MYTH OF FISCAL DECENTRALIZATION AND MACROECONOMIC GROWTH: A CASE OF THAILAND

มายาคติของการกระจายอำนาจทางการคลังกับความเจริญเติบโตทางเศรษฐกิจ: ประสบการณ์ของประเทศไทย

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ABSTRACT

Does fiscal decentralization hinder macroeconomic growth as generally contended by economists? It is unfortunate that past studies have provided inconclusive results. This paper, therefore, examines the relationship between fiscal decentralization and the growth of Thai economy during 1972 and 2008. The findings show that there is no statistical relationship between the two variables, nullifying the macroeconomic instability argument against the fiscal decentralization. This study helps ease off some concerns over the decentralization movement and sheds some light on the future of Thai local governance.

KEYWORDS: Fiscal decentralization, Thai local government, Macroeconomic growth

บทคัดย่อ

การกระจายอำนาจทางการคลังก่อให้เกิดผลเสียต่อการเจริญเติบโตทางเศรษฐกิจของประเทศหรือไม่? เป็นที่น่าเสียดายว่างานวิจัยเชิงประจักษ์ก่อนหน้านี้ยังไม่มีคำตอบที่ชัดเจนในประเด็นดังกล่าว บทความชิ้นนี้จึงต้องการศึกษาถึงความสัมพันธ์ระหว่างการกระจายอำนาจทางการคลังและการเจริญเติบโตทางเศรษฐกิจของประเทศไทย โดยใช้ข้อมูลระหว่างปี พ.ศ.2515 ถึง พ.ศ.2551 ผลการวิเคราะห์ข้อมูลชี้ให้เห็นว่าการกระจายอำนาจทางการคลังไม่มีความสัมพันธ์ทางสถิติกับระดับการเจริญเติบโตทางเศรษฐกิจอย่างมีนัยสำคัญแต่ประการใด ผลการศึกษาในครั้งนี้ช่วยคลายความกังวลเกี่ยวกับการกระจายอำนาจทางการคลังให้กับฝ่ายต่างๆ ที่เกี่ยวข้องและเสนอแนะให้มีการผลักดันเรื่องการสร้างความเข้มแข็งให้กับการปกครองตนเองในระดับท้องถิ่นต่อไป

คำสำคัญ : การกระจายอำนาจทางการคลัง การปกครองท้องถิ่นไทย ความเจริญเติบโตทางเศรษฐกิจ

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Background

Fiscal decentralization is in vogue. Since early 1990s has decentralization been witness to many developing nations as a means to redefine the role of public sector in fostering social and economic development (Oates, 1998; Smoke, 2001; White and Smoke, 2005; World Bank, 1999). While many of the reform experiences yield intended, positive results (Huther and Shah, 1998; Suwanmala, 2007; UNESCO, 2001), some efforts have made only modest progress (Blair, 2000; Manor, 1998; Smoke, 1993).

Proponents argue that decentralization leads to a greater variety in the provision of goods and services across jurisdictions. Allocative efficiency would then be realized (De Mello, 2000; Jin et al, 2005; Lin and Liu, 2000; Musgrave and Musgrave, 1976; Oates, 1972). Furthermore, the decentralized fiscal system offers a greater potential for improved macroeconomic performance and democratic accountability since it helps to clarify roles and responsibilities between central government agencies and local governments (Shah, 2004, 2005, 2006).

Notwithstanding, opponents contend that coordination failures between central government and local agencies could undermine the effectiveness of a country's macroeconomic management (Chambas and Duret, 2000; Ter-Minassian, 1999). Additionally, a lack of effective fiscal control at the local level can provide incentives for local officials to incur excessive debts that can be harmful to the overall economic stability (De Mello, 2000; Lee, 2003; Prud'homme, 1995; Rodden, 2002, 2006; Tanzi, 1996; Ter-Minassaian, 1999).

Given such inconclusive outcomes as discussed above, debates about the desirability of fiscal decentralization have become widespread. Therefore, this article aims to examine empirically whether the decentralized fiscal administration has undesirable impacts on macroeconomic growth, using the experience of Thailand. This research endeavor is significant because whether or not fiscal decentralization should be further promoted relies on its past performance. Unless empirical evidence has been revealed, the arguments for or against fiscal decentralization are still mythical.

