

BUILDING FINANCIAL RESILIENCE FOR MALAYSIANS: ECONOMIC SECURITY IN AN AGEING, MIDDLE-INCOME ECONOMY

by Dr Mohd Amirul Rafiq Abu Rahim



ABSTRACT

Malaysia is growing old before it becomes wealthy. Its welfare system (understood here as a protection-orientated system centred on public education, healthcare, subsidies and targeted income transfers) played an important role in reducing poverty during a younger and expanding phase of the economy. Today, that same system is under strain. Rapid population ageing, limited fiscal space, technological change and persistent inequality are exposing the limits of this model. This article explores the case for Malaysia to move beyond a welfare model that mainly protects against poverty. It considers an alternative direction that places greater emphasis on economic security, where individuals are better able to build, own and sustain assets across the life course. First, the article situates Malaysia's ageing within a middle-income context and compares it with those of other countries' demographic and wage trajectories. It shows how weak earnings capacity and low savings rates weaken old-age security. Second, it introduces three engines of life-course economic security (capability, ownership and resilience) as drivers of asset-building capacity among individuals and linked to Malaysia's economic foundations. Thirdly, it delves into the institutional design and governance aspects of economic security, exploring potential improvements in the alignment of fiscal policy, labour markets, and social protection. The discussion highlights economic participation beyond consumption, with attention to its potential link to longer-term financial security.

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**“A just economy is not one that enriches the few, but one that empowers the many.”
— YAB Dato’ Seri Anwar bin Ibrahim, Prime Minister of Malaysia (2023)¹**

Malaysia's welfare (social policy) architecture has long been shaped by a moral commitment to social stability and inclusion, delivered primarily through selective protection and growth-oriented interventions rather than through a comprehensive, universal welfare state². Quasi-free education, public healthcare and subsidies were built on the conviction that no citizen should be left behind. This protection-oriented model has expanded basic opportunities for those at the bottom of the pyramid. However, the design and implementation of the welfare system have remained uneven over time. Social protection has often functioned as a complement to growth strategies rather than as a coherent, life-course system of economic security, leaving households exposed as demographic and economic conditions change.

The 13th Malaysia Plan (13MP) recognises the limits of this approach. It explicitly highlights that inclusive development now faces multidimensional constraints, not only slow income growth, but also widening inequality in access to education, healthcare and housing. These constraints directly shape Malaysians' ability to build and accumulate assets and to achieve economic security. The persistence of pockets of poverty further signals the structural limitations of the current welfare architecture³.

¹ Adapted from the Prime Minister's speech, YAB Dato’ Seri Anwar bin Ibrahim, during the Launch of the Industrial Master Plan 2030 (NIMP 2030), as published by the Prime Minister Office (2023). The statement reflects the meaning conveyed in the original speech.

² Malaysia's welfare architecture did not emerge as a rights-based welfare state in the European sense but evolved within a developmental state tradition shaped by post-independence nation-building and the New Economic Policy (NEP). While the NEP (1971–1990) was primarily an economic restructuring strategy rather than a welfare programme, it embedded a moral rationale for state intervention to address poverty, inequality and social structure. Over time, this rationale was emphasised through quasi-universal public services such as education, healthcare, and subsidies. It frames welfare as a developmental and stabilising instrument rather than an entitlement-based system.

³ See Chapter 3: 3-12 to 3-13 from GOM (2025)

Malaysia's current welfare design mirrors East Asia's developmental welfare state, which uses social policy as an instrument for growth but often influences inequality through selective protection⁴. However, the world has changed. Fiscal pressures are tightening. Inequality is worsening. A digital, asset-driven economy is reshaping how wealth is created and who owns it. The welfare model remains a moral compass, but it is no longer sufficient. High inequality does not arise only from market outcomes. It is also shaped by the rules of the game, including rent-seeking, political capture and institutional design, which can undermine both fairness and growth⁵. The next stage of social and economic transformation would require welfare systems that serve as engines of capability expansion, as Sen (2014) termed development as freedom⁶.

This view aligns with a developmental welfare state that treats welfare as a foundation for economic security and asset ownership, rather than a residual safety net⁷. In this context, social policy is a productive investment in human capital, innovation and social stability. In turn, it enables citizens to acquire skills, accumulate assets and

participate meaningfully in the economic life cycle. It is referred to as "progressive universalism"⁸. In this model, social protection would evolve into a transformative platform that nurtures capabilities needed for long-term economic security. Economic growth must be accompanied by careful policy design that links economic dynamism to social mobility for inclusive prosperity.

In the Malaysian context, this line of thinking raises the question of whether the welfare architecture can gradually shift its focus beyond redistribution toward institutions that support economic security through wealth creation and asset ownership. It is not a call for unqualified wealth creation or capital accumulation based on existing market advantages. Rather, it raises questions about how stronger institutions can expand capabilities, broaden access to asset accumulation and ensure that benefits of economic participation are fairly shared. Beyond cushioning vulnerability, such an approach considers how resilience, ownership and economic opportunity might be nurtured in ways that enable households to translate work and skills into durable financial security over time.

Malaysia is Ageing in a Compressed Timeframe

Malaysia's demographic transition is no longer a distant outlook. It is a structural reality unfolding within a compressed time frame. Malaysia has already crossed the "ageing society" threshold, with the share of the population aged 65 and over surpassing 7% in 2022 and reaching 7.7% by 2024⁹. This share is projected to double

to roughly 14% by 2040, marking Malaysia's entry into "aged nation" status within just over two decades. While this is consistent with to move from ageing to aged status (1970–1994)¹⁰, Korea only 17 years (2000–2017)¹¹ and Singapore in 19 years (1998–2017), compared with 50–100 years across Europe^{12,13,14} (Table 1).

⁴ In Kwon (2005) analysis of the East Asian developmental welfare state, selective protection refers to the practice of providing social benefits to specific groups that the state considers economically strategic or socially important, rather than offering broad or universal coverage.

⁵ See Stiglitz (2016)

⁶ See Mkwandawire and Unies (2001) and Sen (2014)

⁷ See Dostal (2010)

⁸ Policies that begin with targeted measures but expand toward universal rights as institutional capacity and fiscal space grow. Ibid.

⁹ DOSM (2025)

¹⁰ Age Well SG (n.d.)

¹¹ Jun-ho (2019)

¹² Ibid.

¹³ UN ESCAP and UN Women define an "ageing society" as 7–14 per cent of the population aged 65+ and an "aged society" as ≥14 per cent (UN ESCAP 2016). DOSM/World Bank projections put Malaysia's 65+ share at roughly 14–15 per cent by around 2040–2044 (UNDP 2024).

