

TRENDS AND PATTERNS OF FEDERAL GOVERNMENT SPENDING IN MALAYSIA

DAWOOD M. MITHANI
SALLAHUDDIN HASSAN
ABDUL RAZAK CHIK
*School of Economics,
Universiti Utara Malaysia*

ABSTRACT

This paper reviews the growth and composition of Federal Government spending in Malaysia during the Post-New Economic Policy era, with a comprehensive approach and analytical outlook. Between 1970 and 1997 the compound annual growth rate of total government expenditure was estimated at 11.3 percent. During the 1970s and 1980s, a fiscal imbalance in expenditure pattern emerged as a result of excessive growth in operating expenditure against that of developing expenditure. Government spending as percentage of GNP declined from 34.1 percent in 1990 to 20.3 percent in 1997. In a relative sense, this suggests that Malaysia currently has the smallest government involvement, even compared to Japan and the USA's market-oriented mixed economies. The expenditure pattern and policy of the Malaysian government reveals its real concern for the social sector development and eradication of poverty, besides sound fiscal fundamentals contained in surplus budgets in recent years. Our study, however, suggests that economizing in government spending is more important than budgetary curtailment. The government should appoint an advisory Public Expenditure Committee, and publish a 'White Paper' on spending programmes on a regular basis. The fiscal management may further be improved by incorporating 'rolling expenditure programming' in the budgetary implementation. The on-going fiscal reforms should be made more effective to establish a prudent government sector with enhanced efficiency and productivity.

ABSTRAK

Kertas ini meninjau pertumbuhan dan komposisi perbelanjaan Kerajaan Persekutuan Malaysia dalam era pasca Dasar Ekonomi Baru menggunakan pendekatan yang komprehensif dan bersifat analitikal. Di antara tahun 1970 dan 1997, kadar pertumbuhan tahunan kompaun perbelanjaan kerajaan dianggarkan 10.6%. Pada dekad 70-an dan 80-an, wujud ketidakseimbangan fiskal dalam perbelanjaan kerajaan, kesan daripada pertumbuhan perbelanjaan operasi yang lebih besar berbanding perbelanjaan pembangunan. Perbelanjaan kerajaan sebagai peratus daripada KNK merosot dari 34.1% pada tahun 1990 kepada 20.3% pada tahun 1997. Secara relatif, keadaan ini menunjukkan Malaysia kini mempunyai penglibatan kerajaan terkecil berbanding dengan Jepun dan Amerika Syarikat. Corak dan polisi perbelanjaan kerajaan Malaysia secara jelas menunjukkan dasar prihatinnya kepada pembangunan sektor sosial dan pembasmian kemiskinan, di samping asas-asas fiskal yang baik seperti terkandung dalam belanjawan lebihan pada tahun-tahun kebelakangan. Kajian kami bagaimanapun mencadangkan bahawa memperlahankan perbelanjaan kerajaan adalah lebih penting daripada mengurangkan belanjawan secara keseluruhan. Kerajaan perlu melantik Jawatankuasa Penasihat Perbelanjaan Awam dan menerbitkan 'kertas putih' berkaitan program perbelanjaan secara berkala. Seterusnya, pengurusan fiskal mungkin dapat diperbaiki dengan menggabungkan 'program perbelanjaan boleh pinda' dalam pelaksanaan belanjawan. Reformasi fiskal secara berterusan perlu dilaksanakan dengan lebih efektif untuk membentuk sektor kerajaan yang berhemah dengan meningkatkan kecekapan dan memacu ke arah ekonomi yang lebih mantap.

INTRODUCTION

Since the advent of functional finance in the post-Keynesian fiscal economics, government spending has assumed a pivotal place with increasing involvement of the state in the economic society of almost every nation in the post-World War II era. Public expenditure can serve as an effective fiscal device to be used by the government to accomplish desired socio-economic goals.

Much of the quality of socio-economic life enjoyed in a market-oriented but mixed political economy depends, by and large, on how the government behaves in its spending activity under the fiscal framework of the country. In the contemporary era, all economies, whether developed or developing are mixed political economies with varying degrees of government intervention in the system. As such, public expenditure is crucial in a modern fiscal framework. The basic problems of developed or developing countries including new industrialized countries such as Singapore, Malaysia, etc., are, however, different. The role of public expenditure, therefore, tends to differ widely in these countries.

In general, public spending in developed countries is basically undertaken to check fluctuations in effective demand. In developing economies, on the other hand, public spending reflects government's aspirations, efforts and intentions to promote economic development and accelerate economic growth, to reduce income disparities, improve overall standards of living and eradicate abject poverty in the shortest duration possible.

Ostensibly, in a developing country it is the composition and pattern of public expenditure (as well as pattern of financing) rather than its mere growth in the expanding fiscal framework that is important in achieving the socially desirable objectives. In short, government expenditure has a unique role to play in a developing economy such as Malaysia, which has a vision for socio-economic transformation into a developed country status.

SELECTED LITERATURE REVIEW

The analysis of public expenditures and their determinants is an intricate problem in public finance research. The literature on public expenditure pertaining to mature industrial nations is prolific and varied. Several studies are also available on issues concerning developing economies in general.

In the Malaysian context, however, scant literature is available with a special focus on the problem of government spending. From the available sources, we present a synoptic review of a few selected recent studies to justify the need for a fresh study on the subject.

For the earlier period of 1966-1975, Asher and Tayabji (1977) provided an analytical review of the pattern of budgeting expenditure of the Federal Government of Malaysia by examining the size, structure and growth of various categories of public spending. They observed that the relative size of the Government measured by expenditure / GNP ratio increased substantially due to the increasing role of the Federal Government in the development process. Public debt services, defence and social services (especially education) expenditure showed the highest income-elasticity. Similarly in economic activity, industrial, mining and transport depicted high income-elasticity. In absolute terms, social services, economic services and defence appeared to be the largest categories of expenditure. They, however observed lacuna in data on government finance and non-availability of an economic classification of government expenditure. As such, in their opinion, formulation and evaluation of stabilization policies in Malaysia was a difficult problem.

Meerman (1979) presented an in-depth study of the benefits of public expenditure in Malaysia in the year 1973 by adopting a random sample survey method. Meerman's study, by examining the federal public accounts and public spend-

ing- programs, measured the allocation of government funds and its impact on distribution of income, education, medical care, and public utilities such as electricity, pure water and sewage disposal, and also public agricultural interventions and the budget incidence. A major limitation of the study was the possibility of high sampling error due to the small sample size (165 households) chosen by the author. Nonetheless, it was a pioneering attempt of an operation in measurement in the realm of the distribution accounting of government budgets. Besides, the survey data obtained for the study were of high quality, with lesser response / coding errors. Thus, the loss attributable to small sample size was compensated by the enhanced quality of the results.

