

## **Myths about Dragons: The Case of Thailand**

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Asia's successful newly industrialising economies (NIEs)<sup>1</sup> — Taiwan, (South) Korea, Singapore, Hong Kong, and now Malaysia, Indonesia and Thailand — have inspired the use of some silly zoological metaphors to describe them: 'dragons', 'tigers', 'flying geese', and so forth. They have been also been called Asia's 'miracle' economies (World Bank, 1993). The use of the language of mythology to describe this group of economies is in one sense apt. Much that has been said *about* them is indeed based on myth.

Proponents of the contending economic ideologies have attempted to 'explain' the performance of the successful Asian economies in terms of those countries' adherence to policies favoured by the writers concerned, while implicitly disowning the countries performing poorly. Bhagwati (1989:98) has commented: 'I have formulated the following law: Economic miracles are a public good; each economist sees in them a vindication of his pet theories'.

The effort to explain the 'miracle' economies, rather than the much longer list of economic failures, probably derives from recognition of a basic fact. There is an unlimited number of possible ways of performing poorly, but far fewer possible ways of performing well. Since the lessons of success are less country-specific than the lessons of failure, they may be more applicable to other countries. For this reason, explanations for the performance of successful economies are potentially important in a way that explanations for the failure of others are not.

This article discusses these issues in the context of Thailand. Much of what it says probably applies to other East Asian countries as well. It assesses the merits of three propositions regularly found in the economic literature on Thailand and some of its neighbours. They are repeated so often that they are in danger of becoming the conventional wisdom, but they are each wrong and potentially dangerous. In the Thai context, the proponents of these propositions include both Thai and non-Thai authors (who on these issues differ among themselves equally). But first, some background.

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<sup>1</sup> The term 'economies', rather than 'countries' is widely used in this context to avoid dispute as to whether some of these entities, including at least Taiwan, (South) Korea and Hong Kong, should be described as 'countries'.

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## The Background

In 1950, following an entire century of economic stagnation, Thailand was one of the world's poorest countries.<sup>2</sup> Since then, its economy has achieved a startling combination of rapid growth, declining poverty and macroeconomic stability (Table 1). Between 1965 and 1990 the growth rate of Thailand's real GNP per head of population was well over 4 per cent (7 per cent in total), compared with an average growth rate of 2.5 per cent per head of population for low- and middle-income countries (World Bank, 1992). Even more remarkable was the stability of Thailand's growth. Almost uniquely among oil-importing countries, Thailand has not experienced a single year of negative growth of real output per head of population since 1958. Most recently, over the four years to 1990, the Thai economy was the fastest growing in the world.

**Table 1**  
**Basic indicators of Thailand and some other Asian economies**

|                        | <i>Average annual growth of population 1980-90 (%)</i> | <i>GDP per capita (US\$) 1990</i> | <i>Average annual growth of real GNP per capita 1965-90 (%)</i> | <i>Average annual rate of inflation 1965-90 (%)</i> | <i>Income distribution: lowest 20% share of total (% year)</i> | <i>Poverty: population below poverty line 1980-89 (%)</i> |              |              |
|------------------------|--|-----------------------------------|---|---|--|---|--------------|--------------|
|                        |  |                                   |   |   |  | <i>Gini coeff.</i>  | <i>Total</i> | <i>Rural</i> |
| <b>Thailand</b>        | 1.8  | 1420                              | 4.4   | 5   | 4.0 (1988)   | 0.47  | 30           | 34           |
| <b>China</b>           | 1.4  | 370                               | 5.8   | 2   | n.a.   | n.a.  | n.a.         | n.a.         |
| <b>Indonesia</b>       | 1.8  | 570                               | 4.5   | 25  | 8.8 (1987)   | 0.31  | 39           | 44           |
| <b>Philippines</b>     | 2.4  | 730                               | 1.3   | 13  | 5.5 (1985)   | 0.45  | 58           | 64           |
| <b>Malaysia</b>        | 2.6  | 2320                              | 4.0   | 4   | 4.6 (1987)   | 0.48  | 27           | 38           |
| <b>Korea, Republic</b> | 1.1  | 5400                              | 7.1   | 13  | n.a.   | 0.36  | 16           | 11           |
| <b>India</b>           | 2.1  | 350                               | 1.9   | 8   | 8.1 (1983)   | 0.42  | 48           | 51           |

Source: World Bank (1992).

