BAD LUCK OR BAD BUDGETING
A COMPARATIVE ANALYSIS OF MUNICIPAL FISCAL CONDITIONS
IN THAILAND

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ABSTRACT OF THE DISSERTATION

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This research examines fiscal conditions in Thai municipal government. It aims to investigate how fiscal conditions vary from one municipality to the next, and what explains the variation. A mixed analytical approach is employed in the current research. First, this research quantitatively applies conventional (U.S.-based) measures of revenue-raising capacity and expenditure needs as developed by Martinez-Vazquez and Boex (1997), Dye (1984), and Ladd and Yinger (1989) to a sample of 14 cities located in the central and eastern regions of Thailand, utilizing FY 2001 – 2006 data. Second, it qualitatively investigates four in-depth cases in order to explain why some cities are fiscally less able to satisfy constituents’ needs. The case analyses are guided by a budgetary roles framework as developed by Wildavsky (1975, 1984) and later expanded by Schick (1980) and Good (2007).

The quantitative findings show a sensible picture of Thai municipal fiscal conditions when compared to U.S. cities during the past few decades. Large, highly populous central cities as well as semi-rural, residential areas were fiscally weak. By contrast, industry-based cities were fiscally healthy. Notwithstanding, Thai suburban cities faced relatively poor fiscal conditions. This part of the findings is inconsistent with the literature in that the fiscal conditions of the suburbs are generally strong. Additionally, four extreme cases from each of the city’s socioeconomic characteristics
are explored. The four cases utilized demonstrate distinct taxing and spending policies as well as the cities’ political dynamics which underlie local fiscal conditions. In contrast to the fiscally healthy cities’, budget actors in the fiscally weak cities failed to follow designated budget roles. Neither did political executives set policy priorities that fit urgent communal needs, nor did the council sufficiently monitor and safeguard the municipal purse. Furthermore, the role of financial watchdogs was underperformed. Auditors, interest groups, and the media were not yet influential to the point that they could have assisted in making the municipal fiscal administration more transparent and viable.

Not only does this study help to extend theoretical frameworks for understanding the fiscal condition variations, the research also provides a foundation for the design of intergovernmental transfer systems that takes into account local fiscal conditions. Stress-relief fiscal transfers can be made available for fiscally distressed cities in order to help eradicate their structural deficits, given that their governance problems have been remedied beforehand. Additionally, improved budgetary roles should be promoted in Thai municipal administration. The council’s roles in safeguarding the municipal purse should be fortified. The capacity building of the cities’ internal audit teams as well as the use of private auditing agencies and external control mechanisms are also essential to the strengthening of local fiscal conditions. Future research should focus on the analysis of multi-governmental level fiscal conditions and on debt financing as a crucial means for elevating the capacity of municipal service provisions.
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The subject of public financial administration has interested me since I was an undergraduate student at Chulalongkorn University, Thailand. At that time, I was a sophomore student at the age of 19 taking a public finance course with Professor Charas Suwanmala, whose expertise significantly shaped my first understanding about taxation in a democratic society. At that time, I was particularly curious to know how tax mechanisms operate and committed a minor tax revolt myself in order to see the reaction it provided. However, I found out that the fiscal accountability mechanisms I was faced with were so ineffective that my revolt did not bring about any change. Perhaps, my effort and fundamental understanding of the topic were too trivial. So, I decided to overcome my restricted knowledge of how the fiscal world works by taking public financial administration as my undergraduate major. I would like to take this opportunity to thank my first public finance mentor.

Later, when I came to the U.S. in 2005 and took a seven-week graduate course in fiscal condition analysis at NYU’s Wagner School of Public Service, the course brought me a whole new lens of local fiscal studies than I could have imagined based on my past training. This academic interest did not fade away even though I switched to SPAA. My early discussion with Professor Gerald J. Miller really deepened my curiosity about the subject. Here, my research topic came out, later a paper presentation at the 2007 ABFM conference followed, and, eventually, this subject turned into my dissertation. I would like to give a special thanks to Professor Miller who helped me turn a vague idea into an empirical work.

My deepest thanks go to Professor Frank J. Thompson whose academic strength helped broaden my understanding about governance and public accountability when I took the course he offered in fall 2006. Without such training, I could not have pieced together budget governance and the local fiscal condition issues. And most importantly, I would like to express my deep gratitude to Professor Thompson for his support over the years. He served as my dissertation chair, guided my research and helped me with editorial comments for many drafts since its early stage. His mentorship was paramount in providing me academic inspiration for the rest of my academic career.
I would also like to thank Professor Daniel L. Smith for bringing me on excursions in to regression. He has significantly framed my thought about doing academic research in general and about regression analysis in particular (I can say this with \( p-value < .001 \)). His insight not only induced me to think more seriously about correlation and causation in social sciences, but also helped me prepare for today’s increasingly challenging academic world. Additionally, I would love to thank Professor Dorothy Olshfski whose academic strength in research design tremendously shaped my thinking about hypotheses and case selection in my doctoral research. Her ‘so-what’ question always will come to my mind whenever I start thinking and writing my research grant proposal for the years to come.

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CHAPTER ONE
INTRODUCTION

The study of municipal fiscal conditions is still a prominent topic of discussion today. Fundamentally, it is an attempt to assess whether a city government possesses adequate fiscal resources relative to its service obligations (Yilmaz et al. 2006; Hendrick 2004; Mead 2001; Ladd and Yinger 1989). Past studies have attempted to measure the magnitude of fiscal conditions from a set of comparable cities and tried to make sense of it (e.g., Zafra-Gomez et al. 2009; Hendrick 2004; Dearborn et al. 1992; Ladd and Yinger 1989; Clark and Ferguson 1983; Kamer 1983; Bradbury et al. 1982). To date, they have uncovered some of the dynamics of city fiscal strain and provided essential information for formulating municipal fiscal policy.

Notwithstanding, current knowledge in this area is mainly based within the American context. Much is left unknown about local fiscal conditions in less developed institutions; particularly those which recently embarked on decentralized public administration. As Carmeli (2003, 1428) reasons, “we have limited knowledge about the sources of fiscal and financial crises between countries”. Therefore, comparative municipal finance research is essential in order to help researchers more deeply understand the dynamics that give rise to fiscal strain as well as the strengths and limitations of existing analytical measures, if any, from a different angle.

1 Recent studies have appeared in several leading journals such as Public Budgeting and Finance, Public Administration Review, Journal of Public Administration Research and Theory, and Administration and Society. These articles are Wang et al. (2007); Coe (2007, 2008); Hou and Moynihan (2008); Carmeli (2008); and the complete issue of International Journal of Public Administration, 26 (13) in 2003.
Thailand, like other developing nations, has long been under a highly centralized administration. The past two decades have seen many attempts to promote local fiscal autonomy and the devolution of service responsibilities into the hands of local governments (Suwanmala 2002, 2007; UNDP 2003; Varanyuwatana 2003; Nelson 2002). Later, the Decentralization Plan and Process Act of 1999 were promulgated in order to institutionalize needed policy measures and detailed plans for decentralization. If the increased fiscal capability of local authorities to take on devolved responsibilities is a key element for successful decentralization (Varanyuwatana 2003; Warner 1999; Tannenwald 1998), then several important questions evolve. Are Thai municipalities fiscally capable of taking on service obligations as demanded by constituents? How do fiscal conditions vary from one municipality to the next, and why? And methodologically, what if the measures of fiscal conditions that have been developed for use in American cities are applied to a developing country like Thailand? Would these American-born indices still provide a sensible picture of Thai municipal fiscal conditions when compared to the U.S. experience, and why? These questions are of utmost importance since they have not yet been thoroughly examined in academic research.

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2 Details of the current devolution movement in Thailand are discussed in Chapter 3. In addition, details about global decentralization trends can be accessed from, e.g., Rodden (2006), Bahl and Wallace (2005), International Bank for Reconstruction and Development (2005), and World Bank (1999).
Research Questions and Significance

This study has two consecutive questions, each of which conveys significant contributions to the literature and to the practice of local Thai fiscal administration.

1. How do fiscal conditions vary among Thai municipal governments?

2. What explains the variation of fiscal condition as revealed by the conventional (U.S.-based) measures?

The first research question focuses on measuring municipal fiscal conditions in Thailand. Specifically, it aims to provide a concrete answer to whether Thai municipalities are fiscally capable of taking on their service obligations as demanded by constituents. The ultimate goal is to single out the fiscally distressed cities from the fiscally healthy ones. The approach used in this research is to select a set of U.S.-based measures of local fiscal conditions based on theoretical and practical justifications, and then apply this to a sample of Thai municipalities. The use of existing fiscal condition measures, instead of developing new ones, has one important advantage: they provide a known baseline for assessing the validity of the present research findings.

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3 The title of “Bad Luck or Bad Budgeting” in this dissertation refers to the situation in which a city government is faced with severe socioeconomic circumstances that inevitably weaken fiscal conditions of the city. This situation is referred to as bad socioeconomic luck. Then, a city government has two distinct options to pursue: either trying to maintain a stable fiscal condition by managing its purse well, or subjecting its finances to further deterioration by engaging in poor budgeting and financial management practices, referred to as bad budgeting. It should be emphasized that the bad socioeconomic luck does not impair an ability of a city government to manage its finances if a city’s budget actors have a strong will to engage in responsible budgeting.
This research endeavor is significant since, metaphorically, “attending to local fiscal health is akin to taking an ounce of preventive medicine in order to avoid taking a pound of cure” (Deller and Maher 2004, 3). As a result, not only is this research beneficial to the formulation of fiscal policy that suits the pace of administrative decentralization in both Thailand and in other countries, but it also helps identify potential fiscal difficulties before they develop into a full-blown fiscal crisis. Furthermore, this research serves as an external validity test of the U.S.-based measures when applied to a context outside their origin. To date, this is rarely done in the municipal finance literature.

Next, the second research question explains the dynamics and causes of municipal fiscal conditions as revealed earlier by the quantitative fiscal condition analysis. As is generally the case, cross-city, quantitative analysis can at best be indicative of what is happening. However, it does not tell us adequately how and why things are happening inside the black box (Maxwell 2004; Yin 1994). Hence, an in-depth, case-study approach is employed in order to help examine the fiscal and political profiles of municipalities under healthy and weak fiscal conditions. As Mead (2001, 60) reasons, “the fewer stones left unturned, the better the analysis potentially may be”; therefore, a case analysis is expected to produce meaningful contributing factors to local fiscal conditions.

Understanding of the dynamics and causes of municipal fiscal conditions is significant since unless we know unerringly what factors are actually influencing fiscal condition problems, corrective policies will hardly be successful. In turn, not only does the knowledge of fiscal condition symptoms help Thai localities to minimize the likely use of gimmicks or unethical financial practices when a fiscal crisis approaches (Miller et
al. 2005; Rubin 2000; Schick 1980; Caiden 1980)\textsuperscript{4}, but it also leads to the formation of local fiscal policies that help to sustain a smooth provision of municipal services with minor ramifications to the poor and disadvantaged who largely depend on municipal services (Tabb 1982; Peter 1980).

\textit{Dissertation Overview}

This dissertation consists of seven chapters. Chapter One provides an overview of the current research as well as its significance. Chapter Two discusses the definitions of local fiscal conditions and provides a review of the fiscal condition literature which includes key analytical measures of fiscal conditions, empirical research from both developed and developing societies and the determining factors of local fiscal conditions. This review sheds light on gaps in the existing literature and research hypotheses, as well as a conceptual framework that guides the current study.

Chapter Three provides an overview of Thai local administration and institutional arrangements. Local revenues and expenditures in the context of the recent devolution movement are briefly illustrated. Next, the research design and proposed analytical measures for the current research are covered in Chapter Four which discusses the quantitative measures for estimating local fiscal conditions in Thailand and the approaches for case selection and analysis.

Chapter Five elaborates the quantitative findings of the municipal fiscal condition in Thailand. The findings comprise the estimates of revenue-raising

\textsuperscript{4} Evidence is numerous; for example, U.S. federal budgets (Rubin 2000, 2007), state government budgets (Martell and Teske 2007), and local government budgets (Miller et al. 2005; Rubin 1982, 2000).
capacity (RRC), municipal expenditure need (EN), and overall city’s fiscal health. Additionally, evaluations of the current research findings within the experience of U.S. cities are addressed. Chapter Six details four in-depth cases of varying fiscal conditions, with the focus on local fiscal condition symptoms and the local budgeting and politics underlying the fiscal conditions.

Chapter Seven presents the detailed case analyses. It focuses on the interaction between socioeconomic factors and local administration and politics leading to the fiscal conditions. The final section concludes the research with a discussion of policy and theoretical implications that help strengthen the fiscal condition of Thai municipalities and elsewhere.
CHAPTER TWO
LITERATURE REVIEW

Although a number of researchers study governmental fiscal conditions using various analytical measures, there is little agreement on which dimensions appropriately represent the fiscal condition (Mikesell 2007; Wang et al. 2007; Mead 2001; Bahl 1984). This chapter defines the term ‘local fiscal condition’ and then operationalizes the specific term to be used in the current study. It then discusses the key analytical measures of local fiscal conditions, which are classified into five major categories. Next, reviews of past studies as well as the determining factors of governmental fiscal conditions are provided. Finally, the Chapter identifies gaps in the literature and proposes a conceptual framework that guides the current research.

Two notational usages should be raised at the outset. The term ‘fiscal condition’ can appear through many different names. The first notation includes, e.g., ‘fiscal health’, ‘fiscal capacity’, ‘financial position’, and ‘financial condition’. These terms have a neutral meaning and are variably used corresponding to the analytical measures being employed. In the current research, they are used interchangeably to refer to the same fiscal condition concept being discussed below.

The second notation has an attached meaning to fiscal condition in that it often represents a negative (or undesirable) symptom. This includes ‘fiscal instability’, ‘fiscal distress’, ‘fiscal stress’, ‘fiscal strain’, ‘fiscal emergency’, ‘financial trouble’, and ‘fiscal crisis’. They vary mostly in terms of the magnitude of poor fiscal conditions. Due to the
operational definition of the term (to be discussed below), the current research prefers the terms ‘poor fiscal condition’, ‘fiscal instability’, and in rare circumstances ‘fiscal stress’.

*Definitions of Municipal Fiscal Condition*

Several definitions of “local fiscal condition” have been provided in the literature. For example, the U.S. Advisory Commission on Intergovernmental Relations (ACIR 1962, 3) defines *fiscal capacity* as “a quantitative measure intended to reflect the resources which a taxing jurisdiction can tax to raise revenue for public purposes”. Yilmaz et al. (2006, 1-2) elaborates *city fiscal capacity* as “a city’s revenue capacity relative to its expenditure needs; where revenue capacity is potential revenue raising ability of the city, and expenditure need is the city’s need for public expenditures”. In a similar manner, Martinez-Vazquez and Boex (1997a, 2) view *fiscal capacity* as “the potential ability of governments in [a] region to raise revenues from their own sources in order to pay for a standardized basket of public goods and services”.

Hendrick (2004, 80) defines *fiscal health* generally as “the ability of government to meet its financial and service obligations”. Alternatively, Ladd and Yinger (1989, 8) use the term *local fiscal health* more concretely as “the difference between revenue-raising capacity and expenditure need, expressed as a percentage of capacity”. They explain that revenue-raising capacity is the amount of revenue the city could raise from broad-based taxes at a selected tax burden on its residents; and expenditure need is the amount a local government must spend in order to provide public services of average quality.
On the other hand, some scholars define the term fiscal condition from an accounting standpoint. For instance, Mead (2001, 59) defines financial condition as “the ability of a [government] to meet its obligations as they come due and to finance the services its constituency requires”. Groves and Valente (1994, 1) state from a narrow accounting perspective that financial condition is “a government’s ability to generate enough cash over thirty or sixty days to pay its bills”, and from a broader, budgeting viewpoint that financial condition is “a government’s ability to generate enough revenues over its normal budgetary period to meet its expenditures and not incur deficits”. Miller (2001, 54) defines fiscal condition as “the probability that a government will meet its financial obligation”. He elaborates that this probability depends upon the level of expenditure demands relative to the total resources available to the government. Measures of operating and capital expenditure levels and debt obligations can be included in the expenditure pressures; and measures of external and internal resources are included in available resources. Thus, “the gap between expenditure pressures and available resources becomes a measure of financial condition” (p.54).

Alternatively, some scholars define the term fiscal condition within the context of local fiscal crises. Kloha, Weisert, and Kleine (2005a, 314), define fiscal stress as “a failure to meet standards in the areas of operating position, debt, community needs, and resources over successive years”. Beckett-Camarata (2004, 619) defines fiscal stress as the “local authority’s inability to fund service delivery needs and requirements”, and defines fiscal emergency as “a failure to meet significant financial obligations”. In a similar vein, Stanley (1976, iii) explains that fiscally troubled cities are defined as “those in which the fiscal situation is so unfavorable as to impair borrowing ability, require
reductions in municipal services, pose a threat to public health and safety, and thus diminish the quality and satisfaction of urban life”. Finally, Fuchs (1992, 18-19) differentiates the full-fledged fiscal crisis from fiscal instability. The former requires that “a city be locked out of the bond market”, whereas the latter is linked to “a city’s economic condition and the mismanagement of resources”.

Although the definitions of fiscal condition are so diverse and there is a lack of common, agreed-upon definition, the above discussions reflect some commonalities that can we can draw from. From an accounting standpoint, on the one hand, fiscal condition refers to a city’s ability to meet its financial obligations, which can be short-term and long-term (e.g., Mead 2001; Finkler 2005; Groves and Valente 1994; Brown 1993). Short-term obligations usually focus on imbalances between the level of spending a government has committed and its potential resources; whereas long-term obligations focus on trends in a government’s tax bases relative to its expenditures and future commitments (Kloha, Weissert, and Kleine 2005a). This financial accounting usage is inclined to focus on internal management aspects and mainly utilizes data from a city government’s budgets and financial statements in the analysis, e.g., net cash flows, fund balances, net assets, and debt outstanding.

On the other hand, fiscal condition can be explained within the context of local public services (or alternatively called the ‘need-capacity framework’) (see, e.g., Yilmaz et al. 2006; Ladd and Yinger 1989; Bradbury et al. 1982). This definition is used in order to assess whether a city’s government is sufficiently meeting the needs of their constituency. Here, the estimate of a city’s taxing capacity is compared with that of a city’s spending need. A city whose taxing ability is insufficient in relation to its service
obligation is often labeled as fiscally distressed or fiscally weak. In effect, residents in a fiscally distressed city often suffer from unmet service needs when compared with those living in a fiscally healthy city.

The distinction between the two definitional usages just discussed is crucial. An analysis based on one frame of reference may not yield the same results as those based on the other. For example, consider from an accounting standpoint that a city may have a balanced budget and meet all of its financial obligations by intentionally cutting services the constituents highly demand. The city is still unable to fulfill constituency needs when considered from the need-capacity framework. Through this line of reasoning, the city should be termed as ‘fiscally poor’ (Rechovsky 1993; Bradbury 1982).

Since the current study focuses on the fiscal ability of Thai municipalities in taking on their service obligations in the midst of the devolution movement, the definition of local fiscal condition is put in the need-capacity framework. Then, the term is defined generally as a fiscal ability of a municipal government to meet its service obligations. When a city’s fiscal ability is inadequate as compared to the communal needs, it exhibits a ‘fiscally poor’, ‘fiscally instable’, or in some instances ‘fiscally distressed’ city.

Before proceeding, it should be made distinct, too, that the fiscal condition is by no means the same concept as the budget condition. While the former focuses seriously on a city’s fiscal ability and service needs, the latter is a simple comparison between actual revenue and actual spending of a city. Block (1971), Bradbury (1982), Ladd and Yinger (1989), and Reschovsky (1993) carefully examine this second distinction.

Principally, fiscal condition (or what Bradbury [1982, 34] terms more succinctly as a citizen fiscal condition) is the balance between a city’s ability to provide a reasonable
level of services within its taxing capacity (Bradbury 1982; Ladd and Yinger 1989). The crucial point is that a city in a healthy fiscal condition should be able to possess adequate taxing capacity commensurate to its constituency needs.

By contrast, budget condition is the extent to which a city government is able to balance its budget, but not necessarily meet its service obligations. Since budget documents often obscure the direct relationship between expenditures and revenues (Fuchs 1992; Downs 1957), a city can balance its budget by using gimmicks or publicly undesirable means. For instance, a city can drastically cut services that are necessary to constituents, or provide only a minimum level of needed services, e.g., trash infrequently collected, or less frequent police patrols. This sort of budgetary balance reflects a case of a poor or instable fiscal condition because, in the long-term, service cutbacks may cause the flight of business and middle-class residents and eventually lead to tax base erosions, bringing fiscal stress into full view (Block 1971). For this reason, the budget balance does not provide a good sense of the structural fiscal health of a city (Reschovsky 1993).

Operational Definition of Fiscal Conditions in the Thai Municipal Finance Context

A reasonable working definition of poor or healthy fiscal conditions is of great importance for the current research. Fundamentally, fiscal ability is calculated from two interconnected elements: (i) the revenue side, or referred to as revenue-raising capacity (RRC); and (ii) the expenditure side, or referred to as expenditure need (EN). A city’s RRC is its ability to raise taxes/revenues if it were to apply an average tax rate to its tax/revenue bases. On the other hand, a city’s EN is the amount of money the city has to spend in order to provide a standard quality of services. When the city’s RRC is greater
than its EN, it can be said that the city’s fiscal condition is relatively strong or healthy.

By contrast, the city finance is poor or unstable if its RRC lags behind the EN. This relationship is depicted in Figure 2-1 below.¹

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**Figure 2-1: A Need-Capacity Framework for Measuring Fiscal Conditions**

Sources: Adapted from Berne and Schramm (1986), Berne (1996), and Miller (2001)

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In this study, cross-city comparison is employed as a major means to estimating the average tax effort and the standard quality of service provisions. Details of the quantitative estimations of the RRC and the EN will be discussed in Chapter Four.

For now, suffice it to say that fiscal conditions can be indicative of whether or not Thai

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¹ It should be noted that this depiction is not yet complete since political and management decisions and their effects on fiscal condition have not yet been included. This definitional framework will be expanded later in Figure 2-2, which depicts a more complete view of fiscal condition that guides this research.
localities are fiscally able to provide levels of services, assuming the average quality, comparable to the others.

Although Figure 2-1 is intriguing in that it gives a full consideration of socioeconomic factors when assessing local fiscal conditions as argued for in the literature (e.g., Zafra-Gomez et al. 2009; Ladd and Yinger 1989; Bradbury et al. 1982; Bradbury 1982), its coverage is still inadequate and should be expanded. A causal explanation of fiscal conditions is indeed far more complex and often involves *politics and management*. Hence, constructing an operational framework of the fiscal condition analysis that fully covers these aspects is a challenging task.

Notwithstanding, political and internal management factors are not easily and precisely quantified and incorporated into regression estimations of local fiscal conditions. Indeed they are more meaningfully captured by means of qualitative explanations (see, e.g., the works of Rubin [1983], Clark and Ferguson [1983], Fuchs [1992], and Dluhy and Frank [2002]). In addition, fiscal conditions do not exist in a vacuum. They should be evaluated within the context of fiscal institutional arrangements. Thus, the normal budget practices of Thai municipalities should be taken into account.

Thai municipalities now use cash-basis accounting. Thus, most of the financial data as it appears on a city’s balance sheets (e.g., assets, liabilities, etc.) are less dependable. For instance, municipal assets do not truly represent their current market values, but the acquisition costs. Moreover, Thai localities in general are fiscally conservative when making budgets (Varanyuwatana 2003). Debt-financing rarely gains popularity among localities for capital investment projects. Additionally, Thai cities have statutory requirements for balancing their budgets and for having municipal reserves at a
predetermined level². Hence, judging a city’s fiscal condition cannot be made by simply looking at its outstanding debts or the imbalance between revenues and expenditures as they appear in the city’s budget.

In order to take political and administrative factors into full consideration, qualitative characteristics are added to the quantitative meaning of local fiscal conditions. This is a detailed examination of what and how political and administrative factors influence the RRC and/or the EN as measured in quantitative terms. In light of the working definitions of fiscal conditions which were elaborated above, a substantial set of factors attributed to the RRC and the EN is both quantitatively and qualitative explored. It is expected that by employing this mixed methodology the fiscal condition analysis of Thai cities is validly objective and analytically meaningful.

Overall, two major empirical activities are employed in the current research. First, a quantitative measurement of fiscal conditions is carried out based on a city’s socioeconomic conditions (Chapter Five) where conventional (U.S.-based) measures are employed³. Then, case narrations and analyses (Chapter Six) are provided. This consists of two analytical parts: (i) critically describing the symptoms of municipal fiscal conditions, and (ii) examining the politics and administration behind the fiscal conditions. The former includes analyses relating to a city’s local tax efforts (both tax mobilization and tax administration); its spending priorities; a city’s service cost differentials and service adequacy in relation to constituency demands. The latter is comprised of a city’s political and administration profiles regarding political power bases

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³ The selection of analytical measures will be discussed in Chapter Four.
(including interest group influences and national-local political ties); budget authority and control (allocation, management, and audit); and political malpractices, corruption, and management efficacy and/or leakages.

Given that fiscal condition is indicative of whether or not Thai localities are fiscally able to provide levels of services comparable to others and that both quantitative and qualitative compositions of local fiscal conditions are adequately taken into account, then the poor fiscal condition of the city exhibits most of the following elements in city hall: (i) low tax efforts or revenue mobilization given its taxing capacity; (ii) policy misprioritization to meet constituency demands; (iii) high service costs and spending needs; (iv) fragmented budget control authority; and (v) political malpractices and/or management leakages. The ways in which these factors transform to a poor fiscal condition usually surface in an inappropriate level of municipal spending and taxation. That is, municipal taxation is somewhat low while a city’s spending is quite inefficient or perhaps excessive. Comparative case analysis, e.g., between a fiscally healthy city and a fiscally poor one provides several benchmarks on how these factors are normatively evaluated.

Interpretations and Key assumptions of Fiscal Conditions

Fundamentally, the notion of fiscal condition is relative and its interpretation is dependent on the measures being employed. It has a practical meaning only when compared with other comparable cities or with itself over time (Berne 1996; Groves & Valente 1994; K. Brown 1993; Bahl 1984; Ross & Greenfield 1980). It makes little sense to ask how good a city’s financial condition is by just looking within a city and/or at one
particular point in time. In other words, fiscal condition analysis is an attempt to identify dependable fiscal yardsticks to a group of cities (or to one single city over time) (Bahl 1984). Thus, the interpretation of fiscal condition findings in this research is strictly dependent on the sample of cities included in the research.

Two key assumptions fundamental to the quantitative, cross-city analysis of local fiscal conditions should be acknowledged. First, this study assumes that the potential levels of revenue-raising capacity (RRC) and expenditure needs (EN) do exist. That is, the fiscal condition analysis is like playing, in John Shenon’s words, a ‘what if game’ (quoted in Ellsworth 1986, 3). Through the comparison across cities, the analysis infers that every city imposes an average (or standardized) tax/revenue effort in order to obtain potential tax/revenue yields (or referred to as the RRC). Likewise, it surmises that every city allocates public monies for service programs of an average quality (or standardized basket of public goods and services) in order to derive the potential spending levels (or referred to as the EN).

Second, this study assumes in the quantitative analysis of fiscal conditions that the governments studied behave properly in collecting and spending public monies. Tax/revenue collection and spending decisions are made in accordance with existing laws, without any leakage of financial resources. This assumption is crucial since it is extremely difficult, if at all possible, to estimate the actual size of the loss. Unless this assumption holds, one may argue that the estimated fiscal capacity is biased (usually underestimated), thereby misrepresenting the fiscal conditions and ultimately misguiding the remedial fiscal policy.
Notwithstanding, these two assumptions are relaxed when examining the four in-depth cases in this study. As will be evident in Chapter Six, low tax efforts and/or fiscal leakages are often the major causes of poor fiscal conditions. These qualitative pieces of information contribute to filling in the missing picture of the municipal fiscal conditions as derived from the quantitative analysis.

**Review of Analytical Measures of Local/State Fiscal Condition**

Historically, the number of population and the personal income per capita (PIPC) have been used as measures of fiscal conditions (Kincaid 1989; Barro 1986). However, they have several flaws (Aten 1986; Barro 1986; Kincaid 1989). First, the city’s population size does not directly represent tax-paying abilities or service needs. On the other hand, PIPC does not encompass the capacity of governments to tap the incomes of commuters through earning or sales taxes, or the so-called the tax exportation aspect. Thus, PIPC tends to understate the fiscal capacity of a city having a large number of tourists and/or commuting workers. Moreover, PIPC is not comprehensive to all taxable resources. These days, local governments rely substantially on non-income taxes or non-tax revenues; e.g., sales, property, and fees and charges. Thus, PIPC fails to adequately capture a city’s economy and its tax/revenue structures.

To date, academic researchers have refined the measures of fiscal conditions to reasonably capture local socioeconomic conditions upon which a city’s taxes and expenditures are based. Overall, they can be classified into five major categories based on their assumptions, data requirements, and estimation procedures: (i) Fiscal health analysis; (ii) Representative approach; (iii) Financial ratio analysis; (iv) Credit ratings
approach; and (v) Gross city/county product (GCP). Details of each of the five analytical methods are discussed below. It is important to note that although these measures differ methodologically, past research shows that they yield somewhat consistent results (Bahl, Martinez-Vazquez, and Sjoquist 1992; Bahl 1984). Discussions of the empirical research in the subsequent section make this point more clear.

1. Fiscal health analysis is mainly advanced by academic researchers in economics (e.g., the need-capacity gap of Ladd and Yinger 1989), political science (e.g., the urban hardship of Nathan and Adams 1976, 1989), and sociology (e.g., the city’s wealth index of Clark and Ferguson 1983). Other studies also use the variations of these analytical frameworks (e.g., Martinez-Vazquez and Boex 1997a; Dye 1984; Kamer 1983; Bradbury et al. 1982; Howell and Stamm 1979). The fundamental purpose of this approach is to measure a city government’s fiscal condition based on statistical relationships between socioeconomic conditions and a city’s fiscal performances. For instance, the strength of local economy (e.g., economic growth, employment, income, etc.) often enhances a city’s revenue-raising capacity. On the contrary, poor social and economic conditions (e.g., economic decline, high crime and poverty rates, etc.) usually result in low taxing capacity and high spending need. Statistical methods such as multiple regression analyses, standardized scores, index values and the like are often employed in order to derive a meaningful comparison of the relative fiscal strengths of a sample of cities of interest.

For Example, Ladd and Yinger’s (1989) approach assumes a city’s ability to export local taxes to non-residential populations as a major source of a city’s taxing
capacity and calculates the expenditure needs from a cost-based regression. Clark and Ferguson’s (1983) city wealth index (CWI) measures a city’s taxing capacity from equalized taxable property values and a median family income. On the other hand, Nathan and Adams’ (1976, 1989) urban hardship index focuses specifically on a city’s social and economic difficulties. A composite index is developed from six different sets of indicators: (i) unemployment; (ii) dependency population; (iii) education; (iv) income; (v) crowded housing; and (vi) poverty rate. Other methods employ the multiple regression analysis as a tool to which to examine the statistical relationships between social and economic conditions and a city’s fiscal capacity (Martinez-Vazquez and Boex 1997a, 1997b; Inman 1995; Dye 1984). The predicted amounts that follow from the regression represent the potential municipal revenues (or expenditures) that each municipality would collect (or spend) under the average tax effort (or the standard basket of local services).

The strength of this group of analytical approaches is that it helps provide positive, rather than normative, findings and reliable pictures of a city’s financial condition based on the statistical relationships with its social and economic factors. Notwithstanding, this type of analytical techniques requires substantial amounts of data,

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4 According to Ladd and Yinger (1989), revenue-raising capacity (RRC) can be estimated from $K^*Y(1+e)$, where $K^*$ is the standard tax burden on residents, $Y$ is per capita income of residents, $e$ is a ratio of the tax burden on nonresidents (or a tax exportation ratio). On the other hand, expenditure need (EN) is estimated from a general function: $f(service\ responsibilities, quality\ of\ services, unit\ costs, etc.)$. The fiscal health index (FHI) is calculated from $(RRC - EN) / RRC * 100$, where a positive value implies that the revenue-raising capacity is greater than the expenditure need, indicating a healthy fiscal condition.

5 Fundamentally, the city wealth index (CWI) is calculated from $CWI = W_I + W_T$ where $T$ is equalized taxable property values and $I$ is a median family income and $W$ is the percentage of owned-source revenues from property taxes and $W_i = (1 - W_i)$. 
which is very difficult for a small city where needed data are not readily available. Furthermore, this group of methods is slightly more sophisticated than the others (to be discussed next) in that it requires some statistics literacy (Martinez-Vazquez and Boex 1997a).

2. Representative approach was originally developed by the U.S. Advisory Commission on Intergovernmental Relations (ACIR) during 1962 and 1990, and later expanded upon by several scholars (e.g., Berne and Schramm 1986; Kincaid 1989; Berne 1996; Tannenwald and Cowan 1997; Tannenwald 1998; Yilmaz et al. 2006; Mikesell 2007). Basically, this approach is the measurement of relative fiscal capacity based on a representative tax/revenue system (RTS/RRS) and a representative expenditure system (RES). RTS/RRS evaluates how much tax a city can raise if it applies average tax rates to each of its potential tax bases\(^6\). Likewise, RES indicates how much a city would spend given a standardized unit cost and its service workloads\(^7\). Next, a fiscal comfort ratio will

\[ RRC_A^i = TRA^e * TBA^i \]

\(^6\) The calculation of RRC can be depicted as \( RRC_A^i = TRA^e * TBA^i \). \( RRC_A^i \) is the revenue-raising capacity from tax A of city \( i^{th} \), \( TRA^e \) is the average (or representative) rate of tax A, which is estimated from the sampled cities; and \( TBA^i \) is the base of tax A of city \( i^{th} \). This procedure will be repeated for each of the tax sources. The summation of the estimated revenue-raising capacity for all taxes/revenues is the city’s overall revenue-raising capacity (RRC).

\[ FN_A^i = Workload_A^i * Standard costs per unit_A^e \]

\(^7\) Fiscal need is estimated by \( FN_A^i = Workload_A^i * Standard costs per unit_A^e \). \( FN_A^i \) is the fiscal need for function A in city \( i^{th} \), which is calculated from a workload of function A for the \( i^{th} \) city, being multiplied with a standard unit cost of function A. Spending category can be identified in several ways. For instance, Rafuse (1990) identifies six major service functions: (i) elementary and secondary education; (ii) higher education; (iii) public welfare; (iv) health and hospitals; (v) highways; and (vi) police and corrections. Alternatively, Shah (1996) classifies spending categories as (i) transportation and communication; (ii) social service; (iii) health; (iv) protective services; (v) post-secondary education; (vi) elementary and secondary education; (vii) general services; and (viii) others. Note that Shah (1996) suggests a slightly different procedure for estimating a city’s fiscal need. His method starts by (I) disaggregating expenditures
be calculated from the ratio of a city’s RTS/RRS to its RES. The value of one or greater represents a relatively strong fiscal capacity.

The limitation of this method is its underlying assumption. That is, in reality there is no jurisdiction imposing the same representative tax structures (both tax rates and bases) or the standardized unit cost as assumed by this approach (Mikesell 2007; Kincaid 1989), therefore, the estimated fiscal condition may not be valid. Additionally, Schroeder and Smoke (2002) argue that the RTS is applicable only when local authorities are given sufficient autonomy in setting their tax rates and bases, which is hardly the case for small local jurisdictions and for local authorities in many developing nations.

3. Financial ratio analysis is a management tool that pulls together information from a government’s budgets and financial reports. Presently, there are three major comprehensive sets of financial indicators commonly used for assessing a city’s financial condition: (i) Financial trend monitoring system (FTMS) as advanced by Groves and Valente (1994); (ii) Ten-point test as advanced by K. Brown (1993); and (iii) Comprehensive financial ratios as developed by Kloha, Weissert, and Kleine (2005a) and

into major functional categories and then estimates of expenditure functions from appropriate need/cost and other fiscal variables; (II) evaluating regression results for each locality by holding regression parameters at the national average and substitute a city’s actual values of the need/cost and other fiscal variables. The resulting figures would be the hypothetical per capita expenditure for each service function; (III) evaluating regression results at mean values for all variables in order to provide a standardized per capita expenditure for each service function; and (IV) expenditure need equals the hypothetical per capita expenditure (step II) less the standardized per capita expenditure (step III). The calculations are repeated for all of the spending categories; and (V) summing a city’s aggregate fiscal needs from all positive and negative differences (step IV), multiplied by the number of the city population.

Kincaid (1989) provides a good review of limitations of the representative system.
Wang, Dennis, and Tu (2007). All of these methods are in the same accounting vein in that they involve measuring financial positions, fund balances, liquidities, debt burdens, and budget solvency, and that they mainly use multiple financial ratios as a basis for analysis. The data are mainly derived from the city’s financial reports (balance sheets, statement of revenue/expenditures, and the like).

FTMS is a comprehensive measurement system for assessing cash and budgetary solvency, using 36 different financial indicators, classified into eleven categories. Six of the 11 categories focus on internal financial management, while the rest focus on external fiscal environments. The major objective of the FTMS is to examine changes in financial indicators over time (a 5-year span) in order to identify trends in financial conditions in all important respects before they become significant problems. By the same token, the ten-point test provides a measurement of financial condition for small municipalities based on ten financial ratios, which cover the analyses of revenues, expenditures, general funds, cash and investments, liabilities, and debt services. The analysis has four major steps: (1) to calculate ten ratios for a city of interest; (2) to compare each calculated ratio to the database, and then to assign a score based on quartile rankings in which the ratio is located9; (3) to sum total scores for all financial ratios; and (4) to assess the total score

9 The assignment of scores is based on quartile rankings; those placed in the fourth quartile (the most favorable) are given 2 points, and those placed in the third quartile (the second-best) are given 1 point. Cities that fall into the second quartile (just below the median) receive a zero score, and those placed in the first quartile (the lowest) receive a score of -1. The assignment of scores is performed for each of the ten indicators. A city receiving a score of 10 or more will be regarded as the most fiscally strong (or among the best); a score of 5 to 9 will be regarded as relatively strong (or better than most); a score of 1 to 4 will be regarded as the average; a score of -4 to 0 will be regarded as relatively weak (or worse than most); and a score of -5 or less will be regarded as the most fiscally weak (or among the worst).
according to the scheme (see footnote 9). The maximum score possible for a city is 20 and the lowest score is -10 (minus ten).

Until recently, scholars have developed a new set of indicators as more accurate and comprehensive data become available, along with the development of the Governmental Accounting Standard Board (GASB) Statement No. 34 (e.g., Wang, Dennis, and Tu 2007). Other researchers have constructed a comprehensive, yet parsimonious, set of indicators in order to predict local fiscal distress known as a Ten-point scale of fiscal stress (Kloha, Weissert, and Kleine 2005a). Both studies satisfactorily show that the newly developed indicators do a very good job in depicting governmental fiscal conditions.

Although the financial ratio analysis is very attractive to public managers due to its simplicity, it has some weaknesses. First, the use of financial ratios often ignores key socioeconomic variables that are fundamental to the determination of taxing capacity and spending need10. Furthermore, each of the distinct indicators is separately evaluated from the others and does not allow a meaningful comparison among them. Thus, the result is often inconclusive and does not provide a comprehensive picture of the financial condition (Hendrick et al. 2006; Kloha, Weissert, and Kleine 2005a). Additionally, Hendrick et al. (2006) argue that the ten-point test is not sensitive enough to meaningfully distinguish a city’s financial condition since its use of quartile rankings is

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10 Recently, Zafra-Gomez et al. (2009) proposed a remedy to this limitation by clustering cities in regards to their socioeconomic circumstances. Thus, homogenous spaces, in terms of socioeconomic conditions have been created. In turn, the effects of socioeconomic factors on local financial conditions have been normalized within each socioeconomic cluster. Then, the comparison of fiscal conditions across cities with varying socioeconomic conditions becomes more meaningful. Still, this method does not directly incorporate the socioeconomic variables into actual analyses.
too broad and the assigned scores of -1, 0, 1, and 2 to each of the quartile ranks are made arbitrarily. Moreover, the ten-point test is not readily available for use in all circumstances due to its restricted database (Honadle and Lloyd-Jones 1998).

4. City’s credit rating can also serve as an indication of a city’s fiscal condition. Past studies showed that the credit ratings approach yielded the picture of a city’s fiscal performance consistent to that carried out by other methods (Finkler 2005; Bahl 1984; Mercer and Goldberg 1984; Marquette, Marquette, and Hinckley 1982; J. Petersen 1980). Fundamentally, municipal credit ratings are determined by a complex set of factors that measure both current and future fiscal performances (Lipnick et al. 1999; J. Petersen 1980; Mercer and Goldberg 1984). These factors are (i) economic and demographic; (ii) legal setup; (iii) debt; (iv) financial management; (v) organizational management strategies; and (vi) project viability (Lipnick et al. 1999).

The basis of a city’s fiscal condition is its economy and management factors which directly affect a city’s bond ratings. For instance, investors usually consider the size and the diversity of tax bases, local economics and demographic growth, and low unemployment rates as indicators of a city’s fiscal strength. Creditors also evaluate debt positions of a city as part of its bond ratings. A city with a growing economy and low debt burdens tends to receive high credit ratings, suggesting a healthy fiscal condition. Furthermore, investors examine internal management practices and organizational capacity. A city possessing good administrative practices and prior high performance is likely to receive high credit scores, also representing a relatively strong fiscal position.
Recent developments in this area have been produced by a group of scholars in the Government Performance Project (GPP) at the Maxwell School at Syracuse University. They develop *fuzzy rule-based systems* (FRBS) as a means in evaluating the overall financial performance of a city government (Ammar, Duncombe, Jump, and Wright 2001). Principally, FRBS is referred to as “decision-making systems that break down complex systems into manageable components that can be evaluated separately and that can use a variety of data types by converting data into comparable ordinal input measures (p.45-46)”.

GPP evaluates a set of 30 large cities and impressively shows that the FRBS provides the rating results consistent with the Moody’s bond ratings.

One of the advantages of using credit ratings as an indicator of municipal fiscal health is that credit ratings often have strong political and management implications for a city, particularly when it receives a low rating score (J. Petersen 1980). Nevertheless, this approach requires substantial analytical judgment (Bahl 1984; Ingram et al. 1987). Analysts have to interpret each of the factors in respect to local circumstances as well as the city’s accounting and financial practices. This limitation has led some scholars to challenge the credibility of the bond ratings approach (e.g., J. Petersen 1977; Ingram et al. 1987; Bond Buyer Staff 2000; Reck et al. 2004), particularly when New York City received high credit ratings in early 1970s but it eventually went into a massive fiscal crisis in 1975. Ingram et al. (1987) found that the predictive accuracy of municipal bond ratings models is about 10-20% less than that for corporate bond rating prediction models. Additionally, a recent Fitch IBCA’s study (Bond Buyer Staff 2000) indicates that

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11 More details about the FRBS can be read from Ammar, Duncombe, Hou, and Wright (2001).
municipal bonds are systematically underrated since non-financial information has hardly been incorporated into the bond rating process\textsuperscript{12}.

5. **Gross city/county product (GCP)** can serve as a basis for estimating revenue-raising capacity as suggested by Aten (1986) and Martinez-Vazquez and Boex (1997a). GCP is a gross market value of goods and services produced in a city over time, normally one year. Through its construction, GCP is the broadest measure of consumptions and incomes generated within a city jurisdiction. Therefore, it is potentially reflective of a city’s taxable resources and taxing capacity (Martinez-Vazquez and Boex 1997a; Aten 1986)\textsuperscript{13}. In one empirical analysis, Aten (1986) showed that GCP reasonably represented the fiscal capacity of governments as compared to those analyzed by the personal income measure and the representative tax system.

One advantage of the GCP approach is that it incorporates a substantial share of incomes and consumptions produced within a city’s jurisdiction, irrespective of the location of the residence of workers/producers and of consumers. Thus, GCP includes the city’s ability to export its tax burdens to nonresidential populations (e.g., tourists, commuting labors), which is one of the most desirable aspects of fiscal capacity measures as suggested by researchers elsewhere (Reeves 1986; Ladd and Yinger 1989).


\textsuperscript{13} By this approach, a city’s revenue-raising capacity can be estimated from $RRC_i = k_i \times GCP_j$, whereas $k_i$ is a standard tax burden of tax $i^{th}$ on GCP of city $j^{th}$, which equals $\sum_{i=1}^{n} \left( \frac{t_i}{GCP_j} \right) \times \frac{1}{f}$, where $t$ is tax revenue $i^{th}$ of the city $j^{th}$.
Notwithstanding, the GCP approach does not make allowance for economic flows that are not accessible to local tax systems (Mikesell 2007). In other words, not all types of economic resources or incomes incorporated in the GCP are subject to local taxation; and alternately, some forms of incomes or consumptions subject to local taxation do not appear in the GCP (e.g., transfer payments) (Aten 1986). Furthermore, the GCP approach crudely sums up all economic products and simply estimates a city’s fiscal capacity based on a single tax-rate parameter. In fact, different tax rates are levied to different economic tax bases. As a result, the GCP approach can easily over-estimate or under-estimate the fiscal capacity of a city government (Martinez-Vazquez and Boex 1997a).

In sum, the following table summarizes key elements of the five analytical approaches discussed above, as well as their underlying concepts, key indicators, and weaknesses.

