“Impact on poverty and income inequality in Malaysia’s economic growth”

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Impact on poverty and income inequality in Malaysia's economic growth

Abstract

Poverty and income inequality are extreme issues that still exist in Malaysia. Any rise in poverty and income inequality definitely affect economic growth. There are many great efforts taken by the government of Malaysia to eradicate poverty and to reduce the gap of income inequality which occurs since 1970's. The incidence of poverty and income inequality is higher in rural areas compared to urban areas. This paper is mainly to study the level of poverty and income inequality in Malaysia together with government intervention to develop Malaysia's economic growth. The research is focused among the working people at Ipoh, Perak. In this paper, questionnaire forms are being distributed to get information regarding the issue of poverty and income inequality. It also looks into the strategies taken by the government of Malaysia to eradicate poverty and income inequality. Few recommendations are given in terms of education policy, financial aid and assistance from government and non-government organization (NGO) to upgrade the standard and quality of living among the poor and lower-income group of people.

Keywords: poverty, income, inequality, economic growth.
JEL Classification: O1, O4.

Introduction

Malaysia is an Asian country with unique multiracial peoples of different religions, cultures and languages. The three largest ethnics in Malaysia are Malay, Chinese and Indian. In Sabah and Sarawak, there are indigenous ethnic groups with their own unique culture and heritage.The Federation of Malaysia comprises 13 states in Peninsular Malaysia, and Sabah, Sarawak in east Malaysia. There are also 3 federal territories namely Kuala Lumpur, Putrajaya and Labuan.In the aspect of economy, Malaysia is a developing country with a highly open upper-middle income. Formerly, Malaysia focuses on the primary sector which is from the natural resources in agriculture and forestry. Later, Malaysia moves on to the secondary sector which is manufacturing and industry. This sector provides a greater contribution and act as the backbone of its economy. At this era, Malaysia emphasises on tertiary sector which is the service sector.

People living in urban areas can have a good access to their daily basic needs and facilities. The cities development will definitely increase the demand of the people and eventually this will bring to higher living cost. In contrast, people living in rural area such as in Kelantan, Sabah and Sarawak are poor and have low income inequality. This is because agriculture is their main source of income and employment. The challenges in producing sufficient food and agricultural products to sustain their life will eventually end up with urban population, (World Bank, 2015). This is due to good services and infrastructures together with job opportunities.

The greatest challenges faced by Malaysia are the issue of poverty and income inequality. Since 1971 until 1990, government of Malaysia has launched New Economic Policy (NEP) which aimed to promote growth of the country. Two major strategies of this New Economic Policy (NEP) are to reduce and eradicate absolute poverty and to restructure society in order to correct economic imbalances. Yet, this problem has no ending. This can be because of imbalanced intra-ethnic income distribution and urban poverty. According to Economic Planning Unit (2015), poverty and income inequality still exists with the highest level in few states mainly in Sabah and federal territory of Labuan (3.9%), Kelantan (0.9%), and Sarawak (0.9%) in 2014.

The incident of poverty can also be seen by ethnic group and strata. During 1970, there was 49.3% of poverty in Malaysia and reduced to 0.6% in 2014. In 2014, the Gini income coefficient of income inequality was at 0.41%. This shows that high level of poverty still exists in Malaysia and there is uneven income distribution (Economic Planning Unit, 2015).

In the aspect of ethnicity, Bumiputera as the largest ethnic group in Malaysia portrays the highest level of poverty compared to other races in Malaysia. In 1970, there was 64.8% of poverty incidents among Bumiputera and it declined to 0.8% in 2014. Besides that, in 1970 there was 26.0% of poverty among Chinese ethnic and it reduced to 0.1% in 2014. Moreover, 29.2% of poverty was recorded for Indians in 1970 and it reduced to 0.6% in 2014. As for others ethnic

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groups, 44.8% of poverty incidents in 1970 and it successfully declined to 0.9% in 2014 (Economic Planning Unit, 2015).

Moreover, the urban poverty shows 0.3%, whereas the rural poverty shows 1.6% in 2014 respectively (Economic Planning Unit, 2015). This shows that rural poverty is greater compared to urban poverty. Finally, the government of Malaysia should take greater measures to solve this issue as poverty and income inequality serves as a major limitation of economic development and growth. Incidence of poverty by state and ethnic wise in percentage are shown in Table 1 and Table 2.

