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## THE EFFECTS OF RENT-SEEKING ACTIVITIES ON PUBLIC EXPENDITURE: AN ARDL APPROACH IN THE CASE OF MALAYSIA

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### **Abstract:**

*This paper investigates the relationship between rent-seeking activities and public expenditure. The Model is empirically tested for Malaysia over 1984-2017. Using ARDL approach and Corruption Perception Index (CPI) obtained from International Country Risk Guide (ICRG) as the proxy of rent-seeking activities. The empirical results show that the increase of rent-seeking activities will increase public expenditure. Higher rent-seeking activities in the economy tend to increase the misallocation of resources from productive to unproductive sector as the self-interest politicians or the elite groups try to affect the decision of government procurement and allocate the public spending to their interest sectors. Therefore, curbing rent-seeking activities should be a primary policy goal of the Malaysian governments in order to strengthen the institutional quality and to promote sustainable public expenditure.*

**Keywords:** Rent-seeking activities, ARDL, public expenditure

**JEL Classification:** H50

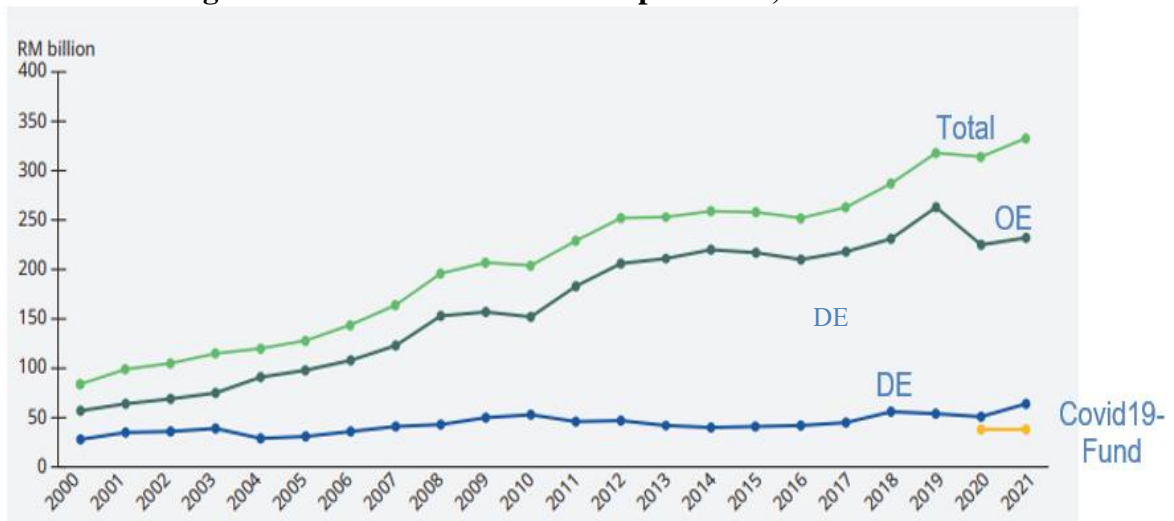
### **1. Introduction**

Rent-seeking refers to the abuse of public office for private gain (World Bank, 1997). It involves expenditure by the interest groups in the form of lobbying/bribery to obtain advantageous treatment from the government through public policy like regulation, taxation or subsidy (Krueger, 1974). Particularly, the rent-seekers look for opportunity to spend money in lobbying governments' decision in order to gain extra 'rent' as a result of the decisions that are 'in favor' to them. The existence of rent-seeking activities in an economy is a sign of poor institutional quality (Ugur & Dasgupta, 2011). This is because they create a distortion to the cost and incentive structure of an economy (Barro, 1991; Mauro, 1995; Tanzi & Davoodi, 1998; Svensson, 2005; Ugur, 2014); trigger waste and misallocation of resources as public investment/funds might be channeled to unproductive sectors and destroy the development potential of the best entrepreneurs (Auriol et al., 2016). Hence, rent-seeking results in reduction of economic efficiency through the misallocation of resources by government, and ultimately impede economic growth and economic

