



INSTITUTE OF SOUTHEAST ASIAN STUDIES

# **The State and Economic Distribution in Malaysia**

Tan Loong-Hoe

Research Notes and Discussions Paper No. 31  
1982

**THE STATE AND ECONOMIC DISTRIBUTION  
IN PENINSULAR MALAYSIA**

**Toward an Alternative Theoretical Approach**

by

**Tan Loong-Hoe**

**( Research Notes and Discussions Paper No. 31 )**

**INSTITUTE OF SOUTHEAST ASIAN STUDIES**

**1982**

Published by the  
Institute of Southeast Asian Studies, Singapore

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the Institute of Southeast Asian Studies.

© 1982 Institute of Southeast Asian Studies

ISSN 0129-8828  
ISBN 9971-902-44-3

---

## PREFACE

This study examines the problems of economic distribution -- the distribution of economic resources focusing on income, wealth, employment and education -- in developing economies in general and in Peninsular Malaysia in particular. Studies on economic distribution typically address the problem without analysing the influence of the State on economic outcomes. In contrast, this study aims to present a broader theoretical approach in the analysis of economic distribution. This alternative theoretical approach argues that the State is the primary determinant of the nature of economic distribution while education, employment, and material wealth are relegated to secondary importance as major constraints. This study is organized into three sections. The introduction provides the context of the problem using the Peninsular Malaysian economy as the illustrative case study. The second section selectively review the existing literature on the topic to illuminate the issues posed in the introduction. The review identifies the serious omissions or lacunae in the literature and calls for an alternative theoretical approach. The third section attempts to conceptualize a comprehensive and realistic alternative approach.

Readers who are mainly interested in the alternative theoretical frame and its application to the Malaysian economy may skim through or skip the review of literature in Section II without significant sacrifice to the substantive contribution of this study. For those less pressed for time or those who wish to have the full grasp

of the rationale and significance of the theoretical contribution proposed, Section II can be read with much gain.

In the process of producing this study, I have benefited from the valuable comments and suggestions of many individuals and I am grateful to all of them. I would like to thank in particular: Professor Lascelles Anderson, Professor Russell Davis, Professor Judith Strauch, Dr. Donald Snodgrass, Professor Dwight Perkins, Dr. Noel McGinn and Professor Donald Blake.

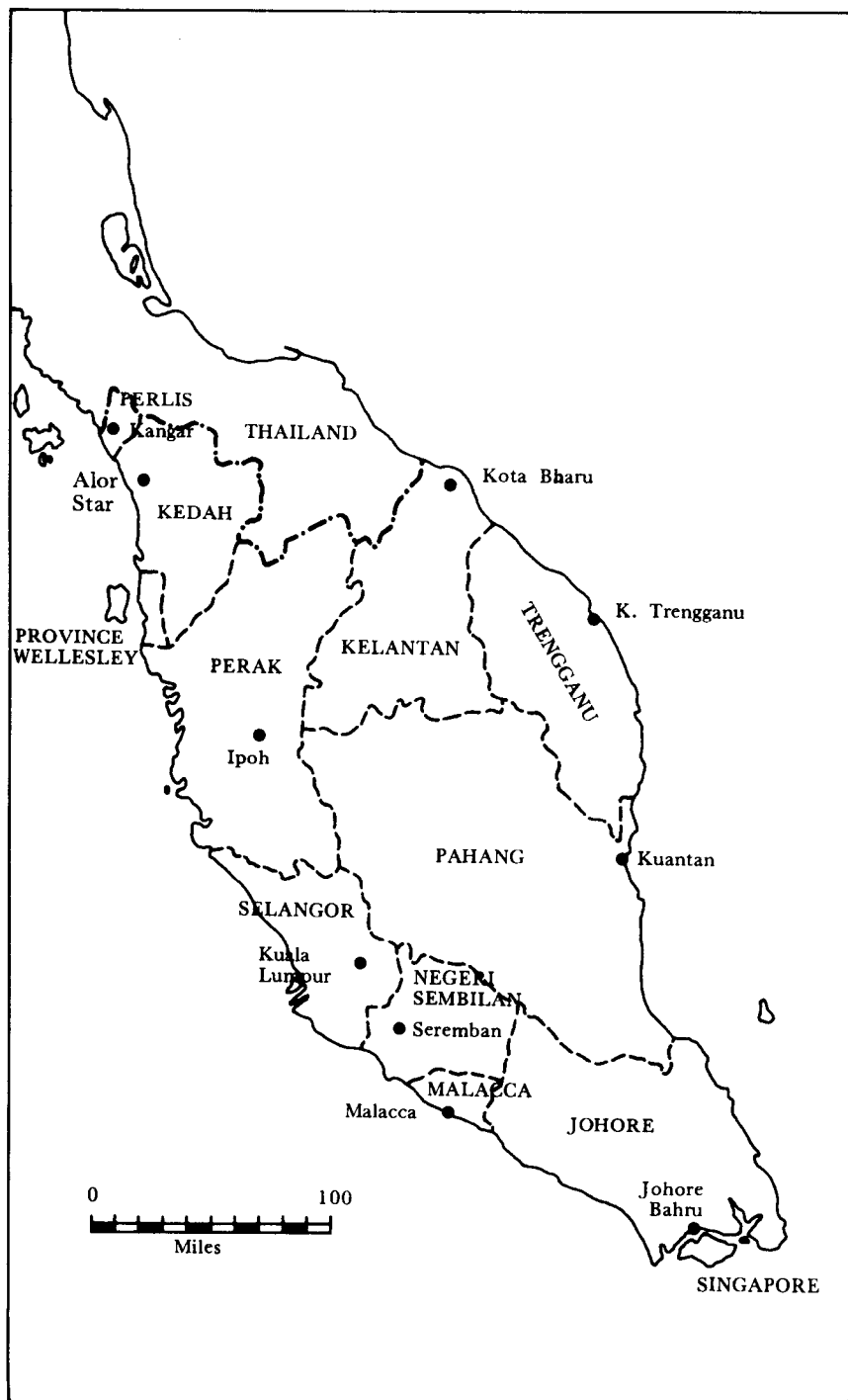
At the Institute of Southeast Asian Studies, I would like to thank Professor K.S. Sandhu, the Director, and Dr. Sharon Siddique, the Co-ordinator of the Publications Committee, for their encouragement and for making it possible for my ideas to be printed for wider circulation. This study would not have been possible without the financial sponsorship of the Harvard-Yenching Institute.

