

## Toward Fiscal Sustainability in Thai Local Government: Lessons Learned from Local Fiscal Management Practices in Canada, France, Japan, South Korea, and United States\*

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### ABSTRACT

This paper compares and assesses the fiscal management strategies used by local authorities in Canada, France, Japan, South Korea, and the United States. This comparative survey seeks to identify the salient attribute of each country's local fiscal policy and demonstrates how Thai local governing bodies can adopt those strategies to improve their overall fiscal health. This paper suggests that fiscal sustainability in Thai local government can be attained by embracing each system's core principle. The Thai national government could follow the Canadian federal government example by devolving more administrative responsibilities to local government units, while maintaining several essential regulatory functions, such as rectifying regional disparities and imbalances in public service provision. Following the Japanese model, Thai local government ought to diversify their revenue sources to ensure adequate funding for public service delivery and community development. The Korean case demonstrates that a carefully designed property tax system can raise a substantial amount of revenue for local government and prevent speculative land ownership. The American system emphasizes citizen participation and fiscal transparency (i.e., traceability of how tax money is levied, collected, and spent). The French model resolves potential conflict of interest issues among local elected officials by charging the highly skilled professionals with policy analysis, financial auditing, and accounting.

**Keywords:** Local fiscal management, fiscal sustainability, fiscal decentralization

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## Introduction

Today, decentralization is the rage throughout the world and attracts much attention in matters of democratic governance, public management, and economic development. However, the outcomes of decentralization are not necessarily confined to the enhancement of grassroots democracy, increase in local government autonomy, or decrease in central government authority (Sudhipongpracha, 2011). In fact, there is no guarantee that the post-decentralization intergovernmental structure would be hospitable to local governments and conducive to intergovernmental cooperation. That territorial decentralization axiomatically enhances local autonomy is nothing more than a theoretical proposition. This paper proceeds in three steps. First, we argue that local self-governing bodies in Thailand remain entrenched in a complex web of central-local relations that hinder, rather than facilitate, the capacity-building process for local self-governance. Second, we explore the theoretical framework of fiscal decentralization and examine fiscal management problems currently facing the Thai local governments: (1) local government corruption, (2) weak revenue-raising capacity, and (3) too much central government control over local self-governance. The third section presents an analysis of fiscal management practices in Canada, France, Japan, South Korea, and United States that correspond with each fiscal management problem.

Both advocates and skeptics of the decentralization reform have legitimate arguments. However, all things considered, decentralization is only a policy tool which government reformers use to improve the task of governing. Decentralization consists of two related reform processes. First, decentralization is a process that rearranges the relationship between the national and subnational governments or between the state and local governments by delegating administrative responsibilities and allocating public resources to the lower levels of government. Second, decentralization is a process that restructures the state-society relations by altering the government's role in society and accommodating the involvement of new social actors both within and outside of the state's officialdom in the policy making arena.

Whether decentralization will eventually result in more efficient and effective intergovernmental relations or democratic state-society relations hinges upon the confluence of pre-conditions, such as a certain degree of local public participation, a certain degree of local government accountability, and mechanisms of transferring information between local governing bodies and the citizens. Note that several decentralization advocates refer to these pre-conditions as the goals or benefits of decentralization. Confusion may arise over the symbiotic relationship between the pre-conditions and goals, but careful attention must be given to the context in which the decentralization policy is executed. For instance,

a report on political decentralization published by the World Bank suggests that the existence of some mechanisms, formal or informal, for citizen participation in the local government decision making is the basic premise for successful decentralized governance. By the same token, the absence of participatory channels also induces the demand for political decentralization. Hence, the decentralization reform must take into account the opportunities of enhancing popular participation and the limitations imposed by the traditional modes of governance in each context.

Indeed, one of the main problems with decentralization in the policy and scholarship circles is the confusion over the pre-conditions and goals. For example, the decentralization process is frequently associated with the democratization process. That is, without decentralization, there can be no democratic governance. Fesler (1965) was concerned that such close association transforms decentralization into a doctrine of management and development.

The indoctrination of the decentralization concept led to the emergence of certain compound words such as “democratic decentralization” and “democratic local governance.” The two terms obscure the nuances and outcomes of the decentralization reform pursued in many countries because they promote the assumption that decentralization is the goal to be pursued, rather than the process that, when carefully designed, could help enhance the quality of public management and democracy.

