



## WELFARE CAMPAIGNS, DISPARITIES, POLITICAL SURVIVAL AND FISCAL PROSPECTS FOR THAILAND

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### ABSTRACT

*In fashion with the ASEAN neighbors, political parties in Thailand have been frivolously adopting populist campaigns. Such wide spread scenario demands an extrapolation of the fiscal loopholes that enables exploitation of the system in favor of short-run political gains. Occasional populist schemes were formerly viewed as short term ad-hoc expenditure, very unlikely to cause prolonged fiscal burdens. This paper argues from the historical perspectives that once the campaigns have started, successive governments tend to continue to offer similar or larger provisions with only a slight modification. Constrained by budgetary gridlocks and political pressure that would impact the next election, off-budgetary expenditure tends to become very customary for all future governments owing to the country's relatively loose legal framework for monitoring and surveillance of its usage. This paper asserts that, with ample fiscal loopholes for political maneuvering, these populist schemes tend to continue on top of the existing fiscal burden and exacerbate the rural-urban dichotomy in Thailand.*

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**Keywords:** Disparity, Fiscal impacts, Thailand, Welfare campaigns

**JEL Classification:** H53, H61, H62

### 1. INTRODUCTION

While welfare states in the west are engrossed with the issues of fiscal burdens and welfare retrenchment, the opposite is happening in the Far East. Particularly in the four countries of consideration in the Association of Southeast Asian Nations (ASEAN); namely Indonesia, Malaysia, Philippines and Thailand, governments and political parties have been frivolously marketing massive welfare-related campaigns during the last two decades. As a consequence, expansionary fiscal policies have been commonly adopted to finance these populist cash giving-outs and generous subsidies schemes.

In Indonesia, despite the benefits do not reach those in needs, the government continues to increase the fuel subsidies. In Malaysia, there are government food and fuel subsidies and other political promotions such as educational aid to the ethnic Indian community, cash hand-outs to

lower-income households, civil servants and retired employees. The Philippines also offer the Conditional Cash Transfer (CCT) Programme, giving out cash to about 3 million poor households. Similar to her neighbours, populist schemes have become indispensable tools for survival in Thailand's political arena. The recent campaign in Thailand is the rice pledging programme within which the government purchases rice from farmers at 15,000 Baht per tonne, against the market rate of 9,000 Baht per ton.

Optimistically, political attempts to expand social provision and social protection in developing countries may reflect an increase in the public awareness for social well-being and people's participation in politics. This goes in line with the Millennium Development Goals (MDGs), irrespective of whether it is for the good causes (altruism) or for political interests (populism). In the past, political dominance of business interests in Thailand resulted in little political support for re-distribution, while growth and macroeconomic stability were the nation's top priority. However, the question remains whether this phenomenon actually arises from the increase in public awareness of the rights and duties as citizens or it is merely the outcome of politicians' awareness of political opportunities to exploit the country's increasing multi-dimensional disparities. Particularly the severe rural-urban disparities had long paved ways for the success of populist policies aiming at the majority of the population in the countryside. Since the majority of the rural and rural-to-urban migrated population could hardly make ends meet on a daily basis, they cannot totally be blamed for their lack of consideration over the country's long term destruction caused by political treats in exchange for short term interests.

In the theoretical context of the re-distributive role of fiscal policy, cash-giving may be thought of as a form of lump-sum distribution hypothesized in the second theorem of welfare economics. As the theorem implies, under a set of conditions, by imposing a lump-sum wealth redistribution and then letting the market work on its own, a society can achieve one of the possible Pareto-efficient outcomes. One of the conditions for the theorem to hold is that the government needs to have perfect information on individual consumers' and firms' characteristics. In this case, the government definitely faces the common shortcoming of asymmetric information. Hence, it cannot guarantee that such distribution will lead to any Pareto improvement. Moreover, such cash-giving does not at all lay the necessary foundation for long term aims at improving the standard of living of the population.

