

## GOVERNMENT EXPENDITURE IN RELATION TO ECONOMIC DEVELOPMENT

### The Increasing Role of Government in Economic Development

After the war the governments of the underdeveloped countries were faced with the task of rehabilitating their economies and raising agricultural productivity, living standards and increasing the level of national saving and investment. To achieve these aims "more productive capital per head had to be provided if low productivity were to be raised."<sup>1</sup> Further, it was also necessary to raise agricultural productivity and provide social overheads. "The former objective called for institutional changes in land ownership and in the division of product from the land."<sup>2</sup> In meeting the demand for social overhead capital the government had to play a major role because the characteristics of these undertakings are such as to make them unsuitable to be undertaken by private enterprise. The role of government in the development has been increased because "the economic characteristics of investment and the social changes called for made it inevitable that the role of the public sector would be predominant."<sup>3</sup>

Another factor which has led to increased investment<sup>4</sup> activity by the state is the accepted role of the state as the vehicle for investment for development where private enterprise is not forthcoming or able to maintain a high level of employment or investment. This trend of increasing investment activity in selected countries can be seen from Tables 3-I and 3-II which show government investment during the period 1950-1958.

Certain major trends can be seen in government investment in the countries mentioned in the post-war period. "First government investment has claimed an increasing share of the national product and of national investment."<sup>5</sup> This is shown in Table 3-I. In the Federation of Malaya government investment increased from 1.9% of Gross National Product in

<sup>1</sup>U.N. Survey, op.cit., page 55

<sup>2</sup>Ibid., page 55.

<sup>3</sup>Ibid., page 55.

<sup>4</sup>Investment here refers to the U.N. usage of the term and includes expenditure on fixed assets and on capital transfers but excludes changes in inventories held in government account or in government enterprises and defence capital outlays.

<sup>5</sup>Ibid., page 71.

1950 to 4.1% in 1953. Between these years Singapore is included in the calculation. The figure for the Federation alone is given from 1955 onwards. Here investment increased from 2.6% in 1955 to 3.3% in 1957, i.e. in both the group of years investment has been increasing from the initial figure. The portion of government investment in the national total in 1950 was 38% but in 1957 it was only 28%. One could conclude from this that government investment in the Federation over the years had declined may not be very correct because we cannot compare the two figures. This is so because the former includes Singapore while the latter does not. It is possible, however, that though the percentage of government investment in the national total seems to have fallen yet the amount may have increased in absolute terms. In the same period the percentage in India rose from 2.7 to 7.1. On the other hand in the Philippines the percentage share of government investment of the GNP has declined and further it represented a lower percentage of national investment in 1958 than in 1950 i.e. it declined from 44% in 1950 to 26% in 1958.

Secondly, "the share of investment in total government expenditure has risen."<sup>6</sup> Table 3-II shows that the share of investment in government expenditure in the Federation of Malaya increased steadily from 13% in 1950 to 31% in 1956. The sharp increase in 1956 was due to the fact that in the same year the Federal Government launched the First Five Year Plan for 1956-1960 under which public investment increased rapidly in comparison with the preceding years. Investment declined to 25% in 1957 and to 24% in the following year from the peak percentage attained in 1956. This decline was due to the fact that there was a world-wide recession in 1957-1958. While the prices of rubber and tin, the Federation's two most important export commodities, declined significantly there was hardly any offsetting movement in prices of imports. The government revenue declined and the national income was adversely affected. In the Federation of Malaya and the Philippines investment represented a lower percentage of government expenditure compared to the other countries like India and Japan. The main reason for such a position is that both the countries "share the outlook that under their present circumstances as well as in their ultimate development the private sector could be relied upon to bring about a more efficient utilisation of natural resources than the public sector."<sup>7</sup>

It has been in line with increasing government activity that the Federation of Malaya government undertook the first and second Five Year Plans.

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<sup>6</sup>U.N. Survey, op.cit., page 71.

<sup>7</sup>Ibid., page 73.