¹⁴ Atsushi (2015)

Table 1 Time taken for the aged status, selected countries

Country	Year population aged 60+ reached 10%	Year population aged 60+ reached 15%	Time taken to transition (years)
Japan	1968	1986	18
South Korea	1997	2010	13
Thailand	2001	2014	13
Singapore	1998	2012	14
Malaysia	2018	2030	12

Source: Author's tabulation based on LPPKN (n.d.)

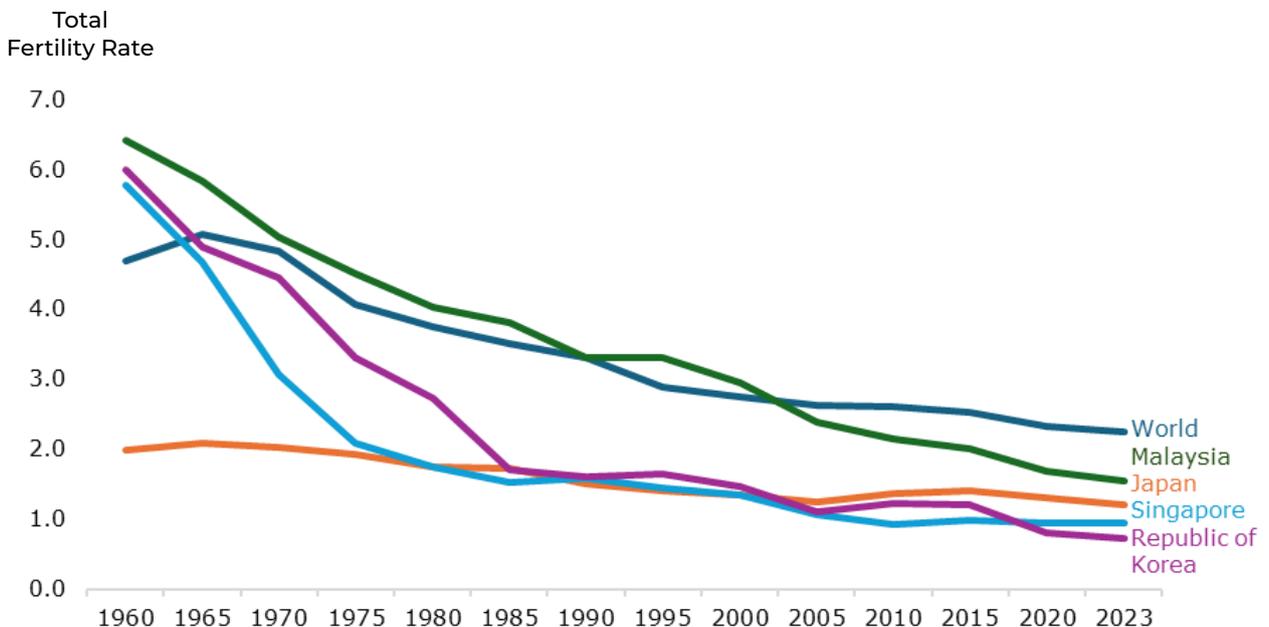
Malaysia's demographic transition tells a tale that similar to that of its high-income neighbours, but unfortunately, from a far lower base of economic status. Global demographic analyses have cautioned that such transitions would give countries like Malaysia a limited time to adapt pension systems, long-term care and labour market arrangements before dependency ratios begin to rise sharply¹⁵.

Fertility dynamics exacerbate this pressure. Figure 1 observes the Total Fertility Rate (TFR) trends in Malaysia, Japan, South Korea and Singapore since 1960. Between 1960 and 2023, Japan, South Korea and Singapore saw sharp fertility declines after achieving high-income

status or during periods of rapid capital accumulation. Japan's TFR fell below the replacement level in the mid-1970s, after surpassing the high-income level and fully developing its industrial base¹⁶

Korea and Singapore followed similar trajectories, with fertility falling below replacement in the mid-1980s to early 1990s, after decades of export-led industrialisation that had elevated the economy to a high-income status¹⁷. Malaysia's ageing pattern is different. As Figure 1 shows that its TFR remained relatively high until the early 2000s and only fell below replacement level around 2013, when per capita income was still in the upper-middle-income range (roughly USD 11,000 in 2017 PPP)^{18,19}.

Figure 1 Total Fertility Rate (TFR), world and selected countries, 1960-2023



Source: UN (2025)

¹⁵ National Research Council et al. (2001)

¹⁶ See Odagiri and Gotō (1996)

¹⁷ See Santhi and Saravanakumar (2020) and Economic History (n.d.)

¹⁸ See Devadas et al. (2020)

¹⁹ See also the IMF (2025) for GDP per capita (current prices) for Singapore, Malaysia, Republic of Korea and Japan

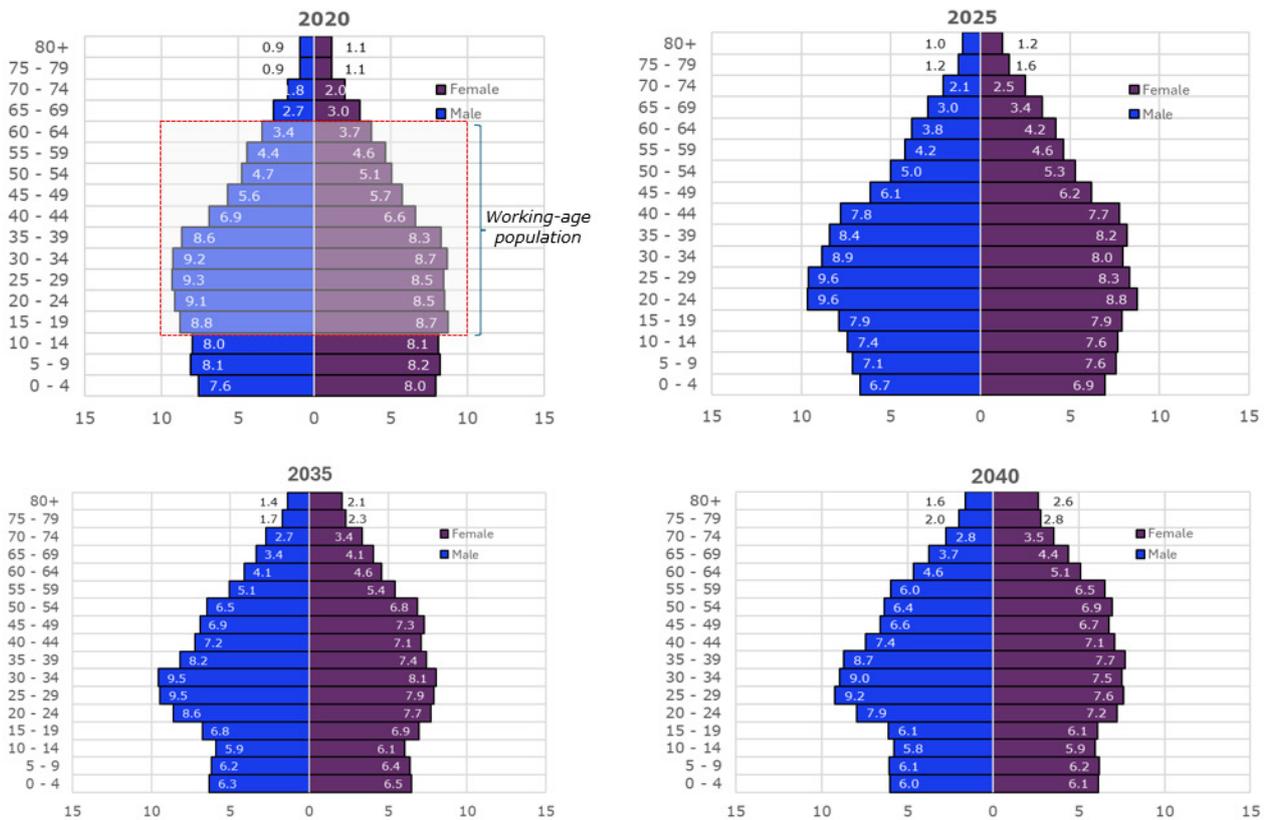
Figure 2 helps to illustrate this transition. In 2020, the population structure still resembled a typical demographic pyramid, with a broad base of children and youth, as well as large cohorts in the 20–39 and 40–49 age groups. By 2025, the base has begun to narrow. The proportion of people aged 0–14 and 15–24 declines, while the population mass shifts toward the 35–54 age range. By 2035 and 2040, the shape will no longer resemble a pyramid. It resembles a pillar, with a heavier upper section. The younger cohorts are thinner, whereas the 55–79 age group is larger for both males and females. This reflects how Malaysia’s transition from a relatively young population to an older one.

