

## INTRODUCTION

Historical Background

The study of public finance is concerned with the way public authorities (i.e. the central government and local authorities) finance their activities - how their expenditure is decided upon and how their revenue is obtained. In this exercise, the primary emphasis is on public expenditure.

In Malaya, the real beginnings of public finances as we know it today can be traced back to the middle of the nineteenth century when the East India Company was dissolved and its functions were taken over by the British Government. The Company performed a number of functions which are generally provided by the government. They were financed from its profits and were undertaken to ensure the peaceful conditions under which trade could continue and expand.

After British intervention in the Malay States many changes were introduced in their finances. Prior to that "it had been the custom to levy duties on every article imported into or exported from the states."<sup>1</sup> The British authorities introduced very radical changes and "all the most vexatious imposts were abolished and the sources of revenue were confined to an import duty on opium and spirits, a farm of the sole right to open ..... public gambling houses for Chinese and to license the opening of pawn shops ..... the main source of revenue was an export duty on tin ..... and a 10% ad valorem duty on all jungle produce and the export of salt fish ....."<sup>2</sup> The only head of expenditure under Malay rule was the maintenance of the Royal household. This situation shows a close relationship with J.B. Say's idea of public expenditure who held that the state should spend a little and have few taxes.

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<sup>1</sup>Sir Frank Swettenham. *British Malaya - An Account of the Origin and Progress of British Influence in Malaya.* London: George Allen & Unwin Ltd., 1955, page 222.

<sup>2</sup>*Ibid.*, page 222.

After the assumption of power by the British Government "every chief in the country was immediately deprived of his income"<sup>3</sup> and he was provided for by the government, i.e. he was given a fixed allowance. Even under British rule the composition of expenditure did not change much. It consisted of "the cost of the British military expedition, the Malay civil list, the general charges of administration, the allowances of one very long list of Malay Rajas and officers and the pensions of another ....."<sup>4</sup>

After meeting the charges of administration the surplus revenue was used for the construction of roads. Further, explicit instructions were issued to the various residents to keep expenditure within actual receipts. It shows that revenue was accepted as something inflexible from which all expenditure had to be met. This could have been due to the reluctance of the British authorities to get involved too deeply with something that might prove unprofitable for the British Government.

It was soon found that the sources of revenue mentioned earlier were insufficient to meet the growing expenditure necessitated by increasing activities of the government, like public health, railways, and education. Since this was the case, it was decided that if a service is necessary it should be provided from revenue and the revenue required to meet the cost must come either from the community as a whole or from those who directly benefit from a service individually.

The revenue of the Malay States was subject to violent fluctuations, e.g. it totalled £12.5 million in 1927 and £5 million in 1932. This was due to the rise and fall in the world demand and price for rubber and tin. Expenditure in the period after the First World War was mainly on communications, medical and anti-malarial measures, education and the normal expenditure of a government like administration, e.g. "in 1930 nearly £900,000 or 9.2% of the Federation's total expenditure was spent on medical and anti-malarial measures and £471,521 or 5% of the same expenditure, on education."<sup>5</sup> In 1933 as a result of the great depression these amounts were halved and there<sup>was</sup> drastic cuts in every department.

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<sup>3</sup>Ibid., page 225.

<sup>4</sup>Ibid., page 225.

<sup>5</sup>Sir Richard Winstedt. Malaya and its History. London: Hutchinson's University Library, page 110.

The volume of expenditure in the early period was therefore determined by the total revenue. When it fell expenditure was cut. The principle of a budget deficit at a time of depression does not seem to have been practised.<sup>6</sup> Expenditure then as now is determined by the claims of the various departments for funds from the government.

This short introduction should give an idea of public finance in Malaya especially the expenditure component of it in the recent past. The fluctuations in government revenue with the consequent variation in expenditure are still a feature of the Malayan public finance now as they were then.

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<sup>6</sup>The theory of a budget deficit during a depression was first put forward during the Great Depression of the Thirties by economists like the late J.M. Keynes.