The political economics of the Malaysian subnational governments' fiscal behavior

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Abstract

This paper attempts to shed light on the political economy of the Malaysian state governments' budgetary behavior by tailoring hypotheses drawn from recent theoritical literature to the Malaysian institutional context and testing them empirically. Our main objective here is to examine whether state governments' fiscal behavior can partly be explained by the political attributes and the institutional characteristics of the government and of the legislature. In particular, we will try to analyze whether the incentives for the state governments to observe a prudent spending behavior have not been undermined by the fact that they have been able to influence relevant central government decisions regarding their finance. Our estimations results show that states that are overrepresented at the executive level tend to have higher spending and deficits. However, we don't find any correlation between overrepresentation at the Parliament and states governments' fiscal outcomes. This can be explained by the fact that in Malaysia as is frequently the case in developing nations, the legislature is peripheral to the executive in terms of decision making power.

Keywords: *State governments, Fiscal behavior, Political Economy*

Abstrak

Kertas kerja ini membincangkan gelagat fiskal kerajaan negeri di Malaysia dari sudut politik ekonomi. Berdasarkan kepada teori ekonomi politik, penulis cuba untuk menganilisa secara empirikal situasi di Malaysia. Objektif utama kerta kerja ini adalah untuk melihat sejauhmana gelagat fiskal kerajaan negeri di Malaysia dipengaruhi oleh atribut politik serta karakteristik institusi kerajaan dan legislatur. Secara lebih khususnya, penulis cuba untuk melihat keupayaan kerajaan negeri untuk mempengaruhi keputusan yang dibuat oleh kerajaan persekutuan dan sejauhmana ianya akan mempengaruhi gelagat fiskal kerajaan negeri. Hasil dapatan kajian ini menunjukkan bahawa negeri yang mempunyai wakil yang ramai di cabinet akan mempunyai tingkat perbelanjaan dan defisit yang lebih tinggi. Walaubagaimanapun, penulis tidak menemui sebarang hubungan yang signifikan di antara perbelanjaan dan jumlah wakil di Parlimen. Penulis merasakan ini adalah kerana sama seperti kebanyakkan negara-negara membangun yang lain, kuasa membuat keputusan diperingkat kerajaan persekutuan lebih tertumpu di tangan kabinet.

Katakunci: *Kerajaan Negeri, Gelagat fiskal, Ekonomi Politik*

1. Introduction.

The first generation of economic theories of fiscal federalism generated much optimism about decentralization in the form of better improvements in efficiency, accountability and governance. However, these theories seemed to be increasingly anachronistic in the face of subnational debt accumulation and bailouts as well as evidence of corruption and inefficiency associated with decentralization. According to Rodden (2005), the failure of the prevailing literature to describe the reality of decentralization is due notably to the absence of political dimension in its analysis. As a result a new wave of scholarship where political variables are given center stage has emerged (Belleflamme & Hindriks, 2003; Besley & Coate, 2003; Bordignon et al, 2004; Hindriks & Lockwood, 2005; Persson & Tabellini, 2000). A major assumption underlying the new political economy literature is that politicians are primarily interested in maintaining and enhancing their political careers. Most importantly, in these models, government decisions are viewed as bargains struck among self-interested politicians attempting to form winning coalitions rather than reflections on the optimal provision of collective goods or the internalization of externalities. Consequently, central government is no longer autonomously able to alter subnational policies as it will have to bargain with subnational governments in order to gain support from all or at least some minimum fraction of them.

This paper attempts to shed light on the political economy of the Malaysian state governments' budgetary behavior by tailoring hypotheses drawn from recent theory literature to the Malaysian institutional context and testing them empirically. Our main objective here is to examine whether state governments' fiscal behavior can partly be

explained by the political attributes and the institutional characteristics of the government and of the legislature. In particular, we will try to analyze whether the incentives for the state governments to observe a prudent spending behavior have not been undermined due to the fact that they have been able to influence relevant central government decisions regarding their finance. There are basically two hypotheses that we attempt to test in this paper: Do states with the most votes (or the strongest representation) in the Parliament or in the government have relatively a higher spending and run a larger deficit? And do states that share the same ideological leaning as the central government have relatively a higher spending and run a larger deficit? The reason being a highly influential state in the sense that they are highly represented in the government or share the same political ideology as the central government, face weaker incentives to be fiscally responsible as it has higher probability of obtaining extra allocations from the central government and in case of a crisis, is more likely to be rescued.

