

CHAPTER V

FUNCTIONAL AND ECONOMIC DISTRIBUTION OF GOVERNMENT EXPENDITURES

A classification of government expenditures according to functional and economic categories throws some light on the actual allocation of resources. The growth of individual items of government expenditures may help to explain the overall expansion of government expenditures.

Expenditures on Defence and Security

A nation's defence policy is very closely intertwined with its foreign policy, and the factors which determine both are numerous and complex. To a significant extent internal security is tied up with the international situation and the political and ideological alignment of the government. For instance with instability prevailing in international politics not only must defence be built up to meet all eventualities internal security must also be tightened to deal with enemy subversion.

With regard to Malaysia there are a number of factors which complicate the defence and security issues. The first is its geographical position. It is situated in a strategic position in the turbulent South-East Asia where a major struggle for influence is being carried out by the great powers, especially China and the United States of America. Secondly its foreign policy had been openly anti-communist since Independence. Thirdly because of the multiracial characteristics Malaysia is especially susceptible to political subversion.

However for a country the size of Malaysia and at its stage of development it would be foolish to try to maintain a defence force which could protect every inch of its shore in the event of a major war. It simply does not possess the manpower, the resources or the industrial system needed to sustain such a force. The tremendous cost involved in designing, developing and maintaining the weapons and equipment of a modern warfare are far

beyond the means of so small an economy. The opportunity cost involved means that other urgent development programmes have to be given up. In spite of these limitations the maintenance of a substantial force may be justified on the grounds that it is more likely that there would be a localised conflict rather than a major war and that a deterrence effect is served by maintaining a substantial force.

During the period 1957-1967 expenditures on defence and security had experienced some irregular variations caused by different circumstances. The major events which affected the defence and security expenditures were the Emergency and Confrontation.

Emergency

A State of Emergency throughout Malaya was declared on 1.7.1948 as a result of the terrorist activities by the Malayan Communist Party which intended to take over the government by armed rebellion. This event had of course great repercussion on the economy. A tremendous amount of expenditure was incurred in an attempt to eliminate the terrorists. If, in addition to this, account was taken of properties destroyed, working days lost and of the drop in productivity especially in the agricultural and mining sectors, the damage done to the economy as a whole must have been very great even though the extent of the damage could not be accurately assessed.

TABLE 5.1

FEDERAL EXPENDITURES ON EMERGENCY
AND ON DEFENCE AND SECURITY
1949-1961
(\$mil.)

Items	1949	1957	1958	1959	1960	1961
Defence and Security	79.7	98.0	123.5	128.9	139.1	176.3
Emergency	5.3	120.5	104.7	71.2	55.8	—
Total	85.0	218.5	228.5	210.1	194.9	176.3

Source: Malaysia Official Year Book 1961, Page 462
Federation of Malaya Financial Statements 1949

Although the Emergency was almost over by 1957 a great amount of money had still to be spent to fight the terrorists. In 1957 alone \$120.5 million were spent directly on the emergency, excluding the recurrent expenditure for defence and security which amounted to \$98 million. Thus total expenditures on defence and security (including emergency expenditures) constituted about 23% of total budget expenditures. Emergency alone accounted for 13% of total government expenditures.

From Table 5.1 it can be seen that expenditure for the emergency declined rapidly after 1957. The State of Emergency was officially over by 31.7.1960.

Emergency expenditure covered a vast field of activities all of which were connected with combating communist insurgence. Other than military and police operations it included such items as transport, telecommunications, compensation for persons killed and maintenance of dependants of detainees etc. The diversity of activities can be seen from Tables 5.2 and 5.3 which contain selected items of expenditure connected with the Emergency.

There was, however, one event which was not covered in Table 5.2 but which had great effects on subsequent government expenditures. This was the resettlement programme. In order to isolate the communists approximately 500,000 persons were removed from the countryside and resettled in new villages protected by barb wire. The cost of the resettlement programme was partly met by the profit derived from a lottery organised by the Malayan Chinese Association and partly by the government.

Having resettled these rural people in a particular location the government had to provide them with basic amenities such as public health services, water and electricity etc. And because they were now grouped together and in closer contact with the outside world they began to realise the importance of education. Consequently they would demand education for their children. All these tended to increase government expenditures year after year.

The Emergency could be considered as a sort of social disturbance which exerted an upward displacement effect on government expenditures. This was illustrated by the fact that many types of expenditures of a welfare nature which were originally introduced in connection with the Emergency had to be maintained even when the Emergency was over. There was thus a "ratchet effect" on government expenditures.

Another social disturbance which had displaced government expenditures in an upward direction was the Confrontation.

TABLE 5.2

FEDERATION OF MALAYA

EMERGENCY EXPENDITURES

FOR 1957

(Selected Items)

Items	\$ million
Personal Expenditures.....	62.1
Annual Recurrent, Other Charges of Police etc..	14.2
Rations (operational), Clothing, Stores and Equipment.....	5.1
Federation Military Forces#.....	4.1
Resettlement of, and Benefits in Kind and Rehabilitation Loans for Special Constables...	2.7
Maintenance of Emergency Roads, Police Raddies and Launches etc.....	2.1
Gratuities and Retiring Allowances.....	2.0
Telecommunications.....	1.7
Transport and Travelling.....	1.6
Administration and Relief of Aborigines.....	1.2
Information and Printing.....	1.1
Total.....	97.9

Source: Federation of Malaya Financial Statements 1957

Excluding the Annual and Special Expenditures.