Table 2-1: Summary of Fiscal Condition Analytical Approaches

<table>
<thead>
<tr>
<th>Analytical Approaches</th>
<th>Major Methods</th>
<th>Key measures / Key data / Construction Notes</th>
<th>Limitations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Fiscal Health Analysis</td>
<td>Need-capacity gap (Ladd &amp; Yinger 1989; Ladd 1994)</td>
<td>(1) Revenue-raising capacity (RRC) by tax-exportation; (2) Expenditure needs (EN) from cost-adjustment regression approach; and (3) Fiscal health index = (RRC - EN) / RRC * 100</td>
<td>Nonresident information and tax exportation ratios are not easily obtained. Calculation is highly complex.</td>
</tr>
<tr>
<td>Urban need index (Congressional Budget Office 1978)</td>
<td>Based on (1) Social need; (2) Economic need; and (3) Fiscal need. Index is constructed from factor analysis of 20 socioeconomic variables</td>
<td>The index is complex and double counts some variables (e.g., tax effort, property tax base)</td>
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<tr>
<td>Urban hardship index (Nathan &amp; Adams 1976, 1989)</td>
<td>A composite index is constructed from six indicators: unemployment, dependency population, education, income, crowded housing, and poverty</td>
<td>The measures are limited to measuring urban hardship, without comparing to revenue capacity</td>
<td></td>
</tr>
<tr>
<td>Analytical Approaches</td>
<td>Major Methods</td>
<td>Key measures / Key data / Construction Notes</td>
<td>Limitations</td>
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<tr>
<td>Regression-based capacity (Martinez-Vazquez &amp; Boex 1997a; Inman 1995; Dye 1984)</td>
<td>Estimate revenue capacity or spending need from a set of socioeconomic factors. Predicted values represent potential revenues or spending needs</td>
<td>Need to establish statistical relationships with SES factors that are believed to influence tax bases and/or spending needs</td>
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<td>City wealth index (Clark &amp; Ferguson 1983)</td>
<td>City wealth index = $W/I + W/T$ where $T$ is equalized taxable property values and $I$ is median family income and $W_i$ is % own-source revenues from property taxes and $W_i = (1 - W)$</td>
<td>Concentrate only income and property tax bases. Overlook other sources of city income, e.g., sales, fees and charges.</td>
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<tr>
<td>2. Representative System</td>
<td>RTS/RRS and RES (ACIR 1962, 1990; Berne &amp; Schramm 1986; Kincaid 1989)</td>
<td>(1) Revenue capacity (RC) from average tax rates applied to local tax bases; (2) Fiscal need (FN) from average unit costs multiplied with workloads; and (3) Fiscal comfort (capacity) = $RC/FN*100$</td>
<td>The underlying assumption that all studied jurisdictions impose the same average tax rates makes less intuitive sense.</td>
</tr>
<tr>
<td>3. Financial Ratios Analysis</td>
<td>Financial Trend Monitoring System (FTMS) (Groves &amp; Valente 1994)</td>
<td>Calculate 36 financial ratios (revenue, expenditure, operating position, debt, unfunded liability, capital need, and community needs), and then examine trends in each factor over a 5-year span</td>
<td>36 indicators often yield inconclusive results and require extensive judgment and good understanding of a city government.</td>
</tr>
<tr>
<td></td>
<td>Ten-point test of financial condition (K. Brown 1993)</td>
<td>Calculate 10 financial indicators (revenues, expenditures, general funds, cash and investments, liabilities, and debt services), and conduct quartile ranking and scoring</td>
<td>Dimensions are combined and indicators are not sensitive enough. Database of sampled cities is limited.</td>
</tr>
<tr>
<td>Comprehensive financial ratios (Wang et al. 2007; Kloha et al. 2005a)</td>
<td>Comprehensive financial ratios using data from GASB No.34 and ten-point scale of fiscal stress</td>
<td>Very complex, require some statistical literacy in interpreting results.</td>
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<tr>
<td>4. Credit Ratings</td>
<td>Private Ratings (Lipnick et al. 1999; J. Petersen 1980; Mercer &amp; Goldberg 1984)</td>
<td>(1) Economic and demographic factors; (2) legal setup; (3) debt factors; (4) financial factors; (5) management; (6) strategies/administrative factors; (7) project viability</td>
<td>Rating process requires substantial judgment. Some needed data are not timely available. Results should be considered in conjunction with other information.</td>
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<tr>
<td></td>
<td>Fuzzy rule-based systems (FRBS) (Ammar et al. 2001)</td>
<td>Breaking down complex systems into manageable components. Then, evaluate separately and converting data into comparable ordinal input measures</td>
<td>Computational complex and require special computation software</td>
</tr>
</tbody>
</table>
Analytical Approaches | Major Methods | Key measures / Key data / Construction Notes | Limitations
--- | --- | --- | ---
5. Gross City/County Product | Aten (1986); Martinez-Vazquez and Boex (1997a, 1997b) | The estimation of city’s revenue-raising capacity can be made from applying standard tax burdens to GCP | GCP is only a good approximation of fiscal capacity. Not all types of economic resources incorporated in GCP are subject to local taxation; and vice versa, some forms of income/consumption subject to local taxes do not appear in GCP.

Sources: Author’s summary

Empirical Research from the U.S. and Other Developed Nations

To date, empirical studies on fiscal conditions are multiple in scopes. Studies vary drastically in terms of the units of analysis (state, county, large city, suburb, and small town) and analytical methods. In order to make this review concise and meaningful, only key empirical studies will be discussed. First, studies of fiscal conditions in large U.S. cities are examined and then followed by studies from suburbs and small towns. Additionally, studies from other developed nations are incorporated in order to provide some additional insights and linkages to the current research. Literature from Thailand and other developing nations will also be discussed separately in a subsequent section.

An early work in this subject area can be traced to the study of the U.S. Congressional Budget Office (CBO 1978). This study developed three measures of fiscal conditions: (i) Social need (unemployment and per capita income); (ii) Economic need (population change, employment change, per capita income change, density, and pre-1940 houses); and (iii) Fiscal need (tax effort, property tax base, and service need). The
CBO indicated that Newark, Cleveland, St. Louis, Boston, Buffalo, and Detroit reflected high social, economic, and fiscal needs during the 1970s. All of them were relatively large and highly populous, central cities located in the Northeast or Midwest.

Similar findings can be found in the cross-city studies of Ladd and Yinger (1989), Kamer (1983), Stanley (1976), and Nathan and Adams (1976, 1989). Ladd and Yinger (1989) examined the fiscal health of 71 major cities during 1972 and 1982, and Kamer (1983) examined 38 largest cities in 1980. Stanley (1976) reviewed fiscal conditions of major cities during the 1970s and Nathan and Adams (1976, 1989) examined the urban hardships of the 55 largest cities between 1970s and 1980s. As commonly found in these studies, Newark, New York, Detroit, Boston, Buffalo, St. Louis, Cleveland, Baltimore, and Philadelphia were consistently ranked in the top list of the fiscally distressed central cities. Single-city studies of New York City (Gramlich 1976; Fuchs 1992) and Philadelphia (Inman 1995) also supported these findings. In a similar vein, studies done by the credit ratings approach during the 1960s and 1980s (Mercer and Goldberg 1984; J. Petersen 1980) indicated that several central cities in the Northeast and Midwest usually received relatively low credit ratings (between Baa and Caa by Moody’s evaluations); for instance, New York City, Buffalo, Boston, Detroit, Philadelphia, Pittsburg, and Newark. In contrast, most cities in the Southwest and the West exhibited bond ratings increases (e.g., Los Angeles, San Diego, San Francisco, San Jose, Portland, Seattle, Phoenix, Jacksonville, Dallas, Houston, and San Antonio).

More recent studies also corroborate the findings of the past studies just discussed. For instance, Dearborn, Peterson, and Kirk (1992) found that, among 30 cities, fiscal conditions of the major central cities (e.g., Detroit, Milwaukee, Minneapolis,
Cleveland, and St. Louis) declined from the 1980s to the 1990s relative to those of the suburbs. Miller (2001) showed that large cities in New Jersey, namely Newark and Trenton, suffered from the decline of local economies and, accordingly, the decline of fiscal conditions in 1998. The study of 30 cities’ fiscal conditions using fuzzy rule-based systems (FRBS) also revealed that Washington, DC, Detroit, Buffalo, Philadelphia, New York City, Baltimore, and Cleveland were among the top list of financially distressed cities (Ammar, Duncombe, Hou, Jump, and Wright 2001). Furthermore, Bell et al. (2004) found that Washington, DC, as a core city in the metropolitan area, had lower taxing capacity than the surrounding suburbs (e.g., Virginia counties). Table 2-2 below summarizes the ten most fiscally distressed cities as indicated by the empirical studies.

On the other hand, the study by Hendrick (2004) examined the fiscal conditions of suburban governments in the metropolitan Chicago areas during 1997 and 2000. She found that inner-ring cities and low-density, rural suburbs tended to be fiscally weak. Outer-ring suburbs, by contrast, possessed a relatively stronger fiscal position. Although Hendrick (2004) focused on the Chicago suburban municipalities, her study nicely provides insights on the relative fiscal conditions between central cities and suburbs, which are presumably prevalent in other regions as well.
Table 2-2: Ten Most Fiscally Distressed Cities in the U.S. as Commonly Indicated by the Selected Studies of Urban Fiscal Condition

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No. of cities studied | 30 large cities | 30 large cities | 55 largest cities | 71 major cities | 38 largest cities | 121 largest cities | 45 largest cities

Another group of literature focuses specifically on analyzing fiscal conditions in small or rural-based cities. For example, Honadle and Lloyd-Jones (1998) examined a financial condition of one small, rural-based county in Minnesota based on the financial ratio analysis and found that the county was experiencing several red flags of fiscal condition. Likewise, Dougherty, Klase, and Song (2000) examined the fiscal condition of small and rural governments in West Virginia and found that fiscal stress was one of the important issues for small and rural cities, especially the issue of limited revenue-raising capacity. Warner (1999) examined 587 counties in eight Mid-Atlantic and East North Central states and indicated that nonadjacent rural counties had provided relatively lower service levels and higher tax burdens per capita than their large or urban counterparts. Other studies also indicated the presence of fiscal stress in small, rural cities in the Commonwealth of Virginia (Badu and Li 1994), in Louisiana (Ward 2001), and in the Farmbelt regions (Koven and Koven 1989). Similarly, small cities in Ohio also experienced fiscal stress, particularly when local economies were highly fluctuated (Weinberg 1984).

It should be noted that fiscal stress and fiscal crisis are also common in other modern societies, resembling the experiences of U.S. cities. For example, several empirical studies revealed the existence of poor fiscal conditions in central cities relative to outer areas; for instance, in England (Bailey 1991), in ten Western countries (Mouritzen 1992b), in Israel (Carmeli 2002, 2008), in the Russia Federation (Martinez-Vazquez and Boex 1997a, 1997b), and in the capital cities of Denmark, Finland, Norway, and Sweden (Lotz 1981). Likewise, fiscal stress is also common in small and medium-sized Norwegian communities (Aarsaether 1990) and in Israel, as measured in terms of cash solvency, budget solvency, and long-run solvency (Carmeli 2002).
Besides the fiscal condition studies of local governments, past research also explored the fiscal capacity of U.S. state governments (e.g., Mikesell 2007; Yilmaz et al. 2006; Tannenwald 1998; Tannenwald and Cowan 1997; Kincaid 1989), all of which employed the representative approach. For instance, Yilmaz et al. (2006) conducted the fiscal capacity analysis of state governments, using 2002 data and found that Mid-Atlantic and New England states (e.g., Delaware, Connecticut, Massachusetts, and New Jersey), and states with an abundance of natural resources (e.g., Alaska and Wyoming) and tourist industries (e.g., Nevada, Hawaii) were fiscally strong due to their higher revenue capacity and/or lower expenditure needs than the U.S. average. Similarly, Tannenwald (1998), Tannenwald and Cowan (1997), and Kincaid (1989) investigated changes in the states’ fiscal conditions during the late 1970s through the mid 1990s. Their findings were somewhat similar to those of Yilmaz et al. (2006), although there was some convergence toward the mean in states’ fiscal capacities since the 1980s. Mikesell (2007) also examined state fiscal capacity from 1981 to 2003 and confirmed that the capacity across U.S. states had become convergent over time.

Before proceeding to the next section, it is interesting to note that there is yet another small, but significant, set of studies examining how state governments monitor local fiscal conditions (e.g., Coe 2007, 2008; Kloha, Weissert, and Kleine 2005b; Honadle 2003). Generally, state governments have interests to ensure that local funds are well managed. This is either because (i) axiomatically, local governments are creatures of the states; (ii) some local services are financed by the states; or (iii) local fiscal problems also negatively affect the state’s bond ratings (Kloha, Weissert, and Kleine 2005b; Honadle 2003). In short, this group of studies showed that state governments often played
four major roles in dealing with local government finances: (i) prediction; (ii) aversion; (iii) mitigation; and (iv) prevention in the occurrence/recurrence of local fiscal crises (Honadle 2003). Unfortunately, although the majority of states had a wide range of activities in dealing with local finance issues, just under half of them\textsuperscript{14} developed the formal measures and/or explicit indicators to closely monitor and predict local fiscal crises. Additionally, Honadle (2003) found that state governments tended to get involved with local fiscal problems only \textit{after} a crisis, rather than \textit{before} a crisis emerges.

In sum, there has been a considerable body of literature on fiscal conditions in states and localities. Some of the studies focus on the methodological development of fiscal condition measures, while the rest empirically measure the magnitude of local or state fiscal health. Although they vary methodologically, their findings share some common ground. That is, the highly populous, central cities tend to be fiscally weak in relation to the growing suburb and industrial or business areas. Likewise, the small or rural-based communities also exhibit poor fiscal conditions. In short, the literature supports Coleman (2002) in that fiscal stress is not just a big city’s problem; indeed, it can be everywhere, in big cities or small cities.

\textit{Empirical Research from Thailand and Other Developing Nations}

This section discusses empirical studies conducted in Thailand as well as other developing countries. This review helps to identify academic gaps to date and to signify the possibility of conducting the fiscal condition analysis in Thailand. As this research is

\footnote{14 About 10 states as found in the study of Honadle (2003) and about 15 states as found in the survey of Kloha, Weissert, and Kleine (2005b).}
aimed at measuring and explaining the local fiscal conditions in Thailand, the related empirical studies are very few and none of them has provided complete, dependable answers to the research questions posed in the current study. To date, three empirical studies conducted by Thai scholars came close to answering these.

The first study was conducted by Suwanmala (1998) in which he examined the fiscal capacity of four small localities (townships) in Thailand using data mainly from municipal development plans and budgets. However, his research focused specifically on the local ability to collect taxes as forecasted (tax collection ability), instead of tax-raising capacity, and on the vertical fiscal imbalance between local and national governments. In addition, his analytical framework was somewhat limited in that it used actual revenues and actual expenditures as indications of the fiscal capacity. Hence, his study fell short of explaining local fiscal conditions in a meaningful sense. Additionally, Thumkosit (2002) conducted the financial ratio analysis of one medium-sized town from 1996 to 1999 and found that the city’s fiscal capacity decreased over time due to its declining economy. Notwithstanding, his analysis focused primarily on internal financial management, thus, leaving local service responsibilities unexamined. Furthermore, his use of unaudited financial reports failed to yield dependable results. Finally, Patamasiriwat (2006) examined the revenue-raising capacity (RRC) of Thai localities based on a set of explanatory variables obtained from a survey. However, the explanatory variables included in the regression estimations were mostly institutional. Few socioeconomic variables were included in estimating the RRC. In addition, the analysis of local spending needs was not yet incorporated. Thus, his work was not yet complete in indicating Thai local fiscal conditions.
Other studies from developing societies also shed some light on the feasibility of measuring the municipal fiscal condition in Thailand. First, Chapman et al. (2003) studied the fiscal condition of three central cities in Kenya (Nairobi, Mombasa, and Kisumu) and found that they often faced with more fiscal pressures than did other smaller-sized cities. On the other hand, the study of local public finance in Serbia showed that small, rural-based cities tended to be fiscally weaker than major cities (Levitas 2005). In addition, the fiscal conditions of local governments in South Korea, as revealed by the Fiscal Independence Index (FII)\(^{15}\), suggested that business-based cities were fiscally stronger than residential and rural areas (J. Kim 2003). Finally, Ma (1997) analyzed the fiscal capacities of 30 Chinese provinces in 1994. They found that the provinces that were bases of businesses, industries, and administration (e.g., Shanghai, Beijing, Tianjin, Liaoning, Zhejiang, and Jiangsu) were fiscally healthier than the rural, agricultural ones.

In sum, this section suggests that the studies of local fiscal conditions in Thailand to date have been restricted and have not provided complete, dependable findings. This indicates a considerable academic gap for Thailand. Furthermore, the reviews of the literature from other developing nations with varying degrees of socioeconomic development have suggested that the study of Thai local fiscal conditions is feasible. The evidence from developing societies tends to be in line with the general fiscal condition trends happening in the U.S. and elsewhere. That is, there are substantial variations of the fiscal conditions across cities of different types (large, central cities; suburbs; rural-based areas; and

\(^{15}\)Fiscal Independence Index (FII) is the sum of local tax and own-source revenue divided by the sum of own-source revenue and intergovernmental grants. The higher the index value is, the stronger the local fiscal condition. More discussions can be obtained from J. Kim (2003, 235-237).
industry-based or economic center cities). Fiscal conditions of the central cities and of the small, rural-based towns are relatively weaker than those of the business-based areas.

Determining Factors of Local Fiscal Conditions

The literature suggests a host of factors that influence municipal fiscal performances. The factors can be classified into four broad categories: (i) socioeconomic; (ii) intergovernmental; (iii) institutional and managerial; and (iv) political. The first two groups of factors are external to local control, where the latter two are products of local decisions. This section briefly discusses how these factors affect the local fiscal condition. It should be noted that these factors are not mutually exclusive; they coexist and, most of the time, interact with one another in influencing local fiscal performance.

1. Socioeconomic factors: national as well as local socioeconomic conditions affect local fiscal conditions through local tax bases and spending levels (Kamer 1983; Beam and Colella 1980). For instance, Dye (1984) argued that local fiscal stress occurred largely due to the decline of the economic vitality of a city (e.g., the move of industries and businesses out of town). The decline resulted in significant losses of jobs and businesses, thereby slowing down local economic and income growth. As a result, potential local revenues shrunk. Several empirical studies during the 1970s and 1990s

16 It should be noted that some scholars have classified these factors as exogenous and endogenous to local control (e.g., MacManus 1984). For instance, they grouped socioeconomic conditions as exogenous to local authorities and management and politics as endogenous or controllable factors. Other scholars also used different typologies of the causes of fiscal stress. For example, Aarsaether (1990) classified them into (i) organizational and political factors, and (ii) spatial factors (or geographic positions of localities); whereas Mouritzen (1992b) separated the causes as (i) socio-economic imbalance, and (ii) maladaptation; and Monkkonen (1995) classified as (i) local political choices, and (ii) external forces.
supported this argument (Dluhy and Frank 2002; Dearborn et al. 1992; Ladd and Yinger 1989; Kamer 1983; Bradbury et al. 1982; Muller 1975). On the contrary, high inflation can raise the costs of public services and entitlement spending to soar rapidly (Chernick and Reschovsky 2001; Kamer 1983; Stanley 1976). Unless a city’s revenue growth catches up the rate of inflation, poor fiscal conditions is likely to result.

Population and economic shifts from central cities to suburbs characterize what is called the ‘migration and tax base erosion or suburbanization model’ (Kamer 1983; Bradbury et al. 1982; Rubin 1982; Bradford and Kelejian 1973). This model posits that population and job market losses following massive migrations are primary forces leading to urban fiscal distress, such as those which occurred in Philadelphia (Inman 1995), Cleveland (Bradbury et al. 1982), Baltimore (Levine et al. 1981), New York City (Peterson 1980; Alcaly and Mermelstein 1977), and Newark (Miller 2001). Bradford and Kelejian (1973) systematically showed that the plight of middle-class and high-income families resulted in shrinking tax bases and a higher concentration of poor families in central areas. In effect, the fewer the middle class families that stay in the inner cities, the heavier the tax burdens that are borne by those people remaining. The overall result is that central cities are caught in a vicious, ‘self-feeding’ circle (Bradford and Kelejian 1973).

Another explanation closely related to the suburbanization model is the migration of businesses and populations from the ‘Frostbelt to the Sunbelt’ (Peterson 1995; Ladd and Yinger 1989; Kamer 1983), which often results in relatively healthier fiscal conditions in the Western and Southern cities than those of the Northeastern and Midwest areas. Notwithstanding, Dye (1984) counter-argued that population decline did not have a
significantly independent impact on local fiscal conditions. He supported his argument from the evidence of 318 central cities using data during the 1970s\textsuperscript{17}.

On the other hand, in the case of small and rural cities, fiscal stress is usually a product of fiscal resource scarcity (Dougherty et al. 2000; Warner 1999; Honadle and Lloyd-Jones 1998; Weinberg 1984) and the moving of major employers or local plant closings (Beckett-Camarata 2004; Honadle and Lloyd-Jones 1998; Weinberg 1984). Furthermore, rural areas often lack ancillary services due to their geographic isolation. Thus, residents are highly reliant on services provided by city governments, thereby, driving up municipal spending needs (Warner 1999; Dougherty et al. 2000).

Finally, cities with overwhelming social problems are likely to face fiscal difficulties since they are required to provide more services than the average city (Chernick and Reschovsky 2001; Dearborn et al. 1992; Bunce and Neal 1984; Nathan and Adams 1976, 1989). Crime and poverty are two good examples. Polices have to patrol more frequently, jails need more money, or expenditures for health care and welfare services soar. Furthermore, dependency populations (e.g., school-age and senior population) and people of some minority groups (e.g., Black, Hispanic) are believed to cause more spending (Inman 1995; Bunce and Neal 1984; Dye 1984; Clark and Ferguson 1983; Rubin 1982).

\textsuperscript{17} However, the findings of Dye (1984) were somewhat questionable since his regression estimations failed to take into account the differences in governmental structures (e.g., institutions, home rule status, city-manager or mayor-council forms, etc.) and service-responsibility differentials across cities. As Dearborn et al. (1992, 15) stated, “each city government must have its fiscal health judged within the context of the service it provides”. Levine et al. (1981) also argued that a city-manager city is likely to manage fiscal stress better than a mayor-council city. Clearly, these institutional factors are crucial in making comparative local fiscal condition analyses and should not be overlooked (e.g., Ladd and Yinger 1989; Kamer 1983).
2. Intergovernmental factors: federal and state policies, regulations and mandates can directly affect local finances, particularly when such mandates are unfunded or underfunded (Carmeli 2008; Beckett-Camarata 2004; Kemmet 2003; Stein 1984; MacManus 1984; Weinberg 1984). One of the explanations that best captures this relationship is provided by Peterson’s (1981) city limit thesis. He argues that state and federal governments create environments in which cities must operate. Such environments often limit policy options available to local officials. Based on this thesis, cities that cannot adapt to the imposed constraints would sit at the edge of a financial cliff (Peterson 1981).

Past experience corroborates Peterson’s argument. Reductions in federal financial assistance during Reagan’s New Federalism in the early 1980s apparently caused resource shortfalls to many localities (Warner 1999; Tannenwald 1998; Ladd and Yinger 1989; Kamer 1983). Intergovernmental grant reductions in other western countries during the 1980s also resulted in increased local fiscal stress, e.g., Denmark and United Kingdom under the conservative hegemony (Mouritzen and Nielsen 1992; Wolman et al. 1992). As the analyses of Stein (1984) and Downing (1991) have shown, state mandates for services without funds, low state-aid levels, and state limits on municipal functional discretion, tax autonomy, and annexation powers brought localities the likelihood of fiscal stress.

Experiences in Colorado’s Taxpayer Bill of Rights (TABOR) and California state’s fiscal crises (e.g., Proposition 13) have caused counties and cities to assume more fiscal responsibilities as citizens lost access to services originally provided by state agencies (Martell and Teske 2007; Kemmet 2003). Orange County, California, was yet another example that California’s tax limits forced the County to find alternative revenue sources, and ended up with risky investments and financial bankruptcy during the mid

Sometimes, state actions can limit local power to taxation and/or spending, thereby worsening local fiscal conditions (Chapman et al. 2003; Martell and Teske 2007; Inman 1995; Stein 1984; Downing 1991). For instance, excessive control by national agencies over locality’s taxing autonomy resulted in limited access to several local tax bases for Kenyan municipalities (Chapman et al. 2003). This is also true for Thai local authorities where the central government highly centralizes its taxing power (see discussions of Thai local administration in Chapter Three). Additionally, unclear or imbalanced expenditure assignments (service responsibilities) to localities also cause a lack of coordination and wasteful or inefficient spending due to the problem of scale (Carmeli 2008). This case was evident in New York City during 1970s (Gramlich 1976) when the City provided more generous services than it could viably afford. Once New York State denied the recentralization of some service responsibilities from New York City, the city had to bear such huge burdens and, eventually, a fiscal crisis came to surface.

Until recently, there has emerged an increasing concern of poor fiscal conditions or local fiscal indiscipline when local authorities are highly dependent on intergovernmental fiscal transfers (Rodden 2002, 2006). This argument is embedded in the public choice theory and is known as a *common pool resource problem*. Under the decentralization context, particularly when a substantial portion of local services is financed by intergovernmental transfers, voters may not fully comprehend a linkage between program benefits and tax costs. The impact of such a fiscal illusion is twofold.
On the one hand, local governments may substitute local tax efforts for intergovernmental fiscal transfers (Rodden 2002; Careaga and Weingast 2000). On the other hand, transfers may create the appearance that local programs are financed by nonresidents, causing constituents to demand an excessive amount (Rodden 2006; Oates 1988). In effect, poor fiscal conditions are a result\(^{18}\).

As will be seen in subsequent chapters, the argument made by Rodden (2002, 2006) is highly relevant to Thailand where a substantial portion of local revenues (or about 30% on average) consists of transfers from central agencies. Hence, it is likely that these transfers induce incentives for Thai local authorities to commit excessive spending and/or to not push as hard for local tax efforts.

3. Institutional and management factors: although fiscal condition is usually a product of local socioeconomic characteristics, administration and financial management practices also have significant influences over local fiscal conditions. First, fiscal stress or crisis can emerge from fiscal mismanagement (Martell and Teske 2007; Chapman et al. 2003; Clark and Ferguson 1983; Tabb 1982; Caiden 1980; Stanley 1976). This includes poor accounting methods, gimmicks, inaccurate estimation of revenues or expenditures, poor budgeting practices, corruption, long-term borrowing for current expenditures, or inept and incompetent management. Examples of financial malpractices in fiscally distressed cities were evident in the study of Rubin (1982), in the New York City’s fiscal

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\(^{18}\) It should be noted that although the intergovernmental transfers can create a moral hazard problem discussed above, they are indeed essential to minimize interjurisdictional disparity, particularly for poor socioeconomic regions where taxing capacity is insufficient to meet the costs of service provisions. For more discussions about the fundamental objectives of intergovernmental transfers, see, e.g., Schroeder and Smoke (2002).
crisis during the 1970s (Fuchs 1992; Tabb 1982; Gramlich 1976), in the Orange County’s financial bankruptcy in 1994 (Baldassare 1998), and in the Miami’s 1996 financial crisis (Dluhy and Frank 2002).

Additionally, public choice theorists posit that bureaucrats can beget fiscal stress. Their ‘budget maximizing’ strategies might lead to excessive spending in comparison to constituents’ true service demands (Niskanen 1971, 1975; Buchanan 1977). In the absence of market signals (prices) for public sectors (or so-called fiscal illusions in Buchanan’s [1977] terminology), bureaucrats often request more resources than are actually needed. However, legislators, as budget guardians, do not have the time, resources, expertise, or incentives to closely monitor the work of the bureaucracy (Niskanen 1975). In effect, self-interest budget claimants in public agencies often lead to excessive spending.

An empirical study of the 38 largest U.S. cities by Kamer (1983) tends to support the public choice’s claim. She found that declining cities in the Northeast and the Midwest normally had larger municipal bureaucracies and higher wages and employment benefits than those of the growing Southern and Western cities during the 1960s and 1970s. Inman (1995) also found that one of the major contributing factors to Philadelphia’s fiscal problems in 1990 was the city’s high pays and rapidly growing wages and benefits. High pays and generous employee benefits also contributed to the New York City’s fiscal crisis in mid 1970s (Aronson and King 1984; Gramlich 1976).

Alternative explanations of excessive bureaucratic growth are in the unionization of public employees. Pressures for job retention and increases in salaries and benefits in excess of the growth of the local economy and inflation rates often create budget imbalances (Rubin 1982; Peters 1980; Gramlich 1976). For example, Gramlich (1976)
found that one of the major reasons for the New York City’s 1975 fiscal crisis was the power of public employee unions. They were so powerful politically that they won bargaining concessions over the years, due mainly to their sheer size and ability to control political votes. The same happened in Miami’s fiscal crisis in 1996 when police and fire unions were so powerful that the city provided above-average pay raises, excessive overtime, and over-generous benefits to its police and fire workforces (Dluhy and Frank 2002).

Notwithstanding, bureaucrats are not always motivated by self-interest concerns. They may advocate more spending in order to reach professional standards in providing public services (Rubin 1982; Peter 1980). The studies of Clark and Ferguson (1983) and Tabb (1982) provided evidence in contrast to the study of Gramlich (1976) that the average employee pay and benefits in New York City in the 1970s were indeed far below than those in Chicago and Detroit during the same period, after the scope of service responsibilities and cost differentials across the cities had been accounted for.

Also, the scope of service responsibilities inevitably affects local fiscal conditions. The larger the scope of responsibilities for a city, the more resources it has to acquire in order to fulfill all of its tasks. More generally, the scope of responsibilities tends to be larger in central cities than in suburbs, particularly services for the poor and the disadvantaged; e.g., education, health care, and welfare (Chernick and Reschovsky 2001). This was evident in New York City during the 1970s when the city provided more generous social spending than other large cities did (Aronson and King 1978; Gramlich 1976).

Finally, it is also possible that fragmented budgetary control contributes to local fiscal strain (Fuchs 1992; Rubin 1980, 1982; Weinberg 1984; Levin et al. 1981). A local
authority is usually expected to cope with fiscal retrenchment in order to create financial flexibility during a period of decline. However, when the budgetary control authority is weak, a city is hardly able to carry out retrenchment strategies during economic downturns. As found in Rubin (1982), when department heads of a city government had direct contacts with councilmen, passing through budget reviews of the city manager, there emerged a tendency for cooptation for spending increases. Accordingly, politicized spending and patronages could hardly be curbed. The same evidence was found in New York City’s fiscal crisis in the 1970s when the fragmentation of the budgetary authority occurred for years between mayors and the Board of Estimate (Fuchs 1992). By contrast, Chicago was able to adjust its fiscal and legal arrangements such that political executives effectively gained budgetary control, enabling mayors to make necessary cutbacks in a timely fashion, thus, facilitating prudent fiscal planning (Fuchs 1992).

4. Political factors: politics is always an intervening factor between external environments and organization responses (Levin, Rubin, and Wolohojian 1981). As Clark (1985) and Clark and Ferguson (1983) argued, political factors more aptly explain the fiscal condition of a city government than do other external forces. Clark (1985) stated that

It is true that urban fiscal problems have been overly defined as emerging from private-sector responses to national economic trends. A more informed local and public-sector orientation would help correct the balance (p.254).

Put more succinctly, while socioeconomic forces contribute to local fiscal problems, a city’s political system may not respond to the demands for more spending during economic downturns, thereby avoiding rising expenditures and fiscal stress
(Pammer 1990; Rubin 1982; Levin et al. 1981; Peterson 1981; Stonecash and McAfee 1981). Some scholars make a stronger argument that while socioeconomic declines influence local fiscal conditions indirectly, certain political factors are the immediate causes of fiscal strain (Morgan and England 1983).

There are several dimensions of political dynamics directly influencing the local fiscal condition. One aspect concerns the interplay between informal authorities and formal political structures (Levine et al. 1981). Scholars often classify key informal actors influencing local fiscal policies as interest groups (business, middle-class residents, clienteles, and the needy) and municipal employees (unions’ power) (Wildavsky 1984; Clark and Ferguson 1983; Rubin 1982; Tabb 1982; Peterson 1981). Interest group politics directly affect local fiscal decisions (Breacher and Horton 1988; Clark 1985; Clark and Ferguson 1983; Beam and Colella 1980). Business groups prefer low taxations, whereas the needy and clientele groups usually demand more welfare and social services, and municipal employees frequently fight for more wages and benefits as well as job securities. They all know that, due to information asymmetry and to the relative invisibility of taxes, the costs of expanding services (or group benefits) will be spread to the general taxpayers (Buchanan 1977; Mouritzen and Nielsen 1992). This sort of fiscal illusion provides strong incentives to the interest groups to ask for more of what they want. A case for this argument occurred in New York City where the unions were so powerful that they caused employee spending to grow rapidly during the 1970s (Gramlich 1976).

Aside from the influences of informal budget actors, formal political actors are also fundamental to the local fiscal condition. Any demands from group politics, management improvement initiatives, and policy responses to external fluctuations are all
mediated through the actions of politicians (Clark and Ferguson 1983; Beam and Colella 1980). Thus, failures to maintain local fiscal health can be more or less attributable to formal political actors (Clark and Ferguson 1983; Tabb 1982; Peterson 1981).

The driving forces behind the actions of formal political actors, among many, are political vulnerability/instability and political career goals. First, political vulnerability (Rubin 1982) or political instability (Piven 1976) contends that overspending will be evident if the mayors and other elected officials are vulnerable to special interest groups. Vulnerability exists if the elected officials do not have a sufficient coalition to win election (or re-election). Fractions often lead politicians to compromise by giving something to each. Thus, spending increase is one political strategy in order to help the elected officials win the support of certain interest groups (Rubin 1982). In other words, instability will nurture new claims and claimants, driving the need for more expenditures (Piven 1976). For instance, the study of Inman (1995) corroborates this claim. Inman (1995) found that one of the contributing factors to the fiscal crisis in Philadelphia during the early 1990s was the city’s policies to increase welfare spending in order to build political coalitions.

On the other hand, politicians’ career goals often determine how local fiscal policies are formulated. Those who are concerned more with getting re-elected or bringing pork home would end up by playing the role of spending advocate, rather than prioritizing overwhelming needs to fit available resources (Wildavsky 1975, 1984; Rubin 1982). In doing so, they interact with bureaucrats and interest groups in order to ensure that their political objectives will be achieved, but at the expenses of the deteriorating local fiscal conditions and/or some undesirable fiscal practices. For instance, the survey of Miller et al. (2005) revealed that during fiscal distress, elected officials often
influenced public administrators either directly or indirectly in order to commit unprofessional financial practices or to make financial decisions unethically. Alternatively, Lowery (1984) found that politicians’ vote maximization strategies resulted in non-uniform property tax assessment practices at the expense of state’s property tax inequity. In short, it is the politicians, once believed to be budget conservers (Schick 1988; Wildavsky 1984), who failed to safeguard the municipal purse, but acted as a spending advocacy.

Lastly, blame for a city’s fiscal problems can also be put on the ‘private-regarding ethos’ and ‘superindividualism’ (Dluhy and Frank 2002). These political cultural causes often lead to extremely low tax efforts, highly conservative service provisions and economic infrastructure development, and undesirable personal corruption, all of which preceded, according to Dluhy and Frank (2002), the Miami’s 1990s fiscal crisis.

In conclusion, this section briefly explains how internal and external factors contribute to the local fiscal condition. Table 2-3 summarizes these contributing causes and their directional impacts on local fiscal conditions. It is important to note that not only does each of the factors directly influence the local fiscal condition but the interaction among them, especially political and administrative adaptations to the local socioeconomic conditions, also affects the condition of local finances. As “a rich man can spend himself into insolvency, while a frugal clerk succeeds in making end meet” (Howell and Stamm 1979, 4), then, a structurally poor city can manage to get out of financial troubles depending on its management and political will. It is then an empirical question concerning how these factors and the interaction among them affect local fiscal conditions in Thailand. This review is helpful in shaping the conceptual framework for the current research.
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<td>Population size</td>
<td>+</td>
<td>Ladd and Yinger (1989); Bunce and Neal (1984); Kamer (1983)</td>
</tr>
<tr>
<td>Population decline</td>
<td>+</td>
<td>Chernick and Reschovsky (2001); Ladd and Yinger (1989); Kamer (1983)</td>
</tr>
<tr>
<td>Racial composition</td>
<td>+</td>
<td>Inman (1995); Dye (1984); Bunce and Neal (1984); Clark and Ferguson (1983); Rubin (1982); Peterson (1981)</td>
</tr>
<tr>
<td>Socially dependent population</td>
<td>+</td>
<td>Ladd and Yinger (1989); Dye (1984); Clark and Ferguson (1983)</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>+</td>
<td>Ladd and Yinger (1989); Kamer (1983); Bunce and Neal (1984)</td>
</tr>
<tr>
<td>Income</td>
<td>-</td>
<td>Chernick and Reschovsky (2001); Dearborn et al. (1992); Ladd and Yinger (1989); Bunce and Neal (1984)</td>
</tr>
<tr>
<td>Poverty rate</td>
<td>+</td>
<td>Chernick and Reschovsky (2001); Ladd and Yinger (1989); Bunce and Neal (1984); Nathan and Adams (1976)</td>
</tr>
<tr>
<td>Local economic decline</td>
<td>+</td>
<td>Inman (1995); Weinberg (1984); Clark and Ferguson (1983); Bradbury (1982); Tabb (1982); Peterson (1981)</td>
</tr>
<tr>
<td>Lack of access to economic tax bases</td>
<td>+</td>
<td>Chapman et al. (2003); Dougherty et al. (2000); Honadle &amp; Lloyd-Jones (1998); Badu &amp; Li (1994); Weinberg (1984)</td>
</tr>
<tr>
<td>Inflation (costs of production)</td>
<td>+</td>
<td>Chernick and Reschovsky (2001); Kamer (1983); Rubin (1982); Stanley (1976)</td>
</tr>
<tr>
<td>Diversity of economic base/ local tax bases</td>
<td>-</td>
<td>Miller (2001); Badu and Li (1994); Bunce and Neal (1984); Brazer (1982)</td>
</tr>
<tr>
<td>Type of city (central, suburban, rural,</td>
<td>+ (central &amp; rural areas)</td>
<td>Bell et al. (2004); Hendrick (2004); Dougherty et al. (2000); Honadle and Lloyd-Jones (1998); Bunce and Neal (1984);</td>
</tr>
<tr>
<td>industrial, business center)</td>
<td>- (suburbs &amp; industri. areas)</td>
<td>Dye (1984); Weinberg (1984); Kamer (1983); Nathan and Adams (1976)</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Declining fiscal transfers/grants</td>
<td>+</td>
<td>Carmel (2008); Honadle (2003); Warner (1999); Inman (1995); Kamer (1983); Bradbury et al. (1982); Stanley (1976)</td>
</tr>
<tr>
<td>State limits on local spending &amp; taxation</td>
<td>+</td>
<td>Martell and Teske (2007); Chapman et al. (2003); Kemmet (2003); Baldassare (1998); Bailey (1991)</td>
</tr>
<tr>
<td>Institutional and Managerial</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial mismanagement</td>
<td>+</td>
<td>Martell &amp; Teske (2000); Rubin (2007); Chapman et al. (2003); Baldassare (1998); Tabb (1982); Caiden (1980); Stanley (1976)</td>
</tr>
<tr>
<td>Bureaucratic expansion</td>
<td>+</td>
<td>Inman (1995); Kamer (1983); Buchanan (1977); Niskanen (1971, 1975); Grumblich (1976)</td>
</tr>
<tr>
<td>Professionalism</td>
<td>+</td>
<td>Rubin (1982); Peter (1980)</td>
</tr>
<tr>
<td>Administrative Incompetence/inefficacy</td>
<td>+</td>
<td>Chapman et al. (2003); Dougherty et al. (2000); Weinberg (1984)</td>
</tr>
<tr>
<td>Scope of service responsibilities</td>
<td>+</td>
<td>Chernick and Reschovsky (2001); Inman (1995); Dearborn et al. (1992); Aronson and King (1978); Grumblich (1976)</td>
</tr>
<tr>
<td>Fragmented budget authority and control</td>
<td>+</td>
<td>Baldassare (1998); Fuchs (1992); Weinberg (1984); Rubin (1980, 1982, 2007); Levine et al. (1981)</td>
</tr>
<tr>
<td>Political</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Desires to build coalitions / to get reelected</td>
<td>+</td>
<td>Inman (1995); Lowery (1984); Rubin (1982); Brazer (1982); Piven (1976); Grumblich (1976)</td>
</tr>
<tr>
<td>Interest group and union pressures</td>
<td>+</td>
<td>Inman (1995); Clark (1985); Clark &amp; Ferguson (1983); Tabb (1982); Rubin (1982); Peterson (1981); Grumblich (1976)</td>
</tr>
<tr>
<td>Private-regarding cultural ethos</td>
<td>+</td>
<td>Dluhy and Frank (2002)</td>
</tr>
</tbody>
</table>

Notes: * selected key determining factors from past empirical studies; summarized by the author.
Gaps in the Literature and Propositions

Although the existing literature provides key insights over the dynamics and causes of local fiscal conditions in the U.S. and elsewhere, some deficiencies are still present. These deficiencies can be summarized as (1) limited evidence of fiscal condition studies from developing nations; and (2) fragmented, incoherent explanations of municipal fiscal strain and no clear linkage to the budgeting theory. Discussions of each of the academic deficiencies are provided below.

1. Restricted Evidence of Fiscal Condition Studies from Developing Nations

First, and to the best of my knowledge, the literature of fiscal condition analysis from developing nations is very limited as compared to that of well-developed societies. Thus, it is not yet clear if the analysis of local fiscal conditions is relevant and useful to the understanding of municipal finances in less-developed societies and if similar research findings from the U.S. and other well-developed societies would apply to a developing country like Thailand. Thus, these academic gaps deserve serious attention and accordingly justify the current research endeavor. Hopefully, the experience of Thai municipal finances will help to advance our understanding in this area.

The existing studies suggest common themes that are summarized below.

(1) The analytical measures of municipal fiscal conditions are multiple, each of which focuses on different aspects of fiscal conditions and utilizes different data types and procedures for analyses. Therefore, each analytical measure cannot be commingled with one another and has to be employed separately in line with local contexts and with its research purposes (Hendrick 2004; Bahl 1984).
(2) Past studies employ diverse methods in order to study municipal fiscal conditions. Nonetheless, they showed somewhat consistent findings (Bahl 1984; Bahl, Martinez-Vazquez, and Sjoquist 1992; Kamer 1983; Marquette et al. 1982).

(3) That being said, past studies often indicated that the central cities, formerly heavily industrial and highly populous areas, particularly those in the Northeast and the Midwest in the U.S., were fiscally distressed during the 1970s and 1990s. The opposite was true for the surrounding suburbs and the growing cities in the South and the West (Hendrick 2004; Bell et al. 2004; Dluhy and Frank 2002; Ladd and Yinger 1989; Nathan and Adams 1976, 1989; Kamer 1983; Bradbury et al. 1982).

(4) However, fiscal stress is not just a big cities’ problem (Coleman 2002). Studies exhibited that small cities or rural-based communities were also fiscally weak (e.g., Dougherty et al. 2000; Warner 1999; Honadle and Lloyd-Jones 1998; Koven and Koven 1989; Weinberg 1984).

(5) Additionally, the problem of fiscal distress is not confined to U.S. cities. Indeed, it is common in either central cities or small, rural-based communities in both developed and developing societies; for instance, in England (Bailey 1991), in Israel (Carmeli 2002, 2008), in the Russian Federation (Martinez-Vazquez and Boex 1997a, 1997b), in Scandinavian countries (Aarsaether 1990; Lotz 1981), and in Kenya (Chapman et al. 2003), and can also be found in the rural-based communities in China (Ma 1997), in South Korea (J. Kim 2003), and in Serbia (Levitas 2005).

(6) The existing studies of Thai municipal finances are restricted and have not yet been able to provide the needed answers that would help smooth the path toward
successful decentralization (e.g. the studies of Suwanmala 1989, Thumkosit 2002, and Patamasiriwat 2006).

In light of the literature summarized above, it can be expected that the current research endeavor is feasible, and that relative fiscal conditions across different types of cities, as evident in the U.S. and elsewhere apply to Thailand. Hence, the following proposition is developed in relation to the first research question:

**Proposition 1:**

*The relative fiscal conditions, as evident in U.S. cities (and elsewhere), will apply to those of Thai cities.*

In other words, it is expected that large, highly populous urban cities and small, rural-based areas in Thailand tend to be fiscally weak. By contrast, suburbs and industry-based areas tend to experience relatively strong fiscal conditions. That being said, if the selected (U.S.-based) analytical measures of fiscal conditions are externally valid (or well applicable to Thai municipal finances), the findings should be evident and in the direction as posited above.

2. Fragmented Explanations of Municipal Fiscal Condition

After measuring the fiscal condition of Thai cities, variations of the fiscal condition across cities are likely to emerge. The research then asks why variations exist. To date, the explanations of fiscal conditions are multiple. However, they have provided fragmented views and interpretations of local fiscal conditions. Different researchers have different operational definitions of fiscal conditions, thereby, focusing on diverse
aspects of the fiscal condition analysis. For instance, some studies focus specifically on external causes of the fiscal condition (e.g., Hendrick 2004; Ladd and Yinger 1989; Kamer 1983). They often claim that local fiscal stress stems largely from a declined local economy and suggest that higher levels of government step in and ease off the local fiscal crisis by providing more financial assistances. By contrast, some argue that political wrongdoings and financial mismanagement largely account for poor fiscal conditions. Thus, they propose that a local authority better manage or revamp its fiscal policy-making structure in order to get its fiscal houses in order (e.g., Dluhy and Frank 2002; Fuchs 1992; Clark and Ferguson 1983; Rubin 1982). As a result, their findings are somewhat incoherent and do not provide definite policy recommendations on how and in what capacity budget actors should follow.

In reality, there are several budget actors involved in local fiscal administration and each of these actors contributes more or less to the city’s fiscal conditions. If policy recommendations stemming from the fiscal condition analysis are not indicative to how each actor’s budgetary roles and actions contribute to the fiscal problems, such recommendations are not helpful in guiding definite changes. Therefore, this research attempts to ground the analysis of the symptoms and causes of local fiscal conditions in a classical budgetary framework as advanced by Wildavsky (1975, 1984)\textsuperscript{19}. That is, the current study argues that one major cause of the poor fiscal condition stems from the deviancy of budget actors from their appropriate budgetary roles.

\textsuperscript{19} Although the Wildavsky’s spending and guardian framework of budget analysis has been developed a long time ago, scholars still consider that his framework continues to be relevant to the study of public budgeting despite the encroachment of New Public Management reforms (see Kelly and Wanna 2000).
According to Wildavsky (1984), budget processes establish a set of rules for the budgeting game in order to cope with the complexity of a budget system. One rule concerns the division of budgetary roles. Wildavsky (1984, 160) defines the term ‘role’ as “the expectation of behavior attached to institutional positions”. He classifies budgetary roles broadly as a ‘budget guardian’ and a ‘spending advocate’. Guardians are the ones whose principal task is “to relate expenditure to income by either cutting or trimming spending requests” (Wildavsky 1975, 1984). Later on, Schick (1988), Aarsaether (1990), and Good (2007) expanded these roles to incorporate a ‘policy coordinator or priority setter’ and a ‘financial watchdog’. The policy coordination role refers to an ordering of choices based on ideological preferences, normally performed by elected officials (Aarsaether 1990). The financial watchdog is the entity whose job is to monitor public spending against established accounting and financial standards (Good 2007)\(^2\).

