specific attitudes which have been shaped over decades. Since people's attitudes reflect the conditions in which they live, individual's attitudes concerning society are expected to influence his preference on income differences.

1.2 The New Economic Policy (NEP)

An important preliminary to studying inequality in the country requires a brief understanding of the NEP, which had supported the structure of the Malaysian diaspora³ which exists till today. The NEP was launched in 1970, a year after the May 13th racial riots exploded in certain

parts of the country. The riots were spurred by a prolonged period of economic tension between two major ethnic groups, the Bumiputera and Chinese. Partly fuelled by the British's 'divide and conquer' policies, economic segregation based on ethnicity worsened after the country gained independence in 1957 (Gomez & Jomo, 1999). Moreover, the Bumiputera and non-Bumiputera middle class felt that the benefits of development were unequally shared (Hashim, 1998). Many Bumiputeras believed that the Malay economic underdevelopment was caused by the Chinese economic hegemony while many Chinese believed that the Malay-dominated political ruling party was responsible for the official government discrimination against them (Jomo, 2004). This tension between the races contributed to the racial riots which eventually led to the introduction of the affirmative action policies through the NEP.

In response to the rising racial tension, the Government partially abandoned its *laissez faire* stand, increased state intervention and public sector expenditure in order to meet the NEP's objectives (Gomez & Jomo, 1999). Furthermore, the government had hoped to reconcile the races and foster national unity through a two-pronged strategy (Malaysia, 1971; 1976). The first strategy was to reduce poverty, irrespective of races and the second was to restructure society to eliminate the identification of race with economic function (Hashim, 1998). Gomez, Saravanamuttu and Mohamad (2013) add that at the point in time the government believed that national unity would only be possible through helping the 'Bumiputera', a group identified to be in need of assistance⁴. They furthermore emphasized that this is made possible through the implementation of a quota based education system and greater involvement in businesses through public enterprises. And so Malaysia became a rare country that positively discriminated in favor of the majority.

The NEP was received with mixed feelings. Some studies have commended NEP's success in reducing poverty levels (Demery & Demery, 1991) particularly amongst the Bumiputera (Ragayah, 2008) and the inequality between races (Ikemoto, 1985). On the other

hand, Milne (1986) observed the emergence of a better off Bumiputera class or new middle class group who have benefitted tremendously from the NEP. Jomo and Ishak (1986) added that NEP was not able to correct economic imbalances as the government was more concerned about reducing absolute poverty in the country. In a later study, Gomez and Jomo (1999) commented that even though absolute poverty has decreased because the economy experienced remarkable growth, income inequality may still rise. In agreement with Milne (1986), Jomo and Ishak (1986) noticed that the Bumiputera and non-Bumiputera middle class will continue to experience ‘conflict’ as each tries to protect their community rights. This social class struggle may not break out but remain as a state of rivalry and tension between the two races (Jomo and Ishak, 1986, p. 98). Gomez, Saravanamuttu and Mohamad (2013) assert that the NEP has aggravated spatial inequalities (inequalities in different regions or rural urban inequalities) and provided evidence to support their claim. Ritchie (2005) added that policies under NEP strengthened Malaysia’s dualistic economy and balanced the interests of various stakeholders but added that although the Chinese were marginalized under these policies, they learnt ways to prosper.

Heng (1997) adds that the NEP’s preferential treatment for the Bumiputera did not bring about political or economic instability and that Malaysia experienced remarkable growth during the said period. Heng (1997) was optimistic that the non-Malays particularly the Chinese will be more involved politically, economically and culturally in the post NEP period based on support by Tun Mahathir, Malaysia’s long-term former prime minister for “Bangsa Malaysia⁵”. The NEP ended in 1990, but the government’s affirmative action policy continued as predicted by Milne (1986) with the launch of Vision 2020 to replace the NEP. This historical experience is believed to play a large role in forming the citizen’s perception of income inequality in the country.

1.3 Growth with Equity in Malaysia

Since the launch of NEP in 1971, governmental policies that includes broader educational and employment opportunities amongst the Bumiputera helped to attain the growth with equity objective (Rayagah, 2008). Consistent with the Kuznets (1955) theory which postulates that income inequality first increases and then decreases during the development process, Figure 1 reveals an obvious increase in income inequality from 1970 to 1976 before dropping sharply from 1976 (Gini coefficient 0.557) to 1989 (Gini coefficient 0.442). The Kuznets theory is based on the understanding that as a country begins to industrialize, there will be a rural-urban migration of workers. This migration widens the rural-urban inequality gap. However, as the country begins to benefit from the higher per capita income this rural-urban gap reduces. The relationship between growth and inequality is an inverted “U” shape. However since the 1990s, the inequalities started rising and the Gini coefficient went up to 0.462 in 2004 after which there was a moderate decline in inequalities. Gini coefficient was last measured at 0.431 in 2012.