These population pyramids suggest that Malaysia has moved past the peak of its demographic dividend. The large working-age cohorts observed around 2020–2025, which had the potential to support higher productivity, savings and asset accumulation, will have shifted into pre-retirement and retirement ages by 2040. At the same time, the cohorts entering the labour force are smaller. This implies fewer workers supporting an ageing population.

Because the period when the labour force was at its peak did not result in strong productivity growth, high savings, or asset ownership, the country approaches ageing with economic characteristics of a middle-income country. In this sense, the transition shown in Figure 2 is not only about ageing. It also reflects how much of the demographic dividend was absorbed as growth and consumption rather than converted into long-term wealth.

Malaysia’s working-age population peaked at approximately 69 percent in 2020 and has since declined, showing that the demographic dividend has peaked. This occurred before productivity and savings systems had sufficiently matured, potentially limiting future age-related preparedness. By 2040, today’s large cohorts in their 30s and 40s will enter the pre-retirement years and will be replaced by smaller, younger cohorts. As a result, fewer working-age individuals are needed to support a larger number of retirees, with implications for fiscal space and household economic resilience.

Figure 2: Population age structure, Malaysia, 2020-2040



Source: DOSM (2025)

There is a structural imbalance between Malaysia's retirement savings and the realities of its labour market and life-course earnings trajectories. Analyses by the World Bank shows that millions of contributors in their 40s and 50s have retirement balances that are significantly lower than the level required for an adequate income in old age. In 2022, EPF estimated that only 18% of male members and 12% of female members had reached the basic savings threshold of RM240,000 by age 55. Furthermore, a sizeable portion of the workforce remains outside formal protection, especially the informal, gig and self-employed workers²⁰.

This is not surprising given Malaysia's long-term wage trajectory. Drawing on nearly three decades of data from the [Household Income Survey and the Salaries and Wages Survey](#) from the Department of Statistics Malaysia, the analysis indicates that wages have been "generally suppressed" and wage growth have been "broadly regressive" after adjusting for structural factors such as the minimum wage. In practical terms, low-wage workers would have experienced little to no real wage growth without minimum wage interventions²¹. Real median wages have remained stagnant, with nearly 60% of employees earning below RM4,000. At these income levels, even consistent EPF contributions accumulate too slowly to support meaningful asset formation or retirement readiness.

Recent analysis by Roslan et al. (2025) confirms this structural pattern. The wage premium for education has sharply compressed over the past 25 years. In 1997, a fresh degree holder earned about 2.7 times the median salary of an SPM holder. Consequently, it fell to just 1.7 times by 2022. In real terms, median entry-level pay for master's graduates declined by 28% between 1997 and 2022, while bachelor's graduates saw a 10% decline. Put differently, a fresh master's graduate entering the private sector in 2022 effectively earned almost one-third less than her counterpart in 1997.

While the minimum wage has played a role in lifting the bottom segment of workers, its equalising effect has largely come from compression at the top, not upward mobility (an indication that higher-skilled wages are failing to grow alongside qualifications)²². The problem is compounded by the fact that a large share of workers (especially those in informal, gig and self-employment) remain outside formal social protection and contributory schemes altogether. These trends show how weak earnings capacity translates into weak savings capacity and expose the risk of growing old with an insufficient retirement fund.

This period can be seen as an important turning point. The coming decade may be our last chance to translate Malaysia's demographic advantage into more meaningful life-course economic security. The issue is not only how to manage the costs of ageing, but also how to support Malaysians in building more stable economic lives before turning old. This is particularly relevant for younger and middle-aged groups, as their productive years shape cumulative capabilities, savings and ownership over time²³. In a compressed ageing context, the time window left to build these capabilities is limited.

The policy question is therefore not only about protecting older Malaysians. It also concerns how younger and middle-aged Malaysians can better translate their demographic advantage into economic security, supported by broader asset ownership, rather than relying primarily on higher consumption to generate economic growth.

²⁰ As cited in World Bank (2025)

²¹ See Muthusamy et al. (2023)

²² See Roslan et al. (2025)

²³ Malaysia's demographic pattern echoes Kwon (2005)'s caution about selective developmentalism and validates Dostal (2010) call for welfare systems that act as platforms for capability and wealth creation, not merely protection. It's the cost of not transforming our welfare model into one that builds capability, assets and resilience during the years when the population was young and productive.

Based on the Life Cycle Theory²⁴, losing the demographic window of opportunity is a compounded generational loss, not just a macroeconomic concern. Central to this is the well-established age-earnings profile that is often illustrated by the Phillips Curve, where incomes rise during early and mid-career years before tapering off toward retirement²⁵.

The early adult years are when individuals are supposed to begin saving and investing so that assets can compound over the decades. When youngsters enter the labour market with low starting pay, high cost of living and limited access to affordable assets, they lose this compounding advantage. A 35-year-old who has delayed saving and home ownership in his last 10 years not only forgoes 10 years' worth of time to build up deposits but also the exponential growth that would have followed. Ageing without economic security, in this sense, is not only about reaching old age with limited savings. It also reflects a missed opportunity to invest earlier in life, when smaller investments could have resulted in a higher long-term return.

