

UNDERSTANDING THE MALAYSIAN MIDDLE CLASS

Running Title: Malaysian Middle Class

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ABSTRACT

This paper examines the size, pattern and characteristics of the middle class in Malaysia using the data from two reports of the Household Expenditure Survey (HES) of Malaysia, HES 1998/1999 and HES 2009/2010. Defining the middle class as the group of households whose income is between ± 25 percent of the median income, the data show that the size of the middle class is quite small and has slightly shrunk during the period under study. This result continues to hold when the sample is disaggregated by strata or ethnicity. The study also finds that a significant percentage of the middle class are private sector employees; service and factory workers; and secondary and primary school graduates. Turning to other income classes, the study finds that the size of both upper and lower classes is relatively large and growing. However, this result no longer holds when the sample is disaggregated by strata or ethnicity. In terms of strata, the upper (lower) class is found to be concentrated in the urban (rural) area. In terms of ethnicity, the upper (lower) class is found to be concentrated among the non-Bumiputera (Bumiputera). The findings from this study provide serious policy implications on social development strategies.

Keywords: middle class, upper class, lower class, strata, ethnicity, income distribution. JEL Codes: D12, D31, E21, O11.

1. INTRODUCTION

The creation and expansion of the middle class is regarded as one of the aspirations of the development policy. It has been argued that the creation and expansion of the middle class is not only vital for the rapid industrialisation and transformation of the economy towards achieving a high-income economy, but the middle class is also perceived to play a major role in the socio-political setting of a particular society. In this regards, Easterly (2001) pointed out that the expansion of the middle class is associated with higher growth, greater access to education and health, and increased political stability of a country. Moreover, a larger and expanding middle class is perceived to benefit the society in the sense that the middle class could serve as a safeguard between the extreme tendencies of the lower and upper social classes (Gigliarano and Mosler, 2009). Thus, it should not be surprising to note that the enlargement of the middle class is articulated as one of the aspirations of Malaysia's development policies. Indeed, this aspiration could be traced back to the New Economic Policy (NEP), which was introduced in 1971. Tun Abdul Razak, the Prime Minister during which the NEP was launched, has stated clearly on the necessity to create "a society with a middle class, like in Switzerland, Holland and Japan", i.e. referring to the creation of a (Bumiputera) middle class society (Torii,1997; Milne, 1976). In essence, the Vision 2020 and the New Economic Model (NEM) were also articulated through a similar aspiration.

In the Western countries, such as the USA, Canada and Europe, it has been reported that not only there is a "disappearing middle class" phenomenon (Levy and Murnane, 1992; Jenkins, 1997; Wolfson, 1994, 1997), but the middle class households are facing severe crises due to diminishing financial security and bleak future of upward mobility. In his article *on The Erosion of the Middle class Economic Security after 2001*, Weller (2008) wrote:

"What has struck many observers about the current business cycle that started in March 2001 is that a growing economy and booming financial market were accompanied by large middle class anxieties. Importantly, middle class families struggled to pay for more costly items, such as a home, health insurance, transportation, and their college education, due to sharply higher prices and a surprisingly weak labor market performance. Consequently, to pay for these necessary large expenditures, many middle class families borrowed at a much accelerated rate, compared to previous years and decades, so that household debt skipped from record high to record high relative to income. This development also meant that families were less able than before to put away much extra cost for a rainy day, leaving them increasingly vulnerable if anything went awry."

By and large, the middle class households, who are generally “neither rich nor poor”, finds themselves difficult to sustain the hardship as they are not qualified for benefits being offered through government’s welfare programs, which are mostly targeted for the poor. With the subsidy rationalisation initiatives that are currently being implemented under the NEM, the prices of petrol, energy, food and infrastructure will eventually increase drastically and would certainly affect this group. Worse still, a continuous rise in the property prices simply erodes their ability to purchase decent homes, as well as the rising costs of education and health services that limit their opportunities for the access to better quality services. As a consequence, there is a high tendency that these middle class households fall into “the new poor”. This observation is becoming increasingly visible and thus raises the need for a closer investigation on the actual state of the middle class in Malaysia.

