



**UNIVERSITI PUTRA MALAYSIA**

**HOUSEHOLD INCOME, CONSUMPTION AND SAVING BEHAVIOUR:  
A CASE STUDY OF TWO RURAL DISTRICTS IN MALAYSIA**

**Bahar bin Puteh Mahadi**

**FEP 1988 6**

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**By**

**Bahar bin Puteh Mahadi**

**A thesis submitted in partial fulfilment of the  
requirements for the degree of Master of Science  
in the Faculty of Economics and Management,  
Universiti Pertanian Malaysia.**

**October 1988**



## ACKNOWLEDGEMENTS

I wish to express my heartiest appreciation and gratitude to Dr. Roslan A. Ghaffar for his constructive criticisms, suggestions and advice in the preparation of this thesis. For the enduring trouble he underwent in supervising my study, I will always remain indebted.

My sincere gratitude is also extended to the Farmers' Organization Authority (Lembaga Pertubuhan Peladang) for granting the study leave and providing the financial support. I am most grateful to the Director General, Deputy Director General and the Director of the Development Division, colleague and staff of the organization for their encouragement and understanding. Similarly, I wish to express my gratitude to the General Managers and staff of the Farmers Organizations of Hutan Melintang and Bagan Datoh in Perak, and Parit Raja and Rengit in Johor, for their help and support in the survey work carried out in the respective areas during the months of November and December, 1985.

My thanks are also due to the Universiti Pertanian Malaysia for financing the survey work in both areas of study under the research programme of the Faculty of Economics and Management. Without this support, the study would not have been possible.



I am greatly indebted to my wife, Aliyah, for her understanding and support during the entire period of my study. I wish to express my love and appreciation to her and my children, Amiruddin, Nurul Sa'dah, Ariff, Bazli and Bahri for their patience and sacrifice.

Lastly, I wish to thank my brother, Jabar, for his assistance in assimilating the information from the questionnaires, Kamaruzzaman Abu Samah, a fellow student and a close associate, for his views and assistance, and to those who have contributed in some ways or other in my study.



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Abstract of the thesis presented to the Senate of Universiti  
Pertanian Malaysia in partial fulfilment of the requirements  
for the degree of Master of Science

HOUSEHOLD INCOME, CONSUMPTION AND SAVING BEHAVIOUR:  
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OCTOBER 1988

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The incidence of poverty resulting from low income has been a persistent phenomenon in Malaysia, particularly in the rural areas. The problem is markedly prevalent among the smallholders' sub-sector involved in padi, rubber, coconut and fishing activities. As a result, there is a widespread belief that the rural households have very low propensity to save, and this limits the accumulation and availability of financial resources in this sector.

This study is conducted to examine the overall perspective related to income, consumption and saving of the rural households, with the main objective to determine with certainty the capacity to save prevalent among the households. Primary data were collected from specific areas of study and detailed

analysis by regression was carried out using consumption models to determine the influence of such variables as farm sizes, dependents and sources of income on household consumption. From the results, inferences were drawn to explain household saving behaviour, while simultaneously comparing the findings with other studies in similar field, inside and outside the country.

The result shows that there is a strong capacity among the rural households to save their income. The analysed MPS lies in the region of 0.1 to 0.4 with the higher value prevalent among higher income families, especially those with bigger farm sizes. Low income families have to meet their basic consumption requirement for food, clothing and children education, causing the MPS to decline.

Farm income constitutes the most important component of total household income and its size is significantly influenced by the size of farms and the types of cultivated crops. Households owning smaller farms are observed to rely heavily on non-farming activities to supplement their total household income.

The findings of the study can be used as a guide for the formulation of rural development policy, particularly with respect to project financing and mobilisation of funds. With proper incentives and facilities, the target of reducing

government involvement in agricultural development can be achieved, while at the same time, paving the way to encourage self-reliance among the smallholders sub-sector.

Abstrak tesis yang dikemukakan kepada Senat Universiti Pertanian Malaysia sabagai memenuhi sebahagian daripada keperluan bagi penganugerahan ijazah Master Sains.

