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# **Political Economy of The Budgetary Process in Malaysia.**

## **Abstract**

The ruling political party or the ruling government has rights in drafting and implementing economic policies including the budget policy. In the case of Malaysia, as observed, the budget policy is associated with the long or medium term economic development plans that are drafted, current thinking or thought of economic policies and additional measures that would be introduced probably related to major economic events such as the impact of financial or global economic crises. Also the budget includes economic policies according to the ruling party's manifesto and promises made during the election. Eventhough the budget is the ruling government's privilege but the government's financial plan, i.e the allocation and the manner of spending, taxation and borrowing are subject to law, acts, rules and procedures. The ruling government cannot simply utilize economic resources for its political means or interests. This paper argues that there is a solid link between the ruling political party with the preparation of the budget policy. To examine the matter this paper uses the survey method. This paper has found that in the case of Malaysia the Member of Parliaments do influence the outlining of the annual budget.

Keywords: Political Institutions, Elections, Development Plans, Budget Policy, Malaysia

## **Introduction**

Since independence in August 1957, the law makers and bureaucrats in Malaysia have greatly emphasized on the annual budget in order to achieve macroeconomic stability as well as to produce high and sustainable economic growth. The budget is a comprehensive economic plan because it involves not only government financial plans for the following year but it also incorporates the objectives or aims of medium or long-term economic development plans. However, there are provisions to some changes of policy or if there is an economic event such as economic crisis which needs immediate attention. These emergence of new policies in the budget are supposedly to enhance and strengthen future economic development. The economic policies that are drafted including budget and development plans are the ruling government's privilege.

The issue of the relationship between political parties and the budgetary policy in Malaysia is actually large and critical. In drafting the budget policy, elected Member of Parliament or policy-makers of the ruling government will offer ideas, suggestions or proposals to the executive council or the Cabinet. The budget is regarded as one of the political tools for the ruling party to remain in power and continue ruling the country. The budgetary policy designed every year by the ruling government is indirectly to gain further support or to strengthen the presence of their political party in the country. This is important so that they can be re-elected into office in the coming general election. Due to the limited economic resources it is not possible in any country that the yearly budget satisfies the demands of all quarters of the people. Therefore there would always be issues that surface and are voiced out by certain groups of people in terms of allocation and distribution of the public's money. Also there is a conflict of interest between the ruling government and the opposition which creates political uneasiness and disintegration amongst political parties and the government.

## Politics and Process of the Budgetary Policy

There are substantial amounts of studies that have been made in respect to the relationship between the budget policy and the bureaucrats including the policy makers. Goyal (2010) described the relationship as a mechanism of collective choices. A collective choice is a necessitate use of power by the ruling government (executive) and the state to resolve conflict of interest within economic matters. Even though there is a conflict of interest between the executives and the state, usually the executive manage to empower the state, the state will indirectly allow the executive to draft an economic plan to manipulate the country's economic resources for political agenda and interests. There could be some segments of the population or sectors which are left out or do not receive significant attention from the government. The political process can use the resources best suited for its political goals, namely to move the state towards tax exemption to favour certain groups whilst using the audits to harass political opponents (Taliercio, 2004). We could say that the budget is an annual plan for the ruling government with desirous intention to achieve goals by exploiting the economic resources (Fjeldstad, and Tungodden, 2003) and they, i.e the politicians of the ruling government know better the objectives and target of the annual budget than the people (Goyal, 2010). Wildavsky (1986) stated that the interaction between political institutions and budgetary policies and its success or failure depends on the political institution to recognize the objective of the budget. It is the responsibility of the ruling government and the state to execute or implement the budget in the country in a fair and equitable manner.

There are empirical evidences which show the influence of political institution's on the country's budgetary process. Poterba (1994) and, Poterba and Hagen (1999) drew the conclusion that in most countries political institutions do affect the budgetary process. They also described that the public budgeting process is associated to *gubernatorial* powers. *Gubernatorial* powers are the single most powerful players in the state government, i.e the strong political party in the government (Wildavsky, 1986 and Beyle, 1996). It substantially influences the budgetary process from the beginning to the end of the process, and the powerful player is willing to use its veto power for budget approval in the parliament or at the lower house (Dobell and Ulrich, 2002:6-7). Although the major player or major political party has a solid grip over tax revenue collection and management, however the political stake is high if there is maladministration or laxity in the use of the resources (Taliercio, 2004). Lee Dong (2004:49) indicated that the mandated parliamentarian has to implement fiscal or other type of economic policies responsibly as it affects the livelihood of the people. In contrast, Kim (2004: 20) raised a statement that a weak government is the nation's serious constraint on the parliamentary role in the budgetary process.

The program of budgeting is obviously related to political party policies or motives, and not so much to partisan politics (Wildavsky, 1986). As mentioned by Wildavsky (1986), "*the thrust of program budgeting makes it an integral part of system politics.*" The politics of the budgeting process is widely related to the political system of the ruling government (Wildavsky, 1986). A failed budgetary process is related to the failure of the political institution or politicians to draft a progressive budget (Adolph, Breuning and Koski, 2007). Wildavsky (1986) also stated that the budget policy is one of the social orders where moral norms regulate interactions between people and politicians. Meerman (1979:20) suggested the state is an institution creating and enforcing rules in conjunction with other forces resulting in certain income and wealth distribution. He also argued that the capability or the lack of a government to govern income and expenditure are influenced by their cultures. Simply, it means that the relationship between revenue and expenditure varies according to

political thought (Cusack, 1999). Norton and Elson (2002) stated that the budget process should be closely linked to policy and planning processes; all of which should be under the effective direction of a legitimate and democratic government. Wildavsky (1986) argued that a politician invariably performs informal system analysis and then invents policies for the purpose of achieving his objectives by satisfying others or at least receiving maximum agreement from all sides. According to Wildavsky (1986: 468), "*A budget...may be illustrated as a series of goals with price tags attached. Since funds are bounded and have to be alienated in one way or another, the budget turns out to be an instrument for making choices among alternative outflows. While the choices are organized so as to reach the desired goals, a budget is possible to be addressed as a plan*". Therefore, the budget is an expenditure plan. The use of the revenues collected from taxes are restricted in accordance to rules and procedures; inevitably turning into a mechanism in making choices within the optional expenditures.

