

A New Social Contract for Recovery and Resilience

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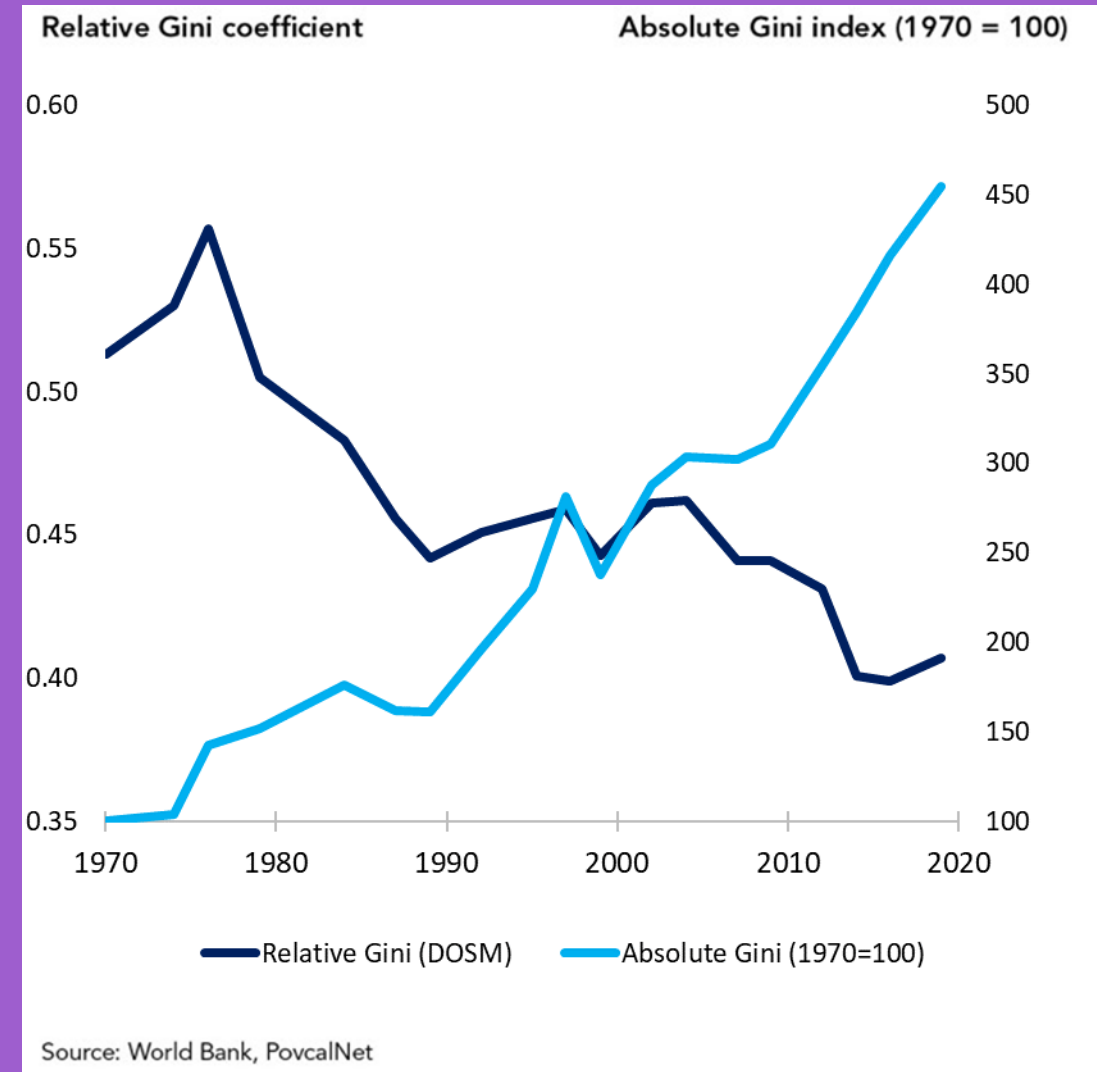
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Three main points

- **Persistent inequality is a serious issue in Malaysia**, which hinders its development progress.
- **The social contract encompasses much more than social protection.** Social protection provides a “floor” that should eliminate extreme negative outcomes. It needs to be complemented by investments in people and institutions that guarantee equality of opportunities and realization of people’s full potential.
- **The social contract is a two-way street.** It’s not only what government provides to the governed, but equally what the governed contributes to make the system work (e.g., taxes and fair participation).