The paper will be organized as follows. In the second section, we will provide a more detailed discussion on the links between political factors and economics as well as fiscal outcomes at the subnational level by reviewing the works that have been done both by economists and political scientist in this area. Section 3 discusses the econometric approach that will be adopted. The results of our estimations will be presented and discussed in section 4. Finally section 5 concludes.

2. A review of literature.

In many countries (and in particular federal countries), the structure of the central government includes representation of the subnational units. And theoretical as well as

empirical studies point to the fact that central government' decisions especially those that concern the interests of subnational units will be subject to the influences of this representation both at the legislative and executive level. Nevertheless, researchers tend to privilege the former as the main arena where self-interested politicians struck bargains among themselves. This focus on the legislature has given rise to the term "legislative bargaining" which is usually used in complements to other terms such as "logrolling" or "pork-barrel"[1]. Indeed, representatives of the states or regions at the legislature will engage in a bargaining process among themselves which will usually end up with some of them logrolling their votes in order to achieve passage of pork-barrel projects.

Decision-making concerning distributive policies[2] constitute a good example of legislative bargaining at work. By definition, distributive politics is a political decision that concentrates benefits in a specific geographic district or region and finances expenditure through generalized taxation[3]. The fact that these policies are distributive in nature implies that with majority rule, there will be no voting equilibrium and Condorcet cycles will unavoidably emerge. There are mainly two views regarding the legislative passing of redistributive policies – the minimum winning coalitions and the universal and oversized coalitions. Another strand in the literature of distributive politics consists in testing the "Law of 1/n" proposed by Weingast, Shepsle and Johnsen (1981) according to whom the level of distributive spending is positively linked with the number of legislators (Balla et al. 2002; Huriochi & Lee, 2004; Milesi-Feretti et al., 2001; Rodden & Arretche, 2004). The mechanism at work according to the authors is the common pool problem: Since each group fully benefits from its specific spending program but the burden of taxation is diffused, the cost of public expenditures is not fully internalized by

the political decision-makers and thus could lead to greater-than-optimal public expenditures.

The legislature is not the sole channel through which subnational units can exert its influences on the central government's decisions making. In Canada for instance, regions do not have any formal legislative representation. However, it does not prevent some regions from obtaining special treatment from the federal government. For example, in 2004, Ontario was awarded a grant of 5.75 billion in response to Premier McGuinty's cry that Ontario was paying more than its fair share into the federation. Nevertheless, no such deal has been struck, or even discussed, with Alberta, where the per capita fiscal transfer was higher than in Ontario.

Cox and McCubbin (1986) presented a model where electoral candidates compete by promising direct redistribution of welfare among the various groups in their constituency. The central insight of the model is that the type of coalition the candidates attempt to build (thus the nature of their distributive politics) will depend on their attitudes toward risk. They showed that risk-averse incumbents tend to invest most heavily in their closest supporters while risk-loving candidates pursue "swing" districts more aggressively, that is, districts where voters are more likely to evaluate the candidate in terms of actual performance in office. In a closely related paper on campaign spending, Snyder (1989) obtains a similar result - a party that seeks to maximize the probability of winning a majority will spend more on "safe" districts, that is, where it has an overall advantage because these are more likely to be pivotal in obtaining a majority. In contrast, Dixit and Londregan (1996) viewed voters as willing to compromise their party affinities

in exchange for particularistic benefits. And they showed that candidates will aggressively court the swing voters through this particularistic spending.

Empirical studies usually attribute to the first model if they found "core supporters" benefits disproportionately and to the second if swing voters are privileged by candidates. Given the theoretical controversy in the existing literature, it is perhaps not surprising that the relevant empirical literature has generated a confusing array of findings. Some US studies support Dixit-Londregan thesis that material benefits are disproportionately directed to "swing" voters (Bickers & Stein, 1996; Herron & Theodos, 2004). Some research in other national settings also finds that legislators direct resources to electorally pivotal or marginal areas (Case, 2001; Dahlberg & Johansson, 2002). The Cox-McCubbins hypothesis that expenditures are instead concentrated in majority party strongholds, thereby benefiting core voters, has received empirical support in some US studies (Ansolabehere & Snyder, 2003; Levitt & Snyder, 1995; Balla et al., 2002), as well as a number of those conducted elsewhere (Crisp & Ingall, 2002; Diaz-Cayeros et al., 2000; Horiuchi & Lee, 2004).