Before proceeding, it is worth noting that the term fiscal decentralization in this paper refers to what Chambas and Duret (2000) explain as "transferring competencies of resource management and expenditure realization from the central government towards local governments" (p.4). Decentralization is distinct from deconcentration in that the latter involves only a shift of responsibilities from central agencies to those stationed in provinces or districts, whereas the provincial or district bodies have no real authority over policy making and taxation. This distinction is significant since in Thailand the two administrative systems coexist. While local administration (e.g., provincial administrative organizations, municipalities, tambon administrative organizations) represents the notion of decentralization, regional administration (e.g. provinces and districts) describes the concept of deconcentration. In order to make the decentralization arguments empirically testable, hence, the term fiscal decentralization is purposively employed so that the impact of fiscal resource transfers to local authority on macroeconomic growth can be observed.

The article begins with a brief discussion of the decentralization context in Thailand. Then, it reviews arguments for and against the decentralization. Data analysis is a topic of the subsequent section. Finally, discussion and policy recommendations are provided in order to guide the future of Thai decentralization.

Thai Decentralization Context

Thailand has implemented a comprehensive decentralization policy since 1999 under the promulgation

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of the Decentralization Plan and Process Act of 1999 (B.E.2542). Basically, the decentralization policy was part of the country's political and administrative reforms after political and economic crises in early 1990s. Failures in the past led to the realization that the centralized public administration was one of the major causes of the nation's political and economic instability (UNDP, 2003). Public sentiment has, thus, called for the decentralized administrative system, transferring fiscal resources and primary service responsibilities into the hands of local governments, as a means to promote a smaller and more transparent national government.

The 1999 Decentralization Act stipulates that some services that have been the responsibilities of national government agencies be transferred into the hands of local authorities[1]. In tandem with the devolved service responsibilities, the Act also assigns a greater degree of fiscal autonomy (as well as decision-making and personnel management responsibilities) to local government agencies. In effect, the ratio of total local revenues to those of the national government has jumped from 13.8% in FY1999 to 20.9% in FY2001 and to 25.2% in FY2008 (DLOC, 2008).

Like other countries, Thai academic researchers have doubts whether the current pace of decentralization movement weakens the country's macroeconomic performance (Lao-Araya, 2002; Wiest, 1999). Lao-Araya (2002), for instance, argues that Thailand has implemented an asymmetrical approach to fiscal decentralization[2], which possibly creates incentives for local officials to spend irresponsibly in expectation of national bailouts. Then, macroeconomic instability would inevitably result. In a similar vein, Wiest (1999) contends that macroeconomic instability may arise if local governments pursue irresponsible fiscal and budget policies[3].

Although the abovementioned arguments seem plausible, they still lack empirical evidence. Nonetheless, the current study finds counter evidence based on the national-level time-series analyses during 1972 and 2008: *there is no statistical (systematic) relationship between fiscal decentralization and Thailand's macroeconomic growth.* In other words, the claim that fiscal decentralization either stimulates or deteriorates macroeconomic growth is not supported by any factual evidence. The findings would help Thai policy makers feel less anxiety about the further promotion of decentralization policy.

Debates For and Against Fiscal Decentralization

To date, there have been considerable debates over the advantages and the disadvantages of fiscal decentralization. Decentralization proponents argue that decentralization leads to a greater variety in the provision of goods and services, which would help to fulfill local preferences and service needs (De Mello, 2000; Jin et al,

[1] For further updates of service transfers, see annual reports of the Office of Decentralization to Local Government Organization Committee (DLOC), Office of the Prime Minister's Office.

[2] Lao-Araya (2002) explains that local authorities are assigned restricted tax-raising capacity relative to massive devolution of service responsibilities. Thus, Thai local governments have to rely largely on intergovernmental transfers. This would induce local officials to view the transfers as free money, causing them to spend in an irresponsible manner.

[3] In addition to Wiest (1999), scholars note that some central government officials are reluctant to pursue the decentralization policy because of their anxieties about negative decentralization effects and about losses of their bureaucratic status quo (Bowornwathana 2006; Nelson 2002; White and Smoke 2005). As a result, Thai decentralization movement has been rather slow relative to the national Decentralization Plan.