I am, however, solely responsible for the content and opinions expressed in this study.

Singapore

Tan Loong-Hoe

# PENINSULAR MALAYSIA



## CONTENTS

	Page
<b>PREFACE</b>	viii
 <b>I      CONTEXT OF THE PROBLEM</b>	 1
Efficacy of Education in the Reduction of Economic Inequality in General, and Specific to Peninsular Malaysia	1
Purpose of the Study	7
Notes	9
 <b>II     REVIEW OF THE LITERATURE</b>	 12
Human Capital and Material Capital Theories of Distribution	12
Studies Concerning Economic Distribution in Peninsular Malaysia	13
Serious Omission in the Literature: The Role of the State and Economic Distribution	17
The State as an Important Actor in the Economic Scene	18
The Importance of the Government in the Economic System in Peninsular Malaysia: Preliminary Presentation of Major Evidence	19
Notes	21

	Page
III      TOWARDS AN ALTERNATIVE APPROACH: THE STATE AND ECONOMIC DISTRIBUTION	24
Introduction	24
Four Research Propositions	25
The State and the Economic System	26
Conceptual Frame	27
The State and the Economic System in Peninsular Malaysia	32
Five distinctive features of Peninsular Malaysia	32
Development experience since 1957	38
Focus on Three Sectors of the Economic System	47
The state and the education sector	47
<i>The structure and management               of education in Peninsular Malaysia</i>	49
The state and the labour market	56
The state and the ownership and control of wealth	61



	Page
The State and the Specification of Economic Equity	66
Definitions: Equality, Equity, and Justice	66
Equality of opportunity	74
Equality of results	76
Opportunity and results	76
The State and Economic Equity	77
Four criteria for specifying economic equity	80
Typology of states and forms of economic equity	83
Malaysia: An "Intermediate Regime"?	85
Conclusion	86
Notes	87

## APPENDIXES

1	Malaysia: Gross Domestic Product by Industry of Origin, 1970-90	93
2	Peninsular Malaysia: Employment by Race and Sector, 1970-90	94
3	Peninsular Malaysia: Poor Households by Rural and Urban Strata, 1970-90	96
4	Peninsular Malaysia: Ownership of Share Capital in Limited Companies, 1970-90	97