GOVERNMENT INVESTMENT, 1950-1958, IN SELECTED COUNTRIES

Country	Percent of Gross National Product							Percent of National Investment	
	1950	1951	1952	1953	1954	1955	1956	1957	1958
Federation of Malaya*	1.9	2.5	4.1	4.1	--	2.6	2.8	3.3	38 28**
India#	2.7	2.9	3.0	3.2	4.4	5.5	6.1	7.1	60 71
Indonesia	--	2.7	2.5	1.9	3.3	2.3	2.0	1.6	28## 37
Japan	8.8	10.5	10.3	11.3	9.1	10.3	8.9	10.2	54 41
Philippines	3.2	2.7	3.1	3.0	2.5	2.7	2.8	2.6	44 26

Source: U.N. Survey, op.cit., page 71.

\*Including Singapore up to 1953.

\*\*1957. #Net National Product. ##1951.

TABLE 3-II

PERCENTAGE OF INVESTMENT IN GOVERNMENT EXPENDITURE, 1950-1958, IN SELECTED COUNTRIES

Country	1950	1951	1952	1953	1954	1955	1956	1957	1958
Federation of Malaya	13	17	19	22	21	24	31	25	24
India	29	31	30	33	37	41	43	44	43
Indonesia	--	17	13	11	20	17	14	11	9
Japan	37	45	40	43	35	40	38	41	42
Philippines	29	25	27	26	23	23	24	22	18

Source: Ibid., page 72.

## Malaya's Development Plans

The Federal Government undertook two Five Year Plans, 1956-1960 and 1961-1965, to accelerate the rate of investment, to keep per capita income from falling as a result of rapid population increase and to raise low productivity and income levels in the rural areas. Although both plans aim at increasing the level of investment, they emphasise on different aspects of development. "The First Plan concentrated on public utilities, on transport facilities and on the more directly productive kinds of investment in agriculture. Relatively little went into education, health facilities and social welfare."<sup>8</sup> That is, the expansion of public investment was directed largely towards the formation of economic overheads which is regarded as an essential prerequisite to general economic development. Of the total investment of \$739 million undertaken by the Federal Government under the First Five Year Plan for 1956 - 1960, \$451 million was expenditure in the economic sector, \$161 million represented allocation to the social sector. Agriculture, transport, plant and equipment, communications, utilities and industries are the items that are grouped under the economic sector. Table 3-III shows the percentage of total expenditure going to each sector and it clearly shows that, as mentioned earlier, there was a great emphasis of investment on the infrastructure. The government sector which includes government buildings and related item accounted for \$106 million (this figure includes expenditure on the armed forces in 1956 and 1957.) Another fact about the First Five Year Plan is that, while the Second Five Year Plan "lays great stress on rural development",<sup>9</sup> no mention of it was made in the First Plan. All in all, the First Five Year Plan concentrated on the provision of basic economic and social services while the Second Five Year Plan is wider in scope and more ambitious in scale.

### Development Expenditure on Economic Services

In both the Five Year Plans a large proportion of the Federal Government Development Expenditure has been directed towards agriculture. This has been necessary because "the problem of expanding food supplies and primary exports loomed large, and efforts were made to achieve greater production through investment in irrigation facilities, land reclamation and improvement in agricultural inputs."<sup>10</sup> Expenditure on this item totalled \$58.5 million or 24.1% of the total non-defence development expenditure in 1961 and in the following year, it increased to \$89 million i.e. an increase of 52% over the 1961 figure.

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<sup>8</sup>Interim Review of Development in Malaya under the Second Five Year Plan, K.L. Government Printer, Dec. 1963, page 20.

<sup>9</sup>Ibid., page 20.

<sup>10</sup>U.N. Survey, op.cit., page 74.

TABLE 3-III

**FEDERAL GOVERNMENT DEVELOPMENT  
EXPENDITURE, 1956-1960  
(IN MILLION DOLLARS)**

Sector	1956	1957	1958	1959	1960	Total 1956-60	Percentage 1956-60
Economic	69	95	98	85	104	451	61.0
Social	46	41	28	25	21	161	21.8
Government	32*	34*	9	24	7	106	14.3
Armed Services	—	—	5	7	9	21	2.9
Total	<u>147</u>	<u>170</u>	<u>140</u>	<u>141</u>	<u>141</u>	<u>739</u>	<u>100.0</u>

Source: Central Bank of Malaya, Annual Report and Statement of Accounts, 1959-1961.