The study pointed out that, in general, public spending in Malaysia has, to a greater degree, benefited the poor rural population. However, the distribution of public utilities has, in a conventional manner, most benefited the urban areas and the richer families, especially the Chinese. The poorest in the rural areas were the least well served by public utilities. Land development schemes instituted by the Federal government had benefited the poor farmers. Meerman concluded that unlike other countries, Malaysia's public spending was attributed to public programs with an investment aspect, rather than just welfare transfer.

Said's (1988) study focused on public expenditure in Malaysia's rice sector and concluded that to eradicate poverty among rice farmers and stimulate the growth of Malaysian agriculture by minimizing the country's dependence on imported rice, a large amount of public expenditure should be deployed in the rice sector. Moreover, the state should re-orient the national rice policy to avoid wastage and check the business of distribution towards the wealthier classes.

Salleh's (1989) paper briefly discussed the role of the public sector and public expenditure during the post-independence period in Malaysia, while examining the trend of public finance in the country between 1970 - 1990. Similarly, Jomo (1990) makes a brief categorical review of public spending in Malaysia for the period 1971-1988, while analyzing fiscal and debt problems of the country. Chee (1990) provided a statistical series of government expenditure in Malaysia for the period 1967-1987 and observed its growing share in the country's GNP: a rise from 30 percent in the 1960s to 50 percent in the 1980s. No further quantitative analysis was, however, made by the author.

Sulaiman (1992) in discussing public finance and economic management observed that a high percentage (about 71%) of the operating government expenditure in Malaysia during 1985-1991 had "lock-in" characteristics, incorporating emoluments, gratuities and debt service charges. He thus suggested the need for close monitoring and restraining of its further expansion. Looi, Soon and Mohamad (1994) in their study on fiscal policy, prices and inflation in Malaysia simply reviewed the size and growth of the public sector in

statistical terms for the period 1956-1992 and recommended that the size of government expenditure should be reduced in order to moderate inflation rate.

Aziz and Yusoff (1994) provided an econometric model for assessing the impact of government spending in Malaysia. Their focus was largely on analyzing the differentiating effects of several modes of financing government expenditure within the framework of a small annual macromodel of the Malaysian economy during the period 1969-1985.

In this paper we undertake a comprehensive review of the growth and composition of federal government expenditure in Malaysia. An attempt is made to provide a statistical picture of the size, growth and trends in government expenditure together with an analysis of its composition and objectives over time, during the period 1970-1997. The period is chosen to reflect the role of the government under the New Economic Policy, the blue print of Malaysia's economic vision for growth and equity.

The scope of the study is restricted to the expenditure of the central government. In Malaysia, the Federal Government assumes the major responsibility of leading the nation on the path of development and prosperity. Federal Government spending is pervasive, constituting a major part (over 80 percent) of the total public expenditure of the country. The focus of the present study is, therefore, on the central Government budgetary spending over time, assuming that a segregated approach to public expenditure analysis is both convenient and illuminating. Obviously, a separate study may be conducted in future to examine the position and pattern of state government expenditures.

The study is based on empirical data. The size and growth of Federal Government expenditure in Malaysia is traced in absolute and relative terms. Quantitative indicators or measures such as compound growth rate, relatives and ratios of expenditure have been used in the course of analysis. The expenditure policy of the government is highlighted and examined through analysis of its composition and changes.

The study aims to provide a better understanding of the role of government expenditure. The findings, it is hoped, would be useful to the policy makers in evolving an effective expenditure policy and fiscal adjustment with the changing needs over time. The paper is an outcome of our integrated research work and the results of the study are presented in the following sections.

SIZE AND GROWTH OF FEDERAL GOVERNMENT IN MALAYSIA

The growth trend of federal government expenditure over the last 27 years since 1970, the year of the inception of the National Economic Planning (NEP) was

reviewed. From the data compiled and presented in Tables 1, 2 and 3, the following observations are made:

In absolute terms, the total government expenditure increased sixteen and a half-fold from RM3, 542 million in 1970 to RM58, 494 million in 1996. In 1997 it increased mildly by 2.3 percent amounting to RM59, 859 million. In 1998, however, it is budgeted to rise marginally by 1.5 percent to RM60, 757 million. This is a broad indication of the growing state involvement and activism in the socio-economic life of the nation.

In Malaysia, government expenditure is broadly classified into two categories, viz: operating expenditure and development expenditure. Over the years, the operating expenditure of the Federal Government has increased twenty-fold, from RM2, 161 million in 1970 to RM43, 865 million in 1996. In 1997, it increased marginally by 0.5 percent over the previous year to RM44, 069 million. The 1998 Budget for the first time proposed to reduce it marginally by three percent to RM42,776 million. On the other hand, the development expenditure increased by ten and half times more from RM1, 381 million to RM14, 629 million during 1970-1996. In 1997, however, it increased by eight percent over the previous year to RM15, 790 million. In the 1998 Budget, it is to be raised by 14 percent to RM17, 991 million.

In an analytical sense, however, operating expenditure claimed 61 percent of total government spending in 1970, which increased to 75 percent in 1996. The share of development expenditure correspondingly declined from 39 percent to 25 percent during the same period. In 1997 the share of operating expenditure reduced marginally to 74 percent and that of development expenditure increased to 26 percent. The 1998 Budget proposed to bring it down further to 70 percent. Apparently, the share of development expenditure is enhanced to 30 percent.

The growth trend in government expenditure is perceived by measuring the compound annual rate of growth (CARG) which is estimated to be 11.9 percent between 1970-1997. During the 1970s, the CARG of total government expenditure was 16.7 percent, which significantly decelerated to six percent during the 1980s, but again marginally accelerated to 6.6 percent in the current decade until 1997. The initial trend of high CARG explains the need for growing government participation towards fulfilment of NEP objectives. During the 1980s, there was a deceleration of CARG in government spending. This may be attributed to the rising process of market-orientation through privatization, envisaged by the government under the wave of liberalization.

A marginal acceleration in total government expenditure in the 1990s may be attributed to an enhancement of operating expenditure with the horizontal and vertical expansion of public administration in the country, besides rising

liabilities of sustaining the socio-economic infrastructure management by the government.

Unlike countries such as India, Malaysia is a planned mixed economy with a higher and growing degree of market-orientation. Through planning, the government has played a positive role in stimulating and sustaining the market-driven growth process, so that the country has witnessed until recently, an average eight percent annual growth rate since 1985.

The planning effect on government expenditure is examined by measuring the CARG of total government spending as well as its bifercation into development expenditure and operating expenditure plan-by-plan. Our period of study coincides with the Second to the Sixth Malaysia Plan and the plan-wise CARG estimates are summararily reported in Table 3.

During the Second Plan period (1971-75), CARG of development expenditure was just 4.8 percent as against that of operating expenditure being at the peak or 19.4 percent. In the Third Plan (1976-80), however, the CARG of development expenditure accelerated to 29.3 percent while that of operating expenditure rose to 22.1 percent. The Fourth Plan period (1981-85), on the other hand, witnessed a deceleration of CARG at 6.8 percent in the case of operating expenditure, and that of development expenditure turned out negative (-11.7 percent). These were the crucial years following the second oil shocks of 1979 and the world recessionary order.