## LIST OF TABLES

		Page
1	Population by Community Distribution: Peninsular Malaysia, 1911-70	33
2	Distribution of Population by Specific Community Groups: Peninsular Malaysia, 1957, 1970	34
3	Distribution of Population by Strata and Race: Peninsular Malaysia, 1957 and 1970	35
4	Percentage Distribution of Population by Community and State: Peninsular Malaysia, 1911-70	37
5	Estimates of Civilian Employment in Government Sector, 1957-77	41
6	Government Employment as a Proportion of Total Employment, 1957-75	42
7	Peninsular Malaysia: Growth of the Public Sector, 1955-67	44
8	Public Sector's Role in the Economy of Malaysia over Time	45
9	Proportion of National Income and Gross National Product Devoted to Recurrent and Capital Expenditure on Education, 1955-71	50
10	Federal Government Current Expenditure, 1967-76	51
11	Post Secondary Enrolments by Public Institutions, 1974	54

	Page
12 Unit Costs, Enrolment Ratios at Different Levels, and Total Current Federal Costs per Household by Income Quintile	55
13 Styles of Rural Development	84

## LIST OF FIGURES

	Page
1 Dimensions of Economic Systems	28
2 Structure of Education, Peninsular Malaysia, 1977	53

---

## CONTEXT OF THE PROBLEM

### Efficacy of Education in the Reduction of Economic Inequality in General, and Specific to Peninsular Malaysia

In developed and especially in developing countries, government decision makers, development planners, and others of diverse social classes, ethnic backgrounds, and political persuasions have shared and continue to share the faith in the efficacy of the formal education system<sup>1</sup> to alleviate economic poverty, to provide a meritocratic channel for socio-economic mobility for the lower classes, and to bring about a more equitable distribution of income and wealth in society.

In America, for instance, Lester Thurow pithily summarizes the general and persistent advocacy of education in promoting economic equality in the following quotation:

However much they may differ on other matters, the left, the center, and the right all affirm the central importance of education as a means of solving our social problems, especially poverty. To be sure, they see the education system in starkly contrasting terms. The left argues that the inferior education of the poor and of the minorities reflects a discriminatory effort to prevent them from competing with better-educated groups, to force them into menial, low-income jobs. The right argues that the poor are poor because they have failed to work hard and get the education which is

open to them. Moderates usually subscribe to some mixture of these arguments: The poor are poor because they have gotten bad educations, partly as a result of inadequately funded and therefore inferior school systems, but partly also as a result of sociological factors (e.g., disrupted families) that prevent poor children from absorbing the education that is available. Yet despite these differences, people at all points of the political spectrum agree that, if they were running the country, education policy would be the cornerstone of their effort to improve the condition of the poor and the minorities. If the poor or the minorities were better educated, they could get better jobs and higher income. This idea has had a profound influence on public policy in the last decade.<sup>2</sup>

For developing countries within the orbit of the World Bank, McNamara, despite his assessment of the disappointing performance of education in the developmental "Great Ascent", perceives that education will continue to contribute to development for the 1970s and beyond, thus reflecting continuing enthusiastic advocacy of education from one variant of the moderate view in Thurow's political spectrum. Blaming the persistent and intensifying problems of poverty and inequalities on "basically irrelevant development strategies", and an "ill-conceived education system", McNamara continues to reaffirm his faith, and that of the World Bank, in the development potential of properly conceived education systems.<sup>3</sup> This faith is mirrored in the following three important questions guiding the World Bank in its educational policies and programmes:

How can educational systems be reshaped to help the poorest segments of society?

How can education contribute to rural development, and

thus respond to the needs and aspirations of the vast majority of the poor living in the villages?

How can educational opportunities be made more equal in order to promote social mobility in countries where educational systems have hitherto favoured the urban dwellers and the relatively rich?<sup>4</sup>

The basic assumptions of the above questions are that education can contribute synergistically to the reduction of inequalities, alleviate poverty, and improve social mobility if properly "reshaped", with fresh and proper development strategies different from those misconceived ones followed in the quarter century before 1970.