<sup>2</sup> For excellent accounts of Thai economic history, see Ingram (1955) and Sompop (1989).

Although Thailand's income inequality apparently increased over the last two decades, the incidence of absolute poverty declined significantly. The rate of inflation has been low, averaging 5 per cent from 1965 to 1990 compared with a simple average rate of 32 per cent for all low- and middle-income developing countries, and the baht/ US dollar exchange rate has been highly stable. All this was achieved with only moderate growth of external debt and with stable international reserves.

Strikingly, Thailand achieved stable economic growth despite economic and political volatility. Like most developing countries, it has experienced internally and externally induced economic and political shocks; but while the economies of many developing countries, including some of Thailand's Southeast Asian neighbours, were badly destabilised by these and even lesser shocks, the Thai economy showed surprising resilience.

Thailand has joined that all too short list of successful economies whose performance economists are anxious to explain. Nevertheless, I contend that the standard analyses of Thailand's economic performance are wrong. Three examples follow.

### **Myth 1: Economic Growth Benefits Only the Rich**

Visitors to Thailand see a wide disparity between the living standards of rich and poor Thais. Table 1 suggests that, judging from estimated Gini coefficients,<sup>3</sup> income distribution in Thailand is about as unequal as in its neighbours Malaysia and the Philippines, and a little more unequal than in Indonesia and Korea. Unfortunately, studies of income distribution and poverty in Thailand have necessarily been dominated by a single, deeply flawed and incomplete data set. The periodic Socio-Economic Surveys (SES) conducted by the National Statistical Office (NSO) have been the source for virtually all serious research on this subject.

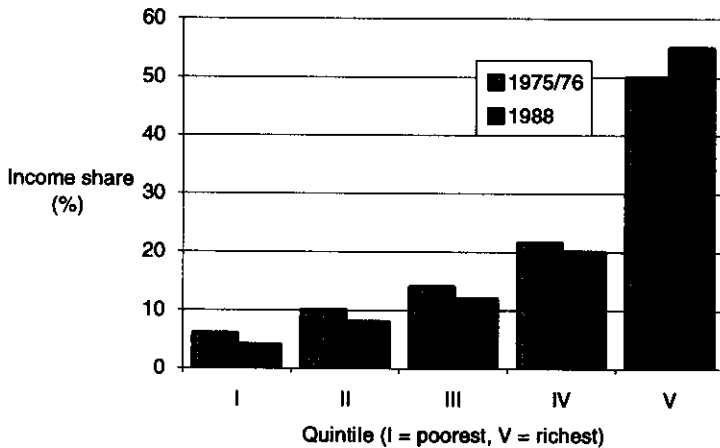
The difficulties of making comparisons across time when the sampling procedures and definitions used by the NSO have repeatedly changed and the difficulties of defining 'poverty threshold' levels of income — an inherently arbitrary matter — have dominated the academic literature. This has not stopped others from claiming that Thai growth has benefited only the wealthy urban elite, leaving the mass of the population mired in poverty, and possibly even worse off. Can this kind of claim be substantiated?

Between the mid-1970s and the late 1980s the NSO statistical definitions have been reasonably constant (but comparison with other periods is very difficult). During this period the distribution of income became more unequal (Figure 1). Thai scholars have debated whether or not inequality has increased at an accelerating rate (Medhi, 1993), but there is little doubt that inequality did increase.

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<sup>3</sup>The Gini coefficient is a measure of the degree of inequality of the income distribution. The coefficient ranges in principle between zero and one. The higher the value, the more *unequal* the distribution.