In his rejection of the term “democratic decentralization,” Appleby (1962: 443) argues that the term implies that “decentralization axiomatically enhances democracy” and that “centralization is bad, while decentralization is good.” Reviewing empirical works in Third World development literature, Laryea-Adjei (2000: 13) forcefully argues that “the geography of centralism is the geography of underdevelopment.” The pursuit of development in developing countries requires the scaling-back of the central government and radical decentralization of administrative and fiscal authorities. Cohen and Peterson (1999) argue that centralization is incapable of delivering basic needs to “a burgeoning urban population, much less support a productive infrastructure that can promote economic growth and social welfare.”

Regarding centralization, Appleby (1962: 447) emphasizes the vital role of central government agencies in making democracy “responsive to the needs of the nation as a whole.” Blanchard and Shleifer raise a similar argument concerning the importance of centralization in ensuring the stability of a country’s political and administration system. In their comparative study of local governments in Russia and China, Blanchard and Shleifer (2001) find that the Chinese local governments have been active players in promoting the growth of new firms in their jurisdictions, while the Russia local governments have hindered growth due to a

combination of taxation, regulation, and corruption. The two authors argue that the difference is attributable to the effectiveness of China's central government in encouraging local governments to pursue growth-oriented policies and practices. Similar to the term "democratic decentralization," the term "democratic local governance" is problematic, for it promotes the assumption that local governments are always more democratic than national governments.

The complexity of each social and political context in which decentralization is pursued requires a comprehensive understanding of the confluence of those contextual factors. Hutchcroft (2001) laments that scholars have not yet developed comprehensive analytic guideposts for practitioners and analysts to assess and reform the central-local relations. The existing theory of decentralization contains certain doctrinaire assumptions that predetermine solutions to concrete problems (Fesler, 1965). Certainly, decentralization can bring about enormously positive results. However, precisely defining it and analyzing its impact on development and democracy can be problematic because decentralization can be used and understood in many different ways and in different contexts (Conyers, 1984).

As this article concentrates on the fiscal management problems that Thai local governments face after the 1997 decentralization reform, it is imperative to first consider the political and administrative contexts surrounding the reform before an analysis of the local fiscal problems and their remedies can be attempted. However, although this article exclusively focuses on the Thai local government case, we try to conceptualize the local fiscal management problems as much as possible, so as to provide practical implications for other developing countries that have begun experimenting with decentralization.

### **Decentralization Reform and Thai Local Government**

The process of territorial decentralization in Thailand officially began with the promulgation of the 1997 constitution. However, the demand for decentralization took shape several decades prior. In the 1950s and 1960s, several efforts were mounted to induce self-governance in the rural areas, but to no avail. In the aftermath of the 1973 pro-democracy movement against the military-dominated government, Thai academics forcefully argued in favor of decentralization and promoted it as a means to nurture participatory governance at the local level (Morell & Samudvanija, 1981). Yet, the dearth of public enthusiasm prohibited the idea of decentralization from gaining further momentum. The shift in Thai public opinion towards decentralization occurred, as Thailand sought the World Bank's financial assistance amid the early 1980s economic recession and agreed to the Bank's structural adjustment program which included decentralization (Nagai et al., 2007). However, the shift in the public

opinion was not dramatic enough to pressure the central government to abandon its centralized control over local governments.

In the 1990s, several factors were involved in the real changes in Thailand's central-local relations. In the international arena, the spirit of democratization that developed in many parts of the world reached Thailand in the early 1990s. The 1991 military coup d'état and the junta's reluctance to give up control heightened the pro-democracy movement and convinced the Bangkok and urban middle class to stage street protests against military authoritarianism in May 1992. The landscape of Thai administrative politics altered significantly after the 1992 pro-democracy movement. Several years ago, the central government bureaucracy led by the MOI played an almost insuperable role in determining the policies and programs concerning provincial and local administrations. The MOI's political influence over the national policy-making process gradually faded and the ministry has since had to collude with provincial politicians and national parliamentarians in order to preserve its organizational interests. The political dynamics surrounding the drafting and enactment of several decentralization-related laws illuminate this important change.