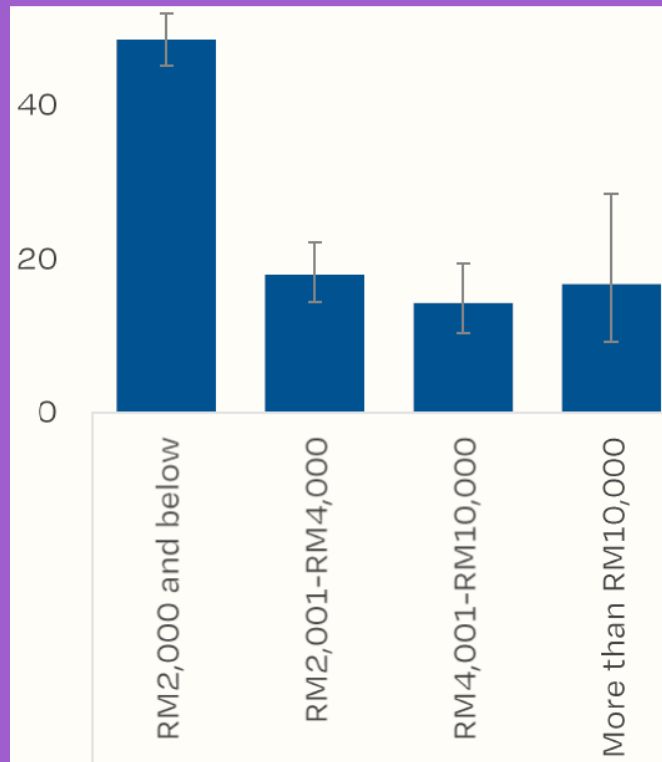
Relative income inequality has not decreased since 2014

- Absolute income inequality has been increasing. However, this is normal in a growing economy, and need not be a big concern if relative inequality is decreasing.
- Relative income inequality – that is, income shares – has declined over time, albeit at very uneven rates.
- Since 2014 this trend of falling inequality has stalled out, and income inequality has increased slightly.
- Some evidence that wealth inequality has been increasing. |

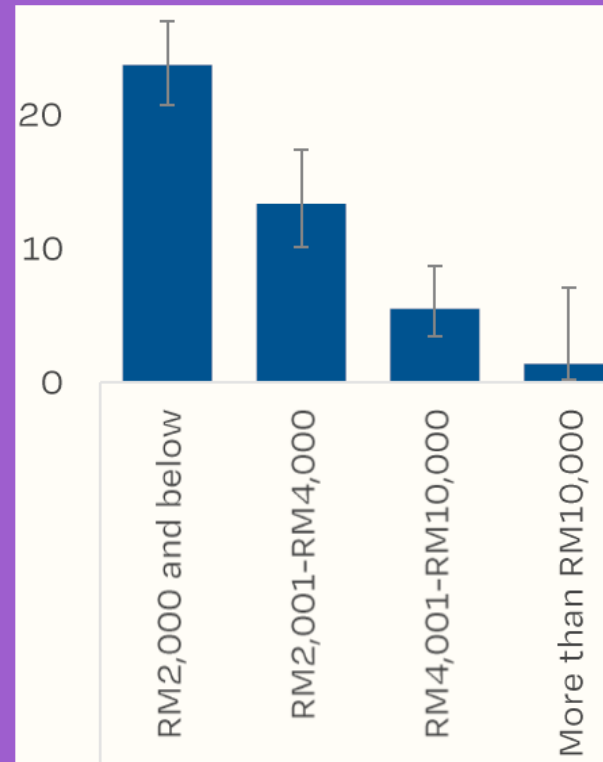


Strong evidence that inequality has increased during the pandemic

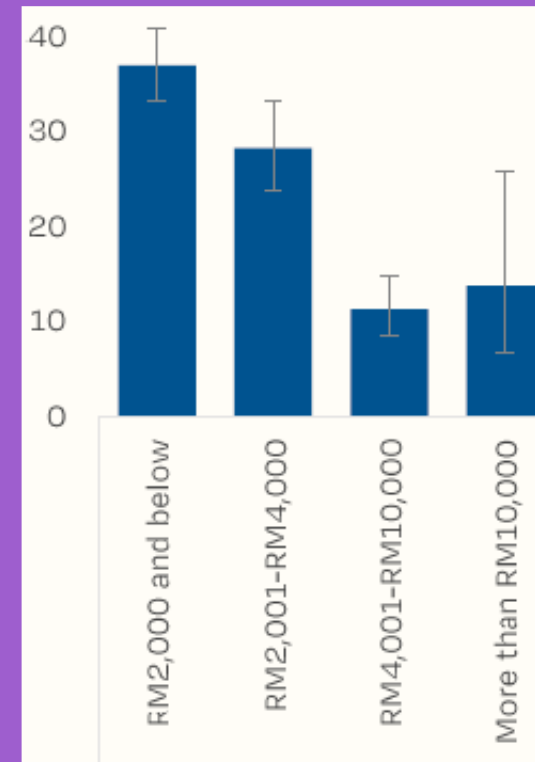
Work interruptions since onset of the COVID-19 pandemic