In general, the government's economic policies can be defined as a measure to stimulate economic growth and development. Another possible definition of economic policies is the action taken by the government to influence economic performance. The various types of economic actions usually implemented by the government are the adjustment of national expenditure, taxation, as well as setting private property rights and interest rates via the central bank actions. The progress of economic development depends on what extent the government executes drafted economic policies effectively and efficiently. The budget is actually the plan on how the ruling party manage to utilize economic resources. The main resources are the tax revenues. The government expenditures depend on the amount of tax revenues collected. Therefore, the taxation policy is a crucial element in the government's budgeting. Thus, we could describe the budget as a policy of taxing, the method of tax revenues collection, and the allocation of the revenues for government administration and economic development. There are three types of budget tools namely a balanced budget, deficit budget and surplus budget. A balanced budget is defined as total expenditures equal to total revenues collected in that particular year. However, if the expenditure is more than that of revenues received then the budget is a deficit budget whereas the budget is considered a surplus budget if the total revenue is much more than the expenditure. The government deals with a deficit budget by raising funds via sales of bonds or by the issuance of the new currency or simply printing more money.

The relationship between the political system and economic performance has been an attractive topic of research for political economists as well as political scientists. There have been studies on the influence of the majority and minority ruled governments on economic results such as studies by Alesina and Perroti (1995). There have also been studies on the influence of elections on the evolution of macroeconomic policies, i.e fiscal and monetary policies, such as by Alesina, Roubini and Cohen (1997), and Grilli, Masciandaru and Tabellini (1991). It should be noted that the effectiveness of the lawmakers' roles in managing the economy has no direct answer but it has a definite correlation with the majority of representations held by the ruling party in the parliament as in the case of Malaysia. As a majority in the Parliament, the ruling party has great influence on economic matters and the implementation of those economic policies.

The budgetary policy is one of the most important tools to political institutions or the ruling government to gain further support from people or to strengthen their political presence in the country. The national budgetary process is like a system where the aspirations of the electorates or voters are translated into programs such as building public goods and public

value in which the ruling government believes that it would satisfy the voters. In Malaysia the electorates cast their vote and select the politicians or representatives every five years through the general election. The election is not a mere vote because the elected person represents the people's voice in the parliament or state legislature assembly which delivers their concern on development at their respective constituencies.

### **Malaysia: Political Institutions, Development Planning and Budgets. A Short Review**

In brief, Malaysia is a constitutional monarchy. The Yang Di Pertuan Agong (paramount Ruler or King) is the constitutional monarch who reigns but does not rule. The King is merely a ceremonial head of State. The core of the political system in Malaysia is linked to the system of Cabinet government. The cabinet is led by the Prime Minister (PM) and his members which are ministers appointed by the PM "himself" or after consultations with members of his political party or political alliance. Members of the cabinet are the executives and they are also members of parliament (MP) who are members of the Dewan Rakyat (House of Representatives, also known as the Lower House). Members of parliament are elected through the general election which is held every 5 years. In 2008 or under the 12<sup>th</sup> General Election, there were 222 constituencies offered in the country which means that there are 222 members elected to the Dewan Rakyat by the people. The number of electoral seats in the Parliament has increased from 109 in 1959 to 222 in 2008 as the result of delineation exercises carried out by Election Commission every ten years. The Barisan Nasional (BN) or the National Front (see Table 1) had secured substantial majority since independence. However, in the last general election, the 12<sup>th</sup> General Election held in 2008, the BN only obtained 58.57% popular votes. Since 2008 the Barisan Nasional, a coalition front of 13 component parties, has been ruling the country with less than two-third majority.

Since independence, Malaysia has undergone 12 General Elections. Malaysia has two electoral processes namely state and federal elections. Except for the states of Sabah and Sarawak, the other states in the federation of Malaysia have simultaneous elections for both the state and federal seats. The East Malaysian states however have the state elections differed by two years. The political party or coalition with the majority shall form the Government which lasts for 5 years as stated in the Federal Constitution. Members of Parliament are elected to the Dewan Rakyat; whilst the state assemblymen are members of the state legislative assemblies. The Prime Minister is elected indirectly after the General Election by the consensus made amongst the members in the ruling or winning government.

The Cabinet of 2008 is comprised of 32 ministerial positions. There were 37 deputy of ministers but they are not in the Cabinet. The large size of the government is related to the number of political parties under the BN. To please members of the coalition, the Prime Minister increased the size of the Cabinet by creating new ministerial portfolios and increasing the number of deputies of minister. Relatively the size of Cabinet in Malaysia is larger than India and United Kingdom, as an example. One of the main reasons why Malaysia is stuck with a large budget deficit is partly due to the larger size of the government (Meerman, 1979:18; Salleh and Osman, 1991:12). The increased number of members (ministers) in the Cabinet or size of the Cabinet is one of the reasons of the huge public sector expenditure. This has possibly increased wastage of public expenditure and caused redundancy of ministerial duties and portfolios. This actually has impeded the delivery process, mismanages public money and creates inefficiency in the government administration. As argued by Roubini and Sachs (1989), a coalition government has an apparent trend to create larger deficits than a single-party government. This is so as the

coalition partners are beholden to their supporters. The relationship between politics and the budgeting process can be derived on the manner of elections which creates an impact on the budgetary process.

Through the general elections, the Barisan Nasional has controlled and managed the country's economic resources since 1957. We do not deny that under BN rule, Malaysia's economy has expanded quite impressively. Even though there were some distortions during the implementation of development planning and economic progress such as the racial riot in 1969 and external shocks but the government managed to restore political stability and maintain economic momentum. The budgets that were tabled in the parliament by the Ministry of Finance during the pre-New Economic Policy (NEP) or in the post-NEP were in accordance with Malaysia Development Plans. Malaysia's development planning can be broken-up into five phases (Table 2). The phases are related to the medium term development planning, i.e the pre-New Economic Policy, the New Economic Policy, the New Development Policy, the New Vision Policy and the New Mission. Under the pre-NEP phase

**[INSERT TABLE 1,2 AND 3]**

there were two development plans which were the First Malaya Plan (FMP), the Second Malaya Plan (SMP) and the First Malaysia Plan (FirstMP). The FMP was drafted by the British government, i.e, before Malaysia gained independence in August 1957. Economic policies under the FMP were resumed by the new elected government. The main focus of the FMP was restructuring the production sector by promoting the manufacturing sector. The Pioneer Industries Ordinance was established in 1958 in line with the initiative of developing the manufacturing sector whereby the manufacturing strategy adopted was the import-substitution policy (ISI). The economic diversification was crucial to Malaysia in reducing the impact of the collapse of primary commodity prices on the economy. However, the FMP failed to promote significant economic development. One of the factors which caused the failure was that prices of primary commodities in the international commodity market in 1958 dropped sharply, and consequently affected the performance and progress of Malaysia's economy. The dismal economic performance then resulted in the increase of poverty in the rural area by 70 percent whereas the unemployment shot up to nearly 8 percent.