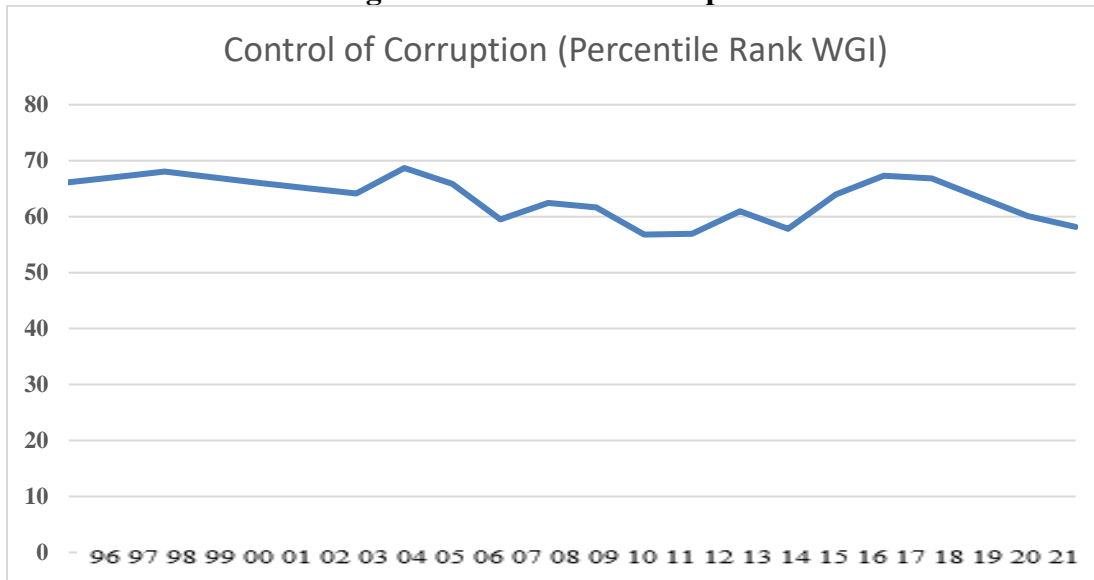
development. According to Figure 1, From 2000 to 2021, government spending increased at a 7% annual rate, from RM85 billion to RM333 billion. This was primarily due to the significant rise in operating expenditure (OE), as shown in Figure 1. Meanwhile, development expenditure (DE) risen from RM27.9 billion in 2000 to RM64.3 billion in 2021, with a slower average annual growth rate of 3.9%. At the same time, there is a deteriorating performance on control of corruption. As a result, the question concerns whether the decrease in controlling rent-seeking activities leads to an increase in public expenditure. Malaysia, as a country which facing a decades ‘old goal’ to join under the category of high-income nation. In 1990, Malaysia set the goal to become a high-income nation. However, per capita GDP has stalled since crossing the US\$10,000 (RM43,950) mark in 2011, In 2021, the figure was around US\$11,400 (RM50,100), falling short of the roughly US\$13,000 (RM57,133) threshold required to be considered a high-income country (Department of Statistic, Malaysia). Therefore, does the rampant rent-seeking activities Malaysia lead to the misallocation of high public expenses to the unproductive sector remain a question.

As a stand-in for rent-seeking, the study applies Corruption Perception Index (CPI) as a proxy which in line with the research by Wong, Chen and Yiew (2021). Based on the traditional rent seeking concept, when public policy makers give special treatment or consideration to certain parties, private parties are compelled to try to profit from the ensuing economic rents and may even engage in bribery competition with one another. When the competition for preferential treatment is limited to just a few insiders, together with the costly rent-seeking expenses for the receiver, rent seeking is approximately equivalent to corruption (Wong, Chen, law & Ismail, 2022). Hence, the concept is in line with Iqbal and Daly (2014) who define rent-seeking as any conduct in which public power is used for personal gain, including the misappropriation of public resources.

