

## CHAPTER VI

### SOME OBSERVATIONS AND CONCLUSIONS

We have seen in the previous chapters that government expenditures increased tremendously during the period under study. It is found that there was a close correlation between government expenditures and GNP at market price, although the rate of increase of government expenditures was greater than that of GNP. In this sense Malaysian data on government expenditures have provided an empirical test regarding the validity of the Wagner Hypothesis.

With respect to functional categories the growth of government expenditures had not been evenly spread over all categories. The most spectacular increase occurred in expenditures on defence and security and expenditures on education. As far as expenditures on defence and security are concerned there are some clearly discernible "displacement effects" caused by "social upheavals", namely the Emergency and the Indonesian Confrontation. The growth occurred in a step-like manner and the expenditure plateau is likely to extend beyond 1967 in view of the increased defence burden as a result of the British withdrawal from the Far East.

Expenditures on education also increased greatly, both in absolute terms and in relation to total population, i.e. in terms of per capita expenditure. The growth is likely to be accelerated. The government simply has to satisfy the people's demand for more and better education. In this case population growth is an important "permanent influence" on expenditures.

We have seen in the previous chapter that, with the exception of expenditures on social welfare services, almost all categories of government expenditures showed considerable increase over the period 1957-1967. We have also noted that social welfare service, such as social security benefits, is only at its infancy in Malaysia. Are there any reasons to expect this category of expenditure to increase in the near future?

The general case for a national social security system can be based on a number of reasons. On the one hand it can be argued that in both primitive and advanced countries

there are some mutual security systems, in the form of traditional obligations on relatives to look after the aged and the infirm in the former and in the form of an elaborate system of taxes and transfers by the State in the latter. It is thus only natural that such a system should exist in a developing country like Malaysia. On the other hand it may be argued that there are fundamental economic reasons why social security expenditures should increase with the growth of income: in so far as such services are purchased in the market there is a high income elasticity of demand for them, so public provision should acknowledge this want accordingly.

In fact whether one likes it or not there is a great popular demand to introduce various types of social security arrangements. It is also a fact that most politicians are not opposed to the introduction of these services. The scope for the expansion of expenditures on social welfare services in Malaysia is therefore very great.

### Government Investment and Its Implications

The growth of government expenditures had not been uniform with regard to recurrent expenditures and development expenditures. The latter grew at a much faster rate than the former. This fact reflected the conscious efforts of the government to develop the economy.

As a result of these conscious efforts of development government investment in Malaysia increased substantially in relation to private investment and to total investment. This trend is reflected by the fact that gross fixed capital formation in the public sector increased substantially in relation to that in the private sector. Thus between 1957 and 1965 gross fixed capital formation in the public sector increased by two and a half times while that of the private sector (including public corporations) increased by only two times. (See Table 4.3).

The increasing importance and the relative stability of public investment have several implications. Firstly it may be contended that since government is making about one third of all investment and that part of investment is stable, a substantial contribution has been made toward stabilising total investment. On the other hand it may be noted that when investment demands become larger than can be met from available savings and total investment has to be cut back to restrain inflation, the total burden of adjustment will be thrown on the private sector. In other words the private sector will have to reduce a greater

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amount of investment because the public sector does not lower its demand. Finally if it is assumed, and this assumption appears to be justified, that the shortage of investment fund will continue for some time, and if the relative importance of public investment continues, the private sector is likely to find it more and more difficult to obtain investment funds to finance its activities. It is generally true that public investment demand is less flexible than private investment and that when total investment fund is limited the public authorities are in a stronger position than the private sector in obtaining funds. If this is correct the rising importance of public investment could mean a slow starvation for private enterprise.

### Conclusions

In our study we have shown that the factors which influence and determine government expenditures are diverse and complex. They are found in all major fields of human activities — political, military, social and economic. Further, as has been pointed out, government expenditures tend to be rigid and inflexible on the downward side — it is easier to increase expenditures than to reduce it. This is especially true in the case of those expenditures which represent cash payments or benefits directly to individuals. All this means that it is difficult to manipulate expenditures quickly and precisely as an instrument of fiscal policy; they are sluggish, imprecise and uncertain in their reactions. This situation is accentuated by the fact that government operates large business corporations. The operation of these corporations often entails payments out of the treasuries and these payments often behave in ways opposite to those needed for a sound fiscal policy.

Considering the whole picture of government expenditures one can conclude that the rate of growth of government expenditures is likely to continue. At the least it will maintain the share of government expenditures in GNP broadly at the present level.