



UNIVERSITI PUTRA MALAYSIA

**PUBLIC EXPENDITURE IMPACT AND INCOME DISTRIBUTION
ANALYSIS IN MALAYSIA USING A SOCIAL ACCOUNTING MATRIX
FRAMEWORK**

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By

MUKARAMAH BINTI HARUN

**Thesis submitted to the School of Graduate Studies, Universiti Putra Malaysia in
Fulfilment of the Requirements for the Degree of Doctor of Philosophy**

October 2010



DEDICATION

To

My Beloved Husband – Megat Hamadi bin Fadzim

My Beloved Mother – Esah bt Ahmad

My Loving Children – Megat Hakim and Megat Haziq

My Father and Mother in Law – Fadzim and Rokiah

My Brother – Yusof, Othman, Jamar and Rukunudin

**My Sister – Maimunah, Adauyah, Fadilah, Umi Kalthum, Aisyah and
Wan Roshidah**

All My Nephew and Niece Especially Azinawati, Azman and Wati

and

**To the Memory of My Late Father for His Love, Wisdom and
Sacrifices- Harun bin Hamzah**

**To the Memory of My Late Brother – Ahmad Awang and Yusoff
May Allah Bless Their Soul**



Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfilment of the requirement for the degree of Doctor of Philosophy

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MUKARAMAH BINTI HARUN

October 2010

Chairman: Professor Azali bin Mohamed, PhD

Faculty: Economics and Management

Income distribution issues continue to grasp attention in Malaysia as income inequality between ethnic, urban and rural still remains wide and persistent. Distribution trend shows that income inequality has reduced since 1970, but has been rising again since 1999. The objective of this thesis is to analyze the impact of public expenditure on income distribution in Malaysia. Specifically the objectives of the thesis are threefold. First, to examine the initial functional and institutional distribution of income across different institutional agents and sectors. Second, to evaluate the impact of the public expenditure policies in reducing the inter-ethnic and rural-urban disparity. Third, to assess the impact of public expenditure policies in different Malaysia Plan on income distribution among household sector.

The analysis on income inequality requires a complete and comprehensive data system, thus Social Accounting Matrix (SAM) is employed in this study. A detailed framework of



Malaysian SAM is constructed for year 2000 which constitutes 50 accounts. The framework includes detailed structure of the different component of public expenditure, production activities and different group of household sector. A SAM based 'fixed price' multiplier model grounded an analysis of public expenditure impact on income distribution.

The empirical results highlight; first, the existence of unequal distribution of income for institutional and sectoral in the initial year 2000. Chinese and urban households are the dominant income earner, the higher relative position in income distribution among the household sector vis-a-vis the Malay and rural household. Second, public expenditure expansion has an impact on reducing income inequality in Malaysia. The effects of alternative public expenditure components show that the increase in investment for agriculture and rural development reduce both inter-ethnic and rural-urban income disparity, the increase of current expenditure for education reduce inter-ethnic income disparity and widen rural-urban income disparity, while the increase in investment on wholesale and retail trade, industry and transportation increase inter-ethnic and rural-urban income disparity. Third, public expenditure policies in different Malaysian Plans reflected by the different components of public expenditure in different Malaysia Plans influence the outcomes of income distributions; it contributes to the changes in income inequality through out the years.

The policy lesson that can be derived from the study is that the implementation of strategy to achieve equality goals will require a change in the composition of public

expenditure. Public expenditure for education requires reorganization to streamline with income equality goals. Public investment need to be increasingly directed on agricultural and rural area development. Investment in wholesale and retail trade, industry as well as transportation and communication need to be reviewed. As a way of reducing overall income inequality, presently, addressing the rural-urban disparity is seen more crucial than inter-ethnic disparity.



Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

**ANALISIS IMPAK PERBELANJAAN AWAM DAN PENGAGIHAN
PENDAPATAN DI MALAYSIA MENGGUNAKAN RANGKAKERJA
'SOCIAL ACCOUNTING MATRIX'**

Oleh

MUKARAMAH BINTI HARUN

Oktober 2010

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Isu pengagihan pendapatan terus mendapat perhatian di Malaysia kerana ketidaksamarataan pendapatan antara etnik, bandar dan luar bandar masih lagi meluas. Tren pengagihan menunjukkan ketidaksamarataan pendapatan telah menurun sejak dari tahun 1970, tetapi telah meningkat semula bermula pada tahun 1999. Tesis ini bertujuan untuk melihat kesan perbelanjaan awam ke atas pengagihan pendapatan. Secara spesifiknya terdapat tiga objektif kajian. Pertama, untuk melihat fungsi dan institusi pengagihan pendapatan antara agen-agen institusi dan sektor-sektor yang berlainan. Kedua, untuk menilai impak polisi perbelanjaan awam dalam mengurangkan jurang pendapatan antara etnik dan antara luar bandar dan bandar. Ketiga, untuk menilai impak polisi perbelanjaan awam di dalam pelbagai Rancangan Malaysia ke atas pengagihan pendapatan sektor isirumah.