**Figure 1: Federal Government Expenditure, 2000 – 2021**



Source: Ministry of Finance, Malaysia

**Figure 2: Control of Corruption**

Majority of the literature support ‘sand the wheels’ hypothesis of the effect of rent-seeking activities on economic growth which indicate it has a negative impact on economic development of a nation. Mauro (1995) found that rent-seekers are willing to pay bribes in order to cut red tape and ineffective procedures when the economy is governed by a weak and burdensome administrative structure. Because the entrepreneur will spend the money for bribe payments, the decline in investment spending will have a negative impact on economic growth. As a result, the investment funds would be diverted from productive to unproductive uses. Additionally, rent-seeking will seriously hinder economic growth by deteriorating the quality of infrastructure and skimping on public spending. As a result, the reduction in government revenues brought by the rent-seekers' tax fraud, lead to a decrease in public spending on health care and education (Tanzi and Davoodi, 1998). Wei (2001) asserts that rent-seeking actions will drastically restrict FDI inflow, which will therefore have a negative impact on the country's economic growth. According to a recent study by Grubler and Potrafke (2019), rent-seeking activities had a considerable detrimental impact on economic growth, particularly under authoritarian regimes with weak legal systems and ineffective governments. However, the studies’ conclusion may vary depends on country’s institutional quality and it may provide conflicting results. Rent-seeking activities will generate unfavourable impact on long-term economic growth and sustainable economic development is the main idea stream supported by Murphy (1993), Gould and Amaro-Reyes (1983), Mauro (1995), Rose-Ackerman (1997), Wei (1997), Mo (2001), Podobnik et al. (2008), Pulok (2010) etc. Rent-seeking activities tends to increase the production cost due to the misallocation of resources, increase of inequality and poverty in the society, inefficient allocation of national sources, biasness in decision making due to the self-interest of politician. In conclusion, rent-seeking activities is considered as harmful for government efficiency. According to Delavallade (2006), rent-seeking activities limits budgetary balance, lowers efficiency of government spending and disturbs the budget allocation among individual budgetary functions. Thus, it creates negatives transmission mechanisms of unfavorable effects of rent-seeking activities on economic development. There are few studies focus on the transmission channels of rent-seeking activities impact on economic growth is the public spending (Delavallade, 2006; Hessami, 2010; Hashem

(2014). Specifically, it is the rent-seeking activities impact on allocation of government spending. Due to the growth of public spending recently growing significance of this channel can be assumed and therefore the attention to it can be justified.

In fact, issues related to rent-seeking activities are not new in Malaysia. For example, 23 politicians from the main politic party – United Malays National Organization (UMNO) were caught to be involved in political financing in the UMNO general assembly in 1995 (Chin, 1997). The political financing scandals and corruption were more serious during the 1997-1998 Asian Financial Crisis (ACF) (Azmi & Zainudin, 2020). Furthermore, the 1Malaysia Development Berhad scandal (1MDB scandal) was a hefty corruption, bribery and money laundering scandal which started in 2009 under Najib Razak's regime in Malaysia but became global headlines and was exposed in 2015. It was as defined as "one of the world's greatest financial scandals" (BBC News, 2019) and it was also declared by the United States Department of Justice as the "largest kleptocracy case to date" in 2016 (FBI News, 2016). In 2015, Najib Razak was accused of transferring over RM 2.6 billion (approximately US\$700 million) into his personal bank accounts from 1MDB, but he stated that this money was an external donation for funding the 13<sup>th</sup> General Election (New Strait Times, 2018). Are there any impacts of rent-seeking on Malaysian government expenditure? With the ballooning in size of rent-seeking in Malaysia, many prior studies have placed the focus lens on the rent seeking through the lens of money politics. For instance, White (2004) discovers crony capitalism in Malaysia and illustrates how private business firms gain the benefits from political ties. Tan (2014) deliberates on how businesses are willing to pay money through political donations to secure economic rents from the public allocations and also using political parties as insurance to strengthen their presence in the domestic market competitions. While the examples of rent-seeking activities in Malaysia are not limited, studies on the impacts of rent seeking activities on the Malaysian government spending are limited. The recent report from Transparency International (2022) shown that Malaysia's 2022 CPI score fell to 47 out of 100, where 100 is considered to be very clean and 0 is considered to be severely corrupted. Malaysia's score has dropped 6 points over the last three years, from a score of 53 in 2019. This statistically significant decrease shows that we are moving in the wrong direction in terms of promoting human rights, combatting corruption, and preserving democracy in the public sector. Therefore, rent-seeking activities in Malaysia known as an obstacle for Malaysia to move to higher income nations.