Under the Second Malaya Plan (SMP), 1961-65 and the First Malaysia Plan (First MP), 1966-1970, the economy had not seen much improvement as the impact from the 1958 primary commodity collapse had prolonged into 1960s. The ISI strategy had also failed to alleviate the growing labour surpluses in the economy. The failure of the FMP, SMP as well as the FirstMP to improve the faltering economy and to reduce income imbalances had certainly indicated that the laissez faire approach or the role of the private sector for economic development which was the main guide for the government in implementing the development plans had actually failed. The dismal economic performance during the period resulted in the racial riot on May 15, 1969 (Snoodgrass, 1980:60; Comber, 1983: 56-57). Based on the post mortem of the racial riot incidence, the federal government noticed that one of the main reasons that precipitated the bloody incidence was due to the unhappiness of the Malays because of the poor income distribution, ownership and control of wealth and lack of economic opportunities compared to other races. The Malays were generally poorer economically than the other races and had lagged behind in education; employment and other social and economic areas. In order to address the ethnic and economic disparities the federal government embarked on a new development approach called the New Economic Policy in 1971. The New Economic Policy (NEP) was the blue-print for the first long-term Outline

Perspective Plan (FOPP). The FOPP constituted of the Second Malaysia Plan (1971-1975), Third Malaysia Plan (1976-1980), the Fourth Malaysia Plan (1981-1985) and Fifth Malaysia Plan (1986-1990). The NEP was drafted by the ruling political party led by the former prime Minister the late Tun Abdul Razak. The main idea of the policy was to reunite and rebuild the country. In general the NEP comprised of three major priorities as follows: (i) the promotion of national unity and integration; (ii) the creation of employment opportunities; and (iii) the promotion of overall economic growth<sup>1</sup>. The government channelled a huge amount of funds to fulfill and achieve the objectives of the NEP. Various governmental projects under the realm of different ministries, statutory bodies and government agencies were created to ensure the success of the NEP. The objectives of the NEP were spelled out in the FOPP in the form of policies, programs and projects. The first and foremost objective of the NEP was to generate employment opportunities in order to reduce unemployment. The policy was to ensure employment in the various sectors of the economy that reflected the racial composition of the country. In addition, the NEP aimed to expand opportunities for those engaged in low productivity activity to a more productive one. Besides reducing income disparity amongst races the FOPP also aimed to modernize rural living besides improving the living condition of the urban poor. The FOPP also aimed to expand education, training facilities and other social services of the country.

#### **[INSERT TABLE 4]**

Nevertheless, whilst certain quarters had hailed the implementation of the NEP to narrow the inequality between the Malays and the non-Malay; accusations were thrown at the federal government that the hidden agenda of the NEP was to substantially reduce the wealth of the non-Malays. The NEP was implemented overtly through restructured race based business equity, preference on awarding low cost housing, preference for university places over the other races, and many other preferences. Hence the NEP was often known as part of the Malay agenda. The implementation of the NEP and its extension has essentially given rise to many debates with the non Bumiputras expressing deep unhappiness towards the present government. Since the NEP had failed to achieve its target, the Barisan Nasional government resumed the NEP policy under the New Development Policy (NDP). The NDP comprised of two development plans which were the Sixth and Seventh Malaysia Plans.

The NDP maintained the basic strategies of the NEP with special emphasis on employment and rapid development of the Bumiputera Commercial and Industrial Community (BCIC) to ensure Bumiputeras participation in the modern economic sectors. The NDP was driven by the private sector with the objective of creating greater growth opportunities; also with the main thrust to focus on human resource development to ensure attainment of growth and distribution of wealth. The Third Outline Perspective Plan (TOPP) launched in 2010 is based on the New Vision Policy (NVP). The NVP incorporates the critical thrust of the previous development policy, principally to attain national unity. Ultimately poverty eradication with the aim to restructure society and achieve balanced development irrespective of ethnic background is one of the main key strategies till 2010. The NVP aims to achieve high sustainable economic growth by strengthening the financial and corporate sectors with an eye for macroeconomic management. The NVP also strives to pursue environmental sustainable development while not forgetting the much needed human resource development to ensure a productive and competitive workforce to meet the liberalized global challenges.

The massive government expenditure (Table 3, 5 and 6) since implementation of the NEP had effectively reduced the unemployment rate. The Malay unemployment rate decreased



from 8.1 percent in 1970 to about 5.3 percent in 2005 while the Chinese unemployment rate dropped from 7.0 percent to 2.4 percent respectively (Table 4). The unemployment rate among Indians also dropped from 10.5 percent in 1970 to 3.1 percent in 2005. The pragmatic policy of FOPP, SOPP and TOPP reduced the incidence of poverty in the rural areas from the high of 69.3 percent in 1971 to 7.4 percent by 2008. The government also managed to reduce hardcore poverty of 35 percent in 1971 to 0.7 percent in 2008. Eventhough the development policies were able to reduce the poverty rate but the distribution gap of the income of the rich and the poor as well as rural and urban had increased. The Gini coefficients in 1970 of about 0.502 decreased to 0.442 in 1990 but widened to 0.490 in 2008. The income gap ratio increased from 1:1.59 in 1970 to 1:1.70 in 1990 and to 1: 2.11 in 2008. However, the income gap between races had dropped. The income ratio between Bumiputra and Chinese had decreased from 1:2.54 in 1970 to 1:1.74 in 1990 and 1: 1.64 in 2008. The NEP and NDP had targeted a 30 percent share of the country's wealth for Bumiputras but in 2008 the wealth achieved was about 19 percent.