TABLE 5.3

CAPITAL EXPENDITURE FOR EMERGENCY 1957
(In Thousands of Dollars)

Items	\$ thousand
Emergency Operation Police Post	4
Police Jungle Company Camps.....	39
Roads and Airfields.....	39
Emergency Buildings.....	16
Emergency Roads and Airfields.....	10
Regrouping of P.W.D. Labourers' and Overseers' Quarters.....	116
Road to Kedah, Ipoh V.H.F. Station.....	60
Repairs : Ipoh Detention Camp.....	2
Emergency Building.....	81
Emergency Airfields	51
Emergency Roads.....	984
Maintenance of Emergency Roads.....	13
Construction of Special Constable Training Camp.....	25
Total.....	\$ 1,490

Source: Federation of Malaysia Official Year Book 1961,
 Page 462.

Confrontation

At the formation of Malaysia in 1963 Indonesia adopted a policy of confrontation towards Malaysia. The confrontation was carried out in both military and economic terms. Diplomatic relations between the two countries were severed and all trading came to a standstill.

TABLE 5.4
MALAYSIAN EXTERNAL TRADE WITH INDONESIA
1962-1965

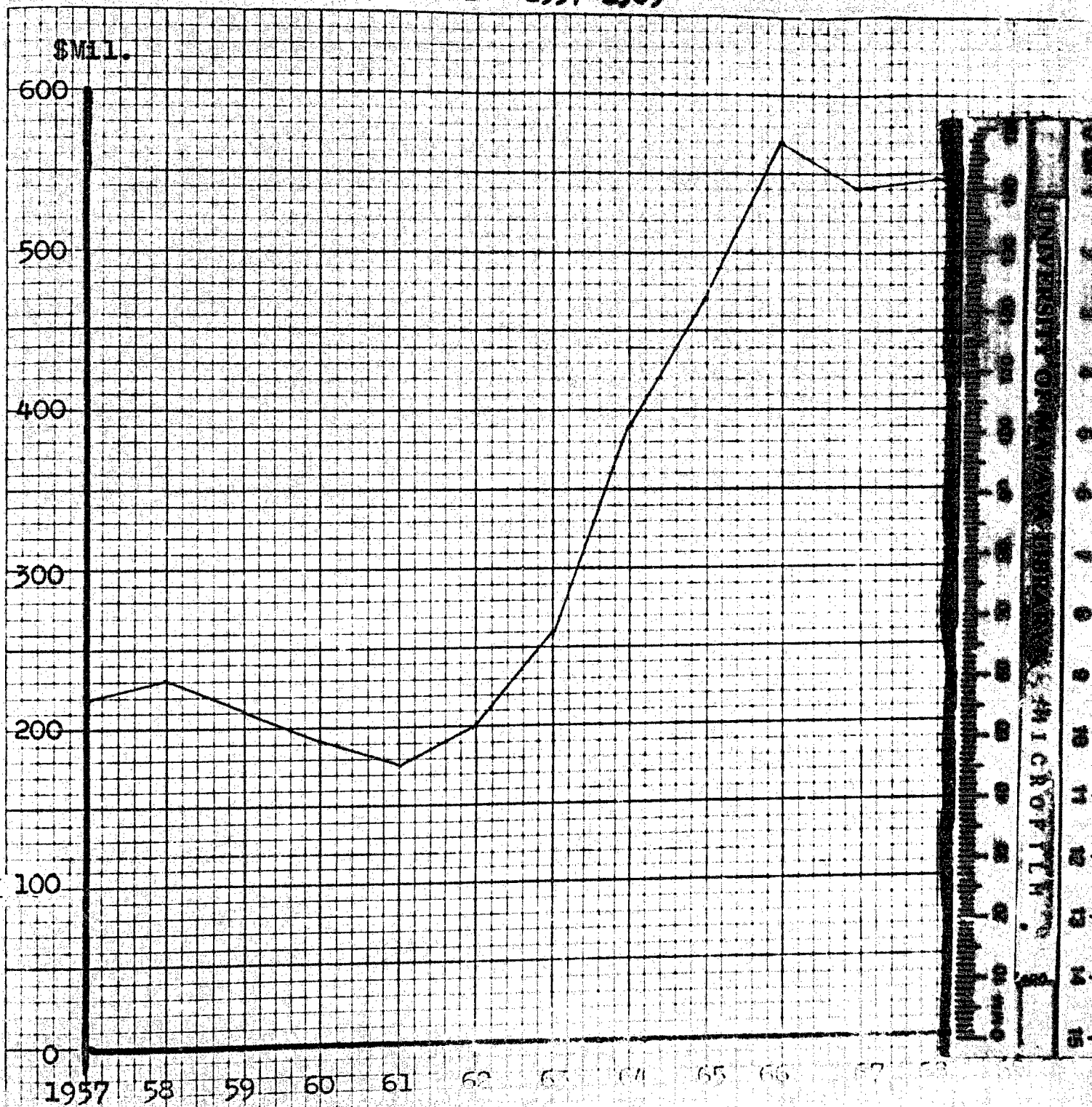
(In millions of dollars)

Year	Imports		Exports	
	Amount	As Percent- ages of Total Im- ports	Amount	As Percent- ages of Total Ex- ports
1962	293.3	11.9	26.9	1.0
1963	212.5	8.3	6.0	0.2
1964	42.8	1.7	0.0	0.0
1965	7.0	0.2	0.1	0.0

Source: Lim Chong Yah, West Malaysian External Trade 1947-1965, Cyclostyled, Appendices 3 & 5.

However the Confrontation did not affect government revenue to any significant extent because Malaysian external trade with Indonesia constituted only a small percentage of total external trade, as can be seen from Table 5.4 above.

