

# **PUBLIC EXPENDITURE IMPACT ON INCOME DISTRIBUTION IN MALAYSIA**

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## **Abstract**

Income inequality between ethnics; Malay, Chinese and Indians as well as rural-urban disparity has long been a frustrating feature of Malaysian economic development. For more than thirties years, the country income inequality, represented by Gini Coefficient has only slightly reduced to 0.462 in 2004 from 0.506 in 1970. Indeed income inequality wider from 0.452 in 1999 to 0.462 in 2004. This increased in income inequality was accompanied by rapid economic growth of an average 6 percent per annum for the period 1970 to 2007. The expectations that the high economic growth would accompanied with low income inequality hypothesized by an inverted 'U-shaped' Kuznets curve have not come true for Malaysia. Why did it occur? Unlike many other conventional studies which looking at the relationship between growth and income inequality to explain this phenomenon, this paper will look at the public expenditure impact on income inequality in Malaysia. Public expenditure study related to income distribution is very crucial as it is one of the important fiscal policy tools to achieve income equality goals in Malaysia, thus it could explain the phenomenon of high economic growth accompanied by high income inequality.

Malaysia experienced an increasing trend in total public expenditure with the pattern of the composition of expenditure changes over the years. At the early years after independence until 1970s, expenditure on agricultural and rural areas development forms the largest proportion of development expenditure. Expenditure on transportation ranked second followed by expenditure in education and expenditure in trade and industry. Started from 1980 expenditure on agricultural and rural areas development declined significantly and only form a small proportion of development expenditure in 2004. In contrary the expenditure in education increased significantly to form a largest proportion of development expenditure in 2004. The expenditure in transportation and expenditure in trade and industry are now higher than expenditure in agricultural and rural areas development.

The significant decreased in expenditure on agricultural and rural areas development appear to have a significant impact on the increased in income inequality as the poor mostly Malay are living in rural areas and involved in agricultural sector. Meanwhile expenditure in education and trade and industry although increased have failed to reduce income inequality. This could probably reflect that the expenditure in education was not well targeted to the poor; and expenditure in trade and industry was use excessive capital intensive method and employment skilled-biased technology. The paper indicates that government expenditure on agricultural and rural areas development which is particularly important for poor people should be relatively protected from budget cuts.

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*Keywords:* Government policy, public expenditure, expenditure on agricultural and rural areas development, expenditure on education, expenditure on trade and industry, income distribution.