

**THE RELATIONSHIP BETWEEN PUBLIC
EDUCATION EXPENDITURE, DEMOGRAPHY
AND ECONOMY CRISIS IN MALAYSIA**

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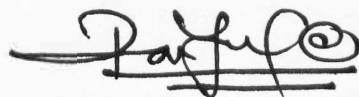
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ABSTRACT

The main aim of this thesis was to examine the determinants of the public education expenditure in Malaysia for the period of 47 years from 1971 to 2017. This study intended to address the existing research gaps within Malaysia context which had failed to receive much attention in the past. The determinants of education expenditure were modeled using time series data within the autoregressive distributed lag (ARDL) Bound Testing approach. The empirical findings from this study advocated that the real gross domestic product, real GDP per capita, inflation rate, tax revenue, total population and working age population served as the long run determinants of public education expenditure. Findings from the ARDL Bound Testing result further provided robust support to the Wagner's law in the long run. This implied that the government would adjust its expenditure to respond to the demand of the society in the long run. Meanwhile, the Error Correction Model illustrated that the public education expenditure was sensitive to the influences of real gross domestic product, real GDP per capita, unemployment rate, inflation rate, tax revenue, public debt, total population, children population of age less than 15, and elderly population of age above 64 in the short run. This study suggests that policy makers should play significant role in responding to the economic situations and emerging needs of the society in its future decision-making process on the education spending allocation.



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ABSTRAK

HUBUNGAN ANTARA PERBELANJAAN PENDIDIKAN AWAM, DEMOGRAFI DAN EKONOMI KRISIS DI MALAYSIA

Matlamat utama tesis ini adalah mengkaji faktor penentu perbelanjaan pendidikan awam di Malaysia untuk tempoh 47 tahun bermula dari tahun 1971 hingga tahun 2017. Kajian ini bertujuan untuk menangani jurang penyelidikan yang wujud dalam konteks Malaysia yang gagal mendapat perhatian ramai dalam kajian lepas. Penentu pendidikan awam ini akan dimodelkan melalui data siri masa dengan menggunakan kaedah autoregressive distributed lag (ARDL) Bound Testing. Penemuan empirical dari kajian ini telah mengenal pasti keluaran dalam negara kasar, keluaran dalam negara kasar per kapita, kadar inflasi, jumlah populasi dan populasi umur bekerja sebagai penentu perbelanjaan pendidikan awam dalam jangka panjang. Ini sejurus menunjukkan bahawa kerajaan akan melaraskan perbelanjaan selaras dengan permintaan masyarakat dalam jangka panjang. Hasil keputusan kaedah ARDL Bound Testing turut memberi sokongan kepada teori Wagner dalam kajian jangka panjang. Analisis jangka pendek melalui ECM menunjukkan bahawa perbelanjaan pendidikan adalah sensitif terhadap pengaruh keluaran dalam negara kasar, keluaran dalam negara kasar per kapita, kadar pengangguran, kadar inflasi, hasil cukai, hutang dalam negara, jumlah populasi, populasi muda berumur kurang daripada 15 dan populasi warga tua berumur 64 ke atas. Hasil kajian ini seterusnya mencadangkan agar pembuat dasar memainkan peranan yang penting dalam menanggapi keadaan ekonomi dan keperluan masyarakat dalam membuat keputusan mengenai peruntukan perbelanjaan pendidikan pada masa depan.

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LIST OF SYMBOLS

=	-	Equal to
+	-	Addition
Δ	-	First Difference
ε_t, μ_t	-	Error Term
Σ	-	Summation of
\geq	-	More than or equal
\leq	-	Less than or equal
σ^2	-	Error Variance
$>$	-	More Than
$<$	-	Less Than
\times	-	Multiplication
2	-	Square Value
\sim	-	Asymptotically
$ $	-	Modulus
R^2	-	Coefficient of determination
χ_{df}^2	-	Chi-squared value
\ln	-	Logarithm
df	-	degree of freedom