During the period of more than 50 years, Malaysia stands out to be one of the most outstanding economies in the East and Southeast Asian regions in terms of a remarkable economic growth performance and excellent achievement in poverty reduction. Basically the poverty eradication programs and the restructuring of society have been formulated in a range of development policies, namely through three major policies: the New Economic Policy (NEP, 1970-1990), National Development Policy (NDP, 1990-2000) and Vision 2020. Since the implementation of NEP, the incidence of poverty has eventually been reduced from 49.3 percent in 1970 to just 1.7 percent in 2012, and the mean monthly household income has increased from RM264 in 1970 to RM5000 in 2012. While the struggle of NEP to fight poverty has been fruitful, its achievement alone is not sufficient. In 2010, the government took a further step which shifted away from an ethnic-based affirmative action policy toward a more market-based policy by introducing the New Economic Model (NEM). There are three main guiding principles of the NEM: high income, sustainability and inclusiveness.

In discussing the Malaysian middle class and its relation to the sustainability of future survival of the country, the question arises on why the size of the middle class matters. Basically a declining middle class could be an indicator of increasing polarization. From the economic and social perspective, having a greater mass in the lower and upper tail of income distribution (i.e. small middle class) would not be a good sign as the middle class plays an important role in the development of a democratic society, enhances social cohesion and contributes a significant share of the labour force. A decrease in the size of the middle class would reflect greater inequality, increase social tension which could pose great challenges for a multiracial society like Malaysia.

Against this backdrop, the present paper seeks to investigate a few pertinent issues with regard to the middle class in Malaysia by identifying the size, pattern, characteristics and the extent of

their vulnerability to future shocks. The rest of this paper is organised as follows. Section 2 defines the concept of middle class and measures its size for Malaysia. Section 3 examines the characteristics of the middle class in Malaysia. Section 4 measures the vulnerability of the middle class in Malaysia and Section 5 offers concluding remarks.

2. DEFINING AND MEASURING THE MIDDLE CLASS

How do we identify the middle class? Perhaps there is no definite answer to that. In general, the definitions used are normally based on two main approaches i.e. the sociological and the economic approach. Following the classical perspective (Marx 1956, 1969; Weber 1978), the sociological approach states that class is determined by the type of assets that individuals bring to the market. While the Marxist approach basically confines the scope of assets to private property ownership, the Neo-Marxist's perspective extends the scope to include specialized skills and workplace authority. Wright (1997) suggested that based on the Neo-Marxist's perspective, the middle class consists of groups that do not own the mean of production but somehow control skills and knowledge of authority as a source of domination and privilege over other workers. The neo-Marxist perspective is much closer to the definition adopted by Weber (1978) that the division of class is determined by different kinds of property usable for return and the kinds of service that can be offered in the market with a special emphasis on educational qualification. In principle, this definition provides the basis for the classification of classes based on occupational positions. [For further reading, refer to the EGP classification in Erikson et al. (1979).]

The economic approach, on the other hand, uses income as a basis to define the concept of class. Noticeably, the concept of class comprises different measurements. One of the methods is to set a symmetrical range around the median income of a group of households. For example, Birdsall et al. (2000) defined the middle class as the group of households whose income is between 75 and 125 percent of median per capita income. The definition involves three simple steps. First, households are arranged in terms of their income level in descending order. Second, the median income of the households is identified. Finally, the upper and lower bounds of the median income are identified. Any households whose income lies between ± 25 percent of this median income are classified as the middle class. This definition offers an advantage in terms of providing additional information related to income inequality since it is sensitive to the changes in the distribution of income. The larger is the middle class, the more equal is the society. This is predominantly true because equality indicates that more households collapsed around the middle. Nonetheless it suffers from a limitation in the sense that the size of the middle class may change if there is a change in the income distribution even if there is no change in the level of economic performance of a country.

Another method of identifying the middle class using an income approach is by defining the middle class as a fixed percentage of the income distribution. For instance, Easterly (2001) defined the “middle class” as the group of households who lie between the 20th and 80th percentile of the income distribution (or equivalently, the sum of the second, third, and fourth quintiles of the income distribution). Like the previous method, households are arranged according to their income level in descending order. Unlike the previous method, any households who lie in the middle 60% of the income distribution are classified as the middle class. A variant of this method is to classify the middle 40% of the income distribution as the middle class. These definitions are, however, insensitive to changes in both the absolute level and distribution of income over time. Other way of categorising the middle class is to define the middle class by income threshold. For instance, Barnerjee and Duflo (2008) suggested the threshold between US\$2 and US\$10 per day.