Figure 1 here

Classical economists believed that inequality serves as an incentive to spur growth and capital accumulation (Galor & Zeira, 1993). The discussion on income distribution is mainly centered on the marginal propensity to save, where a major source of investment funding is domestic savings. Studies have suggested that since marginal propensity to save increases with wealth, and a distribution of income favoring the rich (individuals with higher propensity to save) will enhance savings and spur investment (Galor, 2011). Furthermore, Welch (1999) adds that inequality is only a short run loss to the population. Although, inequality can sometimes hinder growth and work against equity, this does not seem to be the case in Malaysia.

Mahadevan (2007, p.172) observed that, “In Malaysia, rapid and sustained economic growth, educational advancements, affirmative action programmes, tolerance or acceptance of

government's redistributive policies and luck have all helped contribute to a sunny story on Malaysian equity" (p.172). Furthermore, the author posits that political stability in the country stems from a social contract between the Malays and Chinese. The Malays enjoy political power, whereas the Chinese enjoy business control⁶. The principles of equity support each individual's freedom to choose, where an equitable allocation of goods is considered fair if it is Pareto efficient⁷ and derived through competitive exchange (Atkinson & Bourguignon, 2000). The government's intervention on the economy, through the introduction of NEP is deemed necessary to ensure that the objectives of growth with equity are achieved (Ragayah, 2008). In a sense, the poorer segment of the society seemed to have benefitted from the exceptional growth experienced by Malaysia, without sacrificing the better off segments of the society. This is proved through the reduction in absolute poverty in the country (Jomo & Wee, 2014). Moreover, according to Demery and Demery (1991), a more equitable policy would have been damaging to the poor. Noor (2009) adds that the government's stand was to help the majority of the poor Malays and the NEP should be viewed more positively to even though there were problems associated with its implementation. Next, we look at the data to understand the citizen's preference of inequality in Malaysia.

2.0 Empirical model

2.1 Data description

The analysis relies on data from two rounds of the World Values Survey (WVS). The sampling is based on proportionate size of the population (1st stage). Next, each stratum was derived based on the number of states in the country (2nd stage). From each stratum, a cluster sampling was done based on the urban and rural districts (3rd stage). Finally, a random sampling was done on each cluster (4th stage). The sample consisted of respondents from both sexes aged 18

years and above. The WVS was carried out in two waves in all 13 states in Malaysia as summarized below:

<u>Year</u>	<u>Wave</u>	<u>Number of respondents</u>
2006	5	1201
2011	6	1300

Wordings of the questions used in the WVS are provided in Appendix 1.

2.2 *Dependent Variable- Explaining how affirmative actions could affect incentives*

The WVS asks respondents to state how they value income inequalities. Responses are coded on a ten-point scale, with 1 meaning “incomes should be made more equal “and 10 meaning “we need larger income differences as incentives for individual effort”. The interpretation of this indicator is as follows: lower values indicate higher preference for equality; higher values indicate preference for larger income differences. This question was chosen as it directly taps on the individual’s preference for equality or inequality⁸. According to Medgyesi (2013), this question does not separate perception and valuation of inequalities. This question is relevant in our study because the affirmative action could affect effort in different ways.

On one hand, the presence of affirmative action could reduce incentives for effort and skill acquisition in the preferred group (the Bumiputera), because the policy could make effort and skill acquisition less important for achieving successful outcomes (Fryer and Loury, 2005). On the other hand, incentives for the preferred group could be enhanced as opportunities that were thought as unattainable has now become achievable. Similar mechanisms maybe at play for the non-preferred groups. The following statement by Thomas Sowell (2004) from his book “Affirmative Action Around the World” reflects this concern:

Both preferred and non-preferred groups can slacken their efforts - the former because working to their fullest capacity is unnecessary and the latter because working to their fullest capacity can prove to be futile. [...] While affirmative action

policies are often thought of, by advocates and critics alike, as a transfer of benefits from one group to another, there can also be net losses of benefits when both groups do less than their best. What might otherwise be a zero-sum game can thus become a negative-sum game. (p. 14).

2.3 *Independent Variables*

2.3.1 *Predictors of Attitudes Concerning Society*

Sefton (2005) has argued that underlying beliefs and values are more powerful in explaining attitudes to redistribution than demographic variables. One way to examine the underlying values and beliefs is to consider perceptions of the ‘causes of poverty’ that are likely to be related to perceptions of the ‘causes of riches and attitudes to inequality’ (Orton and Rowlingson, 2007). Beliefs differ about the respective roles of responsibility, luck, state ownership and wealth in determining individual success. These beliefs, in turn, affect attitudes toward income distribution.

Lane (1959), Hochschild (1986, 1996) and Lamont (2000) stressed the importance of motivated beliefs as an important determinant of economic success and poverty. These individuals believe that effort, hard work and good deeds will eventually pay off. We capture such beliefs by using the WVS questions that asked respondents about their views on competition, hard work and the potential returns from hard work. The WVS interviewer showed a card to the respondent in which there were two opposite statements on a 1-10 scale. The respondents chose the number that best described his or her relative position. Questions range from whether people think ‘*Competition is good. It stimulates people to work hard and develop new ideas*’ to whether ‘*Competition is harmful. It brings out the worst in people*’. Lansley (1994) suggested that ‘competitive individualism’ is rising amongst the middle classes as they become more self-dependent and less supportive of state intervention. The role of luck

is measured by the views of whether *'In the long run, hard work usually brings a better life'* or whether *'Hard work does not generally bring success – it is more a matter of luck and connections'*. Another relevant question asked the respondents whether *'People can only get rich at the expense of others'* or whether *'Wealth can grow so there's enough for everyone'*. Those who agreed with the statements that *'competition is harmful'*, *'success depends on luck and connections'* and *'people can only get rich at the expense of others'* did not believe that their hard work would bring a better life without state intervention to make income more equal.