This is where the economic-security framing becomes directly relevant. A conventional welfare lens would focus on how to finance the rising costs of old-age transfers and healthcare amid such demographic change. An economic-security lens instead asks whether each cohort, particularly the current and future working-age generations, is equipped to accumulate skills, savings and productive assets throughout their lives.

If the 1990s were the decade of growth and the 2010s the decade of redistribution, then the 2020s must be the decade of empowering individuals to accumulate assets and savings. This is not a new agenda. Rather, it reframes existing efforts by placing greater emphasis on individual empowerment. The policy perspective shifts from just cushioning vulnerability to actively enhancing capability and resilience. Without this shift, Malaysia risks facing an ageing society with low savings, high inequality and limited fiscal room for manoeuvre.



Image generated by OpenAI DALL-E (2026)

²⁴ The Life Cycle Theory, developed by Ando and Modigliani (1964) and Modigliani (1966), posits that individuals' smooth consumption over their lifetime is achieved by borrowing or a lack of saving at a younger age, accumulating savings during prime working years, and drawing down assets in old age. The theory highlights the key role of early- and mid-career saving in allowing wealth to compound over time. While later literature has criticised the LCH for assuming stable incomes, perfect credit markets and rational forward-looking behaviour, subsequent literature shows that its core insight remains relevant. Disruptions during early career stages can permanently weaken lifetime asset trajectories by delaying entry into the accumulation phase (Deaton 2005; Attanasio Orazio and Weber 2010). Evidence from Malaysia regarding early-career tertiary-educated talent also supports this notion. It was found that young workers experience weak wage progression due to underemployment, low starting pay, and delayed transitions to stable employment, thereby undermining the so-called "stepping-stone" effect whereby early labour market entry leads to sustained upward mobility (KRI 2024). This article views LCT not as a precise behavioural model but rather as a conceptual lens to illustrate how weak early-career earnings and asset access translate into long-term and intergenerational wealth deficits.

²⁵ See Kouri (1986)

Making the Case for Building Economic Security Rather Than Just Alleviating Poverty

For decades, development policy has revolved around how do we uplift the poor. This question shaped national agenda, such as the New Economic Policy²⁶, which helped reduce poverty from over more than half of population in the 1970s to below 7% today. Yet poverty and wealth are not mutually exclusive. They are two sides of the same economic architecture. A society can reduce poverty and still entrench inequality if wealth remains concentrated in the hands of a few^{27,28}.

In Malaysia, the pattern of wealth concentration is longstanding and structurally persistent. The top 10% of households owned approximately 35% of national wealth, while the bottom 40% owned just 8%, resulting in extreme financial inequality (Gini: 0.98 for savings; 0.90 for investment assets). The authors cautioned that liberalised higher-education markets and pro-rich tax structures would exacerbate these disparities^{29,30}.

Global evidence underscores the need to understand asset concentration not only in terms of the divide between rich and poor, but also within the very top of the distribution. The latest World Inequality Lab (2026)³¹ highlighted that measuring who controls the bulk of labour income and asset ownership within the top 10% is crucial for understanding modern inequality. Their data shows that the top 10% (though small in headcount relative to the bottom 50% and middle 40%) hold a disproportionately large share of global economic resources.

This extreme concentration shapes opportunities, market power and policy outcomes, and is now a recurring analytical theme in inequality research. The implications for Malaysia are clear – addressing poverty alone is insufficient if economic security remains constrained by highly concentrated ownership structures at the upper

end of the distribution. Allowing the economy to grow through market forces alone, without complementary policy intervention, risks worsening rather than reducing inequality, as the benefits of growth tend to accrue disproportionately to those already well positioned in the economy.

In this article, “economic security” refers to a condition in which individuals have a stable, sufficient income and wealth ownership that includes financial, human and social assets, allowing them to weather shocks, invest in their futures and age with dignity. In other words, economic security for the many depends on wealth and asset ownership being more widely distributed rather than concentrated in the hands of the few.

Two decades on, the latest household income data confirms this trajectory. Income remains highly concentrated at the top despite pro-poor growth. Although poorer and middle-income households experienced faster percentage income growth, these gains started from such low bases that absolute gaps remain wide. As of 2022, the bottom 20% held less than 6% of national income (barely an improvement from 4.6% in 2004) while the top 20% still captured 41%, only modestly down from 46% in 2004. The report also notes that labour’s share of GDP had risen gradually over the past two decades but appears to have declined post-pandemic, weakening the primary channel through which most Malaysians earn and accumulate resources (Figure 3). Therefore, these patterns reinforce a consistent story that returns to capital continue to outpace returns to labour and Malaysia’s inequality is deep-rooted not only in income gaps but also due to persistent disparities in asset ownership and wealth accumulation³².

²⁶ Sundaram (2004)

²⁷ See also Stiglitz (2007)’s reviews on Malaysia’s post-independence development performance, noting strong growth, major improvements in social outcomes, and substantial poverty reduction, while arguing that economic policy objectives should emphasise equitable and sustainable improvements in living standards, not GDP alone.

²⁸ Piketty (2014) demonstrated that when the rate of return on capital (r) exceeds the rate of economic growth (g), inequality compounds. It means wealth begets wealth. Stiglitz (2016) likewise argues that inequality is not an accident of markets but the product of rules, power and policy design. Stiglitz’s long-standing critique that inequality is “man-made” where it is the consequence of tax systems, market regulations and political capture that privilege returns to capital over labour. He contends that governments shape markets through laws, subsidies and property rights and therefore have the power to redesign them toward fairness.

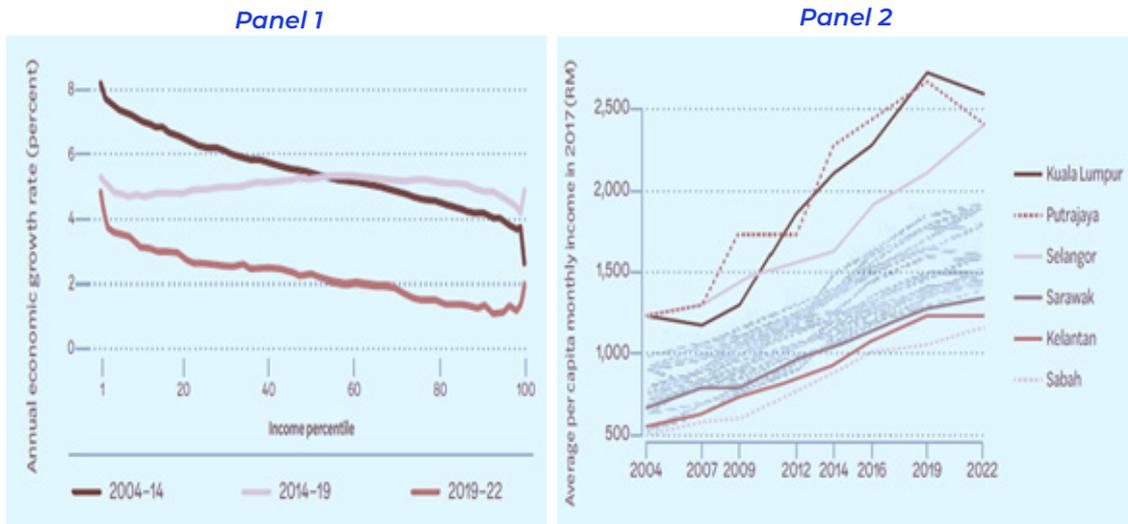
²⁹ See Abdul Khalid (2012)