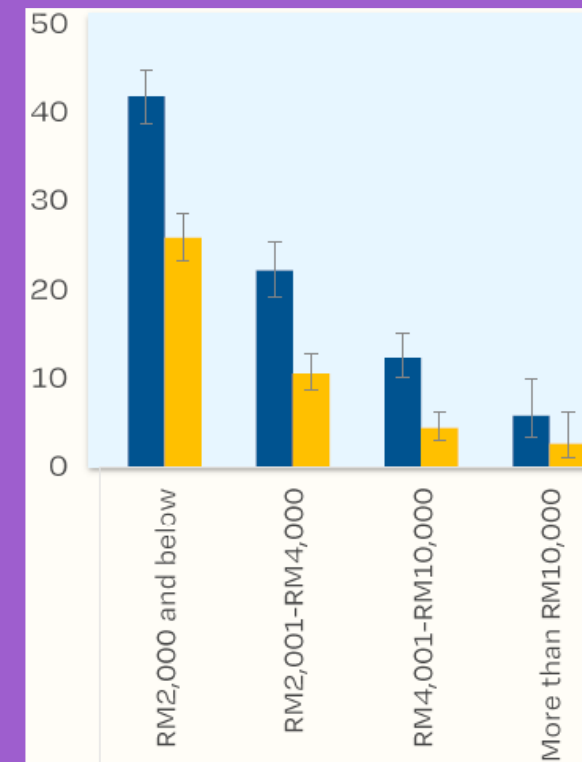
Continued working but changed jobs after onset