In terms of fiscal sustainability, it could have been far worse off if free cash-giving policies were made part of the permanent social provision. By doing so, no future government would have the courage to remove or terminate them. The practice of social provision that is fiscally tolerable and stable in the short-run (and sustainable in the long-run) for the country's public finance requires much more comprehensive studies and debates. Even a well-developed system of state provisions in several western developed nations had resulted in high public debt and tremendous fiscal burdens during the past few years. Other undesirable direct and indirect consequences include riots and political unrests. Such outcomes had not been well reflected in good times during which the fiscal foundation were seen to be strong. However, through world trade paradigm shifts

accompanied by several crises and shocks, these countries' public finance status had significantly been shaken. Particularly most welfare states are in a dilemma between continuing the existing provision and maintaining their fiscal stability.

It is straight-forward that the on-going ASEAN populist schemes are for increasing the popularity of the ruling parties. It is also widely agreed that, given limited resources, the government should rather focus on long term investment that would raise the people's standard of living and bring about sustainable economic growth and development. So why does this continue to proceed? At the first sight, it may be argued that these populist schemes are temporary and do not impact fiscal burden in the long run. The question, then, is how long will this go on? Politicians are often concerned about short term political interests and postpone fiscal burdens to the future government. Recipients of the benefits are often contented and are indifferent about the future impacts. This paper explores how such practice had been possible and increasing in its popularity for the case of Thailand, despite the existing legal frameworks for budgetary process and fiscal discipline.

To promote a better understanding of a developing country's socio-economic and political transition, the paper begins with the background and evolution of the politics involved in the country's annual budget design process. Then, it goes on to assess the expenditure and the revenue-side performance by the government starting from post-1997 crisis recovery. The third section portrays the country's post-1997 crisis expenditure pattern. The fourth section displays the revenue structure of Thailand during the same period. The last section discusses the future trends of the political economy of campaign promotions and the governance of the state. To this end, the paper offers rigorous insights for the case of Thailand as an example of ASEAN country's contagious "give-away" policies and provides policy precautions for the current welfare-marketing era.

## **2. POLITICAL ECONOMY OF BUDGET DESIGN IN THAILAND: BACKGROUND AND EVOLUTION**

The budget process in Thailand comprises of four major steps, namely; preparation, adoption, execution; and monitoring and evaluation. It begins with a revision of previous year's performance, strategy and productivity together with the changes in socio-economic and political contexts. Such information and the current National Economic and Social Development Plan are employed as a basis for next year's budget planning. Each year, the process also involves forecasting of revenue and expenditure, public debt, budget policy and budget amount. The four public institutions responsible for budget planning are the Bureau of the Budget, National Economic and Social Development Board, the Ministry of Finance and the Bank of Thailand. These institutions review the overall budget and propose it to the members of the cabinet. The Budget Act for each year's public expenditure is drafted. The Bureau of the Budget informs ministries to prepare their ministerial budget to be proposed to the cabinet. Upon the Cabinet Council's Conclusion, the proposed expenditure is presented to the parliament and the senate for revision. The rationale of the budget process mechanism is to maintain the ideology of "taxation with representation". In

other words, spending tax money collected from the citizens is subject to their approval. Under the modern democratic system of election, members of the parliament and senators are, de jure, the “representatives” of the citizens.

It is important to note that Thailand’s Budget Procedure Act BE 2502 (AD 1959), characterized by a rather top-down approach, was created at times when the country’s system of governance was hierarchical and highly centralized. In principle, the Budget Procedure Act and annual Budget Act had been designed to maintain fiscal disciplines and minimize political intervention. Traditionally, the four institutions played a major role in shaping the budget design and determining how government should spend the people’s money. Political parties knew very little about budgeting and, therefore, relied mostly on what had been proposed by the operational-level bureaucrats. Resembling a rather “incremental” nature, there was, thus, little change in the budget design each year as denoted in Lindblom (1959) and Bowornwatana (2002). With incremental approach, the policy was only to induce very small changes from the past record. Sizable variations were avoided such that minimum tensions between interest groups were maintained for the stability of the government. In the past, political power was, for a very long time, held in the hands of a few people in the same small circle.

