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“They are simply lazy”

“His father is a Tan Sri”

“He knows someone from the inside”

“I made it purely out of effort; I worked hard to get where I am today”

These are some typical expressions that are sure to be heard in coffee chats, every time the topic of rich and poor is brought up. People have grown easily accustomed to brushing off the topic of inequality as welfarist or socialist. This happens even amongst supposedly “middle class” Malaysians, not realizing that they are in actuality, most likely top income earners and wealth owners. Households earning RM10,000 a month above already qualify as Top 4% Malaysians! In fact, while partisan voices continue their discourse in the racial imbalance tone, Malaysia has silently migrated into new battles, concerning intra-racial, income, and class-based imbalances.

It is often argued that the poor and the low income earners are plain lazy and do not work hard; that one earns what one deserves. This is not true. Many are simply unlucky, to be born to parents who lack education or skills to escape from the clutches of poverty. Some were born with disabilities and diseases, while some others live in flood-prone or hazardous places. On the other hand, we have sub-quality undeserving businessmen linked to political patrons, estate and fortune inheritors, and individuals plainly lucky to be placed in lucrative industries with high economic rent. Accusations like laziness then become hardly the issue. The rich can be lazy too!

There are those who do not deserve to be in poverty, just as there are those who do not deserve their wealth. The cases above are simple yet fitting examples to describe that not all poverty is a result of unwillingness for hard work, and not all wealth is a result of it. Thus, the fight against inequality is rather a fight to equalize opportunities so as to reach more equitable outcomes, not to distortively equalize outcomes. This is not a crusade against the rich, but a crusade to help the poor.

What's the Big Deal with Inequality?

Inequality is very real, whether or not we have problems with the GINI coefficient as a measure. In fact, the attention regarded to inequality is very much driven by consequences of inequality, rather than pre-emptive. We can see real consequences to the society; including societal backlashes, power imbalances, effects on wages, effects on growth, crime and quality of living, to name a few. As long as the income and wealth inequality gap remain large and public investment for education, training, childcare and public infrastructure remain inadequate, progressive taxes and affirmative action in its true and productive spirit have a place within public policy. It is imperative that the richer within the society share the responsibility of helping the poor; in the bigger picture, it is actually in their interest to do so, as they too will feel the consequences of inequality.

The Fallacy of the Free Market

In any discourse of inequality and the rich and poor, the “free market” will almost immediately arise. The basic tenant of a free market is well described by the “Invisible Hand” coined by 18th century economist, Adam Smith. It argues that prices, and thus distribution of goods, services, labour, capital goods, land and human skills are all determined by market forces, or this “hand” that cannot physically be seen. Proponents of this market-based allocation system are naturally against increased forms of government intervention like transfers, donations, taxes, subsidies and benefits. To put simply, they believe that letting the market run its course freely will reach desirable market equilibriums in the fairest manner, thus achieving productivity and wealth for a nation.

The marketplace does have some elements of arguable fairness; hard work will get you higher income, and laziness will be punished. Jobs, goods and wages are “naturally” supplied to and demanded by society, according to their needs and capabilities, instead of government allocation which is dangerously prone to over or under budgeting.

However, one must note critically that the fairness of the marketplace should not be exaggerated. Market forces can be “brutally unsentimental”, as put by Jeffrey Sachs. Pockets of failures in the market are impossible to deny because not everyone in the economy starts from the same baseline. Endowments like wealth, opportunities, or physical health vary extremely amongst people within the system. While some manage to climb out of low income brackets and make it, as a result of opportunities and big breaks, others remain pressed in a vicious downward cycle. Indeed, not everyone gets a big break.

The Taxation Antagonist

The most common proponents of the free market are libertarians; whose ethical core is liberty. They hold the best economic outcomes will only prevail when each individual is left free to act economically and live without an authority governing their economic decisions. Individuals are in no way held responsible to the society, other than to be respectful towards the liberty and property of others. The government's sole responsibility is to only maintain law and order such as protection of private property. Extreme libertarians even hold that there is no requirement for government to build infrastructures, road or highways; such should be left to market forces because the need for them itself is incentive enough for someone to build them.

Libertarians are like "taxation antagonists". Amongst other forms of government intervention, libertarians reject governments promoting fairness and efficiency through a system of taxation. Tax is regarded as just another form of government extortion; de-motivating those who work hard while potentially over compensating those who don't.

In summary, libertarians hold that free market is the only way economic allocations are done "democratically"; hence it is the savior of democracy and enough on its own to ensure prosperity. Therefore, talk of government intervention in helping the poor will also become a point of contention in the books of libertarians.

Malaysian Libertarians

Many quarters have easily discarded the New Economic Policy (NEP) in hindsight, but it arguably did its job to almost eliminate poverty; reducing it from 50% in 1970 to the current 3.8%. Previously poor now form middle class and professional Malaysians.