#### **[INSERT TABLE 5, 6 AND 7]**

The heavy intervention by the government in the economy since 1970 expanded the government size (or public sector) extensively (Table 5 and 6). In 1971-1975 the current expenditure of the federal government was about RM13.1 billion but in 2006-2010 the amount was RM561.5 billion. The increment was more than 4000 percent. The amount of development expenditure in the same periods were RM2.53 billion and RM268.2 billion respectively. The expenditure had increased more than 10,500 percent. Eventhough the country faced severe economic depression in the early 1980s, the federal expenditure continued increasing public spending for this period mainly to counter the impact of the economic recession. From 1981-85 the budget deficits expanded quite largely of about 44 percent of GDP but it declined to 28.3 percent in 1986-90. The decline in budget deficits were partly associated to the heavy inflow of foreign direct investment and the world economy started to stabilise during the period. The budget deficits further dropped in 1991-95 and 1996-2000.

The Asian financial crisis affected the Malaysian economy significantly in 1997/8. Recovery of the economy in 2001 and 2002 was affected due to the collapse of NASDAQ stock at the New York Stock Exchange in late 2001. The NASDAQ drop eventually affected countries which relied on US market including Malaysia. The US's financial crisis which struck in 2007 and subsequently developed into a global economic crisis had also affected Malaysia's economic performance significantly. Since the market or international market confidence plummeted in 1998 to 1999, in 2001 to 2002 and since 2008, therefore the corporate investment hardly increased, moreover there were record that many local or foreign firms rationalised their operations by either downsizing their operations or by moving to other countries. The role of the private sector in improving the economy seems to have decreased since 1998. The competition for foreign direct investment and the declining export market have made Malaysia less attractive to foreign investors as we lose out to the Chinese economic strength and attractions. This has affected the Malaysian economy in some ways (Table 7). The only option for the government to reflate the economy and the market confidence is by implementing the budget deficits continuously. As shown in Table 7 the budget has increased in 2001-05 and 2006-05.

Since 1971 the Malaysian government used the budget polices quite substantially to respond to any impact from external shocks to the country's economy. Indeed the federal government

or the ruling political party has provided macroeconomic stability by utilising effective economic measures available including the budget policy. Based on record the budget policy has influenced economic growth in 1971-1980, 1986-1996 and in 2005-2010. The unemployment rate has decreased from 1971 to 1985, then increased to 7.8 (increase due to economic depression) during 1986-1990 before declining sharply in 1996-2000. In 2009 the unemployment rate was about 4.5 percent. The trend of inflation rates were closely correlated with the economic performance.

The government had been carefully managing public expenditure from 1991 onwards. The budget deficits had been kept within a prudent limit with minimal use of borrowed funds. Since 1990 the government had reduce dependence on foreign funds for budget financing. Another factor that reduced the government's foreign borrowing was related to the privatization policy in which the government privatized substantial infrastructure projects and selected non-financial public enterprises. Since 1990 and before 1998 the government relied on the local financial market for budget financing such as borrowing from the Employees' Provident Fund, national saving bank, insurance and other financial institutions. From 2000 to 2010 the budget deficits had increased primarily due to the impact from the Asian Financial Crisis of 1997 and the global economic recession in 2007. The deficits in 2000-2005 and 2006-2010 were about 23.2 percent percent and 19.0 percent of GDP respectively. The use of budget deficits measures to stimulate and promote economic growth had increased national debts considerably thereafter.

### ***The Budgetary Process in Malaysia***

Each country has their own set of rules and procedures in the use of public money; therefore there may be a significant variation in the budgeting process across different countries. The legal system in the country also plays an important role in budgetary policies. In Malaysia, the budgetary policy is governed by the Federal Constitution in which the constitution has specifically spelled out a set of rules pertaining to financial provisions. Specific requirements concerning the control and management of public finance as well as the financial and accounting procedures are provided under the Financial Procedure Act 1957. The procedures and practices of accounting and reporting are governed by a set of rules. Among the regulations governing the accounting procedures for the government are the Federal Constitution (Revised 1972), Financial Procedures Act, 1957 (Revised 1972) and Audit Act 1957 (Revised 1972). These Acts provide limited and general provisions on financial, budgeting, accounting and auditing aspects of the government. Furthermore, the Treasury issues instructions and circulars on guidelines and requirements concerning accounting procedures. Malaysia's legal system does not stifle change as it has higher built-in flexibility. Eventhough there are rules and laws which govern the federal government's budget but the Executive or the Cabinet or the ruling government has strong control over financial resources. The distribution of financial resources is indirectly, as we believe, skewed towards political objectives rather than the need or demand of the people regardless of race or political thought. Therefore it is vital to see from the political standpoint if the content of the budgetary allocation is bias to certain groups and sectors that are closely linked to the ruling government interests. In short, whether or not the budgeting process is closely associated with the political agenda of the ruling government or political party.

The budget formulation motion includes the budget requests, budget examinations, budget recommendations, and budget approvals. Initially, the agencies from different sectors will

prepare their written suggestions for the coming year budget. By January of the year, “*a call circular*” is issued to all ministries and related agencies for the New Year Budget Estimates for the preparation of the coming year budget (Figure 1). The Ministry of Finance (MOF) or Treasury shall then receive the fiscal suggestions by March. It is then followed by a preliminary hearing by April of that year and later followed by the Budget hearing between May and July. Once the New Year Estimates are approved by the Ministry of Finance and the Cabinet; the budget reading shall be carried between the months of August to September. Upon agreement of the Cabinet, the budget document will be printed and tabled to the parliament in September. This budget document will then pass through the Lower House of Parliament from September to December for debates and approval. Members of Parliament are usually given a sufficient amount of time to debate on the spending proposals. Also, in certain circumstances they are given opportunities to amend necessary government priorities and intended spending plans; with full access to ministers and the bureaucrats for further details on the budget proposals. After every subject matter arising on the budget has received approval from the Lower House and the Senate (*Dewan Negara*) thereafter, the Minister of Finance shall then proceed to issue a Warrant of the Expenditure for the various government agencies to execute the budget.