Three decades later, Thailand had undergone significant social, economic and political development. Pongphaichit and Baker (1998) explain that in the later period, the process of determining policy did not yield expected outcome ever since the government had been elected through the process of democracy in 1988. The four institutions determining the budget process ceased to maintain their former customs and autonomy. The quality of these institutions had been said to deteriorate. Part of the reasons was because during the economic boom, qualified personnel were attracted by higher return incentives offered by the private sectors. The National Economic and Social Development Board had turned out to be a technical assistant for the government, mostly feeding supportive information for decisions on public investment. Moreover, political intervention in the Bank of Thailand’s monetary policy has become another factor that affects the central bank’s ability to oversee the financial sector, most prominently during the Asian financial crisis in 1997. Thus, under the new setting, it become no longer just the four institutions that determine the budget since the number of “players” had increased. The new generations of political parties have become more interested in getting involved from the very first step of the budget design, or, to the extreme case, lobbying or dominating the operational levels. As such, the civil structure had inescapably become passively conformable to political demands.

The changing political economy of the budget designs during almost half a century after the Budget Procedure Act requires a thorough understanding of the country’s sentiments and specific developmental context. The country’s budgetary expenditure is a huge sum of resources, a tempting reward to win in a systematic competition among political powers. These powers involve a variety of “players”. The first group of players comprises of the politicians, the majority are members of the parliament having important roles in budget determination and are exchanging mutual benefits with some groups of people in the civil sector. The second group refers to the interest groups such

as merchants and businessmen officially and unofficially giving financial supports to the political parties. The third group includes the civil servants who are the main sources of information for those in power. The last group is the citizens who, by the Constitution, are eligible to certain rights. However, the last group has often been neglected in policy decisions. The majority of the population does not have access to important information and, most of the time, official socio-economic news release can be incomprehensible by the general public due to the complexity of technical terms in the reports. Therefore, generally, the citizens do not know whether the policy is for the better or for the worse of their welfare. This scenario resembles the Interest Group Pluralistic Model in which the competitive (and compromising) equilibrium leads to the policy outcome that is agreed among the powerful players (Truman, 1971). This, of course, does not yield benefits to the people that were intended by most principles of policy designs.

The decades-long-competition for budget among political powers had led to a kind of budget allocation that did not truly reflect the main objectives of the country's socio-economic development plans. Disproportionate budget allocation had aggravated the severity of uneven development throughout the country. In most cases, the provincial budgets were not directly allocated as subsidies. Instead, the budget had often been initially directed to different ministerial departments to be redistributed as project expenditures into the politically preferred provinces. Only some small parts will go to the provinces as subsidies. The amounts had never been formally disclosed to the public. It, thus, can be said that budget allocation to departments implies another form of concealing budget information by provincial distribution. If such information were disclosed, it would have been easy for the public to evaluate how politicians are working for their country. For instance, a study by Thailand's National Reform Commission (2011), chaired by former prime minister Anand Panyarachun, shows that the provincial budget severely mismatched the provincial needs. The study made comparison between investment budget by province per head and advancement in human development based on the United Nations Development Program's (UNDP) 2009 Human Achievement Index. It was found that provinces with low indices received small budget allocation per head while those with high indices received a huge sum in terms of the overall investment and sectorial investment such as education, transportation and communication. The budget allocation continued the way it had been until the present. As a result, the poor provinces tend to become poorer, the rich getting richer; causing wider regional disparity. This had successively created favorable conditions for the success of populist policies that have become very common today.

De jure, the senate must act as a counter-balancing institution in budget decision. The senators have the duty to provide recommendations for the revision of the budget, if necessary. However, de facto, most of the senators either do not have the resources or know-how to go over the details of the budget in a limited time. Hence, the senate does not play a role significant enough to counter-balance the government's budget design. This was different in the past. Previously, the senators were appointed, not elected as is the case today. They were either former senior officials or public policy experts who used to work in the public sector, having keen experiences on

budgeting processes. However, the elected senators come from a variety of occupational backgrounds; many may not fully understand the mechanism of budget design. Thus, the budget is, de facto, under the pure discretion of the executives. The fact that the Board of Budget Bureau comprising of a few people in a close social group has also made it convenient for members of the cabinet to do the lobbying.

When it comes to the last steps in budget process, namely; control and evaluation, there are several problems such as leakage of budget expenditure, deficit dues from previous years, inefficient usage of central budget and deprivation of treasury reserves. As said earlier, these are the outcomes of structural problems and imbalance of power between the executives (government) and the legislative (senate) bodies. Moreover, the cabinet, itself, has limited capability for post-control of the budget. The balance of power between the institutions involved in the budget has also been a problem. For the case of Thailand, all the process from top to bottom are conducted within one ministry, that is, the ministry of finance, without external monitoring. Hence, if there were some kind of coalition between staff and political powers, there would be no channel for the other government institutions or the general public to know what goes on.