Unfortunately, there is nothing to be proud of with the NEP mid 90s onwards. Rampant corruption, leakages and a breakdown in the integrity system demonstrated by those within the government have further worsened the situation. Perhaps this frustration in the government is behind the mushrooming of libertarian ideologies in Malaysia.

Is Libertarianism for Malaysia? We can first answer this by revisiting typical problems of missing a government sector. There is the question of who will provide public and common goods. We also do not need more than one police force, firemen, or court of law competing against each other. Without the government, who will then take care of the environment, regulate moral hazards, ensure individuals do not hurt each other, and protect the sovereign rights of Malaysians? Reducing government role is perhaps agreeable, but its total elimination has grave repercussions.

We then approach the issue of poverty. In all its admirable intentions of rewarding hard work and reducing influence of corrupt governments, libertarianism leaves too much room for an upward continuity of wealth and a downward spiral of poverty. As argued earlier, people start from different baselines. Holders of wealth are in the position to continue leveraging on existing wealth, to create more wealth- they can hardly be blamed as they are only incentivized and allowed to do so! It is worse when wealth comes from extracting economic rent, rather than the creating of true values that ultimately increases the size of the economic pie.

Consequently, the levers of power will be in the hands of corporations and the wealthy, which will have a bigger say in public policies, thus countering the libertarians' intended "democracy". Unlike the government of the day, boards of directors are not voted in by the people. Their fear of how a socialist nation will lead to fascism can also happen in free market except under the disguise corporate power. The free market failure then becomes as much political as economic!

Now imagine this "free market" is Malaysia, with one of the highest inequality levels in Asia (measured by GINI). The helpless poor will be left drowning in the currents of this market force, contending against the rich. This is exactly where a true, free, and liberal form of the market may not be able to generate the pristine intended outcomes it initially set out to do.

The Pakatan Rakyat Manifesto: A Manifesto for its Time

Political preference aside, there is cause to applaud the recent Pakatan Rakyat Manifesto. Tackling core economic issues, its four pillars hit home the concerns of the common rakyat; fraternity of the people, the people's economy, people's well-being and people's government. In Malaysia, the published absolute poverty number may be low, but in relative terms, many rakyat including daily creation of urban poor are effectively impoverished by demanding cost of housing and living that are unmatched by salary levels, high indebtedness, and low productivity levels due to limited skills and education.

For the government to maintain relevance in the face of libertarian claims, government interventions need to be tactical. If the government's stance is pro-business, it must be backed-up with robust social safety nets to hoist up and bring along poor households in the sprint towards growth and wealth creation. If the focus is the rakyat, care must be put to ensure business appetite is not suppressed. Such aspirations will be impossible to achieve without policies such as those proposed by the PR Manifesto; such as expanded educational opportunities (by making tertiary education free), reduction in the cost of living (utilities and tolls), targeted instead of blanket subsidies, and an upward pressure towards wages and salaries that are currently depressed by influx of foreign labour.

We have yet to see what Barisan Nasional has to promise with its manifesto but as a start, it should be more defined than its 2008 one; "to grow the economy" and start quantifying them. In fact, growing the economy is really a given.

Uplifting the Poor: Leveling the Playing Field

This is no plan to pull a modern-day Robin Hood, robbing the rich off of their hard work to reassign some wealth to the poor. The rich may be reached out to, to shoulder some responsibility to raise the level of education, health and productivity of the poor. Imagine the difference between a community with a billionaire worth RM40 billion and lots of poor people, versus one with 400 households worth RM10.0 million each. We might not love to pay tax but

we accept its legitimacy as long as it is properly enacted into law and is used properly. This by no means entails slacking off on the part of the poor. Opportunities are provided, but they still need to be capitalized upon. The idea is a bigger economic pie and an unleashing of further values that the poorer population could have produced and Malaysia could have enjoyed.

Putting all these into consideration, where does it leave libertarianism, minimal taxes to the rich and businesses, and the free market? Need bigger government roles necessarily mean bigger inefficiencies, and more corruption? Welfare states in Scandinavia have ranked higher than America in terms of the Human Development Index (HDI). At the same time, Scandinavian nations are among the most equal nations, high in governance and control over corruption, despite the bigger size of their government.

Ultimately, a healthy economy is a mixed economy, in which both the government and market forces both play their role. The exact balance remains an ongoing battle; but it's good to start with unraveling the realities of inequality. Inequality is neither a hobby for anti-capitalist activists, nor development economists looking for the next trendy topic for their thesis. It's true that government intervention in the shapes and sizes that they take form, may have distortive capabilities, but the "lazy poor and the hardworking rich" is a myth. For a better Malaysia, we have no choice but to continue our strive for productivity albeit with a new focus; inclusiveness.

Otherwise, Malaysia will be dragging its feet into the future, carrying the baggage of the past policies and its repercussions.

"A statesman is he who thinks in the future generations, and a politician is he who thinks in the upcoming elections." – Abraham Lincoln

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