Here, the deviancy of budget actors from their attached budgetary roles involves, but are not limited to, (i) policy setters who fail to prioritize spending programs that meet

\(^2\) In principle, Thai budget processes assign distinct budgetary roles to key actors as comparable to those of other well-developed societies. That is, political executives are expected to prioritize policies regarding service deliveries, performing the dual roles of the policy-setter as well as the spending advocate. Legislators are the guardian of the public purse. They review spending requests, and allocate limited resources for the best uses. Department heads are in charge of carrying out the government’s functions, thereby, playing a role of spending advocate. Spending advocates (department heads) often receive spending signals from political executives, legislators, clientele groups, and from within. However, they all know that other department heads will act in a counter manner. Given that the size of budget totals is fixed in the short-term, more resources allocated to one department means that there are fewer resources left for the others. Budget bureaus are expected to help political executives carry out public purposes while keeping budgets in good shape and ensuring that spending does not go beyond available resources. Finally, the financial watchdog can either be a higher level of government, external auditor, or even interest group and mass media that monitors local operations in accordance with some established rules or standards.
constituency needs and/or fit available resources; (ii) budget advocates who ask for more spending than the available resources can support; (iii) budget guardians who lack information or incentives to maintain fiscal balances. The guardians may indeed help spenders hide debts and/or deficits, thereby easily leading to excessive spending; and (iv) financial watchdogs who underperform their monitoring tasks or do not timely signal fiscal flags or policy remedies. Given these possibilities, a city of good socioeconomic health can sit at the edge of fiscal instability if the city hall badly manages its purse. In short, this research attempts to ascertain if symptoms of the poor budgetary roles prevail in a fiscally weak city, but not in a fiscally healthy one21.

21 Empirical evidence to show the existence of the budgetary role deficiency can be drawn from Wildavsky (1975, 188-191). City of Haroldville (a fictional name) was found to have accumulated deficits in a general fund account of $340,000 during 1966-1967 where its total revenues were $776,000 (or a deficit of 39%). The problem originated in 1966 when the city hired a new city manager, who was so interested in accomplishing certain community projects, rather than in administrative management. Wildavsky (1975) argued that this crisis had its root when the city manager saw himself as the spending advocate rather than as the guardian of the city’s budget. Instead of issuing budget directives to the department heads, he did not seriously review the departments’ budget requests, nor did he cut the requests once he received them. Since the departments were left to make their own spending decisions, they reverted to a system of responding to the perceived needs of their clientele, rather than to the fiscal health of their city. Things went worse when the city council, which was accustomed to having a guardian manager, assumed everything was fine under the new city manager. In effect, these role deviances resulted in hidden deficits (overestimating revenues but underestimating expenditures) and financial malpractices (borrowing from restricted funds to pay for general fund obligations), eventually driving up the city’s fiscal strain. The study of Rubin (1982) also supports the Wildavsky’s insight. She found that, in a fiscally distressed Southside (a fictional name), city councilmen acted as spending advocates, co-opting with department heads, rather than trimming spending requests. City manager, on the other hand, who lacked experiences and feared of his job loss if not following the councilmen’s wish lists, was not able to minimize budget requests. In short, the departure from appropriate budgetary roles, as Rubin concluded, is one of the major causes of poor fiscal conditions.
It is believed that by using a more general framework of the deficiency of budgetary roles in explaining the variation of fiscal conditions, this research will be able to provide more comprehensive, coherent explanations, and will be able to provide concrete guidelines on how each budget actor might assist in improving fiscal conditions. Thus, the second research proposition is as follows:

**Proposition 2:**

*A city with supportive socioeconomic conditions can experience a poor fiscal condition if its budget actors fail to fulfill their designated budgeting tasks.*

As political and administrative factors often mediate between local socioeconomic conditions and a city’s fiscal condition, it is expected to find a case of socioeconomically supportive cities ending up with financial instability if its authorities fail to perform their budgetary roles (e.g., see Orange County’s financial bankruptcy in 1994—Baldassare [1998]). In short, whenever one or all budget actors do not fulfill their assigned budgetary roles, the entire pattern of check and balance in public budgeting will be upset, leaving other budget actors without a firm anchor in a world of budget complexity, and ending with organizational fiscal stresses (Wildavsky 1975, 1984).

In sum, the reviews of the literature, research gaps and the proposed research approaches lead to the development of an overall conceptual framework that guides the current research endeavor. The framework is depicted in Figure 2.22 below.

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22 Please note that some intergovernmental and administrative factors that account for declining local fiscal conditions as found in the previous research are not incorporated into this framework; e.g., intergovernmental mandates and grants, unionization of local employees, and pay scales and employee’s fringe benefits. This is mainly due to the fact that all these factors have been uniformly applied to all municipalities. Thus, they are less likely to cause the variation of fiscal conditions.
Overall, local fiscal conditions are a product of socioeconomic circumstances but mediated by political and administrative influences. Based on Wildavsky’s (1975, 1984) budgetary roles framework, the performances of each of the budget actors can reinforce or deteriorate municipal fiscal health through four distinct channels: policy-setters, spending advocates, budget guardians, and financial watchdogs. When each of the deficiencies is present, the local fiscal condition of a city is likely to remain poor.

**Figure 2-2: Overall Conceptual Framework of Research**

<table>
<thead>
<tr>
<th>Socioeconomic Conditions</th>
<th>Local Fiscal Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Local economy</td>
<td>(+) / (-)</td>
</tr>
<tr>
<td>• Area</td>
<td></td>
</tr>
<tr>
<td>• Population (size, density, growth)</td>
<td>Revenue-raising capacity</td>
</tr>
<tr>
<td>• Dependency population</td>
<td></td>
</tr>
<tr>
<td>• Level of economic development</td>
<td>Expenditure need</td>
</tr>
<tr>
<td>• Cost of production</td>
<td></td>
</tr>
<tr>
<td>• City condition</td>
<td>(-)</td>
</tr>
<tr>
<td>• etc.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Deviancy of Budgetary Roles Causing Poor Fiscal Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy Setter</td>
</tr>
<tr>
<td>• Political instability</td>
</tr>
<tr>
<td>• Scope of public services</td>
</tr>
<tr>
<td>• Transfer dependency attitude</td>
</tr>
<tr>
<td>Spending Advocacy</td>
</tr>
<tr>
<td>• Group pressures</td>
</tr>
<tr>
<td>• Bureaucratic expansion</td>
</tr>
<tr>
<td>• Fiscal indiscipline</td>
</tr>
<tr>
<td>Budget Guardian</td>
</tr>
<tr>
<td>• Fiscal mismanagement</td>
</tr>
<tr>
<td>• Weak/fragmented budget control</td>
</tr>
<tr>
<td>Financial Watchdog</td>
</tr>
<tr>
<td>• Failure to monitor</td>
</tr>
<tr>
<td>• Information asymmetry</td>
</tr>
</tbody>
</table>

First, local fiscal conditions become weakened if policy-setters provide services beyond their fiscal means. They do so because shrinking political coalitions cause elected
officials to increase spending such that they can nurture political support from particular interest groups. Alternatively, if a local authority depends substantially on transfer revenues, its policy-setters may acquire a dependency attitude such that central government agencies always provide transfers for municipal services whenever requested, which eventually results in declining fiscal discipline of the local authority.

Next, group pressures may force municipal officials to advocate more spending or to expand municipal bureaucracies, both of which directly drain more municipal resources than otherwise needed in their absence. Pressures for more spending can be curbed if budget guardians are able to maintain local fiscal discipline. Nonetheless, the guardian role can be weakened if budget making processes are designed in such a way that budget control authority becomes fragmented or ineffective in forestalling financial mismanagement. Finally, financial waterdogs may not obtain adequate information in monitoring a city’s fiscal administration or simply do not function well in their auditing tasks.

In the discussions that follow, the relationship between local socioeconomic conditions and local fiscal conditions of Thai cities will be quantitatively examined (see Chapter Five). Then, four outstanding cases which emerge from the quantitative analysis will be selected in order to seek in-depth explanations of why their fiscal conditions vary (see Chapter Six). It is expected that the budgetary roles framework validly and critically depicts the political and administrative interactions leading to the variation of local fiscal conditions given a city’s socioeconomic statuses.
CHAPTER THREE
LOCAL ADMINISTRATION IN THAILAND

The Devolution Context

Thailand is a unitary democratic state, incorporating national, regional and local administration, and is governed by a parliamentary system. The country has a geographical area of about 514,000 sq. km. (about 198,000 sq. mi.) and a population size of approximately 63 million\(^1\). The executive branch of the central government is composed of 20 ministries, whereas regional administration is merely a territorial extension of the central government and has neither absolute autonomy nor authority over policy making and administration. In contrast, local governments are self-governing bodies. Presently, there are about eight thousand units of local governments.

Known in the past as a highly centralized administrative system (White and Smoke 2005; Nelson 2002; Weist 2001), the country has implemented a comprehensive decentralization policy since the late 1990s under the promulgation of the 1997 Constitution and the Decentralization Plan and Process Act of 1999. The decentralization policy was a part of the country’s administrative and political reforms after the military coup in 1992 (Smoke 2005; UNDP 2003). Past failures in country management led to the realization that the centralized public administration was one of the major causes of the country’s political and economic instability. Thus, public sentiment called for a decentralized administration, devolving decision-making authorities, fiscal and human resources, and responsibilities of peripheral public services into the hands of local

\(^1\) Putting it in a comparative perspective, the geographical area of California is about 160,000 sq. miles.
governments, as a means to promote a smaller and more transparent national government, and to promote local democratic governance.

The Decentralization Plan and Process Act of 1999, which became effective in 2001, stipulates that 245 service programs that were originally the responsibility of national agencies should be devolved into the hands of local governments. These services consist of local and community planning and development, the promotion of local economic development, investment, employment, trade and tourism; local public services provisions which include local roads, a local public transportation system, public markets, ports and docks, waste treatment, water drainage systems, public utilities, parks and recreation, garbage collection, pet control, community public safety, preservation of natural resources and environmental protection, communal disaster control, and sanitation and cremation services. Social services consist of but are not limited to primary and secondary education, social welfare for children, the elderly and disabled, primary health care, medical services, housing and restoration, and arts and culture.

In tandem with the devolved service responsibilities, the central government also transferred a greater degree of fiscal autonomy (including human resource management) to local governments. Table 3-1 shows the ratios of total local revenues (nominal terms) to those of the national government from 1997 to 2006. As seen here, drastic changes of the local governments’ total revenues occurred in 2001 when the massive transfer of fiscal resources were made in accordance with the legal mandate. Total local revenues leaped to 54.9% from 2000 to 2001 to about 206.6% from 2000 to 2006.

Table 3-1: Ratios of Total Local Revenues to Total National Revenues (Budgeted Figures at the Beginning of Fiscal Year)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total local revenues, including IG transfers (million Thai baht)(^b)</th>
<th>Ratios of total local revenues to the central government’s total revenues (%)</th>
<th>Annual percentage changes in total revenues of local government</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>93,879.4</td>
<td>11.13</td>
<td>-</td>
</tr>
<tr>
<td>1998</td>
<td>97,836.8</td>
<td>13.34</td>
<td>4.22</td>
</tr>
<tr>
<td>1999</td>
<td>97,747.7</td>
<td>13.79</td>
<td>-0.09</td>
</tr>
<tr>
<td>2000</td>
<td>99,802.8</td>
<td>13.31</td>
<td>2.10</td>
</tr>
<tr>
<td>2001(^a)</td>
<td>154,633.1</td>
<td>20.92</td>
<td>54.94</td>
</tr>
<tr>
<td>2002</td>
<td>176,154.9</td>
<td>21.92</td>
<td>13.92</td>
</tr>
<tr>
<td>2003</td>
<td>184,066.0</td>
<td>22.19</td>
<td>4.49</td>
</tr>
<tr>
<td>2004</td>
<td>208,850.7</td>
<td>22.50</td>
<td>13.47</td>
</tr>
<tr>
<td>2005</td>
<td>282,000.0</td>
<td>23.50</td>
<td>35.02</td>
</tr>
<tr>
<td>2006</td>
<td>306,006.0</td>
<td>24.05</td>
<td>8.51</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance of Thailand.\(^a\) indicates the year the Decentralization Plan and Process Act of 1999 was effective.\(^b\) figures are in nominal terms (approximately 35 baht is equivalent to 1 USD, as of April 2009).

However, it should be noted that although the aggregate amounts of local resources have been increasing drastically relative to those of the national government, fiscal resources of individual localities may rise variably depending on their tax bases and local socioeconomic conditions. As evident in other East Asian countries (China, Indonesia, Philippines, and Vietnam), the devolution of fiscal autonomy, when combined with the disparity in local socioeconomic endowments, will most likely lead to a disparity in taxing capacity at the local government level (Hofman and Guerra 2005).

Aside from the devolution of revenues and service responsibilities to local authorities, accountability systems and participatory mechanisms have also been institutionalized in order to ensure the interest of local residents. Legal frameworks stipulate the dissemination of information to the public by local authority and the audit of local financial and performance reports by external auditors (the Department of Local
Administration or DoLA for pre-and-post audits and the Office of Auditor General for financial audits). Furthermore, citizens and advocacy groups now have the right to get involved in the creation of developmental policies and budgets, the implementation of local programs, public procurements, and the monitoring of the exercise of local government powers. They also have the right to a referendum in major policy issues, to recall votes, and to throw elected officials out of office that are deemed irresponsible or dishonest.

To date, the devolution progress is growing; however, it is somewhat slow according to the Decentralization Act. While significant transfers of service functions have occurred in infrastructure, natural resources and environmental management and social welfare, the devolution of health care and educational services have not taken place. Civil servants in the Ministry of Public Health and the Ministry of Education are reluctant to transfer the services to local authorities (Bowornwathana 2006; Smoke 2005; Nelson 2002). As scholars once argued (Nelson 2002; Smoke 2005), they fear the loss of career advancement and fringe benefits if they were to be with local governments, and have no confidence in the capability of local governments to assume these services.

Additionally, the effectiveness of accountability control is limited due to the inadequacy of auditing local authorities, the continuing use of traditional budgeting and accounting practices (line-item budgeting and cash-basis accounting procedures) particularly in small localities, and the ineffectiveness of performance management systems (Suwanmala 1998). As a result, the public hardly knows whether local

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3 The 1997 Constitution of Kingdom of Thailand and several local government acts, e.g., the Municipal Act of B.E. 2496 (1953), the Twelfth Amendment B.E.2546 (2003).
governments meet their promises or whether local programs materialize. Furthermore, although civic participation has blossomed in the past few years, it is still less intense by western standards and is often concentrated within narrow constituencies (Suwanmala 2007; Smoke 2005; White and Smoke 2005).

Institutional Arrangements

Thai local governments are classified into two main categories; general and specific, both of which are the general-purpose local authority. In a general form, there are three types of local authorities uniformly established throughout all seventy-five provinces, except Bangkok. These are: (i) Provincial Administrative Organization (PAO, 75 units) (comparable to a U.S. county), (ii) Municipality (1,619 units), and (iii) Tambon (Sub-district) Administrative Organization (TAO, 6,157 units) (comparable to a U.S. township)\(^4\). In a specific form, there are two special units of local governments governing specific areas; namely, Bangkok Metropolitan Administration (BMA) and Pattaya City. The former functions as those of a PAO and a municipality combined; whereas the latter functions like a municipality. It should be noted that the special-purpose local government (i.e., school district) has not yet been institutionalized in Thailand, although the Decentralization Act provides a formal basis for doing so.

Relationships among the three general forms of local governments are organized into two tiers. A lower-tier government, the municipality and the TAO, functions as a single operating unit, which is very close to local residents, providing local public services within its defined territory. While the municipality is located mostly in an

\(^4\) Data from the Department of Local Administration, Thailand, as of August 15, 2008 (the latest data).
urbanized area, the TAO is commonly established in a less urbanized community. By contrast, PAO is an upper-tier local government which covers an entire province and is responsible for administering local public services at the provincial level as well as for working in development projects that need collaboration among several municipalities or TAOs within a provincial territory.

It should be stated clearly in the beginning that this study focuses on analyzing fiscal conditions of the municipal form of local governments, not the TAO or the PAO. Municipal government is the focal point because it is the most well established type, both politically and administratively, among the three general forms of local authority in Thailand (Suwanmala 2002; Weist 2001). It has long been established (since the 1930s) and has served a significant portion of population in the nation (about 38% of the total population), with publicly recognized local taxation and service provisions. TAO and PAO, by contrast, have more recently become incorporated (since 1994 for the TAO and since 1999 for the PAO). Their service responsibilities and/or fiscal information might not be well institutionalized. As a result, conducting fiscal conditions analysis of the municipal government is of policy significance as well as a practical choice.

Political and administrative structures of the Thai local government are similar to those of other nations, generally known as a mayoral-council form. They are incorporated within the principle of local-self government. Each locality consists of an executive body and a local council, each of which is headed by locally elected persons who serve a four-year term. The elected executive, referred to as a mayor for the municipality or as a chairman for the PAO and for the TAO, is directly elected citywide through local general
elections\textsuperscript{5}, and is the top political head of local authority, and is held accountable to the
council and local residents. A city mayor or a chairman of PAO or TAO can appoint two
to four assistants, referred to as deputy mayors or vice chairmen. The executive body is
responsible for preparing local development policies and annual budgets which are
ultimately examined and officially adopted by the council. Like the mayor, council
members are elected through local elections. In case of the municipality, there are about
twelve to twenty-four council members, elected from two to four electoral districts,
depending on a city’s size and administrative capabilities\textsuperscript{6}.

Local operations are run by permanent civil servants. Few of them are privatized
or contracted out (e.g., construction of infrastructures and capital assets, garbage
collection, solid waste disposal, etc.). Local chief executives (for PAO and TAO) or city
clerks (for municipality) are the permanent heads of the non-elected local officials and
are held accountable to elected officials. Central government, by the Ministry of Interior,
lays down employment frameworks (staffing levels) for local authorities, with rigid
guidance over the recruitment, appointment, development, and rewarding of local
personnel (Green 2005). The pay scale of local government officials is fixed by the
central government but salaries are paid out of the local budget. Generally, personnel
costs at the subnational level add up to approximately 40% of total local expenditures
(Green 2005; Suwanmala 1998). Still, personnel capacity at the subnational level is
somewhat limited in comparison to devolved service responsibilities (Green 2005; Smoke
2005). The ratio of local employees as a share of total public employment was just about

\textsuperscript{5} Article 16 of the Local Elections Act of B.E.2545 (2002).
\textsuperscript{6} Article 13 of the Local Elections Act of B.E.2545 (2002)
20% in the early 2000s (Green 2005). According to the Decentralization Act, more efforts are needed in order to transform the highly centralized local civil service to one where localities have considerable authority over the making of their own personnel policy and management.

Because this study focuses on the municipality, further elaborations of municipal administration and politics are essential. Generally, Thai municipality consists of approximately six to eight departments: Office of City Clerk, Policy and Planning, Finance, Public Works, Community Health and Environment, Education, and Social Work and Welfare. The number of non-elected officials varies greatly, from about one hundred staff for a small city to more than two thousand personnel for a large city.

Related laws and regulations assign budgetary roles to distinct actors generally comparable to those of a modern locality in other well-developed institutions. That is, political executives are responsible for making and prioritizing plans and policies for community development and service provisions\(^7\). Legislators, working on a part-time basis, are to monitor the work of the executives, which includes issues related to the approval of budgeting and taxation\(^8\). Municipality’s routine operations and budget controls are carried out by a municipal clerk. The clerk will translate policy priorities into operational plans and associated budgets, give directions to departments in estimating revenues and budgets, rationalize spending requests before submitting them to the local council, and supervise overall budget implementations and the generation of needed

\(^7\) Article 48 (13) of the Municipal Act of B.E. 2496 (1953), (Twelfth Amendment B.E.2546 (2003))
\(^8\) Article 62 (4) of the Municipal Act of B.E. 2496 (1953), (Twelfth Amendment B.E.2546 (2003))
financial and performance reports\(^9\). Finally, the DoLA, whose task is assigned to regional officials\(^{10}\), and the Office of Auditor General (OAG) regularly monitor local operations and finances.

Since the devolution movement, municipal politics has been increasingly dynamic (Suwanmala 2002, 2007). Although machine politics do exist in some cities, other areas have a considerable developed political culture where local politicians do not just serve narrow constituency groups, but work well with the general public on broad, community-wide issues; e.g., environment protection, physical development, revitalization, and economic development. Furthermore, an increasing number of local politicians are well-educated (i.e., they hold Master degrees in Public Administration, Political Science, Social Works, Business Administration, and the like), indicating a promising move for the municipal administration (Suwanmala 2002, 2007).

**Local Service Responsibilities**

Since this research focuses on the municipal form of local government, the following discussions are confined to the municipality. Currently, major service responsibilities of Thai municipal governments appear in a general fund. These are (i) public safety; (ii) education; (iii) healthcare and health services; (iv) housing, public works, and community services; (v) social and public welfare; (vi) economic development and industrial services; and (vii) general administration. Almost all of these


\(^{10}\) Articles 62, 69-70, and 71-75 of the Municipal Act of B.E. 2496 (1953), (Twelfth Amendment B.E.2546 (2003)).
services are uniformly provided across municipalities in accordance with budget guidelines issued by the DoLA of the Ministry of Interior. Table 3-2 below depicts the major programs and service functions of Thai municipalities.

**Table 3-2: Programs and Service Functions of Thai Municipalities**

<table>
<thead>
<tr>
<th>Programs</th>
<th>Service Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public safety</td>
<td>Management of public orders, securities, fire fighting and prevention, disaster management</td>
</tr>
<tr>
<td>Education (K-12)</td>
<td>Elementary and secondary schools, early childhood development center, vocational schools, public libraries, educational and career guidance</td>
</tr>
<tr>
<td>Public health</td>
<td>Primary care units, community hospital and health center, sanitary services, disease control, garbage collection and waste disposal, sewage treatment,</td>
</tr>
<tr>
<td>Housing and community services</td>
<td>Housing, public works, public parks, local road construction and maintenance, lights and traffic utility systems, public transportation systems</td>
</tr>
<tr>
<td>Social and public welfare</td>
<td>Sports and welfare facilities, supports for senior, low-income people, children, and the disabled, recreational activities, cultural promotion, historic place preservation, job training and occupation promotion</td>
</tr>
<tr>
<td>Economic and industrial services</td>
<td>Economic development, agriculture and fishery promotion, local trade and commerce promotion</td>
</tr>
<tr>
<td>General administration</td>
<td>Municipal ordinance and regulation, personnel administration, budgeting and finance, statistics and household registration, contingency management, debt service</td>
</tr>
</tbody>
</table>

It should be noted that some municipal services are provided via proprietary funds. These services are business-like in nature and financed through designated taxes or revenues; for instance, pawnshop, slaughter house, public market, etc. There are also other activities which appear in the fiduciary funds; e.g., social welfare (pension) funds, income and occupation promotion funds, etc. The existence of these fiduciary funds varies widely depending on constituency demand.
In terms of capital expenditures, these are financed from local current revenues, local reserves, or specific intergovernmental grants. For example, during 2001 and 2003, municipalities spent approximately 60 percent in investment projects on average as part of total spending. Of this figure, about one third was financed from intergovernmental grants\textsuperscript{11}. Notwithstanding, one of the major weaknesses of capital investments in Thai localities is that there is no separate capital budget. Instead, capital expenditures are commingled with the annual budget and are funded generally on a yearly basis\textsuperscript{12}. As a result, no long-term investment plan is solidly made and the lack of well-articulated capital financing schemes is widespread among Thai local authorities (Suwanmala 1998). This point will be more apparent when the case analyses are made.

As concerns the planning and budget-making processes, municipalities (also other forms of local authorities) are required to produce two official documents: a medium-term strategic plan and an annual budget. The former details prospects and directions for community development as well as for service provisions (3-5 years), whereas the latter translates the plan into operational programs and budgets that can be carried out in a single fiscal year\textsuperscript{13}. Generally, both documents are assembled through a democratic, participatory process. The executive body prepares the strategic plan and the budget documents are based on local administrative codes for local budgeting and finance and with respect to the demands of local residents. Then, the executive body submits the plan and the budgets to the council for approval. In a final step, the municipal plan and the budget documents are officially endorsed by designated officials from the Ministry of

\textsuperscript{11} Data from the Office of National Decentralization Committee, Office of Prime Minister’s Office.

\textsuperscript{12} Article 14 of the MOI Regulations on the Local Governments’ Budgeting Procedures of B.E. 2541 (1998)

\textsuperscript{13} Thailand’s fiscal year begins at the 1st of October and ends at the 30th of September of a following year.
Interior (for example, a provincial governor for municipalities), as a means of ex ante monitoring of the local authorities.

However, it should be noted that although municipalities are authorized by law to have their own discretion over planning and budgeting and over the administration of local public affairs, the Ministry of Interior has issued several guidelines, advice, and directives on local budget making, accounting procedures, procurement and asset management, financial management and auditing, as well as local staff policy; e.g., staff numbers, pay scales, and fringe benefits\textsuperscript{14}. One important piece of advice that followed the Decentralization Act was the encouragement of participatory approaches in local planning and budget making.

\textit{Local Taxations and Revenues}

Thai municipalities have revenues from three major sources: (i) locally collected taxes/revenues; (ii) shared taxes/revenues and local taxes/revenues collected by central government agencies; and (iii) intergovernmental transfers. Table 3-3 below exhibits an overview of municipal revenues from FY 2001 to 2006. It should be noted that Thai municipalities have almost uniformed tax/revenue structures as stipulated by the Municipal Act of B.E. 2496 (1953), Twelfth Amendment B.E. 2546 (2003).

Of these totals, shared taxes and municipal revenues collected by central agencies constituted about 54.0\% in FY 2006. Revenues from general transfers were about 31.6\%, whereas the amount collected locally was 14.4\% in the same fiscal year. It should be

noted that the figures do not include proceeds from debt financing and revenues from municipal enterprises (e.g., pawnshop, water-supply services, etc.). Enterprise revenues appear in separate (proprietary) funds and are designated for specific purposes. Thus, they do not reflect the taxing capacity of municipalities to finance general services and, therefore, are not included in the analysis that follows.

Table 3-3: Revenue Structures of Thai Municipalities, Fiscal Year 2001 to 2006

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Local own-source revenues</td>
<td>9,910.4</td>
<td>9,226.6</td>
<td>8,374.7</td>
<td>7,132.6</td>
<td>6,755.3</td>
<td>6,012.6</td>
</tr>
<tr>
<td>1.1 Commercial land and building taxes</td>
<td>4,386.6</td>
<td>4,039.7</td>
<td>3,629.9</td>
<td>2,736.2</td>
<td>2,601.7</td>
<td>2,513.1</td>
</tr>
<tr>
<td>1.2 Land development taxes</td>
<td>198.7</td>
<td>199.2</td>
<td>178.3</td>
<td>140.8</td>
<td>133.8</td>
<td>138.8</td>
</tr>
<tr>
<td>1.3 Signboard taxes</td>
<td>572.9</td>
<td>521.8</td>
<td>479.1</td>
<td>352.3</td>
<td>330.2</td>
<td>334.5</td>
</tr>
<tr>
<td>1.4 Animal slaughter taxes</td>
<td>68.3</td>
<td>55.9</td>
<td>56.6</td>
<td>80.7</td>
<td>62.6</td>
<td>58.2</td>
</tr>
<tr>
<td>1.5 Fees and charges, permits, fines</td>
<td>1,889.1</td>
<td>1,802.1</td>
<td>1,584.2</td>
<td>1,165.2</td>
<td>1,107.9</td>
<td>1,074.3</td>
</tr>
<tr>
<td>1.6 Revenues from properties</td>
<td>998.3</td>
<td>906.6</td>
<td>868.2</td>
<td>1,677.9</td>
<td>1,585.9</td>
<td>1,663.9</td>
</tr>
<tr>
<td>1.7 Miscellaneous</td>
<td>1,796.6</td>
<td>1,701.3</td>
<td>1,578.4</td>
<td>979.6</td>
<td>933.1</td>
<td>229.7</td>
</tr>
<tr>
<td>2 Revenue sharing and local taxes collected by central agencies</td>
<td>37,167.9</td>
<td>36,540.1</td>
<td>35,251.9</td>
<td>26,126.5</td>
<td>22,361.8</td>
<td>19,963.9</td>
</tr>
<tr>
<td>2.1 VAT and sales taxes</td>
<td>25,306.4</td>
<td>25,240.2</td>
<td>26,146.6</td>
<td>18,311.2</td>
<td>11,090.5</td>
<td>10,206.8</td>
</tr>
<tr>
<td>2.2 Specific business taxes</td>
<td>278.9</td>
<td>258.6</td>
<td>142.1</td>
<td>117.1</td>
<td>139.5</td>
<td>132.4</td>
</tr>
<tr>
<td>2.3 Excises and alcohol taxes</td>
<td>5,289.7</td>
<td>5,425.2</td>
<td>4,660.0</td>
<td>3,261.0</td>
<td>3,097.1</td>
<td>2,830.8</td>
</tr>
<tr>
<td>2.4 Motor vehicle taxes</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>2,434.9</td>
<td>6,222.1</td>
<td>4,635.4</td>
</tr>
<tr>
<td>2.5 Land and real estate transfer fees</td>
<td>6,068.8</td>
<td>5,402.4</td>
<td>4,140.2</td>
<td>1,882.2</td>
<td>1,700.1</td>
<td>2,044.2</td>
</tr>
<tr>
<td>2.6 Others</td>
<td>224.1</td>
<td>213.7</td>
<td>163.0</td>
<td>120.0</td>
<td>112.5</td>
<td>114.2</td>
</tr>
<tr>
<td>Subtotal (1+2)</td>
<td>47,078.3</td>
<td>45,766.6</td>
<td>43,626.5</td>
<td>33,259.1</td>
<td>29,117.1</td>
<td>25,976.4</td>
</tr>
<tr>
<td>(68.4%)</td>
<td>(73.0%)</td>
<td>(73.9%)</td>
<td>(71.5%)</td>
<td>(69.9%)</td>
<td>(64.2%)</td>
<td></td>
</tr>
<tr>
<td>3 Intergovernmental transfers</td>
<td>21,774.7</td>
<td>16,895.6</td>
<td>15,372.7</td>
<td>13,260.6</td>
<td>12,554.6</td>
<td>14,505.9</td>
</tr>
<tr>
<td>(31.6%)</td>
<td>(27.0%)</td>
<td>(26.1%)</td>
<td>(28.5%)</td>
<td>(30.1%)</td>
<td>(35.8%)</td>
<td></td>
</tr>
<tr>
<td>4 Total (1+2+3)</td>
<td>68,853.0</td>
<td>62,662.2</td>
<td>58,999.2</td>
<td>46,519.7</td>
<td>41,671.7</td>
<td>40,482.3</td>
</tr>
</tbody>
</table>

Source: Office of Decentralization Commission, the Office of Prime Minister’s Office of Thailand.
Notes: a/ Figures include the revenues of all municipalities. Figures in parentheses are the percentages of total municipal revenues; b/ these taxes/revenues will be used in the analysis of revenue-raising capacity (see the discussion in Chapter Five); c/ transfers are of general purposes only. They do not include specific grants due to the unavailability of data at the national accounts.
Tax administration is shared between both the central and local governments. On the one hand, the central government administers several types of taxes that are later shared or are reimbursed to local authorities based upon predetermined criteria, generally the source-generation principle. On the other hand, each local government administers its own-source taxes and revenues based on tax bases and maximum rates set by national statutes. As a result, tax administration capacity and tax collection costs vary widely from locality to locality (Suwanmala 2001).

Based on the data shown in Table 3-3, there were significant changes in revenue structures over time due to tax reassignments among different types of localities, because of the devolution movement. For example, the value-added tax (VAT) (item 2.1) was increasing dramatically, to about 148% during a six-year span, whereas motor vehicle taxes (item 2.4) declined in FY2003 and totally dissolved a year later.

In terms of intergovernmental transfers (Item 3 in Table 3-3), these are one of the major revenue sources for the municipality (about 32% of total revenues). Today, the national government provides three major categories of intergovernmental transfers (Suwanmala 2001). The first category of intergovernmental transfers is general grants, consisting of (i) unconditional grants, where local authorities can spend the grants in any program, and (ii) block grants, where the national government requires that the monies be used under a certain set of objectives but local authorities have autonomy in deciding how and how much money will be spent or what objects to purchase in order to fulfill the goals required by their national counterpart. The second category is specific grants. Here, national agencies mandate localities to spend strictly in accordance with predetermined objectives and programs/projects established by the central agencies. Finally, it is the transfers that are attached to the devolved functions as stipulated by the Decentralization
Act. This type of transfer is established temporarily for monitoring the progress of the devolution policy implementation (for record-keeping purposes). Note that the transfer figures in Table 2-3 include general grants only. They do not include specific grants due to the unavailability of data for aggregate national accounts.

The allocation of intergovernmental funds, particularly specific grants, is quite unpredictable, however. The criteria for allocating grants are not systematic and they change from year to year. The Ministry of Interior allocates these grants in an ad-hoc and highly politicized manner (Varanyuwatana 2003; Suwanmala 2001). In some instances, although there are criteria for the transfer allocation, the actual result often diverges from the formulas (Varanyuwatana 2003). This makes it difficult for localities to plan their annual and long-term expenditures. Recent reform proposals aim to reduce some of these problems and attempt to make more explicit, comprehensive allocation criteria. Still, the result is far from perfect.

It should be noted that by international comparisons, Thai municipalities are highly dependent on intergovernmental transfers. This might raise some concern among students of fiscal federalism (e.g., Rodden 2002, 2006) in that local authorities may reduce their incentive to make prudent fiscal decisions as discussed earlier in Chapter Two. However, whether this is one of the key factors accounting for poor fiscal conditions in Thai municipalities are subject to empirical investigation.

Aside from conventional local revenues, the Decentralization Plan and Process Act of 1999 has opened channels for local government borrowing through Local Saving...

\[15\text{ When the central government takes on relatively heavy obligations to fund local services, local governments can draw excessively on national common pool resources by committing themselves to overspending and do not adjust their spending in order to fit available local resources.}\]
and Development Funds (forced local savings managed by the DoLA), National Saving Bank, bond issuances, domestic commercial banks, public entities abroad, or international organizations (Article 28). The only condition, and a very stringent one, is that borrowing requires an approval from the Cabinet. Additionally, bond markets have not yet existed for Thai local governments (Varanyuwatana 2003). Given such strict borrowing controls from the central government, debt-financing means for capital investment is quite rare among Thai localities. When investment is needed, Thai localities have no well-established reputation in financial and capital markets and usually end up borrowing from the Local Saving and Development Funds, national government banks, and domestic commercial banks (Gooptu 2005; Suwanmala 2001).

_Potentials and Limits of Thailand as a case_

Thai local administration serves as a context for this research. The devolution movement in Thailand which was originally embarked upon in the past two decades provides compelling environments for the study of municipal fiscal conditions. Increasing service responsibilities and fiscal resources have forced Thai local governments to adjust their political and fiscal strategies to fit new institutional environments. As evident from the Polish decentralization experience during the late 1990s, the reform effort struggled due to inadequate fiscal resources to fund new administrative units (Owsiak and Owsiak 2001). For this reason, the study of Thai municipal fiscal conditions in the midst of changing administrative environments could provide immediate feedback that is essential for smoothing the path toward decentralized administrative reforms.
In addition, the dynamic administrative environment enables a researcher to easily observe the variation of local fiscal conditions, which in turn assists in enhancing the chance of achieving the current research endeavor. Moreover, Thailand is one of the developing countries that has often been used as a case for decentralization reforms (see, e.g., the works of the International Bank for Reconstruction and Development [2005] and Y. Kim [2003]). Although the nation is not representative of other developing countries, Hopefully, its moderate levels of political and economic development make the country a good case from which other nations can learn. Lastly, since the DoLA has issued uniform directives to localities regarding institutional arrangements, personnel management, budgeting, financial management practices, and financial reports, these create an advantage for selecting Thailand as a case by which to research. That is, quantitative as well as qualitative data compiled from different cities were spontaneously comparable.

Notwithstanding, the study of Thai local fiscal conditions has some limitations that we should be aware of. First, data availability was somewhat limited. This might possibly result in decreased credibility of the research findings. However, it is believed that the research strategies employed in the present study help to minimize, if not overcome, the data limitation issue (e.g., use of panel data structures to deal with an issue of a small sample size). Another limitation was the generalization of the research findings. Even though Thailand is a typical model of developing nations, its distinct political and fiscal institutional arrangements make it difficult to apply the findings to the understanding of local fiscal conditions in other developing countries. Notwithstanding, this is not a major drawback given the fact that the research is aimed at generating comparative knowledge to the fiscal condition literature.
CHAPTER FOUR

METHODOLOGY AND RESEARCH DESIGN

There are two major research strategies for this study, and each strategy corresponds to each of the research questions posed in Chapter One. The first approach is a quantitative measurement of Thai municipal fiscal conditions and the second approach is a qualitative, case-based examination of the dynamics and factors that give rise to the municipal fiscal conditions in Thailand. This mixed analytical approach is quite rare in the fiscal condition literature.

In this study, panel data from 14 cities of varying socioeconomic circumstances provide an overview of their current fiscal conditions (FY 2001 – 2006). Following this, an extreme case from each of the four socioeconomic cities as indicated by the fiscal condition results is explored in order to produce meaningful interpretations of the quantitative findings. Finally, details on how the sample is made and how the municipal fiscal conditions are measured will be discussed below.

Measuring Municipal Fiscal Condition

Since this research attempts to measure the municipal fiscal condition in Thailand, a set of U.S.-based measures is selected based on theoretical and practical justifications, and then applied to a sample of Thai municipalities. This study employs existing measures of local fiscal condition, rather than developing new ones since they provide a known baseline for assessing the present research findings. This approach also has an additional advantage in that it serves as an external validity test to U.S.-based measures.
when applied to a context outside the origin. This section discusses proposed measures for municipal revenue-raising capacity (RRC) and expenditure need (EN), respectively. It also addresses statistical methods which are suitable for the estimations of the RRC and the EN.

**Measures of Revenue-Raising Capacity (RRC)**

The literature suggests that any analytical measure of fiscal conditions should adequately capture institutional arrangements and environmental factors that give rise to the local fiscal condition (Zafra-Gomez et al. 2009; Hendrick 2004). Thus, challenges to the current research lie in the choices of fiscal condition measures that take into account fiscal institutional arrangements and socioeconomic conditions of Thai municipalities.

Notwithstanding, most, if not all of the existing measures are advanced for use in countries with well-developed fiscal institutions and with a comprehensive system of fiscal and socioeconomic statistics. Since Thai fiscal institutions are distinct and the data availability is relatively limited as compared to other well-developed nations, several analytical measures are not directly applicable to the analysis of Thai municipal finance. Such limitations are also prevalent in many developing societies (Martell and Guess 2006; Martinez-Vazquez and Boex 1997a, 1997b). For example, in Thailand, data on total taxable resources and personal income at the municipal level are not yet available. This is because neither the assessed-value property taxes nor the personal income has ever been utilized as a basis of municipal taxation. In this respect, the fiscal condition measures that require these pieces of information, e.g. the representative tax/revenue

---

1 This problem also prevailed in the Russian Federation as discussed in Martinez-Vazquez & Boex (1997a).
system (RTS/RRS) as developed by ACIR (1962, 1988), Clark and Ferguson’s (1983) city wealth index, and Ladd and Yinger’s (1989) income-with-tax-exportation approach to the estimation of RRC, are not good candidates for examining the municipal taxing capacity in Thailand.

Furthermore, the majority of Thai municipalities use cash-basis accounting and a majority of the time; their financial reports are incomplete and lack external auditing (Varanyuwatana 2003). As a result, there is virtually no reliable financial information for the analysis of financial ratios; such as the financial trend monitoring system (FTMS) (Groves and Valente 1994), the ten-point test (Brown 1993), or the more comprehensive indicators as developed by Wang et al. (2007) and Kloha et al. (2005). Moreover, bond markets do not exist for Thai municipal governments (Varanyuwatana 2003). As a result, the credit ratings approach to financial condition analysis as suggested by Finkler (2005); Lipnick et al. (1999), Mercer and Goldberg (1984), Marquette et al. (1982), and J. Petersen (1980) is not applicable. Likewise, the gross city product (GCP) approach as suggested by Aten (1986) is practically restricted since a large portion of GCP does not constitute local tax bases, particularly personal and corporate incomes. The simple use of GCP would inadvertently overstate the Thai municipal fiscal condition. Thus, the alternative context-relevant measures of Thai municipal fiscal health are needed.

Fortunately, Martinez-Vazquez and Boex (1997a, 1997b) and Dye (1984) have provided an alternative measure for analyzing revenue-raising capacity (RRC) for use with few data requirements, namely regression-based RRC, as compared to other analytical measures. Regression analysis for RRC allows for the computation of potential

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2 Presently, the DoLA is transforming local accounting practices to an applied accrual accounting basis.
municipal revenues based on statistical relationships with a set of socioeconomic factors and other proxies of a city’s tax base. The predicted amount of revenue that follows from the regression represents the potential municipal revenue that each municipality would collect under the average tax effort.

The major advantage of using the regression-based RRC is that it is flexibly adjustable to fit within the Thai local fiscal context and can include as many revenue sources upon which Thai localities rely. It also allows for the inclusion of many socioeconomic factors that presumably determine the size of local tax bases in the regression model, albeit with the additional cost of data requirements (Martinez-Vazquez and Boex 1997a). Additionally, results from the analysis might be more comprehensible to local administrators since the factors constituting the regression model are clearly visible to them, although some statistical literacy is required.

Following the framework provided by Martinez-Vazquez and Boex (1997a, 1997b) and Dye (1984), municipal revenue-raising capacity is estimated from the general function of economic wealth, demographic characteristics and the level of city economic development.

\[ RRC_i = f(\text{city economic wealth}, \text{demography, city economic development}) \]  

where \( RRC_i \) is revenue-raising capacity for each of the \( i^{th} \) taxes/revenues. Here, the major determinant of taxing capacity consists of city economic wealth, demography and city economic development. Wealth includes gross city product per capita, property wealth, and city areas (sq. km.); demography includes population density (per sq. km.) and population growth rate; and the level of economic development includes cost of living as
measured by the consumer price index (CPI), a portion of labor population to total city population, and a dummy for economically concentrated area. These variables are included, with respect to data availability as suggested by the literature (e.g., Ladd 1994; Ladd et al. 1991; Wasylenko and Yinger 1988). Descriptive statistics of these variables are exhibited in Appendix 1. All monetary figures are provided as constant prices in 2000. All independent variables, except for property wealth are self-explanatory in determining a city’s taxing capacity and, hence, need no further elaboration here. Thus, the following informational index provides an explanation for the city’s property wealth.

According to the design of commercial land and building taxes in Thailand, the data on a property’s assessed values do not exist. Thus, a proxy of a city’s property wealth is needed. Data on the total number of properties (residential, rental housing, commercial, and industrial) in each city are available. Unfortunately, the figures are shown in aggregate form. Few cities have available data on the details of each property class. As commonly known, different property classes provide different contributions for local taxation. For instance, in Maptaput, an industry-based city, the proportion of industrial properties to the total number of properties was about 6% in 2006. On the other hand, Prachinburi, a semi-rural city, had a share of commercial properties about 14%. It turned out that Maptaput collected 4,213.7 baht per capita for commercial and land taxes while Prachinburi collected the same taxes a mere 235.0 baht per capita, or about 17.9 times less. Thus, unless the city’s property wealth is estimated from each of the property classes, the simple use of the total number of properties would bias the estimation of the city’s taxing capacity. However, ignoring this piece of information, because of its limited
use, would cause the researcher to lose the opportunity to utilize it for estimating the city’s revenue-raising capacity.

In order to deal with this limitation, the ratio of a city’s gross city product (GCP) per capita to that of the national average was factored into the total number of city properties in order to reflect the relative property wealth across cities. An underlying assumption is that a city’s property wealth is somehow proportional to the level of GCP per capita. People living in a relatively rich city have a good reason to invest more in commercial and industrial assets. Given this adjustment, Maptaput and Prachinburi have a relative ratio of city property wealth of 18.6 to 1, which is somewhat closer to the size of tax disparity discussed above.

In the actual analysis, five major municipal revenues are selected as a base for estimating a city’s RRC: (i) value added taxes (VAT); (ii) excise and alcohol taxes; (iii) land and real estate transfer fees; (iv) commercial land and building taxes; and (v) user fees and charges. These municipal revenues are incorporated in the analyses because together, they constitute more than 90% of total municipal revenues, excluding intergovernmental transfers (see Table 3-3 above). The first three taxes/revenues are nationally collected and reimbursed to municipalities, while the latter two (the commercial land and building taxes and the user fees/charges) are locally administered.

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3 Commercial land and building taxes in Thailand differ greatly from the general, ad-valorem property taxes in two respects. First, owner-occupied residential housing, governmental properties and religious places are exempted through law. Only properties used for commercial, industrial, rental and for-profit-generation purposes are subject to taxation. Second, tax liabilities are calculated based on either potential business gains from the properties or on lot sizes allocated for commercial purposes, not on the properties’ assessed-market values. Therefore, these taxes are imposed on income, not on assessed wealth. The definitions of property tax bases are nationally set, but tax rates are locally determined and locally administered within the statutory limits.
The inclusion of nationally collected local taxes does not distort the analysis of municipal fiscal capacity since these taxes are reimbursed to municipalities based on the source-generation principle. As Olowu and Smoke (1992) reason, it would not make any difference if revenues are centrally collected for tax administration purposes, as long as municipal governments can tap those resources.

Regression estimations are carried out separately for each of the five revenue/tax sources and later summed in order to obtain the overall RRC of each respective city. However, two issues should be reiterated before proceeding. First, as discussed in Chapter Three, municipal governments in Thailand have nearly uniformed tax/revenue structures. Thus, the analysis of the five major revenues presumably provides a comparable, meaningful picture of revenue-raising capacity across the cities studied. Second, by employing the statistical estimations of the RRC, this study assumes an average tax effort across cities, multiplying to each individual city’s tax bases. Therefore, the variation of the RRC across cities depends largely on their socioeconomic endowments.

**Measures of Expenditure Need (EN)**

The *regression-based cost approach to EN* as developed by Ladd and Yinger (1989) and Ladd (1994) fit the Thai municipal fiscal framework for the analysis of expenditure need (EN). Unlike the representative expenditure system (RES) as developed by Rafuse (1990), Ladd and Yinger’s approach has one crucial aspect for estimating municipal expenditure need; it takes into account service cost differentials in estimating the expenditure need. For example, a city with unsupportive socioeconomic conditions or a city that has difficulties in providing public services (e.g., high poverty rate, high
density) may need to provide a higher level of spending than the average city. This cost adjustment component is extremely crucial since it is the main determinant of variations in municipal spending across cities (Ladd 1994; Bradbury et al. 1984).

Like the regression-based RRC, the estimation of the EN requires a multiple regression analysis. It helps in evaluating the impact of each of the cost factors on the variation of municipal spending. The predicted amount of expenditures that follows from the regression, including the service cost adjustment; represents the potential municipal expenditure that each municipality would provide under the average quality of public services (Ladd and Yinger 1989).