Based on the literature review, we can see that there are essentially two mechanisms through which subnational governments' behavior may be linked to political institutions

- through state representative at the central level (*legislative bargaining model*)
- through political and ideological partisanship (*political partisanship model*)

3. Data Specification and Empirical Strategy.

3.1. Data specification.

Our study covers the period of 1980-2003. The data on state governments' expenditures and revenues are obtained from the Yearly Financial Statement of the state governments which are published and made public every year by the State Finance/Treasury Office. We combined the data with political, socio-demographic as well as economic data from other sources. The political data are mainly obtained from the Election Report prepared by the Election Commission. The data on election results are also obtained from the major newspaper of the country. State demographic and economic characteristics are mainly obtained from the State and District Report published by the Statistics Department.

3.2. Empirical strategy.

The two hypotheses that we want to test may be summarized as follows

H1: States with the most votes (or the strongest representation) in the Parliament or in the government have relatively a higher spending and run a larger deficit (the legislative bargaining model).

H2: States that share the same ideological leaning as the central government have relatively a higher spending and run a larger deficit (the partisanship model).

Our empirical specification will thus be as follows

$$Spending_{i,t} = \alpha.Politics_{it} + \beta X_{it} + f_i + n_t + e_{it} \quad (1)$$

$$Deficit_{it} = \lambda.Politics_{it} + \delta X_{it} + f_i + n_t + w_{it} \quad (2)$$

where $Spending_{it}$ and $Deficit_{it}$ are log of real per capita expenditure and real per capita deficit respectively. Our variable of interest is $Politics_{it}$ which represents various political institutions susceptible of influencing the state government's spending and deficit level namely the number of seats allocated to each states in the parliament per capita, the number of seats won by the ruling party per capita in the parliament and the number of members in the cabinet per capita (for our first hypothesis) and the number of votes obtained by the ruling party and the percentage of state assembly seats won by the opposition (for our second hypothesis). e_{it} and w_{it} represent the disturbance terms of our model whereas f_i and n_t represent the individual and temporal effects respectively.

The vector X_{it} represents various control variables which we believe are determinant in explaining the fiscal behavior of state governments in Malaysia. These control variables include lagged value of the dependant variable, log of real per capita revenue (for equation 1), dummy variable representing year before election was held, log of total population, gdp per capita, a dummy variable for states with petrol revenues, proportion of forest area, proportion of "bumiputera" of the total population, urbanization rate, and proportion of population with tertiary education.

The income variable is a proxy for Wagner's Law according to which an increase in income will leads to an increase in spending. The possible inertia and dynamic process underlying the dependant variables is taken into consideration by including their lagged values. Besides lagged expenditures/deficits may be correlated both with current expenditures/deficits and the political outcomes – the level of current expenditures/deficits may partly be the result of last period electoral and fiscal outcomes - and hence can be used to test the robustness of the political effect. The timing of state

elections could be correlated both with state fiscal outcomes and with the political indicator, and we therefore also include a specification that controls for the state election cycle.

A dummy variable for states with petrol revenues and the proportion of forest area are included in order to control for differences in the states' natural endowments which greatly determine the differences in revenues between states. In effect, revenues from land, forest and mines represent the States' main sources of revenues and since the States are not similarly endowed with these, some of them end up by having more revenues than others.

In order to control for the needs and the expectations of the population in term of provision of local public goods, we includes in our estimation the urbanization rate as well as the proportion of population with tertiary education. The more educated and/or urbanized the higher their needs and expectations and the higher will the state governments' expenditures will be. Therefore, these two variables should have a positive effect on the level of expenditures and eventually on the deficit level. Another implication of a higher urbanization rate however is the economies of scale that can be gained in the provision of public goods (Mueller 2003). The more urbanized is the state government, the cheaper it is to provide public goods. In this case, urbanization rate should have a negative impact on the level of state governments' expenditures (and eventually on the deficit level). There is thus no consensus as to the correct sign of the relation between urbanization rate and fiscal outcomes.

The proportion of "bumiputera" (the malays and the natives of the country) is included as the muslim and native laws and customs fall under the responsibilities of the

state government and the proportion of bumiputera of the total population varies across states (from more than 95% in states like Kelantan and Trengganu to less than 50% in states such as Penang). States with a higher proportion of bumiputera in their population will thus incur a higher amount of spending than those with a lower proportion of bumiputera.