**Figure 1**  
**Income shares by population quintile, 1975/76 and 1988**



Sources: National Statistical Office (1988), Suganya & Somchai (1988).

Widening inequality, however undesirable, does not necessarily imply that the poor are worse off. Average incomes also increased over the same period. The share of total income received by the poorest quintile of the population fell from 6.1 to 4.5 per cent over the period 1975-76 to 1988, but total Thai income rose in real terms by 83 per cent. According to this calculation, the poorest quintile gained in absolute real income by 35 per cent, even though the richest quintile gained proportionately three times as much, by 103 per cent, again at constant prices.

An alternative way of addressing issues of absolute poverty is to measure the proportion of the population whose incomes fall below a designated poverty line. Studies along these lines necessarily suffer from the intrinsic arbitrariness of any such 'poverty' cut-off point, but the change in poverty incidence, so measured, may not be especially sensitive to the particular cut-off point that is selected. Table 2 shows data on this issue, drawn from the studies of Suganya and Somchai (1988) and Medhi, Pranee and Suphat (1991). The data confirm that absolute poverty in Thailand is principally a rural phenomenon, concentrated in the northeast region. What about changes in poverty incidence over time? While the limitations of the underlying SES data must be stressed, a clear picture does emerge. Over the decade to 1986 poverty incidence seems to have declined until the early 1980s, then to have worsened until the mid-1980s, and then to have declined again.

**Table 2**  
**Poverty incidence and economic growth,**  
**1975/76-1988**

|   | 1976/76 | 1981 | 1986 | 1988 |
|---|---------|------|------|------|
| <b>Poverty</b><br><i>(Baht per capita per year,<br/>current prices)</i>   |         |      |      |      |
| <i>Urban</i>  | 2961    | 5151 | 5834 | 6203 |
| <i>Rural</i>  | 1981    | 3454 | 3823 | 4076 |
| <b>Poverty Incidence (%)</b>  |         |      |      |      |
| By region:  |         |      |      |      |
| <i>North</i>  | 33.2    | 21.5 | 25.5 | 19.9 |
| <i>Northeast</i>  | 44.9    | 35.9 | 48.2 | 34.6 |
| <i>Central</i>  | 13.0    | 13.6 | 15.6 | 12.9 |
| <i>South</i>  | 30.7    | 20.4 | 27.2 | 19.4 |
| <i>Bangkok and vicinities</i>   | 7.8     | 3.9  | 3.5  | 3.5  |
| Whole kingdom   | 30.0    | 23.0 | 29.5 | 21.2 |
| Average growth rate of real<br>GNP over preceding period<br>(% per annum) | 5.9     | 7.5  | 5.2  | 11.5 |

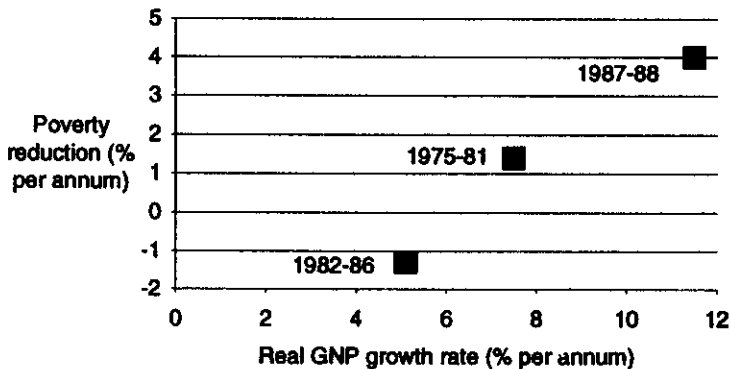
Notes: 1 baht = A\$0.06. In both sources cited below, poverty incidence was calculated by applying the rural poverty lines to sanitary areas.

Sources: The poverty incidence data for 1975/76, 1981, and 1986 are from Suganya & Somchai (1988); those for 1988 are from Medhi, Pranee and Suphat (1991).