GRAPH 5.1
**EXPENDITURES FOR DEFENCE AND SECURITY
 IN MALAYSIA 1957-1969**



Source: Federation of Malaysia Financial Statements 1957-65.
Budget Summary of Federal Government Expenditure 1969
Bank Negara Annual Report 1968

The effect of the Confrontation was mainly on government expenditures because defence had to be built up to cope with military confrontation, especially in East Malaysia. For this reason expenditures for defence and security increased from \$253 million in 1963 to \$395 million in 1964, an increase of about 50%. This increase was sustained in subsequent years, though at a slower rate. Even when the Confrontation was called off in 1967 the increase was still maintained.

The upward displacement effects of the Emergency and the Confrontation were illustrated in Graph 5.1. From this graph it can be seen that expenditures for defence and security increased steeply after 1963 and became more or less stable after 1966. The expenditure plateau extended beyond 1967 when the Confrontation was called off. Thus expenditures had been displaced upward by the "social upheaval" and was sustained at that high level after the upheaval was over.

Expenditures for Education

In Malaysia education is the responsibility of the Federal Government. The educational system is based on the Education Ordinance of 1957 and the Education Act of 1961. The purpose of the overall education policy is "to establish a national system of education which will satisfy the needs of the nation and promote its cultural, social, economic and political development."¹

This policy was put into practice by providing free primary education for six years in schools using each of the country's four main languages: Malay, English, Chinese and Tamil. However at the secondary school level only English and Malay education were provided.

Expenditures for education had always been a major item of total government expenditures. As can be seen from Table 5.5 educational expenditure became more and more important. Not only did it increase in absolute terms but it also increased as a percentage of gross national product (GNP).

Total educational expenditure per capita also increased significantly. For the period 1957-1967 per capita educational expenditure more than doubled. Similarly educational expenditure per school child also increased considerably over the same period.

¹ Preamble of the Education Act, quoted by Federation of Malaysia Official Year Book 1964, Page 928

TABLE 5.6
NUMBER OF SCHOOLS, PUPILS AND TEACHERS
IN WEST MALAYSIA 1957-1967

Year	Number of Schools	Number of Pupils	Number of Teachers
1957	5,073	1,110,477	35,054
1958	5,429	1,174,541	39,506
1959	5,496	1,221,370	43,276
1960	5,468	1,271,849	46,385
1961	5,409	1,322,256	49,177
1962	5,604	1,385,351	51,331
1963	5,504	1,453,747	52,233
1964	5,465	1,493,450	53,932
1965	5,765	1,599,187	57,847
1966	5,725	1,706,860	62,183
1967	5,610	1,810,747	65,054

Source: Federation of Malaysia Official Year Book 1966,
 Government Printer, Kuala Lumpur, Pages 467-468.

Monthly Statistical Bulletin of West Malaysia
 April 1969, Department of Statistics, Kuala
 Lumpur.

Note: # Including private schools but excluding religious
 schools.

Educational expenditure increased year after
 year not only because of the expansion of educational
 services that were being provided but also because of

TABLE 5.6

EDUCATIONAL EXPENDITURES IN RELATION TO
OTHER ECONOMIC DATA

(1) Year	(2) Population ('000)	(3) Total Number of Pupils	(4) Cost at Market Price (\$ Mil.)	(5) Total Public Expenditure (\$ Mil.)	(6) Total Educa- tional Expen- diture (\$ Mil.)	(7) Educational Expenditure per Capita (\$)	(8) Educational Expendi- ture per Pupil	(9) (6) as a percent- age of (4)	(10) (6) as percentage of (5)
1957	6,405	1,110,477	4,948	957	136	21.2	122.4	2.7	14.2
1958	6,596	1,174,041	4,758	988	150	22.7	127.7	3.2	15.1
1959	6,815	1,221,370	5,316	980	159	23.3	136.1	3.0	16.2
1960	7,018	1,271,648	5,686	996	179	25.5	140.7	3.0	18.0
1961	7,250	1,322,256	5,914	1,203	211	29.1	159.5	3.6	17.5
1962	7,494	1,385,351	7,044	1,487	262	35.0	175.1	3.8	17.6
1963	7,777	1,453,747	7,483	1,731	283	36.7	194.7	3.8	16.3
1964	9,275	1,493,450	8,045	2,051	335	36.7	224.7	4.1	18.3
1965	9,558	1,599,187	8,728	2,215	417	43.1	285.1	4.7	18.8
1966	9,664	1,706,860	9,239	2,331	424	44.0	248.4	4.6	18.2
1967	10,100	1,810,747	9,502	2,768	471	46.6	260.1	4.6	17.1

Source : Malay Economic Review, Vol. III, pp. 1, 1967

Federation of Malaya and Federal States until 1957 - 1966

Monthly Statistical Bulletin of West Malaysia, April 1969, Department of Statistics, Kuala Lumpur.

The steep increase in the number of school-going children when primary school education was made free enrolment increased considerably. In this connection it should be noted that at the primary school level there were almost no private schools. The number of pupils in primary schools at the end of 1962 was 1,175,352 as against the estimated population of children of primary school-going age of 1,268,000. The number of children of primary school-going age was expected to increase fairly steadily year by year and it was estimated that the number in this age group in 1982 would stand at 2,320,000.²

As a result of increased enrolment more teachers had to be trained and more classrooms had to be provided. This in turn would increase the recurrent expenditures such as wages and salaries and maintenance costs. Development expenditures thus created a cumulative demand for increased recurrent expenditures in the field of education.