For instance, the *Sub-district Council and Sub-district Administrative Organization Act of 1994* (commonly referred to as the TAO law<sup>†</sup>) reflected the mutual benefits and tacit collusion between the MOI bureaucrats and national politicians (Wongpreedee, 2007). The TAO law establishes legislative bodies at the sub-district level which the national politicians, sub-district headmen, village headmen, and the MOI bureaucrats recognize that they could reap benefits from (Wongpreedee, 2007). Another example is the passage of the Provincial Administrative Organization (PAO) Act in 1997 which removes the centrally appointed provincial governors from the *ex officio* chair position of the PAO and creates the PAO chief executive position.<sup>‡</sup> This law preserves the provincial administrative system by maintaining the provincial governor position, while giving the PAO's more discretionary authority.

Two other factors contributing to the decentralization reform in Thailand were the global public management reform and the 1997 currency crisis. The confluence of these two factors drove the central government to pursue more decentralization policies. In the new public management, public choice, and public finance literatures, decentralization is considered as a tool to correct government inefficiency and "debureaucratize" public service delivery (e.g., Buchanan & Tullock, 1965; Oates, 1972; Barzelay & Armajani, 1992). As Thailand

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<sup>†</sup> In Thai, the act is referred to as "the *Tambon Council and Tambon Administrative Organization Act of 1994*." *Tambon* in Thai means sub-districts.

<sup>‡</sup> In the 1997 law, The PAO chief executives were selected from among the PAO council members. In 2003, the PAO act was amended to require a direct election of the PAO chief executives.

recovered from its financial meltdown and sought help from the international donor institutions, the International Monetary Fund (IMF) included decentralization in its structural adjustment program for Thailand. Similarly, the Japanese government through its “Miyazawa” plan distributed funds to support the decentralization process, specifically targeting the sub-district level (Nagai et al., 2007).

The decentralization movement culminated in the 1997 constitution.<sup>s</sup> Unlike previous constitutions, the 1997 constitution contained an extensive and comprehensive provision on local government autonomy. After the constitutional ratification, the Thai parliament passed at least 10 decentralization-related pieces of legislation. Among these parliamentary acts, the Determining Plans and Process of Decentralization Act of 1999 authorizes the formation of the national decentralization commission charged with delineating the local government functions, planning the decentralization process, and enforcing the decentralization policies.

## Theory of Fiscal Decentralization and Local Fiscal Management Problems in Thailand

### Theory of Fiscal Decentralization

The idea of fiscal decentralization is rooted in the fiscal federalism theory. Oates (1972) identifies two essential elements of fiscal federalism: heterogeneous preferences for public goods and externalities from consumption of public goods. In Oates’ argument, sub-national governments are more accountable to citizens than national government due to local control of the allocation of resources to provision of public goods. In this context, public accountability is the “sensitivity of varying preferences among the residents of the different communities” (Oates, 1972: 11). Oates further elaborates his argument by offering the decentralization theorem; if the citizen tastes for a particular public good are heterogeneous and provision of such good does not involve the diseconomies of scale, local governments will produce such good more efficiently than the central government (Oates, 1972: 35). However, since some public goods produce interjurisdictional positive externalities, it is in the national interest to ensure that each locality produces this type of goods efficiently. Contrariwise, if the provision of a good

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<sup>s</sup> After staging the military coup d’etat against Prime Minister Thaksin Shinawatra in September 2006, the Council for Democratic Reform under Constitutional Monarchy abrogated the 1997 constitution. However, the subsequent constitution which was ratified in 2007 still contains an elaborate provision on local government.

engenders negative externalities, small local communities will have the incentive to have others provide or pay for their consumption of such good (Oates, 1972: 46-47). Oates presents the theory of intergovernmental transfers as a normative model of a fiscal institution that deals with the interjurisdictional spillover effect. He emphasizes the advantages of matching grants as the most effective form of intergovernmental transfers. Theoretically, matching grants induce the localities to internalize the benefits and costs associated with the provision of a particular good, thereby assuaging the free-rider behavior.

Sharma (2003) states that fiscal federalism is a normative framework, which seeks to strike a balance between centralization and decentralization (Sharma, 2003: 169). In a well-developed fiscal federal system, both national and sub-national governments have their own positive contributions to a country's overall economic and administrative stability. While a central government can effectively manage interjurisdictional externalities, local governments can efficiently cater to the heterogeneous tastes of citizens.