International surveys reveal differences between the views held by individuals concerning the causes of economic success or poverty, the extent to which individuals are responsible for their own success. Attitudes toward responsibility, measured by agreement to the statements *'Government should take more responsibility to ensure that everyone is provided for'* and *'Government ownership of business and industry should be increased'*. Agreement to these statements would call for income to be redistributed more equally by the government.

We exploit another group of questions related to the individual's perceived mobility – confidence in family's prospect and savings for the past one year. We assume that an individual who is confident of his/her future prospects and has enough income to support his/her daily expenses would prefer larger income differences (Wong, Wan & Law, 2009). Respondents in the WVS were asked *how satisfied they were with the financial situation of their household*. The responses are measured on a scale of 1 to 10 with 1 meaning *'completely dissatisfied'* and 10 meaning *'completely satisfied'*. We used another question on the WVS to ask if the individual's family *'saved money'* (coded 1) or *'spent savings and borrowed money'* (coded 4) during the past year.

In Malaysia, the left - right political orientation is unclear (Beck, Clarke, Groff, Keefer & Walsh, 2001). Most citizens are not familiar with the concept of left wing and right wing.

As measures of ideology, we used individual responses to attitudinal questions regarding the importance of democracy and whether the government should tax the rich and subsidize the poor in a democracy to measure the individual's political stance. Those who agreed that '*it is absolutely important to live in a country that is governed democratically*' and that the '*government should tax the rich and subsidize the poor*' were more likely to be in favour of redistribution and a strong welfare state.

Finally the individual's underlying belief in fairness was included in the model as recommended by several studies (Alesina & Angeletos, 2005; Rasinski, 1987). According to Sefton (2005), attitudes to redistribution were affected more by individual's underlying belief in fairness than by what they thought the actual distribution was (Alesina and Angeletos, 2005; Rasinski, 1987). We used a variable in WVS which asked the respondents if they think most people would try to take advantage of them or would they try to be fair. The respondents were asked to pick a number on a 1 '*people would try to take advantage of you*' to 10 '*people would try to be fair*' scale.

2.4 Control Variables

The individual's demographic information, gender, age, marital status, educational attainment and year of survey are entered as control variables. Marital status, ethnicity, year of survey were transformed into dichotomous variables before being entered into the statistical model. Gender, marital status and age are added as a control mainly because studies have found that generally women, people who are married and older persons prefer more equal societies. According to Murthi and Tiongson (2008), older people prefer more equality mainly because they are more dependent on the government for income security compared to younger people. At the same time, the more educated segments of the society feel they deserve large income

differences. As such, we expect to see a positive relationship between educational attainment and preference for larger income differences.

2.5 Contextual Variables

It is argued that citizens' response to the economy is mediated by the experiences of their local communities. For example, research has shown that citizens' assessments of the state of the economy are significantly shaped by economic conditions in their communities (Books & Prysby 1999; Mondak, Mutz, & Huckfeldt 1996; Reeves & Gimpel 2012). Most political scientists claimed that economic self-interest is a key predictor of support for income redistribution.

We suggest that contextual features, especially the level of economic development and income inequality, shape the formation of individual preferences and particularly the role of economic self-interest in preference formation (Dion & Birchfield, 2010). The economic development and Gini⁹ coefficient vary quite substantially across the states, with the GDP/capita ranging from RM7,982 per annum in Kelantan to RM29,394 per annum in Selangor, and Gini coefficient ranging from 0.354 in Pahang to 0.455 in Perlis. Zhao (2012, p.439) states that high levels of inequality not only 'increases status differentiation, but also heightens status competition and status insecurities among social members'. Perhaps these feelings are due to each individual making social comparison with their peers¹⁰. Individuals are influenced by their context, their attitudes are reflected by the conditions in which they live. Political scientists found that characteristics of citizens surrounding environments could shape their policy preferences and vote choices. The state in which we live affects our beliefs, opinions and behaviors.

We hypothesize that the preference on income redistribution may vary according to the state's level of income inequality. According to Dion and Birchfield (2010), societies with

greater income inequality tend to support government redistribution as they have more unfulfilled needs relative to the societal average. In addition, we expect states with lower levels of economic development to have greater demand for income redistribution. Since basic needs are less likely to be widely met in poorer states, individual demand for redistributive policy will be more prevalent (Reenock, Bernhard, and Sobek, 2007).