Departing from the research gap, this paper aims to empirically examine the relation between rent-seeking and public expenditure in Malaysia. Rent-seeking activities in this study is proxied by corruption perception index. This is in accordance to Svensson (2005), Mohtadi and Roe (2003), De la Croix and Delavallade (2011), as well as Iqbal and Daly (2014). According to Iqbal and Daly (2014), rent-seeking is considered as any activity in which public power is exercised for private gain, including the misuse of public resource. Besides, the sample period for the dataset spans from 1984 to 2017 which retrieved from the rent-seeking dataset International Country Risk Guide (ICRG). Results show that the increase of rent-seeking activities will increase public expenditure. Higher rent-seeking activities in the economy tend to increase the misallocation of resources from productive to unproductive sector, the self-interest politician or the elite group trying to affect the decision of government procurement and allocate the public spending to their interest sectors. According to Transparency International, Malaysia's performance in the Corruption Perception Index (CPI) continued to deteriorate, with only 47 out of 100 possible points which is the the lowest in a decade. On the other hand Therefore, reducing rent-seeking activities should be a primary policy goal of governments. Thus, by lowering the rent-seeking activities will improve

Malaysia's institutional quality and increase economic growth.

The remaining parts of this paper are organized as the followings: Section II reviews the findings of past studies. Section III discusses about the data and the empirical model of the study. The empirical results and the discussion of the results are demonstrated in Section IV while the last section is about the conclusion of the study.

## 2. Literature Review

The literature related to the rent seeking-public expenditure nexus is vast and is categorized based on the objective of study, country or group of countries of concern, methodology, and others. According to Mauro (1998), under the situation in which governments seldom act in the best interest of their citizens', corrupted politicians and bureaucrats tend to allocate more public resources to those areas that find easier to levy large bribes in a non-transparent manner. Similarly, Hessami (2010) stated that bribe-maximising politicians and bureaucrats who tend to shift resources to sectors having the best opportunities to be bribed are the key to a corruption-induced distortion of the public expenditure. In particular, rent-seeking activities raise public spending on 'high tech' goods which tend to be produced in oligopolistic markets. This is because goods with highly sophisticated features, for example army planes, are normally operated by a small number of oligopolistic firms. Thus, this sector is heavily exposed to rent-seeking behaviour. By contrast, it is relatively difficult for the occurrence of rent-seeking activities in public expenditure on education such as textbooks or teachers' salary (Hines, 1995). This is because that requires technology that can be provided by a great number of suppliers. In short, rent-seeking activities could have contradicting impacts on public expenditure on various sectors characterized by different level of competition.

Mauro (1996, 1998) is the pioneer in providing cross-country evidence that rent-seeking activities indeed influence the composition of government expenditure. By employing the OLS estimator to regress on four different models/ data sets (due to the categorization of public expenditure into for aspects namely defense, education, transfer payments, as well as social insurance and welfare payments) for 100 countries during the period of 1970-1985, the author's key finding reinforced the notion that rent-seeking reduces the amount of public expenditure devoted to education sector. In the same vein, Korneliussen (2009) found that higher level of rent-seeking activities will decrease the allocation of funds to education sector and healthcare sector; and that finding is especially prominent in decentralized countries. The key difference between the research of Mauro and the study of Korneliussen is that the latter is relatively narrow in scope that it examines the effect of rent-seeking activities specifically on the education expenditure and healthcare expenditure. By drawing the effect of rent-seeking activities, the author also examines the relationship between rent-seeking activities and decentralization, and the relationship between decentralization and government spending.

On the contrary Tanzi and Davoodi (2002) argued that rent-seeking activities tends to increase government expenditure; rather than diminishing it. The positive relationship between rent-seeking activities and public expenditure is not without theoretical justifications. On one hand, according to Dzhumashev (2014), rent-seeking behaviour and public expenditure tend to reinforce each other – a high level of rent- seeking activities raises public expenditure which in turn, induces more rent-seeking activities. Ultimately, there will be a perpetuation of larger government expenditure. On the other hand, Kaufmann (2010) documented that in order to maximize the rent-seeking activities, public officials could be more inclined toward large capital investments at the cost of labor-intensive production. As compared to the labor- intensive projects, the larger scale and magnitude of capital investments make it easier for corrupt public officers to resort to bribe.

