

De Facto Fiscal Decentralization, Political Alignment and State Expenditure in Malaysia

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Abstract: Malaysia's fiscal system is constitutionally centralized, yet states differ in practical fiscal autonomy and reliance on federal transfers, generating variation in de facto fiscal decentralization. Using panel data for 13 Malaysian states from 2004 to 2023, this study examines how fiscal autonomy, transfer dependence, and political alignment affect total state expenditure. Employing the Augmented Mean Group (AMG) estimator, results indicate that fiscal autonomy constrains expenditure, while transfer dependence significantly increases it. Political alignment does not exert a persistent long-run effect. The findings underscore the central role of intergovernmental transfers and institutional arrangements in shaping subnational fiscal behaviour.

Keywords: Fiscal Decentralization, State Expenditure, Political Alignment, Intergovernmental Transfers, Augmented Mean Group

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