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Sources of income growth and inequality among ethnic groups for 1970-2000: a decomposition approach

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Change in economic structures, and in particular change in the structure of production output is often identified as an important determinant of change in income. In this paper, we examine the structural change effects on the change in income in Malaysia over the period 1970-2000 with emphasis is given on income distribution among ethnic groups. Uniquely by using the structural decomposition analysis (SDA), the underlying cause of the change in income can be decomposed into effects that determined by endogenous and exogenous structural change components. Overall, the change in income over 1970-2000 has been driven positively by the exogenous components especially expansion in exports and negatively by the endogenous components particularly technological change from being a labour-intensive to capital-intensive. Taking into consideration on both income and employment effects, the finding strongly infer that the sources of change in inequality are largely explained by the endogenous components in particular change in wages. In most cases, structural change effects induce more to the income change than that of employment change which in turn inequality is likely to increase positively. We also reach a conclusion that structural change components affect differently on income across ethnic groups, depending mostly on the labour intensity of the particular ethnic groups that used in production sectors.