That notion that rent-seeking behaviour increases public expenditure is further supported by the finding of a recent study conducted by Wardhani, Rossieta and Martani (2017) in which the authors found that government spending in Indonesia significantly increases due to the mismanagement of local government. The condition is worsened by the higher level of rent-seeking activities in the local government level. Hence, the increase in government spending deceptively is not conveyed with the improvement of the quality of the output.

Rent-seeking activities, other than raising the size of government expenditure, they also can alter the composition of public spending away from vital sectors such as health and education (Mauro, 1998; Wei, 2001) to sectors with greater secrecy and less transparency such as the sector of military defense. According to Gupta, De Mello, & Sharan (2001), military spending is highly secrecy and may not closely monitored by tax and customs authorities or being subject to the usual auditing and other legalities. Therefore, the secret and less transparent government spending provide higher opportunities and is easier for rent-seeking activities to take place. Following that, the impact of rent-seeking activities on public expenditure is contradictory when public expenditure is being decomposed into a number of individual sub-expenditures. This is evident in the work of Delavallade (2006) which extended Mauro's study by decomposing public expenditure into 9 sectors. The author's finding support Hines (1995) and Hessami (2010) that rent-seeking activities, on one hand limit the amount of public expenditure aimed at the social aspects including education, health and social protection; on the other hand, they raise the growth rate of public expenditure devoted to military defense and others. The contradiction is due to the higher freedom of action of the latter, thus more opportunities for rent-seeking activities, compared to the former's pre-determined nature of spending. Another notable work of Delavallade is on the segregation of rent-seeking activities into both the demand- side and supply-side type of rent-seeking behaviour.

Delavallade (2006)'s finding is reinforced by Hessami (2010) who derived a two-stage rent seeking model with endogenous rent-setting which captures both the "political corruption" and "bureaucratic corruption". The model indicates in what way can the differences among individual sectors, which are caused by different level of competition and the difficulty to hide bribery, influence the allocation of government spending. The finding shows that a higher level of rent-seeking activities will increase the public spending on health and environmental protection. However, the government spending on social protection and recreation, culture and religion decrease with higher level of rent-seeking. Similarly, Hashem (2014) who examined the effect of rent-seeking activities on defense, education and healthcare expenditure found that rent-seeking activities appeared to alter the structure of public expenditure in favor of defense and energy at the cost of social sectors like education and healthcare. Specifically, while an increase in rent- seeking activities significantly decreases the spending on education and healthcare expenditure; it increases the expenditure on military defense and energy.

Most of the local studies focus on how the rent-seeking are created in politics arena in Malaysia. For instance, the recent study by Azmi and Zaibudin (2020) shows how money in politics subsidizes to corruption in Malaysia. The authors explain that the corruption occurs through political donation, bribery and money politics. Furthermore, their study also provides evidence of the underlying factors driving money politics. Tan (2014) examines the relationship between rent-seeking and money politics in Malaysia and reviews the dominant discourses on such relationship. Tan (2014) concludes that the introduction of the New Economic Policy (NEP) and privatization are the main channels for rent distribution and hence capital accumulation. Gomez (2012) criticizes that poor enforcement of regulation to control political parties' activities is the main reason to breed the corruption in Malaysia. However, the studies on rent seeking –

government expenditure in Malaysian context have yet to be fully explored. Therefore, this paper attempts to provide some empirical evidences on the relationship between rent-seeking and government expenditure in Malaysia and offer some insights to policymakers and enforcement to control the growing of rent-seeking activities in the country.

### 3. Data and Methodology

The data of government expenditure, rent-seeking, real GDP, and population density were collected from the World Bank with a period from 1984 to 2017. Notably, this study rebased the corruption index in such a way that higher index number means higher corruption (higher rent-seeking activities). Hence, corruption will be used to proxy for rent seeking. Prior to the ARDL's estimation, this study will apply unit root tests to ensure all the variables are not I(2). Firstly, the empirical model of the study is specified as below:

$$\ln GS_t = C_0 + C_1 \ln RS_t + C_2 \ln RGDP_t + C_3 \ln PD_t + e_t \quad (1)$$