During the Fifth Plan period (1986-90) the acceleration of development expenditure was remarkable, with its CARG at 12.5 percent and that of operating expenditure at 8.4 percent. The Sixth Malaysia Plan period (1991-95) witnessed a further marginal acceleration of CARG of development expenditure at 9.6 percent, while that of operating expenditure decelerated to 6.2 percent. In the beginning year of the Seventh Plan (1996), however, the development expenditure increased by 4.1 percent to RM14, 629 million from RM14, 051 million in the previous year. On the other hand, the operating expenditure rose by almost 20 percent from RM36, 573 million to RM43, 865 million in the same period. This speaks of a rather lavish spending by the government. The government, however, realized this fiscal laxity and has committed to contain the growth of operating expenditure in future.

For a meaningful analytical consideration, we measured the relative size of government expenditure by comparing it with the national income aggregate (GNP) in each year. The Federal government expenditure as a proportion of gross national product (GE/GNP) accelerated from 30.4 percent in 1970 to the peak level of 48.6 percent in 1981. This accelerating government spending in the early eighties is reflecting an expansionary fiscal stance, indicating increasing involvement of the government in the economic management of the country. A

Table 1
Federal Government Finance (RM Million), 1970-1998

| Year | Operating Expenditure (OE) | Development Expenditure (DE)* | Total Government Expenditure (GE) | Net Lending (NL)** | Current Revenue/ (R) | Revenue Surplus/ Deficit(-) (RS) | Overall Surplus/ Deficit(-) (FD) |
|-------------------|----------------------------|-------------------------------|-----------------------------------|--------------------|----------------------|----------------------------------|----------------------------------|
| 1970 | 2161(61) | 1381(39) | 3542 | 147 | 240 | 237 | -475 |
| 1971 | 2398(53) | 2095(47) | 4493 | 316 | 2418 | 20 | -1050 |
| 1972 | 3068(71) | 1242(29) | 4310 | 422 | 2920 | (-148) | -1371 |
| 1973 | 3341(75) | 1128(25) | 4469 | 354 | 7399 | 57 | -1049 |
| 1974 | 4315(70) | 1878(30) | 6193 | 745 | 4791 | 473 | -1381 |
| 1975 | 4900(69) | 2151(31) | 7051 | 847 | 5117 | 217 | -1896 |
| 1976 | 5828(71) | 2378(29) | 8206 | 749 | 6157 | 629 | -1705 |
| 1977 | 7398(70) | 3217(30) | 10615 | 1124 | 7760 | 662 | -2476 |
| 1978 | 8041(68) | 3782(32) | 11823 | 1301 | 8841 | 1450 | -2249 |
| 1979 | 10040(70) | 4282(30) | 14322 | 1347 | 10505 | 2615 | -1535 |
| 1980 | 13617(65) | 7463(35) | 21080 | 2059 | 13926 | 3634 | -3704 |
| 1981 | 15686(58) | 11358(42) | 27044 | 2271 | 15806 | 2120 | -9015 |
| 1982 | 16671(59) | 11485(41) | 28156 | 4110 | 16690 | 768 | -10421 |
| 1983 | 18374(66) | 9669(34) | 28043 | 3625 | 18608 | 2484 | -6933 |
| 1984 | 19806(70) | 8407(30) | 28213 | 3795 | 20805 | 3299 | -4775 |
| 1985 | 20066(74) | 7142(26) | 27208 | 2920 | 21115 | 2349 | -4407 |
| 1986 | 20075(73) | 7559(27) | 27634 | 2580 | 19518 | -557 | -7506 |
| 1987 | 20185(81) | 4741(19) | 24926 | 917 | 18143 | -2042 | -6153 |
| 1988 | 21812(81) | 5231(19) | 27043 | 651 | 21967 | 755 | -3290 |
| 1989 | 24832(76) | 7696(24) | 32528 | -305 | 25273 | 2291 | -3410 |
| 1990 | 27105(81) | 10689(28) | 37794 | -1228 | 29521 | 4495 | -3437 |
| 1991 | 28296(75) | 9565(25) | 37861 | -119 | 34053 | 5757 | -2640 |
| 1992 | 32075(77) | 9688(23) | 41763 | -218 | 39250 | 7175 | -1243 |
| 1993 | 32217(76) | 10124(24) | 42341 | 128 | 41691 | 9474 | 354 |
| 1994 | 35064(72) | 11277(24) | 46341 | 24 | 49446 | 14382 | 4408 |
| 1995 | 36573(72) | 14051(28) | 50624 | 62 | 50954 | 14381 | 1861 |
| 1996 ^a | 43865(75) | 14629(25) | 58494 | 630 | 58280 | 14415 | 1815 |
| 1997 ^b | 44069(74) | 15790(26) | 59859 | 483 | 63275 | 19206 | 5066 |
| 1998 ^c | 42766(70) | 17991(30) | 60757 | -26 | 68058 | 25292 | 8951 |

- Note: 1. Figure in the parentheses refer to rounded percentage of corresponding OE and DE to GE.
 2. * Corresponding to Development Fund of the budgetary allocation which includes direct expenditure and gross lending.
 3. **Gross lending minus loan recovery. Net lending covers loans to state governments and public authorities.
- a. Estimated Actual
 b. Latest Estimates
 c. Budget Estimates

- Sources: 1. Ministry of Finance Malaysia, *Economic Report*, various issues.
 2. Bank Negara Malaysia, *Money and Banking in Malaysia*, Fourth Ed. 1994.