The current study employs the definition of Birdsall et al. (2000) because it allows us to examine possible changes in the size of the middle class, specifically whether it shrinks or expands over time relative to the rest of the population. The study uses the household data which are obtained from two reports of the Household Expenditure Survey (HES) of Malaysia: HES 1998/1999 and HES 2009/2010. The HES reports contain the household data on income, expenditure and demographic characteristics. The income data are divided into several categories such as wage income, rental income, property income and transfer receipts. This study makes use of the gross income. The expenditure data are divided into several categories such as food and non-alcoholic beverages, alcoholic beverages and tobacco, clothing and shoes, and housing and utilities. The demographic data consist of information on age, gender, ethnicity, strata, education level, occupation type, etc. This study makes use of the data on gross income and demographic characteristics.

Table 1 shows the median income of all households in the sample and the income range of the middle class for HES 1998/1999 and HES 2009/2010. Consistent with economic growth experienced by Malaysia during the period 1998-2010, the median income of the households had increased from RM1852 in 1998/1999 to RM2762 in 2009/2010, and the corresponding income range has increased from RM1389–RM2310 to RM2072–RM3453 during the same period. (It should be noted that the increase in these figures should not be taken at face value because the data were recorded in nominal terms. However, they do give us an idea about the progress that has taken place during the period.) Given the income range, the data show that the size of the middle class in Malaysia has been shrinking from 27.5 percent to 25.9 percent during the period. Even though this change is very marginal, it does not rule out the idea that the middle class in Malaysia is small and declining. This finding appears to lend support to the phenomenon of the disappearing middle class.

Table 1: The Vital Statistics of the Middle Class

	HES 1998/1999	HES 2009/2010
Median Income (RM)	1852	2762
Income Range of the Middle Class (RM)	1389 – 2310	2072 – 3453
Size of the Middle Class (%)	27.5	25.9

If the middle class is indeed disappearing, where does it go to? In order to address this question, the size of the middle class is compared to that of the upper and lower classes. The data show that the size of both the upper and lower classes was larger than that of the middle class, and each has been slightly increasing during the period (see Table 2). In particular, the size has increased from 37.9 (34.6) percent to 38.7 (35.4) percent for the upper (lower) class during the period. These results suggest the presence of a bipolar income distribution; i.e. a relatively small middle class but large lower and upper classes. How do we explain this observed pattern of income distribution?

Table 2: The Income Range and Size of the Upper, Middle and Lower Classes

	HES 1998/1999	HES 2009/2010
Upper Class		
Income Range (RM)	2316 – 60112	3454 – 77041
Size (%)	37.9	38.7
Middle Class		
Income Range (RM)	1389 – 2310	2072 – 3453
Size (%)	27.5	25.9
Lower Class		
Income Range (RM)	95 – 1388	68 – 2070

Size (%)	34.6	35.4
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Before addressing this question, let us, let us explore whether the above pattern holds across certain demographic groups, say, strata (i.e. urban and rural) and ethnicity (i.e. the Bumiputera, Chinese and Indians). Table 3 compares the size of the three income classes by strata. When it comes to the middle class, the data exhibits a lot of resemblance to the overall sample in terms of size and trend (its size was about 26 percent and it has been declining). An interesting set of findings, however, is observed for other income classes: while the upper class was concentrated in the urban area and declining, the lower class was concentrated in the rural area and growing. It should be noted also that, although there was a small lower (upper) class in the urban (rural) area, it has been growing. Accordingly, while there is a tendency toward income equality in the urban area, there is a tendency toward income inequality in the rural area.

Table 3: The Size of the Upper, Middle and Lower Classes by Strata (%)

	HES 1998/1999		HES 2009/2010	
	Rural	Urban	Rural	Urban
Upper	26.7	48.8	27.8	48.2
Middle	27.5	27.3	26.0	25.8
Lower	45.9	23.9	46.2	26.0
Total	100	100	100	100

Table 4 compares the size of the three income classes by ethnicity. As was the case with strata, the data show that the size of the middle class was similar to the overall sample and has been shrinking for all ethnic groups. Of the three ethnic groups, the Indians have experienced the largest drop, though. Therefore, the data provide an insightful testimony against the commonly held view by some people that Malaysia’s development policy (i.e. the NEP) has particularly benefited the Bumiputera. When it comes to the upper class, however, the data indicate that the upper class was concentrated among the Chinese and Indians and declining while the lower class was concentrated among the Bumiputera and declining. Although the size of the upper (lower)

class was small among the Bumiputera (the Chinese and Indians), it has been rising. Hence, there is a tendency toward income equality for each of the major ethnic groups.