where  $C_0, C_1, \dots, C_3$  are estimated coefficient,  $e_t$  is the white-noise error term. Where  $i$  referring to the individual country, Malaysia.  $\ln GS$  is the natural log of government expenditure,  $\ln RS$  is the natural log of rent seeking,  $\ln RGDP$  is the natural log of real gross domestic product, and  $\ln PD$  is the natural log of population density. Annual data are used and it cover the period from 1984 to 2017. Data for government spending, real GDP and population density are collected from the Department Statistic of Malaysia. While the data for rent-seeking as a proxy of CPI is collected from ICRG. For equation (1)  $C_1$  is expected to carry a positive sign where the higher rent-seeking activities in the nation will increase the public spending. The increase in rent-seeking activities tend to reallocate the public spending from the productive sector to the unproductive sector to fulfil the desire from the self-interest elite group. The degradation of the quality and accessibility of public goods as a result of corruption's detrimental effects on the degree and effectiveness of control over the use of funds is the effect of corruption on the process of public expenditure (Malyniak, Martyniuk & Kyrylenko, 2019; Lewis, 2016; Banerjee, 2016; Olken, 2006).  $C_2$  and  $C_3$  is expected to carry a positive sign as well. According to Chinedu, Peace and Stanislaus (2022) found that both capital and recurrent expenses have had a substantial impact on economic growth in Nigeria over the years, though to varying degrees and extents. According to this study, if it were not for institutional oddities and the problem of corruption, capital spending would have had a significantly positive impact on the rate of economic growth. However, the intended capital spending is somehow indirectly converted to recurrent spending, which has its own impact on economic growth. Besides, high population density will lead to higher public spending (Holcombe & Williams, 2008; Ekpung, 2014). The increases of population density in a nation government is required to higher per capita municipal government expenditures.

Equation (1) can be framed into a normal ARDL bound test setting as follow:

$$\Delta \ln GS_t = \beta_0 + \beta_1 \ln GS_{t-1} + \beta_2 \ln RS_{t-1} + \beta_3 \ln RGDP_{t-1} + \beta_4 \ln PD_{t-1} + \sum_{i=1}^{p-1} \theta_1 \Delta \ln GS_{t-i} + \sum_{i=0}^{q-1} \theta_2 \Delta \ln RS_{t-i} + \sum_{i=0}^{r-1} \theta_3 \Delta \ln RGDP_{t-i} + \sum_{i=0}^{s-1} \theta_4 \Delta \ln PD_{t-i} + \mu_t \quad (2)$$

Bound test developed by Pesaran et al (2001) will be applied to examine the presence of long-run relationship [p between  $\ln GS$ ,  $\ln RS$ ,  $\ln RGDP$  and  $\ln PD$ . Initially, we estimated Eq. (2) using OLS, followed by a Wald test and an F-test to test the joint significance of the coefficients of lagged variables in order to determine whether there was a long-run relationship between the variables. The following steps to test the null hypothesis  $H_0: \beta_1 = \beta_2 = \beta_3 = \beta_4 = 0$  which indicate there is no cointegration among the variables. While  $H_0: \beta_1 \neq \beta_2 \neq \beta_3 \neq \beta_4 \neq 0$  indicate there is cointegration between the variables. According to Pesaran et al. (2001), if the calculated F-test value is greater than the upper bound critical value, the null hypothesis of no cointegration is rejected, implying the existence of a long-run relationship. The null hypothesis cannot be rejected when the value of estimated F-test is below the critical value and concluded as no long-run relationship and vice versa. However, if the estimated F-test value is fall between lower and upper critical value the results will be considered as inconclusive (Pesaran and Pesaran, 1997). The following equation is referring to the log-run coefficients of ARDL:

$$\ln GS_t = \beta_0 + \beta_1 \ln RS_{t-j} + \beta_2 \ln RGDP_t + \beta_3 \ln PD_t + \epsilon_t \tag{3}$$

In order to determine the short-run relationships of the variables, the Schwarz Bayesian Criterion (SBC) is used to select the lag length of the model and the error correction model.

$$\Delta \ln GS_t = \beta_0 + \sum_i^p \varphi_i \Delta \ln GS_{t-p} + \sum_j^q \varphi_j \Delta \ln RS_{t-p} + \sum_r^r \varphi_r \Delta \ln RGDP_{t-p} + \sum_j^s \varphi_j \Delta \ln PD_{t-p} + \epsilon_t \tag{4}$$

This study applied cumulative sum of recursive residuals (CUSUM) and cumulative sum of squares of recursive residuals (CUSUMSQ) to test the stability of long-run coefficients and short-run dynamics, as described by Pesaran and Pesaran (1997).