Key (1949) argues that the size of local minority populations will affect the local majority's perceptions of intergroup competition and ultimately their level of support for anti-minority policies and candidates. At the contextual level, we also control for ethnic fractionalization. Based on Alesina, Devleeschauwer, Easterly, Kurlat, and Wacziarg (2003), ethnic fractionalization data¹¹ was calculated and included in the model. The fractionalization index is calculated for each state using data from the Department of Statistics (Population Distribution and Basic Demographic Characteristics report, 2010). The interpretation of the index as follows; lower values indicate more homogeneous states. Since the affirmative action policies in Malaysia are race-based policies which benefit the majority Bumiputera, we expect the attitudes in the states where more than 95% of the population are Bumiputera (i.e., Kelantan and Terengganu) to differ from the states that are more heterogeneous such as Pulau Pinang and Perak (refer to Table 1).

Table 1 here

3.0 Empirical Findings

3.1 Preliminary Results- Income: more equal or unequal?

According to the WVS, 55.1% of the respondents in Malaysia prefer larger income differences as incentives for individual effort. This comes as a surprise as there were already calls for more government involvement to reduce the levels of inequality in the country. To provide a better

perspective on the data, Table 2 provides a comparison of data with other countries in the ASEAN region.

Table 2 here

Table 2 show that at least half of the samples in the selected ASEAN countries prefer larger income inequalities. It does not seem that Malaysia is exceptional with the prevailing levels of Gini. Looking in-depth into the Malaysian data, several states with GDP below average (Pahang, Kelantan, Terengganu and Sabah) recorded high levels of responses preferring larger income differences (Table 3). Based on Table 3, it is evident that there are considerable differences in terms of preference for larger income differences amongst respondents in all 13 states in Malaysia.

Table 3 here.

3.1 Discussion of Results- What determines greater preferences for inequality?

The means, standard deviations and ranges of the major variables are reported in Appendix 2. The statistical model is purposely built incrementally in several stages¹². First, the preference of inequality is regressed on a base model containing only state dummies (results available upon request). The results show that some states prefer greater levels of inequality and others less inequality. This base line model seems to indicate that there are no differences in terms of preference amongst individuals in richer states versus poorer states.

Table 4 reports the results of running the statistical model with robust standard errors. All standard errors are corrected using White (1980) since initial diagnostics indicate the presence of heteroskedasticity. *A priori*, the variables listed in the model are ordinal variables,

which reflect ordering of preferences. The Ordinary Least Square (OLS) regression assumes that the distance between the scales is equal over all levels of the scale. We also conducted tests of possible multicollinearity amongst the individual independent variables. The results showed that the model passed the minimum threshold on both variance inflation factor (VIF) and tolerance level.

Table 4 here

Column 1 (Table 4) displays the result of including only the control variables and individual beliefs. We add the contextual effects in Column 2. Surprisingly, our main variable of interest, the income scale, is not significant and the results are not in line with existing studies. Earlier studies have shown that individuals with relatively high income prefer larger income differences and this is not shown here after controlling for state level effects. A potential explanation is that income is self-determined¹³ and not based on actual income. Dowling and Yap (2012) notes this limitation of the income data as respondents could either be in self-denial and report higher than actual income; or feel deprived and report a lower income than actual income. It could also be that there is less differences between the preferences of the rich and the poor than thought (Kelly & Enns, 2010). When we tried to regress our dependent variable only on the income scale the results were statistically significant at .05.¹⁴

Next, we look at educational attainment. Educational attainment is highly significant and in the expected direction. Consistent with the human capital theory, people who are more highly educated tend to prefer greater income differences. *Ceteris paribus*, a unit change in education will increase the preference for large income differences by 0.33 units. Other studies with the WVS (Bomhoff & Lee, 2012) also indicate that the information content of the education variables in the WVS is better than that of the income variables. Individuals who are

highly educated prefer larger income differences possibly because of their belief that incomes are a reflection of personal effort. It seems that education is a more powerful predictor of perceived inequality. Other personal characteristics such as gender, age and marital status were not significant at the 5% level. This may be in part because Malaysia does not provide unemployment benefits to stay home mothers or older groups of people, unlike the West.¹⁵

The effects of being part of the majority ethnic group in Malaysia, i.e. the Bumiputera, show a highly significant and negative coefficient. This negative relationship shows that the Bumiputera prefer more equal incomes. Two possible explanations come to mind. First, in reference to other ethnic groups, the Bumiputera may still feel economically disadvantaged (Department of Statistics, 2013). A second possibility is related to the cultural aspect of the Bumiputera towards inequality (Snodgrass, 1980). Although not obvious, the effect of the government's affirmative action policies is distinctly shown here; where the non-Bumiputera prefers more equality in terms of redistributive policies.