Table 4: The Size of the Upper, Middle and Lower Classes by Ethnic Group (%)

	HES 1998/1999			HES 2009/2010		
	Bumiputera	Chinese	Indian	Bumiputera	Chinese	Indian
Upper	30.8	53.9	51.3	35.9	52.7	42.2
Middle	28.1	26.3	31.5	26.5	25.2	26.8
Lower	41	19.8	17.3	37.6	22.1	31
Total	100	100	100	100	100	100

3. CHARACTERISING THE MALAYSIAN MIDDLE CLASS

Now let us return to the question posed in the last section regarding the presence of a bipolar income distribution. In order to provide an explanation for this observed pattern, it is critical to provide some data that describe the demographic characteristics of the Malaysian middle class. In this section, we explore the characteristics of the middle class in terms of their employment orientation (e.g. government employees, private sector employees and self-employed), occupation types (e.g. managers, professionals, clerical workers and farmers), education levels (i.e. primary, secondary and tertiary education), and expenditure pattern.

In terms of employment orientation, it is hard to make a comparison across the two time periods because the data are more aggregated for the earlier period. Thus, the discussion will be confined to HES 2009/2010 only. As shown in Table 5, the data show that a majority of the middle class households (52.2 percent) are private sector employees. This result may provide a possible explanation for the bipolar income distribution in the sense that the growth of wages is not proportionally shared across different income levels. According to the Malaysia Human Development Report (2013), there was a significant gap between the remuneration of the top employees and the average worker with the disparity ratio of 100 times in 2009 (in absolute terms, the gap is RM1.7 million higher than the average workers' salary). This disparity ratio is about twice as much as that for Singapore. Another possible explanation is the smaller share of wages to the national income where wages only constitute 32.9 percent while the corporate

profits constitute the largest share of 65.2 percent. The smaller share of wages to the national income reflects the dilution of workers’ bargaining power where the union density has dropped by 40 percent since 1982. In 2012, only 8 percent of Malaysian workers belong to a union (Malaysia Human Development Report, 2013).

Table 5: Employment Orientation of the Middle Class

		HES 1998/1999	HES 2009/2010
		No. (%)	No. (%)
1	Self- employed employer	191 (25.1)	38 (2.3)
2	Government employees	460 (60.5)	215 (12.8)
3	Private sector employees		877 (52.2)
4	Self-employed employee		307 (18.3)
5	Unpaid family worker	0 (0.0)	2 (0.1)
6	Housewife/Looking after home	54 (7.1)	66 (3.9)
7	Student	2 (0.3)	12 (0.7)
8	Child not at school	0 (0.0)	0 (0.0)
9	Others (e.g. pensioner, baby)	46 (6.1)	158 (9.4)
	N/A	7 (0.9)	5 (0.3)
	Total	760 (100)	1680 (100)

Note: HES 1998/999 lumped together self-employed employer, self-employed employees, government employees and private sector employees.

The increase in the percentage of the upper class households in 2009/2010 may be also attributed to the tendency toward two-income households or dual-income families. Evidently, the female labour force has become an increasingly important component of the labour supply in Malaysia. The labour force participation rate among women had increased from 37.2 percent in 1970 to 47.9 percent in 2011 (Malaysia Human Development Report, 2013).

Even though the rate is considered low compared to Thailand (69.9 percent) and Singapore (62.9 percent), various policies have been implemented in order to provide a significant, integral step towards empowering women in Malaysia. These include the legislation of flexi- work, 60-day maternity leave, and training and retraining programs.

Besides the employment orientation, the occupation of the middle class provides important information related to income. Table 6 clearly shows that a majority of the middle class households consist of those who are in the non-professional category, namely, service workers (those who work in the supermarkets, grocery stores and restaurants) and factory workers and technicians (those who work in the manufacturing firms). The data offer relevant information with regard to the income range of this group of households (RM2072 - RM3453) since the average salary in the non-professional category falls into this income range. This result further corroborates the result on employment status discussed above.

The educational attainment is known to have a positive relationship with income. As reported by OECD (2012), individuals with tertiary education are expected to have 55 percent higher income than individuals without tertiary education and those who have not completed secondary education earn 23 percent less than those who have. In relation to education, Table 7 highlights the level of formal education obtained by the Malaysian middle class households. Based on the data for 2009/2010, a significant portion of them (35.6 percent) completed their higher secondary education followed by those without certificates (26.9%); only 7.5 percent of them have tertiary education.