Based on the works of Ladd and Yinger (1989) and Ladd (1994), municipal expenditure need (EN) is estimated from

\[ \text{EN}_i = \sum [Q_j \times S_{ij} \times C_{ij}] \quad \text{…(2)} \]

where

- \( i \) = city \( i^{th} \) from 1, 2, … N
- \( j \) = expenditure function \( j^{th} \) from 1, 2, … n
- \( Q_j \) = standardized per capita spending on the \( j^{th} \) expenditure function
- \( S_{ij} \) = the \( i^{th} \) city’s index of service responsibility for the \( j^{th} \) spending function relative to the average of all cities
- \( C_{ij} \) = cost factors, which are \( i^{th} \) city’s index of per capita costs for the \( j^{th} \) spending program relative to the average over all cities

Then, cost factors (or cost indices) can be estimated from

\[ C_i = \frac{\text{EXPPCSIM}_i}{\text{EXPPC}_i} \quad \text{…(3)} \]

and

\[ \text{EXPPCSIM}_i = g(DEMAND_a, AID_a, PREF_a, COSTFACTOR) \quad \text{…(4)} \]

\[ \text{EXPPC}_i = h(DEMAND_a, AID_a, PREF_a, COSTFACTOR) \quad \text{…(5)} \]
The estimated $EN$ represents the potential spending level for each of the service functions, given the average service quality (as reflected in $Q_j$ in equation 2) and scope of service responsibilities (as reflected in $S_{ij}$ in equation 2). Service responsibility indices ($S_{ij}$) are calculated from the proportion of spending in each program of the average city. Indices for public education = .3, housing and community services = .35, public safety = .05, public health = .05, social welfare = .05, and general administration = .2.

However, one city (Pakkred) is distinct in that it does not operate municipal schools. Instead, the City provides financial assistance to schools operated by other agencies. Following the adjustment procedures as suggested by Ladd and Yinger (1989) and Ladd (1994), different service weights are assigned to Pakkred in order to account for service differentials. Therefore, Pakkred’s indices for public education = .12, housing and community services = .38, public safety = .05, public health = .20, social welfare = .05, and general administration = .2.

A city’s variation in the EN occurs when its cost index is higher or lower than other comparable cities (as captured by $C_i$ in equation 3), whereas $a$ is an average value of the studied cities and $i$ is the value of $i^{th}$ city. $EXPPCSIM$ is the predicted value of per capita spending given the average levels of determining factors for spending, demand, intergovernmental aid, and citizen preferences, but given the city’s values of cost factors. $EXPPC$ is the predicted value of per capita spending given the data of each respective city. Regression estimations are carried out separately for each of the service functions and later summed in order to obtain the overall EN of a city.

Through empirical analysis, six major municipal services which appear in a general fund are a basis for estimating the overall expenditure needs: (i) public safety;
(ii) education; (iii) healthcare and health services; (iv) housing, public works, and community services; (v) social and public welfare; and (vi) general administration. These services are uniformly provided in all studied municipalities, except for Pakkred City’s educational services as mentioned above. The expenditure figures are constant at 2000 and include current and capital spending. A 3-year moving average of capital expenditures (two years earlier and the current year) is used in order to cope with the uneven nature of investment decisions from year to year. This moving average procedure has been commonly used in previous research (e.g., Ladd et al. 1991; Wasylenko & Yinger 1988).

The economic services function is dropped from the estimation of the EN since nearly all cites, except Pattaya and Maptaput, are passive in providing local economic development programs. Virtually, they spend less than 1.5% of their annual budgets for economic development programs. For this reason, including this service function in the estimation of EN would inflate the result of the majority cities. The dropping of insignificant service functions is common in the municipal finance literature when service programs are compared across cities (e.g., Dluhy and Frank 2002; Ladd and Yinger 1989; Clark and Ferguson 1983).

Arguably, the focus on the general fund expenditures might distort the fiscal condition analysis as contended by Wang et al. (2007). Notwithstanding, unlike most cities in the U.S. where a substantial portion of services is listed in separate public funds, the general fund accounts of Thai municipalities constitute a large portion of municipal activities. Thus, the use of general fund accounts in this research will not bias the estimation of municipal spending need.
Overall, the proposed measures of RRC and EN have several advantages. Compared with the representative system (ACIR 1962, 1988; Rafuse 1990) and the credit ratings approach (Finkler 2005; Lipnick et al. 1999; Mercer and Goldberg 1984; Marquette et al. 1982), the selected measures are more flexible and demand less data. In effect, they are quite suitable to Thai municipal finances (and other countries’) since existing data for the fiscal condition analysis are somewhat restricted. Additionally, both of the selected measures take into account socioeconomic variables in estimating local fiscal conditions. Unlike the often-used financial ratio analysis (Groves and Valente 1994; Brown 1993), which focuses mainly on internal management aspects of fiscal conditions, the proposed measures incorporate the external, structural factors and service cost differentials in estimating local fiscal conditions, which would, in turn, enable the utilization of fiscal condition findings for the formulation of policy measures in order to cope with municipal structural deficits as argued by researchers (Zafra-Gomez et al. 2009; Boyne and Enticott 2004; Ladd and Yinger 1989; Bradbury et al. 1982).

**Calculation of City Fiscal Health**

In the final step of measuring municipal fiscal conditions, the calculation of a municipal fiscal health index (FHI) from the estimated RRC and the estimated EN is provided. Ladd and Yinger (1989) quantify the FHI from the difference between revenue-raising capacity and expenditure need, which is expressed as a percentage of capacity. Algebraically:

\[
\text{Fiscal Health Index (FHI)} = \left[ \frac{(RRC \ - \ EN)}{RRC} \times 100 \right]
\]

\[
\text{Fiscal Health Index (FHI)} = \left[ \frac{(RRC \ - \ EN)}{RRC} \times 100 \right] \quad \text{\ldots(6)}
\]
where RRC is the revenue-raising capacity and EN is the expenditure need of a respective city. The FHI quantitatively identifies a city’s relative ability to finance its service responsibilities as compared to the sampled cities, given the city’s economic, social, and demographic characteristics. The index has a base value of zero. A positive index implies a city’s taxing capacity is greater than its expenditure needs, suggesting that the city’s fiscal condition is relatively healthy and the city might have available resources for increases in services or for tax cuts. However, a negative index value suggests that a city may need to increase its tax efforts or revenues from external sources in order to sufficiently provide a standard quality of municipal services.

**Statistical Estimations of Revenue-Raising Capacity and Expenditure Need**

Since multiple regression analysis is an important part of the estimations of RRC and EN, discussions about the use of multiple regression and the appropriate estimators are essential. Regression analysis is conducted separately for each of the five taxes/revenues and for each of the six service functions. Per capita taxes/revenues and expenditures are employed as dependent variables for revenue-raising capacity and expenditure-need regression models. The use of per capita figures makes cities of varying revenue and expenditure sizes comparable, which is commonly used in the municipal finance literature (Carmeli 2007; Razin 1999).

Pooled OLS with lagged dependent variables (LDVs) is employed as an estimator due to some properties of the data set. As will be discussed in the next section, the quantitative data incorporates fiscal and socioeconomic variables of 14 municipalities during FY2001 and 2006, resulting in a maximum observation of 84. First, given a short
time period (T=6) of the data set, a random effect estimator (including the fixed effect estimator), though theoretically more preferable, is inappropriate since it usually requires a longer time series in order to derive consistent estimates (usually T>15) (Beck 2001). Thus, the pooled OLS is the appropriate choice. Second, autocorrelation of residuals is detected in the pooled OLS for nearly all models, as performed by Wooldridge’s (2000) procedures (see Appendix 2 for details). Hence, using the pooled OLS without LDVs, when in fact the LDVs are needed, potentially results in an omitted variable bias (Keele and Kelly 2006). Therefore, LDVs are included in the right hand side of the regression equations in order to help minimize bias. In addition, certain conditions for the use of pooled OLS with LDVs as suggested by Keele and Kelly (2006) are not violated. That is, coefficients of the LDVs are non-zero and residual serial correlations are not present at the 95% confidence level in most of the regression models (8 out of 11) (see Appendix 3 for details). Finally, the Chow Test indicates that the panel data are poolable. No separate regression of different intercepts is needed for a single fiscal year (see Appendix 4 for details).

*Explaining Municipal Fiscal Conditions: A Case-Study Approach*

In order to gain further insights as to why fiscal conditions vary among Thai municipalities, the case study approach is employed in addition to the quantitative analyses in order to uncover causal mechanisms that link independent factors to outcome variables (George and Bennett 2005; Seawright and Gerring 2008; Yin 1994). Specifically, the case study approach serves two major purposes. First, it adds qualitative meaning to the quantitative findings of municipal fiscal conditions as to gain deep insight
on what is happening within a city via its fiscal condition symptoms. It focuses on the linkage between socioeconomic conditions and municipal responses over time via the city’s taxing and spending policies. Second, it traces causal mechanisms that give rise to emerging fiscal and spending policies. Major attention has been paid to the underlying politics and administrative causes of a city’s healthy or poor fiscal conditions.

Four outstanding cases were selected based on their extreme fiscal condition profiles as revealed by the quantitative findings, with one city from each of the following areas selected: (i) the central; (ii) the suburb; (iii) the semi-rural; and (iv) the industry-based city groups. Within- and cross-case analyses (George and Bennett 2005; Yin 1994) were employed in order to help replicate insights found in individual cities and/or to represent contrasting situations. Thus, an examination of the extreme cases of each city will enhance the identification of causal paths to fiscal condition outcomes.

The case narrations and analyses were guided by the budgetary check and balance framework as discussed in Chapter Two, and were presented in a consistent structure. Each of the cases represents particular traits within the performances of key budget actors with respect to local socioeconomic conditions and constituency demands. First, socioeconomic conditions of a city were examined in order to see if emerging constituency needs were unfulfilled. This was an important departure in order to obtain general ideas of how well the city’s budget actors coped with and responded to such external circumstances via fiscal and budgeting policies. The data for this section of the case analyses were obtained mainly from town hall and city council meetings, interviews with neighborhood leaders as well as elected city officials, and field observations.
Second, a city’s fiscal and spending policies were then explored. The focus here was on whether the city in question put forth greater tax efforts in order to reasonably cover its expenditures and/or the city vigorously attempted to get spending requests in order. Unsurprisingly, common characteristics emerged in the fiscally poor cities, but not in the fiscally healthy ones. That is, after socioeconomic factors had been accounted for by cascading all cities in accordance with their socioeconomic properties, fiscally poor conditions were causally linked to the situations in which (i) local tax/revenue policy and/or tax efforts were unreasonably conservative or extremely low; (ii) the city could not curb municipal spending due to pressures of core interest groups or to some political purposes; and (iii) constituency needs were significantly and persistently unmet since the city’s policy priorities were inadvertently set.

Undeniably, both municipal politics and administration were underlying factors in a city’s fiscal instability. Although each has its own fiscal and political dynamics, political superiority often directs the way the city is managed. Thus, the final section of the case analyses was geared toward tracing the political roots of a city’s taxing and spending activities. Interviews were conducted, official documents and media were consulted and in some instances, non-participant observations were made in order to outline political and administrative scenarios and corresponding fiscal condition symptoms in each of the cities studied.

Two interconnected pictures of a city’s fiscal instability were delineated: expenditures and revenues. For expenditures, when evidence of bad politics and/or poor

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4 Observations were made in council meetings and in daily operations of cities. See more discussions in the Sample and Data Section.
performing administration was present, city finances spiraled downward. They included misplaced policy priorities, fiscal and administrative leakages in city hall, irresponsible spending, personnel nepotism, and most important, corruption. Moreover, vulnerability of those in political power was critical in that it often induced political incumbents to overly-respond to group demands. Collectively, poor aspects of municipal governance caused the collapse of check-and-balance budgetary roles and ultimately inflated expenditure needs.

For revenues, on the other hand, a constituency, in which fiscal conservatism and a fiscal dependency attitude were dominant, was more likely to experience low tax efforts and preferred asking for increased intergovernmental transfers from national government agencies to levying local own-sourced taxes/revenues. This was quite evident in the selected suburban city where its local tax bases were relatively strong, but its tax/revenue yields were extremely low.

Overall, one of the major conclusions for this research is: When the local budget actors of a city act accordingly to (i) their designated roles of budgetary checks and balances as well as to the constituency demands; and (ii) to the effective handling of municipal purses (both tax efforts and budget allocation among different priorities) given the city’s socioeconomic circumstances, a city’s fiscal conditions seem reasonably healthy. On the contrary, when the budget actors of a city fail to (i) safeguard the municipal purses; and (ii) perform their designated budget roles, the poor fiscal conditions would result.
**Sample and Data**

This research focuses on the fiscal condition analysis of major cities (with population sizes of about 10,000 or more) located in the vicinity of the capital of Thailand, Bangkok Metropolitan, and in the eastern region. This is because most cities, in these two regions, compared with the rest of the nation, vary considerably and have experienced rapid social and economic changes in recent decades. Hence, they are good candidates for the fiscal condition analysis.

In the early 1980s, Thailand attempted to minimize urban-rural disparities and to boost regional economic development through the Eastern Seaboard project. This project was possible due to the 1981 discovery of large reserves of natural gas in the Gulf of Thailand. In response, the national government launched the Eastern Seaboard Development Project in order to maximize the economic utility of natural gas and promoted the eastern region as a base for heavy industries (petrochemical and petroleum, steel and metal, automobile, energy and power, and the like).

The Fifth (1982-1986) and Sixth (1987-1991) National Economic and Social Development Plans institutionalized long-term strategies in order to modernize several secondary cities outside Bangkok Metropolitan areas and several eastern cities were designated as hubs for economic and industrial development. As will be evident in the

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5 These cities are located in (i) Bangkok metropolitan’s vicinities: Nonthaburi, Patumthani, Samutprakarn, Samutsakorn, and Nakornpatom; and in (ii) eastern provinces: Chacheongsao, Chantaburi, Chonburi, Prachinburi, Rayong, Sakaew, and Trad.

6 According to the Plans, central government invested in highways and economic infrastructure development. Moreover, several tax incentives for businesses were issued in order to attract businesses to relocate to newly emerging suburbs and industrial zones, as clearly evident in the Investment Promotion Act of 1977 (the Second Amendment in 1991, and the Third Amendment in 2001).
current study, these development initiatives resulted in significant population and economic changes to the cities in the most recent years.

The initial scope of this study constituted 22 municipalities in a sample, as shown in Table 4-1 below. Preliminary analysis showed that they did not differ from other major cities throughout the country in terms of population size ($F$ statistic = 1.4, $p$-value = .239). This research began by sending an invitation letter to Mayors of 22 cities in order to invite them to participate in this study, of which 14 cities agreed to join (names are shown in italic in Table 4-1). This was an important step, since most of the needed data is available at the municipal level. The sample showed that population size and density, as well as economic and population growth rates are comparable to the national averages (see Table 5-1 in the next chapter), suggesting a non-biased representation of Thai cities in general.

**Table 4-1: List of Major Cities in the Sample**

<table>
<thead>
<tr>
<th>City</th>
<th>Population</th>
<th>City</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Nonthaburi $^{c/}$</td>
<td>269,584</td>
<td>12 Chonburi $^{v/}$</td>
<td>42,806</td>
</tr>
<tr>
<td>2 Pakkred $^{v/}$</td>
<td>145,690</td>
<td>13 Panadnikhom $^{v/}$</td>
<td>12,569</td>
</tr>
<tr>
<td>3 Bangbuatong $^{v/}$</td>
<td>30,509</td>
<td>14 Sriracha $^{v/}$</td>
<td>25,477</td>
</tr>
<tr>
<td>4 Nakornpatom $^{v/}$</td>
<td>92,289</td>
<td>15 Pattaya $^{v/}$</td>
<td>77,112</td>
</tr>
<tr>
<td>5 Patumthani $^{v/}$</td>
<td>17,923</td>
<td>16 Sakaew $^{v/}$</td>
<td>15,555</td>
</tr>
<tr>
<td>6 Kuukot $^{v/}$</td>
<td>47,431</td>
<td>17 Chantaburi $^{v/}$</td>
<td>29,970</td>
</tr>
<tr>
<td>7 Samutprakarn $^{v/}$</td>
<td>67,648</td>
<td>18 Klung $^{v/}$</td>
<td>11,248</td>
</tr>
<tr>
<td>8 Prapadaeng $^{v/}$</td>
<td>9,898</td>
<td>19 Rayong $^{v/}$</td>
<td>54,171</td>
</tr>
<tr>
<td>9 Samutsakorn $^{s/}$</td>
<td>60,969</td>
<td>20 Maptaput $^{v/}$</td>
<td>28,943</td>
</tr>
<tr>
<td>10 Kratumban $^{v/}$</td>
<td>14,624</td>
<td>21 Prachinburi $^{v/}$</td>
<td>22,326</td>
</tr>
<tr>
<td>11 Trad $^{s/}$</td>
<td>15,159</td>
<td>22 Chacheongsao $^{v/}$</td>
<td>42,910</td>
</tr>
</tbody>
</table>

Source: As of January 2001, the Department of Local Administration of Thailand
Notes: $^{c/}$ = central cities; $^{s/}$ = suburbs; $^{v/}$ = semi-rural areas; and $^{i/}$ = industry-based areas
Italic shows the cities participate in the current research
One may consider this small sample size (14 cities) as a major weakness. Notwithstanding, due to the limited availability of secondary data as provided by responsible government agencies,\(^7\) most of the needed data was obtained from primary sources (by visiting all of the studied cities). Thus, expanding the scope of this study to cover a much broader geographical area was difficult\(^8\). Furthermore, the sample satisfactorily represents cities of diverse socioeconomic types as commonly being the locus in municipal finance research. The sample comprises cities of diverse socioeconomic activities (industrial, commercial, tourism and services, and residential), of different population sizes (from slightly above 10,000 to about 270,000), and, most important, of varying economic and social change (rapidly growing, moderately growing, and declining). These diverse city characteristics help illuminate the comparative perspective of municipal fiscal conditions.

After quantifying the 14-city’s overall fiscal conditions over time (FY 2001 – 2006), extreme cases of each of the city’s socioeconomic types—totally four cities—were selected and explored in order to gain deeper insights regarding their fiscal condition symptoms and fiscal and political profiles. Specifically, three criteria were utilized for case selection. First, only cases that exhibited extreme values of the fiscal health index (having either extremely negative values or extremely positive ones) were selected from

\(^7\) To date, publicly available statistics on local government finance are national aggregated data, compiled by the Department of Local Administration (DoLA) and the Office of Decentralization Commission, Office of the Prime Minister’s Office. Notwithstanding, this aggregate data does not allow for any meaningful analysis as once suggested by Bahl (1984). Thus, an alternative strategy was to collect fiscal and related data through primary sources by the researcher, resulting in a relatively small sample size.

\(^8\) For comparison purposes, Thailand has approximately a geographical size of 198,000 sq. miles, or slightly larger than that of California (about 160,000 sq. miles). Its population size in 2008 was about 63 million.
each of the four city groups. Second, preliminary case examinations were carried out through analysis of budget documents in order to determine if the cases were able to present some constructive meanings of the municipal fiscal conditions. Finally, promises to access to needed data and interviews with key informants in the cities must have been secured by key decision makers of the targeted cities (either city mayors or municipal clerks). In this research, four selected cities were given fictional names so that the anonymity of the cities and key informants remain preserved.

Overall, the case analyses utilized explain analytically how good and bad deeds of key budget actors, when compared to their designated budgetary roles and constituency expectations, mediate municipal fiscal conditions, given the cities’ socioeconomic settings. The first case, which shall be called *East Sea Beaches*, is a tourism-based city that exhibits good fiscal conditions. It provides an intriguing case when compared to the rest of the cities as to how perverted budgetary roles are attributed to fiscal instability. The second case, which shall be named *Riverside Pagoda*, exhibits an opposite scenario. It is an industrial suburb where its tax bases are presumably secure. Yet, its fiscal conditions are quite poor, largely due to *bad* politics and budgeting. Finally, the last two cases exhibit socioeconomic bad luck\(^9\). The third case is a central city named *Old Northwest* and the fourth city is a semi-rural community called *Tree Jasmine*. Both cities possess relatively restricted tax bases, but Old Northwest is the only city that experiences relatively high constituency demands. While *corporatist* politics in Tree Jasmine put municipal finances in a worse-case scenario, nonetheless, *fair and conservative* politics in Old Northwest does not seem helpful in getting city hall out of fiscal instability.

\(^9\) See explanation of the use of the term ‘bad luck’ in footnote 3 of Chapter One
City visits and intensive field work were carried out during the research. Two major data sources were gathered, each of which was used to check on the validity of the information compiled from one data source to another, and to help fill in case narratives. First, official documents were collected and analyzed. They were compiled mostly from primary sources (e.g., city profiles, city’s medium-term strategic plan, annual financial reports, tax and revenue collection databases, budget documents, etc.) owing to the limited availability of secondary data. Town hall meeting minutes, media and local newspapers, and other official documents were also consulted in order to delineate critical issues regarding taxes and communal service demands.

Second, key informants were identified and interviewed, and when possible council meetings and public events were observed, especially in the City of Old Northwest and the City of East Sea Beaches. A snowball sampling method was also used to help identify other key informants. Principally, the researcher visited the cities and interviewed the same persons for several times until they trusted the researcher and provided honest information (see details on interview schedules in the reference section). Interviews focused on retrospective and current elements. From time to time, attempts were made to delineate the historical and contemporary backgrounds of each city’s finances.

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10 To date, publicly available statistics on local government finance are nationally aggregated, compiled by the Department of Local Administration (DoLA) and the Office of Decentralization Commission, Office of the Prime Minister’s Office. However, such aggregate data do not allow for any meaningful analysis of local fiscal conditions as once argued by Bahl (1984). Thus, the alternative strategy was to collect fiscal and related data through primary sources by the researcher, resulting in a relatively small sample size.

11 This was because these two cities were more politically open and more cooperative to the researcher.
Interviews usually lasted between 30 to 60 minutes though in a handful of cases they lasted over an hour. The subjects were informed of the nature of research and of their rights as participants. Additionally, informed consent was also obtained prior to the interview (see Appendices 8 and 9 for interview consent form and list of interview questions, respectively). Most of the interviews were semi-formal at city halls or other convenient places, e.g., other governmental offices, hallways, cafeterias, etc. In the rare case, telephone interviews were made (e.g., when informants were on distant business trips). Please note that an audio recorder was not used during the interviews as most involved discussion of suspicious financial management practices of a city government in which key informants were working. This helped in creating a climate in which the interviewees felt more comfortable to providing both factual data and their opinions.

Numerical data included municipal revenues and expenditures, and socioeconomic variables covering the period from FY 2001 to FY 2006. This resulted in the maximum observations of $14 \times 6 = 84$ for the multiple regression analyses of revenue-raising capacity and expenditure need, although missing data reduced this number. The Fiscal Years 2001 – 2006 were selected for two practical reasons: First, they were readily available for most of the studied cities (10 out of 14). Secondly, the expenditure data before FY 2001 were presented in a line-item format, which is not suitable for analyzing expenditure needs. The program budget in the Thai municipality has only been in place since FY2001.

After examining the budget and socioeconomic data, personal interviews with past and current participants in the four selected cities and, in some instances, non-participant observations of routine activities were made. A number of city officials were
interviewed, including city mayors or deputy city mayors (past and present), chairmen or secretary of city councils, city clerks or deputy city clerks, budget directors, city planners, fiscal directors, directors of public works, directors of social welfare and services, and heads or staffs of some relevant operating units (e.g., school principals, environmental management, tax collection, etc.). Neighborhood leaders, interest group representatives, and external consultants or auditors to the cities were also interviewed in order to gather all needed information.

However, three critical issues should be noted here: examining a city’s fiscal conditions was full of concealments and threats to the validity of this research. Each informant had his or her own normative views on a city’s fiscal conditions and on how to manage local finances. In addition, many people were quite suspicious of the researcher and eventually raised concerns that the information might be made publicly available. Thus, great care was taken to validate the data from several sources. Also, promises by the researcher to keep them anonymous were solemnly made.

Additionally, the depth of each of the four cases varies slightly due to the access to needed data and key informants. Some cities have poor data collection and retrieval systems. Thus, public records essential to the support of major arguments might be restricted. Additionally, the researcher gained limited cooperation for some of the studied cities. Several contacts had been made in order to gain access to key officials in city halls, but failed. Notwithstanding, the researcher attempted to make every effort to reach the targeted informants, by either official (direct) contacts or personal connections via snowballing. It is believed that the case presentations are consistent and comparable in their
depth and that the cases themselves are rich enough to make convincing arguments to the research questions posed.

Finally, as commonly known for the case study research, the cases might have weakness in terms of generalization, especially the unusual findings of Riverside Pagoda Suburban City. Although several suburban cities in Thailand share some common socioeconomic and political characteristics, the case explanations of Riverside Pagoda might not be well applicable to other Thai suburbs in general. Despite this limitation, the case method fits the current research purposes and has the merit of elaborating the causes and characteristics of Thai municipal fiscal conditions. This is what Yin (1994) calls *analytic generalization* rather than *statistical generalization* and should not devalue the analytical findings that follow.
CHAPTER FIVE
MEASURING MUNICIPAL FISCAL CONDITIONS

As discussed in previous chapters, existing research has not made much headway in the analysis of local fiscal conditions in developing nations, especially in Thailand. In this chapter, the results of Thai municipal fiscal conditions are discussed. The data for this research was primarily collected from 14 cities scattered around Bangkok Metropolis and the eastern region of Thailand which covered FY2001 to 2006, resulting in a panel data set of approximately 84 observations\(^1\). Pooled OLS with lagged dependent variables (LDVs) was employed as the estimators of revenue-raising capacity (RRC) and expenditure need (EN) due to some properties of the data set. Details concerning samples and analytical methods are referred to in Chapter Four.

This study employs the capacity-need framework in measuring fiscal conditions as advanced by Martinez-Vazquez and Boex (1997a, 1997b), Dye (1984), and Ladd and Yinger (1989) because it attempts to assess if the selected cities are fiscally able to provide services commensurate with constituency needs. Overall, the findings show that the selected measures of revenue-raising capacity and expenditure need provide a satisfactory picture of Thai municipal fiscal conditions when compared to that of U.S. cities during the past two decades. Economy-based cities are fiscally healthy; whereas, large, highly populous central cities as well as semi-rural, residential areas are fiscally weak. And, even more surprising is that Thai suburbs are also fiscally poor.

\(^1\) However, missing data reduced this number.
In order to enhance the presentation of the data analyses and comprehension of the findings that follow, analyses of Thai municipal fiscal conditions proceed in the following manner: general characteristics of the cities being examined, the city’s socioeconomic conditions, the city’s revenue-raising capacity (RRC), the city’s expenditure need (EN), the city’s overall fiscal condition (or fiscal health index: FHI), and an evaluation of the current research findings within the existing literature. All presentations of the findings are grouped by the city’s socioeconomic characteristics as commonly performed in the literature.

Overview of the Sample

This study constitutes 14 municipalities (with a population size of over 10,000) located near the capital of Thailand and in the eastern region. The sample shows that its population size and density, as well as its economic and population growth rates, were comparable to the national averages (see the last two rows in Table 5-1), suggesting a non-biased representation of Thai cities in general. The sample is also comprised of cities with diverse socioeconomic activities, of different population sizes, and, most important, of varying economic and social changes (rapidly growing, moderately growing and declining). These diverse city characteristics help illuminate the comparative perspective of Thai municipal fiscal conditions.
<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Urban City:</strong></td>
<td>Nakornpatom, Nonthaburi, and Pakkred (3)</td>
<td>Commercial (retails; wholesales); service-related businesses; governments; and educations</td>
<td>167,464 (5,256)</td>
<td>3,417.1</td>
<td>2,158.6</td>
<td>4,909.4 (2,765.2)</td>
<td>4.9</td>
<td>-1.6</td>
</tr>
<tr>
<td><strong>2. Suburban City:</strong></td>
<td>Chacheongsao, Rayong, Patumthani, Samutsakorn, and Samutprakarn (5)</td>
<td>Commercial (retails; wholesales); small scale industries</td>
<td>55,269 (4,436)</td>
<td>3,827.2</td>
<td>3,076.7</td>
<td>6,219.8 (3,843.0)</td>
<td>39.6</td>
<td>-8.5</td>
</tr>
<tr>
<td><strong>3. Semi-rural City:</strong></td>
<td>Bangbuatong, Kratumban, Panadmikhom, and Prachinburi (4)</td>
<td>Commercial (retails); agriculture and agriculture-related manufactures</td>
<td>18,722 (4,482)</td>
<td>3,620.1</td>
<td>5,397.3</td>
<td>7,148.1 (4,754.3)</td>
<td>46.3</td>
<td>5.4</td>
</tr>
<tr>
<td><strong>4. Industry-based City:</strong></td>
<td>Maptaput, and Pattaya (2)</td>
<td>Tourism, service industries, commercial business; and large-scale manufacturing industries</td>
<td>70,438 (364)</td>
<td>10,798.5</td>
<td>9,075.5</td>
<td>16,334.4 (6,068.6)</td>
<td>55.1</td>
<td>20.0</td>
</tr>
<tr>
<td><strong>Sample Average</strong></td>
<td>48,577 (4,048.6)</td>
<td>4,666.8</td>
<td>4,403.6</td>
<td>8,716.6 (4,778.7)</td>
<td>30.8</td>
<td>1.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>National Average</strong></td>
<td>45,698 (4,108.5)</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>31.8</td>
<td>0.9</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: Data was compiled from primary sources, except for national-level data, which was taken from the Office of National Economic and Social Development Board of Thailand. The figures were calculated by the author. n.a. is referred to as not available.

Notes: Approximately 34 Thai baht is equivalent to 1 USD (as of May, 2009). Monetary figures are at the current prices in 2000, calculated on a per capita basis. Average population sizes are median values. Population density is the number of population per one square kilometer.
From 2001 to 2006, 14 cities varied considerably in terms of population size, per capita revenue and spending, and socioeconomic changes. Based on socioeconomic orientations, these cities can be classified into four major groups as shown in Table 5-1. The first group of cities is highly urbanized, consisting of three central cities within Bangkok Metropolitan area, and has a median population of 167,464. Next, five suburban cities skirt the central and heavy-industrial zones and have a median population of 55,269. Another four cities are small, residential cities located in semi-rural areas and have a median population of 18,722. The last group of cities is unique in that the cities are within economically concentrated areas. One of the two cities is a major tourism city and the other is the hub of heavy manufacturing industries (e.g. petrochemical, steel, energy and power) in Thailand. The analyses that follow will rely on the city classifications just discussed.

In terms of local revenue per capita, excluding intergovernmental transfers, or column 5 of Table 5-1, the 14 cities collected revenues of about 4.7 thousand baht (or about $110 US) on average in FY 2006. Two cities in the last category (Maptaput and Pattaya) were exceptional, due mainly to their large economic endowments. They earned tax revenues per capita about 2.3 times higher than the average city. Equally interesting is the distribution of intergovernmental transfers among cities. Column 6 of Table 5-1 signifies the notion of horizontal equalization and special city needs in allocating transfers. Less urbanized cities (group 3) tended to receive a greater amount of fiscal transfers on a per capita basis than did more urbanized cities (groups 1 and 2). On the other hand, the special industrial districts (group 4) received the largest amount of fiscal transfers per capita due mainly to national priorities which aimed to promote tourism
industries in Pattaya City and to promote economic and industrial infrastructure development in Maptaput.

Interesting pieces of information are revealed in columns 8 and 9 in Table 5-1. There was evidence of growth and decline in cities in this study. Central cities faced a population decline of about 1.6% between 2001 and 2006 and their economies grew more slowly than did the sample and national averages (compare with the last two rows of the table). By contrast, the economy and the population of industry-based cities grew significantly higher than those of the sample and national averages. Suburbs and semi-rural areas exhibited unique patterns. On average, the economy in suburban cities grew moderately from 2001 to 2006, while their population declined as much as 8.5%. It might be the case that those who migrated from suburban cities were low-skilled or unproductive laborers such that the impact of emigration on city economies was trivial. On the other hand, it was fascinating that semi-rural cites experienced significant growth from 2001 to 2006. On average, their economy and population grew 46.3% and 5.4%, respectively.

In short, the patterns of growth and decline in central and economy-based cities were somewhat comparable to the U.S.’s in the past two decades, while those of the suburban and semi-rural cities were inconsistent. The next section will examine whether these socioeconomic changes have a direct relationship with municipal fiscal conditions.

**Revenue-Raising Capacity (RRC)**

The analysis of municipal revenue-raising capacity follows the framework provided by Martinez-Vazquez and Boex (1997a, 1997b) and Dye (1984). Major
determinants of the RRC consist of city economic wealth, demography, and city economic development (see further explanations in Chapter Four). Pooled OLS with lagged dependent variables (LDVs) were employed. The predicted values of each of the five major municipal taxes/revenues following from the pooled OLS with LDVs estimations were summed in order to obtain the overall revenue-raising capacity (RRC) per capita.

Generally, all of the regression models did a good job in explaining municipal revenues, with the exception of excises and alcohol taxes (adjusted $R^2$ were between .846 and .996, with $p$-values < .001). The full regression results are reported in Appendix 5.

Table 5-2 shows the estimated RRC, grouped by city types. For ease of interpretation, only the RRCs of FY 2002 and FY 2006 were reported. The estimates of the RRC in FY 2001 were not derivable due to the use of pooled OLS with lagged dependent variables.

<table>
<thead>
<tr>
<th>City group</th>
<th>2006</th>
<th>2002</th>
<th>Average growth rate of RRC (FY 02-06)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RRC</td>
<td>Relative to the</td>
<td>RRC</td>
</tr>
<tr>
<td></td>
<td>(baht per capita)</td>
<td>mean (%)</td>
<td>(baht per capita)</td>
</tr>
<tr>
<td>1. Central</td>
<td>3,531.1</td>
<td>84.8</td>
<td>1,547.4</td>
</tr>
<tr>
<td>2. Suburb</td>
<td>3,181.5</td>
<td>76.4</td>
<td>1,729.7</td>
</tr>
<tr>
<td>3. Semi-rural</td>
<td>3,009.4</td>
<td>72.3</td>
<td>1,783.4</td>
</tr>
<tr>
<td>4. Industry-based</td>
<td>9,291.0</td>
<td>223.2</td>
<td>6,298.8</td>
</tr>
<tr>
<td>Average</td>
<td>4,162.4</td>
<td></td>
<td>2,402.9</td>
</tr>
<tr>
<td>S.D.</td>
<td>2,481.3</td>
<td></td>
<td>1,782.3</td>
</tr>
<tr>
<td>Min</td>
<td>2,660.3</td>
<td></td>
<td>1,048.4</td>
</tr>
<tr>
<td>Max</td>
<td>11,564.9</td>
<td></td>
<td>6,869.9</td>
</tr>
</tbody>
</table>

Notes: RRC was shown as Thai baht per capita (about 34 baht is equivalent to 1 USD, as of May 2009). Relative to the mean refers to the proportion of RRC of each city group to the sample average.
Table 5-2 clearly shows that the industry-based cities (group 4) had about two times higher RRC per capita than the average city in FY 2006, or about 9,291.0 baht per capita as compared to the sample average of 4,162.4 baht per capita (about 34 baht is equivalent to 1 USD, as of May 2009). Their relatively large economic endowments as compared to other city groups help to make this possible. By contrast, semi-rural cities (group 3) had the lowest RRC of about 3,009.4 Thai baht per capita in the same period, or about 72% of the average city. This is reasonable since their socioeconomic conditions might not be able to yield much tax revenue given the average level of tax efforts.

Likewise, large, highly populous central cities (group 1) and suburban areas (group 2) exhibited moderately low levels of taxing capacity per capita in FY 2006, of about 3,531.1 and 3,181.5 baht per capita, respectively, or approximately 85% and 76% of the sample average. Still, whether the relatively low or high RRCs contributed to weak or strong fiscal condition will be examined in the subsequent section.

Uneven changes in the RRCs among the four city groups (see the last column of Table 5-2) provide some clue for further investigation. For instance, the central cities exhibited a rapid growth in the RRC from about 1,547.4 to 3,531.1 Thai baht per capita or approximately 128.2% growth, while that of the semi-rural areas was somewhat moderate (about 68% growth from 1,783.4 in FY 2002 to 3,009.4 baht per capita in FY 2006). The industry-based cities also faced a slight increase in the RRC (from 6,298.8 to 9,291.0 baht per capita or about 47.5% growth). Why did the cities of different socioeconomic characteristics experience somewhat disparate changes in the RRC? Could this be a result of political and administrative adjustments to the changing socioeconomic environments or was it a product of the on-going devolution movement?
In-depth case analyses (Chapter Six) will explore how budget actors in each of the city groups initiated fiscal policies in response to the external environments in the past few years.

*Expenditure Need (EN)*

The analysis of expenditure need followed the procedures developed by Ladd and Yinger (1989). Six service programs were included in the expenditure need analysis. Service cost indices were estimated from the pooled OLS with LDVs (see further discussions in Chapter Four). Overall, the regression models were reasonable in explaining the six spending programs (adjusted $R^2$ were between .679 and .902, with $p$-values < .001 for all models). The estimation results are reported in Appendix 6.

Table 5-3 presents cost indices of six service programs for the four city groups. Their baseline is set equal to 100. A higher value indicates a higher service cost per unit, meaning that a city requires more fiscal resources in order to provide services of an average quality. The table shows that large, highly populous central cities (group 1) tend to have higher service costs than the average cities for all service functions (about 3.6 times higher than the average for public safety [column 1] to about 4.7 times higher for housing and community services [column 4] and so on). This finding is somewhat congruent with that of Ladd (1992) where higher density cities are more likely to have higher service costs. Perhaps, this is because having a large population size makes it more difficult for a city government to provide services in an efficient manner, or because the central cities offer a significantly higher number of services than on average (Warner and Hefetz 2002).
Table 5-3: Public Service Cost Indices and City’s Expenditure Needs

<table>
<thead>
<tr>
<th>City group</th>
<th>Public Safety</th>
<th>Education (K-12)</th>
<th>Public Health</th>
<th>Housing &amp; Community services</th>
<th>Social Welfare</th>
<th>General Administration</th>
<th>2006 EN index</th>
<th>2002 EN index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Central</td>
<td>360.3</td>
<td>165.4</td>
<td>96.1</td>
<td>476.9</td>
<td>226.4</td>
<td>219.3</td>
<td>111.1</td>
<td>131.7</td>
</tr>
<tr>
<td>2. Suburb</td>
<td>132.7</td>
<td>114.6</td>
<td>37.2</td>
<td>200.3</td>
<td>215.0</td>
<td>107.5</td>
<td>93.5</td>
<td>78.2</td>
</tr>
<tr>
<td>3. Semi-rural</td>
<td>148.1</td>
<td>94.4</td>
<td>80.8</td>
<td>228.1</td>
<td>169.6</td>
<td>113.8</td>
<td>82.9</td>
<td>58.2</td>
</tr>
<tr>
<td>4. Industry-based</td>
<td>151.6</td>
<td>168.3</td>
<td>98.1</td>
<td>157.4</td>
<td>229.5</td>
<td>121.7</td>
<td>125.1</td>
<td>148.8</td>
</tr>
<tr>
<td>Average</td>
<td>191.7</td>
<td>129.9</td>
<td>70.2</td>
<td>264.0</td>
<td>209.4</td>
<td>136.9</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>S.D.</td>
<td>110.1</td>
<td>50.6</td>
<td>36.4</td>
<td>142.4</td>
<td>56.8</td>
<td>56.7</td>
<td>26.4</td>
<td>51.8</td>
</tr>
<tr>
<td>Min.</td>
<td>73.6</td>
<td>83.1</td>
<td>4.0</td>
<td>129.2</td>
<td>111.8</td>
<td>75.5</td>
<td>69.2</td>
<td>39.5</td>
</tr>
<tr>
<td>Max.</td>
<td>453.2</td>
<td>252.7</td>
<td>129.6</td>
<td>580.6</td>
<td>311.0</td>
<td>263.4</td>
<td>145.3</td>
<td>211.6</td>
</tr>
</tbody>
</table>

Note: Baseline of indices was set equal to 100

In a similar vein, industry-based cities (group 4) had a tendency to have more expensive service costs than the average city, with the exception of public safety, housing, and general administration. Education, public health, and social welfare programs exhibited higher costs than the average (about 168.3, 98.1, and 229.5, respectively) possibly because they are essential for economic and human capital development in accordance with the nature of the cities. By contrast, suburbs (group 2) and semi-rural cities (group 3) were better off than the former two city groups in that they exhibited relatively lower cost indices for most service functions. Presumably, residents in these two city groups may be less demanding for and/or dependable on municipal services.

It should be noted that the cost indices for the public health programs (column 3) were relatively lower than those of the other service programs (ranging between 37.2 and 98.1). Perhaps, this was because in 2002 the national government embarked on national
healthcare coverage. This may more or less help to relieve constituency demands for healthcare services and eventually, financial burdens for general localities. This is also evidence showing that national government actions create the fiscal environment in which municipalities must operate (in this case it is a favorable environment) as argued by scholars elsewhere (e.g., Peterson 1981; Ladd and Yinger 1989; Warner 1999).

Columns 7 and 8 of Table 5-3 present the expenditure need indices of the cities studied for FY2002 and FY2006. The base value for the expenditure need index was set equal to 100. The value above the base means that a city requires more resources on average in order to fulfill its service obligations as compared to other cities in the sample. From Table 5-3, it is revealed that central cities exhibited a slightly higher expenditure need in 2006, or about 11% above the norm. Industry-based cities also demanded a higher level of public services. By contrast, residents in suburbs and semi-rural areas tended to have a significantly lower level of service needs than the average. There are a few reasons that potentially account for the expenditure need differentials. Detailed analysis suggest that populations in central cities are presumably the poorest among the four city groups, as reflected in gross city product (GCP) per capita between 2001 and 2006. Their average GCP per capita was about 21.4%, 43.2%, and 13.2% of that of the suburban, semi-rural, and industry-based counterparts, respectively. Hence, residents in the central areas might demand more for services and assistance provided by their respective government. Alternatively, industry-based cities demanded a relatively higher level of services which could be due in part to special needs for socioeconomic development. As before, in-depth case analyses will help validate this interpretation.
Before proceeding, please note that the information contained in Table 5-3 is crucial for the in-depth case analyses that follow (Chapter Six). This table will serve as a basis for judging how adequately a city government in each of the four city groups fulfills constituents’ needs for each respective service program. The higher cost indices indicate that a city still does not match with the sampled cities in providing services and require that it spend more for such services.

**City’s Fiscal Health**

According to Ladd and Yinger (1989), the city’s fiscal health index (FHI) was quantified from a difference between revenue-raising capacity (RRC) and expenditure needs (EN), expressed as a percentage of capacity. Or algebraically, the FHI is 

\[
\frac{\text{RRC} - \text{EN}}{\text{RRC}} \times 100
\]

The FHI quantitatively identifies a city’s relative ability to finance its service responsibilities as compared to the sampled cities, given the city’s economic, social and demographic characteristics. The index has a base value of zero. A positive index implies a city’s taxing capacity is greater than its expenditure need, indicating that the city’s fiscal condition is relatively strong.

Following Ladd and Yinger’s (1989) procedures for calculating the FHI, a city’s EN indices were first converted to monetary terms (Thai baht per capita) so that they could be compared with the RRC. The average EN was set equal to the average RRC, indicating that on average cities use up their capacity. The next step was to calculate the city’s FHI, as discussed above. Table 5-4 below depicts the indices of FY 2002 and FY 2006 (columns 4 and 5).
<table>
<thead>
<tr>
<th>City group</th>
<th>2006 RRC (baht)</th>
<th>2006 EN index</th>
<th>Converted EN (baht)</th>
<th>2006 Fiscal Health Index</th>
<th>2002 Fiscal Health Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Central</td>
<td>3,531.1</td>
<td>111.1</td>
<td>4,625.9</td>
<td>-30.8</td>
<td>-117.2</td>
</tr>
<tr>
<td>2. Suburb</td>
<td>3,181.5</td>
<td>93.5</td>
<td>3,893.4</td>
<td>-23.9</td>
<td>-13.1</td>
</tr>
<tr>
<td>3. Semi-rural</td>
<td>3,009.4</td>
<td>82.9</td>
<td>3,451.3</td>
<td>-15.2</td>
<td>3.3</td>
</tr>
<tr>
<td>4. Industry-based</td>
<td>9,291.0</td>
<td>125.1</td>
<td>5,206.2</td>
<td>42.7</td>
<td>40.5</td>
</tr>
</tbody>
</table>

Average: 4,162.4 100.0 4,162.4 -13.2 -27.5
S.D.: 2,481.3 26.4 1,099.5 37.0 78.5
Min.: 2,660.3 69.2 2,881.6 -82.0 -214.4
Max.: 11,564.9 145.3 6,046.2 47.7 69.9

Notes: RRC was shown as Thai baht per capita (about 34 baht is equivalent to 1 USD, as of May 2009). EN index was converted from index values to Thai baht per capita. Then, the fiscal health index (FHI) was calculated from \((RRC - EN) / RRC \times 100\). A positive FHI value indicates a relatively healthy fiscal condition.

The fiscal health index (FHI) indicates that highly populous, central cities were highly distressed. In FY 2006, they lacked approximately 31% of their fiscal capacity to fulfill constituents’ needs as compared with other city groups (see column 4). Likewise, semi-rural, residential cities had relatively weak fiscal conditions in the same period, thereby lacking about 15% of taxing capacity. On the contrary, industry-based cities were fiscally strong in FY 2006, having about 43% of higher capacity than needed. In light of these findings, a concrete answer to the current research question is evident.

Municipalities in the large central cities and in the semi-rural based areas tend to have financial difficulties in meeting their service obligations, as compared to industry-based cities.
Notwithstanding, it was fascinating that the Thai suburbs had a relatively weak fiscal position. In FY 2006, about 23% of their taxing capacity was essential in order to fulfill service needs. This finding was contradictory to past research (e.g., Hendrick 2004) in that suburbs in the U.S. usually possessed healthy fiscal conditions when compared to the central or inner-ring cities. However, this was not the case for Thai suburbs. What explains such a contradiction? Recall from Table 5-1 that suburban cities experienced a population decline (about -1.4% annually) while its economy grew (about 6.6% annually in a real term) during the study period. Would population decline, instead of a growing economy, largely explain the case for poor fiscal conditions in the Thai suburbs? Or, are there other institutional and political factors that might be more influential in explaining the fiscal conditions of the Thai suburbs? As previously stated, in-depth case investigations of the Thai suburbs would provide a more convincing account for such a divergence.