The average annual cost of providing education in fully-assisted primary schools in 1963 (excluding cost of administration and teacher training) was around \$170; in rural extension schools it was around \$650 and in secondary schools it was around \$220.³

As the standard of living improves educational expenditure could be expected to rise substantially. T. Balogh and P.P. Streeter had suggested that "expenditure on education is highly correlated to income and wealth of parents, to ability and motivation, and to educational opportunities such as urban residence and proximity to educational centres, to access to well-paid jobs...."⁴

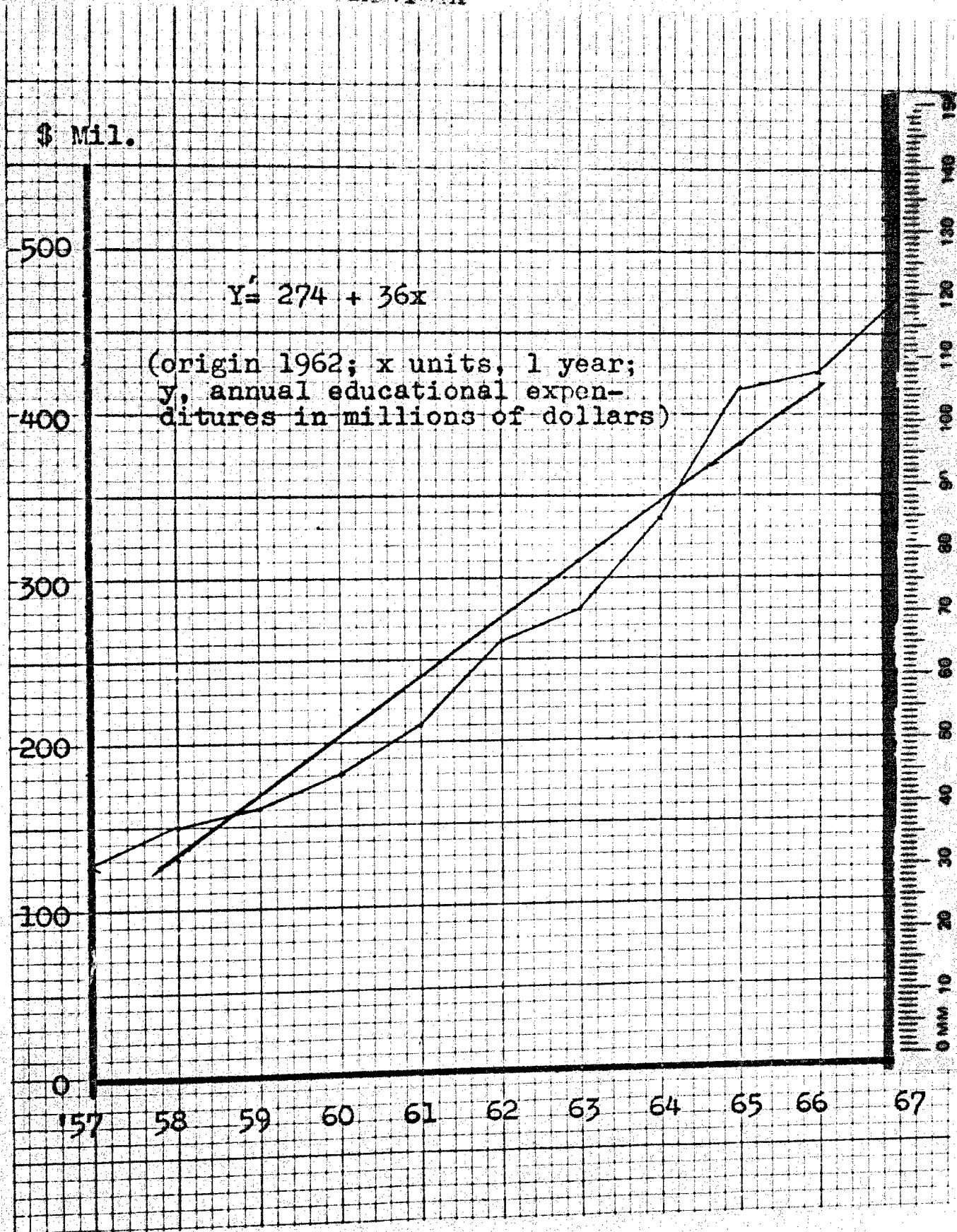
To the extent that increase in population also increased the number of school-going children population growth constituted a sort of permanent inflation which exerted an upward displacement effect on government expenditures. In this connection it might be recalled that in Malaysia population had been growing at the rate of 5% per annum, one of the highest in the world. This factor alone could cause government expenditure to increase considerably.

² Source: Federation of Malaya Official Year Book 1964.
³ Ibid.

⁴ T. Balogh and P.P. Streeter, Educational Planning in Developing Countries, Economics of Education, Dr. H. Blaug, Penguin 1969, Page 387.