Table 6: Occupation Type of the Middle Class

		HES 1998/1999	HES 2009/2010
		No. (%)	No. (%)
1	Legislators, senior officials and managers	11 (1.5)	59 (3.5)
2	Professionals	164 (21.6)	35 (2.1)
3	Technicians and associate professionals		226 (13.5)
4	Clerical workers	59 (7.8)	103 (6.1)
5	Service workers, shop and market sales workers	164 (21.6)	278 (16.6)

6	Skilled agricultural and fishery workers	123 (16.2)	130 (7.7)
7	Craft and related trade workers	227 (29.9)	196 (11.7)
8	Plant and machine-operators and assemblers		233 (13.9)
9	Elementary occupations		182 (10.8)
10	Occupation not elsewhere classified	5 (0.7)	233 (13.9)
11	Unknown	7 (0.9)	5 (0.3)
	Total	760 (100)	1680 (100)

Apart from income, the measurement of inclusiveness could also focus on other indicators such as wealth and consumption. Based on the available data, the present study provides a simple analysis by looking at the percentage share of different classes of households in total expenditure. Table 8 shows that the share of the lower (middle) class households in the total expenditure had increased from 11.9 (19.4) percent in 1998/1999 to 17.2 (21.6) percent in 2009/2010. In contrast, the share of the upper class households had decreased from 68.7 in 1998/1999 to 61.2 percent in 2009/2010. By simply taking the ratio of the percentage share in total expenditure of the upper-class to the middle class, it is found that the upper-class spent 3.5 times more than the middle class in 1998/1999. The ratio however dropped to 2.8 in 2009/2010. This approach gives another insight into the extent of inequality in Malaysia in which it shows that, from the expenditure side, the situation has improved.

Table 7: Highest Level of Educational Attainment

		HES 1998/1999	HES 2009/2010
		No. (%)	No. (%)
1	Tertiary Education Certificate	17 (2.2)	126 (7.5)
2	Pre-Tertiary Education Certificate	48 (6.3)	82 (4.9)
3	Higher Secondary Education Certificate	176 (23.2)	610 (36.3)

4	Lower Secondary Education Certificate	95 (12.5)	316 (18.8)
5	No Certificate	360 (47.4)	451 (26.9)
6	Not Applicable	57 (7.5)	88 (5.2)
7	Unknown	7 (0.9)	7 (0.4)
	Total	760 (100)	1680 (100)

Note #1: Tertiary Education Certificate = Diploma and University Degree; Pre-Tertiary Education Certificate = STPM and Pre-University Certificate; Higher Secondary Education Certificate = SPM and SPMV; Lower Secondary Education Certificate = PMR or SRP; No Certificate = Less Than Lower Secondary Education Certificate.

Note #2: STPM = *Sijil Tinggi Pelajaran Malaysia* (Malaysia Higher Education Certificate); SPM(V) = *Sijil Pelajaran Malaysia (Vokasional)* [Malaysian (Vocational) Education Certificate]; PMR = *Penilaian Menengah Rendah* (Lower Secondary Assessment); SRP = *Sijil Rendah Pelajaran* (Lower Education Certificate).

Table 8: The Class Share in Total Expenditure (%)

	HES 1998/1999	HES 2009/2010
Upper	68.7	61.2
Middle	19.4	21.6
Lower	11.9	17.2
Total	100	100

Further investigation into the structure or composition of the middle class expenditure reveals that the bulk of the expenditure goes to Food and Non-alcoholic Beverages and Housing and Utilities, in which they constitute almost an equal percentage (see Table 9). The findings correspond to the Bank Negara Financial Stability and Payment Systems Report (2012), which stated that individuals with a monthly income of less than RM3000 spend a larger percentage of their income on food and consumption while taking out a loan to purchase vehicle and other

uses. The rapidly rising home prices adversely affect the ability of households to own houses and in fact the high rental prices especially in urban area forces the households to spend a big portion of their income on housing. Comparing the data in both periods, generally there is no significant change in the spending trend.

Nonetheless it is important to note that there is quite a sizable increase in the percentage change of expenditure on Restaurants and Hotels; Recreation Services and Culture; and Communication whereby the figures had increased from 5.7%, 1.4% and 2.5% in 1998/1999 to 10.7%, 3.7% and 5.3%, respectively, in 2009/2010. The data perhaps explain the changing lifestyle of the current generation of the middle class who put more values on these items. The decrease in percentage expenditure on health and education by the middle class, however, raise a great concern since these two items are important components that contribute significantly towards the quality of life and social mobility. One possible reason for the low percentage share in the total expenditure for these two items is that the middle class households choose to consume publicly provided health and education services.