What could explain this pattern of apparently fluctuating poverty incidence? It is obvious that over the long term, sustained economic growth is a necessary condition for poverty alleviation; no amount of redistribution could turn a poor country into a rich one. But it is not obvious that growth favours poverty reduction in the short run. The final row of the table shows the average annual rate of GNP growth over the periods shown — that is, those for which survey results are available. In the case of the 1975/76 column the data show average real GNP growth from 1970 to 1975. These data are plotted in Figure 2.

Figure 2

## Poverty reduction and economic growth, 1975-88



To the extent that the data can be trusted, and notwithstanding the smallness of the sample, the results are clear. The faster the growth, the greater the poverty reduction. Rapid growth from 1976 to 1981 coincided with declining poverty incidence. Reduced growth caused by the world recession in the early to mid 1980s coincided with worsening poverty incidence to 1986. Thailand's economic boom of the late 1980s coincided with markedly reduced poverty incidence. The data provide no support for the notion that rapid economic growth fails to benefit the poor in *absolute* terms. They suggest, on the contrary, that the rate of growth may be the single most important determinant of the rate at which poverty declines, even in the short run.

### Myth 2: Industry Policy Promotes Export Growth

The role of industry policy has been a central issue in the interpretation of the economic performance of the NIEs, and this is now true of Thailand as well, because in the last two decades much of Thailand's growth has been led by manufactured exports. Discussions of Thailand's microeconomic policy have frequently characterised the period since the mid-1970s as one of 'export promotion', contrasted with the preceding two decades of 'import substitution'. Policy supposedly shifted away from discrimination against export industries and towards policies that favour them. The growth of non-traditional exports is then attributed to this supposed policy shift.

The evidence suggests that from around the mid-1970s Thailand's economic planners and their academic advisers shifted their focus away from import-substituting industrialisation policies. 'Export promotion' became the intellectual fashion among economists, in Thailand as elsewhere. This seems clear from the text accompanying the *Five Year Development Plans* produced by the govern-

ment's National Economic and Social Development Board. But while the views of the development planners may be important, they are not in themselves policy.

Myth 2 says that a shift in policy occurred that was significant enough to produce the subsequent dramatic surge in exports. The belief arises because the change in the ideology and rhetoric of the development planners coincided, *very roughly*, with significantly improved exports of manufactured goods from Thailand. Beginning with the Third Plan (1972-76), plan documents stressed 'export promotion' over 'import substitution', but this reflected intellectual fashion rather than policy commitment. Protection of inefficient manufacturing sectors actually increased during this period, as it did through the remainder of the 1970s.

'Export promotion' policies were indeed introduced in the 1970s, supposedly to promote manufactured exports. But did this shift in the government's industry policies contribute to export success or hinder it? Were the industries favoured by this system the ones which subsequently proved to be successful? An index of trade performance, based in part on earlier work of Balassa and others, and here called the net export performance ratio (NEPR) is used here to measure the degree to which an industry is competing successfully in international markets. The index measures the degree to which Thailand's net exports of a particular commodity, as a share of world exports of that commodity, exceed or fall short of Thailand's share of world exports in general.

We are especially interested in the correlation between this index and measures of industrial policy interventions. Five instruments of intervention can be quantified from available data: industry protection, the allocation of subsidised loans through the Industrial Finance Corporation of Thailand (IFCT), the promotion of industries through the Board of Investment (BOI), the allocation of tax exemptions by the Customs Department, and the allocation of tax rebates by the Fiscal Policy Office of the Ministry of Finance. The allocation of these five instruments of industry policy can be compared with the industries' export performance across the 16 major industry categories for which the relevant data are available. To allow for the fact that the industries concerned have different sizes, each industry's share of the total allocation of funds for the instrument shown (except rates of protection) has been divided by its share of total value added, summed across all 16 industries shown.

