

CHAPTER 5

CONCLUSION AND POLICY IMPLICATIONS

This study has examined income and expenditure levels and patterns in the agricultural communities in Selangor from the data collected in the 1993 Socio-Economic Survey of Farm Households under Area Farmers' Organizations (AFO). Key dependent variables are total monthly income of heads of households, total monthly household expenditure and household expenditure by category. They are all measured in ratio scale.

Some socio-economic characteristics of the study population have been first looked into before analyzing their income and expenditure differentials. One of the areas that require attention is education. The national development planning has certainly achieved positive results, as shown by the fact that the younger heads of households tend to have higher level of formal education as compared to the older ones. Nevertheless, there are still some 6.5 percent of younger (<30 years of age) heads of households that do not have any formal education and 22 percent left school without proceeding to the lower secondary level. Another area of agricultural households that need to be improved is the condition of their houses. Although large proportion of households own the houses they are staying in, only 9.7 percent of the houses are made of bricks.

The income data reveal that mean income of household heads is rather low – about RM605 per month. The situation is further confounded by the large household size averaging 7 members, as compared to 5 for the national average. Therefore, concerted efforts must be made to increase the income level if agriculture sector were to become an attractive employment alternative. However,

the real level of income for these study areas may be higher since the definition used for income is not quite comprehensive. It does not include income in kind, which has been shown by previous studies to constitute a significant portion of total income of those in the lowest income groups and those who engage in the agriculture sector.

Significant differences in income exist between certain subgroups of the study population. The pattern of income according to the age of household head is suggestive of the life-cycle effects. The income of household heads increases with age, but decreases for those aged 60 years and over, as many are engaged in the marginalized jobs or are in semi-retirement. Heads of households who aged 60 years and above have the lowest income, in terms of mean and median, compared to their younger counterparts. Age has been regarded as one of the factors in causing the large disparity in agriculture income since it affects the level of efficiency and production (Shireen 1998, p.147). In addition to that, low income among elderly would also have an adverse effect on the family if they were to fall sick and were the main breadwinner.

Among the three main ethnic groups, the Chinese heads of households have the highest mean income. Even after controlling for other variables in the multivariate context, mean income of Chinese household heads is about 54 percent higher than that of their Malay counterparts and 46 percent higher than that of their Indian counterparts.

As expected, the level of income increases with increase in education. Multivariate analysis shows that educational attainment is the most important variable in explaining the variations in income of household head. Further

improvement in the educational programmes and education opportunities to all groups of population would be an important tool in reducing economic inequality.

Substantial differences exist in income of heads of households across occupations. Government servants in the study areas have the highest median income (RM814.3), followed by businessmen (RM753). Generally, heads of households who are engaged in the agriculture activities have lower income compared to their counterparts in non-agricultural activities. Programmes that have been implemented by the Malaysian government to increase the income of paddy farmers include low cost credit, fertilizer subsidies, price subsidy scheme as well as irrigation and drainage works. However, it has been claimed that these programmes have not been effective because the distribution of subsidies is biased toward large farms (Muhammad 1988, pp. 65-83). Income of farmers is seriously affected by the declining and fluctuating prices of agricultural commodities, especially in the rubber and oil palm sectors. The difference in income between those in rubber sector and oil palm sector can be due to differences in yields and land size. These two factors, however, are not included in this study. Rubber tappers of the study population seem to have relatively higher mean income than the oil palm growers. This may partly due to the fact that most of the former (74.5%) are having supplementary jobs. Labour shortage in the agriculture sector may further contribute to the stagnation of the sector.

The average household size of the study population (6.8) is large compared to the national average (5) and analysis shows that household size has little effect on the income of household head. The meager income earned by the heads in this agricultural households would not be sufficient to meet their basic needs unless there are more than one income earner in the households. This is yet another

limitation of the data where the number of income earners as well as dependents in the households are not known.

As for household expenditure, a huge portion (about 72%) of the income of household heads is spent on household consumption. The mean household expenditure per month in the study areas is RM433.9. Income of the heads of households stands out as the main factor in explaining the variations of household expenditure. Overall, median expenditure tend to be high among large households, Chinese households, households headed by younger persons (50 years and below), with higher education level, with higher income, engage in non-agriculture occupation and households from Kuala Langat.

Food accounts for the largest portion (53.4%) of household expenditure, followed by electricity, water and telephone (11.8%). Spending on these two items, in relative term, is inversely related with total household expenditure as well as total income. Educational expenditure is low in view of the free provision of primary and secondary education and various assistances to the poor such as scholarships and loans for textbooks. Despite the fact that cost of living in rural areas is relatively lower, there are some 18.4 percent of households who 'over-spent', that is the level of expenditure exceeds reported income.

The government's primary strategy in fighting poverty is to promote a healthy economy and to provide the education and training that increase productivity and enhance job opportunities. This study has shown that education is an important factor in determining the level and pattern of income, which in turn significantly explains the level and pattern of household expenditure. Therefore, the government has to further improve the availability of non-formal and adult education that results in improved skills and knowledge since the dropout rate is

high in rural areas. Another way to increase the level of income through higher productivity is by providing good health services. Besides improvement in remedial medicine, good health services include improvement in programmes pertaining to water supply, sanitation, nutrition and environmental health. Other social welfare programmes to help the poor include income assistance to families with dependent children, to the elderly as well as the disabled; food security and housing assistance. Proper social security to the elderly is most needed, especially to those in the agriculture sector where majority of them do not have pension or employee provident fund to fall back on.

As for poverty alleviation programmes such as in-situ development, new land development, marketing and credit facilities; the government should ensure that they are being managed efficiently and effectively. Detailed analysis and research have to be carried out should these costly programmes failed to achieve their objectives at any specific locations. It is indeed necessary to evaluate and compare the effectiveness of the existing programmes with those of other countries so as to identify our weaknesses and learn from their effective programmes.

On the basis of this study, the following recommendations for future research are made:

1. Studies must be carried out using broader definition of income, to include various sources of income such as income in kind, income from other household members, remittances, scholarships, imputed value of own consumption of produce, imputed value of goods receive from other sources and imputed rent of owner-occupied house.
2. To take in account the age and sex composition of members of households, the cost of living of at the study areas, consumer price index and rent price index.

3. As the sample used in the present study is limited to only 6 districts in Selangor, studies covering all farm households in Selangor and also other states would be needed to further validate the findings.