GRAPH 5.2

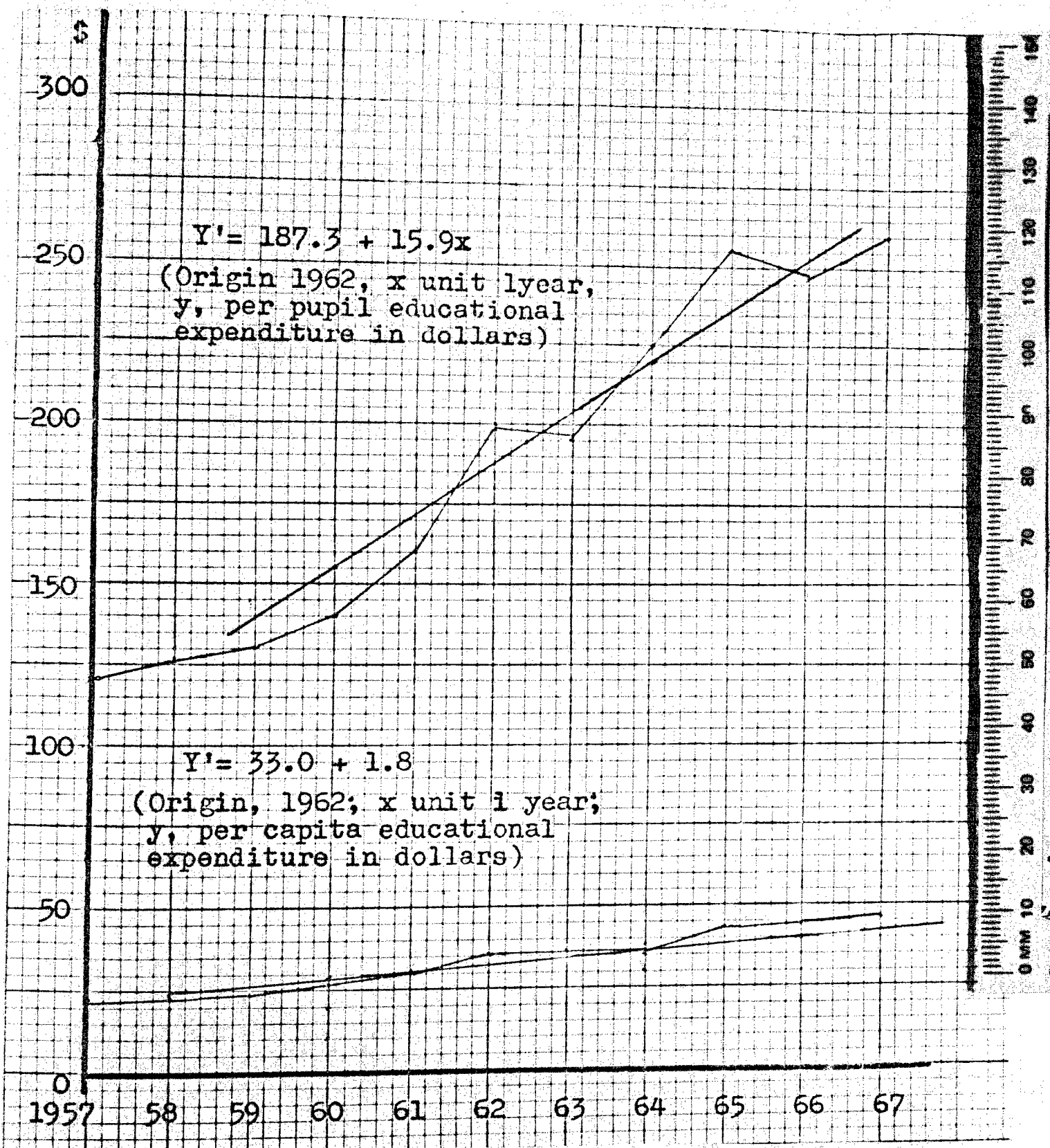
TREND GROWTH OF EDUCATIONAL EXPENDITURES
IN MALAYSIA



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Source: Calculated and Drawn from Data in Table 5.5

TREND GROWTH OF EDUCATIONAL EXPENDITURE
PER PUPIL AND PER CAPITA IN MALAYSIA



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Source: Calculated and trend from data in Table 3.2.

Expenditures for Health and Welfare Services

During the past twenty years or so most nations have increased their expenditures for health and welfare services. Malaysia is no exception to this general trend. The effects of this increase in health and welfare expenditures extend far beyond the narrow confines of the government budget. They have important implications for political, sociological and economic development. It is the purpose of this section to trace briefly the development of governmental health and welfare programmes in Malaysia since 1957.

Health Services

Expenditure on health is productive in three ways: first it increase the number of man-hours of work that can be performed; secondly it improves the quality of work and thirdly, by clearing otherwise uninhabitable areas, it makes possible the use of natural resources which would not otherwise be utilised.

In the early development of the medical and health services in Malaysia they were mainly provided by the state governments which maintained most of the hospitals and clinics. With the establishment of the rubber industry the estates set up their own hospitals to look after their staff. By 1954 it was estimated that less than one third of the number of hospitals were Government institutions but the latter contained two thirds of the beds.⁵

With Independence in 1957 health became a wholly federal matter, except for preventive measures in the Municipalities. The main efforts of public health programmes were directed at the eradication of some specific diseases, the more important of which were malaria and tuberculosis.

During 1960 a scheme was initiated with the assistance of the World Health Organisation to investigate the total eradication of malaria in Malaya along lines which had been successful in other countries.

In 1961 a campaign to eradicate tuberculosis as a public health problem on a national basis was launched. There were about 3,500 beds reserved for T.B. patients in the major hospitals.⁶

TABLE 5.7
PER CAPITA GOVERNMENT EXPENDITURE ON
MEDICAL AND HEALTH SERVICES
1957-1967

Year	Total Expenditure (RM'11)	Per Capita Expenditure (RM)
1957	47	7.3
1958	67	10.1
1959	70	10.2
1960	80	11.4
1961	87	12.0
1962	113	15.1
1963	107	13.2
1964	126	13.6
1965	155	16.2
1966	166	17.2
1967	188	18.6

Source: Federation of Malaysia Financial Statements, 1957-1965.