As discussed above, we include in our model the lagged values of our dependant variables. Consequently, we can no longer use the usual fixed-effect model since the estimators will not be convergent as the lagged value is correlated with the error term. The potential bias is function of 1/T and the intra-individual estimator is convergent only in the case where T is big. Given the weak temporal dimension of our sample, the bias is potentially big. Besides past spending decisions may influence the current political variables as well as having some influence on current spending decisions, if spending patterns are trending through time. Consequently, we will apply the generalized method of moments (GMM) as developed by Arellano and Bond (1991). This method will not only help solve the problem of serially correlated error term but also those of endogeneity.

4. Empirical results.

4.1. Effect on state governments' expenditures and deficits.

Table 2 summarizes the results of our estimations. We began by estimating the effect of overrepresentation at the parliament on the state governments' expenditure level. For that we used two different variables namely the number of seats per capita and the

number of seats won by the ruling party per capita. The results are shown in column A and B.

As we can see from the table, when we choose the number of seats per capita as our primary independent variable, the impact of overrepresentation at the parliament level on the expenditure level is negative and not statistically significant. A higher number of representatives per capita at the legislature will not translate into a higher spending by the state governments. When we use the number of seats in the Parliament controlled by the ruling coalition as the independent variable, the impact of overrepresentation has turned positive. However, the coefficient is still statistically non significant.

In column (C), we include the number of member in the cabinet per capita in our estimation. As we have shown in our discussion of the political environment in Malaysia, backbenchers do not have much power in the legislature as most if not all bills are initiated by the members of the executive. Furthermore, any bills that are tabled in the Parliament will necessarily be adopted and promulgated by the Parliament. As a result, states have much more to gain from federal policies when they are well or overrepresented in the executives. Besides, ministers also have the power of directing porks to their constituents without necessarily having to pass through to the Parliament. Our expectation is validated by our estimation result as it shows that the coefficient for cabinet member per capita is highly significant. This estimate indicates that a higher representation in the executive leads to a higher spending by state governments. We remark that the coefficient for seats of parliament per capita is still statistically insignificant. This may confirm the fact that there are relatively few powers that are in the hand of backbenchers.

It is interesting to note that the coefficient for year before election is highly statistically significant. This signifies that public expenditures have been used by the state governments in order to get more votes during election. The revenue of the state governments and the lagged values of expenditures level are also positively and significantly correlated with the state governments' expenditures level.

Table 3 summarizes the estimation results when we use as our dependant variable the deficit level of the state government instead of the expenditure level. We did the same number of estimations as we did before and we found practically the same results as in our previous estimation. Again, the results indicate that overrepresentation at the executive is positively correlated with the state governments' deficit level. States that are highly represented in the cabinet will have higher deficits. Our results also show that there is no significant correlation between the number of representative per capita at the Parliament with the state governments' deficit level.

As to the question whether states governments spend more when they share the same ideological belongings as the federal governments, we test for this by including in our estimations the variable representing the percentage of votes obtained by the ruling coalition and the one representing the percentage of State Assembly seats won by the opposition. In all estimations, the results show that there is no statistically significant relation between these variables and the level of expenditures of the state governments (only results for estimations using the percentage of votes obtained by the ruling party are shown in table 2 and 3). This signifies that state government fiscal outcomes are not dependant on whether their population voted heavily for the ruling coalition or not.

However it remains to be answered as to how do these extra expenditures and deficits of the state governments which are overrepresented in the executive are financed? The analysis above only tells us that overrepresentation at the executive level has changed the incentives facing the state governments in making their spending decisions. Thus, it will be interesting to examine whether the increase in the state governments' expenditures have been financed by a real increase in their resources or simply by a change in their perception of their bailout probability[4] by the federal governments. It turns out that for obvious reasons we cannot examine all the channels indirect or direct through which resources can be transferred from the central to subnational level. We will thus limit ourselves to the ones that we believe as relatively important especially in term of the amount of money involved namely

- federal grants and transfers
- federal loans
- federal sponsored development projects[5]

The estimation strategy is similar to the one employed in our previous section except that we have included some new control variables that might have an influence on our independent variables.