Table 1. Incidence of poverty by state in percentage, Malaysia, 1970 and 2014

State	1970	2014
Johor	45.7	0.0
Kedah	63.2	0.3
Kelantan	76.1	0.9
Melaka	44.9	0.1
Negeri Sembilan	44.8	0.4
Pahang	43.2	0.7
Pulau Pinang	43.7	0.3
Perak	48.6	0.7
Perlis	73.9	0.2
Selangor	29.2	0.2
Terengganu	68.9	0.6
Sabah & Federal Territory of Labuan	n.a.	3.9
Sarawak	n.a.	0.9
Federal Territory of Kuala Lumpur	n.a.	0.1
Federal Territory of Putrajaya	n.a.	0.0

Source: Economic Planning Unit, 2015.

Table 2. Incidence of poverty by ethnic group in percentage, Malaysia, 1970 and 2014

Ethnic	1970	2014
Bumiputera	64.8	0.8
Chinese	26.0	0.1
Indian	29.2	0.6
Others	44.8	0.9

Source: Economic Planning Unit, 2015.

Generally, poverty exists both in rural and urban area. Poverty is defined as the state of being extremely poor. At this level, a person may face inferior in quality or insufficient in amount. There are two types of poverty which are absolute poverty and relative poverty. Absolute poverty refers to lack of basic necessities of households such as food, clothing and shelter. Absolute poverty does not concern about the issues of broader quality of life and overall measure of inequality in the society (UNESCO, 2015). Therefore, the concept failed to identify the social and cultural needs of individuals. Besides that, relative poverty refers to poverty relative to the standard of living household in a society. Three perspectives of relative poverty are income perspectives, the basic needs perspectives and the capabilities (empowerment) perspectives (UNESCO, 2015).

On the other hand, inequality refers to difference in size, degree, circumstances and others. The effect of inequality can be seen with the widening gap between the rich and the poor. Inequality can be measured in few perspectives such as income, consumption, wealth, gender, employment, health variables and others (Ogbeidi & Agu, 2015). According to Kuznets (1955), income inequality rises in the early phase of economic growth and slides in the later stage of development.

This paper is done because the issue of poverty and income inequality still exists although there are many policies, programs, and plans already taken by the government of Malaysia. There are many facilities prepared by governments, yet people still live in poverty. Therefore, through this research, the problems faced by the population in Malaysia will be identified to help them to get out of poverty and income inequality. This research is also carried out to identify poverty and income inequality among people from both rural and urban areas. Other than that, this issue also can be studied among different ethnicities and states in Malaysia. It is believed that this research can help government, non-governmental organization (NGO) and other agencies to put in greater effort in order to eradicate poverty and stabilize income inequality for better Malaysian economy growth. Hopefully through this research, Malaysia can overcome this problem in order to achieve its aim of being a developed nation by 2020.

1. Literature review

1.1. Theory of the Vicious Circle of Poverty. Theory of the Vicious Circle of Poverty is introduced by Nurkse (1952). He proposed that a country is poor because it is poor. It implies that poverty exists in the country which is not developed and financially unstable. According to this theory, a circular relationship portrays both the demand and supply side of problem of the capital formation of economically underdeveloped countries. The demand side is determined by the incentives to invest. In contrast, the supply side is determined by the capability and willingness to save. The market dimension is determined by the productivity level of an economy. Therefore to overcome the limitations of being a low income and underdeveloped economy, Nurkse (1952) insisted that the enlargement of market is necessary so that a country can be eliminated from the lower income stage and discontinue being part of the vicious circle of poverty. It is believed that through this enlargement of market, development and growth of an economy will take place.

According to Nurkse (1952), the belief of balanced development should be stressed. This is where, in order for a country to move forward, it must grow in

the industrialization sector instead of depending on basic production and export of raw materials. The economic progress of a country is not automatic or spontaneous. Thus, developing countries should need the collaboration of both government and private sector in terms of savings and investments. A balanced growth surely leads to greater economic progress where surplus is greater than deficits. It is believed that 'The Theory of the Vicious Circle of Poverty' succeeds in showing the level of poverty and backwardness of underdeveloped countries.