Bank Negara Annual Report 1967.

Note: Prior to 1964 figures for Malaya only.

Government hospital accommodation in 1967 already exceeded 22,500 beds. All the hospitals also provided out-patient treatment. In addition to these there

There were also mobile dispensaries to serve the rural areas.

All these programmes needed more and more government expenditure. In 1958 government expenditure on health and medical services was \$67 million, but by 1967 it had reached \$188 million. This amounted to an average rate of growth of almost 20% per annum. As a proportion of GNP it only rose slightly from 1.4% in 1958 to 1.9% in 1967. However in terms of per capita expenditure the growth rate was again considerable, the annual growth rate being 11.4%.

Welfare Services

Social welfare in Malaysia is still in its infancy. It is comparatively recently that the government has played any direct role in the provision of social welfare services. Government expenditure on welfare services remained relatively unimportant throughout the period 1957-1967. The annual expenditure on welfare services had never exceeded \$5 million. This amount was rather small in relation to the population of Malaysia. Annual per capita expenditure on welfare services remained stable around the region of 30.4 throughout the period 1957-1967.

There was no social security system, although there was a workmen's compensation scheme for workers injured while on duty. Most of the welfare expenditure consisted of ad hoc grants to individuals or organisations on individual merits. The services performed by the Federal Department of Social Welfare included care of children, handicapped persons services, care of old people, and relief schemes for war victims etc.

However it should be noted that federal expenditure on welfare services did not represent the total amount of public expenditure on welfare services. Other than the federal government all state governments also had their welfare services which were administered more or less along the lines of the federal government and covered more or less the same fields too.

Expenditures on Economic Services

Under economic services we include agricultural and rural development and industrial development. We shall examine the growth of government expenditures on these services, both recurrent and development expenditures.

One interesting point to note about government expenditures on economic services was that development

expenditure always exceeded recurrent expenditure. Also development expenditure grew at a relatively faster rate than recurrent expenditure, both in absolute and percentage terms. This again was a reflection of the efforts of the Government to provide a sound economic infrastructure for further economic progress.

As far as recurrent expenditure was concerned there was nothing spectacular in its increase over time. This consisted of the annual maintenance cost of the economic services. Before Independence the government took a relatively unimportant part in the economy, therefore economic services of a development or investment nature did not take place to any appreciable extent in the public sector. This perhaps accounted for the low recurrent expenditure.

After Independence the government embarked on an ambitious programme of economic development as embodied in the various development plans. In all these plans the role of the government had been emphasized as one of providing the basic economic infrastructure upon which the private sector could expand. Except for rural development the government seldom took an active part in the actual establishment of business enterprises. This strategy was of course consistent with the government's political philosophy of free enterprise. Some specific expenditures on economic services are examined below.

Agricultural and Rural Development

Malaysia has a predominantly agricultural economy. Economic dualism is very apparent in the Malaysian economy. On the one hand the economy is traditionally dependent on rubber as the main earner of foreign exchange. On the other hand the bulk of the peasants are engaged in subsistence farming. In the various development plans great efforts had been made to diversify the agriculture and to improve the standards of living of the peasants.

(a) Rubber

Much effort had been spent on rubber replanting in order to improve the productivity of the rubber industry, thereby strengthening its position against the competition of synthetic rubber. For this purpose old rubber trees were cut down and instead were planted with high yielding trees. By the end of 1965 almost 700,000 acres of rubber trees had been replaced by high yielding trees. As a result the area under high yielding trees rose from 30% to 40% during the Second Malayan Plan 1961-1965. The total investment in rubber replanting from 1956 to 1965 amounted to \$274 million.

TABLE 5.8
MALAYA: DRAINAGE AND IRRIGATION
PROGRAMME 1961-70 (Acres)

	Estimated 1961-65	Target 1966-70
Irrigation:-		
Existing cultivable land improved.....	258,000	258,500
Uncultivated land rendered cultivable.....	34,000	674
Land rendered capable of being double-cropped....	195,000	358,600
Drainage:-		
Cultivated land improved.	145,000	148,000
Uncultivated land rendered cultivable.....	55,000	100,000

Source: First Malaysian Plan 1965-70, Page 116.

(b) Drainage and Irrigation

Until recently self-sufficiency in rice production was considered to be economically unprofitable for the country as a whole since resources could be more profitably employed in the production of export commodities such as rubber and oil palm. However this attitude had been changed soon after Independence. The aim of the government was to obtain self-sufficiency in rice. To this end rice production was stepped up by the provision of drainage and irrigation services so as to make double-cropping possible in many areas. From 1956 to 1965 a total amount of 2,134 million had been invested in drainage and irrigation projects. The programme was further extended during the first Malaysian Plan 1965-70. The most ambitious project was the Muda River Scheme which, when completed, would cost 204 million. The benefits of the drainage and irrigation programme is shown in Table 5.8 above.

TABLE 5.9
ALLOCATION OF AGRICULTURAL EXPENDITURE
(In Millions of Dollars)

Items	First Five Year Plan 1956-60 Actual	Second Five Year Plan 1961-65 Target
Rubber Replanting	153.4	120.1
Drainage and Irrigation	38.3	96.2
Land Development	16.7	135.2
Research and Extension	2.4	17.7
Animal Husbandry	1.7	10.4
Forestry	2.2	2.6
Fisheries	2.4	4.1
Harvey	3.6	5.4
R.I.D.A.	6.8	30.9
Others	—	3.6
Total	227.5	426.4

Note: + Rural Industrial Development Authority.