PENDAPATAN, PERBELANJAAN DAN GELAGAT PENABUNGAN  
DI KALANGAN ISIRUMAH LUAR BANDAR: SATU KAJIAN  
KES DUA DAERAH LUAR BANDAR DI MALAYSIA

Oleh

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Kemiskinan disebabkan pendapatan yang rendah adalah satu fenomena masyarakat di Malaysia. Keadaan ini sangat ketara di beberapa sub-sektor tertentu di luar bandar, terutama bagi sub-sektor pekebun kecil padi, getah, kelapa dan perikanan. Disebabkan keadaan ini, didapati kapasiti untuk membuat tabungan di kalangan sektor isirumah luar bandar adalah rendah, malahan mungkin tidak wujud sama sekali. Jika keadaan ini benar, implikasinya adalah sangat besar kerana wujudnya kepercayaan bahawa modal kewangan untuk pembangunan tidak kedapatan dengan cukup dan dengan itu menjadi pembatasan utama untuk membiayai kos projek serta aktiviti ekonomi di luar bandar.

Untuk memastikan keadaan sebenar, kajian ini dibuat untuk mengetahui dengan jelas mengenai kedudukan serta sumber pendapatan isirumah luar bandar, gelagat perbelanjaan isirumah dan saterusnya kapasiti untuk membuat tabungan. Analisis dibuat ke atas kedudukan sosio-ekonomi responden meliputi kegiatan pencarian sara hidup pertanian dan bukan-pertanian. Gelagat perbelanjaan dianalisa dengan menggunakan model model regresi, dengan mengkaji pengaruh daripada pembolehubah tertentu seperti saiz milik tanah, saiz keluarga, tanggungan serta sumber-sumber pendapatan. Daripada analisis tersebut, tafsiran mengenai gelagat penabungan isirumah telah dirumuskan dan dibandingkan dengan penemuan daripada kajian-kajian seumpama ini yang telah dijalankan oleh ahli ekonomi dalam dan luar negeri.

Hasil penemuan kajian ini menunjukkan nilai  $sut$  kecenderungan menabung (MPS) adalah di antara 0.1 hingga 0.4, satu petunjuk yang tinggi mengenai kapasiti membuat tabungan di kalangan isirumah luar bandar. Nilai  $sut$  meningkat dengan peningkatan pendapatan isirumah terutama di kalangan isirumah yang memiliki saiz ladang yang luas. Isirumah yang berpendapatan rendah terpaksa memenuhi keperluan asas keluarga terutama untuk perbelanjaan makanan, pakaian dan pelajaran dan dengan itu nilai  $sut$  perbelanjaan adalah tinggi menyebabkan nilai  $sut$  penabungan menurun.



Pendapatan isirumah bergantung sebahagian besar kepada aktiviti pertanian dan dengan itu saiz dan jenis tanaman menjadi faktor utama yang mempengaruhi saiz pendapatan keluarga. Bagi isirumah yang mempunyai saiz milik tanah yang kecil, pendapatan dari aktiviti bukan pertanian menjadi bertambah penting.

Hasil kajian ini boleh digunakan bagi membantu perancang dasar merangka pendekatan bagi meningkatkan pembangunan luar bandar. Dengan adanya gelagat penabungan yang tinggi, kaedah tertentu boleh digunakan untuk mengumpulkan modal kewangan yang disimpan supaya dapat disalurkan semula untuk pembangunan di sektor berkenaan.

## CHAPTER ONE

### INTRODUCTION

#### Household Savings: A Preamble

Saving is the amount of current income which is not spent on current consumption but reserved for use in the future. In its simplest form, saving is usually in cash or other bankable deposits. In broader terms, a comprehensive definition of saving would be the value of all assets held, including financial assets, inventories, livestock, equipment, land and landed assets. The degree or extent to which these saved assets can be mobilised for use in the future date differs. For example, bank deposits and other liquid forms of savings can be readily mobilised in financial markets in that the savers fund can be easily transformed by the financial intermediaries to meet the needs of potential borrowers. On the other hand, savings held in the form of assets, such as equipments and land may not be as liquid for immediate mobilisation. By contrast, hoarded cash may be readily available for use by the savers, but this is not accessible in the market for lending to other people.

There are many and varied reasons why individuals or households save their income. They may save to adjust to the seasonal patterns of income and expenditure, or to adapt to

technological change. They may also save in order to protect themselves from adversity or emergency during old age.

To a large extent, the amount of saving by a household depends on three factors, namely, (a) the opportunity to save, (b) the willingness to save, and (c) the ability to save on the part of the various members of that particular household. Their opportunity to save depends on their level of disposable income as compared to the level of expenditure, which in turn is influenced by several factors, one of the more significant being the number of dependents supported. Their willingness to save is also influenced by a variety of factors—social, cultural, economic, political, in particular by the real returns earned on saving (Abbott, 1984).