\*Includes Armed Forces.

Further, the expenditure on infrastructure has of necessity been large because in this field private enterprise shows the least initiative. The pattern of distribution of development expenditure in the First Five Year Plan has continued in the Second Five Year Plan, e.g. \$179.4 million or 75.9% of Federal Government Development Expenditure in 1961 was devoted to the economic sector, and \$47.1 million or 19.3% was meant for social services. In the following year 72.4% and 21.4% were meant for economic and social services respectively. Though the emphasis of expenditure on economic and social overheads has continued, the greater part of it was meant to benefit the rural areas, because one of the objectives of the Second Five Year Plan is "to provide facilities and opportunities for the rural population to improve its level of social and economic well-being."<sup>11</sup>

The reasons for the great expenditure on infrastructure are, "first, it requires large outlays in single projects of investment"<sup>12</sup> i.e. social overhead "requires a great minimum size."<sup>13</sup> Building a new road or developing

<sup>11</sup>Second Five Year Plan 1961-65, K.L., Government Printer 1961, page 16.

<sup>12</sup>U.N. Survey, op.cit., page 75.

<sup>13</sup>B. Higgins. Economic Development, Principles, Problems and Policies. London: Constable & Co. Ltd., 1959, page 386.

a port requires an amount of capital which is beyond the capacity of the private sector. "Secondly, such outlays need a relatively long period before they start paying off and (it) is spread over a very long period. Finally, the investment has to be made in projects which while highly beneficial to the community as a whole cannot be operated to yield direct profits."<sup>14</sup> These characteristics of social overhead capital therefore make it suitable only for public enterprise and since it remains crucial for general economic development the Federal Government has allocated a large portion of its development expenditure to projects in the field of transportation, communications, etc. This can be seen from Table 3-IV. Such investment is crucial for economic development because "its most important products are investment opportunities created in other industries."<sup>15</sup>

### Development Expenditure on Social Services

Under development expenditure on social services, education and health are the most important items. In the field of education the Federal Government spent \$27.3 million or 11.2% of the development expenditure in 1961 and in the following year the figure was \$43.1 million. This was done in an attempt to keep pace with the estimated increase of school-age population, i.e. to find places for the 200,000 school-going children in the plan period and to extend better educational facilities in the rural areas, improve technical education to meet the needs of the economy for larger numbers of skilled personnel and further expansion of educational facilities is also envisaged. The Federal Government development expenditure on health has laid emphasis on "expansion of health services into the rural areas, the modernisation and expansion of hospital facilities, more intensified campaign against tuberculosis ..... expansion in training programmes for medical and health staff....."<sup>16</sup> It was in line with this policy that the Federal Government spent \$9.3 million or 3.8% of its development expenditure in 1961. In the following year, the figure had increased by about 326% of the amount in the previous year, i.e. the amount totalled \$30.3 million. A large part of the Federal Government development expenditure on education and health has been especially undertaken to benefit people in the rural areas. This has been in line with the government policy of rural development.

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<sup>14</sup>U.N. Survey, op. cit., page 75.

<sup>15</sup>B. Higgins. op.cit., page 386.

<sup>16</sup>Second Five Year Plan, op.cit., page 47.