Experienced income losses

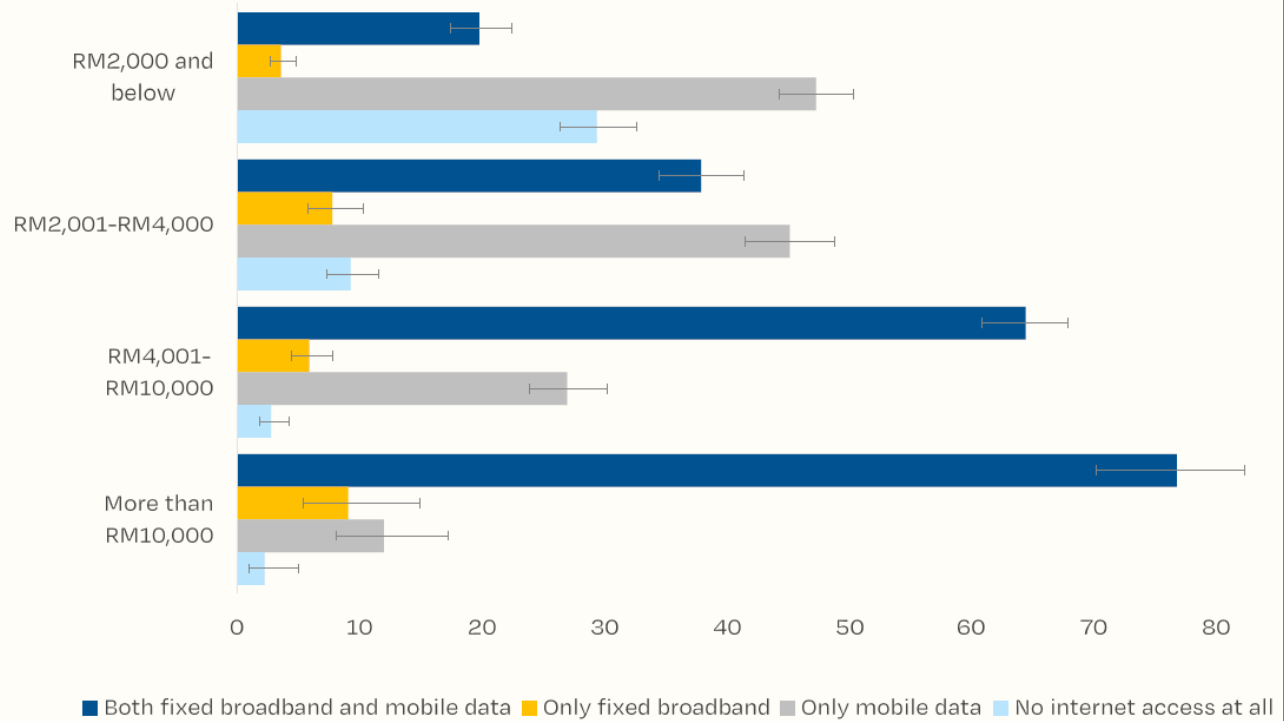


Food insecurity

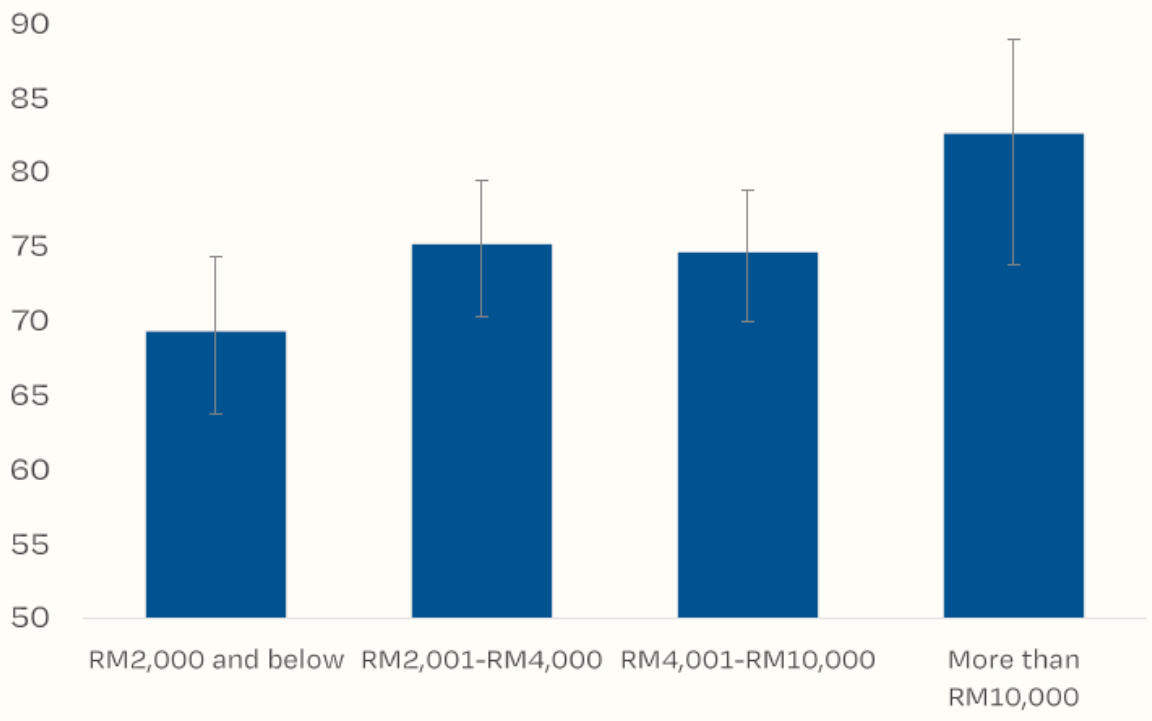


The digital divide also hurts low-income families, especially when it comes learning or working at home during the pandemic

Internet access at home, by household income
(% households in each subgroup)

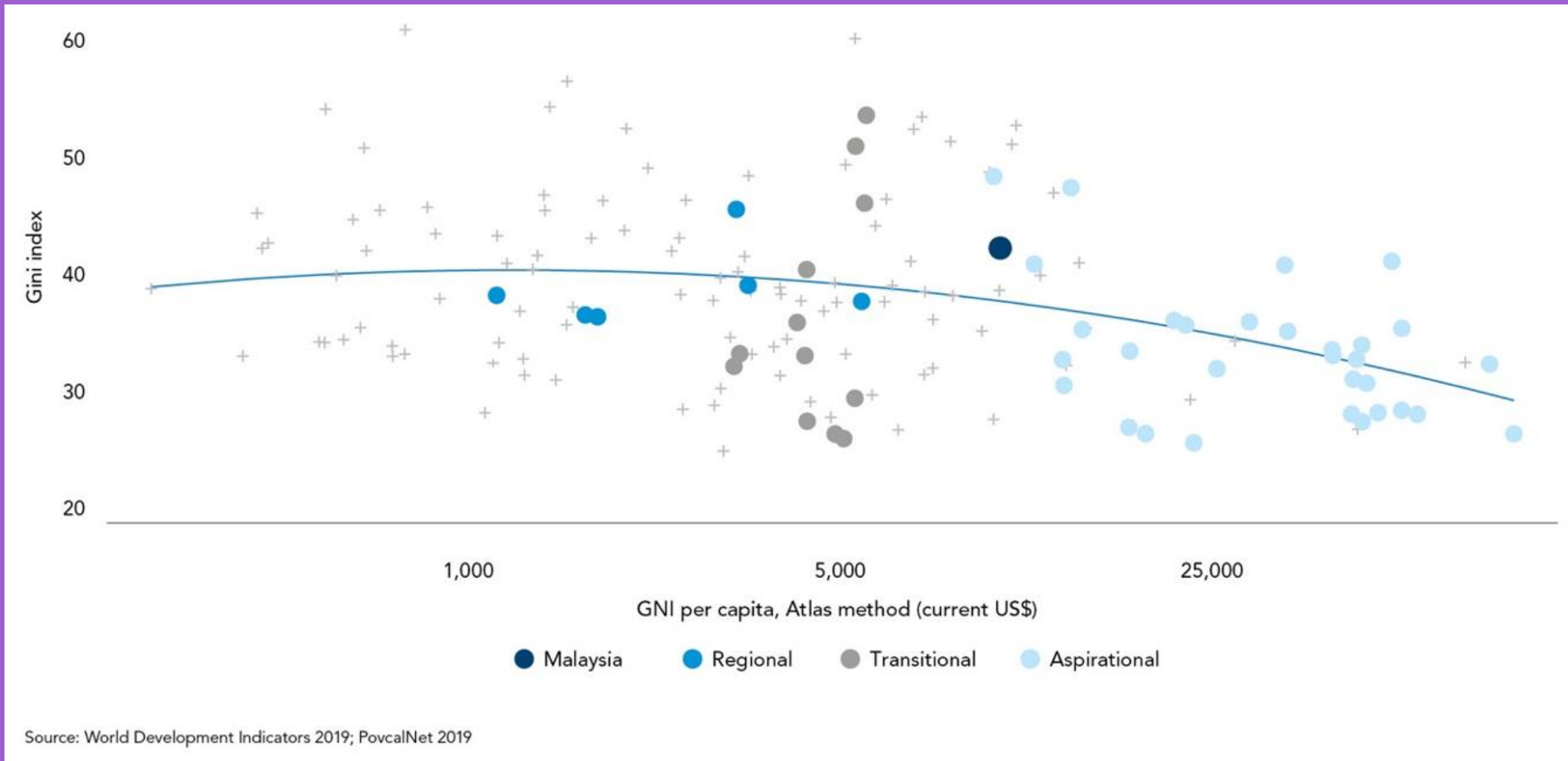


Children who engaged in online classes or used mobile learning apps, by household income
(% among households with children engaged in at-home learning)