Many industrialized nations had long before experienced such socio-economic and political transition. Evidences proved that a reformed budgeting structure that better suits the new setting was compulsory. For example, the United States instituted Congressional Budget Office in 1974. The Congressional Budget Office is independent and has autonomy over the analysis of the budget from the Office of Management and Budget. This helped in maintaining the balance of power between the executives and the legislative bodies. However, in the case of Thailand, until present, there had been no concrete attempt to institute an assisting budget office for the parliament. This institution should act like a budget bureau for the parliament, having sufficient manpower and resources for producing critical recommendation for budget revisions and counter-balancing the executive's power.

### **3. THAILAND'S POST-1997 CRISIS GOVERNMENT SPENDING PATTERN**

After receiving assistance from the International Monetary Fund (IMF), the government imposed strict policies in compliance with the IMF conditions. The government conducted austere fiscal policy and aimed at achieving budget surplus during certain period. Alongside, the government improved the budgetary process. For instance, it was required that all government agencies must increase the frequency of payment. However, it can be observed that after the economic crisis, capital expenditure decreased significantly during 2001-2003. Notably, during the Democrat government, capital expenditure dropped from 33.6 percent of total expenditure in 2001 to 28.3 percent and 25.2 percent in 2002 and 2003, respectively. The percentage decreased to the lowest point of 12.6 percent of total expenditure in 2010 (Figure 1). The reason for low capital expenditure was due to the ease of cutting off this part of the budget compared with the current expenditure part which includes regular obligatory payment for personnel salaries and other processing utilities.

When considering about the efficiency of expenditure in terms of human resource development, the financial crisis had important impacts on altering the budget allocated to these activities. Conventionally, during crises, the reduction in expenditure should pinpoint at those activities that do not yield economic productivity, particularly defense affairs and services. At the same time, the 8<sup>th</sup> National Economic and Development Plan came effective during the period. It focused on 12-year compulsory education attainment and the rights to access standardized-quality health care and services for all. This promoted a significant increase in the proportion of expenditure related to human resources (Pinto, 2007). From Figures 2 and 3, the productive expenditure has higher proportion than other expenditures which were considered “unproductive”. The unproductive expenditure had a declining trend until 2006. After the coup d'état in 2006, the expenditures on defense affairs and public order and safety affairs had rebounded since.

Moreover, the government's finance had depended more on external borrowings and off-budget expenditure. For example, the loans for investment through Miyazawa Plan had the objective of alleviating unemployment during economic recession. However, there were skeptics about the efficiency in the management and expenditure of such plan. One incidence was that a huge sum was used only for public relations of the policy. Overall, the whole activity did not yield productive results (Thanapornpun, 2002). More seriously, the loans under Miyazawa plan did not pass through the normal evaluation and assessment process as in line with other government projects. While not promoting economic recovery, such loan plans had created public debates over the corruptions within the project. However, the government did not take any action to clarify the case and bring about those who were involved in such corruption cases. This was one of the cases of debt creation lacking efficiency and transparency.

When the Thai Rak Thai Party took over the government, the policies to accommodate the poor and the people in the informal sector were publicly announced. The government pursued budget deficit to boost domestic demand in the country during the economic recovery. In its budget design, current expenditure continued to increase similarly to those of the previous governments. This was also the results of the adjustment of the civil salary structure, the education reform, the government precautionary budget allocation for reserves in case of economic urgency, the 30-Baht-for-All health policy for people in the informal sector and; most importantly, the one-village-one million fund financed by government's borrowing from the Government Savings Bank (Rattakul, 2006). While capital expenditure for investments remains relatively constant in the beginning, it foresaw an increasing trend because of the policy to develop tourism sites and renovation of the cultural heritage. It can be observed in Figure 1 that capital expenditure increased drastically since 2001. In 2006, the government initiated the mega project covering 7 sectors, totaling 65 projects such as purchasing new airplanes for Thai Airways International, road and bridges construction, and 250,000 computers for schools. These projects cost 289,928 million baht in total.