1.2. Highlights of relevant previous studies. According to Kuznet (1955), lower class people who are originally from agricultural sector tend to migrate from countryside to the cities due to the blooming of industrialization which can increase the share of their income. Thus, the shift increases the urban population, where population in urban areas is greater compared to urban areas and eventually raises the economic growth with better and upgraded living conditions. Besides that, the incidence of death rate is declining due to poverty as the people are getting more stable in their economic position, where a better lifestyle is maintained.

According to Rank (2001), three major factors that contribute to the incident of poverty are individual factors, cultural and neighborhood factors and structural factors. Generally, individual factors refer to the attitude of an individual, human capital and welfare participation. Besides that, cultural and neighborhood factors are connected to the effect of neighborhood surroundings that prone to poverty. Furthermore, the structural factors are factors concerned to wide economic and social structures related to poverty. Thus, it is believed that government welfare policy can be affected by various prospects of poverty.

Primarily, the incident of poverty is always related to rural. Therefore many rural-based poverty eradication and income redistribution strategies have been undertaken, although it was in critical stage. Mainly, there were two strategies that were implemented in order to reduce this incidence of poverty, such as the plan for better and more efficient services in education. Next, it focuses in providing greater job opportunities in the secondary sector (manufacturing, industry and others) and tertiary sector which targets more towards services. Thus, the role of public sector is essential towards creating a better environment and providing infrastructure to private sectors. This is because, private sectors function as a major tools for the growth of Malaysian economy (Ragayah, 2008).

According to Xavier & Ahmad (2011), as a developing country Malaysia is not capable to compete with high value-added economies. The progress of Malaysia is far behind in research and development compared to its rivals. Although many economic policies have been taken, yet income inequality still gets broader. This can be due to wage growth that has not been maintained together with the economy growth in Malaysia.

According to Todaro (2012), two factors to overcome the global issue of poverty are rate of economic growth and the level of resources that committed to poverty programs together with its quality. There are five causes, where the focus of policies on poverty reduction level does not bring towards slow growth rate. First, spreading poverty level creates a condition, where poor have no access to credit. This is where poor people are financially unable to provide education to their children and have another option by having kids as an old-age financial security. Second, people categorized from financially well to do in poor countries are not well known for their determination in savings or investments. Third, the lower level of incomes and livings of the poor can bring down the economic productivity and stagnant growth of an economy in terms of health, nutrition and education. Next, an increment in the level of income can encourage an increase in the demand of the poor in terms of basic necessities such as food, clothing, shelter and others. Fifth, the eradication of poverty can boost up stronger economic growth which acts as a weapon and incentives towards the process of development.

The major concern is that patterns of economic growth and development would be unsustainable unless environment concerns are put seriously into consideration (Ahmed et al. 2012). Good health is one of the most important pre-requisite to human productivity which in turn leads to overall development of a society. Health is understood as the indispensable basis for defining a person's sense of well-being and is regarded as an important resource for a nation to pursue national development goals. Good health raises the productivity of the labour force and enhances economic growth (Aldosari et al. 2014).There are several factors that contribute to economic growth on one hand an increase the EC on the other hand (Abidin et al. 2015). Malaysia has 29.90 million populations in the year 2014 (World Bank, 2015). National Statistical Offices define rural population as people living in rural areas. Rural population are the difference between total population and urban population. Besides that, National Statistical Offices define urban populations as people living in urban areas. In the year 2014, it was estimated around 7 771 529 rural population (26%) and 22 130 468 urban population (74%) in Malaysia (World Bank, 2015).

The economic characteristics of high-poverty groups together with imbalance income distributions mainly consists of rural poverty, women and poverty, and ethnic minorities, indigenous populations and poverty. In rural poverty the poor are discovered staying in disproportionate level in rural areas, in which they are predominantly focused to agriculture and primary activities as their main source of income. The major

component of poor people in the world is women. Women are considered poor compared to others because of their lower ability and potential of earning higher incomes compared to men. In addition, women are more likely in getting low-productivity jobs with minimum wages and less social security benefits. As men are given more priority in job prospects, this will definitely lead to income inequality among men and women, where the economy growth will be less productive. Furthermore, poverty and income inequality among minor ethnics and indigenous populations are from those facing major economy, political and social discriminations. Their chances of being malnourished, unemployed, in poor health conditions and illiterate are higher compared to others as they are in extreme level of poverty and disparity of income. Other than that, one of the main studies in developing countries is between economic growth and income distributions because growth seems to be contradicted with income distributions and finally results in higher inequality and failure in poverty elimination (Todaro, 2012). According to Elhadary & Samat (2012), the high number of urban poor is due to the process of urbanization. Thus, people living in urban area are moderately better-off compared to those living in rural area. Urbanization is an approach that will activate economic growth, however it will cause huge gap between cities and different social group.