In the case of development allocation, we have introduced the development expenditures of state governments as a new control variable as we think that how much money that will be allocated to a state will depend on its previous record of development expenditures. As for federal transfers, the control variables are similar to our previous estimations. Finally, for federal loans, we add into our list of control variables development expenditures and real deficit since states governments usually use federal

loans to finance development expenditures as well as their deficits. The results of our estimations are presented in table 4.

The results in column A and B indicate that federal transfers as well as federal development allocations are significantly correlated with the number of ministers per capita by states. These results signify that being overrepresented at the executive does increase the amount of federal transfers and of development allocations received. Our estimations results are thus consistent with those found in other studies which show that allocation of transfers to subnational governments are not determined solely by efficiency and equity considerations but also by political motivations of the central government.

Surprisingly, in contrary to our expectations, we found a negative correlation between cabinet members per capita and level of borrowings which signifies that an overrepresentation in the executive level leads to a decrease in the amount of federal borrowing by the state governments. We also found a significant negative correlation between representation in Parliament and level of borrowing. Similar results are obtained when we used the growth of federal loans as independent variable instead. One possible explanation for this is that cabinet members as well as the member of parliaments may be pressured by the minister of finance in order for their states of origin to settle their loans with the government. And the state governments will in turn be pressured by their representatives at the cabinet and the legislature to pay back their loans. As a result, the higher a state is represented at these two institutions, the higher the amounts of their loans settlements thus the lower their outstanding loans. Besides, it can be argued that since federal loans are usually used for a specific development project, they will not have much impact on the expenditures decisions of the state governments.

5. Conclusion.

The main objective in this paper is to examine whether state governments' fiscal behavior in Malaysia can be explained by political and institutional factors. More precisely, we try to analyze whether states governments that are highly represented at the legislative and the executive are more likely to have higher expenditures. We also try to analyze the effects of partisanship on the state governments' expenditures.

Our estimations results show that states that are overrepresented at the executive level tend to have higher spending and deficits. However, we don't find any correlation between overrepresentation at the Parliament and states governments' fiscal outcomes. This can be explained by the fact that in Malaysia as is frequently the case in developing nations, the legislature is peripheral to the executive in terms of decision making power. Indeed, not only that the cabinet members initiated all of the bills tabled in the Parliament, they usually have no problem in pushing through their proposals.

The results also show that ideological belonging does not have any impact on the state governments' level of expenditures and deficits. We do not find any significant correlation between the level of support win by the ruling party in state elections and the level of the state governments' expenditures and deficits. However, these results cannot be interpreted as a proof that no states have been victimized because of their support for the opposition since anecdotal evidences clearly show to the contrary. Rather, we believe that since in our period of study the practice of discrimination have been limited to at most two states at a time, it may not be significant enough to be captured by our empirical analysis.

Our study also looks into the question of the mechanisms which the states governments have used in order to finance their extra expenditures and deficits. Our results found that the amount of federal grants and federal development allocations are significantly correlated with the number of cabinet per capita by states. This signifies that the higher level of expenditures and deficits of the state governments that are overrepresented in the executive are partly financed by the higher amount of federal transfers and development allocations that they received from the federal government

The policy implication of this study is that any formal rules that may be introduced by the government in order to regulate fiscal relations in federations will not have a substantial impact on subnational governments' fiscal outcomes if political incentives allow and encourage circumventing these rules. One potential avenue of future investigation is to further explore the role of political institutions and electoral rules. This may provide insight into whether these institutions can be changed to provide better incentives for fiscal prudence, or how other institutional rules can be designed to be impervious to political manipulations.

Endnotes

1 According to William Safire (1978, p.553) the phrase pork barrel "*probably derived from the pre-Civil War practice of periodically distributing salt pork to the slaves from huge barrels*". He notes that in a 1919 issue of the National Civic Review, C.C. Maxey wrote "*Oftentimes the eagerness of the slaves would result in a rush upon the pork barrel, in which each would strive to grab as much as possible for himself. Members of Congress in the stampede to get their local appropriation items into the Omnibus River and harbor bills behaved so much like Negro slaves rushing to the pork barrel that these bills were facetiously styled "pork barrel" bills and the system which originated them has thus become known as the pork barrel system.*"

2 Lowi (1964) classified domestic policy as either "distributive", "redistributive" or "regulatory".

3 Weingast, Shepsle and Johnsen (1981) write that "*While it is clear that all policies have a geographic incidence of benefits and costs, what distinguishes a distributive policy is that benefits are geographically targeted...geography is the hallmark of distributive politics: programs and projects are geographically targeted, geographically fashioned, and may be independly varied. Importantly, geography is also the basis for political organization and representation*".