Source: Federation of Malaysia Official Year Book 1964,
Page 220.

Land Development

Land development was carried out by the Federal Land Development Authority (FLDA) which was set up in 1956 to open up virgin jungle for agricultural purposes and for new land settlement. During the period of the Second Malayan Plan 1961-65, FLDA in conjunction with state governments started twenty-two schemes in nine different states. By the end of 1965 nearly 30,000 acres of land had been cleared and rubber had been planted on about 15,000 acres of the cleared land. From Table 5.9 above it can be seen that expenditure for land development increased more than eightfold during the Second Five year Plan as compared to the First Five Year Plan. This was an indication of the rural bias of government expenditure.

Another indication of the rural bias of government development expenditure could be seen from the fact that for the First Malaysian Plan 1966-70 agricultural development expenditure had been set at a target of \$1,086 million while for the same plan period total development expenditure was estimated to be \$4,550 million.

Industrial Development

In the field of industries the government played a less important role than in agriculture as measured by the relative sizes of development expenditure. For example during the period 1961-1965 development expenditure for agriculture was \$426.4 million while that for industries was \$25.0 million.

The role played by the government in industrial development was an indirect one. The government itself did not set up any factories. The aim of the government had been to promote and facilitate the growth of manufacturing industries. To this end many types of fiscal incentives were provided such as pioneer status, exemption from income tax and accelerated depreciation etc.

In addition to providing the infrastructures conducive to industrial development the government also channelled some public funds through public corporations and statutory bodies to help the private sector in the setting up of factories. For example the government was a shareholder of Malaysian Industrial Development Finance Berhad which extended both long term and medium term loans to the private sector.

In 1965 a statutory body, the Federal Industrial Development Authority was established to coordinate and promote industrial development. More specifically its functions were as follows;

- (i) to undertake economic feasibility studies of industrial possibilities,
- (ii) to facilitate exchange of information and coordination among institutions engaged in or connected with industrial development,
- (iii) to undertake industrial promotion work,
- (iv) to evaluate applications for pioneer status.

Government expenditure for industrial development for the period 1966-1967 is given in Table 5.10. The predominance of development over recurrent expenditure is quite obvious.

TABLE 5.10
GOVERNMENT EXPENDITURE ON INDUSTRIES

1960-1967

(In Millions of Dollars)

Year	Recurrent Expenditure	Development Expenditure	Total
1960	4	45	49
1961	3	49	52
1962	2	47	49
1963	3	64	67
1964	4	62	66
1965	4	62	66
1966	3	35	38
1967	5	73	78

Source: Bank Negara Malaysia Annual Report 1968

Interest Payments

As in many other countries public debt of Malaysia has increased tremendously over the past ten years. For the period from 1957 to 1967 public debt of Malaysia increased from \$977 million to \$3514 million, or from 19.7% to 35.3% of GNP at market price.⁶ To this extent interest payments on public debt has become a burden on government finance and this burden tends to become heavier with the passage of time.

The effects of interest payments on internal and external debt on the national economy are quite different. Interest payments on internal debt constitutes a part of transfer payments within the national economy and do not reduce the national income although they may affect

⁶ Source: Lee Iet, Malaysian Debt Structure, Appendix 1, Vol. 9 1968, Page 39.

The pattern of investment. On the other hand interest payments on external debt, being payments to foreigners, do reduce national income and constitute a drain on the resources of the economy. Moreover they have serious repercussions on the balance of payments. The total effects of interest payments are to render government expenditures less flexible as an instrument of fiscal policy.

TABLE 5.11
FEDERAL INTEREST PAYMENTS AS PERCENTAGES OF
TOTAL GOVERNMENT EXPENDITURES AND GNP

(1)	(2)	1957-1967		(5)	(6)
		(3)	(4)		
Year	Federal Interest Payments (\$M1)	GNP (\$M1)	Total Government Expenditures (\$M1)	(2) as % of (3)	(2) as % of (4)
1957	20.2	4,948	957	0.42	2.0
1958	26.7	4,758	988	0.60	2.9
1959	31.9	5,316	950	0.60	3.2
1960	43.7	5,886	996	0.76	4.4
1961	50.4	5,914	1,203	0.85	4.2
1962	58.8	7,044	1,487	0.82	3.9
1963	68.0	7,480	1,731	0.91	3.9
1964 +	81.5	8,045	2,051	1.01	4.0
1965	97.7	8,728	2,215	1.12	4.4
1966	117.8	9,239	2,331	1.30	4.1
1967	137.6	9,502	2,743	1.44	5.0

Note: + Prior to 1964 figures for Malaya only.

