

Academic Article

On Promoting Fiscal Discipline in Thailand: Policy and Practical Recommendations

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Abstract

Fiscal discipline is one of the important concepts in fiscal policy areas. Fiscal discipline is referred to as having good fiscal monitoring process and management that can contribute to long-term fiscal stability and sustainability of the nation. Thus, governments should pay special attention to the notion of fiscal discipline when formulating and implementing fiscal policies or applying fiscal instrument to stimulate the economy of the nation. The objectives of this article were to analyze the economic paradigm of fiscal discipline measurements in Thailand and offer recommendations regarding the appropriate and suitable fiscal discipline measurements in the Thai context. Three recommendations to improve fiscal discipline in Thailand include focusing on 5 key aspects of fiscal discipline, using econometrics methodology, and applying institutional governance principles in the fiscal policies and practices.

Keywords: fiscal discipline, fiscal policy, econometrics, fiscal governance, Thailand

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1. Introduction

Thailand has been known as using fiscal policy instruments in driving the nations' economic system, especially during the economic crises like Thailand's economic crisis in 1997 (Dixon, 2001). Fiscal discipline is also the main principle in formulating and implementing fiscal policies in order to promote a successful economic growth and good governance (Alesina & Perotti, 1996). Tools for fiscal discipline involve setting expenditure ceilings and the debt-to-GDP ratio ceilings, allocating resources efficiently, increasing operational efficiency, enhancing fiscal transparency, and maintaining long-term aggregate fiscal discipline (Budina et al., 2012; Ljungman, 2008). Having fiscal discipline will be beneficial for the nation in terms of reducing fiscal risks, maintaining macroeconomic stability and prosperity, alleviating vulnerabilities, and improving aggregate economic performance (Kumar & Ter-Minassian, (2007).

This article aims to analyze Thailand's fiscal discipline from past to present and to recommend the appropriate and suitable fiscal discipline that is appropriate and suitable for the Thai context. The results of this study will help strengthen Thailand's fiscal policy and sustainability. Additionally, maintaining fiscal discipline is essential for promoting self-sufficiency economy which is a method of economic development based on focusing on moderation, rational knowledge, and self-immunization (Piboolsravut, 2004).

2. Fiscal Discipline in Thailand

Fiscal discipline means the limited spending of government, allocation and suitable budgeting with efficiency. In addition, the revenue afford is sufficient and enough toward expenditure, fiscal discipline treasury in an appropriate level covering public debt maintain to supplement all right together with burden budgeting in the future (Alesina & Perotti, 1996). The main principles to maintain fiscal discipline for the rule of law resolution include:

1) Fiscal discipline involves countercyclical policy that government should enforce contractionary fiscal policy for heating up the economic system and expansionary fiscal policy for slowdown the economic cycle.

2) Government should have a duty on supporting the economic growth and stability and ensuring the equity and sustainability of national development.

3) Government fiscal policy procedure should follow the rules of good governance, transparency, and accountability.

4) Government should pay attention to fiscal risk administration which will affect fiscal status.

5) Government should take into account the issue of demographic changes in Thailand, especially becoming an aged society. That is because this factor will create a burden on fiscal policy and have an impact on Thailand's long-term fiscal status.

During the economic crisis, Thai government has launched several economic measures in order to create employments and stimulate its economy such as increasing governmental spending, loans and government debt management, and so forth. Nevertheless, Thai Government has been criticized on mismanagement of public money such as distributing public funds in populist policies, increasing public debt, corruptions, and so on. Some Thai people have also viewed that government's overspending and fiscal undiscipline has been viewed by it can generate the long-term negative effect on Thai economies and populations (Sussangkarn & Vichyanond, 2007). This leads to the question of how to improve fiscal discipline in Thailand.

3. Suggestions for Improving Fiscal Discipline in Thailand

According to fiscal discipline responsibility laws and related fiscal discipline laws in European Union (EU) countries, England, Australia, Japan, India, New Zealand, and Philippines, Thai government can strengthen its fiscal discipline framework by (1) focusing on 5 key aspects of fiscal discipline, (2) using econometrics methodology, and (3) applying institutional governance principles in the fiscal policies and practices (Brunila & Kinnunen, 2018; Pisani-Ferry, 2018; Schaltegger, 2018; Von Hagen, 2018).

1) 5 fiscal discipline aspects

According to fiscal economics theory, 5 key fiscal discipline aspects that Thai government should pay exclusive attention to include:

1.1) the revenue aspect that is related to income equipment and earning administration.

1.2) the budgeting and spending aspect that involves setting budget ceilings, budgeting allocation, and payment adoption.

1.3) the fiscal balance that involves the interval ratio of revenue and spending budgeting which is connected to the budget style format, such as balance, surplus budget policy, and deficit budget policy.

1.4) the assets aspect that is linked with public sector administration and management such as currency and treasury balance, financial asset, and capital for instance common stock equity and financial instruments.

1.5) the debt aspect that is related to public debt, fiscal deficit, and public debt management.

2) Econometrics methodology

Almost all the economics theories involve mathematic model and simulation which have been used to explain the relationship of economics variables. Economic models can be used to analyze fiscal risks and help economists and fiscal policy analysts to estimate the impacts of economic variables related to fiscal policy, such as fiscal policy shocks (Mountford & Uhlig, 2000). This also will help Thai government to set appropriate fiscal discipline frameworks (Miller & Russek, 1996).

3) Institutional governance principles in the fiscal policies and practices

The Institutional governance principles in the fiscal policies and practices involve the use of effective and efficient practices to promote fiscal transparency and sustainability. Such practices include:

- According to the fiscal discipline approach, revenue measurements can be used to maintain tax burden toward GDPs at the appropriate level. Also, government should levy taxes efficiently and spending public funds on necessary programs effectively.

- Thai government should employ the best practices from other countries in constructing a balance budget in medium- and long-term budgeting cycles. The government should follow the global standard of fiscal governance, especially in terms of government borrowing for investment, regulations and strategies toward public debt.

- The Ministry of Finance should open data related to fiscal policy, fiscal strategy, and public spendings to the public. Data related to fiscal risks should be analyzed and disclosed to the public as well.

4. Conclusion

Fiscal policy is one of the governmental devices which can be used to move forward and solve the economic variances. Fiscal policy should come together with fiscal discipline in order to minimize fiscal risks and ensure sustainable economic growth. In order to promote fiscal discipline in Thailand, this article suggests three approaches, namely focusing on 5 key aspects of fiscal discipline, using econometrics methodology to determine fiscal risks and shocks, and applying institutional governance principles in the fiscal policies and practices.

In a nutshell, the standard of fiscal discipline is essential for strengthening and sustaining Thailand's fiscal policies and practices. Importantly, maintaining fiscal discipline is related to the philosophy of self-sufficiency economy which places importance on moderation, rational knowledge, and having self-immunization of public finance.

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