4 It is plausible to conceive a situation where no extra resources at all have been channeled to the state governments. This is notably the case when a minister from a particular state has stood up with success for the cause of his constituent when the latter is in a conflictual situation with the rest of the country. This will then give the impression to the state government that its cause is well defended at the federal level. And this will in some cases lead the state government to be less fiscally responsible as they believe that in case of a problem, the central government will not hesitate to help.

5 The link between an increase of development allocation received by states to an increase in their expenditures and eventually their level of deficits may not seem as obvious as the one between federal transfers and loans and the state governments' fiscal outcomes. We can argue however that by having more federal sponsored development projects, state government will be able to decrease its own development expenditures and using this extra money on other posts of expenditures that may otherwise be cancelled due to lack of funds. It can also be argued that some development projects may require some financial participation by the state governments, expenditures that may have not existed if there have been no projects. Besides, since development projects' main objective is to develop the states, we can expect that in the future some financial benefits can be reaped by the state governments notably in the form of higher taxes. And it is in expectation of this future increase of incomes that state governments increase their current expenditures.

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Table 1: Descriptive statistics of the variables.

Variable	Mean	Std. Dev.	Min	Max
Real per cap expenditures	214.33	216.82	48.45	1421.72
Real per cap deficit	-0.79	56.62	-190.24	435.22
Real per cap revenue	215.13	215.00	7.72	1457.90
parliament seats pc	10.06	2.44	3.78	18.33
ruling party parliament seats pc	8.36	3.57	0	17.57
cabinet member	3.83	2.44	0	11.00
GDP per capita	109.3617	59.50473	23.29815	371.1
total population	1355.86	754.88	148.40	4498.10
proportion of bumiputera	67.05	19.03	32.70	98.80
tertiary education	8.97	4.22	2.00	28.30
urban rate	40.57	14.30	14.40	101.45
forest area	14911.39	24252.63	66.08	94333.10

Table 2: The effects of political factors on state governments' expenditures.

	A	B	C	D
Political vrbls				
No of seats per capita	-0.0029		-0.0025	-0.0046
	(0.0085)		(0.0075)	(0.0085)
No of seats controlled by BN pc		0.0026		
		(0.0038)		
No of member of cabinet pc			0.0022**	0.0017*
			(0.0008)	(0.0009)
Votes obt by BN at states	-0.0007	-0.0012	-0.0008	
	(0.0009)	(0.0010)	(0.0009)	
States seats won by BN				0.0002
				(0.0004)
Year bef elec	0.0569**	0.0578**	0.0581**	0.0568**
	(0.0208)	(0.0206)	(0.0205)	(0.0206)
Economic vrbls				
Revenue	0.4374***	0.4391***	0.4499***	0.4450***
	(0.0793)	(0.0776)	(0.0787)	(0.0765)
Lagged exp	0.4916***	0.4906***	0.4813***	0.4805***
	(0.0643)	(0.0646)	(0.0592)	(0.0596)
GDP	-0.00004	0.00003	0.00005	0.0002
	(0.0002)	(0.00032)	(0.00025)	(0.0002)
Petrolstate	0.0429	0.0502	0.0431	0.0636
	(0.0509)	(0.0572)	(0.0467)	(0.0503)
Sociodemo vrbls				
Population	-0.0443	-0.0306	-0.0019	-0.0154
	(0.0262)	(0.01910	(0.0246)	(0.0241)
Malay prop	0.0002	0.0002	0.0006	0.0015
	(0.0010)	(0.0009)	(0.0011)	(0.0009)
Urban rate	0.0022	0.0020	0.0015	0.0021
	(0.0015)	0.0015	(0.0011)	(0.0010)
Tertiary education	-0.0032	-0.0016	-0.0031	-0.0048
	(0.0055)	(0.0044)	(0.0035)	(0.0037)
Forest Area	8.61e-07	2.92^{e}-07	5.12e-07	2.62e-07
	(1.01e-06)	(6.39e-07)	(8.47e-07)	(8.58e-07)
Constant	0.6333*	0.5133*	0.3126	0.3364
	(0.3548)	(0.2100)	(0.3886)	(0.4081)
Sargan p-value	1.000	1.000	1.000	1.000
2^{nd} order AC (prob)	-0.61(0.544)	-0.59(0.553)	-0.62(0.535)	-0.66 (0.511)

Notes: standard error in parentheses; significant at 10% level*, significant at 5% level**, significant at 1% level***.