Finally, non-uniform changes in the FHI values across four city groups over the study period also merit further discussion. Comparisons between columns 8 and 9 of Table 5-1 and columns 4 and 5 of Table 5-4 reveal that the connection between the socioeconomic and the FHI changes over the 5-year span is less clear. Hence, there is adequate evidence to believe that differentials in the FHI changes are not triggered by the cities’ socioeconomic alterations, but instead by other factors. For example, socioeconomic changes in central cities (group 1) and in suburban and semi-rural areas (groups 2 & 3) from 2001 to 2006 were in an opposite direction in comparison to their changes in the FHI. Central cities facing economic and population declines during 2001 and 2006, as exhibited in Table 5-1, had improved their fiscal conditions as appear in
Table 5-4 (from about -117.2 FHI value in 2002 to -30.8 FHI value in 2006), although they were still relatively weaker than other cities. By contrast, semi-rural cities and suburban governments had poorer fiscal conditions (from about 3.3 FHI value in 2002 to -15.2 FHI value in 2006 for the semi-rural cities and about -13.1 FHI value to -23.9 FHI value for the suburbs) despite the fact that they experienced significant economic growths of about 46.3% and 39.6%, respectively, from 2001 to 2006. In short, the changes in the cities’ socioeconomic conditions over the 5-year span did not seem to provide sufficient cause to explain the FHI variations across city groups and time.

Since massive tax and expenditure assignments have been directed to local authorities during the devolution movement in the late 1990s (see discussions in Chapter Three), Thai local authorities may or may not respond favorably to such administrative changes. Such diverse political and administrative adjustments are evident in several East Asian countries (Bahl and Wallace 2005; World Bank 1999, 2005) as well as in some transition economies and Latin American countries (Owsiak and Owsiak 2001; Gonzalez 2008). In this respect, non-uniform FHI changes are more likely to result. The FHI changes depict that the decentralization movement has been financially beneficial to large, urbanized municipalities, where fiscal conditions were strengthened. In contrast, decentralization has possibly weakened the fiscal position of the rural-based as well as suburban governments.

This finding probably indicates one shortcoming of past decentralization efforts: imbalanced revenue and expenditure assignments to municipalities. Service responsibilities imposed on municipalities in the semi-rural areas as well as suburbs might be too overwhelming for them to take on viably. Hence, tax and expenditure
re-assignments, especially for the suburban and the semi-rural cities, might be essential. Still, political and administrative adjustments of these two city groups might not be in the direction as argued for by decentralization proponents (e.g., Bahl and Wallace 2005; White and Smoke 2005). That being the case, poor politics and/or bad budgeting of these cities might account for their worse fiscal conditions over time. Thus, the qualitative case analysis (Chapter Six) might help to reveal this possibility.

It should be noted that this interpretation should be viewed as suggestive since the FHI data for the years before the 1999 decentralization were unavailable. If the data had been available, a more concrete statement might be made.

Evaluating the Fiscal Condition Findings

This chapter measures the fiscal conditions of Thai municipal governments since comparative research in this area, particularly from a developing country like Thailand, is extremely limited. Although Thailand is not representative of all developing nations, its moderate level of socioeconomic development makes the country worth learning from. In this chapter, concrete answers regarding the fiscal capacity of Thai municipalities have unfolded. Evidence from 14 major cities during FY 2001 and FY 2006 indicates that, as revealed by the American-born measures of fiscal condition developed by Martinez-Vazquez and Boex (1997a, 1997b), Dye (1984), and Ladd and Yinger (1989), municipal governments in industry-based cities had a relatively higher RRC per capita. This was because their voluminous economic endowments directly enhanced municipal tax bases. As such, they experienced relatively strong fiscal conditions throughout the period of the current study.
On the contrary, it was unfortunate for large, highly populous central cities that they not only faced relatively low RRC per capita, but also experienced higher production costs and expenditure needs. In effect, the central cities ended up having a relatively weak fiscal condition, at least during the period of this study. However, the same was true, though to a lesser degree, for semi-rural, residential cities. This was because they normally had limited access to tax bases and, thereby, low taxing capacity relative to their expenditure needs.

It was not certain why suburban cities experiencing economic expansion from 2001 to 2006 exhibited relatively poor fiscal conditions. This finding was quite inconsistent to the cities’ supportive socioeconomic circumstances and contradictory to the existing research in the U.S. (e.g., Hendrick 2004; Bell et al. 2004; Dluhy and Frank 2002). Was this inconsistency attributable to some unexplored factors (e.g., politics and administration) or was it attributable to the restricted external validity of the measures used in this research? In order to answer these questions, detailed case examinations are provided in order to assist in solving this puzzle.

How well do these selected measures depict the fiscal condition of a Thai municipality? One way to answer this question is to evaluate the current research findings within the past experiences of U.S. cities. Empirical studies in the 1970s and 1980s indicated that highly populous, central cities, particularly those in the Northeast and Midwest of the U.S., were often identified as having severe fiscal conditions (Dearborn et al. 1992; Ladd and Yinger 1989; Mercer and Goldberg 1984; Kamer 1983; Bradbury et
al. 1982; J. Petersen 1980; CBO 1978; Stanley 1976). In addition, the literature exhibited the existence of fiscal stress in small or rural-based cities due to their limited taxing capacity, small tax bases, and restricted management capacity (Ward 2001; Dougherty et al. 2000; Honadle and Lloyd-Jones 1998; Badu and Li 1994; Koven and Koven 1989; Weinberg 1984). On the other hand, scholars also found that suburban municipalities tended to be more fiscally healthy than inner city areas (e.g., Hendrick 2004; Bell et al. 2004; Dluhy and Frank 2002).

In light of the previous research discussed above, it is not an exaggeration to say that although this application is restricted to the case of the suburbs, the current research provides a satisfactory picture that municipal fiscal conditions in Thailand are somewhat consistent with the U.S. experience. Although past studies employed different analytical methods and estimation procedures from one to the other (from financial ratio analysis, to socioeconomic indicators, and to bond ratings) and from the measures being employed in this study, they have obtained reasonably consistent results as contended by scholars elsewhere (e.g., Bahl at al. 1992; Bahl 1984).

In short, the current research demonstrates a moderate strength of the selected measures of fiscal conditions in that they might be flexibly adjusted in order to fit the local context, while still providing a sensible picture of Thai municipal fiscal conditions in general, as compared to known research findings from the U.S. Since Thailand is a typical case of developing nations, it is believed that the same analytical measures and procedures as utilized in the current study can also be applied to other developing societies in order to uncover the fiscal conditions of their localities. Admittedly, more

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2 It should be noted that studies from other well developed societies also exhibited the existence of fiscal strain in central cities relative to the outer cities. See further references in Chapter Two.
empirical evidence is still needed in order to judge if the selected measures are generally applicable to other nations beside Thailand. At the very least, this study leaves substantial room for future comparative research in the municipal fiscal condition analysis.

Furthermore, this study highlights the importance of the study of local fiscal conditions in developing societies, particularly those currently undergoing decentralization. The findings of Thai municipal fiscal conditions suggest that imbalanced transfers of fiscal resources and service responsibilities, especially those that happen within the suburban areas and small scale, semi-rural localities, might hinder, rather than expedite the decentralization movement. If reform efforts are not able to adequately fund the newly devolved service functions into the hands of local territories, it is likely that the decentralization movement will struggle. This was experienced before in Poland during the late 1990s (Owsiak and Owsiak 2001). Clearly, the analysis of fiscal conditions can help generate needed information for the reform purpose.

Notwithstanding, there are some inconsistencies in the research findings here and with prior literature that deserve further investigation. As the data in Tables 5-1 and 5-4 indicate, on average, suburban areas faced population decline while their economies grew during this period of study; it turns out that the suburban cities experienced poorer fiscal conditions. Similarly, while semi-rural cities experienced significant economic and population expansions from 2001 to 2006, they still experienced fiscal distress.

The literature suggests that a growing economy and a growing population will induce improved municipal fiscal conditions (Inman 1995; Chernick and Reschovsky 2001; Ladd and Yinger 1989; Kamer 1983; Bradbury 1982). However, the Thai suburbs that experienced economic growth simultaneously with population declines had relatively
weak fiscal conditions. Likewise, the rapidly growing rural areas had relatively weak fiscal conditions. Such divergence from the literature suggests that there might be some other determining factors of municipal fiscal conditions left unexplored in the quantitative analysis, particularly local political performance and the role that budget actors play in managing organizational finances.

In the next chapter, attention will be paid to explaining these inconsistencies, while focusing on the political and administrative dimensions of local fiscal conditions as contended by scholars elsewhere (e.g., Chapman et al. 2003; Dluhy and Frank 2002; Lowery 1984; Clark and Ferguson 1983; Rubin 1982; Tabb 1982). Can it be possible that the economically growing rural-based, as well as suburban cities managed themselves into fiscal strain despite their supportive socioeconomic environments? The budgetary roles framework as developed by Wildavsky (1975, 1984), Schick (1980), and Good (2007) will be employed in order to guide the analysis in a subsequent chapter.
CHAPTER SIX
EXPLAINING THE MUNICIPAL FISCAL CONDITIONS

In order to explain municipal fiscal conditions in Thailand in a more meaningful sense, four cases were selected from each of the four city groups based on their socioeconomic characteristics and the fiscal condition findings as revealed in Chapter Five\(^1\). It is expected that the findings that emerge from the cases help (i) to add qualitative meanings to the quantitative analysis made earlier; (ii) to deepen our understanding of the political dynamics and causes of municipal fiscal conditions in Thailand; and (iii) to explain some inconsistencies of the quantitative findings to the existing literature.

The first case study, which shall be called *East Sea Beaches*, represents a fiscally healthy industry-based city and serves as a benchmark of relatively good politics and budgeting. However, the second case, *Riverside Pagoda* reflects a situation in which an economically healthy suburb faces ample financial woes due to its political wrong-doings and financial malpractices. Next, the case of *Old Northwest* depicts how good administration and politics, in a socioeconomically poor central city, seem helpless in pulling city finances out of instability. Finally, the semi-rural City of *Tree Jasmine* reflects dual conditions of poor socio-economy and poor politics, both of which contribute directly to the city’s fiscal incompetence. An overview of the cases is exhibited in Table 6-1.

\(^1\) Here, fictional names were assigned to the cities in order to minimize any harm to individual informants and the cities’ reputations.
Table 6-1: Overview of Four Selected Cases

<table>
<thead>
<tr>
<th>Socioeconomic conditions</th>
<th>City</th>
<th>City’s Politics and Administration a/</th>
<th>City’s Fiscal Condition b/</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supportive</td>
<td>East Sea Beaches (Tourism industry city)</td>
<td>Positive</td>
<td>Healthy</td>
</tr>
<tr>
<td></td>
<td>Riverside Pagoda (Suburban city)</td>
<td>Poor</td>
<td>Poor</td>
</tr>
<tr>
<td>Poor</td>
<td>Old Northwest (Central city)</td>
<td>Somewhat Positive</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tree Jasmine (Semi-rural city)</td>
<td>Weak</td>
<td></td>
</tr>
</tbody>
</table>

Notes:  

a/ Positive politics and administration refer to the situations in which (i) taxing and service policies are made to fit socioeconomic contexts and constituents’ need; (ii) budget actors satisfactorily perform their designated roles; (iii) financial malpractices and corruption are kept to a minimum; and (iv) budget control authority is strong. On the other hand, the poor politics and administration include, but are not limited to, (i) misplaced service priorities; (ii) unreasonably low tax efforts; (iii) unnecessarily escalated spending due to corruption, group pressures, or conflicts of interest of budget actors; and (iv) collapsed budgetary check-and-balance authority.

b/ A city’s fiscal condition is derived from Chapter Five.

Overview of Case Analyses

The case narrations and analyses are guided by the budgetary roles framework (Wildavsky 1975, 1984; Schick 1988; Good 2007) and presented in the following manner. First, socioeconomic conditions of a city are examined in order to gain an overview of a city’s taxing capacity and service needs. Next, the cases review how a city’s budget actors respond to communal circumstances via taxing and spending policies. The final part of the cases traces the political roots of a city’s taxing and spending activities.

In order to make all four cases meaningfully comparable and relevant to the objectives of the research, the analyses of healthy or poor fiscal conditions are included within the context of local public services, and not within a financial accounting sense. That is, the need-capacity framework signifies the importance of a city’s fiscal ability in meeting constituency demands. The imbalance of a city’s fiscal capacity and expenditure
needs can logically be observed from the situations in which (i) local tax/revenue policy is not well articulated and/or tax efforts are unreasonably low as compared to other cities’; (ii) a city can not curb municipal spending due to interest group pressures; (iii) unnecessarily inflated spending is prevalent; and (iv) constituency needs are persistently unmet or misplaced since the city’s policy priorities are inadvertently set. When one or more of these elements exist, city finances often result in a downward spiral.

The objective criteria for evaluating these elements come from different data sources. First and most important, the quantitative results obtained in Chapter Five are used as a starting point for the qualitative inquiries. In addition, official documents obtained from local authorities and interviews with key informants are incorporated in order to evaluate if the documents as well as the interview information contain concrete evidence in supporting the quantitative estimation of municipal fiscal conditions.

For revenues, detailed examinations of the data in Table 5-2 (the estimates of revenue-raising capacity) and of each city’s tax policies are made to see if a city puts efforts into mobilizing local taxes as compared to other cities. Here, a simple ratio between the city’s per capita tax revenues from five major revenue sources and its gross products per capita (GCP-PC) is utilized as an indication of local tax efforts. Although not perfect in incorporating a city’s wealth, it gives a good sense of how hard a city has attempted to mobilize needed fiscal resources. Table 6-2 below exhibits each city’s GCP-PC and its revenues per capita from the five revenue sources, as well as the average tax efforts of each respective city. As evident, cities of different socioeconomic types use varying tax efforts from a low of 0.6 percent on average in Riverside Pagoda to a high of 2.8 percent on average in East Sea Beaches during 2001 and 2006.
<table>
<thead>
<tr>
<th>Case</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Sea Beaches</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GCP-PC (baht)</td>
<td>231,060</td>
<td>246,277</td>
<td>253,797</td>
<td>263,704</td>
<td>316,455</td>
<td>355,042</td>
<td></td>
</tr>
<tr>
<td>Revenue (baht)</td>
<td>2,696</td>
<td>5,477</td>
<td>6,675</td>
<td>10,645</td>
<td>11,655</td>
<td>10,082</td>
<td></td>
</tr>
<tr>
<td>Tax effort (%)</td>
<td>1.2%</td>
<td>2.2%</td>
<td>2.6%</td>
<td>4.0%</td>
<td>3.7%</td>
<td>2.8%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Riverside Pagoda</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GCP-PC (baht)</td>
<td>320,834</td>
<td>330,913</td>
<td>329,768</td>
<td>345,409</td>
<td>388,308</td>
<td>410,066</td>
<td></td>
</tr>
<tr>
<td>Revenue (baht)</td>
<td>1,351</td>
<td>1,222</td>
<td>1,848</td>
<td>2,306</td>
<td>3,653</td>
<td>3,057</td>
<td></td>
</tr>
<tr>
<td>Tax effort (%)</td>
<td>0.4%</td>
<td>0.4%</td>
<td>0.6%</td>
<td>0.7%</td>
<td>0.9%</td>
<td>0.7%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Old Northwest</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GCP-PC (baht)</td>
<td>81,750</td>
<td>84,040</td>
<td>86,977</td>
<td>94,423</td>
<td>104,346</td>
<td>111,648</td>
<td></td>
</tr>
<tr>
<td>Revenue (baht)</td>
<td>992</td>
<td>1,226</td>
<td>1,903</td>
<td>3,042</td>
<td>3,451</td>
<td>3,106</td>
<td></td>
</tr>
<tr>
<td>Tax effort (%)</td>
<td>1.2%</td>
<td>1.5%</td>
<td>2.2%</td>
<td>3.2%</td>
<td>3.3%</td>
<td>2.8%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Tree Jasmine</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GCP-PC (baht)</td>
<td>58,950</td>
<td>61,082</td>
<td>62,829</td>
<td>67,468</td>
<td>72,420</td>
<td>82,064</td>
<td></td>
</tr>
<tr>
<td>Revenue (baht)</td>
<td>1,089</td>
<td>1,103</td>
<td>1,264</td>
<td>1,192</td>
<td>1,215</td>
<td>1,317</td>
<td></td>
</tr>
<tr>
<td>Tax effort (%)</td>
<td>1.8%</td>
<td>1.8%</td>
<td>2.0%</td>
<td>1.8%</td>
<td>1.7%</td>
<td>1.6%</td>
<td>1.8%</td>
</tr>
<tr>
<td>National Average</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GCP-PC</td>
<td>81,697</td>
<td>85,947</td>
<td>92,485</td>
<td>100,564</td>
<td>108,956</td>
<td>119,579</td>
<td></td>
</tr>
</tbody>
</table>
| Sources: City profiles and budget documents of the selected cities. Gross city products per capita (GCP-PC) and revenues are shown as Thai baht per capita (about 34 baht is equivalent to 1 USD, as of May 2009). Tax effort is a simple ratio between the city’s per capita tax revenues and its gross products per capita.

For expenditures, the estimated service cost indices as appeared in Table 5-3 serve as a yardstick for judging if spending levels for different service programs are congruent with service demands as captured by a city’s socioeconomic conditions. When the cost index for any one of the six service programs is relatively high, the expenditure needs for such a program tend to be high on the constituency list. Then, if the service delivery priorities of a city are not congruent with the constituents’ service demands, especially when the city spends more than the estimated level of the service needs, then the most likely result is a negative fiscal imbalance.

The first case examined is the City of East Sea Beaches, a famous tourism destination in Thailand. The city exhibits good fiscal conditions due to its economic
strength and its transparent and positive politics and efficacious administration. Key budget actors tended to fulfill their designated roles: (i) policy priorities were made to match constituency needs and tax mobilization policy was considered as essential in order to put the city finance in good shape; (ii) councils and financial watchdogs seriously guarded the municipal purse; (iii) constituency, business groups, and the media regularly monitored the operations of the municipal government; and (iv) department heads reasonably regarded fiscally viable service provisions when making budget requests.

The second case examined is the suburban city of Riverside Pagoda which is quite alarming due to its poor budget practices and old machine-style politics, both of which attribute to the city’s weak fiscal conditions, despite its economic strengths. Evidence was found of inflated expenditure needs, low tax efforts, fiscal mismanagement and inefficacies, personnel nepotism, political corruption, and weak budgetary control. Unfortunately, neither budget actors seemed to be aware of the city’s declining fiscal conditions.

The third case examined is the City of Old Northwest which is more sympathetic as a case in that its positive politics and professional administration seemed unhelpful in enhancing the city’s fiscal performances. The city is located in a highly populous, large-sized jurisdiction, and the government faced its own fiscal bad luck. On the one hand, community problems were very intense, particularly in terms of public safety and community infrastructure services. On the other hand, the city’s economic bases were quite restricted such that the city itself was not fiscally able to fulfill essential service needs, especially public safety and extensive infrastructures suitable for a large-scale city.
Finally, the City of Tree Jasmine exhibits the case of corporatist politics that largely account for the city’s poor fiscal conditions. Not only are the city’s socioeconomic bases relatively poor but profit-motivated politicians have kept the city finances in bad shape. Here, the politics of municipal schooling would be a great learning case that demonstrates how politicians padded their own pockets at the municipal expense. The city spent more on educational programs than it could viably afford and the collapsed budgetary control hardly helped to safeguard the municipal purse. In short, Tree Jasmine demonstrates that neither bad luck nor bad budget could be more helpful.

Overall, these four cases demonstrate cities of varying socioeconomic conditions and disparate political and administrative responses that the cities have made via their taxing and spending policies. One major conclusion can be drawn here: when local budget actors act in correspondence to (i) their designated roles of budgetary checks and balances as well as the constituents’ service needs; and to (ii) the effective handling of municipal purses (both taxation and spending) with respect to the city’s socioeconomic circumstances, the city’s fiscal conditions seem to be healthy.

**Case Study One: East Sea Beaches Tourism City**

*City’s Socioeconomic Bases*

The City of East Sea Beaches was incorporated in 1978, and is now one of the most renowned tourism destinations of Thailand. It is equipped with 15-kilometer long (approximately 9.3 miles), golden sand beaches and many tourist attractions; e.g., shopping malls, healthcare, spa services, hotels and resorts. Because of its unique
characteristics and close proximity to Bangkok, the City has been growing steadily over the past two decades and approximately 4 to 5 million tourists visit the city each year.

The City is located 140 kilometers (about 87 miles) eastside of Bangkok Metropolis. It governs an area of 208.1 square kilometers (about 80.4 square miles or 51,422.6 acres), which is part of an inland and costal area of 53.5 square kilometers (about 20.6 square miles or 13,205 acres). The rest is a sea area of 154.6 square kilometers (about 59.7 square miles or 38,202.5 acres). The population of the City is about 105,000 (FY 2007) and has grown approximately 3 percent yearly during 2000 and 2007, whereas the national population growth rate is about 0.9 percent per year during the same period.

Its economy consists mainly of hotel and tourism industries as well as recreation and related services. The City’s 2007 records showed that there were 293 hotels and service apartments with a total number of 34,007 service rooms (27.2% of the city gross product: GCP), 199 medium and large-scaled industries with a total employment of about 7,500 workforces (e.g., foods and beverages, tourism, health spa, metals and woods, etc.) (26.8% of GCP), households and retail businesses (42.5% of GCP), and others (education, government, etc.) (3.5% of GCP). As of 2007, eighty-seven percent of the labor forces were working in the hotel, services and manufacturing industries. The average annual income of the city residents was about 2.8 times higher than that of the national average during 2000 and 2007 (see detailed data in Table 6-2 above).2

As a hub for tourism and service businesses, “the City has invested drastically in terms of economic and public infrastructures”, said the Director of Public Works. He

2 The city’s gross products contributed to about 1 percent of the overall Thai economy, whereas a portion of the city population was just 0.17 percent of the entire kingdom during 2000 and 2007.
further added “we really needed a good quality of city infrastructures that helped to
further promote the city’s tourism economy.” City roads and pavements had been well
constructed and covered all business and residential zones, which is about 204.4
kilometers in length. Four sea ports were available for tourism businesses as well as
coastal and deep-sea excursions. In the past decade, the City expanded the capacity of its
wastewater treatment systems in 2000 in correspondence to its long-term vision to be one
of the world top five cities for living. Currently, the daily amount of wastewater from
hotels, resorts, and households is about 60,000 cubic meters and is expected to reach
approximately 85,000 cubic meters in the next 5 years. The City’s two wastewater
treatment plants (one is an activated sludge system and another is a combination of a
fixed activated sludge system) have a full capacity of handling waste water of 157,500
cubic meters a day.

Overall, because of the City’s extensive investments, its current communal needs
for housing and community services, including public works, are at the lowest levels
among the four city groups. This is clearly evident in column 4 of Table 5-3 where the
residents’ need for housing and community services (an index value of 157.4) is far
below the sample mean (or 264.0) in FY 2006.

Beside its economic infrastructures, the City has now focused developmental
priorities on social and human services (it spent about 20 percent of its annual spending
in FY 2001-2006). It ran twenty primary healthcare centers and eleven municipal schools
scattered around the jurisdiction. Nineteen parks were constructed in order to make the
city green and an additional hospital is under construction. In short, these services were
well ahead of those of other comparable size cities (see, e.g., the City of Old Northwest for comparison).

Furthermore, public safety is generally a high concern for the public everywhere. However, this was not the case in East Sea Beaches. The City’s rich economy made itself virtually free of crime by the national standard. During 2000 and 2006, the nation’s overall crime rate was about 7.2 per 1,000 populations on average, whereas that of East Sea Beaches was about 1.4 per 1,000 people. Fire prevention and suppression were also well monitored by the City’s Fire Prevention Unit. It employed 103 FTE personnel and operated two fire stations, both of which were installed with high-capacity fire equipment and trucks (capable of 70-meter in height or equivalently about 20-storey buildings). The unit also had four coastal emergency medical service teams with 45 FTE personnel operating for 24 hours. In short, the City’s socioeconomic richness enabled the city government to provide quality and adequate services at reasonably low fiscal pressure.

*Tax and Service Delivery Policy*

Because of its economically rich conditions, the City has been able to put its finances in good shape both in the short and long-term. As stated by the Director of Budgets, “we hardly had any difficulties in making an annual budget. A reasonable budget request from department heads and interest groups that fit political priorities

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3 Data for crime statistics were obtained by the Royal Thai Police, available at [www.royalthaipolice.go.th](http://www.royalthaipolice.go.th). See more details about the national crime rates from Table 6-3. Note that overall crime rates in the City of East Sea Beaches already included those rates for tourists: both Thai and foreigners.

4 FTE stands for full-time equivalent, which is a common way to measuring a worker's involvement in municipal operations.
generally appeared in the budget”. On average, the City government ably maintained a good budget surplus of about 5.9 percent of total municipal revenues during FY2001 and 2006. In 2007, it has an accumulated fiscal reserve of approximately 53 percent of its total annual spending.

Additionally, despite its rich economic conditions, the City had put great efforts into maintaining its healthy fiscal conditions from aggressive tax mobilization and through the control of excessive service demands. For instance, in FY 2002, the City government levied a new tax scheme, which was extremely rare among Thai localities\(^5\), for the construction and operation of a new wastewater treatment plant. Wastewater treatment fees were imposed on businesses and households. A former City Mayor (during 1995 and 2004) stated that “we really needed additional money to operate new wastewater treatment systems. Though initially, it was quite hard, eventually citizens and businesses understood and complied with our taxing policies”. The current Deputy City Mayor also confirmed that “in addition to revenue-generation purposes, the wastewater treatment fee helped to make local taxes more equitable to all. Those who polluted our water resources and beaches should bear the cost of the treatments”. Overall, the data in Table 6-2 above shows that the City imposed taxes, on average, about 2.8 percent during 2001 and 2006 on local taxable resources (GCP-PC). This was significantly higher than other cities examined in this study.

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\(^5\) Records of the Department of Local Administration showed that the City of East Sea Beaches was one of the seven local authorities in Thailand (from about eight thousand local units in total) that continually levied the waste water treatment fee since its initiation. One study investigated the constituents’ willingness to pay for the wastewater treatment fee in another tourist destination (Phuket) and found that communal residents were not willing to pay for the full wastewater treatment costs (see Patamasiriwat et al. 1995).
Presently, although the City’s total revenues grew only marginally from the collection of wastewater treatment fees (about 1.6 to 2.4 percent annually), long-run political and fiscal benefits were multiple. The fees helped local constituents see tax prices more clearly as a part of local public services. As Rodden (2006) argues, communal residents in a locality who are highly dependent on intergovernmental fiscal transfers often perceive that municipal services are provided for free. Thus, the imposition of fees in East Sea Beaches caused local constituents to become more conscious when demanding additional municipal services.

Like other business-based municipalities, “tax conservative attitudes still prevailed in East Sea Beaches, especially among local business groups”, said a City’s tax specialist. “Notwithstanding, local businesses and constituents here understood the reasons for why the City needed local taxes for future economic and human development”. The City’s Head of the Revenue Collection Unit also stated that “political executives acknowledged the importance of local taxes. They insisted that municipal staff put forth a greater tax effort when making the annual budget. They rarely intruded into local tax administration and let responsible staff do their jobs to the fullest capacity”.

In terms of its spending, the City also responded reasonably well to constituency demands but within a viable budget framework, especially for the city’s economic infrastructure and transportation development. The City’s Evaluation Report in 2005, as well as the reports of East Sea Beaches’ town-hall meetings in 2006 to 2008, stated that economic infrastructures in East Sea Beaches had been well-developed and maintained as compared to other economy-based cities; e.g., local roads and pavement, lights and traffic, and water drainage and sewage treatment systems. Pollutions as well as city
planning were also well-managed and complied with regulatory standards. The City is now developing a sky-train system in order to serve the City’s tourism promotion plan and to help ease city traffic.

Still, inadequacy in social and human services was evident, as indicated from the interviews with neighborhood leaders and through evidence from the town-hall meeting reports. These shortages are also corroborated in Table 5-3 in that the City’s service needs in education (column 2), public health (column 3), and social welfare (column 5) were relatively higher than those of the sampled cities. In response, the City is now expanding its educational and healthcare services, a hospital of 60 beds (expected to operate in 2010) from the existing levels. So far (as of 2007), the City ran twenty primary health centers with 4 physicians, 15 certified nurses, and about 30 support personnel. It also operated eleven municipal schools, with total classrooms of 359 and a student enrollment of 13,983. Seven schools were K-9, three were K-12, and one secondary school, having total teaching staffs of 391. As stated by the Deputy City Mayor, “our city really needed capable and healthy human resources in order to serve local businesses. Thus, educational and healthcare services were our top priorities. In the future, we aim to reach the level as one of the world’s top five cities in which to live”. Likewise, the City’s Strategic Plan 2005-2009 is geared in the same developmental direction. The top three priorities to promote balanced growth of the City include (i) tourism promotions; (ii) health and education; and (iii) economic infrastructure development.

Finally, when the budget making processes time approached, it was often the case that department heads and local business groups demanded more than the municipal purse could afford. In this regard, as reported by the City’s Budget Director, “the Mayor
was the one who played a crucial role in trimming the requests to fit his priorities and the available resources. He vigorously assisted my staff in seeking where to tax and where to cut. This clearly made my job of balancing the budget much easier”. For instance, in making the FY 2008 budget, a director of the City’s new hospital of 60 beds estimated to hire 300 FTE staffs, including physicians, certified nurses, and other personnel. However, the Mayor cut the staff levels to 100 since he viewed the requests as unproportional to the hospital’s physical capacity.

Overall, it seems that the management of local taxes and spending in the City of East Sea Beaches runs reasonably well, at least during FY2001 and 2007. Because of its strong economic bases, the City did not face much difficulty in fulfilling spending needs. In addition to the supportive socioeconomic conditions, the City’s good fiscal positions were made possible in part due to the political executives that put substantial efforts into handling local taxes and budgets and in part because the executives had a strong political root. In the next section, the power base of the political executives in East Sea Beaches will be discussed in detail.

Politics and Administration behind the City’s Fiscal Condition

Since the city’s incorporation (longer than 25 years), formal political authority in the City of East Sea Beaches has long been occupied by a single political group (so-called Raksa East Sea Beaches Group: RESB). The RESB was well-regarded as having strong political support both inside East Sea Beaches and nearby jurisdictions. The Chairman of the RESB (a former government official and later a local politician) usually nominated suitable candidates to run for the mayoral and council elections. So far, all
candidates of the RESB won the mayoral election by a very large margin, and most of the time, gained the majority of seats in the council. Although there was acute competition for the mayoral election in the past two years, other candidates who supported by local hotels and business associations never beat the RESB for the mayoral title.

When coupled with sufficient economic resources, political stability in East Sea Beaches helped the City government maintain its healthy fiscal conditions. As far as the issue of policy, it enabled the city executives to generate and continue coherent sets of policies that nicely matched the City’s developmental priorities and constituents’ demands. Interviews with the City’s political executives, Chairman of the council, as well as several department directors reflected the fact that political stability in East Sea Beaches was a good advantage when compared to other politically instable cities. Several community and interest group leaders also expressed the fact that they felt satisfactory with the continued coverage and quality of services provided by the City government in the past few years.

On the other hand, per administrative issues, political stability translated into administrative continuity that enabled the smooth implementation of key developmental priorities. For example, the Head of the Environmental Management Unit, who has been working with the City for about 20 years, since the City’s early attempt to construct wastewater treatment plants stated that:

“The City’s political stability was very crucial, especially when our department first constructed, operated and later expanded the capacity of our wastewater treatment plants. The construction of the plants lasted several years and was faced with financial difficulties and public complaints. However, the projects were made possible due largely to the continued efforts of our political bosses. Otherwise, our wastewater treatment projects could not have been so successful”.
One may suspect if political stability caused the undesirable impacts on the city’s administrative governance. Yet, this was not necessarily the case in East Sea Beaches. Several check and balance mechanisms were installed and promoted in order to help energize the municipal bureaucracy of 1,971 FTE staffs (1,580 municipal employees and 391 school personnel, as of July 2007). For instance, the city executives tried hard to engage the public in municipal affairs. They regularly organized town hall meetings, focus groups, and neighborhood meetings in order to address constituency demands and issues among other public concerns. City hall also disseminated critical policy issues through its quarterly newsletters, both in Thai and in English. The issues included tax collection and budget allocation, city zoning and land uses, results of the City’s public hearings in local development issues; e.g., the development of a city monorail system, city parks, local roads, and the establishment of a new public hospital, etc.

Additionally, the City installed a ‘Call Center 1337’ in 2006, operating 24/7, in order to be a central outlet for (i) citizen’s complaints regarding municipal services; (ii) reports of suspicious activities, speeding, and potential crimes in the jurisdiction; and (iii) inquiries of municipal services and tourism information. To date, the records show that there were about 16,000 calls per month. Of the total calls, 5 percent concerned suspicious activities and crimes and the rest were for municipal services and tourism inquiries. It should be noted that none of the other 13 cities examined in this research has such a system in place. Thus, it is not an exaggeration to state that political affairs in East Sea Beaches are relatively more transparent and accountable than do the other cases examined in the current research.
Local media and business groups in East Sea Beaches were also energetic and influential in monitoring the work of the municipal government. Currently, there were about 20 media and newspapers operating in East Sea Beaches, one of which broadcasted a live television program called ‘Morning Voice’ as a venue for citizens to make a complaint to city hall regarding municipal services and general communal affairs. East Sea Beaches Hotel & Resort Association was also involved pro-actively in the local policy venue. As reported by the Vice-President of the Association, “we regularly monitored the operations of the City. All city taxes and spending were our monies. We were always ready to call the Mayor if anything went wrong or were suspicious to us”.

Besides informal governance control mechanisms, the City Council also played a tough role in examining the political executives, which in turn possibly helped to keep city operations in order. As stated by the Chairman of the Council,

“I’d been in the Council for about 20 years. Checking and auditing the work of the executives was my first priority. I kept informing other council members that our key role was to keep the fiscal house in order as a good budget guardian, not as a spending advocate.”

The researcher’s personal non-participant observations also reflected what the Council Chairman explained. In one of the general assembly meetings, council members did their best efforts in questioning the executives regarding service policies (e.g., plans for preventing flooding during the rainy season), disputable municipal tax collections (issues regarding property valuations and tax rates), management of municipal assets

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6 Interpretation from personal interviews with a Chairman of the Council, Deputy City Mayor, former City Mayors (1995-2004), and several department directors.

7 This observation was made on November 12, 2009 from 13.30 to 17.00.
(e.g., use of water rescue boats), and the expected results of spending programs (e.g.,
garbage collection and disposal, the operations of wastewater treatment).

Furthermore, internal and external audits worked quite effectively in improving
the city operations and finances. On the one hand, the internal audit function was
supported by political executives. The City’s Internal Audit Unit employed six FTE
experienced personnel and regularly examined the City’s financial transactions and
reports, purchasing and asset management, and technical operations. Other cities of a
comparable organizational size hire a fewer number of audit personnel (e.g., the City of
Old Northwest hires two FTE staff). On the other hand, the City was critically audited by
the Office of Auditor General (OAG) and this attributed to the strengthening of the city’s
financial management. For instance, the OAG staff found in FY2007 a suspicious
construction of the city’s Tourism Information Center and reported it to political
executives⁸. As stated by the Deputy City Mayor, “we were well aware of the opinions
and recommendations from the OAG’s auditing team. They really helped improve our
city’s finances and operations”.

Other evidence of administrative efficiency also prevailed. First, unlike other
cities examined in this study, the political executives in East Sea Beaches continually
encouraged local tax mobilization. In the past two years, they adopted a Geographical
Information System (GIS) for use in local tax administration. The GIS helped boost
locally owned-source revenues by about 14.1 percent annually (financial returns were
about 3 times higher than the initial investment and operating costs).

⁸ Related staffs who were found guilty were suspended on their pay raises for the next two fiscal years.
Next, citizen participation via town hall and neighborhood meetings was also encouraged in order to help the city executives manage constituency needs. For instance, the City used neighborhood meetings as a forum by which to discuss an old-age assistance policy and to help select those who were truly eligible for financial assistance in accordance with the eligibility criteria. As reported by the Director of Social Welfare,

“The neighborhood forums really helped the City screen out those who did not deserve old-age welfare. They indeed knew each other far better than did the municipal staff. It turned out that the City government was able to trim its welfare budget by about 20 percent when we first adopted this civic-based method”.

Finally, new public management techniques also were widely employed in order to help increase the City’s service performances. Performance indicators were established and seriously adopted in order to monitor the progress of all departmental operations. The City also contracted out several service functions to private companies; e.g., garbage collection, wastewater treatments, etc. As informed by the Director of Public Health and Environment, “contracting out these services significantly helped reduce the operating and investment costs to the City. We did not need to buy garbage trucks and hire personnel since private companies have operated well in the City over the past ten years”.

In sum, the City of East Sea Beaches possessed good fiscal conditions through its supportive socioeconomic environment and its politically and administratively well-run organization. Local taxes and spending were seriously managed in return for the City’s fiscal viability. The large part of this admirable story is attributed to the fact that the City’s budget actors performed well in their designated budgetary roles as compared to other cities which will be examined next.
Case Study Two: Riverside Pagoda Suburban City

City’s Socioeconomic Bases

The City of Riverside Pagoda is located 29 kilometers (about 18.02 miles) southeast of Bangkok Metropolis with an area of 7.33 square kilometers (about 2.83 square miles or approximately 1,811.3 acres). Its population size was 56,727 in April 2007 with a density of 7,739 people per square kilometer (approximately 20,044 people per square mile). Like the City of East Sea Beaches, city residents in Seaside Pagoda were far better off economically than those living in central cities and in rural counterparts. Their per capita GCP was about 3.8 times higher than the national average during 2001 and 2007 (see also Table 6-2 above for details).

Riverside Pagoda is located in an enriched suburb, and is well-surrounded by several industrial estates and major transportation hubs: Thailand’s (Suvarnabhumi) International Airport; Eastern Seaboard Deep Sea Port; Bangpoo Industrial Estate (approximately 2,189.1 acres), Lad Krabang Industrial Estate (about 1,023.6 acres), Bangplee Industrial Estate (about 401.6 acres), all of which can be reached within half an hour by car (within a 30-kilometer perimeter from the City of Riverside Pagoda). In effect, the City is one of the favorite places in Thailand for living and enjoying socioeconomic activities.

Notwithstanding, during 2000 and 2007, there was a steady drop in the city population, from 72,393 to 56,727 or about a -3.1% annual decline. Still, the number of households increased slightly from 14,130 in 2000 to 14,862 in 2007, or approximately 9 The city of Riverside Pagoda was originally incorporated in 1917 with an initial area of 1.48 sq. kms. (or about 0.57 sq. mi.). Later in 1962, the city expanded its land to 7.33 sq. kms.
0.7% yearly increase. In effect, it reflected a change in family size from about 5.1 members per family in 2000 to about 3.8 members in 2007, resembling a general characteristic of industrial suburbs elsewhere (e.g., Schnore 1963). A portion of the youth and senior population remained relatively low in comparison to the other cities studied (about 28% for youth and about 10% for the aging population).

Although past area expansion and economic development in surrounding jurisdictions had stimulated social and economic growth inside the City since the early 1990s, it cost the City in terms of pollution, especially garbage disposal and air quality, public health, and city planning (zoning). Neighborhood meeting reports in 2006 and 2007 as well as the City’s 2008 – 2012 Strategic Development Plan indicated that waste disposal and water pollution was in critical condition and required immediate responses from the City government. Yet, past attempts by the City directed to solve the pollution problems had failed (to be elaborated below). Currently, the City is trying to implement its land use and zoning law, aiming at controlling the unplanned growth of industries and households.\(^\text{10}\) Still, whether the law becomes effective is questionable and municipal employees and residents do not seem to abide the City’s zoning policy.

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**Tax and Service Delivery Policy**

Analysis regarding municipal taxes and expenditures can be viewed as two separate, but intertwined nightmares for students of local public finance. Despite the supportive socioeconomic environments of the City, the poor fiscal conditions in

\(^\text{10}\) Municipal Ordinance of Zoning and New Business and Household Construction in Municipality, dated August 20, 2008.
Riverside Pagoda was comprised of low tax efforts and excessive municipal expenditures and political wrongdoings in the City largely accounted for hostile taxing and spending policies.

In terms of taxation and revenue administration, the City exhibited (i) very low tax efforts; (ii) ineffective tax collection systems; (iii) huge tax collection leakages; and (iv) inadequate generation of financial information. First, the City of Riverside Pagoda was extremely conservative in raising local taxes. Data indicate that the City collected taxes 93 percent as much as three other suburban cities did that are included in this study throughout FY 2001 to 2006. Indeed, the City imposed less than one percent of tax burdens on local taxable resources (see Table 6-2 above), which was much lower than those of other cities examined in this chapter.

Politicians as well as responsible staff lacked motivation in mobilizing local taxes. On the one hand, political executives did not have strong intentions to make resolute tax policies for several years, resulting in a lack of tax/revenue collection targets and concrete tax collection plans. On the other hand, city staff was so fearful when they had to deal with citizens regarding local tax issues. As the City Clerk explained:

“Political bosses gave a very low priority to local tax mobilization. They often used a motto of ‘low taxes’ as political rhetoric in order to enhance their popularity among the electorate. More important, they did not need to make a local tax effort, since asking for increased intergovernmental transfers was much easier than mobilizing locality owned-source revenues”.

Secondly, tax collection systems in the City of Riverside Pagoda were ineffective and highly politicized. In the past, the City attempted to computerize its local property database, but did not succeed in doing so. A major reason for such a failure stemmed
from the fact that politicians did not support the modernization of local tax collection systems. Instead, they did so by cutting budget and personnel in the City’s tax collection unit. Currently only two city officials were assigned to the survey and valuation of local properties of about 15,000 units, whereas the City of East Sea Beaches discussed above hired 26 FTE staff for handling about 18,000 property units. In effect, the City’s tax databases were processed in a conventional way and, hence, opened a large room for tax collection discretions and perhaps abuse by responsible officials. For instance, property information was manually recorded and not updated in a timely manner (every two to three years). Therefore, as the Fiscal Department Director admitted, “there were a substantial numbers of local taxpayers not registered in the local tax databases”.

Additionally, the valuation of commercial properties was often done arbitrarily. There tended to be backdoor negotiations between property owners and responsible officials regarding the amount of tax the owners owed to the municipal government. The City Clerk reported that she or he often found several cases of undervalued properties. For instance, a substantial portion of commercial properties was misreported as vacant or going out of business and, hence, there were no tax liabilities. The Clerk estimated that about 20 to 30 percent of total municipal revenues were possibly lost due to this corrupt practice. Unfortunately, the City Clerk admitted that she or he could not thoroughly oversee the jobs performed by responsible staff.

More important, huge fiscal leakages to the municipal purse happened when some fees were overcharged for the personal gains of tax/fee collectors and the political

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11The other two selected cities (to be discussed next) hired a number of personnel for tax administration purposes; e.g., the City of Old Northwest hired 15 FTE personnel and the smaller City of Tree Jasmine hired seven FTE staffers.
executives’ own pockets. As revealed by an external consultant who was hired by the City government about two years ago, “about half of the collected monies went into the municipal treasury, and another half was set aside for the mayor’s own sake. It shouldn’t be surprising that such a system had been operating in this City for several years”.

Notwithstanding, none of the insiders, except the City Clerk admitted to the researcher the existence of this private-public-split taxation.

Finally, fiscal information was not well-articulated because the political executives neither utilized it when making major policy decisions nor forced the persons in charge to generate essential financial reports in a timely manner. It turned out that the City’s financial reports and fiscal databases were inadequately generated. For instance, the City’s Fiscal Department was not be able to generate financial reports for fiscal years 2003 and 2006 due to, as informed by the Fiscal Director, “significant changes in accounting policies”. Notwithstanding, the Fiscal Director was reluctant to explain the details of these accounting changes. In short, financial data incompleteness had plausibly led to the incorrect budget decision of key budget actors.

On the other hand, in terms of spending, corruption and misspending inflated unnecessary costs to the municipal purse. During FY 2001 - 2005, about 48 percent of the total annual budget was spent for construction and infrastructure development projects when they were not needed (see Table 5-3 where service needs for infrastructures and community services were below the sample average). As a community leader reported, “this was because they provide a greater opportunity for economic rent-seeking channels for those in power”. For example, capital investment projects to solve water pollution and flooding were failures. The construction works were so sub-standard that they never
solved the water pollution made by nearby industries. Part of this stemmed from collusion between elected officials and business contractors during the bidding process. Contracts were over-priced to the city and the actual construction was not up to specified standards. The view of private contractors was that they could only make a profit from the contracts if they could save costs by not constructing the works to specifications.

When asked who actually caused the major budget drain in Riverside Pagoda, the City Clerk replied promptly “surely the political bosses. The Mayor and his team really needed money since the election was coming. Vote buying was inevitable for such politically unstable political executives”. Although the City Clerk stated that

“I was well aware of increasingly complicated tactics related to contract rigging, it was unfortunate because I was not certain if I could withstand such corrupt actions, and even if I could, then it was only a matter of how long I could stand for it.”

The City Clerk also blamed some municipal staffers who were too greedy for being involving in contract rigging, which resulted in overcharging to the municipal purse. However, since corruption cases were never filed or seriously investigated, it was virtually impossible to estimate how much the City overpaid the contractors, not to mention the fact that the City never received quality capital development as specified in the contracts.

Politics and Administration behind the City’s Fiscal Conditions

Despite supportive socioeconomic conditions, the City has been overwhelmed with financial management difficulties and political woes. Had the City been managed
better, both financially and politically, it would have faced better fiscal conditions.

Virtually, the financial management predicaments in Riverside Pagoda were attributable to all major political and management-related explanations of the City’s fiscal instability, e.g., political vulnerability (Rubin 1982), private-regarding ethos (Dluhy and Frank 2002), fiscal dependency and excessive spending (Rodden 2002, 2006), and the fragmented budget authority in fiscal-policy making processes (Levine et al. 1981; Baldassare 1998; Fuchs 1992).

Rubin (1982) explained that the political vulnerability of elected officials often led to increased public spending in order to forge political allegiances. The same explanation applies to the City of Riverside Pagoda. Political environments in Riverside Pagoda were unstable and quite competitive between two major political groups, although the current city administration won the mayoral election for three consecutive terms. Thus, as the City Clerk explained, “the Mayor and his teams had to employ all disposable strategies in both taxing and spending in order to bolster political support among different constituency groups.” Since everyone prefers low taxes and more favorable services, the political executives in Riverside Pagoda often increased spending and lowered taxes and fees. The persistence of such fiscally conservative taxation and liberal spending policies inevitably depleted municipal reserves to the minimally required level. For instance, in FY2005, about 6 percent of municipal spending was derived from municipal reserves. This occurred again in FY2006 when the City closed its 20 percent budget gap from the reserves. Since FY2003, overall reserves had decreased by more than 23 percent, despite the fact that local economy was growing during this period. The disposable amount of municipal total reserves in FY2006 was adequate for paying staff
salary for an additional fiscal year, disregarding the fiscal ability to finance services if tax revenues were not collected for a full fiscal year.