Source: World Bank High-Frequency COVID-19 phone survey, Round 1 (May – June 2021)

Malaysia's income inequality is high relative to other ASEAN countries, recent high-income "graduates", and OECD countries

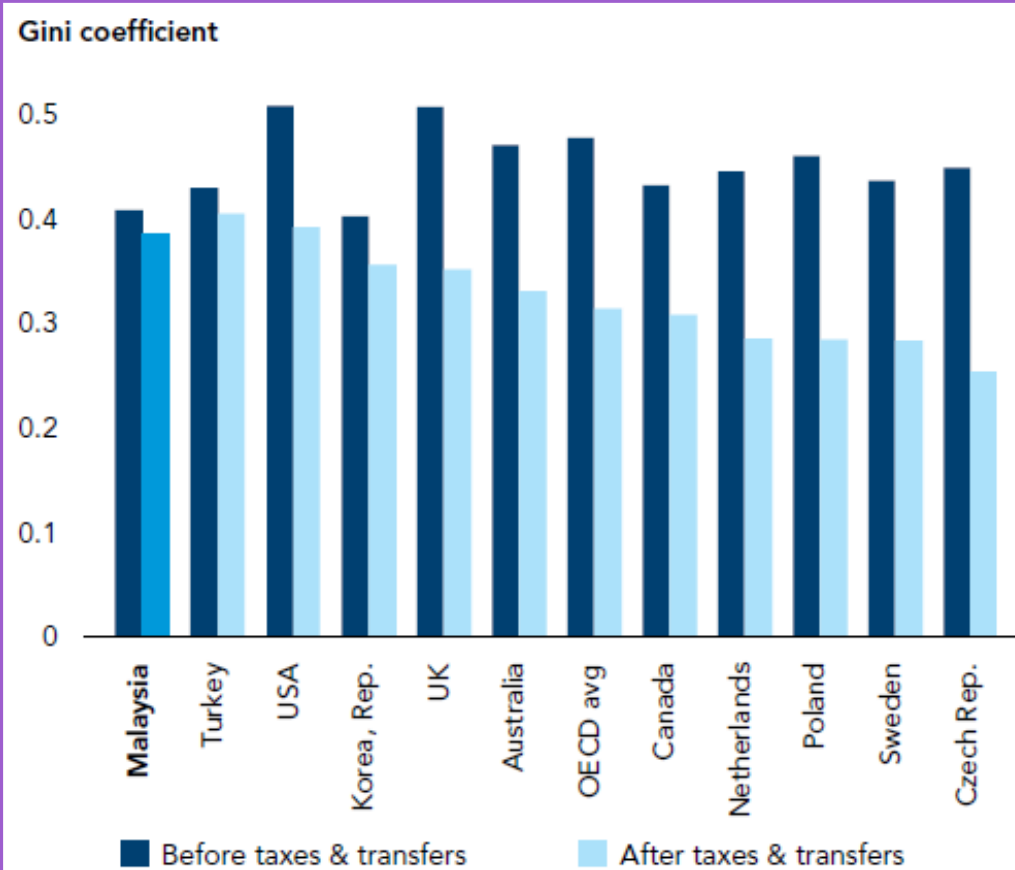


Sources: World Development Indicators; World Bank, PovcalNet

Note: Data points are average values for 2010–2017 for regional comparators and 8-year average values ending in the index year for transitional and aspirational comparators.