Directed at the ESCAP countries, of which Malaysia is a member, a United Nations document pointed out that "... it is hardly surprising that there has always been a strong tendency on the part of many planners concerned with greater socio-economic equality to look upon education as the great equalizer . . . "<sup>5</sup>

For Malaysia and its multi-ethnic society,<sup>6</sup> the perceptions and expectations of the role and promises of education in the socio-economic development of the individual and the nation as a whole is no different; if not more pronounced.<sup>7</sup> The elected Government of the Federation of Malaysia, which has been in power since the country gained political independence on 31 August 1957, has consistently stressed education as the main instrument for solving the problems of "nation-building" and to create national unity out of a divisive society on the basis of a rapidly expanding modern economy providing special attention to the economically laggard regions and social groups.<sup>8</sup> The Malaysian Constitution states that: "Education is the responsibility of the Federal

Government and Parliament . . . the right to education is one of the fundamental liberties. . . . All pupils receive equal treatment". The Constitution also emphasizes one major function of education: "to unite the various races together so that a united Malaysian nation will evolve".<sup>9</sup> This is reflected in the national economic development plans, such as the *Second Malaysia Plan, 1971-75*, which underlined the role of education in furthering "the realization of the full potential of the vast human resources of the country". It should also "contribute significantly towards promoting national unity . . . play a vital role in increasing the productivity and income of all Malaysians". This authoritative document further adds " . . . and above all, ensure the creation of a Malay commercial and industrial community in all categories and at all levels of operation, in order that within one generation Malays and other indigenous people can be full partners in the economic life of the nation".<sup>10</sup> More recently, the *Third Malaysia Plan, 1976-80* gave greater emphasis and enthusiasm to education's potential for economic development and reducing mass poverty:

The greater challenge will be that of producing the skilled manpower in the quantum and at the pace necessary for the achievements of Malaysia's targets in regard to agricultural modernization and industrial development. These targets are essential to the eradication of poverty. . . . The relative lack of education among the poor points to the vital role of education in the alleviation of poverty.<sup>11</sup>

In sum, from the Malaysian Government's perspective, education will play a "vital" role in promoting the four interlinked national goals: (1) national unity, (2) reduction and eradication of poverty, (3) manpower development for rapid economic growth and socio-economic equality, which importantly include (4) nurturing a new "community" of Malay entrepreneurs.

Since 1970, these four national goals have been literally enshrined in the National Constitution and the National Ideology.<sup>12</sup> This is reflected in the national economic development plans as the New Economic Policy (NEP) and the Outline Perspective Plan (OPP).<sup>13</sup> The “two-pronged” NEP sets out the official developmental goals discussed above in a nutshell:

National unity is the overriding objective of the country. A stage has been reached in the nation's economy and social development where greater emphasis must be placed on social integration and more equitable distribution of income and opportunities for national unity and progress. This direction towards national unity is fundamental to the New Economic Policy . . . a two-pronged New Economic Policy for development. The first prong is to reduce and eventually eradicate poverty, by raising income levels and increasing employment opportunities for all Malaysians, irrespective of race. The second prong aims at accelerating the progress of restructuring Malaysian society to correct economic imbalance, so as to reduce and eventually eliminate the identification of race with economic function. . . . The New Economic Policy is based upon a rapidly expanding economy which offers increasing opportunities for all Malaysians as well as additional resources for development. Thus in the implementation of this policy, the Government will ensure that no particular group will experience any loss or feel any sense of deprivation.<sup>14</sup>

This variant of “growth with redistribution” development strategy<sup>15</sup> of the NEP is elaborated in the OPP which provides specific quantitative details and targets for these “two prongs” to be achieved within the time frame of about a generation, 1970-90. For instance:



1. The GNP will grow within the twenty-year period at an average rate of 8% per year. The rates of growth have been specified for the various economic sectors and industries. (See Appendix 1.)
2. Full employment will be attained by 1990. Unemployment rate will be reduced from 8% in 1970 to 4% in 1990 (See Appendix 2); and this will be accomplished along with equalizing changes in the employment structure, occupational distribution, and worker productivity increases amongst different social groups.<sup>16</sup>
3. Incidence of rural and urban poverty will be substantially reduced from 58.7% to 23.0% in the case of the former, and from 21% to 9.1% in the latter in 1990. (See Appendix 3.)
4. Economic inequality, for example, the “imbalance” in the distribution of ownership of share capital in limited companies, will be notably corrected. The 1970 skewed ethnic distribution of interest, with Malays, Chinese, and foreigners owning 2.4%, 34.3%, and 63% respectively of the total share capital, will be evened up to a more equitable distribution ratio of 30:40:30 by 1990. (For more details of the equalizing targets of economic resource distribution by ethnicity, see Appendix 4.)

To reiterate, the main point flowing from the discussion above is that education is generally conceived of as a vital instrument and an *independent* variable susceptible to government policy manipulation to achieve certain desired redistributive outcomes, such as those normatively defined in the NEP and projected in the OPP for Peninsular Malaysia. They constitute the main objectives of the present government.