Table 2
Federal Government Finance, as Percentage of GNP, 1970-1998

| Year | GNPmp | OE/GNP(%) | DE/GNP(%) | GE/GNP(%) | R/GNP(%) | FD/GNP(%) |
|-------|--------|-----------|-----------|-----------|----------|-----------|
| 1970 | 11644 | 18.6 | 11.9 | 30.4 | 20.6 | 4.1 |
| 1971 | 12593 | 19.0 | 16.6 | 35.7 | 19.2 | 8.3 |
| 1972 | 13842 | 22.2 | 9.0 | 31.1 | 21.1 | 9.9 |
| 1973 | 18064 | 18.5 | 6.2 | 24.7 | 18.8 | 5.8 |
| 1974 | 21861 | 19.7 | 8.6 | 28.3 | 21.9 | 6.3 |
| 1975 | 21606 | 22.7 | 10.0 | 32.6 | 23.7 | 8.8 |
| 1976 | 26988 | 21.6 | 8.8 | 30.4 | 22.8 | 6.3 |
| 1977 | 31064 | 23.8 | 10.4 | 34.2 | 25.0 | 8.0 |
| 1978 | 36186 | 22.2 | 10.5 | 32.7 | 24.4 | 6.2 |
| 1979 | 44354 | 22.6 | 9.7 | 32.3 | 23.7 | 3.5 |
| 1980 | 51390 | 26.5 | 14.5 | 41.0 | 27.1 | 7.2 |
| 1981 | 55602 | 28.2 | 20.4 | 48.6 | 28.4 | 16.2 |
| 1982 | 59690 | 27.9 | 19.2 | 47.2 | 28.0 | 17.5 |
| 1983 | 65154 | 28.2 | 14.8 | 43.0 | 28.6 | 10.6 |
| 1984 | 74182 | 26.7 | 11.3 | 38.0 | 28.0 | 6.4 |
| 1985 | 72039 | 27.9 | 9.9 | 37.8 | 29.3 | 6.1 |
| 1986 | 66953 | 30.0 | 11.3 | 41.3 | 29.2 | 11.2 |
| 1987 | 74679 | 27.0 | 6.3 | 33.4 | 24.3 | 8.2 |
| 1988 | 85777 | 25.4 | 6.1 | 31.5 | 25.6 | 3.8 |
| 1989 | 96631 | 27.7 | 8.0 | 33.7 | 26.2 | 3.5 |
| 1990 | 110764 | 24.5 | 9.7 | 34.1 | 26.7 | 3.1 |
| 1991 | 123548 | 22.9 | 7.7 | 30.6 | 27.6 | 2.1 |
| 1992 | 140531 | 22.8 | 6.9 | 29.7 | 27.9 | 0.9 |
| 1993 | 156941 | 20.5 | 6.5 | 27.0 | 26.6 | -0.2 |
| 1994 | 180841 | 19.4 | 6.2 | 25.6 | 27.3 | -2.5 |
| 1995 | 208118 | 17.6 | 6.8 | 24.3 | 24.5 | -0.9 |
| 1996 | 237912 | 18.4 | 6.0 | 24.6 | 24.5 | -0.8 |
| 1997a | 277033 | 15.9 | 5.7 | 21.6 | 22.8 | -1.8 |
| 1998b | 299059 | 14.3 | 6.0 | 20.3 | 22.8 | -3.0 |

Note: Negative FD/GNP ratio implies overall surplus

- a. Estimated by Ministry of Finance
- b. Forecast by ministry of Finance

Sources: Département of Statistics, National Accounts, various issues for GNP at market prices. The rest of the columns are worked out on the basis of data in Table 1.

Table 3
Compound Annual Rate of Growth (CARG) of Federal Government
Expenditure During the Plan Period (Percentage)

| PERIOD | OE | DE | GE |
|-------------------------------------|------|-------|------|
| Second Malaysian Plan (1971 - 1975) | 19.4 | 4.8 | 13.4 |
| Third Malaysian Plan (1976 - 1980) | 22.1 | 29.3 | 24.5 |
| Fourth Malaysian Plan (1981 - 1985) | 6.8 | -11.7 | 0.1 |
| Fifth Malaysian Plan (1986 - 1990) | 8.4 | 12.5 | 9.3 |
| Sixth Malaysian Plan (1991 - 1995) | 6.2 | 9.6 | 7.1 |
| Decade-wise: | | | |
| 1971 - 1980 | 19.9 | 18.4 | 19.1 |
| 1981 - 1990 | 5.9 | -4.8 | 2.1 |
| 1991 - 1997 | 7.7 | 9.9 | 8.2 |
| Overall: | | | |
| 1970 - 1997 | 11.4 | 8.9 | 10.6 |

Source: Worked out from respective data in Table 1.

continuous declining trend of GE/GNP ratio emerged thereafter, bar 1986. The trend reflects the rapid move of the Malaysian economy towards increased market-orientation, thus the lessening of public sector direct role in the country's economic arena. The 1990s, as such, witnessed a declining trend in government spending in relative terms from 30.6 percent of GNP in 1991 to 20.3 percent of GNP in 1997.

Malaysia in the Global Setting

The upward trend in government spending has been a universal phenomenon in the post-war era. Under the current wave of liberalization and market-orientation, however, the size of the government (measured by the public expenditure-national income ratio) has become a major issue in many developing countries. In fact, the champions of new global capitalism advocate a

reversal of the upward trend of government spending in developing countries. In reviewing the global scenario, the data in Table 4 suggest that among the rich developed nations, the USA and Japan have, relatively, the smallest government expenditure currently. In 1996, for instance, their government spending was 33.3 percent and 36.2 percent of GDP respectively, followed by Australia (36.6 percent) and New Zealand (37.6 percent). Sweden, on the other hand, has the biggest share of government spending in national income (64.7 percent) followed by France (54.5 percent) and Belgium (54.3 percent).

In comparison, Malaysia as a developing nation depicts a much better record. The government spending as a percentage of GDP in the country has continuously and rapidly declined from 1980 onwards—from 39.5 percent in 1980 to 32.6 percent in 1990 and further to 23.0 percent in 1996. In a relative sense, Malaysia currently has the smallest government sector compared with many developed nations.

THE DEPLOYMENT OF GOVERNMENT EXPENDITURE: AN OVERVIEW

The impact of government involvement through public spending in a developing economy can be traced by viewing the pattern of expenditure reflecting functional and sectoral deployment of funds or economic resources by the government.

In the deployment pattern of total Federal Government expenditure over the years, the size of operating expenditure has exceeded that of development expenditure. In 1971, the operating expenditure claimed 53 percent of total expenditure. This increased to 75 percent of the total in 1973. Correspondingly, the development expenditure that constituted 47 percent of total expenditure in 1971 decreased to 25 percent of the total in 1973. A peak level of 81 percent of operating expenditure as a proportion of total expenditure and a bottom level of 19 percent of development expenditure as a proportion of total government expenditure was seen in the 1987 and 1988 budgets. This trend may be attributed to a policy move towards privatisation and reducing the reliance on government sector as an engine of growth and development.

Over the years, the development-operating expenditure (DE/OE) ratio continuously declined from a peak level of 0.87 in 1971, to 0.53 in 1980, to 0.39 in 1990 and to 0.30 in 1992, with a marginal improvement in 1994 at 0.32 to further improvement at 0.38 in 1995. However, it declined to 0.33 in 1996, and improved again to 0.36 in 1997. In the 1998 Budget, it further improved to 0.42. This unevenness reflects changing policy strategies and time-to-time reconsideration and rectification in government behaviour.