Part of the political story in Riverside Pagoda emerged from a tax-conservatism attitude, resembling what is termed as a ‘private-regarding ethos’ in Dluhy and Frank (2002). On the one hand, citizens lacked local tax consciousness and they possessed a “free-lunch attitude” when faced with the issue of municipal services and taxation. The citizens hardly believed that paying more taxes would lead to increased or competent service provisions. In fact, as a neighborhood leader reported, “doing so would lead to the bigger pockets of public officials”. According to another community leader, citizens often believed that, “it was the responsibility of the municipality in providing services to citizens at virtually no tax prices”. The Fiscal Department Director also reaffirmed that “citizens were quite passive when discussing the payment of local taxes. They often said ‘no more taxes, but services please!’”

On the other hand, both the Executives and the Council viewed local taxes as a deadly evil. They were quite reluctant to finance municipal services from own-source taxes/revenues since doing so would bring about the huge expense of political popularity loss at the local level. In effect, the political executives of Riverside Pagoda often turned to external revenue sources, e.g., intergovernmental transfers as an alternative means in order to finance local services. As the City Mayor stated:

“Requesting more transfers from national agencies was a better and perhaps politically safer strategy in order to raise municipal revenues than mobilizing the use of own-source taxes. I thought increasing local tax efforts may not be worth the price of political popularity loss in this city.”
Arguably, although seeking more intergovernmental transfers was a politically rational choice given such unstable political circumstances in city hall, it inadvertently nurtured a ‘transfer dependency attitude’ to become widespread. According to Rodden (2006), transfers often obscure the link between taxes and program benefits such that local voters and politicians value the programs funded by non-residents without realizing their full costs. In effect, the transfers could cause residents to demand more services than would otherwise be the case when the programs are mainly funded by local taxations. In other words, the transfers could alter the perceptions of voters about the level of services that the city could viably afford and this eventually results in poor fiscal performance.

The concern posited by Rodden (2006) was quite evident in the City of Riverside Pagoda. During FY 2001 and FY 2006, about 42.7 percent, on average, of total municipal revenues were obtained from intergovernmental transfers, whereas the portion reached its peak of 54.5 percent in FY 2006. These large transfer portions far exceeded those of other localities in Thailand, which normally received about 32 percent of total revenues from the transfer money (see details from Table 3-3 above). That the substantial amount of intergovernmental transfers was made available for the City of Riverside Pagoda for several years was basically due to the fact that city executives had a strong tie to national political authorities. In fact, the former City Mayor was a son of the former Deputy Minister of Interior during the late 1990s and early 2000s, and he was directly in charge of the allocation of inter-governmental transfers. The current City Mayor was backed up by the former Mayor and had a very good relationship with the national political party which ruled the country during 2006 and 2007.
When national-local political ties are so secure, as in this situation, local politicians, as well as constituents, tend to perceive that external resources are more easily accessible than locally levied taxes. A transfer dependency attitude such as this inevitably emerged. Had the transfers been spent more smartly (e.g., investing more efficaciously in capital infrastructures or solving the City’s pollutions without having financial leakages, etc.), the transfers would have helped to further the City’s socioeconomic growth and fiscal performance. However, this was not the case in Riverside Pagoda in that not only did the transfers lead to the substitution of intergovernmental transfers for local taxes, as was evident in the extremely low tax efforts discussed above (see Table 6-2), but they also led to the weakening of local accountability mechanisms (to be discussed below). This was because local constituents lacked incentives to closely monitor municipal fiscal operations. Eventually, the City’s poor fiscal conditions came to surface.

Bad politics also weakened the budgetary checks and balances systems in city hall. Generally, the Council and the City Clerk are key actors who presumably safeguard the municipal purse. However, the Council was so weak as compared to the well-grounded City Mayor. As explained by the Council Chairman, “each council member had restricted political constituencies and was not politically powerful enough to adequately gather city-wide support that was essential to voting against the executives’ inappropriate fiscal policies and/or practices”.

The budget authority of the City Clerk was also shaken by the underground efforts that aimed to destroy the Clerk’s credibility and morale. For instance, the City Clerk reported that she or he often received blackmail threats discrediting herself or
himself for personal and family (non-job related) matters. The letters from unknown sources appeared more frequently when the City Clerk pursued actions against inappropriate political directives. She or he was also threatened by other means both directly and indirectly and sometimes these “threats involved her or his life and properties”, reported the City Clerk.

Additionally, political executives preferred to deal directly with department heads when making the budgets, hence bypassing the budget control authority of the City Clerk. Department heads also liked this backdoor channel since they could easily receive spending approvals from political bosses without worrying about budget totals. The City Clerk admitted to the researcher that she or he was trying to keep budget totals in good shape, however, “this was not easy to do. Sometimes budget requests, especially those which involved capital investment, were first examined and cut by myself”, said the City Clerk. “However, the cut amounts unexpectedly reappeared in the budget request documents and later got substantial support from council members”. The Director of Budget also affirmed the City Clerk’s viewpoint. In short, the control of inappropriate spending programs was clearly weakened by backdoor budgeting practices.

It is unfortunate for the City of Riverside Pagoda that the weakening of budget controls also emerged in the City’s internal audit functions. The audit position was left vacant for the past several years. Every time the City hired a new auditor, the incumbent could not tolerate job pressures from both political bosses and department heads for a long period. Quite often, the internal auditors were humiliated by other unpleasant department heads and ultimately, they quit the job.
Similarly, it was unfortunate that the budgetary role of the financial watchdog had not been fulfilled by the Regional Office of the Auditor General (OAG). The OAG reported that the audit work of Riverside Pagoda was minor in relation to the audits of other central government agencies. “Given the weak internal audit functions, there was neither tip nor information leaks signifying us to where and to what respect we should investigate. In effect, we hardly detected anything suspicious and had not found any illegal practices in the City of Riverside Pagoda”, said a staff of the OAG’s audit team.

That poor politics existed in Riverside Pagoda for years without any whistle-blowing was also attributable to the fact that personnel management in the city government had been dominated by the political patronage regime. Unsurprisingly, nepotism encroached on the city government in many forms. First, cousins or relatives of political cliques of the political executives were given more chances to be hired by the city government. At first, the City Clerk tried not to follow this hiring policy. However, new strategies were soon adopted by the political bosses in order to retain nepotism. Eventually the City Clerk could not resist the nepotism influence. For instance, when there were more suitable, meritoriously capable candidates, they were often forced by the top authority to quit before passing the final round of the selection process. Or, even if they received a job offer, they would not be able to receive fair pay raises and/or job promotions and ultimately left the post while nepotism remained in place as the key source of hiring policies.

Second, the political executives tried to get rid of hardheaded staff who did not obey political directives under the City’s downsizing scheme during the late 1990s economic crisis in Thailand. With the name of ‘small but efficient’ bureaucracy, the city
government lost its experienced, zealous personnel who did not get along well with elected officials. Those who stayed were mainly loyal to the political bosses. Finally, merit pays and promotion were not common in the City of Riverside Pagoda. Indeed, those who had good relations with political bosses and those who could respond limitlessly to political order would more likely receive better pay and career advancement.

Overall, the poor fiscal conditions of the City of Riverside Pagoda were alarming despite the City’s encouraging economic environment. This was because bad politics and fiscal wrongdoings had penetrated the municipal bureaucracy in Riverside Pagoda. Not only did the political wrongdoings and the poor budget practices have tremendously negative impacts on the performing of public officials against their designated budgetary roles, but they also caused detrimental effects on municipal management and the treasury.

Case Study Three: Old Northwest Central City

City’s Socioeconomic Bases

The City of Old Northwest was incorporated in 1936 with an initial area of 2.5 square kilometers (or about 0.97 sq.mi.). Later in 1988, the city largely annexed its surrounding areas to 38.9 square kilometers (about 15.02 sq.mi. or roughly 9,612.4 acres). Old Northwest is one of the largest and most populous cities in Thailand due to its close proximity to the heart of Bangkok Metropolis. The City has a population of about 270,000 and a density of about 6,800 people per square kilometer (or about 17,739
people per sq. mi.\textsuperscript{12}). It accommodates two central government headquarters (Ministry of Commerce and Ministry of Public Health), dozens of national government branch offices, 91 neighborhoods and residential zones, and thousands of medium-sized and small-scaled businesses, all of which makes Old Northwest truly crowded. City residents in Old Northwest have an average per capita income of about 94% of the national average (see additional details from Table 6-2 above).

As Table 5-3 reveals, major accounts of poor fiscal conditions in Old Northwest stemmed from the fact that the City provided inadequate urban services, especially public safety and extensive infrastructures suitable for a large-scale city. The City requires approximately 3.6 and 4.7 times more than the average city for public safety (column 1) and housing and community services (column 4), respectively. These service shortages were mainly due to the City’s resource constraints and its conservative fiscal and investment practices.

As one of the most populous cities in Thailand, Old Northwest faced major urban problems, as did other central cities. Public officials, such as the City mayor, Chairman of the City Council, the City clerk, and Budget Analyst; official documents (The City’s Strategic Development Plan of 2008 - 2012); and neighborhood leaders pointed out that the two critical issues of Old Northwest were water drainage systems and public safety. Reports of the town hall meetings from 2006 to 2008 also indicated that flooding and fear of crime were among the top three communal problems, requiring immediate responses from the municipal government. Furthermore, an audit report of municipal service

\textsuperscript{12} Inner Bangkok Metropolis area has a density of about 5,203 people per sq.km. or roughly about 13,473 people per sq.mi. (as of December 2007) and the country’s average is about 331 people per sq.mi. In a comparative perspective, New York City has a density of about 26,500 people per sq.mi.
deliveries in September 2007 (Por Yor # 03) conveyed by the Department of Local Administration (DoLA) and a private consulting firm (TRIS Rating Co., Ltd.) indicated that the City had serious operational risks in maintaining public order and preventing floods.

The area expansion of the late 1980s from 2.5 square kilometers to 38.9 square kilometers did not prepare the City for massive infrastructures capable of serving a larger plot of land. The City seriously lacked storm water drainage systems that efficaciously helped discharge water from road surfaces, households, high-rise buildings and commercial and office spaces. Geographically, Chaopraya River, a major river marking the mainland of Thailand, flows through the entire west side of the City (about seven kilometers long), inevitably causing floods in low-lying areas adjoining the river, especially during the rainy season (July – October) and during tidal variations. However, the City’s current capacity of the water discharge systems was in shortage. When considering rainfall alone, the water runoff during the rainy season was about 30-35 millimeters an hour, whereas the system had a maximum discharge capacity of 20 millimeters. When waters from households and high-rise buildings were drained together into the systems, flooding was unavoidable, and this occurred periodically for years. Although the problem went unnoticeably for several years since the City’s annexation, it became apparent when the inner Bangkok water drainage systems were operating in 2003. They blocked water from the first outer ring, like Old Northwest and nearby areas. In effect, flooding in Old Northwest has reached a critical level ever since.

Currently, the City is designing a new storm water drainage system that massively expands its water discharge capacity. It is estimated that the system requires a huge
amount of municipal investment, roughly double or triple the size of the City’s annual budget. In so doing, the City plans to ask for additional intergovernmental transfers from the central government instead of issuing municipal bonds or making financial loans from capital markets (this is mainly due to the city’s conservative fiscal policies and political reason—to be discussed below). It is not yet certain if the city secures such financial assistance from the national government.

In addition to the lack of effective water drainage systems, city residents expressed their concern at the town hall meeting in 2006 and again in 2008 that they felt unsafe and feared crime, including drug abuse and trafficking in most of the neighborhoods. For example, one of the neighborhood leaders expressed that: “I’ve been living here for more than 30 years. In the past few years, robberies and motor vehicle thefts happened more frequently in my own neighborhood, at least once or twice a week”. In response to crime, some neighborhoods had to take care of their own safety through the employment of private-financing. To illustrate, in one neighborhood (Prachaniwes 2), with a population size of about 2,300 (or about 540 households), communal residents took care of themselves in order to avoid being victims of thefts, robberies, drugs, and assaults by hiring private police, since they felt that public security services provided by the city government was inadequate. To date, about 80 percent of households in this neighborhood contribute monthly to the community’s public safety issues. Private security firms did patrol hourly, all day and all night, like the real police, and installed road barriers (rising-arms) in order to prevent unwanted entrance into the neighborhood and to inspect strangers passing in and out of the area.
As the City Clerk stated, “although they did not have any legal authority to do so, these private securities had been quite effective in reducing crimes in this neighborhood”. The Secretary of the Prachaniwes 2’s community board also elaborated that

“Robberies and theft were reduced greatly since the installation of communal public safety programs, from occurring about once or twice a day to almost nil. We had to take care of our own lives and properties. Neither had the municipality nor the police paid serious attention to these issues”.

Later, some other neighborhoods tried to follow, but very few of them succeeded. “We’d tried, but we failed”, said another neighborhood leader. “Our neighborhood had limited financial resources to hire private security firms and our neighborhood had several entries. In effect, our neighborhood’s physical location was not suitable for the installation of road barriers”.

Public records tended to support the residents’ fear. See Table 6-3 below. When compared with the national averages during 2000 to 2007 (column 1), overall crime rates per 1,000 people in Old Northwest (column 2) were evidently higher. The rates were also slightly higher than those of the other two comparable cities (column 3), as matched by a city’s population size and per capita income. It should also be observed that the data in column 4 of Table 6-3 are congruent with the analysis showed in Table 5-3 in that the central cities are relatively more demanding in public safety services. On average, two other central cities included in the city group 1 had relatively higher needs for public safety services than did the non-populous areas.
Table 6-3: Overall Crime Rates (per 1,000 People) in Old Northwest and Other Cities

<table>
<thead>
<tr>
<th>Calendar year</th>
<th>National average</th>
<th>Old Northwest</th>
<th>Other two comparable cities</th>
<th>Two other central cities included in the City Group 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>6.9</td>
<td>8.3</td>
<td>8.2</td>
<td>10.1</td>
</tr>
<tr>
<td>2006</td>
<td>6.4</td>
<td>7.9</td>
<td>7.8</td>
<td>8.4</td>
</tr>
<tr>
<td>2005</td>
<td>6.0</td>
<td>7.4</td>
<td>7.4</td>
<td>7.5</td>
</tr>
<tr>
<td>2004</td>
<td>5.5</td>
<td>6.8</td>
<td>7.3</td>
<td>6.6</td>
</tr>
<tr>
<td>2003</td>
<td>6.7</td>
<td>7.2</td>
<td>8.5</td>
<td>7.5</td>
</tr>
<tr>
<td>2002</td>
<td>8.9</td>
<td>11.3</td>
<td>9.7</td>
<td>13.9</td>
</tr>
<tr>
<td>2001</td>
<td>8.6</td>
<td>10.5</td>
<td>9.8</td>
<td>12.9</td>
</tr>
<tr>
<td>2000</td>
<td>8.5</td>
<td>11.2</td>
<td>9.6</td>
<td>12.9</td>
</tr>
</tbody>
</table>

Sources: Crime statistics were obtained from the Royal Thai Police (www.royalthaipolice.go.th, last accessed August 1, 2009)

Notes: 1. Crime rate is expressed per 1,000 populations. Overall crime rates include homicide, assault, rape, kidnapping, drug, robberies, motor vehicle theft, arson, etc.
2. The other two comparable cities (column 3) were selected based on a population size and per capita income. Two other cities in column 4 were referred to the populous, central cities included in the City Group 1 as discussed in Chapter Five.

Aside from crimes, fire was another public safety concern. The new construction of high-rise buildings in Old Northwest, such as condominiums and service apartments had been increasing drastically in the past few years. Compared to the new construction statistics of overall Bangkok Metropolis, Old Northwest was a new place for living besides inner Bangkok (see Table 6-4 below). The year 2006 was the turning point when newly constructed condominiums increased disproportionally as compared to the overall increases in the inner Bangkok Metropolis. As of December 2008, about 42% of registered households in Old Northwest (or 23,821 out of 56,535 units) constituted 79 condominium and apartment buildings, 18 of which were high-rise buildings (above eight stories).
Table 6-4: Statistics on New Construction Units in Old Northwest

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bangkok Metropolis</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Detached houses &amp; Duplexes</td>
<td>36,914</td>
<td>40,261</td>
<td>43,729</td>
<td>47,321</td>
<td>45,193</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>(44.4)</td>
<td>(53.6)</td>
<td>(55.6)</td>
<td>(67.2)</td>
<td>(66.2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial buildings</td>
<td>14,616</td>
<td>17,837</td>
<td>17,421</td>
<td>13,858</td>
<td>15,418</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>(17.6)</td>
<td>(23.7)</td>
<td>(22.2)</td>
<td>(19.7)</td>
<td>(22.6)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Condominiums</td>
<td>31,535</td>
<td>17,012</td>
<td>17,461</td>
<td>9,229</td>
<td>7,689</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>(38.0)</td>
<td>(22.6)</td>
<td>(22.2)</td>
<td>(13.1)</td>
<td>(11.3)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>83,065</td>
<td>75,110</td>
<td>78,611</td>
<td>70,408</td>
<td>68,300</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>(100.0)</td>
<td>(100.0)</td>
<td>(100.0)</td>
<td>(100.0)</td>
<td>(100.0)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| **Old Northwest**     |       |       |       |       |       |       |       |       |
| Detached houses & Duplexes | 320  | 406   | 552   | 585   | 87    | 106   | 190   | 346   |
| (14.0)                | (55.7)| (24.7)| (98.8)| (95.6)| (82.8)| (67.1)| (69.6)|       |
| Commercial buildings  | 148   | 20    | 25    | 7     | 4     | 22    | 93    | 151   |
| (6.5)                 | (2.7) | (1.1) | (1.2) | (4.4) | (17.2)| (32.9)| (30.4)|       |
| Condominiums          | 1,813 | 303   | 1,658 | -     | -     | -     | -     | -     |
| (79.5)                | (41.6)| (74.2)|       |       |       |       |       |       |
| Total                 | 2,281 | 729   | 2,235 | 592   | 91    | 128   | 283   | 497   |
| (100.0)               | (100.0)| (100.0)| (100.0)| (100.0)| (100.0)| (100.0)| (100.0)| (100.0) |

Sources: Real Estate Information Center (REIC) of Thailand and Old Northwest Government
Numbers in parentheses are in proportion to the total figure. NA means not available.

In effect, the fire prevention and suppression capacities of the Old Northwest became another major concern. For instance, municipal pumper fire trucks had a capacity of handling fire for a 7- or 8-storey building. The City is now acquiring new high-capacity fire trucks which are capable of a carrying capacity of water for up to 20-storey buildings. It is expected that the acquisition of new fire trucks will be completed by the next fiscal year (FY 2010). However, momentarily, city residents’ lives are at risk for fire disasters, especially those who are living in high-rise communes.

It is also worth documenting that the aging population in Old Northwest has not yet become a critical issue, at least for a couple of years to come (see Table 6-5). Although the portion of aging population was increasing at a substantial rate, pressure for
more social welfare spending was not yet high. This was because welfare benefits were quite restricted and the city spent less than one percent of its total annual budget on old-aged welfare benefits (column 6).

Table 6-5: Portion of Aging Populations and Municipal Spending on Old-Aged Welfare

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>265,541</td>
<td>37,325</td>
<td>14.1</td>
<td>1,560,000</td>
<td>1,058,949,580</td>
<td>0.15</td>
</tr>
<tr>
<td>2006</td>
<td>266,788</td>
<td>35,641</td>
<td>13.4</td>
<td>918,800</td>
<td>1,081,459,305</td>
<td>0.08</td>
</tr>
<tr>
<td>2005</td>
<td>267,097</td>
<td>34,363</td>
<td>12.9</td>
<td>1,627,260</td>
<td>1,253,938,291</td>
<td>0.13</td>
</tr>
<tr>
<td>2004</td>
<td>265,598</td>
<td>33,135</td>
<td>12.5</td>
<td>906,360</td>
<td>882,819,941</td>
<td>0.10</td>
</tr>
<tr>
<td>2003</td>
<td>269,795</td>
<td>32,149</td>
<td>11.9</td>
<td>912,720</td>
<td>784,637,341</td>
<td>0.12</td>
</tr>
<tr>
<td>2002</td>
<td>267,097</td>
<td>31,002</td>
<td>11.6</td>
<td>717,720</td>
<td>432,954,768</td>
<td>0.17</td>
</tr>
<tr>
<td>2001</td>
<td>266,788</td>
<td>29,962</td>
<td>11.2</td>
<td>782,360</td>
<td>320,966,957</td>
<td>0.24</td>
</tr>
</tbody>
</table>

Source: Registration Office, Old Northwest Municipality

In short, there are two critical issues that the City of Old Northwest has not coped with adequately: public safety programs and high-capacity water drainage systems. So far, the provisions of these services fell short of constituency demands, causing poor fiscal conditions from substantial unmet expenditure needs. Why the deficiencies have prevailed for several years will be explored next when fiscal and service delivery policies of the City are taken into account.

**Tax and Service Delivery Policy**

The City of Old Northwest was quite conservative in financing and spending policies. However, the conservative practices cost the City a big price of unmet
constituents’ needs, as is evident from the above discussions on inadequacy in public safety services and the water drainage systems (see also columns 1 and 4 of Table 5-3). For the past several years, the City maintained a budget balance by inadequately responding to constituency needs. In effect, it had not invested well in essential infrastructures for serving a larger plot of land since annexation in the late 1980s, nor had it provided public safety services at a reasonable level. This resembles what Bradbury (1982) terms as a good budget condition, but it is a poor citizen fiscal condition (see Chapter Two). Several factors attributed to the existence of a fiscally conservative attitude.

A ‘debt averse’ mentality made the city executives lean mostly on current expenditures for capital development programs. This clearly caused capital bottlenecks in the Old Northwest’s water drainage systems for several years since the needed amount of money was far greater than the City’s annual budgets. Politicians in Old Northwest were quite reluctant to raise new taxes or to borrow for capital investments when necessary. The last time they used a debt-financing means was in 1995 when the City urgently needed to acquire waste (garbage) collection trucks. However, the City’s debt-financing policy has changed since then. To date, the executives issue a resolute policy regarding capital investment. That is, the investment has to be financed from either reserves or current revenues. If the reserves and/or current revenues are not adequate, asking for more intergovernmental financial assistance would be the final action. When asked to explain why debt financing is not a preferable means in Old Northwest, a Deputy Mayor stated,

“We were trying to stand on our own fiscal feet. Debt financing was not wise since it opened substantial room for political competitors to judge us as incompetent in managing municipal monies.”
An interview with the City’s Municipal Clerk also reaffirmed the City’s conservative fiscal policy: “The City had to maintain its budgetary balance by not incurring debt. We better managed our current revenues or accumulated reserves, and if necessary we would request the central government’s financial support for capital investment purposes”.

Notwithstanding, some disadvantages are apparent with regard to the City’s passive investment policy. Intergovernmental fiscal assistance cannot be secured all the time. Thus, it is not a good decision to hang the City’s capital development on central government discretion. In addition, financing capital projects from current revenues or from municipal reserves may not be immediately available for a huge capital investment project (Miller & Hildreth 2007). Finally, financing capital investment from current revenues or accumulated reserves also creates inter-generations inequity by placing the sole fiscal responsibility on current or past taxpayers (Miller & Hildreth 2007; Mikesell 1999). After all, the conservative capital investments made the City of Old Northwest less able to develop the extensive water drainage systems as the community expanded, which caused poor citizen fiscal conditions, as reasoned by Bradbury (1982).

That the public safety programs in Old Northwest have been given a low priority is more evidence of the city’s poor citizen fiscal conditions. Although public safety services became one of the top issues for communal residents as documented in the Annual Reports of Town Hall Meetings in 2006 and 2008, resource allocation for public safety services diverged from residents’ expectation. Table 6-6 below shows that about

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13 Admittedly, considering policy priorities from the budget allocation alone might be misleading because some policies might not require a large amount of money. Still, this is a general guideline provided by
2.7 percent on average of the budget totals were allocated for public safety services in Old Northwest during FH 2001 and 2006 (column 3). By contrast, other social services like education and public health expenditures received 16.4 and 3.7 percent on average of the budget totals, respectively. The same applied when comparing the absolute amount of public safety spending per capita of Old Northwest (column 4) to that of other smaller cities (columns 5 and 6) included in this research.

Table 6-6: Public Safety Spending in Old Northwest and Other Cities
(current prices; per capita figures are constant prices)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total annual spending (Thai baht)</th>
<th>Public safety spending (Thai baht)</th>
<th>Ratio of [2] to [1]</th>
<th>Per capita spending in Old Northwest</th>
<th>Per capita spending in 5 suburban cities</th>
<th>Per capita spending in 4 semi-rural cities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>1,081,459,304.6</td>
<td>26,468,792.7</td>
<td>2.4%</td>
<td>72.7</td>
<td>191.8</td>
<td>240.2</td>
</tr>
<tr>
<td>2005</td>
<td>1,253,938,291.2</td>
<td>21,359,270.2</td>
<td>1.7%</td>
<td>56.0</td>
<td>232.9</td>
<td>211.4</td>
</tr>
<tr>
<td>2004</td>
<td>882,819,941.1</td>
<td>13,943,878.2</td>
<td>1.6%</td>
<td>41.1</td>
<td>172.8</td>
<td>178.7</td>
</tr>
<tr>
<td>2003</td>
<td>784,637,341.3</td>
<td>12,235,927.8</td>
<td>1.6%</td>
<td>39.1</td>
<td>138.7</td>
<td>219.8</td>
</tr>
<tr>
<td>2002</td>
<td>432,954,767.6</td>
<td>9,764,531.7</td>
<td>2.3%</td>
<td>39.4</td>
<td>125.9</td>
<td>185.3</td>
</tr>
<tr>
<td>2001</td>
<td>320,966,956.7</td>
<td>11,771,724.7</td>
<td>3.7%</td>
<td>42.9</td>
<td>157.9</td>
<td>252.2</td>
</tr>
</tbody>
</table>

Notes: Approximately 34 Thai baht is equivalent to 1 USD (as of May 2009). Suburban cities were those included in the city group 3 and semi-rural cities are those included in the city group 4 discussed in Chapter Five.

It is unclear why the deficiency in public safety services has taken place in Old Northwest for years. On the one hand, the City Mayor, Deputy City Mayor, and Chairman of the Council stated in unison that public safety services overlap between national agencies (e.g., Royal Thai Police, Office of the Narcotics Control Board, etc.)

Wildavsky (1984) and Wildavsky and Caiden (2004) that budget allocation reflects issues and priorities in the political realm since political process shapes budgeting decision making.
and the municipality that accounted for such inadequate spending. As the Deputy Mayor explained,

“City officials did not have sufficient authority in maintaining public safety and public order. Therefore, we could not spend much on public safety programs in our community. And if we did, we will get caught by the Office of Auditor General, since such spending was not authorized by municipal laws”.

However, the last three columns in Table 6-6 exhibit some counter-arguments. The view of the political executives would be more compelling if public safety spending in the other cities included in this study was paralleled to that of Old Northwest. This is because all municipalities in Thailand have been governed by the same laws and institutional structure. Notwithstanding, five suburbs (column 5) and four semi-rural cities (column 6) allocated more fiscal resources per capita on public safety programs than did the City of Old Northwest. Still, when this piece of information was presented to the Deputy City Mayor, he insisted that the City did not have the authority to provide more on public safety than the current spending levels allowed. Perhaps, it is plausible that the public safety policy never really gets top priority from elected officials.

It might also be the case that the policy making process in Old Northwest was ineffective. Local communal groups were not energetic in pressing their demands for services that they highly needed. Indeed, no group was standing up front since “the necessity of urban living discouraged people from becoming intensely involved in municipal affairs” said a neighborhood leader. Although deliberative channels between groups and political leaders were quite frequent (at least once a month) and multiple; both formal town-hall meetings and informal group or neighborhood meetings, hardly had the voice of communal residents been translated to actual policy. This perhaps provides the
explanation that policy making authority is still largely in the hands of politically, highly
stable elected officials in Old Northwest.

Politics and Administration behind the City’s Fiscal Condition

As already exhibited, the poor fiscal conditions in the Old Northwest did not stem
from excessive spending or chronic budget deficits, but were indeed attributable to the
conservative fiscal and service delivery practices at city hall. Thus, the following
question arises: why have insufficient service provisions in Old Northwest been prevalent
for years? Now, all roads that lead to the poor fiscal conditions in Old Northwest point to
the city’s politics as well as its administration. Why were politicians, especially those in
the council, not attempting to fulfill constituency needs by increasing spending beyond
the City’s conservative means? Most important, how did the performances of policy-
setters and spending advocates in Old Northwest contribute to the City’s fiscal
conditions?

Basically, the ‘political vulnerability’ model contends that unstable political
power usually causes excessive municipal spending as a means by which to build (or
maintain) good political coalitions (Rubin 1982). Unlike the experience of Southside,
examined in Rubin (1982), and that of Riverside Pagoda, politics in Old Northwest was
not that bad. Political power of the executives in Old Northwest was so secure that the
mayor did not need to build extra power through increased spending. Additionally, the
management of municipal bureaucracies seemed professional and efficient such that the
budget authority and management were well-structured and centralized. Other strategies
were also employed in order to help relieve the Council’s pressure for more spending.
It should be reminded up front that although the political strengths and fiscally conservative practices were very helpful in retaining lean budgets in the City of Old Northwest, instead they had reverse effects on policy priority settings and the fulfillment of constituency needs. In fact, the performing of policy setter and spending advocacy roles were inadvertently suppressed. The mayor alone has very strong political roots in Old Northwest. He governed the City during 1984 to 1985, and again during 1988 up to the present (August 2009), and currently, he has no strong political competitors. The mayor has also been a leader of a longstanding political group (or so-called Palang-Nhum) for about 35 years. Currently, all of the executives and council members belong to this group. In effect, the policy making authority in Old Northwest virtually lies in the hands of the City Mayor. It was unfortunate, however, that local community groups did not seriously push their demands until reaching the final stage of service policy-making. When coupled with the strong political power of the Mayor and his team, priority setting was hardly formulated in correspondence to constituency demands, but instead, priority setting was formulated in correspondence with what was in the mayor’s conservative mindset.

Then, why did the Council in Old Northwest not advocate for more spending like cities’ elsewhere, particularly for the investment in water drainages systems and the provision of public safety programs? On the one hand, this was because of political loyalty that each council member had to pursue in order to stay in the political group. Hence, the council members had to listen to the boss’s preferences. On the other hand, this was because of the strategy the City Mayor had employed in order to release pressure for the Council’s spending demands. That is, the Mayor authorized ‘budget allowance’
for each electoral district so that council members had direct budget claims within a
specified ceiling.

Generally, the making of local budgets in Thai municipalities follows the notion
of executive budgeting where policy priorities of the executive leaders are translated to
spending programs and resource allocations. On the other hand, the council is responsible
for the approval of budget requests made by the executives and the ex post audit of public
spending. Nonetheless, things went differently in the City of Old Northwest. Councilmen
from each of the four electoral districts were allowed to have their voices and preferences
directly translated to service programs. That is, each council member had budget claims
within a predetermined ‘ceiling’. They can initiate any spending programs of their
choices, but the total budget amount cannot exceed the ceiling.

The ceiling was set in advance for each fiscal year and adjustable in relation to
local economic conditions. For instance, the ceiling of 50 million Thai baht was set in the
past two fiscal years and about 25 million Thai baht (approx. 0.74 million USD) for the
current fiscal year (FY 2009). The City Clerk, who was secure from his seven years in
service, was the one who managed all the claims. “Every councilman had to stick to this
ceiling. Otherwise, we could not make the budget and, eventually, the councilmen would
end up with getting nothing.” In short, the budget allowance strategy left substantial
room for council members to directly exercise their budget preferences. It turned out that
the strategy worked well in controlling the budget totals. As the Chairman of the Council
expressed, “We, as an elected council member, could bring something (beacon) home;
thus, we had no further reason to press for more municipal spending”.
Unfortunately, this unconventional budget practice had one important, non-desirable impact leading to the poor citizen fiscal conditions of Old Northwest. It obviously diverted the focus and effort of the council members from performing the budget guardian role to the one usually carried out by the city mayor. Councilmen were largely occupied by the jobs of priority setting and resource allocations within the predetermined allowance. They hardly reviewed the relevance and sensibility of the policy and budget priorities set by the executives. In effect, neither had the adequacy of public safety services and the water drainage systems in Old Northwest been seriously examined by the Council nor had it been issues for the Council’s concerns.

Notwithstanding, neither the Deputy Mayor nor the Chairman of the Council considered this shared spending advocacy role an issue of concern. They viewed that the dual players in policy priority setting and resource allocation made the municipal operations much faster and more effective, particularly when compared with a case of a clear separation of budget authorities between the spending advocate (the executive) and the budget guardian (the legislature). However, from a public administration standpoint, this type of distorted check and balance budgetary roles virtually undermined the effectiveness and the integrity of municipal policy and budget making systems. Hence, this plausibly caused the service deficiencies that were persistently happening for years in the Old Northwest.

However, it should be noted that although the City’s political structure was under a strong-mayoral regime, it never reached a so-called ‘political machine’ as has happened elsewhere (e.g., the City of Riverside Pagoda discussed above). Political leaders utilized fiscal resources within strict fiscal conservative rules. Also the municipal administration
seemed to follow administrative guidelines and professional codes of conduct. There were several pieces of evidence of bureaucratic efficacy in the City of Old Northwest.

As is commonly the case for developing societies, local authorities are not proactive in raising local taxes which is mainly due to weak or ineffective tax administration capabilities (Chapman et al. 2003; Owsiak and Owsiak 2001; Olowu and Smoke 1992). Notwithstanding, the City of Old Northwest was trying hard to improve its tax collection efficacy. For instance, the City’s Fiscal Administration Plan of 2003, promoted by the Fiscal Department, showed that city government have computerized municipal tax collection systems, periodically readjusted tax rates (every four-years), and employed total quality management (TQM) to its tax collection systems (e.g., the use of strategic planning in enhancing local revenues, setting deterministic tax/revenue collection targets and operating plans, and surveying citizens’ satisfaction on tax collection services, etc.).

Additionally, the City was trying to streamline its bureaucracies by minimizing the number of middle-level managers and municipal staff in all departments. For instance, the city spent about 12 to 25 percent of its total expenditures on personnel expenses during 2001 to 2007; whereas the national average was about 40 percent (Green 2005; Suwanmala 1998). The number of municipal FTE staffers per a 1,000 populations in Old Northwest was much smaller than that of other large-sized cities, which can be observed from Table 6-7 on the following page. For example, Hat Yai was much smaller than Old Northwest in terms of its population size and service area. However, the former had a higher number of personnel than the latter (between 13 and 4.7 FTE staffers per one thousand of the population).
Table 6-7: Municipal Full-Time Equivalent (FTE) Staff per 1,000 populations  

*(as of December 2007)*

<table>
<thead>
<tr>
<th>City</th>
<th>Area (sq.km.)</th>
<th>Population</th>
<th>Total spending FY 2007 (Thai baht)</th>
<th>FTE Employees</th>
<th>Employee per 1,000 population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old Northwest</td>
<td>38.9</td>
<td>266,974</td>
<td>1,058,949,580.0</td>
<td>1,244</td>
<td>4.7</td>
</tr>
<tr>
<td>Nakorn-Ratchasima</td>
<td>37.5</td>
<td>165,925</td>
<td>803,675,560.0</td>
<td>1,373</td>
<td>8.3</td>
</tr>
<tr>
<td>Hat Yai</td>
<td>21.0</td>
<td>157,881</td>
<td>978,996,627.0</td>
<td>2,050</td>
<td>13.0</td>
</tr>
<tr>
<td>Chiang Mai</td>
<td>40.2</td>
<td>146,800</td>
<td>1,155,836,666.6</td>
<td>1,831</td>
<td>12.5</td>
</tr>
</tbody>
</table>

Sources: Internet websites of each city

However, the interpretation of Table 6-7 should be viewed as suggestive. Organizational size (by the number of FTE staff) is only a rough indicator of administrative efficiency. It does not attempt to normalize the number of employees in respect to the cities’ operational quality and/or service provision adequacy, which is clearly beyond the objective of this study and deserves its own research endeavor. This comparison also does not take into account the service differentials among cities. Arguably, the likely administrative efficiency in Old Northwest might be attributable to its restricted scope of services, as discussed above.

Finally, to ensure fiscal integrity, audits of city operations, financial reports and accounts of the municipal government were regularly carried out by an Internal Audit Unit of the city government and by an external, but highly powerful, auditor from the Office of Auditor General (OAG). To date, as the Head of Internal Audit Division reported, “no major financial errors or accounting malpractices were found in the Old Northwest”. Notwithstanding, the internal audits and those conducted by the OAG staff covered only 10% of the overall financial transactions each year due to personnel shortages.
In sum, the symptoms and causes of fiscal instability in Old Northwest were distinct from the western experience. The City experienced poor fiscal conditions largely because of constituents’ unfulfilled needs, especially in public safety services and high-capacity infrastructures. In direct contrast to the work of Rubin (1982), the City’s fiscal stress did not emerge from political vulnerability or from weak or ineffective budget control. In fact, fiscally conservative policies and the non-performing of budget actors in setting priorities and service policies crucially accounted for such an implicit municipal fiscal stress. Eventually the deviated budgetary roles in Old Northwest led to the suppression of the constituencies’ service needs.

**Case Study Four: Tree Jasmine Semi-Rural City**

*City’s Socioeconomic Bases*

The City of Tree Jasmine was incorporated in 1935 with an initial area of 0.72 square kilometers. Later, in 1973 its area was expanded to 8.43 square kilometers (about 3.22 square miles or about 2,083.1 acres). By national standards, the City of Tree Jasmine is considered as a semi-rural community, located roughly 150 kilometers (about 93.2 miles) east of the capital of Thailand. In 2007, the city population was 19,927 with a density of 2,364 people per square kilometer (or 6,189 people per square mile). The City’s land for residential and commercial zones is about 1.99 square kilometers or about 23.9% of its total areas (about 498 acres). The rest is for arable and non-utilized lands while seventeen neighborhoods form the City of Tree Jasmine, scattered within the City’s

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14 From a comparative perspective, Newark’s population density is about 21,000 per square mile (or about 8,100 per square kilometer) once seaport and airport lands are excluded (2008 figures).
residential zones. Tree Jasmine’s economy mainly consists of few small-scaled industries which hire about 350 labor forces in total, and about 1,700 retail businesses, which are majority mom-and-pop types. Additionally, the city economy was quite stable in recent years. Its economy grew annually by about 2 – 3% (in real terms)\(^\text{15}\), with a population decline of about 1.1% per year from 2001 to 2006. Tree Jasmine has a small portion of the aging population (about 12 %), but has quite a number of school-aged children (about 24 %). Still, the portion was about equal to other semi-rural cities examined in this study. Overall, the city’s residents were distinctly poor and on average, between 2001 and 2007, the gross city products (GCP) per capita in Tree Jasmine were around 68.9 percent of the national figures (see Table 6-2 above).

Because of its rural characteristics, the City of Tree Jasmine needed no intensive infrastructure development as compared with other urbanized cities. As the Director for City Planning stated, “There has obviously been no such demands as compared to constituents’ needs and to national infrastructure standards.” For example, highways and local roads were sufficiently constructed. In downtown areas, potholes were few and road traffic hardly caused any serious problems. Additionally, in terms of flooding, the capacity of the City’s underground pipes of about 27,776 meters long was sufficient for draining waste and storm water of 7,500 cubic meters per day. Besides, the City’s geographical location equipped itself with several watersheds and water sources which in turn helped to prevent flooding during the rainy season (usually July to October).

As appeared in the reports from civic forums since 2000, for years, the major concern of communal residents was poverty, as commonly is for the case of an

\(^{15}\) The national economic growth rate was about five percent annually (constant) during 2001 and 2006.
agricultural society in Thailand. “Residents here were generally poor and there was no massive investment or major employment in the City,” said a neighborhood leader. Thus, “We really needed poverty reduction and occupational promotion programs rather than extensive economic infrastructure development. I regularly expressed my concerns to the city executives at annual civic forums”. Data from the City’s Strategic Development Plan (2001 – 2005) also reaffirmed that poverty eradication programs were at the top of the development agendas.

*Tax and Service Delivery Policy*

Not only did the City’s poor economy contribute to its poor fiscal conditions, but its low tax efforts and generous service delivery policy impeded the fiscal adaptations to fit the meager socioeconomic environments. Generally, service generosity will not trouble any municipal finances if local tax efforts are commensurately mobilized. However, the City of Tree Jasmine was quite passive in raising taxes (see also data in Table 6-2 above). On average, the size of five major taxes per capita of the City of Tree Jasmine was around 91 and 64 percent of the three other semi-rural cities included in this study and of the rest of the 14 cities examined in this research, respectively, during 2001 and 2006. Elected officials often feared that tax mobilization would have detrimental effects on their popularity. As the City Mayor stated:

“No one here loved taxes, but services. If possible, I would give up the collection of trash collection and some other fees and provide all needed services free to communal residents. Then, I would ask for more financial support from the central government and deliver whatever services the people needed.”
Such a ‘low tax’ policy may seem politically rational when considered from a conservative lens. Notwithstanding, the practices of lowering taxes in Tree Jasmine came with massive tax administration costs, which ultimately created local tax inequity and unnecessary financial losses. The low-tax policy also brought about poorer fiscal conditions to the municipal purse. As reflected by several informants, the City’s tax administration had a number of operational problems and leakages such that collected revenues were lower than what they could be. A former Finance Director elaborated that “the City’s tax administration system had lots of loopholes and, thereby, rendered substantial room for officials to exercise their discretion. Quite often, tax collections were made arbitrarily.”

Politicians, as well as responsible officers, as informed by the former Finance Director, were the ones who opposed the improvement of local tax administration. This was because doing so would inevitably result in increased tax burdens to constituents and/or perhaps it might bring about lower personal gains for related officials. They cleverly lowered tax burdens to the general public by (1) not putting into use the newly modernized (computerized) local tax collection systems; (2) allowing arbitrary tax exemptions and tax free schemes, especially for those who belonged to the political clique of the city executives; (3) not correcting tax administration leakages; and (4) committing accounting malpractice. Although the former Finance Director was so reluctant to reveal to the researcher all the needed details, and there was anecdotal evidence of these malpractices, the stories sounded credible when supported by other reliable evidence or restated by other key informants.
First, in 2004, the City hired a private consultant to help develop computerized
tax collection systems. However, the 10-million baht (approximately 300,000 USD)
systems had not actually been put in place. “That the newly computerized tax systems
were not yet operating was not a surprise,” said the former Budget Director. The systems
were not functioning well since they were developed by unprofessional consultants.
These consultants received the contract because they had helped the City Mayor lobby
successfully for more intergovernmental transfers in 2003 for the construction of local
roads and dams (the project cost about 117 million Thai baht or about the size of the
annual municipal budget of the FY 2003). Thus, the contract was a political reward rather
than a genuine (competitive) business transaction.

“Politicians knew about this”, elaborated the former Budget Director, “but they
really had no intention to push the system into use since doing so would result in
improved tax and valuation databases and, thereby, reduce the discretions of responsible
officials regarding the use of tax exemptions.” Additionally, operating staffs in the Fiscal
Department knew about this, but “we preferred doing nothing,” said the Head of the
Revenue Collection Unit of the Fiscal Department: “We didn’t want to have difficulties
with our political bosses or with constituents regarding any tax collection issues”.

Second, politicians in Tree Jasmine were intrusive into tax administration. As the
former Finance Director explained, “local taxations were under the direct political realm.
Special tax treatments (e.g., arbitrary exemptions, underrated taxes, etc.) were favorably
given to those who had access to or close relationships with elected officials. The
executives often asked for unreasonable tax exemptions or deductions for their political
cliques beyond those allowed by laws”. They simply called the responsible officials and
told them what to do. Quite often, tax collectors were given the political order that never filed any delinquency case to tax courts. The former Director of Finance informed that approximately 30% of local taxes were uncollectible due to political reasons.

Next, the City’s tax collection system had several leakages in processes where officials’ discretions were required. The former Finance Director stated that “in the past we found that personnel in the tax collection unit had abused his/her power by soliciting bribe from taxpayers in order to have the taxpayers’ properties undertaxed”. Also last year, said the Head of the Revenue Collection Unit, “we caught another tax/fee collector who had collected tax monies but did not hand the cash receipts over to the municipal treasury”.

Part of the leakages stemmed from the fact that these misbehaving officials were politically connected to the City’s political elites under the nepotism hiring policy. Unfortunately, the City Mayor did not see such a personnel-hiring practice as unusual. Indeed, this policy, as the Mayor believed, “would help to smooth the city administration and was also a good political reward”. In turn, this further strengthened mayoral control over the municipal bureaucracy.

Lastly, accounting practices also worsened the fiscal conditions of city hall. In the handling of tax delinquency (uncollectible) cases, tax/fee receivables were not accounted for by municipal accountants. Instead, the receivables were simply written-off at the end of the fiscal year. As stated by the Head of the Revenue Collection Unit of the Fiscal Department,

“We did not want to irritate delinquent taxpayers. Taxes owed to the city were small. Writing-off uncollectible taxes/fees was more convenient in terms of municipal accounting than carrying on the tax/fee receivable accounts for ten years. And if you got unlucky, delinquent taxpayers might file a complaint against your actions. Then, you’d be in trouble”.
Although this inappropriate accounting practice was once noticed by an audit team from the Office of the Auditor General (OAG), as reported in an Annual Report of the Office of the Auditor General, responsible staff felt that they need not follow the OAG’s recommendations. Also, the city executives did not pay close attention to the OAG’s concerns. Unfortunately, the current research was unable to trace how much revenue was uncollectible due to the tax leakages and due to the NOT generally-acceptable-accounting practices.

On the expenditure side, city executives tried to increase political popularity through educational programs (see Table 6-8). Tree Jasmine spent aggressively in educational services as compared to the other 13 cities included in this study (column 6), and when compared with the other three semi-rural based communities (column 2). The City also spent almost twice as much as the urbanized communities (column 3). Until recently, the portions of educational spending jumped to 63.8% and 55.6% in FY 2007 and FY 2008, respectively.

