

THE PERSISTENCE OF POVERTY: RURAL DEVELOPMENT POLICY IN MALAYSIA

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[The persistence of rural poverty is related to the reliance on the indirect "trickling down" process to distribute the benefits of public investments. The disadvantaged not only obtain their share of benefits first, they also take the largest share. Thus the incomes of the richer members of the community rise faster than those of the poor, and relative poverty increases. Even within the NEP, dependence on the trickle down strategy continues. Planners tend to assume that policies favouring the Malays equally contribute to poverty eradication. However, as the NEP succeeds in advancing the Malay community, ethnicity alone becomes an increasingly less reliable criterion of disadvantaged status.

Development policy in Malaysia exhibits a certain ambivalence regarding the economic viability of the peasantry. The close identification of the rural peasantry with the unique character of Malay culture tends to equate preservation of the peasantry with preservation of Malay culture. On the other hand, structural changes implicit in the development model adopted in Malaysia will inevitably involve the contraction of the agricultural sector relative to the rest of the economy. This basic contradiction underlies some unrealistic notions of the economic viability of small scale peasant agriculture. It is often assumed that small peasant producers can be made viable if only the right formula is found — and that the incomes of peasant households can be increased relative to others without fundamentally interfering with existing structures and resource distribution. This is an extremely dubious proposition in the dynamic Malaysian context.

The paper argues that there can be no justification for policies that tend to reverse the process of structural transformation or that isolate certain segments of the population from participation in its benefits. A more realistic appraisal of the prospects for economic viability for many of the disadvantaged would allow more rational and therefore more effective policy formulation.

Pergantungan ke atas proses "penitikan" secara tidak langsung untuk mengagih keuntungan pelaburan kerajaan mempunyai kaitan yang rapat dengan kemiskinan yang berlanjutan. Mereka yang berkedudukan tidak hanya menerima keuntungan tersebut terlebih dahulu, mereka juga mengaut keuntungan yang lebih besar. Justeru itu, pendapatan mereka yang lebih kaya naik dengan lebih cepat lagi jika dibandingkan dengan mereka yang miskin. Akibatnya adalah jurang kemiskinan yang makin membesar.

Dasar pembangunan di Malaysia menunjukkan sikap yang berbelah bagi terhadap taraf ekonomi petani. Kaitan rapat di antara petani dengan ciri-ciri unik kebudayaan Melayu membawa pengertian bahawa pengekalan petani itu adalah pengekalan kebudayaan Melayu itu sendiri. Di sebaliknya pula, perubahan-perubahan struktur yang tersirat di dalam model pembangunan yang digunakan di Malaysia sudah tentu akan mengakibatkan terkebelakangnya sektor pertanian jika dibandingkan dengan sektor-sektor lain.

Kertaskerja ini cuba mengutarakan buah pendapat bahawa dasar-dasar

yang cuba membalikkan proses perubahan struktur atau yang cuba mengeneipkan sebahagian penduduknya dari menerima keuntungannya tidak mempunyai apa-apa kewajaran. Penilaian yang lebih realistik mengenai kemungkinan ekonomi yang lebih baik untuk mereka yang ketinggalan akan meluaskan penggubalan dasar yang lebih rasional dan berkesan.]

Introduction

Despite large investments in rural development during the 'seventies directed, amongst other objectives, towards the goal of improving rural living standards, rural poverty remains perhaps the single most significant and most intractable development problem for Malaysia in the 'eighties. From 1960 to 1970 an estimated 6465.95 million ringgit of public development monies were invested in agricultural programmes and rural development projects (Fourth Malaysia Plan, 1981, Table 6-2), an expenditure equal to almost \$11,102 per household living in poverty in 1970 (Ibid and Table 3-2). In 1970 the number of poor households was estimated at 795,900 comprising 58.7 percent of all rural households. Although by 1980 the incidence of rural poverty had fallen to 37.7 percent (Ibid, Table 3-2)¹, this reduction was not the result of a clear and unambiguous trend: the total number of households in poverty actually increased from 1970 to 1975. The increase was concentrated among rubber and coconut smallholders facing unfavourable world price trends and thus illustrated the vulnerability of the poverty eradication programme to unanticipated external influences. The incidence of poverty in 1980, although less than the goal set in the third plan, left just over half the households dependent on agriculture for their livelihood — some 443,700 households — in receipt of incomes below the official poverty line.² The achievement of the 1990 target of 21.6 percent poverty in the rural sector, as set in the Outline Perspective Plan (Fourth Malaysia Plan, 1981, Table 9-4) would leave 364,300 households in rural poverty.³

¹The absolute reduction in the number of poverty households is overstated since some poor households transferred to the urban sector without raising their incomes above the poverty line (Fourth Malaysia Plan, p. 171). The decrease in the total number of poor households 1970-1980 was 15.8 percent compared with a 19.5 percent reduction in the number of poor rural households.

²The absolute poverty income derived from the 1970 Post-Enumeration Survey was \$180 (33 per person) per household per month in 1970 prices (Young *et al*, 1980, p. 115).

³Note that the target for 1990 was revised downwards from 16.7 percent (Third Malaysia Plan, 1976, Table 4.13) to an overall poverty incidence of 15 percent (Fourth Malaysia Plan, 1981, Table 9-4).

Poverty in Malaysia: The Experience 1957-1980

Although the gains achieved are substantial, poverty is — above a certain minimum requirement necessary to sustain life — essentially a relative concept. Success in eradicating poverty implies a distributional aspect which demands not merely that the incomes of the poor be increased absolutely, but also that they be increased relative to the average income level. Malaysian government planners employ a poverty line described as an absolute poverty income based on “minimum nutritional and other non-food requirements of each household to sustain a **decent** standard of living” (emphasis added). Young *et al* (1980, note p. 43) observed that this poverty income, equivalent to a per capita annual income of US\$265 in 1975, is rather high by international standards: a “decent minimum” standard of living apparently varies across cultures.⁴ Equally, it varies over time. However, the official poverty line income in Malaysia appears not to have been adjusted to take account of changing consumption patterns, except for a **downwards** revision in 1978 that employed a less generous minimum (!) diet (Ibid, p. 116).