### [INSERT FIGURE 1]

The Executive or the Cabinet and the law makers of the Lower House of Parliament are the ultimate arbitrators of policy matters. The MOF is the main centre of drafting, implementing and executing the budget plan. Before the budget is formed, the MOF will seek input from various groups such as members of parliament of the ruling government, business associations, ministries and non-governmental organizations (NGOs). In general, every ministry has to prepare their budget plan and submit it to the MOF. Every year the Finance Minister, senior officers (civil servants) of the ministry and corporate leaders will convene a Budget Dialogue to discuss what possible policies should be introduced or to extend current policies in the coming year budget. Most of the opinions and recommendations are roughly from the corporate leaders (sector) however the MOF has an ultimate power in deciding whether suggested policies should be adopted or not.

The Ministry of International Trade and Industry (MITI) likewise also holds annual dialogues with the private sector focusing on industrial policies. Other than these two activities, the various governmental ministries form committees and task forces to discuss with the private sector any matters related to the budget or any economic policies that should be included in the coming year budget. In doing so they also require input from various groups that are related to the ministries function. Input from the different ministries, government agencies and departments are submitted to the Cabinet for due consideration in the form of a Cabinet paper. The adoption of proposals or views are decided by the Cabinet; in the event that the Cabinet is unable to make a decision, then the ministry concerned may have to reevaluate the views before resubmitting to the Cabinet. Such a practice has been in place since Independence. Eventhough the different ministries and agencies are the major contributors of the policies, the government also requires input from NGOs to voice out their needs. The non-political organizations involvement is important as political participation alone may not produce results in a workable budget which should be equitable and non-discriminatory. The dynamic complex interaction shows how the power play of various groups either through a formal or informal channel influences the formation of a budget.

The national budget's success relies on what extent the budget create economic reactions among various economic agents and social sectors. The budget should be unbiased to various groups of people, races and corporate sector. There should be no skewness in the budget or favouring certain groups that are closely linked to the ruling government. There should not be a heavy weight on the economic sector while other sectors such as welfare of the people get left out. This is to ensure that the budget can be ascertained with adequate resources available and the budget will guarantee that the economic and social welfare of the people will be maintained or enhanced. Therefore, the policy makers or MPs have to ensure that the budget plan drives economic growth development for the well-being of the people. The budget is a comprehensive economic plan or an economic blue print and in drafting the plan a bargaining process is involved. Every ministry and government agency will bargain for public funds in the coming year. There will be *politiking* in drafting the budget plan. The politics of the budgeting process is essentially linked to the distribution of power within the process. During the budget formation and implementation process a disparate power relationship exists which gives rise to the exclusion or immediacy in the course of decision making.

### **Research Method: Survey**

The main intention of this paper is to study the relationship between political institutions (legislatures or law makers) and the budgetary policy. Specifically the main objective of this study is to examine the involvement or influence of the members of parliament (MPs) or legislature (non-executive) in the budgeting process including providing input to the MOF in the process of preparing the budget. To investigate the issue, this study has conducted a survey and the respondents are members of parliament or legislature. The time series data of the subject matter is impossible to obtain. Therefore the primary data is the only source that sheds light on the subject matter. It was not an easy task to conduct a survey and meet the MPs. Based on the pilot survey which was conducted during the second term of the 12<sup>th</sup> parliament session in November 2009 the response from the respondents were very poor.

The survey consisted of 17 questions in which the questions were divided into four sections. The aim of the survey is to determine the behavior and responsibilities of the law-makers (or members of parliament) in the budgetary process. This study covers Members of Parliament (MPs) from the ruling government, Barisan Nasional, and the Opposition. A total of 164 members of parliament (excluding front benchers) qualify for the survey. This study only covers MPs of the back benchers and opposition. Executives such as the Prime Minister, Deputy Prime Minister, Ministers, Deputies Minister and Political Secretaries or those in the Cabinet were not involved in this study. Since it was hard to get cooperation from the MPs therefore we had to condense the sample size. From 164 MPs, only 30 of them were selected. 18 of the 30 MPs were members of the ruling party, 10 from the opposition and 2 independent members (Table 8). We selected 30 MPs based on our believes and judgement that they were more approachable for the survey and interviews. However, from the sample size we only managed to collect 16 of the 30 questionnaires or equivalent to 56.7 percent of the total sample size. The survey and interviews were conducted during the third term of the 12<sup>th</sup> Parliament Session in March 2010. The major constraints and short-coming of this study is the number of MPs who were willing to cooperate with us by filling up questions in the survey booklet. We are not sure about the reasons as to why 134 MPs were unwilling to cooperate with us on this study.

## [INSERT TABLE 8]

### Results of Survey

There are 17 questions in the survey. The questions are then categorized into four factors, namely job as a member of parliament, reward for servicing constituency, social economic development, and opinion regarding the current political system and budgetary policy.

#### *Job as a Member of Parliament*

16 members of parliament (MPs) responded to the survey. All of them strongly agreed that their role in the parliament had contributed to the national economic development. 11 of 16 respondents stated that they become MP's as it was their ambition and interest. 5 respondents reserved the question, i.e stayed neutral in answering the question (Table 9). In respect to the question of giving a quick response to the demands of voters at their respective constituency, 8 MPs adopted a neutral stance; while another 7 MPs stated they were quick in responding to voters demand. Only one MP may be less favourable to provide a good response to his voters demand. On the question of freedom in executing decisions in fulfilling the voters demand, majority of the MPs seemed to have freedom to offer a quick response but they could not offer the decision exclusively. In other words, the MPs need to consult their superiors before delivering a response to their voters demand. Only 3 MPs seem to have their own freedom in delivering judgement or decision. These MPs are from the opposition.