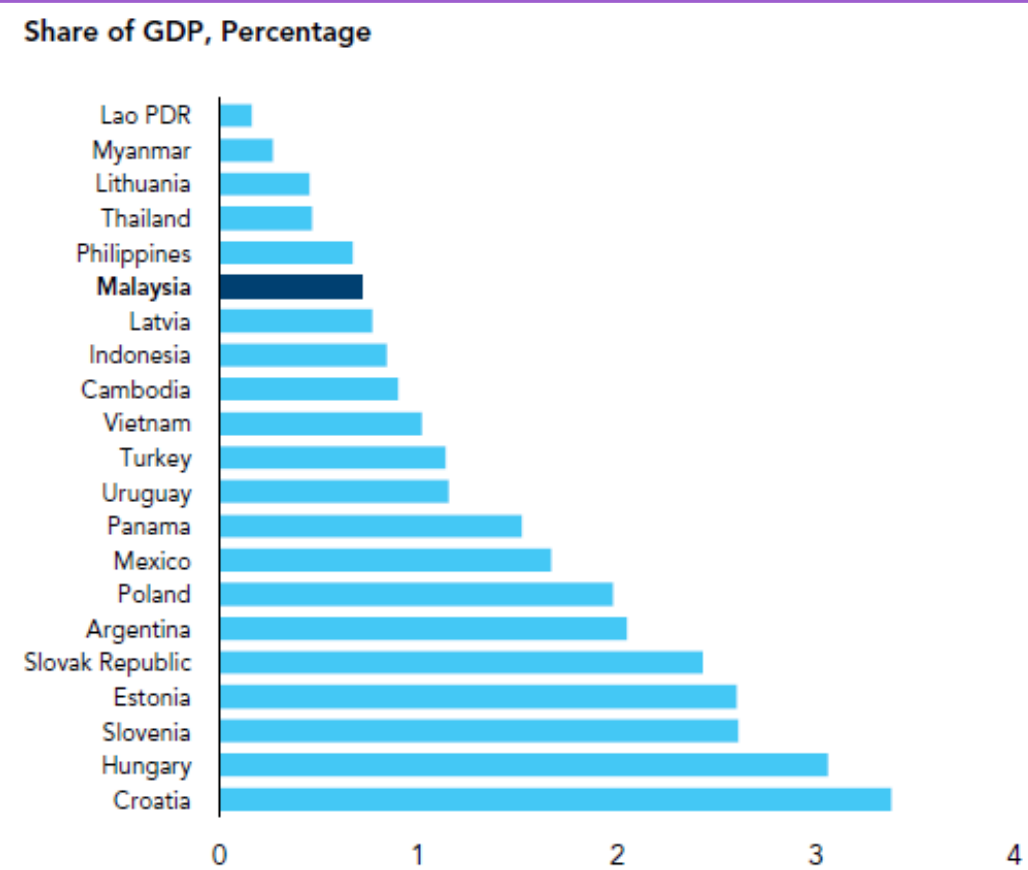
Malaysia's fiscal policy does little to reduce income inequality, in part because of low spending on social safety nets

Income Gini before and after taxes & transfers



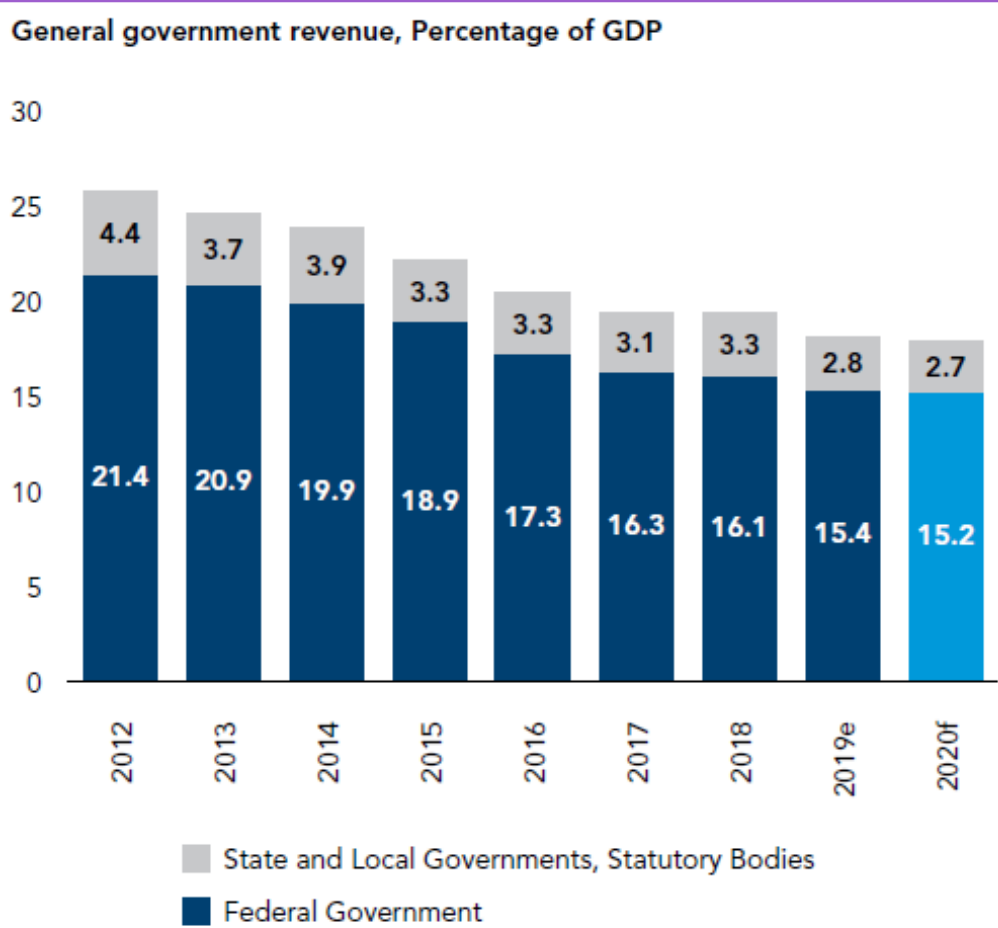
Source: OECD and World Bank staff calculations using DOSM Household Income Survey data