The essentially political nature of poverty eradication as a development goal in Malaysia is indicated by its elevation to priority status in the aftermath of the May 1969 disturbances. (See below.) This suggests a particular need in Malaysia to incorporate into the poverty line changing concepts of a “decent minimum” in the longer term and implies a relative dimension of poverty in the Malaysian context. A relative concept of poverty relates poverty levels to the total distribution of incomes in the society. Anand (1977, p. 4), following Atkinson (1975), describes a poverty line defined at some proportion, say a half, of the average income. Such a definition explicitly acknowledges the relative nature of poverty and its relation to the overall income distribution without demanding an unrealistically egalitarian distribution. A poverty income derived on this basis for Malaysia would have been, at M\$132 per household per month, somewhat lower than the 1970 official poverty income. However, it would have increased to M\$229 in real terms by 1979, reflecting the general rise in income levels resulting from a rather successful development programme (Fourth Malaysia Plan, 1981, Table 3-9). The official poverty line, on the other hand, although adjusted for “changes in other factors such as prices and costs” (Ibid, note to Table 3-2) was revised downwards to a monthly per capita figure of M\$29 in 1978 (Young *et al*, 1980, p. 116) and clearly does not reflect changes in overall income distribution.

Despite substantial real increases in their standard of living in the

⁴Corresponding World Bank figures for rural Indonesia, Thailand and the Philippines were estimated at US\$95, US\$95 and US\$155 respectively (Young *et al*, 1980, note p. 43).

post-1970 period, the poor are falling further behind other Malaysians in obtaining a share of the economic benefits of development. For the period 1957-70 there is considerable evidence that the poor failed to make significant gains even in absolute terms. Bussink argues that:

"Because average real income in the low income agricultural sector showed little growth and because over-representation of Malays in agriculture increased, the distribution of income may have become less equal during the 1960's". (Ibid, p. 98)

Bussink, in company with Anand, finds the direct evidence inconclusive on the grounds that the available statistical series⁵ are not strictly comparable. Lee (1977, p. 187), however, finds no basis for rejecting the reliability of the figures while Snodgrass (1980, p. 76) believes that:

"An increase in inequality of about the extent measured probably occurred, although this cannot be demonstrated conclusively".

The available figures show an increase in the Gini coefficient from 0.408 in 1957 to 0.513 in 1970 (Lee, 1977, p. 188).⁶

For the post-1970 period the World Bank study of the 1973 Household Expenditure and Income Survey measured a Gini-ratio of 0.518⁷, showing no marked trend for the years 1970-73. The innovative Rand study, based on the Malaysian Family Life Survey (MFLS) 1976-77, found that the extent of income inequality varied according to the definition of income adopted: the Gini coefficient for household market income was a high 0.616 which was reduced slightly to 0.614 for per adult household market income; the coefficient for total observable household income (a composite of in-kind income, transfer income, value of housing services, cottage industry income and market income) was a lower 0.567 (0.560 for per adult total observable household income). Either figure indicates a widening of income disparities since the 1970 Post-Enumeration Survey. Although the two surveys are not strictly comparable since the MFLS covered only private households that each included at least one ever-married woman aged less than fifty years at the time of the initial visit, the extent of income inequality revealed by the MFLS is more likely to be an underestimate than an

⁵The Household Budget Survey, 1957; the Socio-Economic Sample Survey, 1967-68; and the Post-Enumeration Survey, 1970.

⁶The figures given by Bussink were 0.37 in 1957 and 0.51 in 1970 (in Young *et al*, 1980, p. 99), while those given in Snodgrass were 0.412 and 0.502 respectively.

⁷The ratio fell to 0.429 on a per capita basis and was also somewhat lower, at 0.452, when based on total household expenditure, rather than on income; 0.335 for per capita household expenditure (Visaria, 1981, p. 15).

overestimate because the excluded households were largely older households for whom the incidence of poverty is relatively high (Anand, 1977, p. 14; Kusnic and Davanzo, 1980).

TABLE 1
PENINSULAR MALAYSIA: MEAN MONTHLY HOUSEHOLD INCOME
ANNUAL RATE OF GROWTH 1971 - 1979
(\$ per household per month)

		All Households		Lowest Four Deciles
		Current Prices	Constant 1970 Prices	Current Prices
Malay	Mean	12.9	6.7	10.6
	Median	12.0	5.8	+
Chinese	Mean	12.0	5.9	8.4
	Median	10.1	4.1	+
Indian	Mean	11.0	4.9	9.9
	Median	11.6	5.5	+
Others	Mean	9.8	3.8	14.8
	Median	9.2	3.2	+
All	Mean	12.5	6.3	10.5
	Median	11.7	5.6	+
Urban	Mean	11.3	5.2	+
	Median	9.7	3.7	+
Rural	Mean	12.8	6.6	+
	Median	11.9	5.8	+
Rubber smallholders	Mean	12.0 (73-79)		
Fishermen	Mean	12.08 (72-79)		
Padi Farmers	Mean	3.81 ¹		

(SOURCE: Fourth Malaysia Plan, 1981, Tables 3-3 and 3-9 and para. 106)

Official published figures also tend to support the conclusion that income disparities widened during the 'seventies. Table 1 compares the annual rate of growth of mean monthly household income between 1971 and 1979 for the various ethnic and sectoral categories of the population with the rate of growth for the lowest four deciles in the major categories. The

¹Note that the 1980 Guaranteed Minimum Price scheme for padi reduced the number of poor padi farmers by about 14,500 (Ibid, p. 36).

rate of growth of household income for the poorest households in each category is lower than the average rate of growth for that group. Although the marginally higher growth rate for Malay households, among whom the incidence of poverty is highest, compared with all households suggests some diminution of inter-ethnic income disparities, the consensus in studies on Malaysian income distribution indicates that intra-group disparities are considerably larger than inter-group disparities (Bussink in Young *et al*, 1980, p. 103; Kusnic and Davanzo, 1980, p. vii and p. 176). Kusnic and Davanzo found that:

"Most of the total income inequality in Peninsular Malaysia is due to the differences within subgroups rather than among them. Differences among ethnic groups or between urban and rural strata account for only 8 to 14 percent of all income inequality, and when we stratify by ethnicity and location simultaneously, differences among those six subgroups never account for more than 21 percent of overall inequality". (p. 176)

Table 1 also shows that the rate of growth of mean household income exceeded the rate of growth of median household income for all groups except Indians, indicating the general tendency towards increasing intra-group disparities.