Recent development in fiscal decentralization literature involves the differentiation between vertical and horizontal imbalances. Bahl (2001) refers to vertical fiscal imbalance as "an imbalance between the expenditure responsibilities of sub-national governments and their revenue-raising powers" (Bahl, 2001: 1). In other words, vertical imbalance occurs when there is fiscal imbalance between levels of government. Bird (1993) and Bird and Smart (2002) state that the central government could mitigate vertical imbalance by balancing expenditures and revenues in the richest locality, "measured in terms of its capacity to raise resources on its own" (Bird, 1993; Bird & Smart, 2002: 2). Nonetheless, fiscal imbalance exists for poorer localities; this is the issue of horizontal imbalance. Achievement of horizontal balance requires "equalizing the actual outlays of local governments in per capita terms, [raising all to the level of the richest local government]" (Bird & Smart, 2002: 3). In other words, while vertical fiscal balance emphasizes the spending and revenue-raising capacity, horizontal balance is possible when actual budget outlays of local governments are equal across jurisdictions.

Therefore, the devolution of fiscal management authority to local self-governing bodies does not necessarily have to be a zero-sum game in which the central government loses all its administrative prerogatives, while local governments gain complete autonomy from the central government. Rather, fiscal federalism theorists emphasize the balancing of responsibilities and roles for central government agencies and local governments. Hence, an analysis of any country's decentralization reform can never be meaningful without a comprehensive analysis of the central-local relations, as well as an analysis of the scope of administrative responsibilities assigned to each government level.



### Fiscal Management Problems in Thai Local Government

As previously discussed, political, social, and economic factors have precipitated the decentralization reform movement that began in Thailand several decades ago. Many laws have been amended to give more administrative powers to the local authorities. However, Thai local governments are still struggling with many serious administrative and fiscal management problems. In this section, we identify those problems as follows.

#### Local Government Corruption

Corruption among local government officials hinders Thailand's administrative reform of which territorial decentralization is an important element. Corrupt practices pose a serious drain on the public sector's financial resources and damage citizen trust in government officials and the democratic process. Aware of these corruption-related problems, the 1997 constitutional framers created a number of independent anti-corruption agencies—such as the Administrative Court system, the Public Finance Audit Commission, and the National Counter Corruption Commission—to combat corrupt practices in the Thai political arena and the public service (Quah, 1999; 2003). The constitutional reform also produced a number of channels for citizen participation in the policy-making process at both national and local levels (Klein, 1998; Krueathep, 2004; Hewison, 2007). Although these channels were created to ensure professionalism in the public sector, the magnitude of corruption continues to plague the Thai local government landscape.

In his field study of several *Tambon (sub-district) Administrative Organizations (TAO's)*, Wongpreedee (2007) finds that the TAO officials collude with national politicians and national government officials to secure parliamentary legislation that allocates more money from the national budget to their sub-districts. Another corruption-related problem at the local level in Thailand stems from capital improvement planning orchestrated by local jurisdictions. Projects and procurement decisions in particular are susceptible to patronage politics. Public infrastructural projects, which give benefits to businesses with political ties to local officials (Phongpaichit & Piriyaangsan, 1994). In Thailand, corruption cases filed against local authorities at the National Counter Corruption Commission (NCCC)—one of the public sector corruption watchdog sanctioned by the 1997 Constitution—involve construction projects, land purchase, and acquisition of large expenditure items (Patmasiriwat, 2010). In fact, many local capital projects have been purportedly distributed among subcontractors who are related to local political appointees; in many cases, this clientelistic practice leads to conflict and violence among local politicians and officials. With their extensive property ownership, local politicians are often the primary beneficiaries of local capital

projects and procurement decisions because they would get to learn about new construction projects before anyone else in their communities and are able to inflate real estate prices.

### **Weak Revenue-raising Capacity**

Insufficient revenue is a quintessential problem at the local level everywhere. Local authorities have to manage scarce resources to fulfill their increasingly complex responsibilities and to tackle the burgeoning administrative issues, such as environmental degradation, poverty, traffic congestion, and local economic development. However, even after decentralization, each Thai local government struggles to match its revenues with the expanded list of mandates and service responsibilities. The revenue-generating authority is limited and so is the ability to borrow from commercial banks and other financial institutions.