³⁰ Earlier wealth-building strategies in Malaysia largely prioritised capital formation and investor incentives; this article focus its discussion on how wealth accumulation is accessed, timed and sustained across the life cycle for ordinary households, rather than on returns to capital alone.

³¹ See Chancel et al. (2025)

³² See World Bank (2025)

Figure 3 (Panel 1) Growth incidence curves, 2004-14, 2014-19, 2019-22 and (Panel 2) Trend in mean incomes per capita by state, Malaysia, 2004-22



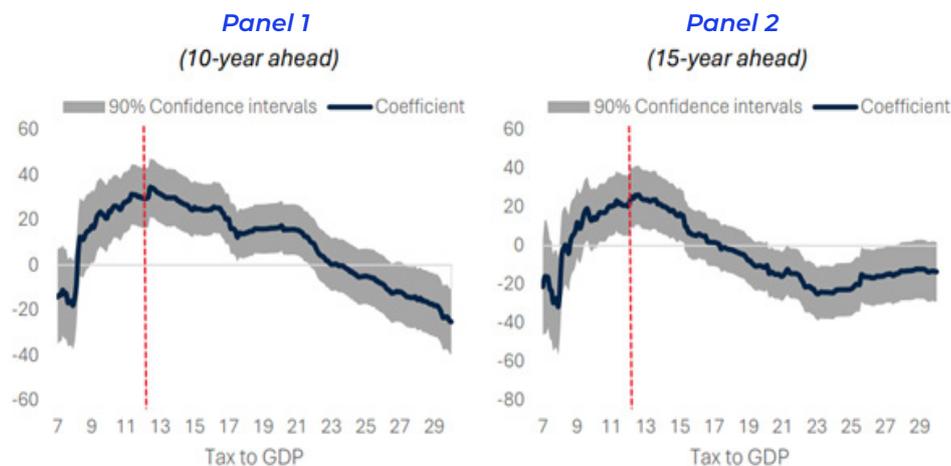
Source: Reproduced from World Bank (2025), Figure 2.15 in page 25 (Panel 1) and Figure 2.19 (Panel 2) in page 27.

This points to a narrative that better explains how households achieve economic security by building wealth and assets. As Tuck (2009) cautioned, research that defines communities solely by their deficits, what she calls “damage-centered”, would risk perpetuating dependency and despair. Likewise, our economic discourse must resist viewing Malaysians only through the lens of need or lack. A desire-based framework invites us to see how people aspire, adapt and accumulate economic security and financial resilience, both socially and culturally, amid constraints³³.

It is important to emphasise that this approach is not about opposing success or pitting social groups against one another. In situations where populist narratives can

readily frame inequality as a zero-sum conflict or a “war against the wealthy,” a narrow focus on redistribution risks eroding social cohesion. Understanding wealth and economic security in this way does not mean abandoning the poor. It means empowering individuals across the income spectrum through broader participation in asset-building opportunities. Welfare and redistribution remain essential for those at the bottom, but when overemphasised (particularly among fragile segments of the middle class), they can constrain rather than enable progress. This is particularly important when fiscal space is limited, with revenue-to-GDP hovering near 12%, among the lowest in upper-middle-income economies (Figure 4)^{34,35}.

Figure 4 The growth-maximizing tax-to-GDP ratio hovers around 12.5% for (Panel 1) 10-year ahead estimation and (Panel 2) 15-year ahead estimation



Source: Reproduced from Choudhary et al. (2024), Figure 3 in page 9.

³³ Tuck critiques “damage-centered” research for framing communities solely through their deficits and suffering. He argues that instead for a desire-based approach that recognises hope, agency and the pursuit of wellbeing. Applied to policy research, this framework invites a shift from studying poverty as lack to understanding wealth as capability through examining how individuals and communities create and sustain value even within constraints.

³⁴ See Choudhary et al. (2024)

³⁵ Malaysia’s tax revenue in 2026 is projected at RM259 billion, a decline to 12.4% of GDP in 2024 (from 12.6% in 2023). It place Malaysia well below the East and Southeast Asian regional average of around 25% of GDP in tax collection (The Edge Malaysia 2024)

Figure 4 reproduces cross-country evidence from Choudhary et al. (2024) showing that the relationship between tax levels and growth is non-linear. At very low tax-to-GDP ratios, additional taxation is associated with higher future growth because it allows governments to finance basic public goods, infrastructure and social services. As tax ratios rise beyond roughly 12–13%, however, the estimated growth effect flattens and eventually turns negative, suggesting diminishing returns from ever-higher taxation. Both charts (looking 10 and 15 years ahead) indicate a growth-maximising range of approximately 12.5% of GDP. In other words, countries that tax too little undercut their own growth by underinvesting in public capabilities, while countries that tax too heavily risk dampening private investment and employment.

Malaysia's revenue-to-GDP ratio, which has hovered around 12%, is close to the growth-maximising threshold. This has two implications. First, there is limited room to promise ever-expanding subsidies and cash transfers without either improving tax efficiency or rebalancing spending. Second, the central issue is not "more tax" versus "less tax", but rather what each ringgit of fiscal space is used for. If scarce revenues are locked into broad, consumption-oriented subsidies, the state crowds out the very investments in skills, savings and asset participation, which are critical to long-term economic security.

Every time reforms to rationalise subsidies are proposed, resistance follows. It was not because Malaysians reject fairness, but because our welfare architecture has conditioned them to equate support with security. Yet how can the state provide more when its resources are already stretched? The answer lies not in finding ways to give more, but to give better. It is through transforming welfare into capability, ownership and resilience. When public spending promotes skills, mobility and asset participation, each ringgit becomes a multiplier rather than a recurring bill to pay.