Government spending on social safety nets

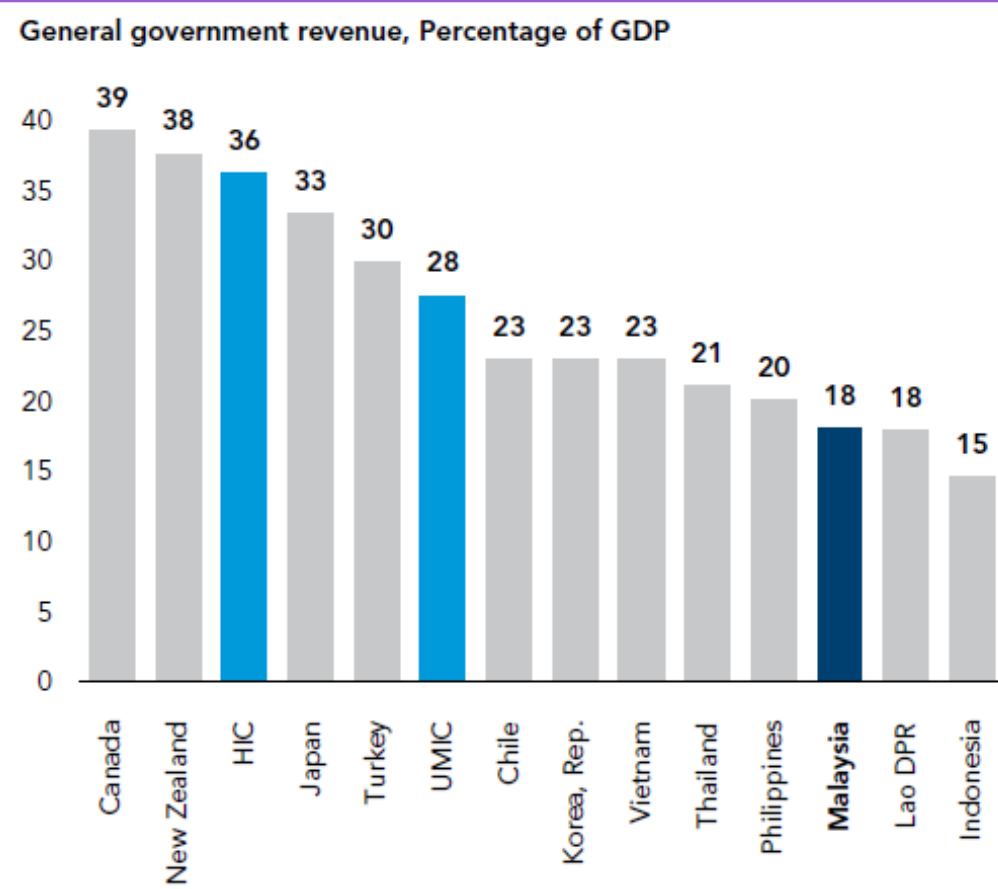


Source: World Bank (2018b)

Revenue collection has steadily declined since 2012, and is well below the average of comparator countries



Source: World Bank staff calculations based on MOF data

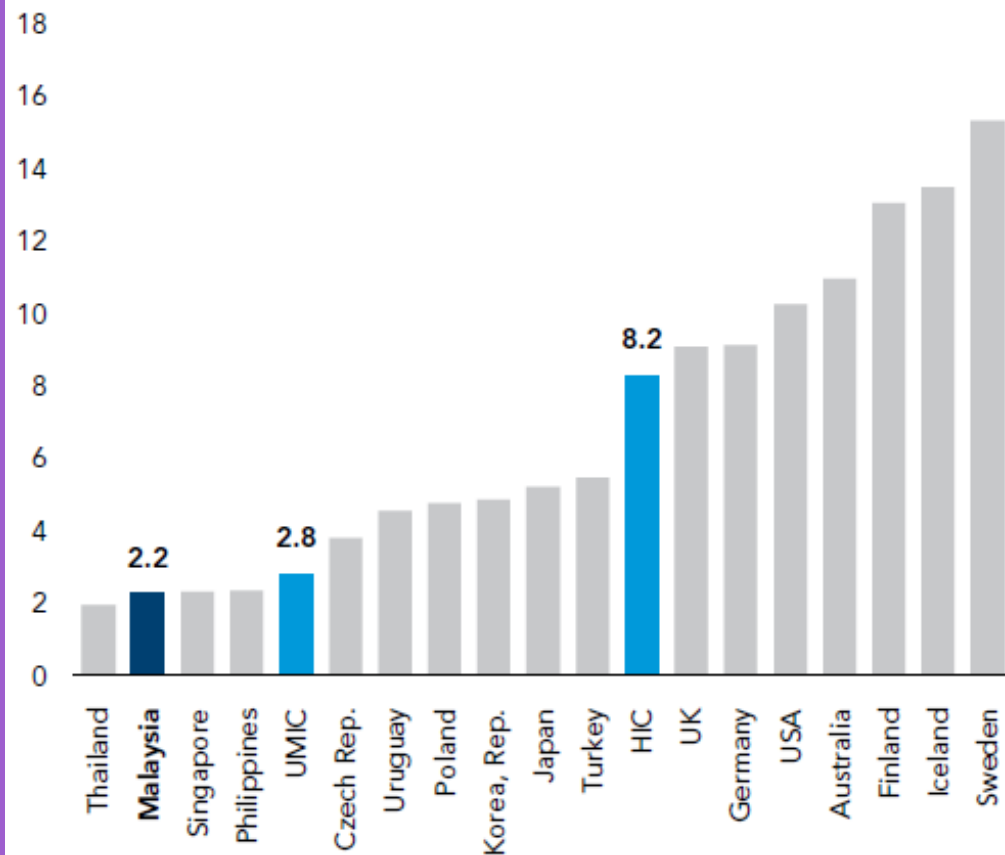


Source: World Bank staff calculations based on MOF and IMF data

Personal income tax and consumption tax collection both trail comparator countries by a large margin