Sudhipongpracha (2011) argues that although Thai local governments have been vested with more functional responsibilities after decentralization, some of these responsibilities are unfunded mandates. Thai local governments must rely on intergovernmental transfers from the MOI and earmarked loans from the Municipal Development Fund administered by DOLA to finance their operations. However, instead of using explicit formula and standard cost-benefit analysis, the central government's allocation criteria are heavily politicized (Mutebi, 2005). Municipalities have the option of borrowing from commercial banks, but only for the revenue-generating purposes and with the approval of the MOI and the Ministry of Finance (MOF) (Mutebi, 2005). In his study of *Nan* municipality in Northern Thailand, Mutebi (2005) finds that the unfunded mandates and limited revenue sources induce the *Nan* municipality to defer some of its functions or transfer them to the provincial field offices of certain central government agencies (e.g., the Department of Public Works). Also, Mutebi observes that the most effective revenue-enhancing strategy for the *Nan* municipality is to lobby DOLA for the particular projects it needs done.

### **Too Much Central Government Control over Local Governments**

The Thai Constitution requires that the national government transfers essential public service responsibilities to local governments. The MOI is charged with the task of ensuring that the transfer of responsibilities is complete and smooth. Also, the OAG is constitutionally required to enforce accounting and auditing standards for all public organizations, including local governments. In addition, fiscal federalism theory (Oates, 1972) stresses the national government role in helping poor local jurisdictions through intergovernmental equalization grants and transfers.

Sudhipongpracha and Wongpreedee (2012) find that the Thai central government has not been seriously fulfilling its constitutional responsibility to facilitate the transfer of administrative responsibilities to the municipal authorities. Not only has the MOI transferred non-essential responsibilities, it has overwhelmed the municipal governments with only unfunded responsibilities. For instance, the municipalities are now charged with the duty to provide groundwater pumps to their constituent households that already have running water. On the contrary, important functions, such as zoning, remain within the MOI's sphere of influence.

Mutebi (2005) points out that the Thai local authorities often have to transfer some of their responsibilities back to the central government agencies due to the lack of fund. In Sudhipongpracha and Wongpreedee's study, a municipal administrator from a Northern town recounted his altercation with the Department of Public Works. The MOI made his municipality responsible for rural road construction, but provided no financial resources or the revenue-generating capacity to carry out this responsibility. Eventually, he had to transfer the road construction function back to the Department of Public Works. However, a couple of months after the transfer, the road construction finished. The MOI apparently had enough money to build the roads, but was reluctant to give it to his municipality.

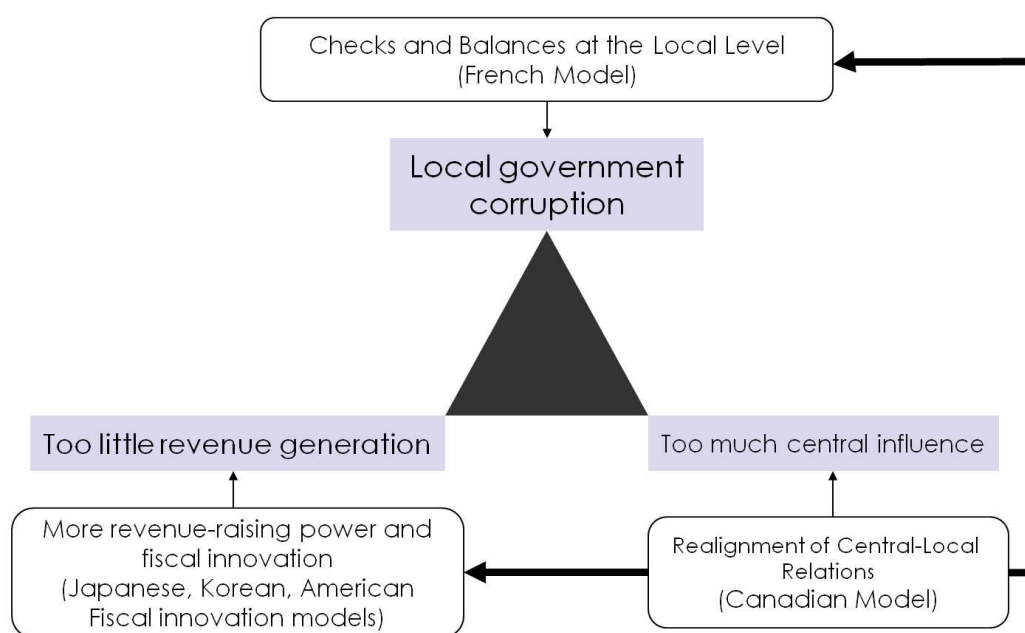
Sudhipongpracha and Wongpreedee (2012) also discover that with respect to capital investment planning, the majority of mayors and deputy mayors stated that the municipal governments lack the power to determine their communities' infrastructural needs and to execute the strategic plans to meet those needs. The municipalities' executives must seek the MOI's authorization before implementing the capital investment plans. Otherwise, their municipalities would be in legal trouble at the end of the fiscal year when the OAG inspects their financial activities. Furthermore, the MOI has not been serious about fostering popular participation. When the decentralization reform began, the local citizens were excited about their opportunities to participate in the local government decision-making process. However, such excitement diminished because the people soon realized that every decision must be approved by the MOI. For instance, community leaders in one of the Northeastern provinces pointed out that they came up with a plan to build a library. However, after submitting the plan to the provincial governor, the community leaders' plan got rejected because the MOI already has its own plan to construct a library.