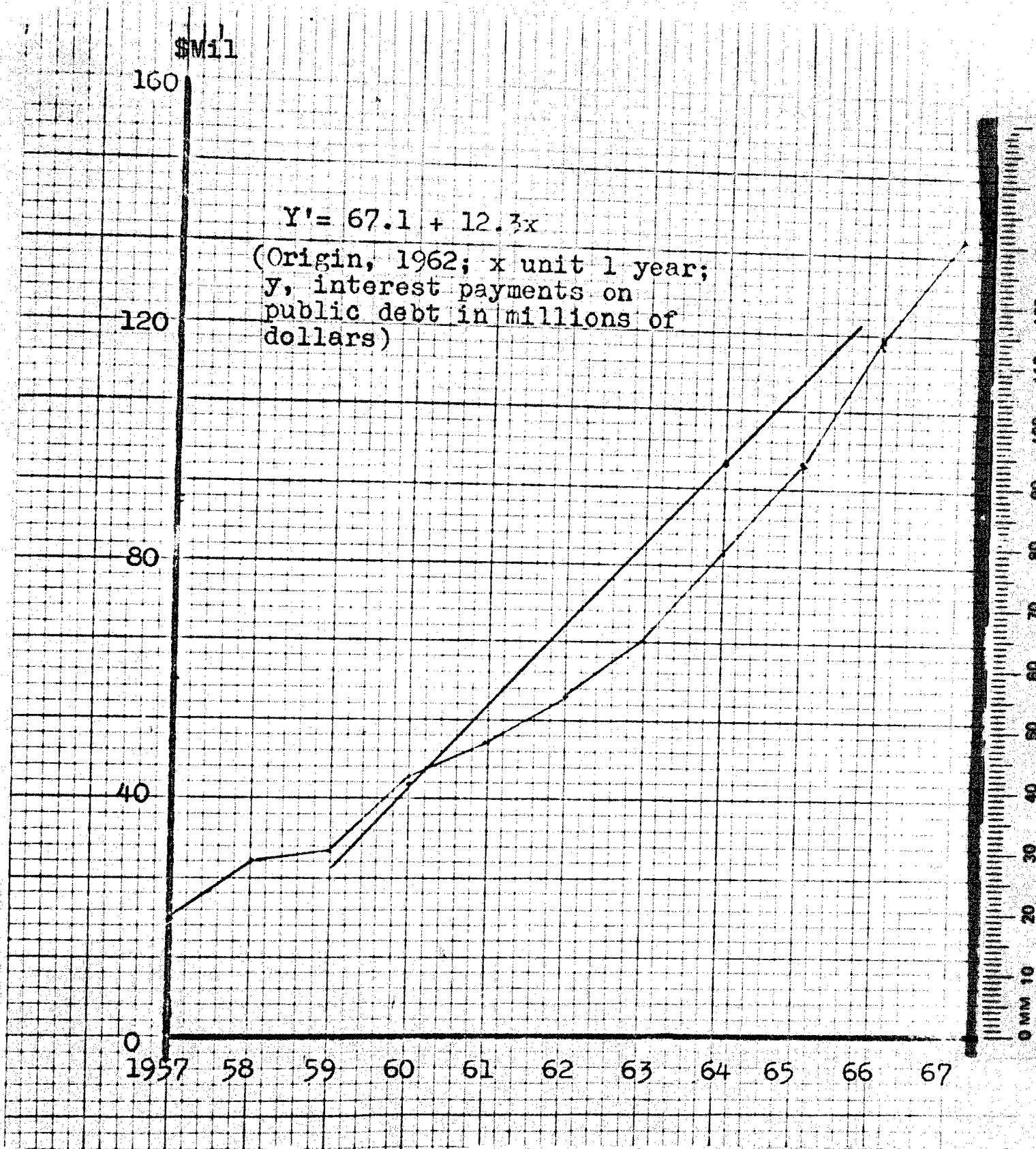
Source: Federation of Malaysia Financial Statements 1957-65.

National Accounts of West Malaysia 1955-63 & 1960-65,
Department of Statistics, Kuala Lumpur.

Bank Negara Quarterly Economic Bulletin Vol.1 No.1.

GRAPH 5.4

TREND GROWTH OF INTEREST PAYMENTS
ON PUBLIC DEBT IN MALAYSIA



In Malaysia interest payments on public debt increased by more than six times over the period 1957-57, with an annual growth rate of 53.3%. The growth of interest payments on public debt as percentages of GNP and total government expenditures can be seen in Table 5.11.

Most of the interest payments were on internal debt since internal debt constituted a great proportion of public debt.⁷ And as most of the debt had been incurred in connection with economic development which would generate additional income in due course, interest payments had not become too heavy a burden on government finance. However they are likely to become such a burden in the near future if the present trend growth is continued.

Grants to States

Under the Malaysian Constitution the Federal Government must make some grants to the state governments in connection with the maintenance of state roads. In addition to these road grants the Federal Government also makes some capitation grants to the state governments. These grants are rigidly written into the constitution on the bases of mileage maintained by each state and the population in each state. For this reason we should expect this category of government expenditure to be more or less stable and not amenable to manipulation for policy purposes. Nor does it affect the allocation of resources to any significant extent since roads have to be maintained in any case, and it does not make any difference whether the work is carried out by the state or the federal government.

Table 5.12 shows that grants to states had been quite stable since 1958. The sudden increase since 1963 was due to the inclusion of East Malaysia into the Federation, and East Malaysia also received similar grants from the Federal Government as the other states of West Malaysia.

Conclusion

We have demonstrated in this chapter that with the exception of social welfare services, government expenditures for each function undertaken by the Government had increased tremendously during the period under study (1957-57). In some cases the increase was brought about by social disturbances such as the Emergency and the Confrontation which exerted an upward displacement effect on government expenditures, notably on expenditures for defence and security.

⁷ Ibid.

In other cases the increase was caused by some permanent influences such as population growth. A large part of the increase, however, could be attributed to the change in the government's attitude as regards its role in promoting economic growth. All these different factors operated simultaneously to raise the level of government expenditures, thereby enhancing their importance in the national economy.

TABLE 5.12
 FEDERAL GRANTS TO STATES
 (Road Maintenance and Capitalization)
 1957-1967

Year	Amount (Mill)
1957	49.7
1958	63.0
1959	63.5
1960	62.2
1961	65.1
1962	69.8
1963	80.1
1964	124.0
1965	127.0
1966	148.0
1967	160.0

Source: Federation of Malaysia Financial Statements, 1957-65.

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