

Analyzing impacts of growth in production sectors on poverty across ethnic groups in Malaysia: using an extended multiplier decomposition technique

Topic: Using SAMs

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Structures of production, sectoral outputs, remunerations of factors of production and the ownership of the factors by households are the structural features that determine the generation of income and, in its turn poverty alleviation. This is why policies on poverty alleviation have been frequently analyzed by examining their impacts, starting with the expansion of outputs. The objective of this paper is to examine the impacts of growth in production on poverty alleviation across ethnic groups in Malaysia. The analyses use a social accounting matrix (SAM) multiplier decomposition technique. For the purpose of studying poverty, we propose two extensions for the SAM multiplier analysis. First, the public account is treated as an endogenous component in the multiplier modeling. As a result of this theoretical extension, the extent to which public expenditures and taxation have implications on the poor households can be quantified. Second, we decompose the poverty alleviation effects into the effects that are determined by initial, by direct and by indirect output effects. The initial output effect indicates how a one-unit increase in final demand for a sector leads to an immediate increase in the output of this sector by one unit. The direct output effects capture how this change in the output has first-order effects on output from the sector itself and from other sectors. The indirect output effects measure how the first-order effects give rise to second and higher-order effects because the first-order increases in output are produced themselves and require further inputs and so on. Using this decomposition approach, we are able to examine the extent to which interdependencies among the production sectors affect poverty alleviation. Another interesting aspect about this study is that the three separated output effects are incorporated in the 'microscopic detail' multiplier decomposition of Pyatt and Round (2006). For policy purposes, this framework could provide useful information in identifying the specific production linkage paths in which an output injection is transmitted to households. For the empirical analysis, we run a SAM model for Malaysia for 2000.