Table 6-8: Portions of Annual Budget Allocated for Educational Programs

<table>
<thead>
<tr>
<th>FY</th>
<th>City of Tree Jasmine</th>
<th>Other Semi-Rural Cities (3 cities)</th>
<th>Central Cities (3 cities)</th>
<th>Industry-Based Cities (2 cities)</th>
<th>Suburbs (5 cities)</th>
<th>Sample Average /a (13 cities)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>57.2%</td>
<td>44.3%</td>
<td>24.9%</td>
<td>11.2%</td>
<td>26.3%</td>
<td>27.8%</td>
</tr>
<tr>
<td>2005</td>
<td>45.0%</td>
<td>38.1%</td>
<td>26.1%</td>
<td>10.4%</td>
<td>22.5%</td>
<td>25.1%</td>
</tr>
<tr>
<td>2004</td>
<td>50.7%</td>
<td>41.1%</td>
<td>21.5%</td>
<td>10.5%</td>
<td>21.4%</td>
<td>24.3%</td>
</tr>
<tr>
<td>2003</td>
<td>39.2%</td>
<td>35.2%</td>
<td>20.2%</td>
<td>11.2%</td>
<td>22.0%</td>
<td>23.0%</td>
</tr>
<tr>
<td>2002</td>
<td>41.4%</td>
<td>44.6%</td>
<td>17.4%</td>
<td>14.2%</td>
<td>28.1%</td>
<td>27.3%</td>
</tr>
<tr>
<td>2001</td>
<td>35.4%</td>
<td>42.9%</td>
<td>15.8%</td>
<td>17.3%</td>
<td>18.1%</td>
<td>23.1%</td>
</tr>
</tbody>
</table>

Notes: /a Figures exclude those of the City of Tree Jasmine. Figures in parentheses indicate the number of cities being compared to that of Tree Jasmine.
On the surface, the education priority would be acceptable politically and fiscally if it nicely fit local demands and if its financing schemes were viable and fair to all the parties concerned. Notwithstanding, analyses of the City’s Strategic Plans 2001 – 2005 and 2006 – 2010 indicate that the education programs did not rank high on the constituents’ list nor did they require more spending needs than the average city, as showed in Table 5-3. That is, Tree Jasmine’s educational service needs (94.4 index value) were relatively far below that of the average city (129.9 index value). The plans also reflected that the city’s educational resources were *inefficiently* and *inequitably* spent.

Thus, several questions arise: How did the priority mismatch between the education and the local economic development come to exist? And, since budget allocation always involves policy/program trade-offs (Key 1940; Lewis 1952), why did education spending beat other competing programs for several years? In the following discussion, the communal needs for education and the supply of schooling in Tree Jasmine are explored. Then, this research examines how the excessive and inequitably educational service provisions helped to inflate spending needs in Tree Jasmine.

As already discussed, the majority of communal residents in Tree Jasmine experienced poverty and poor living standards. The average GCP per capita in Tree Jasmine was only 68.9 percent of the national figure. Community leaders also expressed demands for job and occupational promotions as well as economic stimulus programs. Still, the amount of the city budget allocated for these purposes was trivial, about 1.0 to 1.2% of total municipal spending during FY 2001 and FY 2007. Such a low portion of the economic stimulus budget is hardly convincing that education as the top priority directly served the locals needs.
Still, the City Mayor counter-reasoned that “education was a top priority since other service programs were not in high demand. Our City did not have a lively economy nor did it have expansive job markets. Thus, we would be better off spending on a child’s education and development than on boosting the local economy”. Nonetheless, the Mayor did not explain if the Tree Jasmine’s job markets were capable of employing all those educated from municipal schools. Given that the existing job opportunities in the City are quite restricted and no further economic stimulus programs have been pursued, the mere educational services provided by the municipal government will possibly be wasteful.

Arguably, education spending was so massive because of a shortage in educational services. However, detailed analyses show that the school shortage was not the case in Tree Jasmine. Total school supply in the jurisdiction was so abundant as compared to the size of the City’s youth population of about 4.7 thousand and to the scope of educational services provided in comparable cities\(^{16}\). Currently, the City runs six municipal schools, four are K-9, with a student enrollment of 2,734, and two schools are K-6, with a student enrollment of 361. Totally, there are 131 classrooms with a total enrollment of 3,095 and about 120 teachers and teaching assistants. Beside municipal schooling, there are 15 schools and colleges operated by other agencies (e.g. private schools, non-for-profit, regional schools and colleges, etc.) within the jurisdiction. Six are K-6, three are K-9, five are 7-12, and two are community colleges, with a total student enrollment of 16,157. Suffice it to say; based on the above discussion, the total educational supply in Tree Jasmine far outnumbered the city’s youth population and, accordingly, the current communal demand for education.

\(^{16}\) By delineating this argument, it was assumed that the current student enrollment represented the actual demand for educational services in a jurisdiction.
Thus, if educational spending was not linked to service demands nor to a school supply shortage, then the mayoral policy preferences behind municipal schooling tended to more aptly explain the existing educational spending levels. This is where the politics of municipal schooling steps into delineating a more complete view of the political dynamics in Tree Jasmine.

The City’s former Budget Director, as well as the Acting Director for the Budget Department and Assistant Director to the Education Department pointed out coherently that education spending levels were high because the City had too many municipal schools, inevitably causing excess school capacity and unnecessarily high overhead costs. Student enrollment within Tree Jasmine was indeed inadequate such that the City had to allow nonresidential (out-of-city) students to enroll in municipal schools free of charge in order to keep schools running and in order to maintain the existing number of schools and teaching personnel. The negative impacts of such a ‘generous’ policy on municipal finances were myriad. As the former City’s Budget Director stated:

“Having too many schools was very costly, especially in terms of administration, overhead costs and capital investment. It might be more efficient if we could merge two or more schools into one. We could better streamline our fiscal resources on improving teaching capabilities and school curricula. Also, it was not right that the city had to finance services for non-residents without charging this back to other localities. We had to be vigilant in spending our taxpayers’ monies”.

The Assistant Director to the Education Department also expressed a similar view:

“We had too many schools located nearby. Some of them were located within 1.1 kilometers (or a 0.68 mile) radius from others. The better, more efficient strategy in managing educational resources was to shut down about two of the schools and then reduce the number of student enrollment from out of the town”.
Detailed analyses tended to corroborate that the City of Tree Jasmine overspent on running too many schools. While it runs six municipal schools, another comparable rural-based city (located about 29 kilometers—18.1 miles—away from Tree Jasmine), with an equal population size of 19,000 in 2006, has three municipal schools, with a student enrollment of 1,900 and the number of teachers and teaching staff total 107.

It was unfortunately that how much the City could save from shutting down some municipal schools was unclear. School records did not allow for the headcount of out-of-city students, nor did spending accounts enhance the analysis of the overhead costs of each municipal school. Spending accounts of the Education Department (administration-related) and of the six municipal schools were commingled since no municipal school was set as an accounting entity. Not to mention, record keeping was so unconventional (manually recorded in a single log book) and uncategorized by service programs.

Still, the Assistant Director to the Education Department estimated that, among the 3,000 enrolled students, about 30 percent were from vicinity areas and about half of the city’s school-aged population enrolled in private schools. Similarly, a principal of the biggest municipal school estimated that about 70 percent of the 1,300 enrolled students were from out of the city. Given the estimates that about half of the city’s youth populations or about 2,000 were going to municipal schools and that about one third of municipal school students were from out of the city (approximately 1,000 out of 3,000), the estimates seemed credible since they were commensurate with the current student enrollment in municipal schools of about 3,000 in total.

Although it is not possible to estimate systematically how much the City could save from implementing a more restricted educational service policy, there is a possibility
of driving down the spending needs in a rural-based city like Tree Jasmine. Not only does this change help to improve the city’s fiscal condition, but it also helps to allocate the municipal educational resources in a more equitable manner.

In short, that the city was poor socioeconomically was partly a determinant of the municipal fiscal condition. Indeed, having too many municipal schools and too generous of an educational service policy largely accounted for the escalated educational spending. When coupled with the ‘low tax/fee burden’ mentality of the political executives as discussed earlier, this simultaneously weakened the city’s fiscal conditions. Thus, the question left unexplored is this: If neither constituency demands nor service shortages account for massive educational expenditures in Tree Jasmine, how could educational spending successfully escape budget cuts for years?

In the next section, the politics of municipal schooling as well as personnel and fiscal management underlying the city’s fiscal conditions and educational service policies will be uncovered. Suffice it to say that group politics and corporatism in Tree Jasmine undeniably give rise to a large educational budget. As the former Budget Director expressed, “though expensive, all schools still existed since they were havens for teachers’ growth and career advancements. They also provided great venues for political opportunism.” Clearly, the politics of education policy in Tree Jasmine played an immediate role in influencing municipal finances as argued by scholars elsewhere (e.g., Dluhy and Frank 2002; Fuchs 1992; Rubin 1982).
Politics and Administration behind the City’s Fiscal Condition

Unlike the City of Riverside Pagoda (Case Two), the political vulnerability explanation (Rubin 1982; Piven 1974) has a restricted application to the understanding of fiscal conditions in the City of Tree Jasmine. The political base of the city mayor and other councilmen were too secure. The mayor himself has governed the municipality since 2004 and was a Deputy Mayor for about 13 years (from 1995 to 2003), during which his brother also served as the City Mayor. To date, there has been no obvious political competitor, not even in the last general election. Furthermore, councilmen had very close ties to the mayor. They shared similar occupational backgrounds, mostly businesses, and co-invested in several local businesses. Thus, the political instability at city hall was hardly the case in Tree Jasmine.

Alternatively, the performance of budgetary checks-and-balance roles as developed by Wildavsky (1975), later expanded by Schick (1988) and Good (2007), add to this theoretical void. That is, the escalated education spending and the malpractices in local tax administration prevailed in the City of Tree Jasmine and contributed to the underperformed budgetary roles of the City’s key budget actors. Several instances plausibly precipitated the budgetary roles’ collapse. First, political priorities were set to fit the personal needs of the key executives, who more or less had conflicts of interest with the municipal government, rather than to fit urgent constituency needs (e.g., economic development and occupational promotions). On the other hand, the budget guardian council was weakened by political strategies of the executives. Additionally, permanent civil servants were professionally weak so that they could not withstand the policies or practices that had detrimental impacts on the City’s fiscal viability. Last,
financial watchdogs were not able to carry out their assigned roles due to unsupportive working environments.

On the surface, it seemed politically reasonable that the City of Tree Jasmine put educational policy on top of its priority list and accordingly allocated a large amount of fiscal resources to educational programs. Notwithstanding, both the former Budget Director and the former Finance Director pointed out that spending in educational programs and school-related capital investments was a clever political strategy that helped to serve several political ends. First, education spending was a basis of strengthening political support in Tree Jasmine. Due to its semi-rural community, other competing programs such as economic development (e.g., job trainings, occupational promotions, etc.) had hardly been implemented successfully, despite the fact that economic stimulus programs were highly needed. Here, the good name of education better solicited wide political support from the constituency. At a minimum, its social and private benefits were more tangible to voters than job training programs.

Additionally, the City was so generous in providing free educational services for out-of-city students and this was another creative way in which to forge political allies with nearby cities, though at the expense of municipal fiscal resources. To date, about six political leaders of surrounding cities close to Tree Jasmine were from the same family or were political allies of Tree Jasmine’s City Mayor. In this regard, education spending in Tree Jasmine not only helped to accumulate political popularity of the Mayor and his team within the city jurisdiction, but it also had a positive political spillover that more or less helped to increase the popularity of the overall mayor’s family members and/or his allies. Thus, city mayors in the surrounding areas could claim success in promoting child
education via collaboration with Tree Jasmine without spending any of their constituents’ monies.

Thirdly, and most important, the Mayor himself secretly owned and ran several businesses (e.g., constructions and real estate development, hotel and service industries, car dealer, etc.) that seemed to have a conflict of interest with the municipal administration. That being said, as the Director of City Planning stated, “most of the school construction contracts were awarded to the Mayor’s own companies”. Under the budget category of education-related constructions and capital investments (school building and facilities), they often mimicked ‘socially desirable’ spending. When comparing this with the construction of new roads, said the Director of City Planning,

“Almost no one really criticized how many school buildings, libraries, or computer labs were newly constructed each year. It was a clever political tactic that helped divert public criticisms from the construction of unneeded highways and local roads to public support under the good name of human development programs. And, this was why the mayor and his team wanted to have more schools.”

In the past, the construction of new school buildings and facilities were overwhelming. Several schools had excess physical capacities, e.g., vacant classrooms, office spaces, and learning facilities. For instance, in FY 2006, where this year was the peak of school constructions in the past decade, seven buildings were newly constructed, five were renovated, and five facilities were newly constructed (e.g., library, canteen, etc.). All of this construction cost the city about 78.7 million Thai baht (about 2.3 million USD or 61.7% of the educational budget), whereas the budget left for teaching related activities was just 48.8 million baht (or 38.3%). Note that the total investments for economic infrastructure development were just about 30.1 million baht in the same fiscal year.
That overall school capacities were over-supplied could be easily seen. On the one hand, the biggest municipal school had a physical capacity to serve about 70 classes, whereas the current enrollment was 40 classes. On the other hand, the smallest school had the capacity to educate students for ten classes or roughly 250 to 300 students. However, it actually served only five classes with 157 enrolled students.

In short, increasing educational spending was a safer, quieter political strategy for rent-seeking businessmen in Tree Jasmine. Unfortunately, it was difficult to estimate how much these corporate men could privately gain from such corporatist political practices. Then, why have corporatist politics been prevalent for years, despite that fact that virtually every permanent official knew of it? “That’s simple”, said the former Budget Director, “if you wanted to survive in this organization, you kept your mouth shut and just did what you were directed to do”.

And, through knowing the business-related backgrounds of the City’s political executives, it was not surprising that the tax efforts in Tree Jasmine were quite low, as discussed thus far. That is, the low tax burdens directly enlarged additional private business gains. Such a private-regarding ethos was quite dominant in the City’s executives and legislatures when local taxation policies were made. The arbitrary tax exemptions were only by-products of a well-articulated political intention that helped to please self-interest, private-concerned politicians.

Fourthly, several interest groups also accounted for having too many municipal schools in the jurisdiction. First, school principals and teachers were very powerful in Tree Jasmine. They helped to build good reputations of the Mayor and his team during political campaign. Thus, one effective way to please these influential groups was to
respond to what they needed. That was, establishing more, instead of fewer; municipal schools would victoriously build political support and loyalty among school teachers to the political executives.

Also, communal residents preferred having several small schools in their neighborhood, rather than having a few, large schools. Why was this so? As a school principal stated, “having more schools meant more chances for residents to be appointed as a member of a school board, not to mention more chances for private-benefit opportunities (e.g., personal reputation). This was a sense of pride and social responsibility an ordinary citizen could acquire”. A response from the leader of a neighborhood at which one to-be-shut-down school was located clearly confirmed the principal’s statement. “I was a member of the school board and I saw no reason to shut down my school. It ran quite well”.

Then, why does having more schools help fulfill teacher group demands? Public choice theorists suggest that a bureaucracy can deliver a sense of prestige, career advancement, monetary and non-monetary benefits, and chances for climbing up the organization ladder (Niskanen 1971, 1975; Daft 2007). Within this context, a separate municipal school “comes with autonomy, budget, authority, and perhaps a greater chance of economic rent-seeking of related personnel (e.g., autonomy in the purchasing of school-related equipment, authority to hire and fire, etc.)”, said the Assistant Director to the Education Department. “This was not hypothetical, but real”, confirmed the former Budget Director. “In the past, we found a case of school fraud where school administrators asked parents for extra money in order to support school lunch programs,
despite that fact that all the schools already received full lunch subsidies from the municipal government”.

One of the efforts for municipal school reform in the last six years included a proposed plan for school consolidation, from six to four, while maintaining a similar number of classrooms, student enrollment, and teaching personnel.\textsuperscript{17} The idea was originated by a council member and the former Budget Director. The plan detailed that school closures would not cause any serious transportation burdens for the majority of students due to school proximity. Two tentative schools to be shut down were located approximately one kilometer away from nearby schools. It was estimated that school closures would help minimize red tape and bureaucracy (overhead) costs with no apparent increasing costs in terms of educational quality and effectiveness. As the former Budget Director explained, “the consolidation of municipal schools would help reallocate resources from excessive overhead spending and capital improvements to more focused teaching-development and curriculum-related programs”.

Notwithstanding, the consolidation plan failed to pass a policy window by city executives. They counteracted the plan by proposing an erection of one or more new schools. School principals and teachers of the schools to be shut down also opposed the plan. Said an angry school principal:

\begin{quote}
“That plan was ridiculous! My school was everything to me. I started working from seven (a.m.) to six (p.m.). This school was indeed my second home. I’d tried so hard to develop my school and to educate my students. In the past, I fought for more budgets or even asked for public donations so that my school could provide students state-of-the-art, curriculum-related equipment and computers.”
\end{quote}

\textsuperscript{17} The plan did not go too far in changing its enrollment policy. It still allowed for out-of-city student enrollment.
In addition to the corporatist and group politics just discussed, misplaced education priorities, tax leakages, and financial malpractice stemmed from the weakened guardian role as performed by the Council and professional bureaucrats. The Council hardly questioned the policy priorities and budget allocation carried out by the executives. “We were from the same political group and so far we’d cooperated very harmoniously with the executives”, said the Secretary of the Council. “We saw that our role was to support the executives, not to block any policy initiatives of the Mayor.” The former Budget Director also confirmed the existence of the deviated budget guardian’s role. “The Council perceived themselves as assistants to the City Mayor rather than the protectors of the municipal purse”. Unfortunately, every councilman had to listen to the Mayor what programs and priorities should be implemented in Tree Jasmine. This was because, elaborated the former Budget Director,

“Those who wanted to run for Councilman had to get prior approval from the Mayor. Then, who still dared to challenge the mayoral power with respect to spending and budgetary policy?”

Besides the weak legislature, bureaucratic guardians also underperformed their designated budgetary roles. For instance, a former Finance Director, who retired about two years ago, was not capable enough to guard the municipal purse. Indeed, during the year before retirement, said the Director:

“I did not really want to have any dispute with politicians although I knew that they were not good guys. In fact, I wanted to spend my life after retirement peacefully, not being antagonized by any of the municipality’s political bosses. My eyes had to turn blind sometimes when looking at some financial issues.”
The weakening of the budget guardians also spread to the overall municipal bureaucracy via a ‘hire and fire’ authority of the Mayor. That was, the practice of hire and fire was not truly based on a merit system, but indeed based on a personal loyalty to ‘political bosses.’ For instance, as the former Budget Director stated, “the political bosses were well aware of the kind of municipal staff when hiring or promoting them”. In the worst case, they hired some personnel who previously worked with the Mayor’s own companies to be in charge of monitoring construction contracts. In short, as the Director expressed, “those who did not get along with the Mayor had to leave”.

Although it was difficult, or perhaps impossible, to figure out how many staff were under the political patronage of the total 324 FTE employees, including school personnel (as of January 2007), the view of the former Budget Director was supported when the researcher asked his or her reason for leaving the municipality in the past two years. It was not surprising when his or her answer was “the disagreement between himself or herself and the Mayor.”

Lastly, the financial watchdog role as performed by an internal audit unit and the external auditor (by the Office of Auditor General: OAG) was not fierce. The post of internal auditor was left vacant for years and the internal audit office was equipped with one junior accountant who still lacked accounting and operational auditing experience. Indeed, “the Mayor himself did not want to expand the capacity of the internal audit team,” said the former Budget Director. Also, external auditors from the OAG performed their tasks haphazardly. One of the auditors from the OAG stated,
“We had a limited number of capable personnel and a limited amount of time to review all municipal transactions. Indeed, we had at most 2-3 days for auditing financial records and operational issues in Tree Jasmine. Without insider’s tips, staffers from the OAG hardly knew what was actually going on inside municipal tax collection and spending”.

In short, the failure of budgetary roles and the politics of schooling indicate a much more telling story of the poor fiscal conditions in the City of Tree Jasmine. Although bad socioeconomic luck made the City fiscally poor, its bad budgeting tended to have a worse impact on municipal finances. As “municipal schools and education spending were truly a major political heaven in Tree Jasmine”, said the former Budget Director, the instability of the fiscal conditions in Tree Jasmine were indeed more of a product of the actors’ failures to conform with their designated budgetary roles than a product of external socioeconomic forces.

Overall, this chapter discusses the symptoms and the political causes of the municipal fiscal conditions by delineating four in-depth cases. As evident, the budgetary roles framework reasonably helps to explore the political and administrative dynamics underlying poor fiscal conditions, particularly when the existing theoretical explanations (e.g., Rubin 1982; Dluhy and Frank 2002) were inadequate or of restricted application. In the next chapter, key findings from the current research are presented. It also discusses the key theoretical understanding of fiscal conditions stemming from a developing society like Thailand. Some of them reveal distinct fiscal condition dynamics from those happening within well-developed governing societies. Lastly, the major implications of this research are explained in substantial detail.
CHAPTER SEVEN
NATURE AND CAUSES OF MUNICIPAL FISCAL CONDITIONS, AND CONCLUSION

This final chapter discusses key research findings and analyzes the theoretical implications underpinning the municipal fiscal conditions in Thailand. Some specific aspects that make the current research’s findings consistent and distinctive to the literature will also be acknowledged. This will assist the academic community in locating where the existing knowledge is supported in the current study and where it needs to be modified.

Overview of the Findings

The current research attempts to apply U.S.-based measures in order to examine municipal fiscal conditions in Thailand. Fourteen cities located in the central and eastern regions of the country were explored utilizing data from FY 2001 to FY 2006. The findings (Chapter Five) show that the selected measures of revenue-raising capacity (RRC) and expenditure need (EN) provide a sensible picture of Thai municipal fiscal conditions. Large, highly populous central cities as well as semi-rural, residential areas are fiscally weak. By contrast, industry-based cities are fiscally healthy. Notwithstanding, inconsistency to the municipal finance literature does emerge. That is, Thai suburban cities face relatively poor fiscal conditions despite supportive socioeconomic environments, whereas those of the U.S. suburbs are generally strong.
Later, four extreme cases from each of the city’s socioeconomic characteristics are explored in detail (Chapter Six) in order to add qualitative meanings to the fiscal condition findings as revealed earlier. Case analyses also help to explain the political and administrative causes that lie underneath municipal fiscal conditions. The four cases exhibit somewhat distinct, but intriguing taxing and spending policies as well as the cities’ political dynamics in a developing democracy like Thailand. In addition, case analyses help to reveal the reasons for poor fiscal conditions in suburbs which are quite inconsistent to the existing literature.

The first case of East Sea Beaches, which represents economically and fiscally strong conditions in a tourism-based city, reveals how a strong local economy helps enhance local fiscal conditions via strong politics and good budgeting: well articulated priorities; effective control of budget and spending; and transparent and professional administration. Whenever the duality of good economy and good budgeting coexists as in this case, the city’s fiscal condition is expected to be healthy in the long-term.

On the other hand, the second case of Riverside Pagoda, a suburban city, depicts a situation in which a good local economy meets bad budgeting. Thus, weak fiscal conditions inevitably result, especially in the form of extravagantly escalated spending needs. What lies beneath such poor fiscal conditions is machine-like politics that virtually deteriorates the fulfillment of preferred budgetary roles. Here, the collapse of budgetary check and balance mechanisms, unduly low tax efforts and a fiscal dependency attitude, financial malpractices, nepotism, and corruption surface.

Next, poor socioeconomic conditions in the highly populous central city of Old Northwest put city finances in bad luck. Although city executives attempt to put
municipal resources to good use, their conservative service provisions, passive capital
development and debt-avoidance capital financing cause the city to inadequately respond
to essential constituency demands. This case study suggests that harsh socioeconomic
environments in such a densely populated city often require higher spending levels and
more keen political-administrative efforts than the average city, in order to fulfill service
needs.

Finally, the case of rural-based Tree Jasmine illustrates a situation in which
unfortunate socioeconomics and bad budgeting converge at city hall. Fiscal resources
tend to be restricted while spending levels are excessively elevated. Hence, the fiscal
condition of instability is inevitable in Tree Jasmine. This case demonstrates that the
city’s taxing and spending policies do not help but instead deteriorate its fiscal
conditions: ineffective tax administration, personal business gains via disproportionately
high educational spending, micro-financial management, nepotism throughout city hall,
and failures of budget control and spending audits. The politics of schooling in Tree
Jasmine is a highlight of corporatism politics. Under a socially desirable name of child’s
schooling, the corporatist politicians successfully allocate more resources into
educational programs. This effectually helps to conceal the private-gain motivations of
the executives at the expense of the municipal purse.

Here, the two research propositions elaborated on Chapter Two have been
empirically answered. The current research contends that by employing U.S.-based
measures to the study of Thai municipal fiscal conditions: the relative fiscal conditions as
occurs in U.S. cities apply to those of Thailand. And, it further posits that a city with
supportive socioeconomic conditions can experience poor fiscal conditions if budget
actors fail to fulfill their designated budgetary roles. Both of the propositions are generally confirmed. The findings for each of the research questions are discussed below.

The quantitative findings in Chapter Five reveal that the selected measures of revenue-raising capacity (RRC) and expenditure need (EN) as developed by Martinez-Vazquez and Boex (1997a); Dye (1984); and Ladd and Yinger (1989) provide a picture of Thai municipal fiscal conditions somewhat consistent to that of U.S. cities during the past decades. As discussed in Chapter Two, existing studies indicate that highly populous, central cities as well as small, rural-based areas are often identified as having poor fiscal conditions. On the other hand, the literature finds that suburban as well as industry-based cities tend to be fiscally healthy. Since this research reveals the results as guided by the literature, except for those of suburban communities (which shall be discussed later), it is not an exaggeration to say that this research provides a satisfactory picture of Thai municipal fiscal conditions.

This demonstrates a moderate strength of the selected measures of fiscal conditions in that they can flexibly be adjusted to fit the Thai context, while still providing a good picture of Thai municipal fiscal conditions. Thus, the external validity of the selected U.S.-based measures is strengthened. Since Thailand is a typical case of a developing nation, it is believed that the same analytical measures and procedures as utilized in the current study are applicable to other developing societies undergoing the devolution movement in order to help uncover the fiscal conditions in their localities. At the very least, this study reveals substantial room for future comparative research for the issue of municipal fiscal conditions.
On the contrary, while the consistency of the research findings to the literature exists, some inconsistency does emerge with those of the fiscally poor suburban municipalities. The literature generally predicts that suburban governments are fiscally healthy (e.g., Hendrick 2004; Bell et al. 2004; Dluhy and Frank 2002). Thai suburban governments, which experience local economic growth, face relatively poor fiscal conditions. This divergence prevails because, as the in-depth case analyses have revealed (see the case of Riverside Pagoda in Chapter Six), poor budgeting and the collapse of the budgetary check-and-balance authority largely deteriorate the fiscal conditions of Riverside Pagoda.

This being said, the answer to the second research hypothesis is as follows: Cities with supportive socioeconomic conditions, such as the Thai suburbs, experience poor fiscal conditions when budget actors fail to fulfill their designated budgetary roles. For example, in the City of Riverside Pagoda, budget actors did not effectually perform their budgeting tasks. On the one hand, spending-advocate department heads were geared towards political nepotism, rather than merit-based, professional standards. Thus, service programs were mostly done to please the self-interest political bosses. On the other hand, the City Council, as well as the municipal staff in the Finance and the Budget Departments, did not guard the municipal treasury sufficiently. Corrupt financial management practices were often evident and the financial watchdog function was missing due to understaffing in the internal audit team.

Likewise, as the data in Tables 5-1 and 5-4 show (see the discussions in the last section of Chapter Five), the demographically and economically growing rural-based communities faced the poor fiscal conditions. This is contradictory to the literature that
contends that a growing economy and population usually induce improved fiscal conditions (Inman 1995; Chernick and Reschovsky 2001; Ladd and Yinger 1989; Kamer 1983; Bradbury 1982). Again, as already revealed in the City of Tree Jasmine (see Chapter Six), fiscal losses from bad budgeting in city hall completely outweighed the gains from local socioeconomic growth. Such corporatist politics in rural communities like Tree Jasmine literally depreciated the city’s fiscal performance.

Overall, the four cases combined illustrate cities of varying socioeconomic characteristics and their corresponding fiscal conditions mediated by a distinct set of political and administrative responses in their respective city halls. One important conclusion is evident: Socioeconomic conditions are only partial causes for a healthy or weak fiscal condition. Malfunctioning of budget actors largely attributed to the cities’ poor fiscal performances. While a bad socioeconomic luck is a more sympathetic situation, bad budgeting deserves criticism and should induce immediate changes.

Understanding the Municipal Fiscal Condition Anatomy

The current study reveals the cases of both healthy and poor fiscal condition cities. While some cities’ are unfortunate in their indigenous socioeconomic environments, some cities’ are politically and administratively poor. Hardly have these fiscally poor cities been efficaciously managed, which is owed to either corrupt politics and financial malpractices, or, to abused tax efforts and authority for long-run political and personal gains. When any or both of these evils intrude into city hall, even in a socio-economically rich city like Riverside Pagoda, they inevitably cause substantive pressures for the maintenance of fiscal balances and the city’s fiscal performances soon become deteriorated.
What have we learned so far from the study of Thai municipal fiscal conditions? This section discusses the nature of healthy or poor fiscal conditions from a developing country’s experience like Thailand. The cases consist of a comparative analysis that helps to identify the political realities of each city and their interaction with local socioeconomic circumstances. These analyses are crucial to understanding the symptoms and causes of municipal fiscal distress and why some economically healthy cities experienced fiscal instability in the midst of the devolution movement. The evaluation of the research findings within the existing literature will follow.

The Nature of Fiscal Conditions in Thai Municipalities

Generally, in a financial accounting sense, fiscal stress is often referred to as a situation in which a city government faces chronic deficits and massive outstanding debts, especially in the short-term. However, this notion has a restricted application to Thai municipal fiscal conditions where fiscal institutional arrangements and normal budget practices of Thai municipalities are quite distinct from those of other well developed democracies. Hence, the practical meaning of fiscal conditions used in this research is studied within the local Thai public-service context and the imbalance between local taxes and service fulfillment is the major focus.

1 As already discussed in Chapter Two, Thai municipal finances have three distinct characteristics that make common indicators difficult to apply: (i) their use of cash-basis accounting make the financial data less dependable. Municipal liabilities and assets are, hence, not a good indication of fiscal health; (ii) Thai localities are quite fiscally conservative. Hardly does debt-financing mean gain popularity for capital investment (Varanyuwatana 2003). Thus, debt outstanding might not practically be useful; and (iii) Thai cities have statutory requirements to balance their budgets. Hence judging a city’s fiscal condition cannot be made by a simple look at the budget imbalance since a substantial portion of service needs are suppressed by the existing level of municipal revenues. See Chapter Two in the operational definition section for further explanations.
Table 7-1 in the following page summarizes the nature of the healthy and poor fiscal conditions of Thai municipalities. It maps the nature of municipal fiscal conditions within the socioeconomic circumstances of the four respective cities. The City of East Sea Beaches exhibits a dual strength in its economy and city finances, whereas the City of Tree Jasmine represents the opposite; a dual weakness in its socioeconomic conditions and the City’s budget practices. The City of Old Northwest represents socioeconomic bad luck. However, the City of Riverside Pagoda represents bad socioeconomic luck as well as bad budgeting. What is intriguing from these four different notations is that they signify what kinds of cities, as well as budget practices should be commended and which cases we can glean lessons from.

A good case is East Sea Beaches in that although the city itself is socio-economically better-off, due to its advantages in being a tourism hub in the nation, its political executives as well as other respective budget actors work hard at keeping the municipal purse in good shape. All budgetary roles are fulfilled and the appropriate governance mechanisms are in place, which include the council’s guardian role, the financial watchdogs (both internal and external), and interest groups and the local media. In sum, the budgeting practices of East Sea Beaches should be promoted and replicated to other municipalities.

Aside from the fact that East Sea Beaches has fortunate socioeconomic luck, Old Northwest is another exemplary city with positive budget practices. A socio-economically bad luck city, due to its density and large population size, experiences relatively higher service costs (see Table 5-3 in Chapter Five) in several service areas (e.g., public safety, education, housing & community services, and social welfares). Still,
its political authorities satisfactorily adjust city policy and administration in order to fit its meager environment. Fiscal conservatism, although not perfect in achieving a reasonable level of municipal services, as compared to emerging communal issues, is a second-best choice that helps to keep the city’s fiscal house in order. No negative politics or fiscal malpractices in the city hall are apparent.

Table 7-1: The Nature of Fiscal Conditions of Thai Municipalities

<table>
<thead>
<tr>
<th>Symptoms of Fiscal Conditions</th>
<th>Revenue side a/</th>
<th>Expenditure side</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fiscally healthy city</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>East Sea Beaches Tourism City: <em>Strong economy and good budgeting (Dual strength)</em></td>
<td>High tax mobilization effort, seeking new sources of tax revenues</td>
<td>Well set service priorities, well managed and monitored financial management, effective control of excessive spending</td>
</tr>
<tr>
<td><strong>Fiscally poor/instable city</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Old Northwest Central City: <em>Poor economy but good budgeting (Bad luck)</em></td>
<td>Fiscal/tax conservatism, moderate tax effort</td>
<td>Conservative spending, policy misprioritization, debt-averse service/capital finances</td>
</tr>
<tr>
<td>Riverside Pagoda Suburban City: <em>Strong economy but poor budgeting (Bad budgeting)</em></td>
<td>Extremely low tax efforts (free-lunch attitude), tax collection leakages, lack of effective tax administration, political direct orders for use of tax exemption, private-public-split tax collection</td>
<td>Corruptions in municipal spending and construction projects, excessive budget (backdoor budget making), contract rigging, fiscal mismanagement and inadequate financial reports</td>
</tr>
<tr>
<td>Tree Jasmine Rural City: <em>Poor economy and poor budgeting (Dual weakness)</em></td>
<td>Low tax efforts, lots of loopholes in tax collection systems, abused tax authority, arbitrary use of tax exemptions</td>
<td>Financial and accounting malpractices, too generous education spending, policy misprioritization and conflict of interest in budget making</td>
</tr>
</tbody>
</table>

Notes: a/ Varying degrees of local tax efforts are derived from Table 6-2 in the previous chapter. They are calculated based on the ratio of a city’s per capita tax revenues from five major revenue sources and its gross products per capita (GCP-PC).
Nonetheless, what should not be commended are the two cases of bad budgeting in Riverside Pagoda and the corporatism politics in Tree Jasmine. On the one hand, poor politics and weak fiscal administration in Riverside Pagoda put the City’s finances in the worst position, despite its supportive economy. This case resembles the Orange County, California fiscal crisis in the 1990s, though to a lesser degree, where political authorities manage the municipal purses in return for some personal gains. On the other hand, city administrators in Tree Jasmine are unaware of the city’s socioeconomic strains, but attempt to drain its fiscal resources through expensive education programs and excessive school-related capital investment. Given these circumstances, the way to escape from the fiscal strain is so desperate for Tree Jasmine.

In addition to the four varying fiscal conditions in the cities above, the data in Table 7-1 suggest two distinct symptoms of poor fiscal conditions for Thai municipalities: Explicit and Implicit. An explicit poor fiscal condition represents the case of the imbalances between taxing capacity and spending need. The Cities of Riverside Pagoda and Tree Jasmine fall within the symptom of explicit poor fiscal conditions. Such poor fiscal conditions are quite evident in both sides of the fiscal administrative processes. On the one hand, tax efforts are intentionally lower than usual through political directives, administrative malpractice, or tax collection leakages. On the other hand, expenditures are unnecessarily high due to generous service policies, group pressures for more spending, contract rigging, weak budget and spending controls, and corruption, which is evident through the following forms: a traditional form of commission charges, from public spending, construction works, via the old machine politics of Riverside Pagoda, or in a more modern form of policy corruption like the corporatist politics of Tree Jasmine.
An implicit poor fiscal condition reflects an imbalance between a fiscally conservative administration at city hall and the fulfillment of service needs. While an implicitly poor fiscal condition keeps the budget balanced, fiscal conservatism often suppresses the actual levels of service provisions and capital development to be lower than the desirable levels from the constituents’ viewpoint. These incidents are evident in the inadequate provisions of public safety services and water drainage systems in the City of Old Northwest and resemble the notion of ‘poor citizen fiscal conditions’ termed by Bradbury (1982). In the long-term, service suppression may cause a plight of business and residents, eroding tax bases and brings severe fiscal stress to the surface.

Overall, an understanding of the distinct types and the nature of poor fiscal condition symptoms brings about one important caveat: the different nature and causes of poor fiscal conditions require particular treatments and policy remedies. Across-the-board assistance provided to all of the poor fiscal condition cities might be wasteful. In this respect, the City of Old Northwest may need external financial assistance in order to pull city finances out of trouble and to have adequate resources for extensive capital improvement. Old Northwest needs to strengthen its policy-making processes so that city executives can better match policy priorities with constituency needs.

Alternatively, both Tree Jasmine and Riverside Pagoda require extensive political and administrative overhauls before any additional external resources are provided, especially for the socio-economically poor city of Tree Jasmine. In short, the more that focused financial and management cures are adopted for each respective city, the more chance that the poor fiscal condition symptoms will be successfully resolved.
Politics, Socioeconomic Bases, and the City’s Fiscal Conditions

The findings from the quantitative measurement of fiscal conditions and the qualitative case analyses show that socioeconomic conditions only partially determine a city’s fiscal performance. Fundamentally, poor socioeconomic circumstances restrict a city’s tax base and bring about myriad social problems and service needs. They also limit the available fiscal options a city could embark upon. Hence, a socio-economically poor city always ends up with a woeful financial status, regardless of how good the politics and budget practices are pursued. This is quite evident in the City of Old Northwest where its admirable politics and budget management practices seem ineffectual in elevating the city’s fiscal performance.

On the contrary, the more socio-economically healthy city can afford to exercise either good or bad politics as well as budget practices for short-run returns, although the choice of bad budgeting eventually causes a great fiscal risk to the municipal purse. Ultimately, the city’s good socioeconomic luck will run out. In other words, the municipal purse cannot always tolerate bad politics and poor budget practices. This scenario clearly applies to the City of Riverside Pagoda, where its old style politics has destroyed municipal fiscal strength.

The above discussion exhibits an asymmetric, paradoxical relationship between a city’s socioeconomic conditions, politics and budget practices, and its fiscal performances. While a city of rich socioeconomic circumstances can maintain a healthy fiscal condition via the good use of politics and budget practices, it still has an additional option available. That is, a socio-economically rich city can risk fiscal operations in expectation of some returns, either personal or political (e.g., re-election, personal}
reputation, politicians’ own pockets, etc.), with no apparent short-term costs to the municipal purse. On the contrary, a city of poor socioeconomic conditions has no such choice. It always requires competent politics and good budget deeds in order to ease its severe socioeconomic circumstances.

This analysis suggests that a socio-economically poor city should promote as well as maintain its good fiscal governance even though the fiscal condition outcomes may not always be positive. Good governance still matters in order to enhance municipal fiscal conditions. The installation of fair budget operating systems should mitigate undesirable financial malpractices and help to enhance the collective value of public spending programs.

Is Political Vulnerability or Stability Precipitating Poor Fiscal Conditions?

Rubin (1982) contends that the vulnerability of political executives presses the government to overextend its spending in order to keep good coalitions among diverse groups. Her model also posits that fragmented, weak budget control authority directly causes fiscal stress. In the current study, Rubin’s (1982) model has a positive application to the understanding of Riverside Pagoda’s deteriorating fiscal conditions. Political competition in city hall was intense among several groups and the budget making authority was dispersed and fragmented.

Nonetheless, although analytically compelling, the political vulnerability model is of restricted utility, particularly when applied to the City of Tree Jasmine. The case analyses in Chapter Six show that political power at city hall was secure both inside and nearby jurisdictions. Political power also thoroughly encroached on municipal operations.
as well as personnel management. When the budget cycle was initiated, political executives effectually directed what and how much to spend. Despite the political stability, the City of Tree Jasmine faced poor fiscal conditions since its political executives (also council members) attempted to overextend educational spending as a major means by which to serve themselves (personal-pocket) aggrandizement, and through the good reputation scenario of ‘education advocate’. In this respect, a thesis made by the vulnerability model is unnecessary for the deterioration of fiscal conditions, particularly when the case of the politically-stable Tree Jasmine City comes into purview.

In this research, an alternative explanation is provided, and is conceptualized from the specific case of Tree Jasmine. The political stability and highly integrated budget making processes can cause expensive spending and low tax efforts if key budget actors in city hall fail to carry out their designated budgetary roles. As the case of Tree Jasmine shows, policy priorities set by the executives tended to be misplaced and lacked a comprehensive review of urgency and need. The Council was so weak relative to the executives that the guardian role of the municipal purse was rarely exercised. Indeed, both the executives and the council colluded with specific private contractors, and with one another, in escalating educational spending and awarding capital investment contracts to those who were in close connection to political bosses.

Unfortunately, the accountability mechanisms, both internal and external, were also underdeveloped in Tree Jasmine. The Internal Audit Team was understaffed and did not gain adequate support from the political bosses. The same also applied to the operation of the external audit team from the Office of Auditor General. Moreover, interest groups, as well as local media, were not sufficiently strong such that they could effectively monitor...
the performances of, as well as voice their concern to city hall. In short, if the failures to follow the budgetary check-and-balance roles exist, then a politically stable city is highly likely to endure fiscal strain, as was the case in Tree Jasmine.

By extension, well performing budget actors are more likely to help strengthen the city’s fiscal performance. This happened in East Sea Beaches via several mechanisms as described in Chapter Six. The City Mayor helped to prioritize fiscal and service policies, as well as trim departmental budget requests in order to fit the city’s service priorities and available resources. The Council seriously audited policy implementations as well as the detailed fiscal management carried out by the executive branch. Additionally, audit teams, as well as interest groups and the media harshly monitored the work of city hall.

The above discussion clearly demonstrates the utility of the budgetary roles framework this research has applied to the fiscal condition analysis, by using the experiences of developing governance like that in Thailand. As apparent from the case analyses, budget actors in fiscally weak cities, with varying degrees of fiscal condition outcomes, often underperformed their designated budgetary roles. In light of this piece of the findings, the strengthening of budgetary roles should be one of the major measures addressed for poor fiscal conditions (see further discussions in a subsequent section).

Conclusion and Recommendations

The purpose of this research is to measure fiscal conditions in Thai municipal governments from a comparative perspective. Fourteen cities are explored regarding how their fiscal conditions vary and, then to find explanations for the variation during FY
2001 and FY 2006. The focus of measuring fiscal conditions is through the municipal fiscal ability to take on service obligations. As revealed by American-born measures (Martinez-Vazquez and Boex 1997a, 1997b; Dye 1984; Ladd and Yinger 1989), the findings suggest that the measures are externally valid when being applied to contexts outside U.S. origins. That is, the findings depict a sensible picture of Thai municipal fiscal conditions generally comparable to the U.S. experience during the past few decades.

Large, highly populous central cities as well as semi-rural, residential areas were fiscally less able to provide a level of needed services, approximately requiring 15 to 30 percent or more of its revenues. By contrast, industry-based cities were fiscally healthy, and had more resources than needed when compared with other cities. Notwithstanding, an inconsistency to the fiscal condition literature emerged in this study in that Thai suburban cities lacked the needed resources to fulfill constituency needs.

A detailed case analysis was carried out in order to add qualitative characteristics of health and poor fiscal conditions and to explain why some cities were fiscally less able to satisfy constituents’ needs. Four distinct cases were selected from each of the city’s socioeconomic characteristics. The case analyses, as guided by the budgetary roles framework (Wildavsky 1975, 1984; Good 2007), exhibit that for fiscally poor cities, budget actors mainly failed to follow their designated budgetary check-and-balance roles. Neither did political executives set policy priorities to fit urgent communal needs, nor did the council well monitor and safeguard the municipal treasury. Thus, a number of municipal resources went to waste. Furthermore, financial watchdog mechanisms were underdeveloped in that auditors, interest groups, and the media were not influential
enough so that they could help ensure that the city finances were good shape. In short, this study shows satisfactorily how the qualitative, budgetary roles analysis is meaningfully added to the quantitative analysis of local fiscal conditions. Such a mixed-approach study is quite rare in the local finance literature.

Based on the findings discussed above, concrete policy and theoretical implications are accordingly provided. Some of the implications are specific to Thai local administration and some are generally applicable to other societies undergoing the devolution movement. The recommendations in this study incorporate a micro perspective (at the municipal level) as well as a macro perspective (at the national level). Lastly, suggestions for the directions of future research are discussed.

Municipal Fiscal Condition and Intergovernmental Fiscal Transfers

First, this research sheds some light towards the articulation of municipal fiscal policies. It provides a good foundation for the design of intergovernmental transfer systems that take into account local fiscal conditions. Since socioeconomic conditions are somewhat external to local government control, municipalities with unsupportive socioeconomic environments are less likely to cope with structural deficits by their own means and often end up with fiscal strain. Their fiscal abilities are relatively restricted, although they manage their purse reasonably well. In effect, bad socio-economic luck has completely deteriorated a city’s fiscal outcomes. The large, highly populous central cities (e.g., the City of Old Northwest) are a good example in this regard.

Based on the current findings, fiscal assistance from external sources (e.g., transfers from central government agencies) are particularly essential for highly
populous, central cities like Old Northwest. It is also essential for small, semi-rural based
cities if, and only if, their governance problems have been remedied before they receive
assistance (to be discussed below). In short, transfer policies should be customized in
order to fit local fiscal conditions and in order to help compensate the city’s socio-
economic shortages. However, to date, intergovernmental transfers provided by the Royal
Thai Government have been allocated to localities based mostly on population and
jurisdictional size, regardless of the city’s fiscal capacity and need.

For example, in fiscal year 2005, in the case of municipalities, general-purpose
transfers were divided into two parts: (i) fifty percent of all transfers were allocated to all
municipalities by the proportion of residential populations; (ii) another fifty percent of
transfers were allocated equally to all municipalities. The same was true for transfer
policies in other fiscal years. Thus, an alternative, stress-relief fiscal transfer, which is
not yet in place in Thailand, could be provided to fiscally distressed cities in order to help
eradicate their financial predicaments. The cities whose fiscal conditions are inherently
weak deserve more assistance in respect of their fiscal needs. In this respect, the fiscal
health index (FHI), or, some other forms of socioeconomic predicaments can be factored
into the transfer allocation formulae.

Additionally, this kind of transfer should be provided on an eligibility (fiscal-
need) basis, instead of a ‘right-basis.’ That is, fiscal transfers are expected to ease the
city’s socioeconomic difficulties, instead of easing governance problems. Transfers
should neither spur a fiscal dependency attitude nor reward inappropriate fiscal

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2 Details are provided via the Ordinance of National Decentralization Committee for the Allocation of
Intergovernmental Transfers in Fiscal Year 2006, Royal Gazette, Vol. 122, Special edition, November 1,
2005, p. 23.
management practices. For this reason, socio-economically poor cities that commit themselves to poor politics and budget practices should not have access to these transfers, unless they drastically reform their fiscal policy making processes as well as financial management practices. Likewise, socio-economically rich cities should not be eligible to have a claim to these transfers, even if their fiscal performances go sour.