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2005; Lin and Liu, 2000; Musgrave and Musgrave, 1976; Oates, 1972). Inflexibility of national government agencies in customizing service provisions to fit local tastes also justifies the existence of multilevel-government system. In this respect, the decentralization regime is believed to provide a better match between heterogeneous preferences and localized service provisions (Cerniglia, 2003; Chambas and Duret, 2000; Tiebout, 1956; Oates, 1972).

Furthermore, proponents contend that decentralization helps enhance democratic accountability and reduces corruption. This is because public officials stay closer to constituents and, hence, are more easily scrutinized (Cerniglia, 2003; Huther and Shah, 1998; Lee, 2003; Lin and Liu, 2000; Sewell, 1996). Finally, the decentralized fiscal administration offers a potential for improved macroeconomic performance since it requires a greater clarification of roles and responsibilities between central government agencies and local jurisdictions, and also requires more transparent rules and procedures that govern national-local interactions (Shah, 2004, 2005, 2006).

Notwithstanding, the advantages of decentralization can be offset by some intrinsic risks. Coordination failures and fiscal policy disparities among multiple governmental units can undermine the effectiveness of a country's macroeconomic management (Chambas and Duret, 2000; Ter-Minassian, 1999). Moreover, a lack of effective fiscal control at the local level may provide an incentive for local officials to incur excessive debts and overspending (De Mello, 2000; Lee, 2003; Rodden, 2002, 2006; Tanzi, 1996; Ter-Minassian, 1999). This is because local administrators expect financial assistance from national agencies whenever their governments face with fiscal crises. In effect, the decentralized fiscal administration would have detrimental effects on macroeconomic stability. Additionally, local services that have spillover effects beyond a single jurisdiction are more efficiently provided by central government bodies (Cerniglia, 2003). In this regard, fiscal decentralization is less preferable.

Moreover, a lack of competent personnel and organizational capacity at the local level can retard the realization of decentralization benefits (Bardhan, 2002). In addition, decentralization gives opportunities for local officials to act for their own benefits, instead of responding to the constituency's common interests (De Valk, 1990; Lee, 2003). Finally, decentralization may escalate political inequality within-and-across jurisdictions (Bardhan, 2002). Transferred fiscal and political resources can be utilized such that they narrowly serve powerful interest groups rather than a local community as a whole.

It is unfortunate that empirical studies from either developed or developing countries have supported both sides of the decentralization arguments. Generally, the studies can be classified into three groups. The first group finds that fiscal decentralization helps enhance economic performance. The second group, on the other hand, shows that fiscal decentralization has detrimental impacts on macroeconomic management. The last group of studies finds no statistical association between fiscal decentralization and macroeconomic performance.

First, Jin et al. (2005), Akai and Sakata (2002), McNab (2001), Shah (2005, 2006), and Lin and Liu (2000) find positive and statistically significant relationships between fiscal decentralization and economic performance for both developed and developing countries. While McNab (2001) and Shah (2005, 2006) use cross-country analyses, Jin et al. (2005), Lin and Liu (2000), and Akai and Sakata (2002) examine single-country cases of China and the United States. By contrast, Zhang and Zou (1998) and Lee (2003) show negative effects of fiscal decentralization on

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economic performance from the experiences of China and South Korea, respectively. Finally, Woller and Phillips (1998) observe no significant impact of fiscal decentralization on macroeconomic growth of 23 developing countries. In the same token, Xie et al. (1999) find no statistical relationship between fiscal decentralization and the economic growth rate in the United States, which is in direct contrast to the findings of Akai and Sakata (2002).

Unlike the previous research discussed above, the current study contends that fiscal decentralization has nothing to do with macroeconomic growth. This is because local government is so small that its fiscal management cannot have significant impacts on the national economy and that its fiscal and financial tools are more restricted than those of the national government. The next section will show empirically that this alternative argument is valid, at least from the experience of Thailand.