The official poverty line, claiming to embody an absolute concept of poverty obscures the real nature of the goal of poverty eradication in Malaysia. The original statement of the objective in the Second Malaysia Plan presents the essentially political nature of the task:

"Poverty is a major cause of social discontent in all countries Since poverty can disrupt national unity, the eradication of poverty, irrespective of race, constitutes an important objective of the New Economic Policy The eradication of poverty will remove a major barrier to the creation of a united and just society". (Second Malaysia Plan, 1971, p. 4.)

The political ramifications of the overwhelming concentration of poverty among the rural Malays in the traditional agricultural sector, combined with the frustrated high expectations of some urban Malaysians that culminated in the May 1969 disturbances propelled the objective of poverty eradication to the status of a political imperative. Eradication of poverty in these terms demands the reduction, not only of the absolute level of poverty endured by the poor, but more importantly, of the **perceived** — that is, the relative — level of poverty that might fuel social unrest. The degree of success of the second and third plans in reducing the incidence of absolute poverty, as revealed in the Mid-Term Review of the Third Malaysia Plan and in the Fourth Malaysia Plan, tends to mask the failure of the development plans to narrow the relative income gap between rich and poor. The consensus among rural development commentators — supported, if rising political consciousness is any indication, by the perceptions of the rural peo-

ple — is that the income gap is widening. It is this failure to conspicuously bridge the gulf between rural Malay farmers, particularly the small padi planters and rubber smallholders of Kedah, Perlis and Kelantan, and the rest of the population that lies at the heart of most criticisms of rural development policy and which explains the continuing prominence of poverty as a critical development issue in public forums despite the statistical evidence of a reduction in absolute poverty incidence displayed in the Fourth Malaysia Plan.

Approaches to Poverty in Development Planning 1966 to 1980:

In analysing the problem of poverty it is essential to recognise the unique national context of development planning and policy. If politics is the art of the possible, it can justly be argued that development planning and development economics, in their applied orientation, should be no less confined to the realms of political, as well as practical, feasibility. The boundaries within which economic and social policies must operate are largely defined by the political and social institutions of a nation, at least in the short term. The Malaysian government has clearly set forth its development objectives in published planning documents, most notably the second, third and fourth plans and the mid-term reviews of the second and third plans. The government subscribes to the familiar liberal-humanist ideal of economic and social progress (Third Malaysia Plan, 1976, para. 7) which it believes will allow all Malaysians "the fullest opportunity to utilise their individual talents to their benefit and, in so doing, contribute to the national good" (Ibid, p. vi). At the macro level the commitment to accelerated economic growth, on which the achievement of the more specific socio-economic goals is thought to depend (Ibid, para. 31), has been considered best served by a mixed economy in which the active participation of the private sector, including foreign expertise, is a linchpin. Malaysia has emerged as an essentially capitalist, export-oriented, industrialising economy based increasingly on manufacturing, extractive industries and the cultivation of commercial crops for world markets and in which the opportunities for viable small-scale peasant agriculture are gradually but inexorably being eliminated.

The genesis of official Malaysian attitudes to poverty and development may be gauged from the tables of contents of the respective five year plans. The First Malaysia Plan contains no reference to poverty in the table of contents and only a general reference to the objective "to increase the well-being of Malaysia's rural inhabitants and other low-income groups" (First Malaysia Plan, 1965, p. 2). Under the heading of "The Need for Economic Development" mention was made of the fact that "the fruits of economic growth so far have been unevenly distributed". The specific poverty groups referred to are aboriginal groups in Peninsular Malaysia and the Borneo

states, smallholders, small fishermen and farmers, especially tenant padi farmers, and small businessmen. The broad focus of the first plan, following the earlier first and second five year plans of the Federation of Malaya (1956-60 and 1961-65) is essentially macro in concept, seeking to "promote the integration of the peoples", "provide steady increases in levels of income and consumption per head", "generate employment opportunities", "stimulate new kinds of economic activity", provide infrastructure, education and training, reduce population growth, stimulate new kinds of economic activity and "progress with health and social welfare development". Specific sectoral objectives were confined to a general aim of increasing "the well-being of Malaysia's rural inhabitants and other low-income groups" and an intention to "open for development sufficient new land to keep pace with the formation of new farm families".

Recognition of the economic, social and structural imbalances that have preoccupied planners since 1970 was largely absent. The strategy for development prior to 1970 was primarily concerned with such macro issues as diversification away from excessive dependence on rubber and tin exports and the provision of a favourable investment climate, an adequate infrastructure and the supply of trained manpower to support new industries (First Malaysia Plan, 1965, p. 9). In the agricultural sector development objectives focussed again on indirect assistance aimed at improving the agricultural infrastructure by increasing the quantity and quality of agricultural educationists, furthering research, undertaking agricultural extension to promote the adoption of improved practices, increasing the acreage under cultivation and correcting institutional deficiencies in land tenure, credit provision and in the processing and marketing of crops. An implicit assumption in these early plans was that the creation of development opportunities was sufficient. It was not thought necessary for government to become directly involved in the process whereby development gains were distributed: the benefits were expected to percolate through the economy at all levels. The meeting of production and employment creation targets was expected to automatically improve the well-being of low-income groups. In the economic literature such a strategy has often been labelled the "trickle-down" approach. While there are few indications that Malaysian planners consciously adopted this strategy, it formed the operative basis of pre-1970 socio-economic planning.⁸