Arguably, that the transfers should be provided only to the cities that practice good governance and good budgeting is a politically difficult recommendation, given the fact that the local good governance framework in Thailand is still weak. As already discussed in Chapter Three, transfer allocations in Thailand are often done in a politicized manner (Varanyuwatana 2003; Suwanmala 2001). A proposal to reverse the way the transfers have been allocated may not be politically viable in getting through a national policy framework. Additionally, some local authorities may not have the incentive to commit to good government practices, since doing so would possibly yield net losses to their municipal or personal pockets.

Nonetheless, a global movement suggests that it is high time for the Royal Thai government to tighten transfer allocation policies. Local authorities around the world, both in developed and developing societies, are initiating governance transformations (see, e.g., Shah [2007a, 2007b] for a comprehensive review of local government transformations around the world) and a number of other countries have developed more sophisticated transfer allocations that satisfactorily take into account local socioeconomic and fiscal conditions (see, e.g., Y. Kim 2003; Bahl and Linn 1992).

In this regard, some incentives and policy measures for local governance reforms should be in place simultaneously with the installation of stress-relief transfers. New
institutional economics and local governance and network theories (e.g., Moe 1984; North 1990; O’Toole 1997, 2010) provide some interesting thoughts. First, some forms of monetary incentives for governance transformations might be provided up to a certain period (e.g., two to three fiscal years) to cities that have poor budget practices and political malfeasance in exchange to the commitment to a good governance framework that are (or to be) developed by appropriate agencies (e.g., the DoLA, the OAG). Local authorities receiving the monies should also be required to disclose full information regarding operational and financial management activities so that national government bodies can closely monitor capacity-building for these cities. Also, local constituents and service alliances should be nurtured so that they will help to monitor the work performed at city hall. Finally, national government agencies must employ harsh penalties for bad politics and bad budgeting. In turn, these measures might cause local authorities to be more vigilant and accountable when using public monies.

Enhancing Local Fiscal Governance and Fiscal Monitoring Systems

The improvement of local governance and budgeting is necessary and stems from the fact that some cities manage themselves into fiscal difficulties. For instance, the Riverside Pagoda Suburban City, which has supportive economies due to its close proximity to several transportation hubs and industrial estates, faced deteriorating fiscal conditions largely due to its poor governance and budgeting malpractices. Riverside Pagoda is a case which is in direct contrast to the City of East Sea Beaches, where its key budget actors tended to satisfactorily fulfill stipulated budgetary roles. For this reason, one effective way to cure the poor fiscal conditions in cities such as Riverside Pagoda is
to NOT inject more fiscal resources, but to strengthen the budgetary check-and-balance roles of those actors in city hall. In other words, governance problems cannot and should not be solved by financial means. This reflects the significance of Wildavsky’s (1975) budgeting contributions to date.

First, and most important, the council’s roles in safeguarding the municipal purse and examining the work of the executives should be strengthened. Several cases of fiscally poor cities exhibit the weakness of the council in relation to the executive branch. Council members often listened to, and in many circumstances became loyal to the city mayors’ directives. They hardly checked what priorities were urgent to the constituents and/or how the executives spent public monies, thus, poor fiscal performance is evident. What happened is clearly: the unacceptable check-and-balance roles in an era of democratic governance. Therefore, some form of readjustment in the councilmen’s roles should be called for, and the Department of Local Administration (DoLA) might play a leading role in this readjustment.

Auditing function is another area of concern for Thai municipalities. This function was extremely weak in most of the fiscally poor cities examined in this research. Both internally and externally conducted audits were inadequate to deter the wrongdoings or of the suspicious fiscal activities. Unfortunately, political officials of the fiscally weak cities did not have an incentive to enrich the auditing processes. In this regard, national government agencies (e.g., the DoLA, and the Office of Auditor General [OAG]) might step in to promote capacity building for the cities’ internal audit teams. Equally important is the use of private auditing firms, which is still rare to Thai municipal finances. As the auditing work carried out by the OAG was quite inadequate in several cities, the use of
private auditors would widen the coverage and intensity of audit activities on municipal operations. In turn, this could help to improve long-term municipal fiscal performance.

Additionally, the reform of fiscal policy making processes and the enhancement of group as well as local media power are essential. The processes should become more transparent and adequately engage all parties concern. This would help to improve local policy making processes in formulating the policy priorities that well fit constituents’ needs. Experiences from the fiscally poor condition cities indicate that communities and interest groups are still less influential in relation to formal political actors. Furthermore, fiscal policy and budget making was often carried out in a secretive manner. Although participatory budgeting in Thai local administration has been promoted by laws for several years, the actual budget-making authority still lay largely in the hands of formal budget actors (Suwanmala 2007). For this reason, the promotion of active citizenship and community engagement might be another effort that Thai local authority should immediately pursue. In turn, external forces such as these would enhance the overall accountability of the local fiscal administration.

Aside from the reform of fiscal institutional arrangements, a merit-based personnel administration and codes of ethics for public officials should be installed in city hall. These codes are essential to a developing society where the principle of neutral competence and honest practices are not strictly upheld. And in the long-term, a modern form of municipal structures, e.g., a council-city manager might be considered as an alternative governance structure as part of local political reform in Thailand. Empirical studies from the U.S. show that the council–manager cities outperforms the mayor-council cities since city managers have greater incentives to maintain financial prudence.
and to disclose financial and accounting information relative to city mayors as chief executive officers (see, e.g., Giroux and McLelland 2003; Giroux and Shields 1993; Evans and Patton 1983, 1987). It is possible that this institutional transformation would induce a Thai local bureaucracy to becoming less politicized and more professionally managed, as has happened in several developed societies.

In a larger vein, a national monitoring system of local fiscal performances should be developed and put into great use. To date, there has been a significant development in this area (e.g., Kloha et al. 2005a; Wang et al. 2007). Several fiscal and financial indicators have been advanced such that they can now provide a more comprehensive and dependable view of local fiscal conditions. Notwithstanding, the Department of Local Administration (DoLA) is very passive in monitoring and strengthening municipal fiscal performances in Thailand. Clearly, the current research could be an initial input into the design of an effective fiscal monitoring system as indicated above.

Uses of Municipal Fiscal Conditions in Services and Fiscal Planning

An alternative way to improve municipal fiscal conditions is the re-centralization of some service responsibilities in order to help relieve municipal fiscal burdens, e.g., housing and community services, public safety, etc. One possible solution is to transfer upward (or backward) some, or more of these services to a higher level of local authority, like the Provincial Administrative Organization (PAO). This is of utmost importance particularly to the small, rural-based cities, since their tax bases are restricted and their

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3 These service functions were the major drivers of municipal spending for semi-rural cities as well as populous central areas as evident in Table 5-3.
organizational capacity might be too limited to provide effectively for the needed services.

In this regard, the analysis of fiscal conditions in the upper-tier jurisdictions should simultaneously be carried out in order to examine the fiscal capability of alternate governments. This kind of dual (multi-level) fiscal condition analyses is also very rare, both in the Thai municipal finance literature and in other developing societies. Once the delegation of service and fiscal responsibilities among different levels of local authorities reaches the right balance, residents in all jurisdictions can live their lives within a higher standard of living.

Equally important is the use of fiscal condition results in municipal tax administration and fiscal planning, which are rarely done in developing nations, including Thailand (see, e.g., Owsiak & Owsiak [2001] for Poland’s fiscal administration struggle). Once the fiscal condition of a city is known, especially during its fiscally weak circumstance, local policy makers are spontaneously required to adjust their political and fiscal strategies, e.g., increase tax efforts, cut excessive services, etc., that could help their cities sustain the provision of needed services. For example, political executives in Old Northwest, Riverside Pagoda, and Tree Jasmine may pursue these available options. The acquisition of external funding sources, e.g., debt financing, would be an essential option, especially for capital improvement in a large-scale city like Old Northwest (to be discussed below). In short, residents in fiscally distressed cities should not be deprived of needed services because of their place of residence. This is clearly what the fiscal condition study is supposed to reveal.
Theoretical Implications and Future Research

This study highlights the importance of the study of local fiscal conditions in developing societies, particularly those currently undergoing decentralization. The findings of Thai municipal fiscal conditions suggest that imbalanced transfers of fiscal resources and service responsibilities, especially those happening within small scale, semi-rural localities, might hinder, rather than expedite the decentralization movement. If reform efforts are not able to adequately fund the newly devolved service functions that are now in the hands of local territories, it is likely that the decentralization movement will struggle, which was experienced before in Poland during the late 1990s (Owsiak and Owsiak 2001). Clearly, the analysis of fiscal conditions can help generate the needed information for this purpose.

Notwithstanding, the overall picture of the Thai decentralization movement is still incomplete since the data utilized in the current research has been restricted. The research could not analyze the fiscal conditions of Thai cities before and after the decentralization movement due to data unavailability. Hence, any fiscal condition changes emerging since decentralization are suggestive. When more complete data becomes available, researchers can more concretely examine the relationship between decentralization and the fiscal condition adjustment. Equally important is the generalization of the case findings should be done with great care.

Implications for theoretical development and the direction for future research are in order. First, and most evident, the current research helps to extend the external validity of U.S.-based measures of municipal fiscal conditions. This demonstrates strength in the selected measures of fiscal conditions in that they can flexibly be adjusted to fit the local
fiscal context, while still providing a sensible picture of Thai municipal fiscal conditions as compared to known research findings from the U.S. Still, more evidence is needed to judge if the selected measures are generally applicable to other administrative contexts beside Thailand. At the very least, this study signifies substantial room for future comparative research to the issue of municipal fiscal conditions.

Alternatively, research may further analyze the external validity issue of the existing fiscal condition measures. Although the results of this study show findings somewhat consistent with the U.S. literature, the finding of poor fiscal conditions in Thai suburbs also reminds academic researchers to think more seriously about the applicability of the measures. Would the fiscal conditions of suburban cities indeed be the same as those of central cities particularly in a developing country context? Or can alternative measures of fiscal conditions be developed specifically for use in developing societies, thus reaching a level of construct validity and satisfactorily incorporating countries’ fiscal institutional arrangements and political cultures? These research agendas might be worth pursuing in the future.

Equally interesting is the multi-level fiscal condition analysis. As already discussed, upward and downward service transfers among different levels of local authorities are inevitable if they are to fit the fiscal capacity, constituents’ needs and accountability mechanisms of each respective government. Hence, the fiscal conditions of all related governments should be revealed and considered together when municipal service assignments/reassignments are to be viably made so that the transition is easier for successful decentralization.
Additionally, the budgetary roles framework as provided by Wildavsky (1975, 1984) still has practical utility in understanding the fiscal condition issue and in guiding local administration reform. This is especially essential to many developing societies, including Thailand, where budget actors do not have a definite view regarding their appropriate budgetary roles. Although other explanations, such as the political vulnerability model of Rubin (1982) is theoretically compelling, it has restricted utility in understanding the fiscal condition symptoms of the Cities of Old Northwest and Tree Jasmine, where political authorities are so stable. In light of Wildavsky’s arguments, whenever political stability is coupled with nonperforming budgetary roles, poor fiscal conditions are likely to result.

Finally, the current research reveals that public investment is an area of underdevelopment, both in practice and in the Thai municipal finance literature. Several cities have neither a concrete long-term plan for capital development that fits the city’s development visions nor a separate capital budget. They also do not have finite ideas regarding capital or debt financing from financial and capital markets, except for intergovernmental fiscal transfers. This is contradictory to the U.S. experience during the late 19th century when several local states were proactive in capital improvement (Monkkonen 1995). For this reason, future research should focus on the capacity building of a city in order to employ debt financing.

To date, capital budgeting and debt financing are still restricted in many developing nations, including Thailand. These issues are now important for promoting local development and growth, particularly when local capital markets are more open to developing economies (Miller and Hildreth 2007; Martell and Guess 2006; Kim 2003).
Here, empirical research should start from the study of attitude-related issues of local policy makers as well as to that of constituents regarding capital development in their respective cities. For instance, it has not yet been clear from the in-depth case analyses *why* local Thai administrators are so passive when thinking about capital development and debt financing and *how* they make a financial plan when capital investment is needed. Alternately, the future research may explore how local voters view debt financing means for capital improvement projects in their jurisdiction. Then, more advanced research regarding efficient and viable financing schemes that fit capital development needs within the Thai municipal administrative context should be pursued.

Overall, since the practice of Thailand’s municipal finances are just beginning, as compared with other well developed societies, it is essential for policy makers and academic researchers alike to develop an effective monitoring system of Thai municipal finance. Municipal fiscal condition analysis is not just an academic exercise, but also a subject of great interest to a variety of stakeholders. Unless we examine the dynamics of municipal fiscal conditions, as this research has attempted to do, we can hardly know the magnitude of fiscal problems and further, cannot go on to prescribe the right cure. It is believed that the experience of the Thai municipal fiscal condition might attract an interest in the local fiscal health analysis of other developing nations in the near future.
APPENDICES
# APPENDIX 1: Descriptive Statistics of Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min.</th>
<th>Max.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent variables</strong>&lt;sup&gt;a/&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial land and building taxes</td>
<td>84</td>
<td>635.6</td>
<td>1,027.6</td>
<td>153.9</td>
<td>4,833.4</td>
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<td>1,274.0</td>
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<td>Land development taxes</td>
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<td>459.7</td>
<td>17.4</td>
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<td>Excises and alcohol taxes</td>
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<td>285.4</td>
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<td>163.6</td>
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<td>Fee and charges</td>
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<td>191.0</td>
<td>169.3</td>
<td>43.9</td>
<td>1,020.9</td>
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<tr>
<td>Public safety expenditure</td>
<td>82</td>
<td>190.2</td>
<td>127.6</td>
<td>39.1</td>
<td>1,020.9</td>
</tr>
<tr>
<td>Education expenditure&lt;sup&gt;b/&lt;/sup&gt;</td>
<td>77</td>
<td>15,830.4</td>
<td>7,813.4</td>
<td>846.0</td>
<td>41,440.1</td>
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<td>Public health expenditure</td>
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<td>288.3</td>
<td>249.4</td>
<td>7.9</td>
<td>897.9</td>
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<tr>
<td>Housing &amp; public works expenditure</td>
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<td>1,423.2</td>
<td>377.3</td>
<td>6,885.1</td>
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<tr>
<td>Social welfare expenditure</td>
<td>83</td>
<td>200.1</td>
<td>191.2</td>
<td>19.8</td>
<td>1,027.6</td>
</tr>
<tr>
<td>General administration expenditure</td>
<td>83</td>
<td>856.4</td>
<td>657.3</td>
<td>215.5</td>
<td>4,624.1</td>
</tr>
<tr>
<td><strong>Explanatory variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross city product (thousand)&lt;sup&gt;a/&lt;/sup&gt;</td>
<td>84</td>
<td>315.9</td>
<td>248.8</td>
<td>66.8</td>
<td>1,189.9</td>
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<tr>
<td>Economic growth rate (%)</td>
<td>84</td>
<td>5.4</td>
<td>9.5</td>
<td>-13.7</td>
<td>56.9</td>
</tr>
<tr>
<td>Consumer price index (CPI)</td>
<td>84</td>
<td>104.8</td>
<td>5.9</td>
<td>98.1</td>
<td>121.2</td>
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<tr>
<td>Property wealth index</td>
<td>76</td>
<td>75.0</td>
<td>75.0</td>
<td>6.5</td>
<td>301.2</td>
</tr>
<tr>
<td>City population (thousand)</td>
<td>84</td>
<td>70.0</td>
<td>67.6</td>
<td>12.2</td>
<td>270.0</td>
</tr>
<tr>
<td>Population density (thou. per sq. km.)</td>
<td>84</td>
<td>4.1</td>
<td>2.5</td>
<td>0.2</td>
<td>9.8</td>
</tr>
<tr>
<td>Population growth rate (%)</td>
<td>84</td>
<td>0.5</td>
<td>4.0</td>
<td>-20.3</td>
<td>7.5</td>
</tr>
<tr>
<td>General purpose transfer&lt;sup&gt;a/&lt;/sup&gt;</td>
<td>83</td>
<td>1,385.8</td>
<td>1,506.4</td>
<td>0.0</td>
<td>6,305.2</td>
</tr>
<tr>
<td>Specific purpose transfer&lt;sup&gt;a/&lt;/sup&gt;</td>
<td>83</td>
<td>2,151.9</td>
<td>3,251.9</td>
<td>0.0</td>
<td>16,343.0</td>
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<tr>
<td>Labor population (%)</td>
<td>84</td>
<td>64.9</td>
<td>4.7</td>
<td>51.2</td>
<td>74.2</td>
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<tr>
<td>Youth population (thousand)</td>
<td>84</td>
<td>25.5</td>
<td>2.6</td>
<td>20.5</td>
<td>32.0</td>
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<tr>
<td>Aged population (thousand)</td>
<td>84</td>
<td>8.6</td>
<td>2.1</td>
<td>5.6</td>
<td>13.2</td>
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<tr>
<td>Dependency population ratio (%)</td>
<td>84</td>
<td>34.1</td>
<td>1.8</td>
<td>30.5</td>
<td>38.8</td>
</tr>
<tr>
<td>City area (sq. km.)</td>
<td>84</td>
<td>39.3</td>
<td>62.1</td>
<td>2.2</td>
<td>208.1</td>
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<tr>
<td>City employees</td>
<td>84</td>
<td>554.0</td>
<td>400.0</td>
<td>107.0</td>
<td>2,325.0</td>
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<tr>
<td>City street (km.)</td>
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<td>86.8</td>
<td>79.9</td>
<td>14.4</td>
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</tr>
<tr>
<td>Student enrollment</td>
<td>78</td>
<td>4,285.0</td>
<td>3,026.0</td>
<td>909.0</td>
<td>14,118.0</td>
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<tr>
<td>Poverty ratio (%)</td>
<td>84</td>
<td>3.7</td>
<td>3.8</td>
<td>0.0</td>
<td>14.4</td>
</tr>
</tbody>
</table>

Notes: <sup>a/</sup> refers to Thai baht per capita, <sup>b/</sup> refers to Thai baht per student. Roughly 1 USD is about 34 Thai baht (as of April 2009)
APPENDIX 2: Wooldridge’s Test for Autocorrelation of the Residuals
Estimated by the Pooled OLS (without lagged DVs)

<table>
<thead>
<tr>
<th>Models</th>
<th>( \rho ) (rho)</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue-Raising Capacity Models</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RRC1 (commercial land and building taxes)</td>
<td>.6139</td>
<td>.000 ***</td>
</tr>
<tr>
<td>RRC2 (value added taxes)</td>
<td>.2875</td>
<td>.011 **</td>
</tr>
<tr>
<td>RRC3 (land transfer fees)</td>
<td>.4774</td>
<td>.000 ***</td>
</tr>
<tr>
<td>RRC4 (excises and alcohol taxes)</td>
<td>-.4766</td>
<td>.000 ***</td>
</tr>
<tr>
<td>RRC5 (user fees and charges)</td>
<td>.7373</td>
<td>.000 ***</td>
</tr>
<tr>
<td><strong>Expenditure Need Models</strong></td>
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</tr>
<tr>
<td>EN1 (public safety)</td>
<td>-.1110</td>
<td>.411</td>
</tr>
<tr>
<td>EN2 (education)</td>
<td>.3888</td>
<td>.004 ***</td>
</tr>
<tr>
<td>EN3 (public health)</td>
<td>.7024</td>
<td>.000 ***</td>
</tr>
<tr>
<td>EN4 (housing and public works)</td>
<td>.3502</td>
<td>.010 ***</td>
</tr>
<tr>
<td>EN5 (social welfare)</td>
<td>.2229</td>
<td>.107 †</td>
</tr>
<tr>
<td>EN6 (general administration)</td>
<td>.0608</td>
<td>.664</td>
</tr>
</tbody>
</table>

Notes: *, **, *** refer to statistically significant at 10%, 5%, and 1%, respectively
† close to 10% significance level.
### APPENDIX 3: Tests for the Use of Pooled OLS with Lagged Dependent Variables by Keele and Kelly’s (2006) Procedures

<table>
<thead>
<tr>
<th>Models</th>
<th>Coefficient of LDVs</th>
<th>p-value</th>
<th>ρ (rho)</th>
<th>p-value</th>
</tr>
</thead>
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<tr>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RRC1 (commercial land and building taxes)</td>
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<td>.000***</td>
<td>-.3005</td>
<td>.043**</td>
</tr>
<tr>
<td>RRC2 (value added taxes)</td>
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<td>.000***</td>
<td>-.2072</td>
<td>.212</td>
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<tr>
<td>RRC3 (land transfer fees)</td>
<td>.7099</td>
<td>.000***</td>
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<td>.934</td>
</tr>
<tr>
<td>RRC4 (excises and alcohol taxes)</td>
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<td>.000***</td>
<td>-.2970</td>
<td>.028**</td>
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<tr>
<td>RRC5 (user fees and charges)</td>
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<td>.000***</td>
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<td>.751</td>
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<td><strong>Expenditure Need Models</strong></td>
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<td></td>
<td></td>
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<tr>
<td>EN1 (public safety)</td>
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<td>.597</td>
<td>-.2774</td>
<td>.084*</td>
</tr>
<tr>
<td>EN2 (education)</td>
<td>.7673</td>
<td>.000***</td>
<td>-.2744</td>
<td>.058*</td>
</tr>
<tr>
<td>EN3 (public health)</td>
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<td>.000***</td>
<td>-.4182</td>
<td>.003***</td>
</tr>
<tr>
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<td>.000***</td>
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<td>.516</td>
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<tr>
<td>EN5 (social welfare)</td>
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<td>.009***</td>
<td>-.0931</td>
<td>.544</td>
</tr>
<tr>
<td>EN6 (general administration)</td>
<td>.2496</td>
<td>.074*</td>
<td>-.1598</td>
<td>.301</td>
</tr>
</tbody>
</table>

Notes: *, **, *** refer to statistically significant at 10%, 5%, and 1%, respectively.

Keele & Kelly (2006) argue that, for use of pooled OLS with lagged dependent variables (LDVs), the coefficients of LDVs should be stationary (α < 1) and nonzero, and that the residual autocorrelation should not be present.
### APPENDIX 4: Chow Test (Joint Significance Test) of the Year Dummy and All of the Interaction Terms

<table>
<thead>
<tr>
<th>Models</th>
<th>Year</th>
<th>F-Statistic</th>
<th>P-value</th>
</tr>
</thead>
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<tr>
<td><strong>Revenue-Raising Capacity Models</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RRC1 (commercial land and building taxes)</td>
<td>2001</td>
<td>2.36</td>
<td>.0153 **</td>
</tr>
<tr>
<td></td>
<td>2002</td>
<td>1.16</td>
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<td>2.17</td>
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<td>2006</td>
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<td>.0975 *</td>
</tr>
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<td>EN4 (housing and public works)</td>
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<td>.74</td>
<td>.7096</td>
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<td></td>
<td>2005</td>
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<td>.0570 *</td>
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<td>EN5 (social welfare)</td>
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<td>.72</td>
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<td>.1869</td>
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<tr>
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<tr>
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Notes: *, **, *** refer to statistically significant at 10%, 5%, and 1%, respectively
## APPENDIX 5: Estimates for Pooled OLS (Revenue-Raising Capacity)

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<tr>
<th>Prop. tax</th>
<th>VAT</th>
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<th>Excise</th>
<th>Fees</th>
</tr>
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<tbody>
<tr>
<td>Lagged DVs</td>
<td>0.8607 **</td>
<td>0.5151 ***</td>
<td>0.7099 ***</td>
<td>-0.6111 ***</td>
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<tr>
<td>GGP (thou.)</td>
<td>0.4103</td>
<td>0.1954</td>
<td>0.6060</td>
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<td>Economic growth</td>
<td>-0.5460 *</td>
<td>6.1898</td>
<td>-0.8068</td>
<td>-0.6564</td>
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<td>Population</td>
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<td>-21.3868</td>
<td>0.3612</td>
<td>1.4667</td>
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<tr>
<td>Pop. density</td>
<td>-10.0581</td>
<td>64.0818 *</td>
<td>-26.5992 **</td>
<td>-3.4400</td>
</tr>
<tr>
<td>Population growth</td>
<td>-6.6928 **</td>
<td>-44.8574 ***</td>
<td>-4.9025</td>
<td>-5.0353 †</td>
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<tr>
<td>Labor</td>
<td>-0.0132</td>
<td>0.0167</td>
<td>-0.0028</td>
<td>-0.0023</td>
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<tr>
<td>Labor population</td>
<td>(0.0104)</td>
<td>(0.0481)</td>
<td>(0.0338)</td>
<td>(0.0111)</td>
</tr>
<tr>
<td>Labor pop. ratio</td>
<td>17.3401 *</td>
<td>-1.6987</td>
<td>21.3393</td>
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<tr>
<td>CPI</td>
<td>-1.3700</td>
<td>17.8998</td>
<td>-7.8754 *</td>
<td>6.4523 ***</td>
</tr>
<tr>
<td>No. of property</td>
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<td>0.4349 **</td>
<td>0.1367 **</td>
<td>0.0144</td>
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<td>Property wealth index</td>
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<td>-1.7784</td>
<td>-3.2542 *</td>
<td>-0.4909</td>
</tr>
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<td>-1.3632</td>
<td>0.0757</td>
<td>-0.1450</td>
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<td>Dummy for economy</td>
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<td>374.0174</td>
<td>-4.3006</td>
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<td>Area (sq.km.)</td>
<td>39.6309</td>
<td>345.4969</td>
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<td>-1604.38</td>
<td>-523.62</td>
<td>-435.38</td>
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<td>Obs.</td>
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<td>63</td>
<td>63</td>
<td>63</td>
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</tbody>
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F-stat | 701.37 *** | 9.31 *** | 46.75 *** | 3.64 *** | 153.98 *** |
R² | 0.9965 | 0.8805 | 0.8988 | 0.4239 | 0.8880 |
Adj. R² | 0.9955 | 0.8456 | 0.8692 | 0.2558 | 0.8554 |

Notes: *, **, *** refer to statistically significant at 10%, 5%, and 1%, respectively; † close to 10% significance level. Standard errors are shown in parentheses, all are robust.
## APPENDIX 6: Estimates for Pooled OLS (Expenditure Need)

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<th>EN4</th>
<th>EN5</th>
<th>EN6</th>
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<td>Lagged DVs</td>
<td>-0.0868</td>
<td>0.7673</td>
<td>***</td>
<td>0.8939</td>
<td>***</td>
<td>0.7391</td>
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<td>(0.3204)</td>
<td>(0.0988)</td>
<td>(0.1000)</td>
<td>(0.1583)</td>
<td>(0.1533)</td>
<td>(0.1340)</td>
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<td>GGP (thou.)</td>
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<td>***</td>
<td>0.2146</td>
<td>7.0400</td>
<td>***</td>
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<td>(2.5705)</td>
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<td>Transfer 1</td>
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<td>-1.7564</td>
<td>*</td>
<td>0.0206</td>
<td>-0.3067</td>
<td>†</td>
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<td>(general)</td>
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<td>(0.9579)</td>
<td>(0.0300)</td>
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<td>(0.0323)</td>
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<td>Transfer 2</td>
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<td>0.3690</td>
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<td>0.1056</td>
<td>*</td>
<td>-0.0044</td>
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<td>(specific)</td>
<td>(0.0065)</td>
<td>(0.2911)</td>
<td>(0.0084)</td>
<td>(0.0598)</td>
<td>(0.0077)</td>
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<td>-113.6841</td>
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<td>-0.7717</td>
<td>-22.371</td>
<td>**</td>
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<td>(47.3854)</td>
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<td>(145.2543)</td>
<td>(2.9666)</td>
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<td>Pop dens sq.</td>
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<td>pop.</td>
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<tr>
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<td>(552.1551)</td>
<td>(11.860)</td>
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<td>**</td>
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<td>(0.4867)</td>
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<td>(0.7966)</td>
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<td>City staff</td>
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<td>**</td>
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<td>F-stat</td>
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<td>54.40</td>
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<td>R²</td>
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<td>Adj. R²</td>
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<td>0.9015</td>
<td>0.8742</td>
<td>0.7329</td>
<td>0.8996</td>
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</tbody>
</table>

Notes: *, **, *** refer to statistically significant at 10%, 5%, and 1%, respectively; † close to 10% significance level. Standard errors are shown in parentheses, all are robust.
APPENDIX 7: Notice of Exemption from IRB Review

RUTGERS UNIVERSITY
Office of Research and Sponsored Programs
ASB III, 3 Rutgers Plaza, Cook Campus
New Brunswick, NJ 08901

P.I. Name: Krueathep
Protocol #: E09-442

April 21, 2009

Weerasak Krueathep
Public Administration
360 MLK Blvd. Hill Hall 701
Newark NJ 07102

Dear Weerasak Krueathep:

Notice of Exemption from IRB Review

Protocol Title: “Measuring and Analyzing Municipal Fiscal Condition in Thailand”

The project identified above has been approved for exemption under one of the six categories noted in 45 CFR 46, and as noted below:

Exemption Date: 3/29/2009
Exempt Category: Categories 3 & 4

This exemption is based on the following assumptions:

- **This Approval** - The research will be conducted according to the most recent version of the protocol that was submitted.

- **Reporting** – ORSP must be immediately informed of any injuries to subjects that occur and/or problems that arise, in the course of your research;

- **Modifications** – Any proposed changes MUST be submitted to the IRB as an amendment for review and approval prior to implementation;

- **Consent Form(s)** – Each person who signs a consent document will be given a copy of that document, if you are using such documents in your research. The Principal Investigator must retain all signed documents for at least three years after the conclusion of the research;

Additional Notes: None.

Failure to comply with these conditions will result in withdrawal of this approval.

The Federalwide Assurance (FWA) number for Rutgers University IRB is FWA00003913; this number may be requested on funding applications or by collaborators.

Sincerely yours,

[Signature]

Acting for---
Sheryl Goldberg
Director of Office of Research and Sponsored Programs
graser@orsp.rutgers.edu

cc: Frank J Thompson, School of Public Affairs and Administration
APPENDIX 8: Interview Consent Form (Both English and Thai)

Interview Consent Form
Non-clinical, Minimum Risk Study
Measuring and Analyzing Municipal Fiscal Condition in Thailand

You are invited to participate in a research study that is being conducted by Weerasak Krueathep, who is a doctoral student at the School of Public Affairs and Administration at Rutgers University. The purpose of this research is to measure the local fiscal condition in Thailand as well as to explain its determining causes. Approximately 40 local public officials (ten from each of the four cities to be studied in details) will be interviewed for this research.

The procedures involve interviews and conversations regarding the dynamics and causes of local fiscal condition in your respective city. The interview should take between 45 and 60 minutes to complete. Any information from the interview will be used for the purpose of completing my dissertation or other publications related to this research topic only. Your privacy will be kept confidential and strictly maintained in all published and written works resulting from this study.

There are no major foreseeable risks to participation in this study. Still, during the conversation, questions could evoke some upsetting thoughts, feelings, or memories about the poor fiscal conditions in your city government (if applicable) for you. If you feel uncomfortable during the interview for any reason, please feel free not to answer those or subsequent questions.

You are reminded that participation in this study is voluntary. You may choose not to participate, and you may withdraw at any time during the study procedures without any penalty to you. In addition, you may choose not to answer any questions with which you are not comfortable.

If you have any questions about the study procedures, you may contact the principal investigator Weerasak Krueathep at weerasak@pegasus.rutgers.edu, or at 360 Martin Luther King Blvd., Hill Hall, 7th floor, Newark, NJ 07102 (Tel. 646-415-1327). You could also contact the faculty advisor Prof. Frank J. Thompson fjthomp@newark.rutgers.edu or 360 Martin Luther King Blvd, Hill Hall, 8th floor, Newark, NJ 07102 (Tel. 973-353-5367).

If you have any questions about your rights as a research subject, you may contact the IRB Administrator at Rutgers University at: Rutgers University, the State University of New Jersey, Institutional Review Board for the Protection of Human Subjects, Office of Research and Sponsored Programs, 3 Rutgers Plaza, New Brunswick, NJ 08901-8559 Tel: 732-932-0150 ext. 2104, Email: humansubjects@orsp.rutgers.edu

You will be given a copy of this consent form for your records.

Sign below if you agree to participate in this research study:

Subject ___________________________ Date ____________
Principal Investigator ___________________________ Date ____________

APPROVED
Date: 3/29/09
แบบยินยอมให้สัมภาษณ์
สำหรับการวิจัยที่ไม่มีผลกระทบต่อสุขภาพ
การศึกษาเรื่องการวิเคราะห์ความแข็งแกร่งทางการคลื่นช่องทะเล

ท่านเป็นผู้หนึ่งที่จะมีส่วนร่วมในการวิจัยครั้งนี้ ซึ่งดำเนินการศึกษาวิจัยโดยนารีระศักดิ์ เครือเทพ
นักศึกษาระดับปริญญาเอกในคณะวิทยาศาสตร์และวิศวกรรมศาสตร์ มหาวิทยาลัยแห่งรัฐบัณฑิต ประเทศสหรัฐอเมริกา การวิจัย
ในครั้งนี้มีวัตถุประสงค์เพื่อต้องการทราบถึงความแข็งแกร่งทางการคลื่นช่องทะเล และดำเนินการศึกษาปัจจุบันโดยแบ่ง
ที่ส่งผลกระทบต่อความแข็งแกร่งทางการคลื่นดังกล่าว การศึกษาในครั้งนี้รวบรวมข้อมูลจากสถานีวิจัยที่มี
รายงานการเงิน และข้อมูลจากการป้องกันภัยสิ่งแวดล้อมและพื้นฐานของทะเล จำแนกประเภท 4 แห่ง

ในขั้นตอนการสัมภาษณ์นั้น จะแนบสอบถามเกี่ยวกับสภาพทั่วไปของความแข็งแกร่งทางการคลื่นช่องทะเล
และปัจจัยต่างๆ ที่ส่งผลกระทบต่อความแข็งแกร่งทางการคลื่นดังกล่าว การสัมภาษณ์จะใช้เวลาระหว่าง 45 - 60 นาที ซึ่งต้องต่างๆ
ที่ได้จากการสัมภาษณ์จะใช้สำหรับในการวิจัยครั้งนี้เป็นการเฉพาะ และรวบรวมงานศิลปะทางวิชาการต่างๆ ที่ใช้
ฐานข้อมูลจากการวิจัยดังกล่าว ตั้งข้อมูลที่ท่านให้สัมภาษณ์จะถูกรักษาเป็นความลับอย่างเดียว

การสัมภาษณ์ในครั้งนี้ไม่ได้เกิดผลกระทบใดๆ ในทางลบต่อท่านที่ได้ให้ข้อมูลแก่นักวิจัย ซึ่งถึงแม้ว่า
คำสั่งที่สัมภาษณ์ท่านในระดับครั้งแรกจะให้ท่านมีสิทธิ์ทุ่มของข้อเสียได้ก็ตามวิกฤตทางการคลื่นช่องทะเลของท่าน
หากท่านไม่ประสงค์หรือไม่สะดวกใจที่จะตอบคำถามดังกล่าว ท่านสามารถแสดงความประสงค์ให้นักวิจัยทราบได้

การให้ข้อมูลการสัมภาษณ์ในครั้งนี้อยู่บนพื้นฐานของความสมัครใจเป็นหลัก ท่านอาจเลือกที่จะให้ข้อมูลหรือไม่ให้
ข้อมูลแก่นักวิจัยได้ตามที่ท่านต้องการ ทั้งนี้การสัมภาษณ์ดังกล่าวจะไม่มีผลกระทบต่อท่านใดๆ แก่ท่านอย่างแน่นอน

ในการนี้ หากท่านมีข้อสงสัยหรือการใด สามารถสอบถามจากนารีระศักดิ์ เครือเทพ ได้โดยตรง ที่สายที่ 360 MLK Blvd, Hill Hall 701, Newark, NJ 07101, โทรศัพท์ (1) 417-515-1327 หรืออีเมล์ได้ที่ weerasak@pegasus.rutgers.edu หรือท่านอาจสอบถามโดยตรงจากอาจารย์ที่ปรึกษาของนักวิจัย ซึ่งได้แก่
ศาสตราจารย์ Frank J. Thompson สถานที่ท่าน 360 MLK Blvd, Hill Hall 701, Newark, NJ 07101, โทรศัพท์ (1) 973-335-8587 หรืออีเมล์ fjitomp@newark.rutgers.edu

นอกจากรัฐนี้ หากท่านมีข้อสงสัยเกี่ยวกับการใช้ข้อมูลท่านในการเข้าร่วมศึกษาวิจัยในครั้งนี้ สามารถสอบถามได้จาก
คณะกรรมการการรักษาสิทธิ์และประโยชน์ทางการวิจัย (IRB) มหาวิทยาลัยแห่งรัฐบัณฑิต ซึ่งอยู่ที่ 3 Rutgers Plaza, New
Brunswick, NJ 08901-8559 โทรศัพท์ (1) 732-932-0150 ต่อ 2104 หรืออีเมล์ humansubjects@iorsp.rutgers.edu

ท่านจะได้รับคำแนะนำปัญหาเกี่ยวกับการใช้ข้อมูลที่ท่านให้สัมภาษณ์ในขั้นตอน ขอความ
กรุณาลงนามในช่องว่างที่พิมพ์ไว้ด้านล่างนี้

ผู้ให้คำแนะนำ วันเดือนปี นักวิจัย วันเดือนปี

APPROVED
Date: 3/29/09
APPENDIX 9: Interview Questions (English Translation)

Q1: Generally, what are the local finance policies, including taxation, spending, and borrowing, in your city government?

Q2: Do you think the current level of services provided or taxes imposed by your city government/department is about right, should be increased, or should be decreased? Why do you think so?

Q3: In your experience, what are the driving forces of service-level determinations? How do these factors connect to local finance? How have these factors changed in recent years? And in particular, how has the 1999 decentralization movement affected your organizational service provision and local finances?

Q4: What would you say about the fiscal condition of your city government in recent years? Can you give some indicators representing your government’s fiscal positions? Do you think your city’s fiscal condition is better, about average, or worse than that of the other city, and why?

Q5: In your opinion, what are the most important factors influencing your government’s fiscal management and financial positions? Can you think of any examples that reflect your opinion?

Q6: What are your roles in the local fiscal and budgeting policy making? What should be done in order to help you fulfill your designated jobs and/or duties?

Q7: Can you identify some strategies or actions your city government/department has taken to help improve local finances? Who did take the major roles in sponsoring such strategies? What else should be done to help improve your government’s fiscal management?

Q8: Is there anything else that you think I should know or I’ve missed in our conversation regarding the managing of local finance in your city?
REFERENCES


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**Related Laws and Official Documents of Thailand**


Memorandum of the Local Government Statistics. 2008, issued by Department of Local Administration (as of August 15)


MOI Regulations on the Local Governments’ Budgeting Procedures of B.E. 2541 (1998), issued by the Ministry of Interior of Thailand.


The Eight National Economic and Social Development Plan (1997-2001)
The Fifth National Economic and Social Development Plan (1982-1986)
The Investment Promotion Act of B.E. 2520 (1977), the 3rd Amendment B.E. 2544 (2001)
The Local Elections Act of B.E.2545 (2002)
The Sixth National Economic and Social Development Plan (1987-1991)
1. City of East Sea Beaches

1.1 Interviews
Deputy City Mayor November 13, 2009, 11.15-12.15 p.m.
Ex-City Mayor (1994-2005) October 15, 2009, 9.00-10.00 a.m.
Chairman of City Council November 13, 2009, 10.00-11.00 a.m.
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Deputy City Clerk November 12, 2009, 15.15-15.55 p.m.
Director of Public Works November 11, 2009, 15.00-15.30 p.m.
Director of Social Welfare November 11, 2009, 9.00-10.10 a.m.
Director of Public Health & Environment November 11, 2009, 13.30-14.30 p.m.
Director of Budget October 15, 2009, 11.00-11.50 a.m., and November 12, 2009, 17.00-17.40 p.m.
Head of Revenue Collection Unit November 11, 2009, 11.30-12.10 p.m., and November 13, 2009, 12.20-12.35 p.m.
Head of Environmental Management Unit November 13, 2009, 13.20-14.20 p.m.
Tax Specialist October 15, 2009, 13.30-14.30 p.m., and November 11, 2009, 10.30-11.00 a.m.
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Vice President of Hotel & Resort Association of East Sea Beaches City November 12, 2009, 9.30-10.30 a.m.
Newspaper reporters (1) November 12, 2009, 18.00-19.30 p.m.
Neighborhood leaders (2) November 11, 2009, 17.30-19.00 p.m.

1.2 Non-participant Observations
Council Meeting—General Assembly November 12, 2009, 13.30-15.00 p.m., and 16.00-17.00 p.m.
‘Morning Voice’ Local Media on TV November 12, 2009, 7.00-8.00 a.m.

1.3 Official Documents
‘1337 Call Center’ Annual Report of 2008
City’s Annual Reports of 2000 – 2008
City’s Budgets of 2001 – 2009
City’s Performance Evaluation Report of 2005
City’s Strategic Development Plan (2005 – 2009)
2. City of Riverside Pagoda

2.1 Interviews
City Mayor
September 3, 2009, 10.30-11.20 a.m.
Chairman of City Council
September 3, 2009, 13.10-14.00 p.m.
City Clerk
September 1, 2009, 10.00-11.30 a.m., and
October 8, 2009, 10.30-13.00 p.m.
Director of Finance
September 1, 2009, 13.30-14.20 p.m.
Director of Budget
August 31, 2009, 10.00-10.45 p.m.
Head of Tax Collection Unit
August 31, 2009, 11.00-12.05 p.m.
Auditor from the Regional Office of the Auditor General (1)
October 8, 2009, 14.30-15.30 p.m.
Neighborhood leaders (2)
September 3, 2009, 15.30-16.25 p.m., and
September 4, 2009, 9.00-9.40 a.m.
Ex-Private consultant to the City (1)
September 2, 2009, 14.00-15.00 p.m.
October 9, 2009, 12.20-13.15 p.m.

2.2 Official Documents
City’s Budgets of 2001 – 2008
City’s Strategic Development Plan (2008 – 2012)
Municipal Ordinance of Zoning and New Business and Household Construction
in Municipality, dated August 20, 2008.

3. City of Old Northwest

3.1 Interviews
City Mayor
August 18, 2009, 10.30-11.10 a.m.
Deputy City Mayor
August 27, 2009, 15.00-16.30 p.m.
Chairman of City Council
August 19, 2009, 11.00-12.20 p.m.
City Clerk
July 29, 2009, 10.00-11.00 a.m.
Director of Budget
July 29, 2009, 14.00-14.45 p.m.
Director of Social & Community Affairs
August 18, 2009, 13.00-13.50 p.m.
Acting Fiscal Director
July 30, 2009, 15.00-15.55 p.m.
Head of Revenue Collection Unit
July 29, 2009, 11.30-12.00 p.m.,
July 30, 2009, 11.00-12.00 p.m., and
August 19, 2009, 14.00-14.40 p.m.
Head of Property Valuation Unit
August 19, 2009, 15.00-16.30 p.m.
Head of Internal Audit Unit
July 30, 2009, 13.00-14.00 p.m.
Budget Analyst (1)    July 29, 2009, 15.00-15.45 p.m.
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Neighborhood leaders (3)    July 29, 2009, 18.00-18.40 p.m.,
                             August 18, 2009, 19.25-19.50 p.m. (telephone),
                             August 19, 2009, 17.30-17.50 p.m. (telephone)
Auditor from the Regional Office of the Auditor General (1)    August 3, 2009, 10.00-11.00 p.m.

3.2 Non-participant Observations
Tax assessment meeting    August 27, 2009, 13.00-14.30 p.m.
Neighborhood visit (Prachaniwes 2 to observe private security)
                             August 27, 2009, 17.00-18.00 p.m.

3.3 Official Documents
City’s Annual Audit Reports of 2007
City’s Budgets of 2001 – 2008
City’s Strategic Development Plan (2008 – 2012)
Fiscal Administration Plan of 2003

4. City of Tree Jasmine

4.1 Interviews    (during July – August 2009)
City Mayor    October 6, 2009, 13.30-14.20 p.m.
Secretary of City Council    October 6, 2009, 14.45-15.30 p.m.
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Director of Budget    September 25, 2009, 10.00-11.00 a.m., and
                             13.20-14.00 p.m., and October 6, 2009,
                             16.00-16.30 p.m.
Director of City Planning    September 25, 2009, 9.00-9.50 a.m.
Ex-Director of Budget    June 24, 2009, 13.00-14.25 p.m., and
                             September 17, 2009, 9.00-10.20 p.m.
Ex-Fiscal Director    June 23, 2009, 9.00-9.30 a.m. (telephone)
Assistant Director of Education Department    September 25, 2009, 11.01-11.30 a.m.,
                             September 24, 2009, 13.30-14.40 p.m., and
                             October 6, 2009, 11.00-11.50 a.m.
Acting Fiscal Director    September 25, 2009, 12.00-12.20 p.m.
Head of Revenue Collection Unit    September 25, 2009, 16.10-16.50 p.m.
Internal Audit Staff (1)    September 24, 2009, 9.30-10.20 a.m.
Budget Analyst (1)    September 24, 2009, 10.45-11.30 a.m.
Community Affairs Officer (1)    September 25, 2009, 15.45-16.10 p.m.
School Principal (2)    September 25, 2009, 14.10-15.30 p.m., and
                             October 6, 2009, 9.00-9.40 a.m.
Neighborhood leaders (2)       September 30, 2009, 17.00-17.12 p.m.
                            (telephone), and 17.20-17.40 p.m. (telephone)

4.2 Non-participant Observations
School visits (to observe 2 schools’ general operations, physical facilities, and school proximity) September 25, 2009, 17.00-18.00 p.m., and October 6, 2009, 10.00-10.30 a.m.

4.3 Official Documents
City’s Budgets of 2001 – 2008
City’s Profile (2001 – 2007)
City’s Strategic Development Plan (2001 – 2005)
Reports of Town-hall Meeting, 2004-2007
Student Enrollment Records (as of 2008)
VITA
WEERASAK KRUEATHEP

Date of Birth: December 10, 1974, born in Bangkok, Thailand

Education:
1992-1996 B.A. in Political Science (1st class honors) (Public Administration)
Chulalongkorn University, Bangkok, Thailand
1999-2001 M.P.A., Chulalongkorn University, Bangkok, Thailand
2001-2002 M.P.P., National Graduate Institute for Policy Studies, Tokyo, Japan
2005 Attended New York University, Ph.D. Program in Public Administration
2006-2010 Ph.D. in Public Administration, The State University of New Jersey

Experience:
1996-2001 Employed by National Petrochemical PLC., Thailand
as a human resources and organizational development officer
2003-present Lecturer in Public Administration, Chulalongkorn University,
Bangkok, Thailand

Award:
2001-2002 Japanese Government Scholarship (Monbukagakusho)
2005-2010 Royal Thai Government Scholarship

Publication (English-language):
Application of U.S.-Based Measures to the Context of Thailand, International
Journal of Public Administration. (accepted October 12, 2009).

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Current Practices and Future Challenges, International Public Management Review: