

**AN EMPIRICAL ANALYSIS OF FISCAL COMPOSITION AND
ECONOMIC GROWTH: THE CASE OF MALAYSIA**

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ABSTRACT

The paper analyzes the long-run relations between components of fiscal composition and output per labor for Malaysia using annual data spanning 1970-2002. Applying the DOLS estimation method, we find evidence that development (current) public expenditure is positively (negatively) related to real output per labor. We also document evidence for the negative effect of indirect taxes on real activity. For the case of direct taxes (corporate and income taxes), the finding is puzzling in that its estimated coefficient in the output equation is positive. From these results, we tend to state that proportionately changing all components of public expenditures and taxes for stabilization or fiscal consolidation purposes may not be appropriate. In other words, the government should pay close attention to which fiscal components are changed in its budget plan.