#### 4. Discussion

Table 1 presents the unit root tests on  $\ln GS$ ,  $\ln RS$ ,  $\ln RGDP$ , and  $\ln PD$ . Based on the augmented Dickey-Fuller (ADF) test, the result indicates that all variables are integrated at order 1 - I(1) except for the  $\ln PD$ . The unit root test for  $\ln PD$  reveals that the variable is integrated at order zero - I(0). Therefore, this study concludes that there is no I(2) variable in the data set. Hence, ARDL estimation will be applied to estimate the cointegration between the rent seeking and public expenditure in Malaysia.

**Table 1: Unit Root test**

Variables	ADF	
	Level	
	Constant Without Trend	Constant With Trend
$\ln GS_t$	0.139	-2.821
$\ln RS_t$	-1.640	-1.549
$\ln RGDP_t$	0.629	-2.858
$\ln PD_t$	-3.539**	-3.746**
First Difference		
$\Delta \ln GS_t$	-5.078***	-4.969***
$\Delta \ln RS_t$	-5.737***	-5.933***
$\Delta \ln RGDP_t$	-5.813***	-5.900***
$\Delta \ln PD_t$	-1.034	-1.925

Notes: \*, \*\*, \*\*\* denote significant at 10%, 5%, and 1% significant level respectively



**4.1 ARDL Estimation**

Table 2 indicates the results of ARDL bound test as well as the diagnostic tests for the ARDL which are presented at the bottom of the table. The F-statistic for the bound test is significant at the level of 1%. This concludes that cointegration does exist between the rent seeking and public expenditure in Malaysia. Furthermore, the diagnostic tests for such as serial correlation and ARCH effect are failed to reject the null hypothesis, suggesting that the ARDL model does not suffer from serial correlation and ARCH effect/issues. The CUSUM and CUSUM of squares are also presented in Figure 3. The results indicate that the ARDL model is stable over the period.

**Table 2: The ARDL Bound Test Results**

F(lnGS, lnRS, lnRGDP, lnPD)		
	Optimal lags	(1, 2, 1, 1)
	F-statistics	8.47***
Significant level (%)	I(0)	I(1)
1	3.65	4.66
5	2.79	3.67
10	2.37	3.2
Diagnostic tests	F-Stat	P-value
Serial correlation	0.131	0.877
Heteroskedasticity	0.008	0.925

Notes:\*, \*\*, \*\*\* denote significant at 10%, 5%, and 1% levels, respectively.