Aside from having started many projects, the government at that time re-engineered the budgeting process, partly to comply with the international standard and partly to accommodate its

own new policies. The first part was the application of the national strategy-based budgeting starting in the year 2003. This created transparency in the expenditure to achieve the government objectives. However, the objectives may not be explicitly defined since the strategy was very broad. Second, the budgeting process was adjusted to be result-based to ally with the national strategy. The result-based budgeting required all the ministries to work together in determining a project. This was based on Public Service Agreement concept. Third, the accounting system was adjusted to Government Financial Management Information Systems (GFMIS), based on international standard, beginning in the year 2004 (Jitsuchon, 2006).

Another notable fiscal innovation in the mid-2000 in Thailand's political sphere was the wide spread usage of quasi fiscal policy. Quasi fiscal policy refers to the policy that is initiated by the government but is not financed by the fiscal budget and do not have the pass through the approval of the parliament. Due to the effects of the world economic recession and the pressure endorsed by populist policies, higher expenditure has become inevitable. Prolonged budget deficit usually has been the outcome. Therefore, off-budgetary expenditure can be said to provide some leeway and flexibility for the government. Thailand's government had been increasingly relying more on such option since 2000s onwards.

In principle, on-budgetary expenditure refers to the budget that has passed through the budgetary process by the cabinet and the members of the parliament each year under the Budgetary Procedure Act BE 2502. Off-budgetary expenditure refers to the expenditure that did not pass through the parliament and, thus, the detail of which is even less transparent to the public in the Budget Reports. The off-budgetary expenditures are under the responsibility of certain institution delegated by the government on a case-by-case basis. Examples of off-budgetary expenditures include the local government administration's budget, funds, revolving funds, external borrowings, subsidies on education and health institutions, etc. In Thailand, off-budget procedure is partially under some legislative acts, namely Treasury Reserves Act BE 2491, Budgetary Procedure Act BE2502 and other case-related Acts such as Social Security Act or by the Cabinet Council's Conclusion.

The decision on using off-budgetary expenditure depends solely on the government executives and does not have to go through the other pillars of governance, namely the legislative and judiciary bodies. This lacks counter-balancing of the control. Despite that in many OECD countries, off-budget payment has been commonly used; it has to go through the parliamentary process. This has not been the case in Thailand partly due to the fact that off-budget tool has not been widely used by the Thai government in the past until 2001 when the Thai Rak Thai Party won the election. Since then, off-budgetary expenditure has become another convenient fiscal tool to ease up the constraints in the fiscal budget.

In implementing various policies through quasi fiscal options, the government appointed financial institutions under its control to provide special loans to private financial institutions. In the beginning, the Thai Rak Thai's policy for debt release for the farmers for 3 years had been conducted through the Bank for Agriculture and Agricultural Co-operatives. This was



discretionary, unlike the fiscal budget that must be approved by the parliament. Other highlighted policy includes the “Baan Uea Athorn” (Compassionate) Housing Project for the poor. This was financed by the government banking institution in the same way as the debt release policy and other welfare-related policies.

At the later stage, quasi fiscal policy has been further modified to support Small Medium Enterprises (SMEs), individual loans and loans for housing through special financial institutions under the government, including the SME Bank, Export Import (EXIM) Bank, Government Savings Bank (GSB), Bank of Agricultural and Agricultural Co-operatives (BAAC) and Government Housing Bank (GHB) (Jitsuchon, 2006). Nevertheless, the quasi fiscal policy has two main plausible advantages; namely, direct transfers to the focus group and lower tendency for corruption. However, the major problem was high risks for bad debts due to the fact that there were no collateral while the interest rates were very low. Despite concerns over their feasibility and sustainability, these policies received wide acceptance from the majority of the population in the rural areas.

After the coup d'état, the government under General Surayut Julanonda was in charge of the country for about a year starting from the end of 2006. The year 2007 was the start of the 10<sup>th</sup> National Economic and Development Plan which focused on quality and moral to attain “Peaceful Society” based on the “Sufficiency” economy philosophy of the King of Thailand. To achieve such objectives, the government intended to increase expenditure on welfare. For example, the government continued the earlier compassionate projects and renamed it “Rath Euea Athorn” (the State compassionately assisting citizens), providing housing for the people, building public parks and sport facilities for the community. Moreover, the government attempted to improve state enterprises as opposed to the Thai Rak Thai Party aiming at privatizing state enterprises.