With regards to the household's ability to save, it is well recognised that one very important factor is the structure or source of the income itself. In rural areas where agriculture is a dominant earning activity, households are often not solely dependent on farming for their income. They may acquire income from businesses, or from pension payments in respect of an earlier employment as well as from salaries and wages. Quite a number of rural families are also known to receive additional income from relatives, sons and daughters living in urban areas. This additional income is commonly referred to as urban remittance.

### Household Income and The Incidence of Poverty

Malaysia has achieved remarkable growth and development since independence. During the 1970s, the economy registered a rate of growth of Gross Domestic Products (GDP) at 7.6 percent per annum despite the setbacks due to the oil crisis in 1972-73 and 1979. Subsequently, growth was somewhat hampered by the recession which began in late 1979. However, economic growth of the GDP during the period of 1981-85 managed to sustain at 5.8 percent per annum (Fourth Malaysia Plan, 1981a).

Despite the remarkable growth and development in the past decades, poverty remains a major problem to the nation. Out of the national total in 1970, 49.3 percent (791,800 households) were below the poverty line. By 1984, this figure had improved to 18.4 percent (488,300 households) (Sundram, 1983). Although the incidence of poverty exists in all racial groups across all sectors of the economy, the largest proportion of the poor is concentrated among the rural population whom by large are employed or engaged in agriculture (Zulkifli, 1983). Comparative statistics on the overall incidence of poverty in all sectors is given in Table 1. The highest incidence of poverty within the agricultural sector in 1984 is registered by padi smallholders followed by coconut and rubber smallholders and fishermen.

Table 1

Incidence of Poverty by Rural-Urban Strata, Peninsular Malaysia (1970, 1976 &amp; 1984)

Stratum	1 1970			2 1976			3 1984		
	Total Households ('000)	Total Poor Households ('000)	Incidence of Poverty (%)	Total Households ('000)	Total Poor Households ('000)	Incidence of Poverty (%)	Total Households ('000)	Total Poor Households ('000)	Incidence of Poverty (%)
Rural	1203.4	705.9	58.7	1440.8	669.6	47.8	1629.4	402	24.7
Rubber smallholders	350.0	226.4	64.7	126.7	73.8	58.2	155.2	67.3	43.4
Padi farmers	140.0	123.4	88.1	187.9	150.9	80.3	116.6	67.3	57.7
Estate workers	148.4	59.4	40.0				81.3	16	19.7
Fishermen	38.4	28.1	73.2	28	17.6	62.9	34.3	9.5	27.7
Coconut smallholders	32.0	16.9	52.8	19.3	12.4	64.2	14.2	6.6	34.2
Other agriculture	144.1	128.2	89.0	528.4	275.4	52.1	464.2	158.8	34.2
Other industries	350.5	123.5	35.2	510.5	139.5	27.3	763.6	76.5	10.0
Urban	402.6	85.9	21.3	530.6	94.9	17.9	991.7	81.3	8.2
Agricultural				24.8	10	40.3	37.5	8.9	23.7
Mining	5.4	1.8	33.3	4.5	0.5	11.1	7.8	0.3	3.8
Manufacturing	84.0	19.7	23.5	55.3	9.5	17.2	132.3	11.3	8.5
Construction	19.5	5.9	30.3	34.7	6.1	17.6	86.6	5.3	6.1
Transport and utilities	42.4	13.1	30.9	53.2	9.1	17.1	73.9	2.7	3.7
Trade and services	251.3	45.4	18.1	242	33.7	13.9	472.7	21.9	4.6
Activities not adequately define				116.1	26	22.4	180.9	30.9	17.1
Total	1606.0	791.8	49.3	1931.4	764.4	39.6	2621.1	483.3	18.4

(Source: Department of Statistics, Post Enumeration Survey (PES) of the Population Census, 1970, Agricultural Census, 1977 and Household Income Survey, 1984.)

- Notes:
- 1 PES is a sample survey covering 25,000 households in Peninsular Malaysia.
  - 2 The Agriculture Census, 1977 (for reference year 1976) covered 188,000 households in Malaysia.
  - 3 The household income Survey, 1984 is a sample survey covering 60,250 households in Malaysia.