Data and Statistical Analysis

1. Multiple Regression Model

To examine the relationship between fiscal decentralization and macroeconomic growth, this study employs a multiple regression analysis, utilizing time-series, national-level data of Thailand during 1972 and 2008. The selected method allows us to examine if decentralization has a significant relationship with the country's macroeconomic growth over time, after controlling for other explanatory variables. A linear model is depicted in Equation one below.

$$Y_t = \alpha + b_1 FD_t + b_2 Z_t + e_t \qquad \ldots[1]$$

whereas: Y = *Macroeconomic growth rate*

FD = *Fiscal decentralization measures*

Z = *A vector of control variables (to be discussed in section 4 below)*

t = *Year 1, 2, 3,..., 37*

In this model, the coefficient b_1 is of great interest. It will be estimated by both autoregressive integrated moving average (ARIMA) and ordinary least square (OLS) regression techniques (whether or not it is significantly different from zero). As commonly known, time-series data are frequently affected by a serial correlation problem. That is, the current macroeconomic growth can be a function of the previous year's economic performance. Hence, the estimated parameter b_1 can naturally be biased. Here, ARIMA estimator can deal satisfactorily with such an issue. Notwithstanding, an examination of Gauss-Markov assumptions reveals that OLS estimator provides efficient and unbiased results. Autocorrelation of order one is not detected by Breusch-Godfrey test and by Wooldridge test (2000). Additionally, LM ARCH(1) shows that the problem of autoregressive conditional heteroscedasticity at order one is not present. Therefore, the OLS results are presented along with the ARIMA's ones.

Data for this study are compiled from multiple sources: Bank of Thailand, National Economic and Social Development Board of Thailand, Bureau of Budget, Ministry of Education of Thailand, *World Development Indicators* of the World Bank, and *Government Finance Statistics Yearbook* of International Monetary Fund (IMF). The years 1972 to 2008 are selected due mainly to the availability of the most recent data.

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2. Fiscal Decentralization Indicators

One of the critical issues in the current study is the measure of fiscal decentralization. Theoretically, the indicator should have adequate construct validity in order to guide meaningfully the future of decentralization policy (Smoke, 2001). Based on the previous studies, this paper employs two measures of fiscal decentralization: (i) the ratio of total local governments' expenditures, including spending from intergovernmental transfers, to total expenditures of the national government, and (ii) a marginal growth rate of total local expenditures. Algebraically, the two fiscal decentralization measures are defined as:

$$FD1 = \frac{E_{LG}}{E_{CG}} \times 100 \qquad \ldots[2]$$

$$FD2 = \frac{(E_{LGt} - E_{LGt-1})}{E_{LGt-1}} \times 100 \qquad \ldots[3]$$

whereas: E_{LG} = *Total expenditures of all local governments*
E_{CG} = *Total expenditures of national government*
t = *Year 1, 2, …, n*

The first measure, denoted as FD1, is commonly used in past research (e.g., Lee, 2003; McNab, 2001; Woller and Phillips, 1998; Xie et al, 1999; Zhang and Zou, 1998). Employing the similar measure would allow for the comparison of the current research's findings to those of the existing studies[4]. On the other hand, the second measure, denoted as FD2, lies on theoretical and practical explanations. It is the rate of change, not just the level, of local spending that influences macroeconomy (Lin and Liu, 2000). Moreover, the use of the rate of local spending change provides an alternative means to examine incremental decentralization impacts on the macroeconomic growth since the 1999 decentralization movement. Data for the construction of FD1 and FD2 are obtained from *Government Finance Statistics (GFS)*, complied annually by the International Monetary Fund (IMF).

3. Dependent Variable

In Thailand, much effort has been put forward to stimulate macroeconomic growth. Basically, macroeconomic growth presents a country's production capacity. It helps to increase employment and income, both of which lead to the improvement of overall standard of living. Thus, the dependent variable to be examined is an *annual GDP growth rate* in current prices. Data for this variable are obtained from the National Economic and Social Development Board (NESDB).

4. Control Variables

There are a lot of studies examining the determinants of economic growth, e.g., Barro and Sala-

[4] An alternative measure is the ratio of total local expenditures over total public expenditures (both national and local). Or mathematically it is defined as $E_{LG}/(E_{LG} + E_{CG}) \times 100$. However, this alternative measure is closely correlated with the FD1 measure discussed above (Pearson's correlation coefficient is .99). Thus, using only FD1 suffices the current research's objective.

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i-Martin (1999), Levine and Renelt (1992), Barro (1996), Sala-i-Martin (1997), and Sachs and Warner (1997). Based on the previous research, following explanatory variables are included in the multiple regression model: a level of education attainment, domestic and foreign direct investments, national saving, trade openness, private banking credit (% of GDP), and population growth.