World Bank defines poverty as failure in income "dollar-a-day". In 1970s, Malaysia has developed the poverty line in order to eradicate poverty. This poverty line was applied for the evaluation of the minimum consumption on moderate sized household demands which includes food, shelter, clothing and others. Therefore, if the income of households is below the poverty line, then it is described as living in poverty. In addition, households are categorized as living in "hard-core" or extreme poverty if their incomes are below half the poverty line (Hatta & Ali, 2013).

International Monetary Fund found that there is an inverse relationship between income inequality and economy growth of a developing country. Furthermore, income inequality can affect the economic growth in the sense of inefficient public policies. The higher gap between income inequalities can bring higher social cost and expenditure. Eventually, there will be imbalance in growth (Dabla-Norris, 2015).

1.3. Policies and programs. *1.3.1. New Economic Policy (NEP).* According to Jomo (2004), the Government of Malaysia has introduced the New Economic Policy (NEP) in 1970. Two major objectives in this New Economic Policy (NEP) are to eradicate poverty regardless of race and to restructure the society. This policy is a great effort taken by the government in order to minimize the interethnic economic disparities between Bumiputera, Chinese, Indians, and other races as well. The three perspectives of this NEP policy are poverty reduction, restructuring societies and wealth distribution.

Export-oriented industrialization and developmental programs of rural and urban areas were encouraged in the first strategy. Less fortune class people are highly encouraged to enter the economic activities as a way to develop and upgrade their living. The main strategies are by *in situ* agriculture and land development for the fast blooming of rural labor force with higher participation in secondary sectors (industrial and manufacturing) and tertiary sectors (service). Besides that, the government has planned with low-cost housing projects and urban petty trade as an effort to help the urban poor (Saari et al., 2015).

According to Saari et al. (2015), the second strategy focuses on the increase in the right of possessions in certain companies. Other than that, the Malays or Bumiputera are given higher chances to hold a top managerial positions. This can be seen in terms of quota systems, where participation of Malay ethnics in business is increasing as they were giving special rights to enter private sectors. Moreover, the major involvement of Malays or Bumiputera in public sectors has eventually introduced to Industrial Coordination Act (ICA), where it holds strong involvement of Malays in medium and large-scale enterprise. This results in a sense, where the composition of employees portrays the compositions of major ethic groups in Malaysia. Furthermore, the government also have collaboration with private sectors as a way to repair the inefficiency and increase productivity by privatizing public agencies. Finally, this approach will definitely boost economic growth as the burden of government sector in the aspects of financial and administrative sectors has been reduced. The major drive of the policy, New Economic Policy (NEP) is to reach the ultimate goal of being a developed nation by the year of 2020 with a steady and progressed economy.

1.3.2. New Economic Model (NEM). The New Economy Model (NEM) is the current on-going forth long-term policy starting from 2010 until 2020. The New Economic Model (NEM) is believed to be the backbone of Governments plan in bringing drastic changes on the static condition of Malaysian economic in 21st century. Malaysia is a country with sufficient natural resources yet it faces great obstacle known as 'Middle Income Trap'. This limits the chances of the country to reach a position of high income country. Thus, research and development (R&D) should be done frequently together with investments from other developed countries into Malaysia as a step to solve the multidimensional issue (Azman et al., 2014).

1.3.3. Minimum Wage Policy. Minimum Wage Policy was an implemented and effectively started on 1st January 2013. This Government policy is an initiative to upgrade Malaysian economy from a middle-

income country to a high-income country by the year 2020. The National Wages Consultative Council (NWCC) has determined the monthly minimum wage rate of RM900 for employees in Peninsular Malaysia whereas employees in Sabah, Sarawak and Federal Territory of Labuan will receive minimum wage of RM800. This policy is meant to minimize the problem in the imbalances of wealth allocations in Malaysia, Besides that, it is to ensure high income, which is above Poverty Line Index (PLI) among employees in Malaysia (Ling et al, 2014).