Although General Surayut Julanonda's government publicly announced that it was not to pursue populist policies, in practice the policies did not change significantly. The government continued to use quasi fiscal policy. Expenditure increased but the direction of the policy remained indefinite of how they were prepared to deal with future economic crises (Norathat, 2008). One ironic observation was that while the government strived for a peaceful society, the government invested more than 6,000 million baht in buying arm weapons (see defense affairs expenditure in Figure 3 during 2006-2007).

When Thailand was hit by external economic crisis in 2008, the country was under People's Power Party, a transformed version of the Thai Rak Thai Party, of which Samak Sundaravej was the prime minister. The government announced explicit policies to help the low-income called the “6-Months-6 policies” program to subsidize living costs. These policies include:

1. Reduction of excise tax on gasohol 91 and 95 from 3.30 Baht per liter to 0.0165 baht per liter; and reduction of excise tax from diesel from 2.30 baht per liter to 0.005 baht per liter
2. Postponement of the increase in household cooking gas price
3. Reduction of water supply fee through government subsidy for households consuming 0 -50 cubic liters of water per month

4. Reduction of electricity charges and fuel tariffs for households consuming 80-150 units (kilowatt hours) per month through government subsidy of half the expenditure
5. Free bus services for 800 buses running 73 routes
6. Free train services for the people

Beginning 2009, Thailand was affected by another worldwide economic crisis. The Democrat government employed expansionary fiscal policy to boost the economy. The government faced budget deficit of 364,574 million Baht. This was considered to be the highest deficit in the history. The sources of funds came from various fiscal tools. The policies were to promote economic recovery through the government's plans. These plans were (1) public confidence recovery (2) income structure, quality of life and social safety nets improvement; (3) measures to prepare for emergency cases and (4) expenditure to repay the treasury reserves that was used to finance the fiscal deficits (Chatameena, 2009). In 2010, fiscal deficit still continued along with the on-going phase 2 of the plan for economic recovery (2010-2012) that had been approved by the cabinet. This plan was known as the "Thai Kem Kang" (Strong Thai) Strategic Plan for generating jobs and income. It was expected that public investment will increase competitiveness of the country and encourage private investments. The plan was categorized into 13 major sectors with total approved budget of approximately 1.4 trillion Baht.

#### **4. THAILAND'S POST-1997 CRISIS GOVERNMENT REVENUE STRUCTURE**

In 1998, Thailand's government revenue dropped significantly, causing fiscal deficit. The government must employ treasury reserves for expenditure to subsidize such deficit. The main reason for revenue reduction was the lower tax revenue from corporate income tax and import duties. This was the result of economic decline, lowering corporate profits. Additionally, the depreciation of Thai Baht resulted in lower value of imports. Most of the revenue came from value-added tax (VAT) and corporate tax. These two taxes are volatile depending on the economic situation at certain period of time. As a result, the tax revenue will fluctuate along with external economy.

From historical records, the government has the tendency to employ tax tools to boost the economy. One notable incidence was the reduction of VAT from 10 percent to 7 percent in the year 1999 to promote consumer spending. VAT revenue was reduced in 1999 and 2000 while the economy began to recover from the crisis. The IMF proposed that the country should raise VAT rate to 10 percent to increase revenue and to achieve balanced budget (Kasikorn Research Centre, 2002). However, the government did not increase the VAT rate until the present day. Another external factor affecting the revenue is that as the country becomes more open with the reduction of customs duties under Free Trade Areas (FTAs), the importance of revenue from import taxes had declined.

Later on in 2001, the government was able to continuously collect higher tax revenue, particularly from the personal income tax, corporate income tax, VAT and import duties. There were efforts to expand tax bases to increase the number of personal income tax payers. The

Revenue Department imposed stricter regulations on taxpayers and provided convenient tax-paying facilities. Moreover, the Department also introduced tax exemptions. The number of tax payers increased continuously until 2005 and 2006. During 2005, the government released a measure allowing those above 65 years old with income less than 380,000 Baht to be exempted from paying tax, causing the total number of taxpayers to reduce. Another factor was the increase in household credit card debts, forcing a group of workforce to avoid paying debts by moving to informal sector. Due to these two major factors, tax bases had reduced in size from 7.3 million people in 2004 to 5.7 million people in 2006. At the same time, the government aimed at increasing the number of corporate in the database to boost corporate tax revenue.