Table 4
Government Spending in Selected Countries (Percentage of GDP)

| COUNTRY | YEAR | | | |
|----------------|------|------|------|------|
| | 1960 | 1980 | 1990 | 1996 |
| Malaysia | 23.1 | 39.5 | 32.6 | 23.0 |
| Australia | 21.2 | 31.6 | 34.7 | 36.6 |
| Belgium | 30.3 | 58.6 | 54.8 | 54.3 |
| Canada | 28.6 | 38.8 | 46.0 | 44.7 |
| France | 34.6 | 46.1 | 49.8 | 54.5 |
| Germany | 32.4 | 47.9 | 45.1 | 49.0 |
| Italy | 30.1 | 41.9 | 53.2 | 52.9 |
| Japan | 17.5 | 32.0 | 31.7 | 36.2 |
| New Zealand | 26.9 | 38.1 | 43.3 | 47.1 |
| Sweden | 31.0 | 60.1 | 59.1 | 64.7 |
| Switzerland | 17.0 | 32.8 | 33.5 | 37.6 |
| United Kingdom | 32.2 | 43.0 | 39.9 | 41.9 |
| U.S.A. | 27.0 | 31.8 | 33.3 | 33.3 |

- Sources:
1. *The Economist*, 20 September, 1997.
 2. Ministry of Finance Malaysia, *Economic Reports*, various issues.

The Pattern of Government Spending

While examining the composition of government spending, we observed the following striking features:

Over the years, the government has shown its real concern towards social upliftment. The proportion of spending on social services has mostly been exceeding that of economic services, remarkably from 1985 onwards. In 1970, for instance, nearly 20 per cent of the total government spending was deployed in the social services sector as against 14 per cent in economic services. In 1996, social services claimed over 32 per cent of total expenditure as against 21 per cent claimed by economic services. The behavioural trend of government spending in this regard can be inferred from the data in Table 5.

During the nineties, there has been a continuous rise in the percentage share of social services spending and a continuous fall in the case of economic spending (at a marginal rate) from 1990 till 1994. The year 1995 witnessed a marginal decline in both the cases. There was again an upward movement in 1996, registering around two percent expansion in both cases. In 1997, there was no

change. The 1998 budget, however, envisaged to increase the share of the government spending on social services to 35 percent and that of economic services to 21 percent.

The percentage share of government spending on agriculture and rural development declined from the peak of 9.6 percent in 1974, to 6.1 percent in 1980 and further to 4.9 percent in 1995. It marginally improved to 5.2 percent in 1996, but again reduced to 4.2 percent in 1997. The 1998 Budget reduced it further to four percent. In this regard, we feel that for poverty alleviation in the rural areas, it is essential that the development of the agriculture and rural industrial sector be given greater attention. Perhaps, it deserves more sympathetic consideration, to enhance priority in the allocation of resources for the balanced growth of the Malaysian economy. The rural citizens should not be left behind as Malaysia marches towards industrialization and urbanization.

The current economic crisis demands a reassessment of the Malaysian growth strategy. As part of the macroeconomic adjustment and measures, it is also essential that the country aspires to be self-reliant or less dependent on imports of consumer goods. Special attention is needed to embark upon agricultural and rural development in all its dimensions, i.e., farming—rice, vegetables, fruits, poultry—animal husbandry and agro-based industries, fisheries, herbal medicines, and wood crafts, to name a few.

The government allocated about 0.9 percent of GNP in 1997 against 3.9 percent in 1982 to this basic sector of the Malaysian economy. The apparent imbalance needs immediate correction in the form of redesigning the development strategy towards environment-friendly sustainable growth. This would certainly help in improving the country's balance of payments position, by minimizing the trade deficit through minimization of the need to import food and other primary products in due course.

The country's overall efficiency depends on sound public health. Compared with the 1980s, in the 1990s the government has apportioned more resources towards the health sector. The percentage of total spending on health care has increased from 3.5 percent in 1983 to 5.8 percent in 1996. Relatively, however, only 1.4 percent of GNP was spent in 1997, compared with 1.7 percent in 1982. Owing to the recent haze situation, drought, and other related problems, the government would have to deploy more funds on this aspect of social welfare.

Democracy becomes more meaningful when citizens are literate. Malaysia should be complimented for achieving a high literary rate (89 percent) compared with its counterparts in the Third World. The government of the country has rightly given top priority to education. Over the years, the education sector claimed almost one-fifth of the total budgetary spending by the federal government. In relative terms also education received a higher share. During the

Table 5
Federal Government Spending on Social and Economic Services,
1970-1998

| Year | Development Expenditure | | Operating Expenditure | | Total | | GE | SST/GE (%) | EST/GE (%) |
|-------|-------------------------|------|-----------------------|------|-------|-------|-------|------------|------------|
| | SSD | ESD | SSO | ESO | SST | EST | | | |
| 1970 | 64 | 451 | 632 | 52 | 696 | 503 | 3542 | 19.6 | 14.2 |
| 1971 | 109 | 703 | 745 | 61 | 854 | 764 | 4493 | 19.0 | 17.0 |
| 1972 | 139 | 836 | 1032 | 74 | 1171 | 910 | 4310 | 27.2 | 21.1 |
| 1973 | 176 | 786 | 1062 | 56 | 1238 | 842 | 4469 | 27.7 | 18.8 |
| 1974 | 280 | 1313 | 1364 | 422 | 1644 | 1735 | 6193 | 26.5 | 28.0 |
| 1975 | 328 | 1398 | 1519 | 358 | 1847 | 1756 | 7051 | 26.2 | 24.9 |
| 1976 | 316 | 1550 | 1648 | 446 | 1964 | 1996 | 8206 | 23.9 | 24.3 |
| 1977 | 452 | 2129 | 2282 | 492 | 2734 | 2621 | 10615 | 25.8 | 24.7 |
| 1978 | 614 | 2529 | 2354 | 618 | 2968 | 3147 | 11823 | 25.1 | 26.6 |
| 1979 | 962 | 2521 | 2525 | 606 | 3487 | 3127 | 14322 | 24.3 | 21.8 |
| 1980 | 1185 | 4816 | 2926 | 765 | 4111 | 5581 | 21080 | 19.5 | 26.5 |
| 1981 | 2456 | 6794 | 3581 | 1307 | 6037 | 8101 | 27044 | 22.3 | 30.0 |
| 1982 | 3249 | 5967 | 4404 | 1960 | 7653 | 7927 | 2815 | 27.2 | 28.2 |
| 1983 | 1997 | 5779 | 4217 | 1518 | 6214 | 7297 | 28043 | 22.2 | 26.0 |
| 1984 | 2223 | 5061 | 4645 | 1730 | 6868 | 6791 | 28313 | 24.3 | 24.1 |
| 1985 | 2093 | 4303 | 5038 | 1692 | 7131 | 5995 | 27208 | 26.2 | 22.0 |
| 1986 | 2534 | 4538 | 5429 | 2007 | 7963 | 6545 | 27634 | 28.8 | 23.7 |
| 1987 | 1022 | 3245 | 5612 | 1764 | 6634 | 5009 | 24926 | 26.6 | 20.1 |
| 1988 | 1162 | 3621 | 5871 | 1834 | 7036 | 5455 | 27043 | 26.0 | 20.2 |
| 1989 | 1947 | 4664 | 6429 | 1972 | 8376 | 6636 | 32528 | 25.8 | 20.4 |
| 1990 | 2617 | 6701 | 7296 | 2141 | 9913 | 8842 | 37794 | 26.2 | 23.4 |
| 1991 | 2426 | 4684 | 8001 | 2598 | 10427 | 7282 | 37861 | 27.5 | 19.2 |
| 1992 | 2653 | 4504 | 9608 | 3498 | 12261 | 8002 | 41763 | 29.4 | 19.2 |
| 1993 | 2161 | 5264 | 10381 | 2511 | 12543 | 7775 | 42341 | 29.6 | 18.4 |
| 1994 | 3285 | 5289 | 11541 | 3660 | 14826 | 8949 | 46241 | 32.0 | 19.3 |
| 1995 | 3513 | 6440 | 12141 | 2869 | 15654 | 9309 | 50624 | 30.9 | 18.4 |
| 1996a | 3984 | 7693 | 14824 | 4285 | 18808 | 11978 | 58494 | 32.2 | 20.5 |
| 1997b | 4704 | 7680 | 14779 | 4273 | 19483 | 11953 | 59859 | 32.5 | 20.0 |
| 1998c | 5890 | 8828 | 15373 | 4039 | 21263 | 12867 | 60757 | 35.0 | 21.2 |