Education increases human capital in terms of skills, experiences, and health quality. A large endowment of human capital facilitates the adaptation of new technologies which in turn leads to long-run economic growth (Barro, 1996; Dickens et al, 2006; Kodrzycki, 2002; Lynch, 2004). In this research, education attainment is defined as the percentage of total student enrollment in elementary and secondary schools. Data for this variable are taken from the Ministry of Education of Thailand.

Next, the investment share of GDP, national saving, trade openness (% of GDP), private banking credit (% of GDP), and population growth are included since they contribute to macroeconomic growth. That is, they lead to the accumulation of capital and human stocks (Barro, 1996; Sachs and Warner, 1997). All of these variables are expected to have positive impacts on macroeconomic growth. Data for these variables are obtained from several sources: Bank of Thailand, National Economic and Social Development Board of Thailand, and the Budget Bureau

Additionally, inflation rate might negatively affect economic growth (Xie et al, 1999; Zhang and Zou, 1998; Lee, 2003). In case of high inflation, consumers lose confidence in market and may slow down their spending. This can retard economic activities and, therefore, growth. Furthermore, labor growth is included as suggested by the human capital theory (McNab, 2001; Zhang and Zou, 1998). An increase in labor-market participation generates more incomes and economic transactions, stimulating further economic growth. On the other hand, tax burden, defined as a ratio of total tax revenues to GDP, is believed to negatively affect economic growth (McNab, 2001; Xie et al, 1999; Zhang and Zou, 1998). Because private sectors are believed to be more productive in economic development; therefore, the more taxes the government imposes, the fewer private resources are available to stimulate macroeconomic growth. Finally, foreign direct investment (FDI) is also believed to positively related to macroeconomic growth since it helps to increase jobs and domestic investments and, thus, further stimulates macro economy. Data for these variables are compiled from several sources: Bank of Thailand, National Economic and Social Development Board of Thailand, World Development Indicators, and the Bureau of Budget.

Findings

Table 1 presents descriptive statistics of the key variables. Basically, Thai economy grows about 6.1% annually on average (nominal term), although the data exhibit highly fluctuated growth rates for some years (the minimum was -10.5% in 1998 and the maximum was 13.3% in 1988). On the other hand, fiscal decentralization indicators range between 14.0% (FD1) and 16.8% (FD2) on average.

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Table 1 Descriptive Statistics of Key Variables

Variables	Mean	S.D.	Min.	Max.
Dependent variables				
GDP growth rate (%)	6.11	4.04	-10.51	13.29
Independent variables				
Fiscal decentralization 1 (FD1)	14.01	6.86	7.30	25.56
Fiscal decentralization 2 (FD2)	16.82	24.35	-46.48	89.58
Total student enrollments (%)	61.65	20.07	34.73	92.38
Export ratio (% of GDP)	39.94	20.12	18.17	76.39
Domestic investment (% of GDP)	29.79	6.49	20.45	42.84
Foreign direct investment (% of GDP)	1.84	1.48	0.26	6.66
Population growth (%)	1.51	0.79	0.56	3.01
Labor force growth (%)	2.19	0.90	0.82	3.73
Tax burden (% of GDP)	15.25	2.87	10.03	20.78
National saving (% of GDP)	17.58	4.19	11.93	25.63
Private banking credit (% of GDP)	87.56	34.07	34.58	164.02
Dummy for decentralization (years 2001 and afterward = 1)	0 = 29 (78.4%); 1 = 8 (21.6%)			

Regression results, as analyzed by STATA 10.0, are shown in Table 2 in the following page. Overall, OLS and ARIMA(1) do a very good job in estimating the regression model, having significant F-statistics (p<.001) (for columns 1 and 2) or Wald chi-square (p<.001) (for columns 3 and 4), and having consistent coefficients across all four models. As already discussed, autocorrelation of order one and heteroscedasticity are not present in this data set (see Durbin-Watson statistics in the final row).

Apparently, student enrollment, tax burden, population growth, national saving rate, and export ratio have statistically significant relationships with the dependent variable: the macroeconomic growth rate. Specifically, one percentage point increase in the student enrollment rate helps to elevate the macroeconomic growth rate by about .76 to .81 percentage point, other factors remain constant. Likewise, one percentage point increase in the national saving rate is associated with the macroeconomic growth by about 0.92 to 1.0 percentage point, ceteris paribus. On the other hand, increases in tax burden and export ratio are negatively associated with macroeconomic growth by about 1.2 to 1.6 and 0.48 to 0.52 percentage points, respectively, holding other factors constant.