We argue that these three problems are intricately linked and that the most important problem of all three is too much central government influence over the local authorities. The problems facing Thai local authorities in the post-decentralization era share the same root as the administrative problems that

triggered the decentralization reform. That is, too much central government influence prohibits the local authorities from developing their self-governing capacities.

### Local Fiscal Management Practices in Selected Countries

In this paper, we gather local fiscal management practices from selected countries and demonstrate how each practice can be adopted to address each fiscal management problem identified in the previous section. Figure 1 provides a conceptual framework for an understanding of the three fiscal management problems in Thai local governments and the corresponding reform strategies that are based on an analysis of other countries' fiscal management practices.



**Figure 1.** Conceptual Framework of Fiscal Management Problems and Reform Strategies.

#### Reform Strategy I : Checks and Balances at the Local Level

One of the most effective strategies to tackle the local government corruption issue is to develop an effective checks-and-balances system at the local level. A centralized checks-and-balances approach currently used in Thailand is costly and administratively inefficient. In their field research, Sudhipongpracha and Wongpreedee (2012) demonstrate that the centralized Office of the Auditor's General (OAG) is actually inconsistent in its enforcement of the accounting and auditing rules. Further, the Thai centralized checks-and-balances system does not

bode well with the concept of democratic governance because no channels for popular participation in the system exist.

The development of the local checks-and-balances system can be modeled after the French professional city manager model. The French local government structure follows the strict politics-administration-dichotomy model that took shape during the Progressive era in the United States. During the Progressive era, the public administration theory stresses the organization form of municipal government, particularly the council-manager form of government, as an instrument to combat against political corruption. In many American local jurisdictions that espoused this model, government operations became more efficient and accountable to the public. The salient characteristics of the council-manager form are the institutional firewall between politics and administration (Stillman, 1974) and the specification of a city manager's administrative roles (Kemp, 1999). In France, the professional city manager is an appointed official accountable only to the city council. His/her main responsibility is to serve as an impartial financial analyst for his/her jurisdiction. He/she is empowered by the city ordinances to develop impartial revenue forecast, annual financial report, budget proposal, and analyses of each city program and project (O'Looney, 1998).

Nonetheless, changing the form of government alone may not help strengthen the local checks-and-balances system. Thailand needs strong social actors and organizations to help monitor government officials' performances. The form of government that provides role expectations and incentive structures would not function effectively without its agents' commitment to the general public welfare (Williamson, 1985; Ostrom, 1990). Commitment is becoming important, as extra-organizational forces—such as technological advances, demographic shift, and globalizing economy—are transforming the way in which private and public organizations operate (Drucker, 1988; Peters, 1995).

The public administration literature abounds with different guideposts for ensuring that the public servants do not go awry. Among those guideposts, public official associations generate and secure the interpersonal trust, professional norms, and commitment to governance within the confines of public administration scholarship and practice (Knoke, 1981; Stolle & Rochon, 1998). Merton (1957: 50) contended that “the professional association is an organization of practitioners who judge one another as professionally competent and who have banded together to perform social functions which they cannot perform in their separate capacity as individuals.” With Merton's argument, a strong association of Thai local government officials, together with an effective checks-and-balances system at the local level, could help foster the virtues of good governance, democratic accountability, and administrative efficiency among the Thai local government officials.

### Reform Strategy II: More Revenue-Raising Power and Fiscal Innovation

In addition to developing an effective checks-and-balances system at the local level, it is also important to teach Thai local governments the ropes of financial management and innovation. As the decentralization reform progresses, the Thai local governments must learn to become financially self-dependent, using their own money to finance local infrastructural projects and regular public services. In this regard, new ways to effectively raise and use revenues are indispensable. This section presents three revenue-generating and innovative practices in Japan, South Korea, and the United States.