## [INSERT TABLE 9]

#### *Reward for Serving Constituency*

Under the subject of reward of serving constituency there are three main questions posed to the respondents. The questions are, whether the MPs are satisfied with the salaries and allowances received from the federal government; is the federal government or ruling party providing adequate facilities including allocation for administration expenses and development for MPs duties; and the third is whether the ruling government offers an incentive or extra facilities to those MPs serving effectively and efficiently in their constituency respectively. The survey shows only 5 respondents are satisfied with the salaries and allowances of MP (Table 10). (A note, the amount of basic salary and allowances include other fringe benefits that are received by MPs monthly but this survey is unable to provide it in this paper). Based on this survey we could say that the salary and allowances received by the MPs are not sufficient enough and do not commensurate with the jobs. The monetary reward seems to play an important role in attracting people to join the political party and to become MP (or legislature at the state assembly). On the question of adequate facilities provided by the government for MPs servicing their respective constituency, 8 MPs disagreed that the government had provided adequate facilities for them to provide service at their constituency. Only 4 respondents agreed that the government had provided enough facilities for them to carry out their duties at their constituency. On the question of incentives, 12 MPs agreed that the federal government or the ruling government offer or provide further incentives in terms of allocation or upgrading existing facilities or building new facilities if they service respective constituencies effectively and efficiently. Only two respondents did not agree that if they did the job effectively and efficiently they would receive further incentives.

[INSERT TABLE 10]

***MPs Involvement in the Budgetary Process and Focus on Social Economic Development***

Under this sub-heading, the involvement in the budgetary process by stressing on social economic development in drafting the budget, there are 5 questions imposed to the respondents. The first question is whether the MPs of the backbenchers are invited by the federal government, i.e Ministry of Finance, in helping prepare the budget in the form of providing ideas, suggestions, policies and other subjects related to the country's economic development. Only one person did not agree while 11 MPs agreed that the MOF invited them to provide suggestions or get involved in various committees that were established by the ministry for budget preparation (Table 11). On the question of whether the social economic agenda should be the main principle in drafting the budget, all MPs agreed that the federal government should underline a significant attention to socio-economic development. Based on the third question as stated in Table 11, it sees whether the MPs are able to demand from the federal government to include matters related to people's welfare such as reducing the financial burden by reducing individual income tax, increasing tax rebates, reducing excise or sales taxes on consumer products, providing affordable houses or cheaper loans in providing houses to low and middle-income groups, offering affordable education costs particularly at the primary, secondary and first degree level.

[INSERT TABLE 11]

The good MPs are those who are able to influence and demand the federal government or the ruling political party (government) in fulfilling their voters requests or demands. The main task of the MP is to serve the respective constituency effectively and efficiently regardless of race, religion and income group. If the particular MP does not do his job well then the constituency which he or she represents would be left out in terms of economic progress and social development. Therefore this survey tries to explore the issue. The results of the questions will show implicitly if the elected person such as the legislator at the Lower House really looks after their constituency. In this survey the measurement of the matter, is subjective and not easily quantified as to what extent the legislatures are able to listen and forward their demands from the voters in their respective constituency at the Lower House. If the legislators are successful in demanding what his or her voters request, we assume that the legislator (MP) is doing his or her job well in servicing their constituency. The third question is on the ability and success of the MPs in demanding from the government in fulfilling their voters requests. Only 8 MPs stated that they are able to influence the ruling government or MOF to meet the demand from voters of their respective constituency. 6 MPs stayed neutral and 2 MPs disagreed which means that they are unable to do their job well in servicing the people or their voters.

One of the critical issues in formulating the budget is to what extent the ruling government is really concerned about the welfare of the people or social economic development in the country. The question posed to the respondents, is whether the federal government (or Cabinet) puts great emphasis or includes the welfare of the people (*rakyat*) in the budget. Welfare is a subjective matter and difficult to be quantified. There are policies which may influence the welfare of people in the form of reducing costs of living (increasing people purchasing power) such as providing free education or reducing education fees of children, reducing medical bills, increasing development of public goods, providing affordable housing

and reducing taxation rates such as income tax, excise duties, sales tax and services tax. 10 MPs agreed that the federal or ruling government is very much concerned about the people's welfare and highlighted the matter in the budget. To ensure that the government is actually emphasizing or thinking of the people's welfare in drafting the budget and to somehow cross-examine, so the following question was posed to the respondents, what is the federal government's prime priority in drafting the budget that is whether focus is on private sector development or social economic development. 14 MPs stated that the yearly budget drafted and executed by the government are more concerned and focused on private sector development rather than social economic development. The results indicated that the social economic development seems to be a secondary matter to the ruling government.

### ***Political system and the budget policy***

The previous sub-section on political institution and the budget had briefly described the political or electoral system in the case of Malaysia. Related to this subject, this survey is very much interested to know from the respondents about the kind of political system which has existed in Malaysia since 1957 that has promoted good macroeconomic management and economic development through the budget policies. Should the current political system be maintained or transformed into another kind of political system to make or produce a good budgetary policy for the country. There are five questions constructed under this sub-section. Question 1 asks if the existing political system is effective in drafting and executing the budget plan. Only one MP did not agree and 11 MPs agreed that the current political system is effective in drafting and executing the budget (Table 12). In other words it means that the MPs agree that the current system should be preserved. Question 2 is whether the current structure of the budgetary formulation process is able to develop a good budget for the country, as depicted in Figure 1. 2 MPs did not agree while 8 MPs agreed that the process should be maintained. Another issue which is quite relevant in respect to the budget is the timing and duration of the budgetary formulation process. Since early 2000 the duration of the process of budget formulation has been shortened. This is due to the Minister of Finance who had changed the tabling of the budget at the Dewan Rakyat from the month of November to September. The duration for budget preparation has been cut from 11 months to 9 months. We believe the rationale of the budget being tabled in September, is that members of the Dewan Rakyat would have enough time to debate the budget and the budget could be executed and implemented by late December of the year. All economic policies and disbursements of allocation will be implemented in December for the coming year. The execution and implementation of the budget will no longer begin in January of the new year, as practiced before year 2000. Based on the survey, 15 MPs agreed that the timing of budget formulation should be reviewed. The time frame or duration for preparing the budget should be longer i.e at least 10 months. The current process which takes about 9 months seems to be tiring some quarters or groups of people involved in the budget preparation including (some) MPs (backbenchers) of the ruling government.

As mentioned earlier in this paper the budget plan and policies are strongly influenced by the ruling government since the BN has a majority at the Dewan Rakyat. The following and the fourth question which was posed to the respondents is whether the ruling political party (the ruling government) substantially influences the national budget policy. All MPs agreed that the BN has solid power in drafting the national budget. Subsequently, the fifth question is whether the total seats of political parties (the ruling government and opposition) at the Dewan Rakyat determine the approval of the budget. Regarding this question, 5 MPs agreed and 6 did not agree. The results have two implications. Whether the Dewan Rakyat approves

or not, the ruling government (the Barisan Nasional), i.e the Cabinet will directly veto any disagreement. The BN is able to do that because they have gained more than two thirds majority in the parliament. All MPs of BN will support any decision by their “boss”. Since independence, all budgets that are tabled by the ruling government, BN, have gone through without any objection at the Dewan Rakyat.