The failure of pre-1970 development plans to effectively combat poverty, particularly in rural areas, was implicitly acknowledged in the Second Malaysia Plan (Chapter 1, *passim*, especially p. 16). Lee (1977) characterised the experience more strongly:

⁸Pre-1970 planning was largely confined to economic planning in contrast to post-1970 plans which place increasing emphasis on social planning. (Ibid, p. 21)

"The economic performance of West Malaysia between 1957 and 1970 is instructive and exceptionally interesting in that a large proportion of the rural population became absolutely poorer despite the sustained growth of agricultural output and rapid growth of national income that occurred during the period". (Ibid, p. 185)

As noted above, Anand (cited by Bussink in Young *et al*, 1980, p. 99) expresses reservations regarding the statistical basis for such a statement while Snodgrass accepts the conclusion despite an inability to offer unequivocal evidence. Lee's detailed study of rubber smallholders and padi planters emphasised the failure and identified the essential fallacy of pre-1970 development policies when he noted that:

"Those who suffered a fall in their income belonged to precisely the weakest segment of the peasantry who either did not receive, or who could not respond to, the opportunities for raising incomes that were generated by the investments in rural development". (Lee, 1977, p. 199.)

Non-selective rural investment programmes tended to focus on the less disadvantaged such as those padi planters in the "rice bowl" areas and the larger rubber smallholders who could afford replanting.⁹

The May 1969 disturbances in Kuala Lumpur and the subsequent interruption to the normal processes of government and administration were responsible for a major re-examination of planning objectives and priorities, resulting in the Second Malaysia Plan with a rather different philosophy of development planning that elevated social criteria to prominence. However, the emergence of poverty eradication as a major national planning objective was a more gradual process within the context of the new philosophy. In the Second Malaysia Plan "poverty" does not appear in the table of contents nor in the list of statistical tables. Having stated in the second paragraph that the first prong of the New Economic Policy "is to reduce and eventually eradicate poverty by raising income levels and increasing employment opportunities for all Malaysians, irrespective of race", the main thrust of the second plan was directed towards the second prong, namely, accelerating the process of restructuring Malaysian society to correct economic imbalance so as to reduce and eventually eliminate the identification of race with economic function. Chapter three considers the subject of "Economic Balance" but, although income disparities feature prominently in the first section, poverty does not receive an explicit mention. By late 1973, with the publication of the Mid-Term Review of the Second Malaysia Plan, the eradication of poverty occupied a sub-section in the first chapter while the first three tables presented, for the first time, income distributions for households in Peninsular Malaysia based on the

⁹Even with replanting allowances smallholders on the smallest holdings could not afford the loss of income involved.

Post-Enumeration Survey of 1970. During 1974 poverty issues became a national concern with extensive media coverage when the Baling demonstrations and accompanying student disturbances in Kuala Lumpur were staged by students and others espousing the cause of poverty stricken rubber smallholders and share tappers hard hit by the combined onslaught of falling rubber prices and the new — for Malaysia — experience of dramatic rises in the cost of living.¹⁰ Poverty emerged as a major issue in the Third Malaysia Plan of 1976 with sub-headings in chapters on both the review of the second plan and the outline perspective plan and a major chapter: "Poverty Eradication and Racial Economic Balance". The statistical tables presented estimates of the number of poor households based on an absolute poverty line constructed from the 1970 Post-Enumeration Survey. Crosstabulations of poverty households by strata, sector and ethnicity as well as a profile of the heads of poor households provided an extensive data base for future consideration of the issue. Poverty eradication continued to occupy a prominent position in subsequent planning documents.

The eruption of ethnic conflict in 1969 marked a watershed in Malaysian development policy. The indirect, macro and largely economic concept of development planning prevailing before 1970 assumed that the gains from development would permeate through the commercial and urban sector (which was inevitably the immediate beneficiary of the major part of development expenditure, concentrated as it was on capital intensive infrastructural projects) to the disadvantaged smallholders, padi planters and unskilled workers whom it was hoped would be assisted. This trickle-down strategy was revealed by events to be both socially inefficient and politically unacceptable but its ultimate rejection was primarily on political grounds. Development benefits were found to trickle-down only slowly and in much diluted form through the largely Chinese and foreign dominated urban sector to the largely Malay rural masses. The pluralist nature of Malaysian society determined that a new positive and direct approach be found to redress long standing and entrenched inequalities. The result in the second, third and fourth plans was specific policies enforcing positive discrimination in favour of Malays in employment, allocation of housing, shareholdings and in the distribution of various government licences, etc.

The Persistence of Poverty:

The failure of development programmes initiated to date to make significant inroads into the income gap between the poor in traditional,

¹⁰Although the fall in rubber prices from early 1974 was not catastrophic, it meant a steady decline in incomes at a time when inflation, which had been very slight in the period to 1971, suddenly soared to 10.5 percent in 1973 and an alarming 17.4 percent in 1974.

especially rural areas of economic activity and the rest of the rapidly expanding Malaysian economy should be less a source of surprise — although no less a source of concern — than frequently seems to be the case. Development commentators, academics, politicians and planners alike, have too often harboured and promoted quite unrealistic expectations regarding the impact of development expenditure, particularly in the short term. In well-meaning efforts to achieve important socio-economic goals the gains to be expected from particular programmes have been over emphasised and the costs — economic costs and, more especially, social costs — have been unjustifiably understated or completely ignored. Whilst this may be understandable, it tends to have unfortunate consequences for policy formulation and evaluation. Unanticipated costs, when revealed post facto, are regarded as indications of failure and not infrequently ascribed to some malfunction in the programme when they are actually the logical, predictable and, in the absence of preventative action, inevitable by-products of the properly functioning programme. A project that is adequately meeting its realistically stated objectives may be criticised and even ultimately rejected. A more appropriate reaction to its apparent shortcomings would be **pre-planned** measures to eliminate, ameliorate or compensate for the undesirable but inevitable negative side effects.