2. Research methodology

2.1. Research instrument. The instrument used in this paper is a quantitative method through the questionnaire forms, which are distributed to the 100 selected respondents. This is to collect information from the respondents about the incidence of poverty and income inequality in Malaysian economic growth. The questionnaire form is the instrument used by the researcher to collect data on few sections and elements that suits the purpose of this research. The elements in the questionnaire forms are done by referring to the questionnaire from past researchers and modified according to the suitability of current research objectives.

2.2. Research model. This paper uses multiple linear models. There are one dependent variable and two independent variables in this model.

Dependent variable: Economy growth (Y)

Independent variable: Poverty (X_1), Income inequality (X_2)

The multiple linear equation of this model is:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \mu,$$

where,

Y = Economy Growth

X_1 = Poverty

X_2 = Income inequality

μ = Error

β_0 = Intercept point

β_1, β_2 = Partial coefficients to X_1 and X_2

2.3. Method of data analysis. Data are analyzed by using statistical analysis based on the responses from questionnaires. The software used for the data analysis is Statistical Package for the Social Sciences (SPSS) version 22. This software helps in the process of interpretation of the collected data in order to test the significance of dependent variable and independent variable accurately. There are three types of test that will be carried out in this research namely descriptive analysis, Pearson correlation test and regression test.

2.4. Descriptive analysis. According to Hussin et al. (2014), a descriptive analysis can be used for any research that uses qualitative method or quantitative research as well. Descriptive analysis is done in the beginning of a chapter's analysis. Few types of descriptive analysis used are frequency distribution and graphic presentation, numerical measures such as mean, mode and median.

2.5. Pearson correlation test. According to Berawi (2014), correlation measures the degree/strength between two or more variables. The correlation analysis does not take into account the variable that influences it. The strength of correlation is based on the value of *r*. The higher correlation coefficient, *r* shows a strong positive correlation as the value approaches positive 1. Correlation coefficient value is shown in Table 3.

Table 3. Interpretation of the correlation coefficient

Coefficient value range	Strength of the correlation
1.0	Perfect
0.80-0.99	Very strong
0.60-0.79	Strong
0.40-0.59	Average
0.20-0.39	Weak
0.01-0.19	Very weak
0.0	No relationship

Source: Hussin et al., 2014.

2.6. Regression test. According to Berawi (2014), regression test measures the degree/strength of relationship between one dependent variable and more than one independent variable. The degree/strength between the dependent variable and independent variables depends to the value of R-square (R^2). (R^2) or the determining coefficient is the ratio of change (variation) of the dependent variable, Economy Growth (Y), which is explained together by the independent variables, Poverty (X_1) and Income Inequality (X_2).

3. Results and discussion

3.1. Descriptive data analysis and findings.

Table 4. Mean and standard deviation of poverty (N = 100)

Items	Mean	Standard deviation	Minimum	Maximum
Does incidence of poverty still exist in Malaysia?	4.1600	0.80050	1.00	5.00
Is incidence of poverty a major problem in Malaysia?	3.7100	0.87957	2.00	5.00
Are government poverty reduction programs and policies successful in Malaysia?	3.1800	1.09526	1.00	5.00
Does Government provide enough financial aid and assistance for those suffering from poverty in Malaysia?	2.9900	1.16771	1.00	5.00
In your opinion, is poverty level high in rural area compared to urban area?	3.6900	1.07961	1.00	5.00
Can people from rural area survive without any financial aid from Government?	2.3900	1.11821	1.00	5.00

Based on table 4, the majority of respondents agree with the statement of "Does incidence of poverty still exists in Malaysia?" with (mean = 4.1600). Next, respondents agree with the statement of "is incidence of poverty a major problem in Malaysia?" with (mean = 3.7100). Respondents agree with the statement of "Are Government poverty reduction programs and policies successful in Malaysia?" with (mean = 3.1800). Moreover, respondents agree with the statement of "Does Government provide enough financial aid and assistance for those suffering from poverty in Malaysia?" with (mean = 2.9900), and the statement of "In your opinion, is poverty level high in rural area compared to urban area?" with (mean=3.6900). Finally, the statement of "Can people from rural area survive without any financial aid from Government?" with (mean = 2.3900).