- *The Japanese inhabitant tax* is a sustainable revenue-raising strategy, which could be easily adopted by Thai local governments. It is a 10-percent tax on a permanent resident who lives in Japan continuously for more than one year. The inhabitant tax is a burden-sharing tax, requiring all community residents to share the cost of maintaining local government functions based on the ability-to-pay principle. Muramatsu and colleagues (2002) point out that local, prefectural, and national governments all share the responsibility of levying this type of tax. When the Japanese local governments levy their inhabitant tax on individual residents, they also collect the prefectural inhabitant tax based on the information on taxable income supplied by the national government. Currently, revenues from the inhabitant and property taxes are the main sources of local government revenues in Japan.
- *The Korean property tax (Aggregate Land Tax: ALT)* does not only raise significant revenues for the South Korean local governments, but also deters speculative land holdings through high property transfer taxes. The Korean property tax system is founded on the principle that the taxation of land should serve other purposes than raising revenue, such as discouraging speculation, promoting efficient land use, redistributing income and wealth, and capturing windfall gains from economic development (OECD, 2000). Hence, whereas other developed countries levy more taxes on property ownership than on property transfers, the Korean local governments levy higher property transfer tax rate than the property ownership tax rate (Lee, 2005).
- *The American Tax-Incentive Financing (TIF) technique* presents an excellent example of how to use debt-financing to fund local public infrastructural projects. A local entity may issue bonds to raise funds for particular capital improvement projects. However, bond issuance has to be accompanied by a clear analysis of how much tax gains those projects will yield and how local government will use those tax gains to pay off debt.

### **Reform Strategy III: Realignment of Central-Local Relations**

The first two reform strategies can never bear fruit without realigning the central-local relations in Thailand. The earlier discussion of the extant fiscal federalism literature suggests that decentralization does not have to lead to the disappearance of central government or the dominance of local self-governing authorities. Rather, a functioning decentralized governance system must assign appropriate responsibilities to government agencies at both the national and sub-national levels. Of course, the term “appropriate responsibilities” still needs to be debated. However, there are numerous examples in other countries where central and local governments enjoy their separate functions and contribute to the overall decentralization reform.

In this section, we focus on the positive attributes of the Canadian federal-provincial-local model in which central and local governments have constitutionally separate roles. The Canadian federal government in Ottawa serves an important function of ensuring the welfare of population in the less well-off communities through the equalization transfers program. Ottawa is also responsible for stabilizing Canada’s overall macroeconomic health through its national fiscal and monetary policies. Meanwhile, the Canadian provincial and local governments enjoy substantial revenue-raising and administrative authorities.

### **Discussion and Conclusion**

Local government provides a rich laboratory to examine one of the most fundamental questions in the study and practice of modern public administration (Nalbandian, 1999). Mosher (1982) compellingly articulates the question: How can public administrators possessing technical expertise and discretionary authority that ensure professional influence over policy formulation and execution be held accountable to the people’s will, when they are not elected? The interplay between the desire for democratic accountability and the demand for efficiency is most intense at the local government level where “conflicts over values and the distribution of resources have personal immediacy...with a variety of individuals and groups living, working, and politicking side by side” (Mouritzen & Svava, 2002: 6).

Indeed, as decentralization began in Thailand in 1997, local governments play an increasingly important role in local public service delivery and economic development. However, we have demonstrated in this paper that the Thai local governments are still struggling with three decentralization-related issues. We have proposed three major reform strategies, which can never be successful unless the realignment of the central-local relations in Thailand occurs. Central government must allow the local self-governing bodies to come up with their own

innovative fiscal strategies and encourage local government officials and local community members to form strong professional associations that help to monitor the functioning of local authorities.

As fiscal management innovation is extremely important, it cannot benefit the local communities without a strong checks-and-balances system in place to ensure the transparency and cost-effectiveness of policies, programs, and revenue projection plans. These three reform strategies are inter-related and, to achieve fiscal sustainability for Thai local government, must be implemented at the same time. In this paper, we have also discussed various techniques used by other countries. Although we did not present one single country example in which all three reform strategies are used, we hope this research is a good stepping stone to more rigorous research about local public finance and local self-governance.

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