Change is rarely — if ever — cost free: rapid and radical socio-economic change, such as experienced in a fast-growing developing economy, inevitably precipitates immense social dislocation. Sections of the population become victims of change, even as good fortune is bestowed upon others. The old, the inflexible, the immobile, the uneducated and unskilled, the economically and socially disadvantaged are among the likely casualties of progress. The principal burden of the costs of change rarely falls upon the major beneficiaries. If a more equal income distribution is to be achieved, especially in the short or medium term, it is an essential function of development planning to anticipate this often harsh reality and to identify in advance groups apt to be disadvantaged by particular programmes. It then becomes the task of government, where deemed necessary,¹¹ to redistribute both burden and benefits more equitably by implementing policy measures specifically designed to offset the negative backwash effects of otherwise beneficial and desirable projects.

Such a balanced approach to rural development, anticipating both costs and benefits, has been conspicuously absent in Malaysia — and elsewhere — to date. The emphasis in planning has centred upon the benefits to be derived. Careful consideration of the likely impact of development policies on particular groups, notably the poor, have rarely been undertaken. Studies based on anthropological and sociological, as well

¹¹No action may be necessary if the costs fall on more affluent groups.

as economic, descriptions of the pre-programme socio-economic environment¹² could have predicted, for example, the tendency of double-cropping and other agricultural development programmes (the Green Revolution) to squeeze the incomes of poor farmers and rural labourers in the process of generating substantial benefits for other farmers. Traditionally, poor farmers and landless labourers often hired a buffalo from the owner in order to obtain wage employment from larger farmers, while those farmers who owned buffalo often hired poorer villagers to trudge behind the plough (Kuchiba *et al*, 1979, p. 76). These poorer villagers were deprived of this source of cash income by the introduction of tractors but, given their generally disadvantaged status and lack of education, were most unlikely to obtain the new jobs of driving the tractors. It was the sons of the more affluent farmers, with better education and a more modern outlook, not to mention their father's connections with the urban-based contractors who owned the tractors, who were most likely to be employed behind the wheels of the new tractors. Similarly, the introduction of weedicides reduced the amount of weeding labour that was formerly largely the preserve of women from poorer households¹³ and mechanical harvesting deprived the largely female harvesters, usually drawn from the poorer households, of employment and offered no alternative employment or corresponding benefit to these households. At the same time commercialisation and monetary values weakened traditional income sharing mechanisms within the village, throwing the poor increasingly on the mercy of impersonal market forces. Not surprisingly, the result of these and similar changes in agriculture has been to widen income inequalities within the village.

In a more recent example, rural outmigration from the over-populated, land-scarce states of Kedah, Perlis and Kelantan has been advocated on the basis of the undeniable benefits for the outmigrants and the economy as a whole and on the basis of loosely identified and rather more dubious benefit to the rural community of origin. The very real costs of outmigration have not been anticipated. The loss of a significant proportion of the younger, more able and better educated men and women (especially the former, since past outmigration has been concentrated among males) increases the dependence of rural communities on the elderly and the women and tends to increase their conservatism and hamper the viability of local level social and political institutions. As always, it is the poorer households who suffer most, being obliged to substitute elderly or female labour for the out-migrant male labour because of their lack of cash with which to acquire the

¹²Such studies would require a larger input from the non-economic social sciences than has hitherto been the practice in Malaysian planning.

¹³Rural communities have customarily regarded wage labour as a limited good that should be reserved for the poor and landless except in peak periods. It was not socially acceptable for the more affluent to undertake such work.

mechanised, capital intensive technology available to more affluent households. (Corner, 1981, Chapter VI.)

Prior identification of the likely victims of particular development programmes would allow the design of complementary packages of policies or projects to offset the unequal incidence of the costs and benefits or to compensate those likely to suffer. In the past poverty groups and poverty villages have been assiduously identified and carefully enumerated but always with the aim of producing policies to alleviate their condition. Rarely has it been acknowledged, or even realised, that such groups may have been in part creations of change and development. Until this aspect of development is appreciated and translated into action the disadvantaged will be further disadvantaged by processes of change that bypass them for the benefit of others and swamp them in unanticipated backwash effects.

An equally important explanation for the failure of rural development policies to effectively address the problem of relative rural poverty is the general reliance of development policies on the indirect trickling down process to distribute the benefits of public investment. The disadvantages of this approach were specifically acknowledged in the Third Malaysia Plan:

“It must be appreciated that planned development through public sector spending aimed at correcting imbalances and restructuring society will tend to initially accentuate rather than reduce these imbalances. The initial benefits from the construction of multi-million dollar irrigation schemes, for example, will accrue to urban entrepreneurs and construction workers before they benefit the rural poor for whom these schemes are meant”. (Third Malaysia Plan, 1976, para. 33.)

This is an inevitable consequence of reliance on the trickle-down mechanism. Although the example derives from the time sequence of events and is therefore relatively innocuous, it conceals the real inadequacy of the approach. The advantaged — the educated, the skilled, the urban-dwelling and the employed — not only tend to obtain their share of the benefits first, they also tend to take the lion's share. A large proportion of development expenditure is siphoned off in payments to already affluent members of the community, to educated and skilled workers earning high wages, to local and foreign contractors and to government servants involved in project administration. Their incomes are not only increased before the project is able to deliver any benefits to the rural poor, but they are also likely to be increased by a greater amount, and possibly by a greater proportion, than the incomes of the poor.

When the practical benefits of the project are eventually realised in the rural sector the same story is repeated. Although an irrigation scheme benefits all users, it necessarily benefits the larger farmers more than the small. As Gibbons *et al* (1980) showed in their study of Acheh and

Malaysia, even the relatively equal access to Green Revolution technology achieved in both countries (especially in the Muda region) was translated into unequal gains in favour of large land operators. Only the equal access to **all** productive resources (other than those embodied in human capital) of the Felda schemes was able to achieve a relatively equal intra-village income distribution. However, the Felda type of development, valuable though it is, offers no panacea because it inevitably increases inter-village income disparities: the Felda settlers gain while the traditional agricultural sector from which they are drawn falls further behind, at least in relative terms and possibly, depending upon the incidence of the costs of large-scale out-migration, in absolute terms.

