

**PUBLIC EXPENDITURE ON EDUCATION AND
INCOME INEQUALITY IN MALAYSIA**

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ABSTRACT

The effects of education expenditure and education inequality on income inequality have been the focus of attention of many researchers and policymakers. In Malaysia, the evaluation of the effect of educational funding on economic inequality is an important and difficult task. It is important because education probably has some major impact on economic inequality; certainly Malaysian and the government have consistently assumed that it does. But it is also difficult because education's effects on society are multiple and complex; and scholars have been unable to agree, despite extensive study and discussion in recent years, about which effects are most important.

This study applies the ordinary least square method to test the impact of basic educational expenditure on income inequality in Malaysia between 1970 and 2000. Overall, our empirical results from the cross-countries analysis and Malaysia study confirm that education expenditure and education expansion is not distribution-neutral. Education seems to improve the income distribution directly and thus may allow the poor to benefit from growth to a greater extent. In the cross-countries analysis, we find that growth in average income is translated one-for-one in growth of the income of the poor. The findings from Malaysia analysis also reveal that education factor – higher expenditure per pupils, higher education attainment and more equal distribution of education – play some role in changing income distribution. Accordingly, a focus of economic policies on education in order to reduce poverty and to speed up development appears to be justified. However, rather than merely expanding access to education, our empirical findings indicate that improving the quality of education should play a crucial role in development strategies.

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ABBREVIATIONS

ADB	Asia Development Bank
BNM	Bank Negara Malaysia
DW	Durbin-Watson statistics
EPU	Economic Planning Unit
EPC	Educational Planning Committee
EPRD	Educational Planning and Research Division
Felda	Federal Land Development Authority
GDP	gross domestic product
GNP	gross national product
HCEF	human capital earnings function
IMF	International Monetary Fund
LDCs	less developed countries
MARA	Majlis Amanah Rakyat
NDP	National Development Policy
NEP	New Economic Policy
NIEs	New Industrialized Economies
OLS	Ordinary least square
OPP III	Third Outline Perspective Plan
PLI	poverty line income
PPP	purchasing power parity
PTR	pupil/teacher ratio
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund