UNIVERSITI PUTRA MALAYSIA

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

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

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

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

By
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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

Pengerusi: Profesor Azali bin Mohamed, PhD

Fakulti: Ekonomi dan Pengurusan


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 menyumbangkan kepada perubahan dalam ketidaksamarataan pendapatan dari tahun ke tahun.

Implikasi polisi yang dihasilkan dari kajian ini ialah perlaksanaan strategi untuk mencapai matlamat kesamarataan pendapatan memerlukan perubahan di dalam komponen perbelanjaan awam. Perbelanjaan awam ke atas pendidikan memerlukan penyusunan semula supaya selebaran 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 would like to convey my thanks and highest appreciation to Prof. Dr. Zakariah Abd Rashid, the member of my supervisory committee for his concern, guidance and
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Finally, I would like to express my appreciation to Universiti Utara Malaysia and Kementerian Pengajian Tinggi Malaysia for granting me the scholarship and leave of absence to undertake this study.
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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Professor and Dean  
School of Graduate Studies  
Universiti Putra Malaysia  

Date:
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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