Note : SS = Social Services
ES = Economic Services
D, O, and T for Development, Operating and Total Expenditure on these categories respectively.

a = Estimated actual
b = Latest estimate
c = Budget allocation

Sources : Ministry of Finance Malaysia, *Economic Reports*, various issues.

1980s, it claimed on average over 6 percent of the GNP (See Table 6 for further details). This healthy trend, if continued, will help the country become one of the most educated democratic nations among the developing countries.

Over the years since 1970, defence expenditure on average claimed about 11.5 percent share in the total government expenditure. During the 1970s, its share was 13.6 percent. During the 1980s it was reduced to 9.9 percent. During 1991-96, however, it again rose to 11.4 percent. In this period, Malaysia spent about 3 percent of GNP per annum on defence. This is moderate compared with other developing Asian nations. There is, however, scope to minimize it further, in view of the peaceful environment of the ASEAN region. It is heartening to note that in 1997 the absolute amount as well as percentage share of defence expenditure was reduced to 9.8 percent. In the same year, DF/GNP ratio also declined to 2.2 percent compared with 2.6 percent in the previous year. The 1998 Budget reduced, it further to 9.5 percent.

Government expenditure, constituting emoluments, pensions and gratuities, depict a continuously rising trend. The data in Table 7 reveal that in 1970, this item claimed about 16 percent of the operating expenditure, which had a quantum jump to over 60 percent in 1972 (a surprising phenomenon!). During the 1980s, on average, its share amounted to around 40 percent. During the 1991-96, its share went up to 43.5 percent of the operating expenditure, claiming one-third of the total spending or about 8.8 percent of GNP.

Until recently, government finance in Malaysia had always been in deficit. During the 1970s, on average it was over seven percent of GNP per annum. During the 1980s, in some years it was unprecedently high—at 16.2 percent (1981), 17.5 percent (1982), and 11.2 percent (1986), for instance. This may be attributed to a rise in government expenditure without a corresponding rise in tax and non-tax revenue. Prudence in fiscal management is reflected in the later years with the gradual containment of fiscal deficit, which turned to an overall surplus budget since 1993. A good surplus was shown in 1994 at RM4, 408 million (2.5 percent of GNP). In 1996 the surplus had declined to RM1, 815 million. In 1997, the overall surplus was RM5,066 million. The 1998 Budget forecasted an overall surplus of RM8,951 million. In 1998, the government has shelved mega projects to reduce its financial burden. This is a remarkable feature of the current state of government finance, reflecting prudence in fiscal management.

Nonetheless, the huge borrowings in the past have added to the debt-servicing burden on the government. As a result, an increasing trend of debt servicing liabilities is seen during the 1970s and 1980s. A declining trend has appeared in the 1990s as an avowed policy of debt management. In 1991, debt servicing claimed 24.9 percent of operating expenditure and 18.6 percent of total government expenditure. This declined to 15.6 percent and 11.6 percent respectively

Table 6
**Total Spending of Federal Government on Education, Health,
 Agriculture and Rural Development, 1970-1998**

| YEAR | ED | HE | AR | ED/GE % | HE/GE % | AR/GE % | ED/GNP % | HE/GNP % | AR/GNP % |
|-------------------|-------|------|------|------------|------------|------------|-------------|-------------|-------------|
| 1970 | 521 | 175 | 250 | 14.7 | 4.9 | 7.1 | 4.5 | 1.5 | 2.1 |
| 1971 | 622 | 232 | 296 | 13.8 | 5.2 | 6.6 | 4.9 | 1.8 | 2.4 |
| 1972 | 910 | 261 | 381 | 21.1 | 6.1 | 8.8 | 6.6 | 1.9 | 2.8 |
| 1973 | 947 | 291 | 390 | 21.2 | 6.5 | 8.7 | 5.2 | 1.6 | 2.2 |
| 1974 | 1238 | 355 | 597 | 20.0 | 5.7 | 9.6 | 5.7 | 1.6 | 2.7 |
| 1975 | 1370 | 418 | 618 | 19.4 | 5.9 | 8.8 | 6.3 | 1.9 | 2.9 |
| 1976 | 1488 | 434 | 685 | 18.1 | 5.3 | 8.3 | 5.5 | 1.6 | 2.5 |
| 1977 | 2024 | 576 | 771 | 19.1 | 5.4 | 7.3 | 6.5 | 1.9 | 2.5 |
| 1978 | 2043 | 611 | 975 | 17.3 | 5.2 | 8.2 | 5.6 | 1.7 | 2.7 |
| 1979 | 2257 | 666 | 1092 | 15.8 | 4.7 | 7.6 | 5.1 | 1.5 | 2.5 |
| 1980 | 2786 | 778 | 1286 | 13.2 | 3.7 | 6.1 | 5.4 | 1.5 | 2.5 |
| 1981 | 3517 | 973 | 2004 | 13.0 | 3.6 | 7.4 | 6.3 | 1.7 | 3.6 |
| 1982 | 4073 | 1034 | 2313 | 14.5 | 3.7 | 8.2 | 6.8 | 1.7 | 3.9 |
| 1983 | 3903 | 986 | 1907 | 13.9 | 3.5 | 6.8 | 6.0 | 1.5 | 2.9 |
| 1984 | 4192 | 1087 | 1893 | 14.9 | 3.9 | 6.7 | 5.7 | 1.5 | 2.6 |
| 1985 | 4347 | 1129 | 2106 | 16.0 | 4.1 | 7.7 | 6.0 | 1.6 | 2.9 |
| 1986 | 4807 | 1216 | 1949 | 17.4 | 4.4 | 7.1 | 7.2 | 1.8 | 2.9 |
| 1987 | 4672 | 1123 | 1735 | 18.7 | 4.5 | 7.0 | 6.3 | 1.5 | 2.3 |
| 1988 | 4980 | 1208 | 1887 | 18.4 | 4.5 | 7.0 | 5.8 | 1.4 | 2.2 |
| 1989 | 5649 | 1454 | 2052 | 17.4 | 4.5 | 6.3 | 5.8 | 1.5 | 2.1 |
| 1990 | 6596 | 1777 | 2342 | 17.5 | 4.7 | 6.2 | 6.0 | 1.6 | 2.1 |
| 1991 | 7067 | 2035 | 2345 | 18.7 | 5.4 | 6.2 | 5.7 | 1.6 | 1.9 |
| 1992 | 8059 | 2414 | 2389 | 19.3 | 5.8 | 5.7 | 5.7 | 1.7 | 1.7 |
| 1993 | 8478 | 2407 | 2437 | 20.0 | 5.7 | 5.8 | 5.4 | 1.5 | 1.6 |
| 1994 | 10108 | 2529 | 2536 | 21.8 | 5.5 | 5.5 | 5.6 | 1.4 | 1.4 |
| 1995 | 10603 | 2772 | 2495 | 20.9 | 5.5 | 4.9 | 5.1 | 1.3 | 1.2 |
| 1996 ^a | 11159 | 3313 | 2925 | 19.7 | 5.8 | 52 | 4.7 | 1.4 | 1.2 |
| 1997 ^b | 12359 | 3760 | 2533 | 20.6 | 6.3 | 4.2 | 4.5 | 1.4 | 0.9 |
| 1998 ^c | 13427 | 4259 | 2444 | 22.1 | 7.0 | 4.0 | 4.5 | 1.4 | 0.8 |