Variables which measure attitudes concerning society were all significant and in the expected direction. Individuals who prefer larger income differences would naturally feel that competition is good and believe that people should take more responsibility to provide for themselves. However, it is interesting to note that these individuals also believe that the state ownership should be increased. *Ceteris paribus*, a unit increase in the preference for state ownership is associated with 0.23 unit increase in preference for larger income differences. Generally Malaysians do not associate greater state intervention with socialism (Jomo & Wee, 2014). According to dataset, 41.7% of the respondents favor greater government involvement. It could be that the negative impression of the massive privatization exercise which occurred in late 80s had led individuals to prefer more state enterprises or perhaps it is an outcry for a more benevolent Government. Another potential explanation is that individuals believe that Government ownership serves as a monitoring device against corruption after the failure of

several large privatization exercises, including MAS, IWK, LRT and Proton (Tan, 2008). Perhaps higher education had somewhat led individuals to look towards developed countries where there are state provisions to ensure a better life.

At first it may seem contradictory that individuals who prefer larger income differences also tend to agree that ‘wealth can grow so there’s enough for everyone’. It seems probable that given the consistent growth in GDP (as often reported in mass media) and richness in natural resources of the country, individuals believe that getting more wealth for themselves would not affect others. The results from a cross tabulation table confirms this, as only 143 respondents who prefer larger income differences also believe that ‘people can only get rich at the expense of others’. Individuals who believe that luck and connection brings success also prefer larger income differences. An earlier study, Ohtake (2008) posits that the Japanese have a negative perception of the rich poor gap because they perceive it to be influenced by talent, academic background, or luck. This view is not supported here. Generally Malaysians do not attach a negative connotation to luck or connections. The individual’s expectation of future mobility is also a significant determinant of perceived inequality. Individuals who are satisfied with their financial situation are more tolerant of income differences as they are more confident of their future prospects.

Finally, the highly significant and positive coefficient on both proxies which measures the respondents’ stance on the government’s redistributive efforts reveals that a preference to uphold democracy in the country. Furthermore, these individuals associate democracy with redistributive policies (tax the rich in order to subsidize the poor). In Malaysia, the progressive tax system is used as a tool to realize the desired economic development of the country. The citizens’ support of these redistributive policies indicates that even though individuals believe in being rewarded for their efforts, the welfare of the poor should also be taken care of. On the

other hand, the proxy for fairness was not significant in the model. This shows that in the citizens' mindset, fairness is indeed a relative concept but not an important predictor here.

3.1.1 Including Contextual Effects

When we control for state level data, the coefficients of the individual predictors did not change much. State level GDP per capita was positive and highly significant. Consistently with Reenock, Bernhard, and Sobek, (2007)'s argument, states with lower levels of economic development tend to have greater demand for income redistribution. Of particular concern is the R^2 of the model is getting lower. Even though state level data is a significant predictor of the individual's preference, the individuals' innate beliefs makes a larger contribution to the model.

Worth noting is state level ethnic fractionalization¹⁶ is significantly negatively correlated with perceived inequality. The negative correlation is interpreted as that ethnically diverse states prefer more equal incomes. This implies that the affirmative action policies that are supposed to promote national unity may not be so equitable in the eyes of the residents residing in states with greater non-bumiputera population. In practice, the affirmative action policies were seen as pro-bumiputera. The positive discrimination associated with the policies which favour the majority Malaya bumiputeras has resulted in significantly greater bumiputera wealth ownership, business participation, educational opportunities and civil service and professional jobs (Jomo, 2004). However, these measures were seen as pro-bumiputera and have resulted in greater resentment by those who feel deprived by the policies (Jomo, 2004). A World Bank study in 2011 found that some 60 percent of skill emigrants considered a 'sense of social injustice' as one of the top three reasons for leaving Malaysia.

4.0 Conclusion

Malaysia's NEP from 1971 to 1990 has resulted in a significant regime change in the country's economy. Although the NEP has since been replaced by other policies, the legacy of the government affirmative action policy continues. This historical experience is believed to play an important role in influencing the public opinions toward inequality in the country. The aim of this paper is to consider how an individual's beliefs and values affect his/her preference for equality. Many studies on inequality tend to overlook the subjective importance of perceived inequality, often resulting in social unrest to challenge the present structure. We find that public opinion serves as an indication of the effectiveness of redistributive policies. Moreover, introducing state level characteristics is warranted in this paper as it captures how individuals react to various levels of inequality and economic development. Individuals are influenced by the local geographical context. Books and Prysby (1999) argued that individuals with similar characteristics but live in different communities or areas are expected to behave differently due to their exposure to different influences. In this paper, we develop a model where external conditions such as the state level of inequality, economic development and ethnicity interact with an individual's personal beliefs. The results indicate that individuals residing in states with lower level of economic development and higher level of ethnic diversity prefer more equal incomes.

The challenge is to measure the degree of the interactions in a behavioral model, particularly when survey data is based on a standard set of questions (Dowling & Yap, 2012). Malaysia seems to be a special case where more than half of the sample prefer larger income differences. This effect does not seem to be weakened by the level of economic development in the particular states. The results suggest that underlying beliefs, values and ideologies are important determinants of attitudes toward income distribution. Individuals who have the following beliefs prefer more equal income: competition is harmful, government should take responsibility to ensure that everyone is provided for, hard work usually brings a better life,

people can only get rich at the expense of others, private ownership of business and industry should be increased. Those who think that the country should be governed more democratically prefer larger income differences.