In 2007, the government was able to collect slightly higher tax revenue than 2006 due to the economic expansion. There was also a small change in tax rates, for example, increase in alcohol and tobacco taxes, which are considered sin taxes on goods which are harmful to health; and excise taxes on telecommunication industry. However, these policies did not have important implications for the total tax revenue. With an abrupt increase in government expenditure, while revenue increases by just a relatively small portion, from 2006 until the present, it is inevitable that the government will continue to face both the on-budget and the off-budget deficits as well as accruing public debts obligations.

## **5. PROSPECTS FOR THAILAND'S POPULIST SCHEMES, GOVERNANCE AND PUBLIC FINANCE**

Considering fiscal disciplines at the macro level, Thailand has achieved balanced budget for a decade before the financial crisis in 1997. Hence, it can be said that the problem of financial crisis did not arise from the fiscal side. Thailand had maintained its fiscal disciplines in the past. This can be reflected by very low level of public debt and high treasury reserves before 1997. The high treasury reserves helped finances the budget deficit of the country during the crisis.

On the contrary, if Thailand's fiscal position before the crisis were weak, characterized by high deficit and high public debt, it would have been much more difficult to overcome the debt crisis. Fiscal policy would not be able to help sustain the financial sector where there was a loss of confidence and scarcity of capital in the credits system. Therefore, it is important that a country maintains its fiscal disciplines and transparency. At the same time, it is also important to maintain a good counter-balance between fiscal and monetary policies. Thailand survived the past crises owing to its modest fiscal policies. However, should the public expenditure pattern continue to be the way it had been since early 2000s onwards and welfare-related, non-contributory provisions keep expanding in spite of the low revenue increase, Thailand may be following the footstep of fiscal breakdown in many welfare states.

Although it may be argued that currently the institutionalized (formal) welfare provisions (mainly, different pillars of healthcare and old-age provisions) constitutes only approximately 15 percent of the total expenditure, which is very small compared with OECD countries, the non-institutionalized political marketing campaigns, such as the recent rice pledging schemes, and

several debt relief schemes, that do not promote long term improvement in welfare, constitute a large part of the unseen off-budget expenditure and public debts. At the first sight, it may be viewed that political welfare campaigns are short-term ad-hoc spending, not leading to prolonged fiscal burdens as in those of many welfare states. However, this paper points out from the country's historical records that once the campaigns had started, the successive governments tend to continue to offer similar or larger provisions with only some slight changes, for example, in the names of the schemes.

Since the economic crisis in 1997, the government had conducted fiscal deficit for 8 years since 2004. In 2005 and 2006, there was temporary balanced budget and then there had been deficit again in 2007 until the present. The fiscal problems that arise from the so-called welfare-related campaigns and other populist policies should be alleviated by at least having all the government projects passing through the approval of the parliament and the people. The expenditure of the central budget by the cabinet should also be carefully monitored in a reformed budgeting process. Currently, the expenditures financed by quasi fiscal tools lack proper monitoring and surveillance system. Should the government gets involve in the economy, they should focus on investment which aims at improving the basic infrastructure and the long-term well-being of the people, such as education, particularly vocational trainings, research and development. Moreover, the government should consider restructuring the tax system in the midst of the world competition and integration; and increasing efficiency of the public sector as well as solving income inequality problems.