### **[INSERT TABLE 12]**

One would notice that the lawmakers are fully aware of their role and responsibility with respect to national economic and social development. Related to the budgetary formulation process, the majority of the Members of Parliament agreed that the federal government should review the period of budgetary formulation. Furthermore the time frame for MPs to debate the budget should be longer so that the budget will be more well planned and cover all economic and social sectors. As mentioned, currently MPs only have about 2 months to debate the budget and by December economic plans in the budget will be implemented for the new fiscal year. Members of Parliament agree that the ruling or federal government should provide better incentives and facilities for them to carry out their service efficiently and effectively at their respective constituencies. In short, this survey concludes that the political institution in Malaysia, i.e the ruling political party, carries significant influence on the budgetary process.

### **Conclusion**

The budgetary process varies from country to country. The variation depends on the political and economic environment, legislative and constitutional factors and capability of the ruling government. There are countries with parliamentary systems that have inclusion of strong budgetary process committees in which it has the authority to make certain recommendations to alter the budget proposal if needed. The budget is an important tool to shape the way forward for the economy and welfare of the people. The budget is a reflection of the government’s economic objectives and policies. It also includes the government’s policies on investment, international trade and employment; thus making a huge impact on the national income. The budgetary process is the single and most important political tool that the ruling government can use to check and counter the strength and advancement of the opposition parties. The budgetary policy is an important tool for the ruling government to gain support or further support from the people or electorates. The ruling political party (government) has the power in drafting and implementing the budget. The power in drafting any economic and social policies is an advantage to any political party in the government or majority in the parliamentary system. In Malaysia, the budget tabled by the ruling government is approved without any significant objection from the Lower House and the Senate House.

Malaysian MPs are trying to forward people’s needs or demands from their electorates into the budget. Furthermore, the MPs from the ruling political party particularly try to integrate what has been offered or promised during the past general election. Eventhough promises which were made by the ruling political party, Barisan Nasional, before the general election are not offered in the budget, however since the BN has a high majority in the parliament, the budget will eventually be approved. MPs believe in their role and responsibility to the electorates and therefore the budget must reflect electorates’ precedence because the main criteria of economic progression depends on the people’s welfare. Before the general election date the ruling government purposely increase public allocation to gain support from the people. The MPs of the opposition notice and know that the ruling political party use extraordinary allocation for the above mentioned purpose, unfortunately they are hopeless in



controlling the matter. Moreover they do not have any power in objecting the matter. Most of the legislatures approached were very much concerned about the formulation of the budgetary process particularly regarding subjects related to economic and social (welfare of people) policies that were offered in the budget. They were concerned and felt uneasiness towards some of the government policies because they wish to see their government really improve performance in terms of delivery and contribute towards nation building rather than focusing on certain groups of people that are closely associated to the ruling political party. The MPs do not deny that the presence of economic development policies have contributed to certain groups of people.

### **Endnotes.**

1. This paper does not have any intention to discuss in depth the NEP and Malaysia Development Plans. The main focus of this paper is to examine the link between the ruling government (political party) and the budgetary policy (and process).

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Table 1  
General Elections 1959 – 2008

Election	Year	National Front*		Opposition		Total Seats
		Seats	% of Vote	Seats	% of Vote	
1	1959	74	51.7	30	48.3	104
2	1964	89	58.5	15	41.5	104
3	1969	95	49.3	49	50.7	144
4	1974	135	60.7	19	39.3	154
5	1978	130	57.2	24	42.8	154
6	1982	132	60.5	22	39.5	154
7	1986	148	55.8	29	41.5	177
8	1990	127	53.4	53	46.6	180
9	1995	162	65.2	30	34.8	192
10	1999	148	56.5	45	43.5	193
11	2004	198	63.9	21	36.1	219
12	2008	140	52.2	82	47.8	222

Note: Number of seats won by BN in 2008 includes 3 MPs of the Opposition that were jumped to BN in 2009.

\*Alliance Coalition between 1959 and 1964, in 1969 Alliance and Sarawak United People's Party for 1969 joined Alliance Party; and since 1974 Alliance Party was renamed Barisan Nasional or National Front.

Table 2  
Malaysia Development Plans.

Long-term Policy	Period	Five Year Plan
Pre-New Economic Policy	1956-1970 (15 years)	1 <sup>st</sup> Malaya Plan 2 <sup>nd</sup> Malaya Plan 1 <sup>st</sup> Malaysia Plan
New Economic Policy (NEP) (First Outline Perspective Plan)	1971-1990 (20 years)	2 <sup>nd</sup> Malaysia Plan 3 <sup>rd</sup> Malaysia Plan 4 <sup>th</sup> Malaysia Plan 5 <sup>th</sup> Malaysia Plan
New Development Policy (NDP) (Second Outline Perspective Plan)	1991-2000 (10 years)	6 <sup>th</sup> Malaysia Plan 7 <sup>th</sup> Malaysia Plan
New Vision Policy (Third Outline Perspective Plan)	2001-2010 (10 years)	8 <sup>th</sup> Malaysia Plan 9 <sup>th</sup> Malaysia Plan
The National Mission (High-income economy)	2011-2015 (5 years)	10 <sup>th</sup> Malaysia Plan

Source: Government of Malaysia, Malaysia Plans, various issues.

Table 3  
Malaysia Plans: Allocation for Development (RM'billions)

Malaysia Plans	Allocation	Actual	Budget deficits
2MP 1971-1975	7.25	9.90	-38.6
3MP 1976-1980	18.56	27.81	-29.7
4MP 1981-1985	42.83	78.65	-44.0
5MP 1986-1990	74.00	61.85	-28.3
6MP 1991-1995	104.00	117.66	-2.2
7MP 1996-2000	162.50	103.56	-7.4
8MP 2001-2005	170.00	n.a	-23.2
9MP 2006-2010	220.00	n.a	-19.0
10MP 2011-2015	230.00	n.a	-

Source: Government of Malaysia, Malaysia Plans, various issues.  
Ministry of Finance, Economic Reports, various issues.