Table 3 shows the correlation coefficients between the measures of export performance and each of the above five measures of industry policy interventions over the intervals for which data are available. The results show that export performance is negatively related to all five measures. Moreover, the change over time in net export performance is negatively related to the change in all five instruments. Industries whose export performance *worsened* over time received increasing levels of support over time, not those whose performance improved.<sup>4</sup>

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<sup>4</sup> See Warr (1994). The only exception to this pattern was the change in the structure of effective protection between 1984 and 1987, which showed a weak positive relationship to changes in export performance.

**Table 3**  
**Trade performance and industry policy, 1970-89:**  
**correlation coefficients across industries**

| Trade performance for period: | Effective rate of protection |       |       | IFCT loan allocation |       |       | BOI projects |       | Tax drawbacks | Tax rebates |
|-------------------------------|------------------------------|-------|-------|----------------------|-------|-------|--------------|-------|---------------|-------------|
|                               | 1974                         | 1984  | 1987  | 1960-69              | 80-85 | 86-90 | 1983-85      | 87-89 | 1986-89       | 1986-89     |
| 1970-74                       | -0.06                        | -0.02 | -0.08 | -0.16                | -0.03 | -0.02 | -0.24        | -0.39 | -0.16         | -0.46       |
| 1975-79                       | -0.07                        | -0.11 | -0.14 | -0.18                | -0.09 | -0.08 | -0.26        | -0.47 | -0.12         | -0.39       |
| 1980-84                       | -0.06                        | -0.16 | -0.15 | -0.16                | -0.11 | -0.11 | -0.23        | -0.52 | -0.11         | -0.40       |
| 1985-89                       | -0.04                        | -0.14 | -0.15 | -0.17                | -0.15 | -0.25 | -0.28        | -0.52 | -0.03         | -0.35       |

Source: Warr & Bhanupong (1994).

In the case of import protection these results are hardly a surprise. Protection is explicitly an incentive to import-competing production and (implicitly) a disincentive to exporting. But the negative correlation with export performance is even higher in the case of the BOI instruments and, most surprising of all, the case of tax rebates as well. Far from being instruments of export promotion the IFCT loans, Customs Department tax drawbacks, FPO tax rebates, and most especially the BOI investment promotion schemes, turn out to be surprisingly similar to industry protection in their allocation across industries. At the industry level, poor performers, not successful exporters, are clearly promoted by these measures.

Presumably, industries that are well organised for lobbying purposes put proportionately more resources into the behaviour that secures bureaucratic support than less well organised industries. But the former are not necessarily performing well in economic terms: our results suggest the reverse. Thus policy measures intended to promote exports are captured by the system of rent-seeking and in fact support roughly the same poorly performing industries as are favoured by the system of protection.

### **Myth 3: Discretionary Fiscal Policy Stabilises Income Growth**

Thailand has a truly impressive record of macroeconomic stability. It also has a set of professionally competent macroeconomic planners eager to practise stabilising fiscal policy. It is all too easy to suppose that the latter caused the former. It is widely recognised at a theoretical level that fiscal policy is more effective under a fixed exchange rate regime — such as Thailand's<sup>5</sup> — than under a flexible exchange rate, but that the opposite applies to monetary policy. Fiscal policy therefore seems a strong candidate as a potentially significant stabilising (or destabilising) force in the

<sup>5</sup> While Thailand's exchange-rate regime is now officially described as a managed float, it is highly stable with respect to the US dollar.

Thai context of a closely managed exchange rate, and has been described as an important source of macroeconomic stabilisation in the literature of Thailand's adjustment experience.