**Figure 3: CUSUM and CUSUM of squares for Model 1**

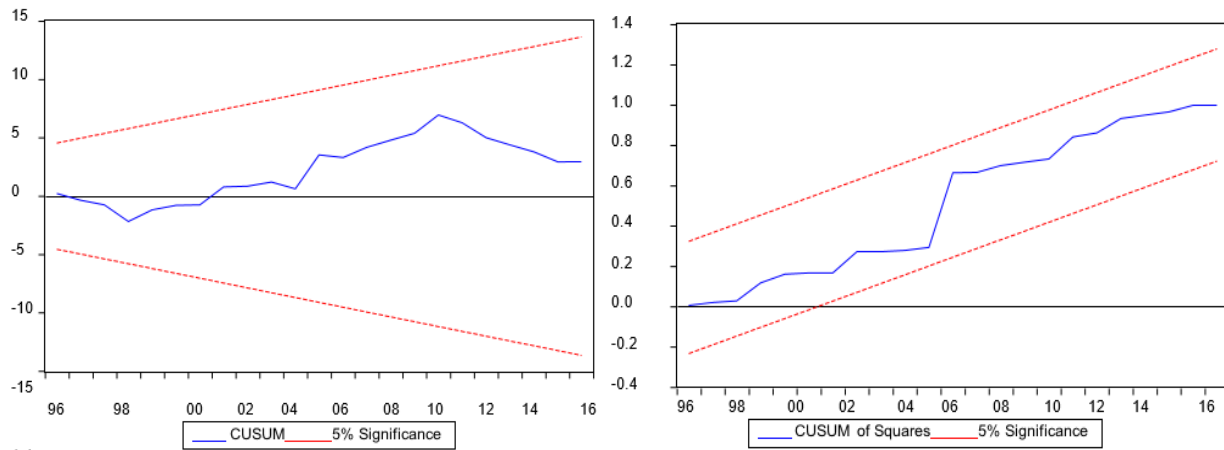


Table 3 indicates the long run and short run coefficients (ARDL Level Relation) of the rent seeking activities and public expenditure. Model 1 reports that rent seeking is significant and has positive impact on public expenditure in the long run. Surprisingly, a 1% increase in rent seeking activities will cause a rise of 0.308% for public expenditure. The result is consistent with the arguments of Mauro,1998; Wei, 2001; Gupta, De Mello, & Sharan, 2001; Tanzi and Davoodi. 2002; Dzhumashev, 2014; and Wardhani, Rossieta and Martani (2017) which indicated that higher rent-seeking activities will cause an increase in government spending due to the mismanagement of government’s operation. Hence, the higher public spending deceptively is not conveyed with the improvement of the quality of the output due to the misallocation of resources. Besides, the real GDP is significant and has positive effect on public expenditure. Particularly, a 1% rise in Real GDP leads to an increase of 0.267% in public debt. Population density is significant and has positive influence on public

expenditure. Its coefficient indicates that a 1% increase in population density leads to the public expenditure increases by 1.767%.

The coefficient of error-correction term (ECT) is negative and significant at 1% level of significance, suggesting that the speed of adjustment is approximately 65% per year. That means Malaysia needs 1 year and 6 months to completely converge from the short run disequilibrium to the long run equilibrium.

**Table 3: The Long Run Elasticity and Short Run Causality for the rent seeking and public expenditure.**

Model 1		
Government Spending (LGS)		
Variable	Coeff.	p-value
<b>Long run elasticity</b>		
lnRS <sub>t</sub>	0.308480	0.0732*
lnRGDP <sub>t</sub>	0.267839	0.0024***
lnPD <sub>t</sub>	1.767265	0.0000***
Constant	15.846976	0.0000***
<b>Short run causality</b>		
ECT <sub>t-1</sub>	-0.655559	0.0000***
ΔlnRS <sub>t</sub>	-0.067324	0.5364
ΔlnRS <sub>t-1</sub>	-0.311884	0.0097***
ΔlnRGDP <sub>t</sub>	0.032121	0.5616
ΔlnPD <sub>t</sub>	-25.783906	0.0000***

Notes: \*, \*\*, \*\*\* denote significant at 10%, 5%, and 1% levels, respectively.

## 5. Conclusion

This paper examines the impact of rent-seeking activities on public expenditure by which it serves as a contributor to the literature regarding the inconclusive finding on the rent seeking – government spending nexus. The empirical investigation is based on a time series dataset for Malaysia covering the time period from 1984 to 2017. With an ARDL estimation, the paper found that there is a positive and significant impact of rent-seeking activities on public expenditure, implying that rent-seeking behavior or corruption tend to stimulate government expenditure; rather than discourage government spending. The contradicting finding of this paper to the vast literature suggests that in the Malaysian context, the “greasing the wheel” hypothesis regarding corruption is valid to some extent. Therefore, the Malaysian government or policy- makers are advised to have comprehensive consideration and to take extra pre-cautionary measures when planning and executing rent-seeking-elimination related policies, despite the fact that such activities are deemed to be harmful to the economy. The contradiction in findings also provide rooms for future studies. On one hand, researchers could analyze the rent seeking – public expenditure linkage in the context of panel data; rather than focusing on only one country or certain group of countries. Note that in the reality, one size does not really fit for all. Furthermore, future studies could be in such a way that the public expenditure is decomposed into individual sub-components; rather than just focus on the overall government spending. Such methodology could clearly show the channel of reallocation of funds due to higher rent-seeking activities and hence, ones can clearly identify the particular sector(s) for which the distortion structure of public expenditure is the most prominent.

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