One of the most important determinants of preference for income distribution is the level of education. The result is in line with the argument that more educated individuals prefer larger income differences as a compensation for their efforts. Maybe it also indicates that more able individuals in terms of educational level, skills and experience tend to migrate to states with more inequality because of higher market rewards (Borjas, Bronars, & Trejo, 1992).

What do our findings mean for public policy? The negative effect of rising inequality is reduced through adequate policies to assist the affected income groups (Ragayah, 2008; Shari, 2000). Furthermore, the preferred degree of government involvement is an important indication of the Government's past and present policies on redistribution. Prime Minister, Datuk Seri Najib Tun Razak has declared that Malaysia is not a welfare state (*Malaysia not welfare state*, 2012). However, the government will provide social safety net to protect the welfare of the people, especially the poor. Programmes such as BR1M and 1Karisma have been launched to assist the less fortunate throughout the country. Even though Malaysia is not a welfare state, Economic Report from the Ministry of Finance (2013) shows that the country's welfare spending is on the rise. Often, that is the case when voters in the lower rung of society are in favor of redistributive policies. However, in our case here, attitudes towards inequality are not that different across various income groups. The effects of the Government's affirmative policies may have been felt by the non-Bumiputera, but not strong enough to cause a social tension to the Malay-Chinese relationship. There have been calls to introduce affirmative action policies based on needs and not ethnicity. Hence, a challenge for the present government is to get the different ethnic groups to work through their differences towards a

national collective identity (Noor, 2009). In the end, the success of any new redistributive policies will ultimately depend on the political will of the government.

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Notes

¹ Due to the problem of parameter heterogeneity, one may need to be careful when interpreting results of panel data studies. In addition, nations may exhibit country specific characteristics which may not be shared by the other countries in the survey.

² Official estimates from the Department of Statistics (2010) shows that the Malaysian population comprises of 67.4% Bumiputera, 24.6% Chinese, 7.3% Indians and 0.7% “Others”. According to Lim (1985), the ‘Bumiputera’ enjoy political dominance, even though they are economically disadvantaged.

³ ‘In Malaysia, ethnic identity is the key signifier of difference between Malaysians’ (Gabriel, 2005, p.237). Furthermore, discussions on inter-ethnic disparity have long influenced social, economic and political discourses in the country (Jomo & Wee, 2014). Snodgrass (1980) provides an interesting aspect of cultural difference amongst the races.

⁴ See Malay Dilemma (1970) by Tun Mahathir Mohamed.

⁵ Various translated as “Malaysian nationality, Malaysian nation, Malaysian people or United Malaysian people” (Ooi, 2006, p. 49).

⁶ Social contract carries a distinctly different meaning in Malaysia as it refers to the compromises between the Bumiputera, Chinese and Indians on their mutual rights and privileges (Faruqi, 2008). The special position of the Bumiputera is protected under Article 153 of the Constitution. Accordingly, the Ruler will reserve a reasonable proportion of positions in the public service and educational institutions, scholarships, and trading or business permits or licenses (Malaysia, 1979: pp.151-152, as cited in Lim, 1995).

⁷ Refers to the optimal economic allocation in a society; whereby an increase in the wellbeing of an individual will not reduce the wellbeing of another.

⁸ We assume that individuals would prefer larger income differences if they feel that inequality in the country is within acceptable levels. See Wanous, Reichers and Hudy (1997, pp.250-251) for discussion on single item measures in questionnaires.

⁹ Following common practice, when data on the Gini is not available for the corresponding survey year, we take the values from the year closest to the survey year.

¹⁰ See the “Theory of Relative Income Hypothesis” (Easterlin, 1974).

¹¹ The probability that two randomly selected individuals from a population belongs to different groups.

¹² We had conducted the necessary tests to ensure that the dataset has met the assumptions of the OLS regression.

¹³ This variable is subject to large variations as the question may have been interpreted differently according to each individual. The WVS does not contain data on actual income.

¹⁴ The pure effects of income on an individual's preference for equality/ inequality can be estimated if we enter income as a control and then calculate its coefficient on the dependent variable (Clark and Oswald, 1994). This finding may also mean that the perceived income scale is not an important predictor of our dependent variable after including other variables.

¹⁵ Developed countries like United Kingdom and United States provide unemployment benefits to those actively seeking employment but are unable to secure jobs.

¹⁶ The correlation between the ethnic fractionalization index and perceived inequality is $-.12$ (results available upon request). Thus, including the ethnic fractionalization variable into our model is important as perceived inequality could proxy for effects pertaining to ethnically diverse states (Bjornskov, 2008).

