

## THE BEHAVIOUR OF DISAGGREGATED PUBLIC EXPENDITURES AND INCOME IN MALAYSIA

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**Abstract:** The present study attempts to re-investigate the behaviour of disaggregated public expenditures data and national income for Malaysia. This study covers the sample period of annual data from 1960 to 2007. The Bartlett-corrected trace tests proposed by Johansen (2002) were used to ascertain the presence of long run equilibrium relationship between public expenditures and national income. The results show one cointegrating vector for each specification of public expenditures. The relatively new MWALD test indicates a strong unidirectional causal effect runs from national income to public expenditures in Malaysia. While, bilateral causality evident exists merely between public expenditure on health and national income. In Malaysia, it is not a wise strategy to solely depend on fiscal policy for long-term economic development.

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### 1. INTRODUCTION

The roles of government in a country have been explored from different perspectives focusing on the theoretical debate and empirical assessment in terms of economic policymaking. Within this context, the long-run relationship between government expenditures and economic growth has been a lively topic of empirical assessment. Testing the dynamic linkages between these variables can provide us with theoretical relevance and policy implication for future growth determinants of a country. Two different schools of thought discuss the notion of government expenditure and economic growth accentuating on the causal direction between both of them. Wagner (1890) postulated that public expenditure is an endogenous variable that causes income growth for a country and it grows faster than the growth of income.<sup>1</sup> In contrast, Keynes (1936) postulates that public expenditure is an exogenous variable, which can be used as an effective fiscal policy instrument to foster economic growth suggesting that the causal direction runs from public expenditure to economic growth. Both theory holds at respective time in which the theories are postulated from real economic events. In the development of the world however, it

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