LIST OF ABBREVIATIONS

ADF	-	Augmented Dickey Fuller
ARCH	-	Autoregressive Conditional Heteroskedasticity
ARDL	-	Autoregressive Distributed Lag
ECM	-	Error Correction Model
ECT	-	Error Correction Term
EPU	-	Economic Planning Unit
ESS	-	Explained Sum of Square
EU	-	European Union
GCC	-	Gulf Cooperation Council
GDP	-	Gross Domestic Product
JB	-	Jarque-Bera
LM	-	Lagrange Multiplier
NLLS	-	Nonlinear Least Square Estimator
OIC	-	Organization Islamic Conference
OECD	-	Organization for Economic Cooperation and Development
OLS	-	Ordinary Least Square
PISA	-	Programme for International Student Assessment
PP	-	Phillips Perron
RSS	-	Residual Sum of Square
TIMSS	-	Trends in International Mathematics and Science Study
TSS	-	Total Sum of Square

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CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Education played a crucial role in any country's pursuit of economic growth and development. The success of a nation may well dependable on the knowledge, skills and competencies of its people. A nation with higher educated and highly skilled people would likely to enjoy a better economic development. Education was fundamental not just for nation development but also to inculcate nation unity. Higher educated individuals will have a better opportunity to improve their standard of living and may be able to contribute extensively to the nation's development. The education system in Malaysia was an ongoing effort to holistically develop an intellectual, spiritually, emotionally, physically balanced and harmonious community. The current education system was designed in such way to produce knowledgeable, highly-skilled and competent individuals who will uphold high moral values.

The fundamental role of education as an important factor of human capital development has also been well established through many past researches. Jorgenson and Fraumeni (1992), Mohd Hussin *et al.* (2012), Omojimate (2010) had supported a significant relationship between education expenditure and economic growth. These findings had implied that the increase in public education expenditure contributed to the development of the human capital. A well-developed human capital will increase productivity and boost the nation's economic growth. A study by Sapuan and Sanusi (2010) highlighted the importance of government education expenditure to human capital development and economic growth in Malaysia.

In another paper, Sapuan and Sanusi (2013) extended their finding in demonstrating that the development of human capital through education in Malaysia served as a key driver for human resource quality improvement. Their empirical evidence established that long run and short run relationship between economic growth and the social services expenditure existed in Malaysia. Besides Sapuan and Sanusi (2010) (2013), earlier study by Ismail and Selvaratnam (1999) had advocated a strong significant relationship between economic growth and education in Malaysia. They had showed that the expenditure on vocational and technical as well as tertiary education generated positive impact on economic growth. Both the technical and vocational education served in producing skilled and semi-skilled manpower that was very much needed by the present industrial sectors. Interestingly, their result further revealed that an increase in education level significantly affect the age of first marriage and total fertility rate. A higher educated society will encourage active participation from women in labour market, leading to a possibly higher age marriage and lower fertility rate. A continuation in such trend may results a decline of the future population. It was generally recognised that high population growth rate exerted negative impact on output growth. In such case, therefore, the decline of population growth will in turn help in stimulating the economic development of Malaysia.

In addition, the recent evolution of the Knowledge-based economy had further emphasised on the critical role that education and training more than ever. In a K-based economy, knowledge was the key factor of production that generated more wealth than other traditional resources. A study of the Malaysian Knowledge-based economy by Tan, Wong and Noor (2006) lend support to the significance importance of education as a primary factor for a sustained economic growth. Education variable was introduced into the Malaysian production function as knowledge-based factor input and was proven significant in generating future output growth. It was revealed that human capital with the stock of knowledge accumulated through education contributed to the Malaysian economic growth. This reaffirmed education as the one of the most important input factor that promotes economic growth.

It should be highlighted that the positive outcomes of the education expenditure in producing desirable outcomes through the human capital accumulation and economic growth in Malaysia had continually been taken as a highly interesting issue by many researches. Some of these studies included Yussof and Zakariya (2009), Shaihani *et al.* (2011), Mohd Shahidan (2014) and Mallick *et al.* (2016). Yussof and Zakariya (2009) had lent a firm support on the significant relationship between the diploma programmes enrolment and national economic growth. This again reflected the substantial evidence on the positive contribution of education on economic growth. Equally, Shaihani *et al.* (2011) had demonstrated that tertiary education exerted positive significant impact on the economic growth in the long run. This finding further regarded education as one of the primary components of human capital formation that modelled the endogenous growth. In a similar manner, a significant long run relationship between education level and economic growth was found by Mohd Shahidan (2014). Panel data analysis on selected 14 major Asian countries by Mallick *et al.* (2016) likewise had concluded that investment in education was an essential factor that contribute to economic growth in the long run.