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Table 2 OLS and ARIMA(1) Regression Results

Independent variables	OLS		ARIMA(1)	
	FD1	FD2	FD1	FD2
	(1)	(2)	(3)	(4)
Student enrollment (%)	0.772***	0.763***	0.766***	0.805***
	(0.170)	(0.156)	(0.205)	(0.176)
Investment (% of GDP)	0.117	0.141	0.118	0.125
	(0.147)	(0.148)	(0.257)	(0.230)
Foreign direct investment (%)	-0.651	-0.415	-0.659	-0.408
	(0.446)	(0.449)	(0.909)	(0.578)
Labor force growth (%)	-1.278	-1.305	-1.307	-1.135
	(1.370)	(1.324)	(1.585)	(1.754)
Tax burden (% of GDP)	-1.603**	-1.205**	-1.608*	-1.187*
	(0.480)	(0.424)	(0.702)	(0.518)
Population growth (%)	6.642**	5.798**	6.657*	5.797
	(2.303)	(2.036)	(2.912)	(3.513)
National saving (% of GDP)	1.029***	0.924***	1.032***	0.920***
	(0.197)	(0.178)	(0.259)	(0.208)
Export to GDP (%)	-0.480**	-0.483**	-0.476	-0.515**
	(0.161)	(0.146)	(0.306)	(0.189)
Banking credit to GDP (%)	-0.041	-0.071*	-0.041	-0.070
	(0.041)	(0.031)	(0.071)	(0.052)
Inflation rate (%)	0.067	0.093	0.064	0.116
	(0.096)	(0.094)	(0.154)	(0.090)
Unemployment rate (%)	0.098	0.182	0.113	0.104
	(0.458)	(0.411)	(0.616)	(0.520)
Fiscal Decentralization 1 (FD1)	-0.142		-0.141	
	(0.099)		(0.074)	
Fiscal Decentralization 2 (FD2)		-0.034*		-0.035*
		(0.015)		(0.018)
Decentralization Dummy	-26.665	-0.237	-26.960	-0.626
	(14.841)	(2.865)	(30.865)	(3.575)
Dummy * FD1	1.273		1.288	
	(0.723)		(1.504)	
Dummy * FD2		0.004		0.009
		(0.037)		(0.055)
ARMA, L1.ar			-0.027	0.127
			(0.265)	(0.317)
Sigma			1.403***	1.356***
			(0.249)	(0.240)
Constant	-21.152	-23.000*	-20.997	-24.464
	(11.638)	(10.327)	(14.066)	(13.148)
N	37	37	37	37
R-square (adjusted)	0.797	0.809	--	--
F-statistics	11.09	11.88	--	--
Wald chi-square	--	--	177.65	187.63
Prob. > F-stat, Wald chi2	0.000	0.000	0.000	0.000
Durbin-Watson	1.935	1.843	--	--

** p<0.05; ** p<0.01; *** p<0.001; standard errors are shown in parentheses.*

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The fiscal decentralization variables, both FD1 and FD2, have weak statistical relationships with macroeconomic growth in all four models. Moreover, when the dummy variable for the 1999 decentralization movement and its interaction with both of the fiscal decentralization indicators have been included (the year since 2001 is set equal to one, otherwise zero), the statistical relationships between fiscal decentralization and macroeconomic growth are still insignificant[5]. In other words, the 1999 decentralization movement does not appear to have any significant impacts on macroeconomic growth rate when all relevant factors have been accounted for.

It should be observed that although the FD2 variable exhibits significantly negative relationships with the dependent variables (see columns 2 and 4), the relationships are statistically insignificant when the dummy variable for the 1999 decentralization movement are considered altogether. In other words, the marginal impact of fiscal decentralization as captured by the FD2 variable does not exhibit significant associations with the macroeconomic growth rate.