Table 9: Structure of the Middle Class Expenditure / Budget Share (%)

ITEM	HES 1998/1999	HES 2009/2010
01-Food and Non-Alcoholic Beverages	27.9	24.4
02-Alcoholic Beverages and Tobacco	0.7	2.4
03-Clothing and Footwear	5.4	3.5
04-Housing, Water, Electricity, Gas and Other Fuels	27.2	23.1
05-Furnishing, Household Equipment and Routine Household Maintenance	5.1	3.6
06-Health	1.7	1.4
07-Transport	13.2	13.7
08-Communication	2.5	5.3
09-Recreation Services and Culture	1.4	3.7

10-Education	3.5	1.1
11-Restaurants and Hotels	5.7	10.7
12-Miscellaneous Goods and Services	5.6	7.2
Total	100	100

4. ASSESSING THE VULNERABILITY OF THE MALAYSIAN MIDDLE CLASS

The sustainability and the continuity of the economic and political development of Malaysia depend not only on the ability of having a large segment of society in the middle of social hierarchy but also on the stability of the middle class. In the case where the middle class households are lacking in terms of protection against unexpected shocks, they tend to become vulnerable and most likely fall into poverty. Unlike the more secure middle class segment that could facilitate economic growth and promote political stability, the unstable middle class segment could hamper economic development and disrupt the smooth process democratic society. Generally, for a majority of the working class, economic shocks may affect wages and vulnerability lies within the lack of economic assets to provide protection against the adverse circumstances. The unstable economic condition may also contribute to the upward movement in the prices of education, transportation and healthcare services which simply further deteriorates the purchasing power of the middle class. Here, the analysis on the vulnerability of the middle class is performed using a simple measure of vulnerability: a middle class household is considered vulnerable if its income is within 5 percent above the lowest middle class income threshold. Using this simple measure, it was found that any middle class households with the income range between RM1389 and RM1459 in 1998/1999 and RM2072 and RM2176 in 2009/2010 are deemed to be vulnerable. The finding of the analysis is shown in Table 10.

Table 10: The Vulnerability of the Middle Class

	HES 1998/1999	HES 2009/2010
Income Threshold (RM)	1389 - 1459	2072 - 2176
Vulnerability (%)	8.6	9.6

In 1998/99, 8.6% of the middle class were considered vulnerable; in 2009/2010, the percentage

increased slightly to 9.6%. These figures imply that not only the middle class in Malaysia is quite vulnerable, but also the middle class vulnerability had increased between the two periods. Perhaps this observation is due to a relatively high concentration of the households around the lowest middle class income threshold. The fact that wages are relatively stagnant and the cost of living increases quite rapidly in Malaysia add to the vulnerability of the middle class.

5. CONCLUSION

The benefits of having a large and sustainable middle class are widely discussed in the literature. Certainly, the middle class is considered as an important source of economic development and political stability. The sustainability of future development of a country depends not only on the growth of its economy per se but also (and more importantly) on the distribution of the benefits of economic growth across distinct income groups i.e. the inclusive growth. While Malaysia has recorded an impressive achievement in reducing the poverty rate, income inequality remains one of the main challenges that need to be addressed. Based on the findings presented in this paper, the shrinking middle class somehow reflects the extent of income inequality that still prevails in particular between the rural and urban areas (there is a disproportionately large upper (lower) class in the urban (rural) area) as well as among major ethnic groups [there is a disproportionately larger size of the lower (upper) class among the Bumiputera (non-Bumiputera)].

Acknowledging that income should not be the only measure of inclusiveness, wealth and consumption should therefore be included in the measurement as this will provide a wider perspective on distribution. The report by Bank Negara Malaysia (2012) highlighted that the vulnerability of the lower and middle classes is evident from the fact that most of the households in these groups have a greater tendency to borrow for emergencies as well as for personal purposes compared to the upper class which leverage on financing for asset accumulation. In general, the focus of policy towards achieving inclusive growth by means of creating a larger and stable middle class should now be emphasised more on labour market reform such as the wage policy which ensures fair compensation relative to the cost of living, social policy reform such as the social safety net that includes unemployment insurance and affordable housing, access to quality education and health, and last but not least, a strong leadership with a high political will to undertake institutional reforms.

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