Appendix 1: Wording Used in the WVS Indicators

Dependent variable

Now I'd like you to tell me your views on various issues. How would you place your views on this scale? 1 means you agree completely with the statement on the left; 10 means you agree completely with the statement on the right; and if your views fall somewhere in between, you can choose any number in between. (*Code one number for each issue*):

Income should be made more equal	We need larger income differences for individual effort
1 2 3 4 5 6 7 8 9 10	

Attitudes concerning society

Now I'd like you to tell me your views on various issues. How would you place your views on this scale? 1 means you agree completely with the statement on the left; 10 means you agree completely with the statement on the right; and if your views fall somewhere in between, you can choose any number in between. (*Code one number for each issue*):

Private ownership of business and industry should be increased	Government ownership of business and industry should be increased
1 2 3 4 5 6 7 8 9 10	

Government should take more responsibility to ensure that everyone is provided for	People should take more responsibility to provide for themselves
1 2 3 4 5 6 7 8 9 10	

Competition is good. It stimulates people to work hard and develop new ideas	Competition is harmful. It brings out the worst in people.
1 2 3 4 5 6 7 8 9 10	

In the long run, hard work usually brings a better life	Hard work doesn't generally brings success-it's more a matter of luck and connections.
1 2 3 4 5 6 7 8 9 10	

People can only get rich at the expense of others.	Wealth can grow so there's enough for everyone.
1 2 3 4 5 6 7 8 9 10	

Prospects for future mobility

How satisfied are you with the financial situation of your household? *Please use this card again to help with your answer (code one number)*:

1 2 3 4 5 6 7 8 9 10	
Completely dissatisfied	Completely satisfied

During the past year, did your family? (*read out and code one answer*):

-
- 1 Save money
 - 2 Just get by
 - 3 Spent some savings
 - 4 Spent savings and borrowed money

Ideology

Many things are desirable, but not all of them are essential characteristics of democracy.

Please tell me for each of the following things how essential you think it is as a characteristic of democracy. Use this scale where 1 means “not at all an essential characteristic of democracy” and 10 means it definitely is “an essential characteristic of democracy” (read out and code one answer for each):

Governments tax the rich and subsidize the poor.

1	2	3	4	5	6	7	8	9	10
Not an essential characteristic					Essential characteristic				

How important is it for you to live in a country that is governed democratically? On this scale where 1 means it is “not at all important” and 10 means “absolutely important” what position would you choose? (*code one number*):

1	2	3	4	5	6	7	8	9	10
Not at all important					Absolutely important				

Do you think most people would try to take advantage of you if they got a chance, or would they try to be fair? Please show your response on this card, where 1 means that “people would try to take advantage of you,” and 10 means that “people would try to be fair” (*code one number*):

1	2	3	4	5	6	7	8	9	10
People try to take advantage					People would try to be fair				

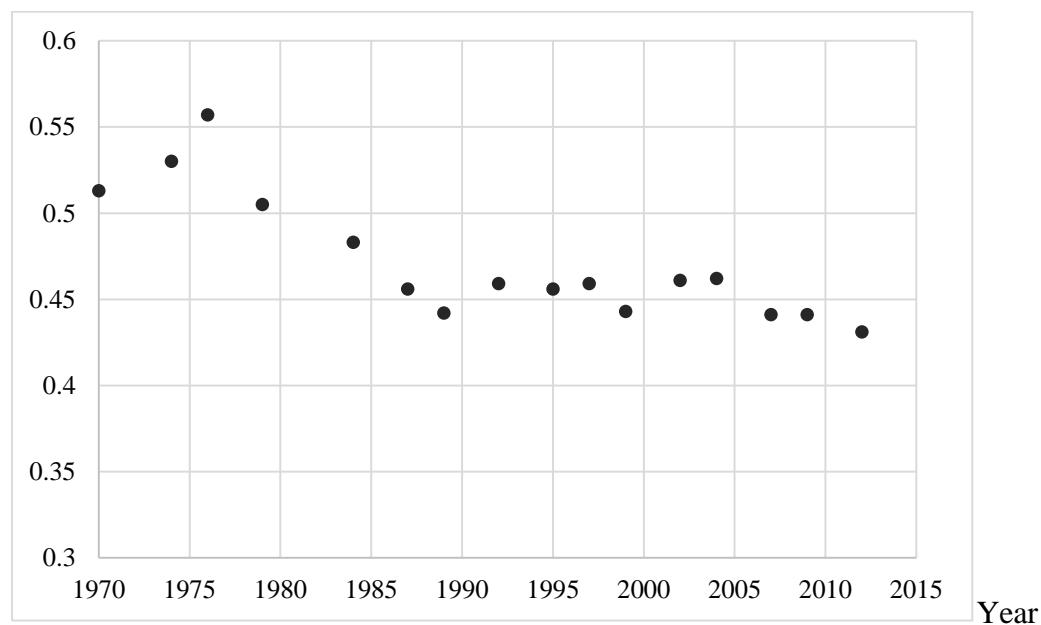
Appendix 2

Descriptive statistics on main variables

Variable	Obs	Mean	Std. Dev.	Min	Max
Perception of equality/ inequality (DV)	2501	6.661	2.424	1	10
Perceived Income scale	2498	5.944	1.787	1	10
Age (logged)	2500	3.511	0.394	2.708	4.382
Education level	2501	1.865	0.615	1	3
Competition is harmful	2501	3.832	2.302	1	10
People should take more responsibility	2501	5.804	2.550	1	10
Luck/ connections brings success	2501	4.023	2.474	1	10
State ownership should be increased	2501	5.904	2.413	1	10
Wealth accumulation	2501	6.662	2.129	1	10
Satisfied with financial situation	2499	6.480	1.900	1	10
Family savings	2500	1.741	0.779	1	4
Importance of democracy	2501	8.263	1.688	1	10
Democracy characteristics	2501	6.660	2.638	1	10
People try to be fair	2501	5.966	2.113	1	10
GDP per capita (logged)	2501	10.763	0.816	7.990	12.010
Ethnic Fractionalization index	2501	0.439	0.161	0.058	0.591
Gini index	2501	0.403	0.026	0.354	0.455