Analisis pengagihan pendapatan memerlukan sistem data yang komprehensif dan lengkap, oleh itu 'Social Accounting Matrix' (SAM) diaplikasikan di dalam kajian ini. Jadual SAM yang terperinci telah dibina bagi tahun 2000 yang terdiri daripada 50 akaun. Jadual SAM mengandungi struktur terperinci pelbagai komponen perbelanjaan awam, aktiviti pengeluaran dan pelbagai kumpulan isirumah. Model SAM pengganda harga tetap menjadi asas kepada analisis impak perbelanjaan awam ke atas pengagihan pendapatan.

Dapatan kajian empirikal menunjukkan; pertama, terdapat ketidaksamarataan pengagihan pendapatan bagi institusi dan sektor pada tahun asas 2000. Isirumah Cina dan isirumah bandar adalah penerima pendapatan yang dominan, kedudukan relatif yang lebih tinggi dalam pengagihan pendapatan berbanding Melayu dan isirumah luar bandar. Kedua, peningkatan perbelanjaan awam memberi impak kepada mengurangkan ketidaksamarataan pendapatan di Malaysia. Kesan yang ditunjukkan oleh alternatif komponen perbelanjaan awam menunjukkan peningkatan pelaburan dalam pertanian dan pembangunan luar bandar mengurangkan jurang pendapatan antara etnik and antara bandar dan luar bandar, peningkatan perbelanjaan semasa untuk pendidikan mengurangkan jurang pendapatan antara etnik tetapi meningkatkan jurang pendapatan antara bandar dan luar bandar, manakala peningkatan pelaburan dalam perdagangan borong dan runcit, industri, dan pengangkutan dan komunikasi meningkatkan jurang pendapatan antara etnik and antara bandar dan luar bandar. Ketiga, polisi perbelanjaan awam dalam pelbagai Rancangan Malaysia yang dicerminkan melalui pelbagai komponen perbelanjaan awam dalam pelbagai Rancangan Malaysia mempengaruhi

kesan kepada pengagihan pendapatan; ia menyumbang kepada perubahan dalam ketidaksamarataan pendapatan dari tahun ke tahun.

Implikasi polisi yang dihasilkan dari kajian ini ialah pelaksanaan strategi untuk mencapai matlamat kesamarataan pendapatan memerlukan perubahan di dalam komponen perbelanjaan awam. Perbelanjaan awam ke atas pendidikan memerlukan penyusunan semula supaya sealiran dengan matlamat kesamarataan pendapatan. Pelaburan awam perlu ditingkatkan kepada pertanian dan pembangunan luar bandar. Pelaburan dalam perdagangan borong dan runcit, industri, dan pengangkutan dan komunikasi perlukan pengkajian semula. Sebagai langkah untuk mengurangkan ketidaksamarataan pendapatan pada masa kini penyelesaian masalah ketidaksamarataan pendapatan antara luar bandar dan bandar adalah lebih perlu dititikberatkan berbanding ketidaksamarataan pendapatan antara etnik.

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I certify that a Thesis Examination Committee has met on 19 October 2010 to conduct the final examination of Mukaramah binti Harun on her thesis entitled “Public Expenditure Impact and Income Distribution Analysis in Malaysia Using a Social Accounting Matrix Framework” in accordance with the Universities and University Colleges Act 1971 and the Constitution of the Universiti Putra Malaysia [P.U.(A) 106] 15 March 1998. The Committee recommends that the student be awarded the Doctor of Philosophy.

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DECLARATION

I declare that the thesis is my original work except for quotations and citations which have been duly acknowledged. I also declare that it has not been previously, and is not concurrently, submitted for any other degree at Universiti Putra Malaysia or at any other institution.

MUKARAMAH BINTI HARUN

Date: 19 October 2010



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