

CHAPTER 1

INTRODUCTION

On any basis of measurement or comparison government expenditures have increased greatly in most countries in recent decades. Malaysia is no exception to this general trend. The increase has been of such proportions as to make it a matter of major significance in any economy based primarily on private enterprise, even though interpretations of that significance may vary widely.

Apart from their significance as a measure of the growing economic activities of governments public expenditures are important for another reason. For the past twenty years or so the manipulation of public expenditures has been regarded by many people as a technique which government may use, consciously and deliberately, to affect the level of activity in the whole economy. Many plans and proposals have been put forward to alleviate economic fluctuations through planned programmes of government spending. In the underdeveloped countries especially, many planned programmes of government spending have also been made as a conscious effort to develop the economy. The implicit assumption in the above statements is that public expenditures can be manipulated, shaped and timed to produce the desired results.

The general purpose of this study is to learn more about the nature and characteristics of public expenditures in Malaysia. In pursuance of this purpose the study is divided into two parts. Part I examines some of the theories that explain the growth of public expenditures. Part II discusses the total volume of expenditures and the changing patterns of expenditures by functions in Malaysia. Incidentally the data in Part II are used to test the validity of the theories discussed in Part I in the context of Malaysian economy.

The Concept of Public Expenditures

As government activities and financial techniques have increased in number and complexity they have created difficulties with the concept of public expenditures. It becomes increasingly difficult to formulate a concept which

can be applied readily to the complex structure of government accounts. What is needed is a measure which will indicate "the magnitude of resources whose use is guided by methods more or less peculiar to government."¹

But there are many techniques which governments may use to guide the use of resources. Money expenditures constitute only one, although the most important one, of these techniques. On the one hand there are some government activities which are not reflected in money expenditures but which may have important influence on the use of resources. On the other hand there are some government expenditures which do not affect the use or distribution of resources, such as grants to the state governments for the maintenance of state roads.

In spite of these qualifications it is nevertheless true that most government activities are reflected in expenditures. However it is essential to keep these qualifications in mind as limitations in interpreting the significance of government expenditures.

Concept Used in This Study

In this study the concept of government expenditures has been formulated within the limit of the data as set out in the Federation of Malaysia Financial Statements. The concept includes both the recurrent expenditures and development expenditures of the central government. It also includes the development expenditures of public corporations as well as transfer payments, interest, debt redemption and expenditures on goods and services but excludes the working or operating expenses of public corporations.

The above concept is the one used in the general tables and in the totals of expenditures. However in the analysis of particular government activities it is not always possible to follow this concept strictly because of non-availability of data on that basis.

Scope and Limitations

With respect to scope this study aims at covering

¹C. Lowell Harris, "Government Expenditures: Significant Issues of Definitions," Journal of Finance Vol. IX, 1954, page 353.

the expenditures of the central government only and is limited to the period from 1957 to 1967. The expenditures of the state governments and local authorities are not considered at all. Admittedly such a scope does not permit a full and thorough understanding of government expenditures. It is nevertheless adopted here for two reasons. Firstly the central government is dominant in the realm of expenditures. Secondly data on the activities of the central government are much more readily available.

Since this study is concerned with expenditures only taxes are of necessity neglected. In this sense it is not a complete study of the operation of public finance and consequently it does not cover the whole fiscal activities of the government, not even that of the central government alone. This limitation has restricted the discussion of fiscal policies to the role played by expenditures only. It has also prevented a fuller treatment of fiscal incentives which the government uses to encourage industries.

PART I

THEORETICAL ANALYSIS OF GOVERNMENT EXPENDITURES