TABLE 3-IV

**FEDERAL GOVERNMENT DEVELOPMENT  
EXPENDITURE, 1961-1962**

Sector	1961		1962	
	\$ Million	%	\$ Million	%
<b><u>Economic Sector</u></b>				
Agriculture	58.5	24.1	89.0	22.8
Transport	42.3	17.4	112.7	28.8
Plant and equipment	29.9	12.3	20.5	5.2
Communications	15.3	6.3	19.8	5.1
Utilities	30.1	12.4	40.8	10.4
Industries	3.3	1.4	0.2	0.1
	<u>179.4</u>	<u>73.9</u>	<u>283.0</u>	<u>72.4</u>
<b><u>Social Sector</u></b>				
Education	27.3	11.2	43.1	11.0
Health	9.3	3.8	30.3	7.8
Social Welfare	0.2	0.1	0.6	0.2
Housing	10.3	4.2	9.6	2.4
	<u>47.1</u>	<u>19.3</u>	<u>83.6</u>	<u>21.4</u>
<b><u>General</u></b>				
Municipal development	3.7	1.5	2.2	0.6
Government buildings	6.1	2.5	8.0	2.0
Miscellaneous	6.9	2.8	14.0	3.6
	<u>16.7</u>	<u>6.8</u>	<u>24.2</u>	<u>6.2</u>
Total non-defence development expenditure	243.2	100.0	390.8	100.0
Defence	21.0	--	24.6	--
Total development expenditure	264.2	--	415.4	--

Source: Central Bank of Malaya, Annual Report, 1963,  
page 10.



## Development Expenditure for the Rural Sector

The plan for rural development forms a major part of the Second Five Year Plan. This is so because the economic position of the rural population, which is largely Malay, compared to the urban non-Malay population, is poor. Of the total population of 6.3 million in 1957, 3.6 million lived in the rural areas, if we take towns of 1,000 people and over as the definition of urban. Of this number in the rural areas 2.5 million were Malays, while non-Malay rural population totalled only 1.1 million as is shown in Table 3-V. The total Malay population in 1957 was 3.1 million, and of this number nearly 5/6 or 2.5 million lived in the rural areas. We can see from the table that the Malay rural population increased by 368,000 in the inter-censal period, whilst the non-Malay rural population decreased by about the same number. If there had been some 'take-off' of the Malays into the advanced sectors as was the case with the non-Malay population, the position of the Malays would have been somewhat eased; but, since there was no such transfer the increased numbers had to live from the same production.

TABLE 3-V

### COMPOSITION OF RURAL POPULATION IN 1947 AND 1957.

	1947 Census	1957 Census	Change
Total rural population	3,607,000	3,611,000	+ 4,000
Malay rural population	2,153,000	2,521,000	+368,000
Non-Malay rural population	1,454,000	1,090,000	-364,000

Source: T.H. Silcock and E.K. Fisk, (Eds.) The Political Economy of Independent Malaya, Canberra, The Australian National University, 1963, page 164.

If we take a look at the rural economy we see that there are two sectors: 'the advanced sector, comprising estate-type agriculture, mining and commercial enterprises... and the backward or peasant sector, comprising the very small agricultural smallholdings (i.e. farms), producing rubber, copra and rice and coastal fishing. The advanced sector is owned and managed mainly by foreigners..... Chinese or



Indians, whilst the backward sector is primarily Malay .<sup>17</sup>

This shows that the division between the advanced and the backward sectors is a racial one. It is of great importance because "in political power the rural Malays are the dominant factor."<sup>18</sup> That is why in formulating the Second Five Year Plan the government, made rural development a major part of it. "It is a political necessity that any programme of development should manifestly be to the advantage of the population in the backward sector, even if this means that the advantage to the economy as a whole.... will be less than it otherwise could have been."<sup>19</sup>

The Malays in the rural areas derive their income mainly from the cultivation of padi, rubber and coconuts and from fishing in the coastal waters. The trend of productivity in this sector has been downwards as shown in Table 3-VI. This table shows that despite the general prosperity of the Malayan economy, and the rise in the GNP the peasant sector was worse off in 1958, as in that year nearly 20% more people lived off the same production than in 1950.

TABLE 3-VI

PRODUCTION OF RURAL COMMODITIES IN WHICH  
MALAYS PREDOMINATE, 1950-1958

Item	Production (tons) 1950	Production (tons) 1958	Change (%) 1950-58
Smallholders copra	110,866	73,303	- 34
Smallholders rubber	316,732	271,457	- 14
Rice	692,000	787,000	+ 14
Fish landings	120,329	109,547	- 9

Source: Silcock and Fisk, op. cit., page 165.

<sup>17</sup>Silcock and Fisk, op. cit., page 163.

