

CHAPTER 5

CONCLUSION

In this final chapter, we shall summarise the findings from this study with regard to the effects of education expenditure and its dispersion on poverty and income distribution in Malaysia; and the strategies and policies adopted by Malaysia to reduce the income inequality.

This paper examines the impact of basic education expenditure on income inequality in Malaysia. Overall, our empirical results 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 benefits from growth to a greater extent. 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.

5.1 Overall Findings

The most striking aspect of the theoretical perspectives reviewed in Chapter 2 seems to be the lack of a clear prediction about the effect of education level and education inequality on income distribution. The quick review in chapter 2 probably suggests

that it is less easy to derive an unambiguous or even probable prediction about the direction of these effects. The empirical evidence seems to mirror the theoretical ambiguity. While a number of cross-section studies about the effect of education on income distribution generally confirm the equalizing function of education, other work challenges this finding. However, Chapter 2 also points out that in spite of these theoretical and empirical uncertainties, education can still be a good equalizing tool because of the possibility that it could have the unusual characteristics of being both an equalizer and a growth-accelerator. In particular, it may be possible to adopt educational policies in which expansion of schooling is associated with a reduction in schooling inequality.

Chapter 3 provides evidence on how education expenditures and its dispersion have related to income distribution in Malaysia from 1970 to 2000. This chapter examines the success of the NEP and NDP and evaluated the utilization of social expenditure especially the educational expenditure in eradicate poverty and income distribution in Malaysia. The main findings include the following:

- In the last two decades, there has been a huge increase in household income. Malaysia was thus able to achieve a significant improvement in income distribution whereby the income of the poor increased by a higher percentage compared to the incomes of the rich.
- The NEP's objective of achieving equity between ethnic groups was a success as the inequality had declined during the span of 20 years.

- Among the South East Asian countries, the quality of education output (enrollment ratio, pupils-teacher ratio) of Malaysia is on par with its economic development level, and the gender gap is low.
- Total public spending in the education sectors increased significantly and has played a major role in poverty reduction and income distribution.

All the above findings are then confirmed by the empirical analysis in Chapter 4. The single equation analysis using the ordinary least squares (OLS) method, carried out in chapter 4, showed that growth in average income is translated one-for-one in growth of the income of the poorest quintile of the population. The results also support the positive effects of human capital stressed by orthodox theory namely increase in stock of quality adjusted human capital per worker would increase the average income of the poor. Our results appear to be robust to a number of alternative specifications. Therefore, effective education policies would be a first-best poverty reduction strategy.

The empirical findings indicate that, education factor – higher expenditure per pupils, higher attainment and more equal distribution of education – play some role in changing income distribution. The results are also in consistent with our finding in the first part of Chapter 4, which evaluate these effects from an international perspective.

Several issues were also draw from chapter 4. First, the direction of causality between inequality and human capital accumulation is an open question. Second, while our findings provide an encouraging impetus of the use of education policies as part of anti-poverty programs, a rigorous theoretical framework supporting such claim is still

missing. Third, highlighting the importance of education policy should be accompanied by a more precise identification of education policies that actually generate the expected effects.

However, the findings should not be view as a conclusion that the expansion of educational factors alone can make income inequality decline substantially in a short period, especially in the case of Malaysia. The post independence social and economic development of Malaysia has been guided by a series of five-year development plans and all these plans were successfully implemented and transformed the economy from an agriculture based to the modern technological manufacturing based economy. The achievement was most evident during the period of the New Economic Policy as clearly indicated by the significant reduction in the absolute poverty level and more participation of the Bumiputra in the modern business sector which have provided political stability and opportunities for further social and economic development. In Malaysia, the aspects of economic growth and equity have always been emphasised in her development plans to ensure a just and equitable distribution of national wealth in the economy.

The relatively successful reduction in inequality and poverty can also be attributed to the growth of the industrial sector, that was mainly led by the private sector, and the improvement in the ability of the poor to participate in the non-agricultural employment especially in the export-oriented manufacturing industries. This was also aided by the fact that the primary and secondary school attainment increased over the corresponding period and the high female participation rate in the labour force.

Education was found to play a significant role in poverty reductions in Malaysia, especially in the rural areas.

Another important aspect of the eradication of poverty in Malaysia was the restructuring of society by helping the indigenous Malays who forms the majority of the poor and hardcore poor. Among the programmes under this strategy was developing a viable Bumiputra Commercial and Industrial Community (BCIC) among the Malays. This was achieved through education and training especially in entrepreneurial programmes and the development of commercial and business premises to enable the Malay community to participate in the modern and commercial sectors of the economy.