Note : ED = Education
 HE = Health
 AR = Agriculture and Rural Development
 a = Estimated actual
 b = Latest estimation
 c = Budget allocation

Source: Ministry of Finance Malaysia, *Economic Reports*, various issues.

Table 7
Federal Government Spending on Selected Items, 1970-1998

| YEAR | EM | PG | EM + PG | DS | OE | EMPG/ OE (%) | DS/ OE (%) | EMPG/ GNP (%) | DS/ GNP (%) | DS/ GE (%) | EMGP/ GE (%) |
|-------------------|-------|------|---------|------|-------|--------------|------------|---------------|-------------|------------|--------------|
| 1970 | 242 | 101 | 343 | 259 | 2161 | 15.9 | 12.0 | 2.9 | 2.2 | 7.3 | 9.7 |
| 1971 | 262 | 97 | 359 | 300 | 2398 | 15.0 | 12.5 | 2.9 | 2.4 | 6.7 | 8.0 |
| 1972 | 1718 | 125 | 1843 | 341 | 3068 | 60.1 | 11.1 | 13.3 | 2.5 | 7.9 | 42.8 |
| 1973 | 1670 | 118 | 1788 | 413 | 3341 | 53.5 | 12.4 | 9.9 | 2.3 | 9.2 | 40.0 |
| 1974 | 2114 | 177 | 2291 | 493 | 4315 | 53.1 | 11.4 | 10.5 | 2.3 | 8.0 | 37.0 |
| 1975 | 2205 | 169 | 2374 | 619 | 4900 | 48.4 | 12.6 | 11.0 | 2.9 | 8.8 | 33.7 |
| 1976 | 2506 | 202 | 2708 | 837 | 5828 | 46.5 | 14.4 | 10.0 | 3.1 | 10.2 | 33.0 |
| 1977 | 3350 | 185 | 3535 | 960 | 7398 | 47.8 | 13.0 | 11.4 | 3.1 | 9.0 | 33.3 |
| 1978 | 3470 | 230 | 3700 | 1134 | 8041 | 46.0 | 14.1 | 10.2 | 3.1 | 9.6 | 31.3 |
| 1979 | 3760 | n.a | n.a | 1271 | 10040 | n.a | 12.7 | n.a | 2.9 | 8.9 | n.a |
| 1980 | 5160 | n.a | n.a | 1547 | 13617 | n.a | 11.4 | n.a | 3.0 | 7.3 | n.a |
| 1981 | 4908 | n.a | n.a | 2046 | 15686 | n.a | 13.0 | n.a | 3.7 | 7.6 | n.a |
| 1982 | 5269 | 587 | 5856 | 2723 | 16671 | 35.1 | 16.3 | 9.8 | 4.6 | 9.7 | 20.8 |
| 1983 | 5619 | 629 | 6248 | 3453 | 18374 | 34.0 | 18.8 | 9.6 | 5.3 | 12.3 | 22.3 |
| 1984 | 6734 | 681 | 7415 | 4430 | 19806 | 37.4 | 22.4 | 10.0 | 6.0 | 15.7 | 26.3 |
| 1985 | 7023 | 775 | 7798 | 5042 | 20066 | 38.9 | 25.1 | 10.8 | 7.0 | 18.5 | 28.7 |
| 1986 | 7476 | 817 | 8293 | 5239 | 20075 | 41.3 | 26.1 | 12.4 | 7.8 | 19.0 | 30.0 |
| 1987 | 7562 | 938 | 8500 | 5763 | 20185 | 42.1 | 28.6 | 11.4 | 7.7 | 23.1 | 34.1 |
| 1988 | 7964 | 961 | 8925 | 6178 | 21812 | 40.9 | 28.3 | 10.4 | 7.2 | 22.8 | 33.0 |
| 1989 | 8451 | 1073 | 9524 | 6743 | 24832 | 38.4 | 27.2 | 9.9 | 7.0 | 20.7 | 29.3 |
| 1990 | 9164 | 1154 | 10318 | 6830 | 27105 | 38.1 | 25.2 | 9.3 | 6.2 | 18.1 | 27.3 |
| 1991 | 9944 | 1815 | 11759 | 7048 | 28296 | 41.6 | 24.9 | 9.5 | 5.7 | 18.6 | 31.1 |
| 1992 | 11660 | 2183 | 13843 | 7304 | 32075 | 43.2 | 22.8 | 9.9 | 5.2 | 17.5 | 33.1 |
| 1993 | 11803 | 2320 | 14123 | 7166 | 32217 | 43.8 | 22.2 | 9.0 | 4.6 | 16.9 | 33.4 |
| 1994 | 12618 | 2737 | 15355 | 6815 | 35064 | 43.8 | 19.4 | 8.5 | 3.8 | 14.7 | 33.1 |
| 1995 | 13097 | 2755 | 15852 | 6521 | 36573 | 43.3 | 17.8 | 7.6 | 3.1 | 12.9 | 31.3 |
| 1996 ^a | 16282 | 3509 | 19791 | 6795 | 43865 | 45.1 | 15.5 | 8.3 | 2.9 | 11.6 | 33.8 |
| 1997 ^b | 14807 | 3575 | 18382 | 6463 | 44069 | 41.7 | 14.7 | 6.6 | 2.3 | 0.8 | 30.7 |
| 1998 ^c | 14743 | 3635 | 18378 | 6164 | 42766 | 43.0 | 14.4 | 6.1 | 2.1 | 10.1 | 30.2 |

Note : EM = Emoluments
PG = Pensions and Gratuities
DS = Debt servicing
a = Estimated actual
b = Latest estimating
c = Budget allocation

Source: Ministry of Finance Malaysia, *Economic Reports*, various issues

in 1996. In 1997, the debt servicing-operating expenditure (DS/OE) ratio decreased to 14.7 percent, whereas debt servicing as a proportion of total government expenditure (DS/GE) declined to 10.8 percent. As per the 1998 Budget, these two ratios are worked out at 14.4 and 10.1 percent respectively. A remarkable achievement in the current fiscal exercise is the lowering of government debt-servicing ratio from 7.8 percent of GNP in 1986, to 2.9 percent of GNP in 1996, and further to 2.5 percent in 1997 and 2.2 percent in 1998 (as envisaged). This again speaks of the country's good fiscal fundamentals.