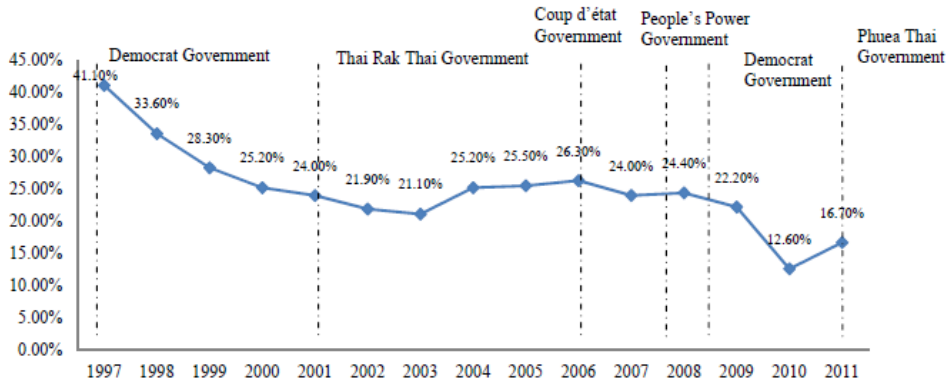
Despite the fact that off-budgetary expenditure cannot be widely observed by the public, the result of employing the country's large sum of resources without proper monitoring and surveillance will impact debt burdens for all the Thai people in the near future. This is by far no less severe than the case of on-budgetary expenditure. For the case of Thailand, the civil process had, to some extent, imposed contingencies on the utilization of the off-budgetary expenditure. However, if from now on, it would become customary that the government tends to favor off-budgetary expenditure to pursue what it had promised before the election, the legislative and judiciary pillars as well as related authorities should proceed to construct a more comprehensive legal framework for higher degree of transparency and fiscal disciplines. More importantly, the general public should be well aware and have access to such information.

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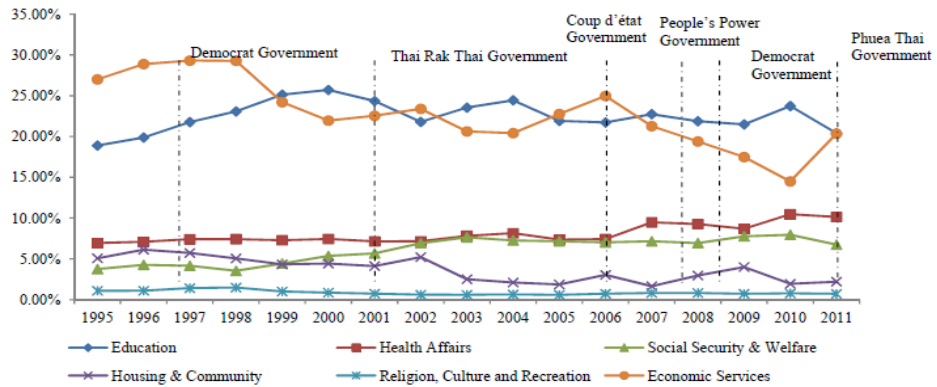
FIGURES

Figure-1. Percentage of Capital Expenditure over Total Expenditure during 1997-2011



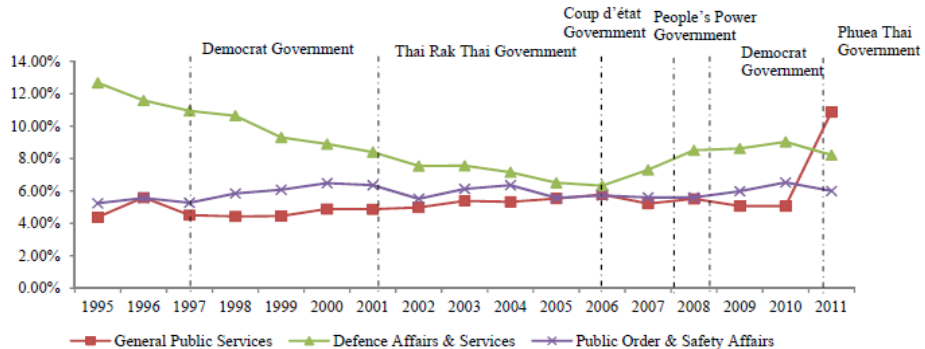
Source: Thailand's Budget in Brief, Bureau of the Budget of Thailand and author's illustration

Figure-2. Percentage of Productive Expenditure over Total Expenditure during 1995-2011



Source: Thailand's Budget in Brief, Bureau of the Budget of Thailand and author's illustration

Figure-3. Percentages of Unproductive Expenditures over Total Expenditure during 1995-2011



Source: Thailand's Budget in Brief, Bureau of the Budget of Thailand and author's illustration

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