The experience of the M40 demonstrates that the middle-income trap is more than just productivity or innovation, but also about household balance sheets³⁶. When most financial assets are concentrated among the top decile, the rest of society depends disproportionately on wages and subsidies to support middle-class consumption. This limits the very fiscal capacity required for saving and taking advantage of the compounding effect of time³⁷. A policy direction must therefore focus on assisting the lower-middle class transition from income earners to secure asset holders through mechanisms that encourage savings, equity participation and intergenerational asset accumulation.

In Malaysia, this is evident in the continued reliance on income thresholds and consumption levels to define economic well-being and prosperity, rather than on indicators of economic security³⁸. It is when individuals and households can withstand shocks, accumulate assets, and invest in their future that economic security can be achieved. The challenge now is to redefine prosperity in terms of how much we sustain, rather than how much we spend.

Shifting policy focus from alleviating poverty to economic security, therefore, serves a dual purpose. First, it empowers the poor by enabling ownership, and second, it safeguards national prosperity within fiscal and ecological limits. This is how our current welfare architecture can mature into capability, in which a nation moves from protection to empowerment and from redistribution to participation in the shared creation of economic security rooted in broad-based wealth.

³⁶ Flaaen et al. (2013) highlights structural transformation and the middle-income trap as tied to broader institutional and productivity issues that constrain mobility and sustained growth in Malaysia.

³⁷ Household balance-sheet analysis indicates that as debt obligations rise faster than asset accumulation, households' capacity to save weakens. This dynamic helps explain why many Malaysian households remain reliant on wages and public transfers to sustain consumption, rather than accumulating durable financial or productive assets (Nair 2010).

³⁸ See Daud et al. (2019) and Loke (2017)

Designing Models That Strengthen Ownership and Resilience

Governance of economic security entails a shift from distributing income to designing institutions that enable citizens to build and sustain assets and economic security throughout their lives. It extends beyond fiscal transfers and social protection to consider how the state, markets, and individuals interact to promote ownership, mobility and resilience³⁹. In this context, economic security is based on a broader definition of wealth, which includes not only financial capital but also human capability, social trust and ecological assets as a collective stock of resilience that support long-term prosperity. Effective governance of a pro-economic security policy ensures that economic growth translates into asset accumulation for individuals, productive reinvestment for firms, and fiscal sustainability for the nation.

For Malaysia, this raises fundamental questions about whether institutions, fiscal policy, and social protection are aligned toward long-term wealth accumulation. Asset ownership gaps persist not because there are no opportunities, but because existing arrangements are fragmented. Fiscal incentives continue to tilt toward short-term consumption rather than long-term saving. Housing policy prioritises increasing supply, yet affordability and access to home ownership remain low. Social protection largely mitigates immediate risks while providing little support for long-term economic security. As a result, people are protected from shocks but not systematically able to accumulate and retain wealth.

Economic security may benefit from improved policy coordination. Greater alignment between taxation, social insurance and financial inclusion could help widen participation in economic security and wealth creation. Over time, this may support a role for the state that goes beyond providing assistance to enable capability and longer-term resilience, allowing more Malaysians to build and protect a stake in the economy.

The moral foundation for this governance of economic security is not new to Malaysia. Long before contemporary debates on inclusive prosperity, Ungku Abdul Aziz and Za'ba (Zainal Abidin Ahmad) articulated a vision of economic development rooted in moral duty, self-reliance and human dignity. Both conveyed the notion of wealth as mere material accumulation. For Ungku

Abdul Aziz, true economic progress stemmed from discipline and thrift. His “Indeks Kain Sarung” symbolised moderation, savings and the avoidance of waste as pillars of resilience⁴⁰. Za'ba, in *Perangai Bergantung Pada Diri Sendiri*⁴¹, viewed wealth as a moral instrument for self-empowerment, based on education, ethical work and independence from unjust structures.

However, these moral insights were articulated during a time when there were more opportunities for economic participation. Today, the challenge is not just motivation, but also the presence of structural barriers that prevent many households from entering the wealth-building “track” in the first place. It can be observed through delayed labour market entry, precarious employment, limited access to affordable housing and exclusion from formal savings and protection systems (as discussed in the earlier section). In this context, moral restraint and self-reliance remain necessary but insufficient. Sustainable wealth governance must therefore pair individual responsibility with institutional design that ensures fair access to opportunities to save, own and accumulate across the life course. Wealth must be both materially enabling and morally restraining. It is not only about having more, but about ensuring that the opportunity to build and use wealth wisely is broadly shared.

This pressure is evident in Malaysia’s contemporary ownership landscape. While the New Economic Policy (NEP) era successfully increased access to education, employment, and entrepreneurship, the issue of economic empowerment remains unresolved⁴². Despite higher levels of education and home ownership, a large share of Malaysians still lack substantial financial or productive assets. The top 10% of households control nearly 60% of total wealth, whereas the bottom half of households share less than 15%. Additionally, half of EPF contributors held less than RM 10,000 in savings in 2023, a threshold that would provide about three months of retirement income⁴³.

³⁹ See Sen (2014)

⁴⁰ See Rasiah and Mansor (2015)

⁴¹ See Natrah (2023)

⁴² This reflects a policy and statistical emphasis on income and consumption indicators—such as median income, poverty lines and cost-of-living measures—rather than on household asset adequacy, savings resilience or capacity to absorb shocks (Stiglitz 2016; Osborn 1982; Athukorala 2003)

⁴³ See Natrah (2023)

The Three Engines of an Economically Secure State: Capability, Ownership, and Resilience

An economically secure state is not only defined by high income levels. It can also be understood as a society in which institutions help individuals translate opportunity into more stable prosperity over their lifetimes. While welfare systems primarily protect individuals from shocks, economic security emphasises the ability to accumulate, retain and pass assets down through generations. This, in turn, is shaped not only by individual effort but by the institutional environment that governs how opportunities are converted into durable prosperity⁴⁴. In this discussion, three interrelated elements are considered important, i.e., capability, ownership and resilience. These ideas draw from international thinking as well as Malaysia's own intellectual traditions.

These elements do not operate separately. Capability supports participation in the economy. Ownership allows for returns from that participation. Resilience helps sustain progress during periods of uncertainty. When one element is deficient, economic security may become limited or uneven. From this perspective, Malaysia's next phase of development presents an opportunity to consider how institutions can better integrate these elements within a broader ecosystem of economic security.

Capability as the First Engine

Capability can be seen as the foundation that enables citizens to meaningfully participate in the economy. Drawing on Sen's idea of development as freedom, prosperity is understood not only in terms of higher income but also through the expansion of substantive freedoms that allow individuals to pursue goals they value⁴⁵. These freedoms include education, health, mobility, security and the ability to navigate a rapidly changing labour market.

However, in Malaysia, capability has not translated into mobility. Despite record educational attainment, real wage growth for young workers has stalled, underemployment remains high and skills mismatches persist. In an economy where the median young graduate earns between RM2,500 and RM3,000 per month, asset accumulation becomes difficult when entry-level homes in major urban centres are priced at approximately six to seven times the annual median income (Faraziera 2019).