CONCLUDING COMMENTS AND POLICY PERSPECTIVE

Over the years, Federal Government spending has steadily increased. Between 1970 and 1997, CARG was estimated to be 11.9 percent. CARG of operating expenditure was estimated to be 12.8 percent and that of developing expenditure at 10.2 percent during the same period. The operating expenditure of the government, however, claimed the lion's share in the total spending.

In the 1990s the government has endeavoured to rectify the fiscal imbalance to an extent by slowly reducing the share of operating expenditure in total spending, and raising that of developing expenditure. As a result, between 1991 and 1996, the CARG of operating expenditure was estimated to be 7.7 percent and that of developing expenditure slightly higher at 9.9 percent.

As a matter of fact, in tune with the global wave of shortening the visible hand of government action in the market system under the process of liberalisation, Malaysia, compared with most developing nations, appears to have done remarkably well in reversing the rising trend of government spending from 1987 onwards. There has been, however, one major drawback as this has been achieved through a proportionately larger reduction in developing expenditure, rather than operating expenditure. The development expenditure-GNP ratio, for instance, declined sharply from about 17 percent in 1971 to 6.0 percent in 1996. The ratio of operating expenditure to GNP, on the other hand, declined marginally from 19 percent to 18 percent during the same period.

In the 1998 budget, the proportion of operating expenditure is curtailed to 70 percent and that of development expenditure is enhanced to 30 percent, which is a good gesture toward essential eventual fiscal adjustment. Further, on 10 December 1997, the government proclaimed at least an 18 percent cut in Federal expenditure immediately in both operating and developing expenditure, and eight percent on a more selective basis. Indeed, the government should be complimented for its rational approach in the current (1998) budgetary pruning—that despite economic crisis, it has avowed to maintain its priorities towards social upliftment, rural development and community health programmes. The cut is mostly envisaged through the shelving or postponement

of mega projects, non-essential new projects and administrative expenses. The cutback, however, is not to affect projects aimed at the eradication of poverty.

The economy has to be developed on an enlarged indigenous base to become self-reliant. This calls for extra attention and focus of the government on facilitating the exploitation of growth-impulsive areas and sectors with high productivity and returns, indigenous scientific development, research and development at all levels of economic activity, and education and training programmes on a wider scale.

Expenditure management is the key to fiscal macro balancing. With cost effectiveness of spending, a Ringgit saved on public account is a Ringgit earned; especially when there are budgetary adjustments in government spending and change of priorities in view. A discretionary government expenditure programme in a planned manner with a long-term perspective of fiscal policy should be envisaged to minimize regional disparities in the process of growth and development, as well as in bestowing provision of appropriate public goods and services required for the development and upliftment of the welfare of citizens dwelling in the different states of Malaysia. In a federal system, the matter should not be left entirely to the discretion of the state governments to deal with their problems on their own. The central government should devise fiscal arrangements for an expenditure deployment programme package inducting affirmative action for growth with equity.

The government needs to identify the excess or deficiency in specific sectors and segments of the economy and prepare targeted expenditure programmes for correcting segmented disequilibrium in the level of aggregate demand in a market-driven political economy of Malaysia. Instead of targeting for macro economic goals in general, segmented and micro fiscal objectives are needed to balance the implications of the budget policy in the multi-racial economic society of Malaysia. A normative approach in the deployment of government spending is necessary.

It is heartening to note that the government is fully aware of the current economic problem and is keen on coming up with a pragmatic solution. The government has sought to moderate its expenditure, as reflected by the 1998 Federal Budget and a later announcement of further cuts in federal spending. It has also set up the National Economic Action Council (NEAC) for further advice and diagnosis of the emerging problems. In this context, we suggest that within the NEAC, a special Public Expenditure Reviewing and Programming Committee may be formed, which should regularly prepare and submit a 'White Paper' on the current and capital expenditure plans / programming—relating to size and composition of public spending – and it should be widely debated and then decided on, with the approval of the parliament. The White Paper should incorporate composition-wise annual statements, such as 'Defence Expenditure Estimates', 'Welfare Programme Estimates', 'Education

Expenditure Estimates', 'Public Administration Estimates', 'Government Subsidies Estimates' and so on.

The concept of a 'Rolling Expenditure Plan' may be introduced in the existing fiscal framework, under which a mid-term critical review of the government spending is made, and necessary adjustments and reallocation in expenditure flows in different channels of the government activity may be undertaken for the rest of the budgetary period. This would provide more flexibility in expenditure management by the Treasury. It would also induce rational spending behaviour in the bureaucratic set-up of the country's public administration at the operational level.

To sum up, the ongoing fiscal reforms need to be reassessed, revisited, and revitalized to establish a caring government sector with restrained public spending, together with evolving a system of public administration which is not only more alert, active and responsive to the national agenda of priorities, but also more effective and efficient in discharging its duties and equally capable of dealing with unprecedented and emerging challenges in the global set-up of the country.

Endnote :

1. To estimate the compound annual rate of growth (CARG) over a period, we have used the semilog models in which the regressands are the logarithm of each the categories of government expenditures, viz. OE, DE, and GE and the regressor is time (t) element which is linear:

$$\begin{aligned}\ln OE(t) &= \beta_0 + \beta_1(t) + \mu(t) \\ \ln DE(t) &= \beta_0 + \beta_1(t) + \mu(t) \\ \ln GE(t) &= \beta_0 + \beta_1(t) + \mu(t)\end{aligned}$$

Further,

$$\begin{aligned}\beta_1 &= \ln(1 + \gamma) \\ \gamma &= e^{\beta_1} - 1\end{aligned}$$

where γ is the CARG when t is taken on yearly basis.

The coefficient of β_1 here gives the instantaneous (at a point in time) rate of growth. The compound annual rate of growth over a period of time is obtained by taking the antilog of the coefficient of β_1 , subtracting 1 from it and multiplying the product by 100. We have adopted the OLS method for measuring the regression coefficients from the data contained in Table 1.

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