Table 4  
Malaysia: Unemployment Trends

	Malay	Chinese	Indian	Others	Total
1967/1968	5.7	5.1	8.4	4.9	5.8
1970	8.1	7.0	11.0	3.1	8.0
1975	6.1	6.3	10.5	9.2	6.7
1980	6.5	3.9	6.3	3.6	5.6
1983	7.0	4.0	6.4	3.8	5.8
1985	8.7	5.5	8.4	5.0	7.6
1990	5.8	4.5	4.9	1.7	5.1
1993	3.3	2.5	2.7	2.3	3.0
1995	4.6	1.5	2.6	0.4	3.1
2000	4.6	1.6	2.7	2.1	3.4
2003	4.9	1.9	3.0	2.4	3.8
2005	5.3	2.4	3.1	4.1	4.2

Source: Malaysia Development Plan, various issues.

Table 5  
Federal Government: Current Expenditure (RM'billions)

Period	Economic	Social	Security	General Admin.	Other	Total
1971-75	0.381	2.49	1.80	0.75	1.64	13.06
1976-80	2.38	13.25	8.43	3.75	10.40	38.21
1981-85	7.57	22.67	15.52	7.33	28.91	82.00
1986-90	9.05	30.43	17.34	11.97	40.70	109.49
1991-95	15.02	51.67	25.50	19.38	52.66	164.23
1996-00	23.35	80.33	32.19	30.62	69.87	236.36
2001-05	33.30	141.90	53.02	45.90	122.62	396.74
2006-10	50.94	194.80	85.44	44.69	185.58	561.45

Source: Ministry of Finance, Economic Reports, various issues.

Table 6  
Federal Government: Development Expenditure (RM'billions)

Period	Economic	Social	Security	General Admin.	Other	Total
1971-75	1.82	0.01	0.42	0.12	0.16	2.53
1976-80	12.51	0.36	3.33	0.62	1.22	18.04
1981-85	25.03	1.33	7.26	0.82	2.91	37.35
1986-90	21.70	1.42	2.98	1.01	0.87	27.98
1991-95	26.01	3.01	11.89	2.44	0.18	43.53
1996-00	44.18	15.50	11.59	13.50	0.85	85.62
2001-05	64.26	69.00	22.59	12.78	1.50	170.13
2006-10	88.04	56.10	20.48	102.00	1.61	268.23

Source: Ministry of Finance, Economic Reports, various issues.

Table 7  
Malaysia: Selected Macroeconomic Indicators

Period	Accumulated Budget Deficit to GDP (%)	Average Real GDP Growth (%)	Unemployment Rate (%)	Inflation Rate (%)	Average M2/GDP (%)
1971-75	-38.6	7.1	6.6	2.9	59.4
1976-80	-29.7	8.6	6.2	2.4	60.2
1981-85	-44.0	5.1	5.9	3.1	65.1
1986-90	-28.3	6.7	7.5	1.4	72.6
1991-95	-2.2	8.7	3.9	3.5	80.0
1996-00	-7.4	5.0	2.9	3.2	103.0
2001-05	-23.2	4.8	3.5	5.2	108.0
2006-10	-19.0	5.4	3.6	3.7	124.0

Source: Ministry of Finance, Economic Reports, various issues.

Table 8  
Members of Parliament in 2010 and Samples

	Front Bench*	Back Bench**/MPs	Back Bench**/MPs (sample size)
Ruling Party/Coalition	58	79	18
Opposition parties	-	82	10
Independent	-	3	2
Total	58	164	30

Note: \* *Front Bench* comprises of Ministers and Deputy Ministers. They are main members or core persons of the ruling political party and the main members are involved in making decisions for the the country.

\*\*Back Bench are Members of Parliaments. The members of Back Bench from the Ruling Government have been known as the *Barisan Nasional Backbenchers Council (BNBBC)* since 2009. Previously it was called *Barisan Nasional Backbenchers Club*..

Table 9  
Role as a Member of Parliament

<b><i>Job: As a Member of Parliament (The Task and responsibility of MP)</i></b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
1. Contribution to the national economic development.					16
2. Ambition/interest as an MP			5	3	8
3. Quick response to the demands from voters at the respective constituency.		1	8	6	1
4. Related to '3', is there any freedom to execute decision or to fulfill the voters demand	1	6	6	2	1

Table 10  
Rewards: Monetary and incentives that are given or received in return for servicing constituency

<b>Factor 2: Rewards</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
1. Satisfied with the salary and allowances given.	2	7	2	3	2
2. The government is providing adequate facilities in carrying out duties at respective constituency regardless of political thought.		8	4	2	2
3. Incentive and facilities received correspond to the effectiveness and efficiency of MP servicing at respective constituency.		2	2	4	8

Table 11  
Involvement in the budgetary process

<b>Factor 3. Involvement in the budgetary process</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
1. MPs (backbenchers) are invited (directly or indirectly) in drafting the budget		1	4	5	6
2. Social economic agenda should be the main principle in drafting the budget.				4	12
3. The ability and succes of MPs in demanding people's welfare to be included in the budget.		2	6	8	
4. Does the federal government (the Cabinet) underline and stress the welfare of the people in the budget.		5	1	5	5
5. Federal government's priority in drafting the budget to private sector development rather than socio-economic development.			2	4	10

Table 12  
Political System and Drafting and Implementing Budget Policy

<b>Factor 4: <i>Opinion on political system in budget policy</i></b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
1. The existing political system is effective in drafting and executing the budget plan.		1	4	5	6
2. The current structure of the budgetary formulation process is able to develop a good budget for the country.	1	1	6	6	2
3. The schedule or timing of budgetary formulation process needs to be reviewed.			1	5	10
4. The ruling political party (the ruling government) influences the national budget policy.				3	13
5. The total seats of political parties (the ruling government and opposition) at the Lower House of Parliament determine approval of the budget.	2	6	3	1	4

**Figure 1**

**Malaysia: Flow Chart of Budget Formulation Process**

**Government**

**Federal Treasury (Budget Management Division)**

**Parliament**