5.2 Implications of the Findings and Policy Recommendation

Many analysts have argued that the redistribute effects on income of educational factors are weak if not inconsistent. In this study, although that view is not shown to be invalid, it is shown that more sophisticated analyses of the aggregate data do not necessarily lead to this conclusion. The foregoing reflections indicate that there is much scope for further research in this area. Besides an effort to rectify the other well-known methodological problems, some fruitful directions would seem to be:

- An assessment of the empirical relationship between mean and inequality of schooling both over time and across countries so that a more integrated picture can be put together in regard to the distributional consequences of educational expansion.

- A more systematic modeling of the possibly dual role of education as an equalizer and growth accelerator.
- An investigation of the effects of education on both (relative) income inequality and poverty, and
- Enlargement of the cross-country samples as much as possible.

It should be pointed out that the data for this research have been assembled from many different reports, studies, and surveys. These are varied in scope and were conducted at different times with different concepts and rigour. No amount of detailed evaluation of the sample design, the methodology and so on can completely account for, and adjust, the resultant problem of consistency and comparability. As discussed in chapter 4, high quality poverty or income data must be collected before one can actually explore the success of NEP on changing the income distribution pattern. This may be referring to a nation-wide major income survey such as The Post-Enumeration Survey (PES), Household Expenditure Survey (HES) and the Malaysian Family Life Survey (MFLS). The data must be in the form of per capita household income, which is considered more superior than individual income or household income because it can smooth out the distortion introduced by a correlation between the size of household income and the size of household if household income is used.

Obviously this study is not able to provide direct result to evaluate the changes to the income distribution pattern introduced by the NEP. In order to do that, future study should try to examine the effects of macroeconomic factors on income distribution, exploring the connections between income distribution, education, macroeconomic factors, and government policy. These can be done through a public expenditure

review and benefit incidence study, using primarily data from the above-mentioned surveys or from the respective government departments.

In the absence of the above shortcomings, the findings of this study have several policy implications for Malaysia. It is crucial to note that government's commitment to the NEP has never included the reduction of overall economic inequality --- other than between ethnic groups --- but only to eradicate 'absolute' poverty --- a goal attainable in a high growth situation without a reduction in inequality. The analysis revealed that inequalities in school education and attainment accumulate up through the educational ladder, resulting in increasingly unequal distribution. This does not in itself constitute an argument for scaling back post-primary education. Instead, those factors that constrain poor students from fully sharing in education or advancing up through the system need to be addressed, for example, by expanding coverage and improving quality of services in rural and other less-advantaged areas. This way, the incidence of public spending can become more progressive, yet it will require more fiscal resources devoted to education at all levels. For expanded schooling to be most effective, it will also be necessary to take actions that reduce the opportunity costs of sending children to school.

Other barriers for access by the poor to further education should also be addressed. For example, at present there are great difficulties in recruiting and attracting qualified teachers for primary schools in many areas, constraining the continued expansion (and quality improvement) of primary schooling. This problem is related to the poor state of secondary education. Hence, even if secondary education is not

particularly progressive, it requires attention. It would be unwise to place exclusive emphasis on primary education because of immediate equity arguments, as this would compromise long-run growth by not addressing the need for people with higher levels of education. In this context, an economy-wide perspective on bottlenecks in skills and education is required to better guide investments in education.

While comprehensive plan to improve the quality education is beyond the scope of this paper, a few points can be made, based either on the findings of this study or discussion in other literature. First, salary component of the education recurrent expenditure is more than 75 percent, which leaves few resources to provide teaching materials. Based on our analysis, there are resources that are unaccounted for in the educational financial system. Therefore, it is possible that simply making the financial system more efficient and effective can increase the teachers' salaries and the non-salary recurrent expenditure. Questions have arisen about whether the automatic progression from primary school to secondary school discourages rigorous academic training. While basic education is obligatory and every child should have a right to attend secondary school, it is not necessarily in the best interests of the children that they know whether or not they perform well, they will end up in secondary school. It is imperative to introduce some incentive structure that, on the one hand encourages academic performance, but on the other hand, is not exclusive. Incentives should also be provided to teachers to achieve a high quality of training. Another issue is vocational and technical training, which has been neglected, in recent years; the resources allocated to these institutions are extremely low. Given that the fiscal

constraints will not allow a greater allocation by the government, alternative-financing options need to be explored for vocational education.