Figure 1: Gini Coefficient, Malaysia (1970-2012)

Gini coefficient



Source: Household Income Survey, Statistics Malaysia

Table 1: Race Composition in Malaysia by States

State	Bumiputera	Chinese	Indian
Penang	43.60%	45.60%	10.40%
Perak	57.0%	30.4%	12.3%
Selangor	57.10%	28.60%	13.50%
Johor	58.9%	33.6%	7.1%
Negeri Sembilan	61.3%	23.2%	15.2%
Melaka	66.9%	26.4%	6.2%
Sarawak	74.8%	24.5%	0.3%
Kedah	77.9%	13.6%	7.3%
Pahang	79.0%	16.2%	4.4%
Sabah	84.8%	12.8%	0.3%
Perlis	88.4%	8.0%	1.2%
Kelantan	95.70%	3.40%	0.30%
Terengganu	97.00%	2.60%	0.20%

Source: Authors' own calculation based on Alesina, et al. (2003)

Table 2: Percentages of respondents who prefer larger income differences and actual Gini

Country	Prefer larger income differences	Gini*
Singapore**	42.2	45.9
Vietnam	47.8	35.57
Philippines	51.2	42.98
Indonesia	67.3	34.01
Thailand	71.6	40.02

*Based on available data from Povcalnet World Bank <http://econ.worldbank.org/povcalnet> (except Singapore).

**Department of Statistics Singapore. Figures reported are after adjustment.

Table 3: Percentages of respondents who prefer larger income differences by state in Malaysia (Wave 5 and Wave 6)

State	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
Selangor & KL	6	11.6	23.1	31.9	27.3
Perak	7.3	13.6	24.3	32.5	22.3
Penang	17.1	16.4	28.1	28.8	9.6
Sabah	1.7	3.7	27.3	36.4	31.0
Sarawak	3.4	2.9	18.1	44.1	31.4
Kedah	11.8	16.3	32.6	17.4	21.9
Perlis	11.5	19.2	30.8	15.4	23.1
Pahang	3.8	4.5	21.8	40.6	29.3
Kelantan	8.6	5.5	16.4	25.0	44.5
Terengganu	15.2	3.3	16.3	18.5	46.7
Johor	6.1	9.9	36.9	29.4	17.7
Melaka	13.4	9.0	32.8	19.4	25.4
Negeri Sembilan	14.4	13.4	28.9	26.8	16.5
Average	9.3	10.1	25.5	28.4	26.7

Table 4: Potential determinants of perceived equality/ inequality

Dependent variable: Preference for larger income differences		
Perceived Income Scale	-0.039 (-1.140)	-0.029 (-0.846)
Ethnic Group (Bumiputera =1)	-0.592*** (-6.474)	-0.541*** (-5.839)
Gender (Female=1)	0.040 (0.457)	0.039 (0.441)
Age (logged)	0.090 (0.572)	0.142 (0.885)
Marital status (Married=1)	-0.075 (-0.630)	-0.125 (-1.024)
Education level (low, middle, high)	0.320*** (4.340)	0.328*** (4.411)
Year of survey (2011=1)	-0.197* (-2.037)	-0.231* (-2.303)
Attitudes concerning society		
Competition is harmful	-0.142*** (-5.056)	-0.154*** (-5.509)
People should take more responsibility	0.107*** (5.010)	0.114*** (5.198)
Luck/ connections brings success	0.119*** (4.508)	0.121*** (4.652)
State ownership should be increased	0.233*** (9.704)	0.228*** (9.425)
Wealth is enough for everyone	0.099*** (3.723)	0.117*** (4.394)
Prospects for future mobility		
Satisfied with financial situation	0.066* (2.116)	0.054 (1.723)
Family savings	0.176** (3.266)	0.192*** (3.540)
Ideology		
Importance of democracy	0.120*** (3.949)	0.117*** (3.853)
Democracy characteristics: Tax the rich	0.103*** (4.982)	0.095*** (4.559)
Fairness		
People try to be fair	-0.001 (-0.051)	0.009 (0.420)
Contextual effects		
State level Gini		1.331 (0.771)
State level GDP per capita		0.395* (2.343)
Ethnic Fractionalization index		-2.407*** (-5.167)
Constant	1.603* (2.319)	-2.116 (-1.186)
State dummies	Yes	No

Number of observations	2494	2494
R^2	0.207	0.177
F	25.978	28.018

Note: t statistics in parentheses, * $p < .05$, ** $p < .01$, *** $p < .001$