3.2. Mean and standard deviation of income inequality.

Table 5. Mean and standard deviation of income inequality

Items	Mean	Standard deviation	Minimum	Maximum
Does the huge gap between the high paid job and low paid job lead towards income inequality?	4.1700	0.69711	2.00	5.00
Do the people in rural area get lower income?	3.6300	0.90626	1.00	5.00
Do the people in urban area get higher income?	3.8000	0.91010	1.00	5.00
Is your monthly income enough for you and your entire family?	2.5500	0.99874	1.00	5.00
Does the primary sector (agricultural) provide low income?	3.1300	0.96038	1.00	5.00
Does the secondary and tertiary sector promise high income?	3.4700	0.96875	1.00	5.00

Based on Table 5, the majority of respondents agree with the statement of "Does the huge gap between high paid job and low paid job bring towards income inequality?" with (mean = 4.1700). Next, respondents agree with the statement of "Do the people in rural area get lower income?" with (mean = 3.6300). Furthermore, respondents agree with the statement of "Do the people in urban area get higher income?" with (mean = 3.8000). The statement of "Is your monthly income enough for you to bear you and your entire family?" shows (mean = 2.5500), whereas the statement of "Does the primary sector (agricultural) provide low income?" shows (mean = 3.1300). Finally, the statement of "Does the secondary and tertiary sector promise high income?" shows (mean = 3.4700).

3.3. Mean and standard deviation of economy growth.

Table 6. Mean and standard deviation of economy growth

Items	Mean	Standard deviation	Minimum	Maximum
Is Malaysia growing in the aspect of economy?	3.9600	1.10023	1.00	5.00
Can zero poverty bring towards greater economy growth in Malaysia?	3.7800	1.05964	1.00	5.00
Can smaller gap in income inequality bring towards greater economy growth in Malaysia?	4.3700	0.83672	1.00	5.00
In your opinion, is the role of Government important to achieve economic growth in Malaysia?	4.2500	0.75712	1.00	5.00
Can private sector help to boost up the economy growth in Malaysia?	2.9100	1.12002	1.00	5.00

Based on Table 6, respondents agrees with the statement of "Is Malaysia growing in the aspect of economy?" with (mean = 3.4500). Next, the statement of "Can zero poverty bring towards greater economy growth in Malaysia?" with (mean = 3.9600). Respondents agree with the statement of "Can smaller gap in income inequality bring towards greater economy growth in Malaysia?" with (mean = 3.7800). The Majority of respondents agree with the statement of "In your opinion, is the role of Government important to achieve economic growth in Malaysia?" with (mean = 4.3700). Next, respondents agree with the statement of "Can private sector help to boost up the economy growth in Malaysia?" with (mean = 4.2500), and lastly the statement of "Do you think Malaysia is stable in its economy growth?" with (mean = 2.9100).

3.4. Empirical data analysis and findings. *3.4.1. Analysis of Pearson correlation.* According to the hypothesis 1 (H1) that was developed in this research study.

Ha: There is a positive relationship between poverty and economy growth in Malaysia.

Ho: There is a negative relationship between the poverty and economy growth in Malaysia.

Table 7. Correlation between poverty and economy growth

Variables		Poverty	Economy growth
Poverty	Pearson correlation	1	.623**
	Sig. (2-tailed)		.000
	N	100	100
Economy growth	Pearson correlation	.623**	1
	Sig. (2-tailed)	.000	
	N	100	100

Analysis of Pearson correlation shows a positive relationship between the variable of poverty and economy growth in Malaysia. There is a strong relationship between poverty and economy growth in Malaysia, where $r = 0.623$, $p < 0.01$ is shown in Table 7. The

higher the poverty level, the lower is the economic growth in Malaysia. Therefore, alternative hypothesis (Ha) is accepted, showing there is a positive relationship between poverty and economy growth in Malaysia. This research hypothesis corresponds to research done by Todaro (2012).

According to the hypothesis 2 (H2) that was developed in this research study,

Ha: There is a positive relationship between income inequality and economy growth in Malaysia.

Ho: There is a negative relationship between income inequality and economy growth in Malaysia.