Capability gaps are evident in several areas. One is the decoupling of skills, productivity, and wages, where productivity growth outpacing wage growth since the 2000s, weakening the link between work and long-term wealth building^{46,47}. Another is fragmented learning ecosystems. Technical and vocational training, higher education, and employer-based training often operate in silos, with little recognition and continuity across pathways⁴⁸. A new gap emerges in labour market stratification, with informal, gig, and contract workers having limited access to contributory systems like retirement savings and social insurance⁴⁹.

Capability, therefore, must be reconceptualised as economic-security-building capability rather than simply employability. This includes not only skills and lifelong learning, but also financial literacy and financial inclusion. It also requires unified skills architectures and mobility ladders that enable individuals to move from low-productivity to high-productivity sectors and convert income into assets.

⁴⁴ This includes the design of taxation systems, labour market institutions, competition policy, and governance frameworks that limit rent-seeking, market concentration, and supply-chain capture.

⁴⁵ See Sen (2014)

⁴⁶ See for example Roslan et al. (2025), Muthusamy N., et al. (2023), Muthusamy N., et al. (2023a) and Abu Rahim & Suhaimi (2023)⁴⁷ See also Nithyananthan Muthusamy et al. (2024)

⁴⁸ See for example Aziz & Subramaniam (2023), The Star (2023), Fah (2018) and Wan (2025)

⁴⁹ See for example Tumin S.A (2021), Chye et al. (2020), DOS (2024) and Kuchta Helbling (2000)

Ownership as the Second Engine

Ownership in this framework refers to inclusive ownership arrangements that enable individuals to access, accumulate and retain productive assets over the life course. A country cannot call itself prosperous if the majority of its citizens do not own the assets that generate long-term wealth. As Piketty (2014) demonstrated, when returns on capital outpace growth, inequality widens unless ownership is democratised. Malaysia's challenge is evident in the uneven translation of economic growth into asset accumulation.

Wealth remains highly concentrated, with the top 10% holding around 60% of national wealth, while the bottom half accounts for less than 15%. Retirement adequacy is also limited, as about half of EPF contributors have savings below RM10,000. At the same time, housing supply is relatively ample, yet ownership equity remains thin and is often supported by high levels of debt. These outcomes point to deeper institutional constraints. These

include tax and incentive structures that privilege asset accumulation at the top, as well as uneven protections for private asset ownership relative to household balance sheets. In addition, a concentration of assets within GLICs and large corporations can distort prices and shift risk to households. These governance features suggest that growth alone has not been sufficient to support broad-based asset building.

While the NEP helped broaden corporate ownership during the 1980s and 1990s, these changes did not fully translate into a robust foundation of individual and household wealth. Homeownership rates are relatively high. Many individuals nevertheless rely heavily on borrowing and are exposed to economic shocks. Participation in financial assets also remains limited, as many households do not hold shares, unit trusts, cooperative equity, or ownership stakes in businesses⁵⁰.



Image generated by OpenAI DALL·E (2026)

⁵⁰ BNM (2023) has highlights high household debt and leverage risks.

Asset ownership, therefore, deserves attention in our policy discussion. It does not serve as a replacement for private initiative but as a complementary enabler of broader economic security. This thinking draws on international evidence suggesting that more inclusive ownership arrangements (introduced earlier as the core ownership mechanism) can support individual resilience and long-term stability⁵¹. However, these insights are indicative rather than prescriptive. Further work is needed to assess how, and to what extent, such approaches could be meaningfully adapted to Malaysia's institutional and social context:

i. For example, **matched savings schemes**, such as the Child Development Accounts in Singapore⁵² and the Individual Development Accounts piloted in the United State⁵³, demonstrate how government top-ups can accelerate asset accumulation among low- and middle-income families. Similarly, co-investment funds for first-home buyers are used in the United Kingdom's

Help-to-Buy Equity Loan⁵⁴ and shared-equity models in Australia, which help reduce leverage risks while broadening access to property ownership. Emerging innovations such as micro-equity and fractional share platforms have been shown to democratise access to financial markets, enabling small savers to participate in capital gains without requiring large upfront investments⁵⁶.

ii. **Employee ownership schemes**, which originated in the US and are becoming more popular in the UK, are associated with higher worker productivity, stronger firm loyalty and improved retirement preparedness⁵⁷. Meanwhile, incentives that reward long-term savings and capital formation, such as tax-advantaged retirement accounts or time-locked savings schemes, have proven effective in encouraging long-term individual saving and asset accumulation, particularly among middle-income households⁵⁸.

Resilience as the Third Engine

Resilience is the capacity to withstand shocks without falling into poverty or losing accumulated assets. Modern economies face volatility from automation, climate instability, pandemics, geopolitical tensions and financial cycles. Without adequate resilience, wealth fades as quickly as it is acquired. Malaysia's resilience gaps are visible in its low retirement adequacy, high household debt exposure, thin emergency buffers and ecological vulnerability (flood damages, etc.) These gaps are exacerbated by low insurance penetration and limited risk pooling, reflecting a social protection system that remains heavily tied to formal employment, leaving many informal, gig and self-employed workers underinsured.

Hence, households rely on debt and asset liquidation to absorb shocks, jeopardising long-term economic security. many informal, gig and self-employed workers underinsured. Hence, households rely on debt and asset liquidation to absorb shocks, jeopardising long-term economic security.

Economist Diane Coyle argues that nations mistake “flows” (GDP) for “stocks” (assets, ecosystems, human capital)⁵⁹. A resilient society is one where assets (in the form of natural, human, financial and institutional) are protected and replenished rather than depleted.

⁵¹ OECD frames inclusive ownership as a way to strengthen market participation and resilience, rather than to substitute private enterprise (OECD 2025a). Also see (Eyben 2010)

⁵² Child Development Accounts (CDAs) are asset-building schemes that provide children with savings accounts seeded or matched by the state, often supplemented by family contributions, and typically restricted for long-term uses such as education, skills development, or health. International evidence shows that CDAs strengthen early-life asset accumulation, improve educational and financial outcomes and reinforce intergenerational mobility by embedding saving behaviour at the start of the life cycle. See SupportGoWhere (2025)

⁵³ The Individual Development Accounts (IDAs) piloted in the United States are designed to assist low-income individuals in building financial assets. These accounts feature a matching savings structure in which individual contributions are matched by organizations, often at a rate of up to 8:1. The primary aim of IDAs is to empower individuals to save for specific goals such as education, homeownership, or starting a business, with a defined time frame for achieving these objectives. Participants typically receive financial education and training to enhance their budgeting and saving skills, often through mandated classes. The program is also accessible to refugees who meet certain income and asset criteria, reflecting an inclusive approach to financial empowerment (Falk 2014)

