

# Income Inequality, Income Growth and Government Redistribution in Malaysia: What Do We Know in the Long Run?

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**Abstract:** Malaysia has a good track record of reducing income inequality, especially between ethnic groups. In recent years, increasing attention has been paid to national inequality – notably by targeting the bottom 40% income group while sustaining growth with inclusivity. This paper uses the latest cointegration technique, namely, the augmented autoregressive distributed lag (A-ARDL) to examine the long-run determinants of income inequality in Malaysia. The long-run results suggest that income inequality is negatively driven by real GDP per capita and government redistribution of income. The findings provide some possible policy implications that could reduce income inequality in the long run, in particular, through the enhancement of the quality and skills of the workforce, and the government's benevolent role by using redistributive instruments such as progressive income tax and cash transfers to low-income groups.

Keywords: Income inequality, income growth, redistribution, Malaysia  
JEL classification: O11

## 1. Introduction

Reduction in overall income inequality, in the long run, is vital to sustainable development in both developing and developed economies, and Malaysia is no exception. Since the Malaysian economy was transformed into export-led industrialisation as a growth

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\* This study is sponsored by the Ministry of Higher Education under the Long-Term Research Grant Scheme: New Housing Development Concept for B40 Group in Malaysia Based on Social-Spatial and Economic Integration. LRGS/1/2016/UKM/02/1/3.