Discussion and Future Research Agendas

What conclusion can be drawn from the current study? Clearly, it can be concluded based on the findings that there is no significant statistical relationship between fiscal decentralization and macroeconomic growth in Thailand. Specifically, the decentralization movement as triggered by the Decentralization Plan and Process Act of 1999 does not have any significant impact on the nation's macro-economy. In this regard, the claim that fiscal decentralization has detrimental effects on macroeconomic stability as contended by Lao-Araya (2002) and Weist (1999) lacks supportive evidence.

Here, one may wonder why the relationship between fiscal decentralization and macroeconomic growth is not statistically detected. There are some explanations. First and most important, the transfers of fiscal resources to local authorities as stipulated by the Decentralization Act come with tight budgetary control. That is, Thai local governments are required to have a surplus annual budget. Thus, no negative impact on macroeconomic growth owing to local fiscal indiscipline is likely to emerge as shown in the regression table above. Second, it might be the case that the focus on local fiscal resources, as guided by the term fiscal decentralization employed in the current study, has not yet incorporated the impact of regional government spending (either positive or negative) on macroeconomic growth. Hence, the total impacts of fiscal decentralization may not fully surface.

Thailand can now move forward to promote the next step of decentralization. The current research's findings should provide the credible evidence to those who have questioned about the undesirable consequences of fiscal decentralization on macroeconomic growth. That is, Thailand can advance its decentralization policy since the decentralized administrative regime does not have undesirable consequences on the macroeconomy. Given that adequate fiscal discipline control has been continued, a more advanced scheme of fiscal decentralization can be pursued.

In the future, concerted efforts should be geared toward the capacity building of local authorities and the development of monitoring systems over the operations of overall local governments. As past research has shown, Thai local authorities are able to do good for the general

[5] The year 2001 is selected as the starting point of the decentralization movement since it is the year that the Decentralization Plan and Process Act of 1999 becomes effective.

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public (Kokpon, 2003; Krueathep, 2004; Suwanmala, 2007). They are also ready to cooperate with several partners so that their joint efforts help improve the quality of living of local constituency (Krueathep, 2008; Krueathep et al, 2010). In this regard, academic researchers as well as policy makers should pursue the decentralization policies that further enhance organizational and human capacities of local authorities. Dissemination of successful administrative experiences from one locality to another and the relaxation of legal rigidity or unnecessary operational constraints might be appropriate strategic choices in the midst of decentralized administrative reform.

Moreover, future research should focus on the long-term effects of fiscal decentralization on macroeconomic growth. As this study has showed, the time period covered in this research (FY 1972 to 2008) is relatively short in observing the long-term impacts of decentralization, especially when compared to studies from other countries. If more fiscal resources are to be transferred to the hands of local authorities, closer monitoring of the decentralization effect is a must. Additionally, this research uses a national level data set. Results may have changed if regional or local level data are employed and analyzed. This is commonly known as a data aggregation problem in empirical research. When more comprehensive, disaggregate data become available in the future, this research topic should be re-examined.

Equally important is the development of local monitoring systems. Unless ex ante and ex post monitoring mechanisms have been in place, there might be a risk of local operations that run against the law and constituency's interests. For instance, local administrators might pursue irresponsible spending and taxing policies that deteriorate long-run local fiscal conditions in return for short-run political and personal gains (e.g., Krueathep, 2010). In this regard, responsible authorities, e.g., Ministry of Interior or the Office of Decentralization to Local Government Organization Committee (DOLC), should develop fiscal and performance monitoring mechanisms that regularly and effectively evaluate the overall operations of local authorities as a whole. To date, no such mechanisms have been in place.

Nonetheless, it should not be generalized that fiscal decentralization is always neutral. Nor does this study suggest that decentralization is desirable in all circumstances. Indeed, more research is needed in order to reveal some non-economic consequences of the decentralization. For instance, how does the decentralization help to enhance civic engagement and democratization process at the local level? Do constituents gain wider access to local decision making that directly affects their lives and common interests? More specifically, can decentralization lead to better quality of life and service provisions as contented by the local competition model (e.g., Tiebout, 1956)? Future research in all of these areas is highly essential. Either a best-practice case study or a large scale cross-jurisdiction analysis is practically and theoretically useful[6]. This would help to fulfill our understanding over the consequence of the decentralized public administration regime.

[6] To date, very few studies employ this research approach, e.g., Suwanmala (2007); Krueathep (2004); and Kokpon (2003).

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