It is ironic that the New Economic Policy, which in itself constitutes a frank admission of the failures and inadequacies of the trickle-down strategy in relation to ethnic imbalances in Malaysian society, continues to employ a basically trickle-down approach with respect to the eradication of poverty. Measures aimed at providing direct assistance to the ethnically Malay were — certainly in the second plan and, to a considerable extent, in the third — primarily directed towards the second prong of the New Economic Policy, namely ethnic restructuring of society. However, since Malays comprised the bulk of the poor, planners seem to have assumed that such policies equally contributed to the attainment of poverty eradication. It can be argued that the degree of success that attended policies of positive discrimination based on ethnicity with respect to restructuring now tends to reduce the usefulness of the same policies in achieving the goal of poverty eradication. In so far as ethnicity was a generally reliable indicator of disadvantaged status, it provided a bonus as a readily identifiable and administratively simple means of identifying the legitimate participants for schemes of positive discrimination. In the past Malay ethnicity had been, in a statistical sense, reasonably reliable *prima facie* evidence of social and/or economic deprivation, particularly when combined with rural residence or an agricultural occupation. The increasing success of positive discrimination policies in achieving the integration and economic progress of the Malays, however, renders ethnicity **alone** a less and less reliable criterion for identifying disadvantaged status. It no longer constitutes an efficient basis for evading the undesirable distributional effects of the trickle-down process. Although Malays continue to comprise the bulk of the poor, it no longer follows that Malay applicants for favoured status in housing allocation, the granting of taxi licences, etc. are also poor.

Discrimination solely on the grounds of ethnicity reduces the value of positive discrimination policies for improving the overall income distribution and achieving genuine poverty eradication. Resources intended for poor Malays tend to be captured by other Malays, creating an income gap within the Malay community commensurate with that existing initially between rural Malays and urban non-Malays and within the other com-

munities. Ethnically based positive discrimination policies amount to a trickle-down approach **within** the Malay community in so far as the goal of uplifting poor Malays is concerned. Just as the trickle-down strategy was seen to fail in the task of distributing the benefits of development among all ethnic, sectoral and strata groups, it will equally fail to equitably or efficiently distribute the benefits throughout the Malay community: affluent Malays, being in a better position to exploit the opportunities offered, will tend to grow richer while the poor fail to receive their intended share, much less even begin to close the gap between them and the more fortunate. Within the other ethnic communities the same process operates to increase income disparities across the whole spectrum of Malaysian society.

Poverty and the Peasantry in Structural Change:

Development policy in Malaysia exhibits an unfortunate, if understandable, ambivalence with respect to the current and future economic viability of the peasantry. This arises largely from the influence of certain non-economic elements in the political economy of the society. The first factor is religious: the Islamic ethos permeates Malay society at all levels but has the greatest impact in the traditional sectors. Conservative Islamic opinion tends to reject the social values and materialist emphasis inherent in the western-oriented, capitalistic development model pursued by the government. Combined with this religious factor is the cultural aspect that derives from the coincidence of Islamic values with Malay ethnicity and the extent to which rural peasant society is regarded as the repository of the unique combination of religious belief, tradition and custom that constitutes the distinguishing characteristics of Malay culture. Islamic and, more generally, conservative opposition to a modernisation process that implies the eventual dissolution of the peasantry can readily be interpreted as efforts to uphold not only the religious orthodoxy of the Malay community, but also its unique cultural heritage and ethnic identity. The immense emotional — and political — appeal of such sentiments cannot be ignored in any discussion of rural development policies for they explain some of the conservatism apparent in rural policy formulation and inspire, albeit often unconsciously, many of the complaints of, and alternatives advocated by, critics of current policies.

The structural changes implicit in the development model adopted for macro planning will inevitably involve the contraction of the agricultural sector relative to the rest of the economy and the movement of population from agriculture to the secondary and tertiary sectors of the urban centres. The Outline Perspective Plan anticipates that the agricultural workforce will cease to grow altogether by 1990 and that during the 'nineties rural Malaysians will, for the first time, be outnumbered by urban dwellers (Third Malaysia Plan, 1976, p. 331). These demographic changes alone im-

ply profound adjustments to the internal structure of the rural economy.

The padi sector is of particular concern to poverty eradication since the bulk of poverty is rural and the bulk of rural poverty is found in the padi sector. If poverty is to be substantially eliminated and the income gap narrowed, either padi incomes must rise more rapidly than other incomes, or padi farmers must be transferred at a rapid rate to other more productive occupations, or padi incomes must be supplemented from other sources so that rural incomes rise in relation to other sectors. As Bell (1979) outlined in an important article, the prospects for increasing padi incomes relative to other incomes are not promising. Padi output will grow no faster than 3.5 percent annually, by Bell's estimation, while the rest of the economy is targeted to grow at more than twice that figure (Fourth Malaysia Plan, 1981, p. 198). Increasing padi incomes through the consolidation of holdings and an increase in farm size to give each farm household a rising share of padi output is not a realistic prospect, even in the crudest demographic terms, before the late 'eighties. Even if rural outmigration increases sufficiently to allow the arithmetic possibility, it seems probable that major, administratively difficult and sensitive institutional changes would be required for the demographic trend to be transformed on any scale into land consolidation (Corner, 1981, Chapter VIII). The alternative of supplementing padi incomes from other sources, such as more diversified agriculture, as Bell calculated, is unlikely to offer a solution and, as De Koninck suggests, runs counter to present trends towards increasing specialisation and greater dependence on padi income (De Koninck, 1979, p. 287). The only remaining feasible approach to reducing the income gap — or, indeed, to limiting to present levels — is direct government assistance via price support and subsidy schemes. These already operate in the padi sector but have typically been introduced as a reaction to political pressures created by specific crises, such as drought, or fluctuations in world prices. Although the padi sector is small in terms of its contribution to national income, it supports a substantial proportion of the population (approximately seven percent of all households in Peninsular Malaysia in 1980, Fourth Malaysia Plan, 1981, Table 3-2) so that the prospect of providing not only permanent, but increasing, levels of direct government assistance in order to narrow the income gap is a burden that politicians are understandably reluctant to accept. In the long term, however, the unpalatable facts are that:

"Within one generation the "agrarian problem" will no longer be characterised by the position of a numerous and growing small peasantry in a middle income, "dualistic" economy. Rather, it will have much in common with that confronting France and Italy over the past decade and more: how to give decent incomes to a declining peasantry through a system of subsidies paid for by taxing other, presumably richer, social groups". (Bell, 1979, p. 210.)