The presence of poverty, among others, reflects the low level of income received by the rural households in the Peninsular. In the late 1950s, the average monthly income per rural Malay household was recorded in the range of \$60 to \$120 whilst the poverty income line was at \$300 per month (Mustapha, 1983). The recorded average monthly rural household income in 1970 and 1977 showed an increase of 78 percent from \$200 to \$355. Comparing household income on the urban-rural basis, it has been reported that under current price level, the average urban household income is \$1541 per month compared to \$824 per month for rural household in 1984 (Fifth Malaysia Plan, 1986a).

#### Statement of The Problem

The persistently high incidence of poverty within the agricultural sector is a serious problem to the nation. Faced with that realisation, the Government has given due attention to alleviate this problem in its 5-year development plans. Quoting The Review of the Fourth Malaysia Plan (1984a, 13):

It is within the rural sector that substantial readjustment needs to be made to the current strategy for agricultural development, if further progress is to be made in alleviating poverty and raising the standard of living of the rural households. The broad thrust of the changing directions in the strategy for agricultural development will include an emphasis on the maximization of farm income by raising the productivity of the farmers.

Efforts to raise the productivity of smallholders, in particular, require a complex mixture of inputs, ranging from physical agricultural inputs such as fertilizers, chemicals, selected breeding materials, mechanical implements, other technological improvements, to inputs that can influence human development aspects of attitude, thinking, training and skills. The Government has indicated that large-scale, organised and commercialised farming through cooperative farming system will be the key element in the future agricultural development strategies. Training of farmers will be intensified, villages will be re-grouped and urbanised, more idle land will be rehabilitated as measures to raise the productivity, income and standard of living of the smallholders. All these measures will call for greater investment in agriculture, especially from the public sector.

Public expenditure has been the main source of investment in Malaysian agriculture. Since independence, the agricultural sector has been allocated a large and increasing share of the country's development expenditure. In Table 2 it can be seen that under the Fourth Malaysia Plan period (1981-85) agriculture and rural development has been allocated with \$8.3 billion, or 21.3% of the total development budget. In absolute term, this is a substantial increase from the actual agricultural expenditure of \$1.1 billion (26%), \$1.79 billion (24%)

Table 2

## Public Development Expenditure, Malaysia, 1971 - 1990

	Actual SPM Expen. (1971-75)	Estimated TMP Expen. (1971-75)	Actual FMP Expen. (1980-85)	Estimates for FMP (1986-90)
A. Agriculture and rural development	1793.53 (24.19)a	4672.41	7991.72	10560.62
B. Mineral resources development	0.53 (0.02)	15.70	28.59	48.55
C. Commerce & Industry	1433.20 (19.33)	3246.21	6594.83	3238.69
D. Transport	1233.92 (16.64)	2842.75	7276.21	4521.99
E. Communication	174.93 (2.36)	1152.08	3001.80	133.66
F. Energy & Public Utility	285.86 (3.85)	1582.52	5001.07	4591.24
G. Feasibility Studies	34.42 (0.46)	59.12	85.30	53.65
H. Social	1286.74 (17.35)	3635.99	10340.09	9034.77
I. Security	1021.98 (13.78)	3529.80	7741.78	4704.44
J. Administration	149.95 (2.02)	465.32	838.84	2787.80
Total Federal Funds	7415.09	21201.90	49025.42	40075.41

(Sources: Government of Malaysia, Fourth Malaysia Plan and Fifth Malaysia Plan Report).

Note: Figure in parenthesis denote percentage share to total federal funds.



and \$4.87 billion (22%) during the First, Second and Third Malaysia Plan, respectively.

While the need to forge development ahead is enormous and challenging, the government is faced with the problem of budget restraint due to the unfavourable economic situation since the early 1980s. In 1982, public budget had been cut drastically and various measures were adopted to reduce government burden in financing economic development<sup>1</sup>. New policies were introduced aimed at encouraging the private sector as well as individuals to undertake projects which traditionally had been financed by the government. One of these policies was the privatization policy introduced in the Fifth Malaysia Plan period.

The privatization policy, in the context of development in the agricultural sector, provides ways for the private and individuals to venture into agricultural projects. Existing government projects as well as new ventures may be undertaken if they are found suitable by both parties. From the government

1

The total expenditure incurred by the government for rural development and agriculture decreased from \$1.718 bil. in 1982 to \$1.258 bil. in 1984. The revised allocation for the Ministry of Agriculture for the Fifth Plan was \$1.842 bil. compared to the original of \$3.368 bil. approved. (Extracts from a monograph on expenditure for rural development and agriculture, Economic Planning Unit, Malaysia, 1988)