Analysis of Pearson correlation shows a positive relationship between the variable of poverty and economy growth in Malaysia. There is an average relationship between income inequality and economy growth in Malaysia, where $r = 0.490$, $p < 0.01$ is shown in table 8. The higher is the income inequality, the lower is the economic growth in Malaysia. Therefore, alternative hypothesis (Ha) is accepted, showing that there is a positive relationship between income inequality and economy growth in Malaysia. This research corresponds to research done by Xavier & Ahmad (2011).

Table 8. Correlation between income inequality and economy growth

Variables		Income inequality	Economy growth
Income inequality	Pearson correlation	1	.490**
	Sig. (2-tailed)		.000
	N	100	100
Economy growth	Pearson correlation	.490**	1
	Sig. (2-tailed)	.000	
	N	100	100
**. Correlation is significant at the 0.01 level (2-tailed).			

3.4.2. Analysis of regression

Table 9. Multiple linear regression

Model		Unstandardized coefficients		Standardized coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.203	.412		.494	.622
	Poverty	.686	.112	.506	6.115	.000
	Income inequality	.371	.111	.278	3.359	.001
Dependent variable: economy growth						

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \mu$$

$$Y = 0.203 + 0.506 X_1 + 0.278 X_2 + \mu$$

(0.412) (0.112) (0.111)

The model above is a multiple linear regression model. Based on the model above, Y is the dependent variable (economy growth). There are two independent variables, namely X_1 (poverty) and X_2 income inequality). β_0 is the intercept point with the value of 0.203. Next, β_1 is the partial coefficient to X_1 with the value of 0.506 and β_2 is the partial coefficient to X_2 with the value of 0.278. Finally, μ is error. The figures that are stated in the brackets; (0.412), (0.112) and (0.111) are the values of standard error which is shown in table 9. This model portrays a positive relationship between the dependent variable (economy growth) and independent variables (poverty and income inequality). The higher the level of poverty and income inequality, the lower is the economy growth in Malaysia.

The value 0.203 means economy growth is 0.203, when poverty and income inequality are zero or constant. The value 0.506 shows that there is an increase of one percentage in poverty, which affects the economy growth to decrease as much as 50.6% assuming that other independent variable (income inequality) is constant. The value 0.278 shows that there is an increase of one percentage in income inequality which affects the economy growth to decrease as much as 27.8% assuming that other independent variable (poverty) is constant.

Table 10. R-square of multiple linear regression

Model	R	R square	Adjusted R square	Standard. error of the estimate
1	.672[a]	.451	.440	.49090
a. Predictors: (constant), income inequality, poverty				

Table 10 shows the value of R square (R^2), 0.451, where 45.1% changes in the dependent variable **Y**, (economy growth) can be explained together with the independent variables $\mathbf{X_1}$ (poverty) and $\mathbf{X_2}$ (income inequality) while the remaining 54.9% can be explained by the other variables apart from $\mathbf{X_1}$ (poverty) and X_2 (income inequality).

Conclusion

This paper has examined the relationship between poverty incidence and income inequality in Malaysia. The study provides evidence that growth has contributed significantly in reducing poverty and income inequality. However, growth alone is unable to explain the total variation of the change in poverty incidence. Further, the results suggest that the pattern of growth is an important issue in determining the impact of growth in poverty reduction and income inequality. The manufacturing growth, which has been the main source of growth of the economy, has contributed significantly in reducing poverty incidence in Malaysia.

Income inequality can no longer be ignored and relegated to the backgroundof policy determination during periods of economic prosperity.We have seen in severalcrisis-hit countries that poverty incidence fell because the average income of the people increased through increased employment brought about mainly by economic growth that resulted from well-directed government interventions and sound macroeconomicpolicies. But, often, this economic growth also came as a result of inappropriate andunsustainable economic activities associated with a bubble economy.

Reducing income inequality is never an easy task because it is very time-consuming, costly and contradicting. Governments always wanted to experience high growth but it will lead to inflation. To reduce inflation, concretionaryfiscals/monetary policies are used. When income tax, corporate tax and GST tax are high, people who live in poor will never get to live a better life while the rich ones are getting better each day, causing a higher income inequality. The major conflicts in achieving macroeconomic objectives of stable growth, low inflation, low unemployment, higher living standards and less income inequality are always exist.

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