In the more immediate future, rural development policies continue to exhibit overly optimistic, rather naive and unrealistic notions regarding the

economic viability of small scale peasant agriculture. The basic assumption of most rural assistance programmes seems to be that small peasant producers **can** be transformed into economically viable production units — if only the right formula can be found — and that the incomes of small peasant households can be increased relative to others without fundamentally interfering with existing structures and resource distribution. When small producers fail to benefit in the manner, or to the degree, expected the blame is often laid upon the particular development programme or its administration.

Some alternative policies advocated by critics have an essentially short term and backward-looking focus. Rural development in the padi sector has produced discernible (and predictable) polarisation as larger farmers obtain a larger share of the economic gains from investment programmes and use their enhanced profits to further increase their scale of operation. At the lower levels of the rural hierarchy, small farmers obtaining a relatively smaller share of the benefit find these increasingly inadequate to meet their growing cash commitments (Gibbons *et al*, 1981, pp. 155-165). Many retreat into traditional income-sharing arrangements and kin networks to protect the weak, although these are tending to break down under the pressures of the expanding money economy (Ibid and Fujimoto, 1980, *passim*). The stronger register their dissatisfaction by migrating to more attractive opportunities elsewhere. From the economic, macro and long term perspectives this is a desirable and expected trend, but in the short run the inevitable and usually unanticipated (see above p. 16) costs of change are revealed in the deteriorating circumstances of the rural disadvantaged stayers, clinging to increasingly fragmented and inadequate small plots of land. The dissolution of the peasantry, however theoretically desirable, is often a painful and unappealing sight from close quarters.

One obvious and attractive alternative approach to rural development is founded on the valid proposition that an equal distribution of incomes cannot be obtained on the basis of an unequal distribution of resources (Gibbons *et al*, 1980, *passim*). However, land reform and redistribution in the Malaysian context can be seen as a stop-gap and retrograde measure of dubious long term benefit to those it proposes to aid. Land redistribution seeks to preserve the peasantry, in direct opposition to the long term, macro implications of the development model being pursued by the government. Even if politically feasible,¹⁴ given the amount of available land and the numbers of farmers, it could provide only marginal gains that would be

¹⁴This is doubtful, particularly given the sensitivity of land ownership and inheritance rights in the Malay culture and the fact that land is the preserve of the states, not the federal government. See Mansor, 1978.

unlikely to survive more than one generation.¹⁵ Emotionally appealing, both to those who see the peasantry as the repository of the unique values and cultural identity of Malay ethnicity and to those (often foreign advisers and commentators) imbued with romantic notions of the solid values and simple pleasures of peasant life, it confuses the short and long term interests of the poor and, in the absence of a conscious or articulated alternative development model, threatens to preserve the peasantry as a **uniformly** disadvantaged living museum in the midst of a modern industrial economy. The institution of the peasantry ought not to be preserved at the cost of destroying the chances of peasants, as individuals, obtaining a genuine stake in the economic future of their country.

Thoughts on Future Policies:

In the current Malaysia context, accepting the government development model, the goals of the New Economic Policy and Bell's prognosis for the padi sector, there can be no justification for policies that tend to reverse the process of structural transformation or to isolate certain segments of the population from participation in its benefits. Efforts to redress the current unequal and inequitable incidence of the costs and benefits of the transformation should be directed towards the design of measures that can improve the immediate welfare of small peasants without prejudicing their long term prospects for gainfully participating in the change. The painful transition could be less traumatic if the fundamental realities of the process were properly appreciated and the real and inevitable human costs anticipated to allow amelioration or compensation measures to be instituted.

This should not be interpreted as a call to reduce the flow of resources being directed towards the small peasant: Darwinian solutions have no place in socio-economic planning, both on ethical and efficiency grounds — the costs are far too high. What is advocated is, firstly, a more careful consideration of the long term consequences of particular policy measures, such as land reform, in the macro context of structural transformation; secondly, more careful assessment of policies and projects in order to anticipate backwash effects on disadvantaged groups and produce complementary policies to neutralise or compensate for these; and thirdly, a critical assessment of the efficacy of the continuing dependence on indirect, trickle-down strategies to reach the poor.

In view of the apparent success of positive discrimination policies based on ethnicity in reducing the disadvantaged status of the Malay community, it would seem appropriate to consider direct positive discrimination strategies based on an income criteria or on a combined income-ethnicity

¹⁵Due to subdivision among heirs.

criteria as an approach to poverty eradication. Such a change in strategy demands careful consideration of the broad socio-political and economic implications. The "hand-out mentality" of the welfare state must obviously be avoided. Yet it may have to be acknowledged that realistically many of the poor, given their mental and material assets, cannot be made economically viable by any conceivable, financially feasible development programme. Small peasants, for example, lack the land resources to produce an acceptable income in agriculture regardless of the sophistication of the technical inputs, new cropping patterns, etc., that can be devised. Many of the older generation trapped in this predicament are poor not only in material resources, but also in the quality of their human capital: they lack the education and mental attitudes necessary for economic viability in the non-agricultural sectors. From a development perspective many of the poor are, in this sense, a "lost cause". The only form of assistance likely to lift them from the grip of poverty is a permanent subsidy, although usually indirectly and with the declared intention of being withdrawn when economic viability is attained. Such an indirect approach — free seed and fertilisers to small farmers, for example, — may be preferred because of the dangers of the "hand-out mentality" inherent in direct welfare payments. However, if policy makers — as opposed to the recipients — understood the real character of the assistance it would be possible to plan more rationally; current policies and projects would be less subject to unjustified criticism and wasteful reviews for their failure to achieve impossible goals; and policies could be prepared in advance to reduce to more severe social costs of poverty rather than continually having to be devised as a reaction to a prior crisis.