Govindaraju *et al.* (2011) claimed that the government spending in education was an important determinant of the GDP growth. They posited that the move to promote education will enhance the GDP growth. Their analysis however highlighted that the investment in education will only improve the economic growth in the long run. Within Malaysia context, Lai and Yussof (2014) had equally proved significant long run relationship existed between education level and economic growth. They further implied that labour force with high education level attainment had positive contribution to economic growth. Comparably, Mohd Hussin *et al.* (2012) had implied positive significant finding of public education spending on economic growth. Investment in human capital made primarily through education and training was believed to increases productivity and enhances economic growth. Malaysia government had continuously strives to provide quality education and trainings to all within the country. It should be noted that the effort to improve the quality and accessibility in education would require an allocation of higher financial

resources and the development of a better financial management framework (Imana, 2017).

Investment on education will definitely mould Malaysia into a high income and developed nation. Ramli *et al.* (2016) had confirmed that Malaysian government spending on education was among the dominant factor that affected the economic growth. Their findings confirmed that public education expenditure was the most important and positive factor that drives country's economic growth in the long run. Hence, government should not ignore the role played by education expenditure. Increase of government spending on education each year will propel its economic growth in the long run. The current contemporary economy would require citizens to be equipped with knowledge and skills. This was again in line with Lai and Yussof (2014) that claimed that labour force with higher education attainment will have positive contribution to the economic growth.

As demonstrated by past findings, the positive impact of education investment enhanced individuals' employability and higher lifetime earnings. This showed that the positive effect of education was not solely confined to economic performance but beneficial to the welfare of the society as a whole. In short, heavy investment by any country in the development of the education sector will likely benefit not just through economic growth and human capital accumulation, but an improvement to the society as a whole. Hence, governments were advised to constantly revise on their education policies and properly utilised their education budgetary allocation so as to achieve sustained economic growth. Researches further demonstrated that every government of developing countries should place education sector as the top priority in public policies and other human resource development (HRD) programme should be launched (Nowak and Dahal, 2016). As such, more budget should be allocated to education and training programmes.

The concurrent literatures, therefore, had presented substantial evidences on the contribution of education spending in fostering and sustaining economic growth. Furthermore, government intervention in education can lead to improvement in the future income stream of individuals, enabling a more equitable distribution of wealth and assist in reducing poverty. Accumulation of human capital generated positive impacts on productivity and social returns. In order to shed light on the importance of the public education expenditure in producing more human capital and economic growth. Statistical figures and tables were presented subsequently to illustrate the reason and need in emphasising on government's education expenditure. The following Table 1.1 shows the statistical figures between the public education expenditure and the gross enrolment rate (%) in Malaysia.

Table 1.1 Statistical Figures on Public Education Expenditure and Gross Enrolment Rate

Year	Education Spending (% Total)	Primary Enrolment Rate (%)	Secondary Enrolment Rate (%)	Tertiary Enrolment Rate (%)
1971	7.93	-	41.18	
1972	9.02	-	43.01	
1973	12.59	-	-	-
1974	9.96	-	49.45	-
1975	9.86	94.30	52.30	-
1976	9.55	-	52.80	-
1977	8.52	95.40	52.05	-
1978	6.66	96.33	53.47	-
1979	7.92	95.91	54.66	3.82
1980	7.47	95.51	54.75	3.99
1981	6.96	95.27	57.18	-
1982	9.42	95.65	57.32	4.33
1983	10.17	96.34	60.78	4.32
1984	12.00	95.91	62.97	4.81
1985	12.15	96.12	63.17	5.72
1986	14.08	-	66.24	6.73
1987	17.09	94.69	68.05	7.35
1988	16.54	94.79	66.31	7.38
1989	16.14	94.60	65.36	6.60
1990	15.29	94.39	63.38	7.18
1991	13.43	95.36	64.50	7.88
1992	12.44	96.52	65.59	8.91