<sup>18</sup>Ibid., page 163.

<sup>19</sup>Ibid., page 163.

Moreover, as mentioned earlier, since the rural Malays are the dominant factor in elections, so it is not surprising that "all current economic planning is coloured by the necessity for..... a rapid improvement in the lot of rural Malays, with a consequent heavy emphasis on the development of the backward sector of the economy."<sup>20</sup> We may now ask what specifically is the government doing to improve the economic position of the Malays? The rural development plan aims "to improve their lot as peasants. This contention receives further support.... from the very heavy emphasis in proposed government investment on development projects for the peasant agricultural sector and on amenities, roads, schools and health services for the rural areas."<sup>21</sup> That the government is devoting a large part of its development expenditure for the benefit of the rural population is shown in Table 3-VII.

TABLE 3-VII  
EXPENDITURE ON MAJOR ELEMENTS OF  
RURAL DEVELOPMENT  
(IN THOUSAND DOLLARS)

Item	1961	1962
Rural health centres	1,995	16,609
Rural roads	15,030	58,395
Rubber replanting scheme	32,568	25,666
Rural electrification	—	4,586
Land Development Authority	3,858	21,000
Rural industries	732	—
Minor rural development schemes	977	2,411
Group settlement schemes	1,954	9,117
Agriculture	1,993	2,753
Co-operative development	193	398
Drainage & Irrigation	13,236	22,495
Fisheries	640	701
Forestry	269	187
Veterinary	1,713	2,165
Total	75,158	166,383

Source: The Interim Review, op. cit., page 7.

<sup>20</sup>Silcock and Fisk, op. cit., page 165.

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Source: The Interim Review, op. cit., page 7.

<sup>20</sup>Silcock and Fisk, op. cit., page 165.

<sup>21</sup>Ibid., page 166.

According to Professor Ungku Aziz, "Current action and ..... current thinking about rural development is mainly concerned with the expansion of physical facilities and amenities ....."<sup>22</sup> He seems to think that these facilities will improve the way of life of the rural people. But their role in helping to reduce rural poverty as such still remains to be demonstrated. Rural development must also incorporate "programmes for institutional or structural changes in the rural economy. Both programmes are necessary for effective rural development."<sup>23</sup> The changes that are necessary are the introduction of cooperation to replace private enterprise in marketing and processing and the elimination of exploitation of the farmers so that incentives will work and a major proportion of the income will accrue to the farmers and not to the private merchants in the rural areas. He also states that "cooperation is the institution most likely to succeed as a tool for rural development ....."<sup>24</sup>

Though rural development does not seem to be undertaken in the manner suggested by Professor Ungku Aziz we can see from Table 3-VII that increasing amounts of money have been spent by the government in the hope of improving the economic position of the rural people.

In summing up we can say that the general aim of development policy has been to increase output sufficiently to raise the standard of living and at the same time to lay the foundations for further expansion of our economy. To this end the absolute amount of Federal Government development expenditure has been increased i.e. an increasing amount of GNP is now being invested by the Federal Government under the two Five Year Plans. This is shown in Table 3-VIII.

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<sup>22</sup>Professor Ungku A. Aziz - Poverty and Rural Development in Malaysia.- Inaugural Lecture delivered on 27th September, 1963 in the University of Malaya, Kuala Lumpur.

<sup>23</sup>Ibid.

<sup>24</sup>Ibid.

TABLE 3-VIII  
FEDERAL GOVERNMENT DEVELOPMENT  
EXPENDITURE, 1956-1962

Year (1)	Gross National Product at market prices. (\$ million) (2)	Federal Govt. Development Expenditure (\$ million) (3)	(3) as a % of (2) (4)
1956	4,781	147	3.1
1957	4,868	170	3.5
1958	4,703	140	3.0
1959	5,200	141	2.7
1960	5,665	141	2.5
1961	5,604	264	4.7
1962	5,786	415	7.2

Source: for GNP figures, see The Interim Review  
op. cit., page 10; for development expenditure, see Central  
Bank Annual Reports for 1959-1963.