It might be argued that this "lost generation" of the poor can be safely allowed to struggle on, provided their incomes do not fall too near the minimum that would result in their physical demise: their numbers will gradually be reduced by natural mortality and the nation can ill-afford the costs of permanent subsidies. Neither premise is necessarily true. Many of this group are still raising children who are in very real danger of finding themselves in exactly the same predicament as their parents. It is true that most Malaysians in the eligible age groups now attend school, but it is equally true that those from disadvantaged homes have a high probability of becoming "drop-outs" before attaining a level of education sufficient to equip them for a productive role outside agriculture, while their role within agriculture is constrained by the paucity of their material — notably land — resources. Certainly, the costs of effective poverty programmes and permanent assistance are high: but, the costs of rearing a new generation in a "culture of poverty" is infinitely higher. Malaysia is one of the few developing countries fortunate enough to possess sufficient **current** resources¹⁶ to have the capacity to choose which set of costs to bear.

¹⁶Although the long term costs of persistent poverty are always higher than the short term costs of poverty eradication, most developing countries have no choice because they lack the current resources necessary to finance an effective eradication programme.

Recognition of this incontrovertible reality would determine to a large extent the nature and priorities of direct assistance programmes for poverty groups. The priority target group is the children of poor households and the principle objective must be the improvement of their human capital so that they will have the capacity, when an opportunity arises for them to move from agriculture, to both seize the opportunity and to succeed in a non-agricultural environment.¹⁷ A subsidiary objective obviously embraces the provision of such opportunities but, unlike current trickle-down policies, the opportunities would be reserved specifically for those from a poverty background.

Conclusions:

This paper examined the political economy of poverty eradication policies in Malaysia, arguing that the real nature of the task of poverty eradication has been to some extent mis-specified by planners. Given the political context of poverty eradication goals in Malaysia, it is relative, rather than absolute, poverty that must be tackled. While there has been considerable progress in reducing the incidence of absolute poverty, particularly in the decade of the New Economic Policy, the continued widening of income disparities *within* ethnic groups, sectors and strata indicates very limited success in the eradication of relative poverty. Two major explanations for the failure of current development policies to reduce income disparities were identified. The first derives from the unrealistically optimistic expectations of planners and policy makers and their failure to recognise that the inevitable social costs arising from the various policies and projects tend to fall unequally upon the poor and disadvantaged, while the benefits flow disproportionately to the advantaged members of the community best able to seize and exploit the new opportunities. The second explanation arises from the continuing dependence of development policy on an indirect, trickle-down strategy to distribute the fruits of development. Despite recognition in the New Economic Policy that this strategy had failed to effectively or equitably distribute the benefit of pre-1970 progress between the ethnic groups and its replacement, in relation to the restructuring goal of the New Economic Policy, by direct policies of positive discrimination based on ethnic criteria, development policy continues to depend on an assumed automatic percolation of the benefit within the Malay (and other) communities. Not surprisingly, the bulk of these benefits is captured by the better-off while the poor and disadvantaged fall further behind the average

¹⁷It is acknowledged that formal education alone has a rather poor track record in reducing inequalities in income or the disparities in the levels of human capital possessed by the various segments of society. A more broadly based approach will be necessary — possibly a combination of formal education with community development programmes to improve the psychological aspects of human capital, such as initiative, self-confidence, awareness, etc.

level of economic well-being enjoyed by the community.

Economic and social policies to combat poverty must be considered within the particular development context. The development path chosen by Malaysia implies, in the long run, the dissolution of the peasantry and the conversion of a minority to commercial farmers while the majority move to the non-agricultural sectors. Certain policies, such as land reform, that are favoured by some critics of current rural policies confuse the short and long term interests of the peasants, seeking to preserve the peasantry in opposition to the implications of the prevailing development model and offering only limited temporary relief at the expense of reducing the opportunities for individual peasants to participate in the expansion of other sectors of economy. The emotional and political appeal of such policies tends to obscure their long run effects.

Policy makers in Malaysia must face up to some rather unpalatable realities if they are ever to come to grips with the task of poverty eradication. The prospects for increasing incomes in the padi sector sufficiently rapidly to close the gap between padi households and urban households — or even to maintain it at present levels — are extremely limited. An effective approach to poverty eradication in the padi sector is likely to involve substantial long term subsidies until such time as sufficiently large numbers of padi households can be transferred to other sectors to have a significant impact on farm size and agricultural organisation. Agricultural planning and policy formulation could proceed more rationally if this was recognised. An equally important and related issue involves the realisation that many of the poor possess such inadequate and inferior human capital and material resources that it may not be possible to devise policies that will make them economically viable at a reasonable cost. They cannot, however, be ignored. The new generation now being reared in poor households must not be allowed to share the fate of the parents. The nation cannot afford the social or economic costs. The young must form the priority target group for poverty eradication policies. This perspective offers planners useful insights into areas of policy that might be effective in combating poverty. Improving the quality of the human capital of the young in poor households is one area to be explored, although it will almost certainly be necessary to look beyond conventional education and the formal school system to be effective. The distribution of assistance poverty groups should adopt direct strategies similar to the policies of positive discrimination applied under the New Economic Policy but the criteria on which the allocation is to be made should relate more specifically to the characteristics of the poor: an income criterion would seem a logical starting point. A proportion of employment opportunities created outside the agricultural sector should be reserved for those from poor backgrounds, or for those from poor Malay backgrounds if both prongs of the New Economic Policy are to be tackled simultaneously.

These measures and others arising from the perspectives offered in this paper may assist planners in developing policies and programmes to grapple with the real poverty problem in Malaysia which is the widening of income disparities within the various segments of the community and the unrest that these may provoke. The enormous human and economic costs of rearing another generation lost to development because of the poverty of both their material situation and their human resources may thus be avoided.

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