

**REVISITING THE EFFECT OF GOVERNMENT EDUCATION
EXPENDITURE ON ECONOMIC GROWTH IN MALAYSIA: USING
DISAGGREGATE APPROACH**

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**BY
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ABSTRACT

This study aims to estimate the effects of education expenditure on economic growth in Malaysia, using annual data from 1980 to 2012. The Malaysian government has invested a lot on the education, however, it appears that the innovation, productivity and technology advancement are not improving as expected in order to produce a better-educated labour force for accelerating the economic growth. Therefore, there is need to re-examine the effect of government education expenditure on economic growth. This study also takes a closer look at the effects of levels of education on economic growth. The finding indicates that there is a positive effect exists between the economic growth and federal government development in the long-run. This study also reported the existence of a positive effect between the levels of education and economic growth in the long-run. The empirical findings of Granger causality based on the error-correction model estimate indicates unidirectional causality runs from economic growth to development education expenditure. This study also reports the unidirectional causality runs from the economic growth to secondary and tertiary levels of attainment. The role of government expenditure on education and levels of education, especially the secondary and tertiary education level seems to be very important and significantly explains economic growth of Malaysia. Therefore, this study suggests that the government should make investments in education, especially in quality inputs such as teaching and learning process, skills and technology aspects in order to create higher skilled human capital, which leads to the skilled labor force, later leads to the better economic growth which is in line with the national aspiration to become a high income economy by the year 2020. High income economy ones can be achieved if we have a highly skilled human capital in the entire field.

Key Words: education expenditure, levels of educational attainment, economic growth, granger causality, Malaysia.

ABSTRAK

Kajian ini bertujuan untuk menyiasat kesan daripada perbelanjaan pendidikan terhadap pertumbuhan ekonomi di Malaysia dengan menggunakan data tahunan dari 1980 hingga 2012. Kerajaan Malaysia telah menambah peruntukan untuk sektor pendidikan bagi setiap tahun, walau bagaimanapun, ia kelihatan bahawa inovasi, produktiviti dan kemajuan teknologi tidak bertambah baik seperti yang diharapkan dalam melahirkan tenaga kerja yang berpendidikan lebih baik untuk mempercepatkan pertumbuhan ekonomi. Oleh itu, terdapat keperluan untuk mengkaji semula kesan kerajaan perbelanjaan pendidikan terhadap pertumbuhan ekonomi. Kajian ini juga mengambil pendekatan yang lebih dekat dalam menyiasat kesan tahap persekolahan ke atas pertumbuhan ekonomi. Hasil kajian ini menunjukkan bahawa terdapat kesan positif di antara pertumbuhan ekonomi dan perbelanjaan pembangunan kerajaan persekutuan ke atas pendidikan dalam jangka masa yang panjang. Kajian ini juga melaporkan kewujudan kesan positif di antara tahap pendidikan dan pertumbuhan ekonomi dalam jangka masa panjang. Hasil kajian empirikal Granger berdasarkan VECM mendedahkan bukti sebab akibat satu arah berjalan dari pertumbuhan ekonomi ke perbelanjaan pendidikan pembangunan bagi Model 1. Hasil dapatan empirikal Granger berdasarkan VECM, bagi Model 2, menunjukkan bahawa terdapat bukti sebab akibat satu arah dari pertumbuhan ekonomi ke tahap persekolahan menengah dan tahap pendidikan tinggi. Peranan perbelanjaan kerajaan terhadap pendidikan dan tahap persekolahan, terutama sekali peringkat menengah dan pengajian tinggi seolah-olah menjadi sangat penting dalam menjelaskan pertumbuhan ekonomi Malaysia. Oleh itu, kajian ini menunjukkan bahawa kerajaan perlu membuat pelaburan dalam pendidikan, terutamanya dalam input yang berdasarkan kualiti seperti proses pengajaran dan pembelajaran, kemahiran dan aspek-aspek teknologi bagi melahirkan modal insan yang berkemahiran tinggi yang mampu melahirkan tenaga buruh yang mahir, kemudian membawa kepada pertumbuhan ekonomi yang lebih baik yang selaras dengan aspirasi negara untuk menjadi ekonomi yang berpendapatan tinggi menjelang tahun 2020. Status negara yang berpendapatan tinggi boleh dicapai sekiranya kita mempunyai modal insan yang berkemahiran tinggi dalam semua bidang.

Kata kunci: perbelanjaan pendidikan, tahap kemasukan persekolahan, ekonomi, granger, Malaysia.

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CHAPTER 1

INTRODUCTION

1.0 Government Spending on Education and Economic Growth

Most of the recent studies on endogenous growth theory generally agree that human capital has a significant impact on economic growth. The human capital accumulated by the education has a potential to be broader and more sustainable due to the increase in the productivity and technology advancement (Lucas, 1988; Romer, 1990; Maitra and Mukhopadhyay, 2012; Jalil and Idrees, 2013). Further, human capital is an important element of growth, improving and complementing government's development policies with a number of positive externalities that generated along with the increase in the private returns. However, formation of the human capital requires spending on education (Maitra and Mukhopadhyay, 2012). Education can be measured as the number of enrolments and levels of education, expenditure on education and training as well as the years of schooling (Lucas, 1988; Barro, 1991; Pritchett, 2001).

In other words, government spending on education contributes to the human capital, which will promote to the technological progress and later promotes the economic development. Besides that, the neoclassical growth theory expounded by Mankiw et al. (1992) shows that by considering the human capital as an additional input in Solow model, human capital has a potential impact on the level of economic growth.

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