How Can Malaysia Reduce Inequality through Education? Lessons for Indonesia

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Malaysians worried about inequality – one-third surveyed by PEW thinks it has increased
Not a matter of ethnic gaps or rural-urban divide; also not about pre-transfer/tax data
Key to inequality reduction is expanding the “middle class” - invest in post-secondary education (WB 2014)
Education seen as an equalizing force in all policy documents – large allocations sustained over time
• NEP 1970-1990; NEM 2010; GTP Blue Print; Wawasan 2020; Education Blue Print; 11th Malaysia Plan

Source: author based on secondary data
Changing shape of the earnings function: higher returns to post-secondary education

Modest rise in post-secondary graduates in Labor Force (1990-2010) but still lags in tertiary education (figures for 2012)

Participation gap widens & larger across income groups (compared to ethnicity gap)

- Entry of private providers in higher education

Source: WB 2014
CHALLENGE 2: Increasing the level of learning & reducing inequality in education quality

• Stuck in the bottom third of international assessment of student performance
  • share in top 10% is also low

• Flatter grade-learning profile
  • compared to education system of other HPAEs

Source: author’s calculation based on OECD 2014
CHALLENGE 3: Increasing labor income and employment growth

Labor income and employment growth was significant during the NEP era.

But share of wages in national income very low.

Source: author’s calculation based on Saari et al.
CHALLENGE 4: Reducing inequalities in the allocation of talents, jobs and social opportunities

• Inequalities of opportunities vis-à-vis citizenship (e.g. migrants, minority ethnic groups)
  • Explains higher inequality in Eastern provinces

• Labor market segmentation: Ethnic civil service
  • Brain drain

• Politics of Top 1% income
  • GLCs - business ownership among ethnic executives

Figure 3: Gini Coefficient by Region/States, 1974-2014
Four Lessons

1. Equalizing access to basic education not enough for reducing economic inequality
   • Address inequality of access to post-secondary education

2. Improvement in quality education needed to improve labor productivity
   • ...but improving the level of learning and reducing inequality in learning is not about budgetary allocations

3. Increasing the share of labor in GDP by creating more high income jobs
   • Prioritize knowledge-intensive jobs
   • Implement pro-labor legislations/reforms

4. Affirmative policies can create new inequalities
   • Access to government jobs; falling quality of public institutions; regional disparities