⁵⁴ The UK Help to Buy Equity Loan scheme enabled first-time buyers to purchase homes with a government equity stake of up to 20% (40% in London), reducing mortgage size and deposit requirements, with repayment linked to property value upon sale or remortgage (GOV.UK, n.d.-b); Shared Ownership allows eligible households to purchase an initial share (typically 10-75%) of a home while renting the remainder from a housing association, with the option to increase ownership over time (“staircasing”) (GOV.UK, n.d.-c); The First Homes Scheme offers first-time buyers permanent discounts of at least 30% on eligible homes, with the discount preserved on resale to maintain long-term affordability (GOV.UK, n.d.-a); and the Lifetime Individual Savings Account (LISA) provides a 25% government bonus on savings of up to £4,000 per year for first-home purchase or retirement, illustrating how matched incentives accelerate asset accumulation (HM Revenue & Customs 2024). how matched incentives accelerate asset accumulation (HM Revenue & Customs 2024)

⁵⁵ Shared-equity housing schemes in Australia reduce household leverage by lowering upfront borrowing requirements, while expanding access to home ownership for low- and middle-income households who would otherwise be priced out of the market (Mark Tomasz 2025)

⁵⁶ See Liang et al. (2022) for platform-based financial participation and democratisation potential (not guaranteed outcomes); and direct financial inclusion, strong and efficient capital markets contribute to economic prosperity (OECD 2025b)

⁵⁷ See supporting empirical evidence from Harden (2008)'s work and a review of the pros and cons of employee ownership by Mygind and Poulsen (2021)

⁵⁸ Evidence from New Zealand (Law et al. 2017) and Canada (Milligan 2012) shows that tax-advantaged, default-enrolment or incentive-based savings schemes significantly increase participation, contribution persistence, and national household savings

⁵⁹ See Coyle (2025)

Integrating the Three Engines Into a Coherent System

Capability without ownership produces educated, but asset-poor individuals. Ownership without resilience yields wealth that is unstable and easily reversible. Resilience without capability becomes passive and stagnant protection that lacks growth and empowerment. An economically secure state integrates all three engines:

- Capability to participate in value creation
- Ownership to retain value through assets
- Resilience to protect value across time

Building systemic resilience, therefore, requires a shift from fragmented, sector-specific protections to an integrated architecture that supports households across shocks, life stages and employment fragility. Early international evidence suggests that universal and portable social protection, especially for informal and gig workers, significantly reduces vulnerability and enhances long-term earnings mobility (World Bank 2019)⁶⁰. Resilience also depends on accessible emergency savings schemes, as demonstrated in studies showing that even modest, automatically accumulated buffers significantly reduce the probability of financial distress and enable households to avoid high-cost debt during shocks (ILO 2021)⁶¹.

Furthermore, greater data integration across savings, social insurance and fiscal systems can facilitate more equitable interventions. This would enable quicker identification of at-risk individuals and reduce leakage⁶². Long-term resilience similarly requires climate-adaptation funds and risk-sharing mechanisms, as climate-related disasters disproportionately affect lower-income households and erode intergenerational wealth⁶³. The literature emphasises that, without these buffers, climate shocks compound inequality over time. Finally, strengthening public goods (such as healthcare and education systems, childcare and public transportation) is critical for reducing precariousness. These services reduce the private costs of education, mobility and care, allowing families to save more, take productive risks and accumulate assets⁶⁴.

⁶⁰ Cross-country evidence compiled by the World Bank in 2019 shows that social protection systems that are universal, portable and not tied to a single employer are more effective in reducing vulnerability among informal and non-standard workers. Such systems smooth income during shocks, prevent downward mobility, and support longer-term earnings recovery by enabling workers to remain attached to the labour market across job transitions and life stages. The evidence is particularly strong for economies with large informal and gig sectors, where contributory, employment-linked schemes leave significant coverage gaps.

⁶¹ Small and automatically accumulated emergency savings buffers materially reduce financial distress. Even modest balances improve households' ability to absorb income shocks, lower reliance on high-cost borrowing, and reduce the likelihood of cascading financial hardship. Automatic enrolment and default mechanisms are especially effective, as they overcome behavioural barriers to saving and increase participation among low- and middle-income workers.

⁶² Integrated social registries and interoperable data systems linking savings, social insurance and fiscal records improve targeting accuracy, reduce exclusion and leakage, and enable rapid identification of at-risk households, especially during shocks (Phillippe Leite et al. 2017)

⁶³ Climate shocks disproportionately affect lower-income households and, without risk-sharing mechanisms, can permanently erode assets and intergenerational wealth, compounding inequality over time (Parmesan et al. 2022; Hallegatte et al. 2015)

⁶⁴ Strong public provision of health, childcare and transport lowers household precautionary spending, reduces income volatility and enables families to save, invest and take productive economic risks (Kolsrud 2018; Coyle 2025)

Conclusion

Malaysia is currently in an important phase. For decades, a welfare system built on political imperatives (free education, public healthcare and generous subsidies) helped reduce poverty and maintain social stability in a young and fast-growing economy. That architecture, however, was designed for a different era. The country is now facing rapid ageing, fiscal constraints, technological disruption and widening disparities in wealth ownership. These pressures require a shift in how we think about fairness and opportunity.

The key argument of this paper is that Malaysia must evolve from a welfare-competent state to an economically secure society rooted in broad-based wealth ownership. By this, the paper refers to a pattern of asset ownership that includes adequate retirement savings, financial assets and opportunities for productive capital accumulation across income groups.

Welfare that protects the bottom individuals and households remains essential, but it is no longer sufficient in an economy where advantage is increasingly dependent on the ability to build and retain assets. An economic security-centred approach focuses on how households accumulate skills, savings and capital over the life course, and how institutions shape those possibilities. It reframes Malaysians not as recipients of redistribution but as participants in value creation.

Failure to make this transition will leave the country ageing on a weak asset base, with persistent fiscal pressure and limited upward mobility for younger generations. Success, however, will allow Malaysia to convert whatever remains of its demographic advantage into lasting institutional strength. Policies that promote long-term savings, productive risk-taking, broad participation in capital markets and stronger social protection can support a more resilient and equitable economy.

This article presents early thinking on the three engines of an economically secure state. It does not claim to offer a fully specified development model or new social contract for Malaysia, nor does it resolve the political and administrative trade-offs inherent in any deep reform. The instruments discussed, from wealth-building to micro-equity platforms and social protection mechanisms, require further empirical work, institutional testing and public deliberation. The contribution of this discussion is modest but it addresses a foundational question and proposes a conceptual grammar for Malaysia's next developmental journey. It then treats individuals as builders of that system rather than merely as participants in its aftermath.

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