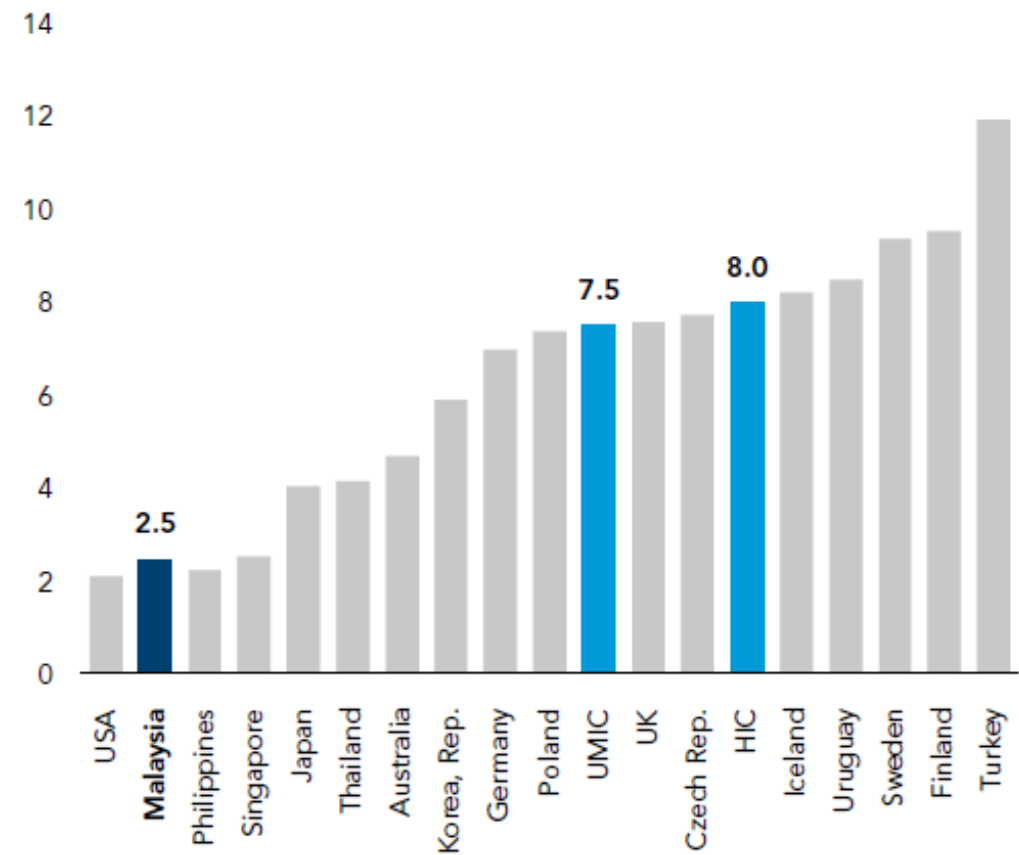
“Taxes are what we pay for a civilized society....” (Oliver Wendell Holmes, 1927)

Personal income tax, Percentage of GDP, Average 2012-2017



Source: World Bank staff calculations based on IMF and MOF data

Goods and services tax, Percentage of GDP, Average 2012-2017



Source: World Bank staff calculations based on IMF and MOF data

Key points on the social contract from the *Aiming High* report

- To realize its high-income and developed country ambition, Malaysia needs a new social contract with buy-in from all parts of the population.
- The new social contract should ensure equality of opportunities for all Malaysians, providing upward mobility and incentives to remain and invest in Malaysia.
- To achieve this, greater resources will need to be invested to build high-quality human capital and to facilitate greater economic opportunities, especially for women.
- Second-generation reforms to increase productivity and innovation-led private sector growth will also be required, along with policies to promote the development of skills and talents.
- Malaysia's public sector will need to operate at a higher level of openness and transparency.
- The government will also need to generate increased public revenues, to do so more effectively and more progressively, and to use these resources more efficiently, especially to meet the needs of the most deprived.
- Under the social contract, the state acts to meet the needs of the population in a credible and accountable manner by investing in human capital, regulating intelligently, and enforcing rules and regulations in a more uniform way, while at the same time maintaining macroeconomic stability.
- In exchange, citizens must be enabled to exercise their right to hold the government accountable while at the same time accepting the principle that all citizens should be treated equally and pay more taxes in return for the greater benefits that they receive.



Thank you
Terima kasih