Table 3: The effects of political factors on state governments' deficits level.

	A	B	C	D
Political vrbls				
No of seats per capita	-1.9085 (4.7506)		-0.6688 (2.6231)	2.7661 (2.9721)
No of seats controlled by BN pc		-3.3409 (3.2484)		
No of member of cabinet pc			1.0538* (0.5233)	1.1524* (0.5354)
Votes obtained by BN at states election	0.2340 (1.0798)	0.6452 (1.3534)	0.4927 (0.8147)	
States seats won by BN				-0.2079 (0.2095)
Year bef elec	16.6586* (8.3227)	16.5988* (8.5802)	19.6134** (9.0257)	19.0664** (8.3369)
Economic vrbls				
Real expenditures pc	66.6795** (25.1188)	65.2785** (24.2230)	50.7101** (20.3208)	52.8096** (19.6088)
Lagged deficit	0.0562 (0.1501)	0.0464 (0.1656)	0.0818 (0.1405)	0.0559 (0.1271)
GDP	-0.0611 (0.1920)	-0.0687 (0.2089)	-0.0021 (0.0721)	0.1011 (0.1210)
Petrol state	-62.6083* (28.3832)	-60.4690** (25.8421)	-37.7444* (18.4470)	-43.1678* (21.3839)
Sociodemo vrbls				
Population	-9.2962 (22.2034)	-15.9087 (16.6794)	23.4203** (10.4760)	22.0036 (8.7602)
Malay prop	0.1798 (0.6850)	0.1578 (0.5751)	0.3539 (0.1946)	0.4673 (0.3862)
Urban rate	-2.0024* (1.0958)	-1.8137 (1.1190)	-0.5414* (0.4520)	-1.3258* (0.6221)
Tertiary education	5.4941 (3.8728)	5.2102 (4.0244)	2.0484 (1.3618)	2.7082 (2.1131)
Forest area	-0.0007 (0.0007)	-0.0006 (0.0005)	-0.0013** (0.0005)	-0.0012** (0.0005)
Constant	-217.5752 (306.5637)	-184.2431 (191.7928)	-465.9768* (233.7870)	-447.632** (173.6959)
Sargan p-value	1.000	0.000	1.000	1.000
2^{nd} order AC (prob)	0.81(0.421)	0.77(0.443)	-0.84(0.404)	-0.79(0.428)

Notes: standard error in parentheses; significant at 10% level*, significant at 5% level**, significant at 1% level***.

Table 4: The effects of political factors on several federal funds allocations.

	A Devel. Allocations	B Federal Transfers	C Federal Loans
Cabinet	0.00012**	0.00098*	-0.00308 **
	(0.00005)	(0.00049)	(0.00107)
Parliment seats	-0.00021	0.00277	-0.01759 ***
	(0.00022)	(0.00190)	(0.00570)
Votes by BN	0.00001	0.00049	0.00168
	(0.00001)	(0.00069)	(0.00134)
Year before election	-0.00015*	0.00128	0.00330
	(0.00008)	(0.00283)	(0.01624)
Lagged depdt. Vrbl		0.44807**	0.93862***
		(0.15181)	(0.01890)
Real deficit			-0.00039**
			(0.00017)
Real current exp	2.21e-07		
	(1.98e-06)		
Development exp	0.00007		0.03562
	(0.00019)		(0.02426)
GDP	-8.55e-06	-0.00011	-0.00025
	(6.45e-06)	(0.00008)	(0.00019)
Urban	0.00008***	0.00014	-0.00173
	(0.00002)	(0.00018)	(0.00117)
Pop	-0.00906***	0.00724	-0.07963 **
	(0.00188)	(0.01359)	(0.02967)
Luas	1.61e-08	-6.80e-08	2.41e-08
	(1.64e-08)	(2.52e-07)	(1.01e-06)
Constant	0.06991***	-0.07314	0.47686
	(0.01474)	(0.10622)	(0.31420)
Sargan p-value	1.000	1.000	1.000
2nd order AC (prob)	1.14(0.256)	0.91(0.361)	-0.47(0.639)

Notes: standard error in parentheses; significant at 10% level*, significant at 5% level**, significant at 1% level***.