

THE ANALYSIS OF THAILAND GOVERNMENT  
EXPENDITURE: POLICY DETERMINATION

By

Songtum Pinto

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Fulfillment of the Requirements for the Degree of  
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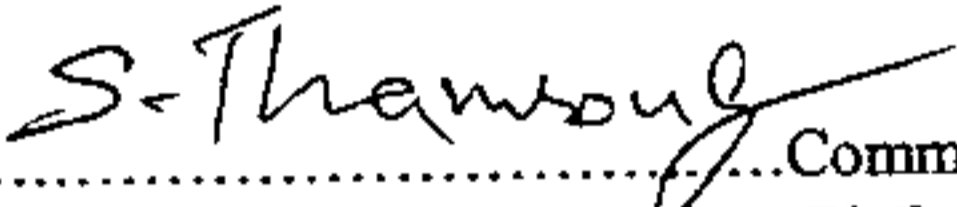
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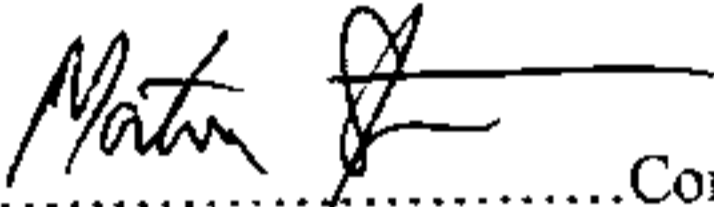
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The Examining Committee Approved This Dissertation Submitted in  
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(Development Administration)

Professor  Committee Chairman  
(Sombat Thamrongthanyawong, Ph.D.)

Associate Professor  Committee  
(Ponlapat Buracom, Ph.D.)

Associate Professor  Committee  
(Montree Socratyanurak, Ph.D.)

## **ABSTRACT**

**Title of Dissertation** : **The Analysis of Thailand Government Expenditure: Policy Determination**  
**Author** : **Songtum Pinto**  
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In this study, an attempt is made to understand the behaviors of the government expenditure policy focusing on its formulation and determinants. The theoretical framework is based on the welfare function as well as the incrementalist idea. From the study, it is found that: (1) In general, the models are able to explain the behavior of the government expenditure allocation reasonably well. (2) The total expenditure after interest payment, and in particular the 'incrementalist variables' have shown significant roles in determining all types of expenditure. These suggest that the total size of government expenditure in the economy and the base of previous year expenditure probably play a critical role in the expenditure allocation. In addition, the incrementalist variables have tended to influence the allocation of current expenditure (as well as other current-based expenditures) relatively stronger than capital expenditure, implying perhaps the less flexibility of the current expenditure. The influence of the incrementalist variables is the least for the government capital expenditure implying the probably most flexibility of the government capital expenditure. (3) The demographic variables are also statistically significant in determining the government expenditures. Different demographic variables, however, have different impacts on different types of expenditure. (4) The factors relating to external factors including the degree of openness and the current account are not statistically significant in impacting the government expenditure allocation. Historically, it was found that the government never borrowed abroad specifically to finance budget deficit. In addition the external borrowing under the law is limited and the government exercised a great deal of caution in using it. Compared with other countries explored in the literatures, the uses of government borrowing to reduce

private external exposure is also relatively scarce in Thailand. These factors together reduce the roles of external factor variables in explaining the budget allocation. (5) The size of the interest payment was found to have a negative relationship with the government expenditure. Here, three factors were found responsible: first the fiscal conservatism policy in the past; second the flexibility of the Thai fiscal policy; and third the elasticity of other types of expenditures with respect to interest payment.

To supplement the results from the regression analysis, a non-regression analysis has been also presented. In particular, statistical causalities were tested on the estimated equations and found that the incrementalist variables, the expenditure after interest payment as well as a number of demographic variables do have causality relationships towards government expenditures. In term of government revenue to GDP and the government expenditure to GDP, however, the relationships are two ways, implying a set of interrelationships. When the analysis was extended to investigate the impacts on economic growth and development, the findings indicate that the government expenditure policy tends to be counter-cyclical to economic growth, stimulating activities in times of economic difficulties and moderating them in the overheating periods. Finally on the institutional aspects of the government expenditure, four economic agencies combined (The Budget Bureau, MOF, BOT and, NESDB) have played a significant role in setting the scopes and checks and balances for government expenditure policy. The Budget Bureau, for example, tended to be on the higher ends of expenditure proposals while the revenue collecting agencies tended to underestimate the revenue collections. The Bank of Thailand, on the other hand, tended to prefer less government deficits. In terms of the budgeting process, the working group consisting of representatives from these agencies considered broad ranges of economic factors in the annual expenditure framework: including the level of deficit or surplus, crowding out effects in the money market, and debt sustainability.

From the present study, three policy suggestions may be drawn: 1) Increase the flexibility in the current expenditures and reduce the role of the incrementalist variables by introducing the performance based budgeting rather than 'incremental' allocation as in the current system 2) Specify a framework for the global and medium term budget and increase the roles of the NESDB in monitoring the annual budget against the benchmarks set out in the National Economic and Social Development Plan, and 4) Avoid becoming overly concerned with public debt sustainability issue.

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Finally, I would like to dedicate all the merits of this study to my father who trained me to think not to remember. Such habit is essential to the doctoral degree completeness.

Any deficiencies are my sole responsibilities.

Songtum Pinto

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