**Table 4**  
**Correlation between fiscal variables, income growth and inflation, 1970-90**

|                                 | <i>GDP growth<br/>(current<br/>period)</i> | <i>GDP growth<br/>(previous period)</i> | <i>Inflation<br/>(current<br/>period)</i> | <i>Inflation<br/>(previous pe-<br/>riod)</i> |
|---------------------------------|--|---|---|--|
| Change in total expenditure/GDP | 0.32                                       | 0.56                                    | 0.009                                     | 0.03   |
| Change in total revenue/GDP     | 0.69                                       | 0.68                                    | -0.09                                     | -0.20  |
| Change in total deficit/GDP     | -0.70                                      | -0.54                                   | 0.13                                      | 0.29   |
| Actual fiscal impulse           | -0.35                                      | -0.38                                   | -0.32                                     | 0.27   |
| Planned fiscal impulse          | 0.18                                       | -0.09                                   | -0.25                                     | -0.38  |
| Unplanned fiscal impulse        | -0.39                                      | -0.37                                   | -0.24                                     | 0.37   |

Source: Bank of Thailand.

Table 4 examines the statistical relationships between the major fiscal aggregates and variations in aggregate income and the price level. The first three rows of the table show the correlation between real public expenditure, real public revenue and the real public-sector deficit on the one hand and the current and lagged values of GDP growth rates and rates of inflation on the other. The data cover the period 1970 to 1990. Clearly, the size of the budgetary deficit is negatively related to both GDP growth and the rate of inflation; and the behaviour of public expenditure is the principal source of both short-term relationships. The evidence confirms that Thai fiscal aggregates have behaved in a stabilising manner. But how was this stabilisation achieved? Myth 3 attributes it to the fiscal planners.

In the industrialised countries both *discretionary* adjustments in government fiscal policy and *autonomous* adjustments in fiscal outcomes are considered potentially important sources of stabilisation (Dornbusch & Fischer, 1992). The operation of the discretionary component depends on the way government policy responds to external shocks. Autonomous adjustments, the outcome of 'automatic stabilisers', operate through the structure of the tax and revenue systems themselves, and not through short-term discretionary changes in government policy.

Textbook descriptions of automatic stabilisers emphasise the role of personal income taxes on the revenue side and welfare payments on the expenditure side. In the OECD economies the dominant sources of revenue are personal income taxes. These revenues rise as real incomes and/or rates of inflation rise, but in a greater proportion than the increase in nominal income because of the progressive income-tax schedules. On the other hand, welfare and social security expenditures rise as incomes *fall* because income relief is most required in times of recession. Consequently, the public-sector deficit declines during periods of rapid growth, as tax revenues rise and welfare expenditures decline as proportions of GDP. The public deficit rises in periods of recession as income tax revenues decline and welfare payments rise. Because of these processes, the countercyclical behaviour of the government's fiscal deficit plays a stabilising role, reducing the impact of externally induced fluctuations of national income.

Automatic stabilisers are seldom mentioned in the context of developing countries. This is in one sense unsurprising. If personal income taxes and welfare payments were truly the important variables to look for, we should not expect automatic stabilisers to be significant at all for developing countries like Thailand. Personal income taxes are minor sources of revenue, accounting for less than one tenth of total revenues; and, like most developing countries, Thailand has no public-sector social-security system at all. This suggests that automatic stabilisers are unlikely to be important in developing countries and this presumption is consistent with Myth 3.

To some extent at least, tax revenues and expenditures will probably respond differently to short-term changes in economic activity, resulting in some degree of automatic stabilisation (or destabilisation). If the government forecasts of income growth and inflation are inaccurate, and they must inevitably involve some errors, then the actual levels of spending and taxation revenue will presumably be somewhat different from their planned levels. As a result, the planned level of deficit will be different from the actual level. Unexpected expansion (slowdown) of economic activity presumably causes underestimation (overestimation) of the future revenues on the part of fiscal planners.

It is possible to study the behaviour of fiscal intentions in relation to fiscal outcomes because the planned levels of revenue and expenditure are declared in the government's annual budget documents in advance of fiscal outcomes. The magnitude of the *planned deficit* reflects discretionary fiscal policy, which reacts to changing macroeconomic policy variables such as deviation from trend growth rate, the inflation rate, and the ratio of the current-account deficit to GDP. The inten-

tion here is not to study the way fiscal intentions are formed, but to compare fiscal intentions with fiscal outcomes and to relate both to income growth and inflation. We define the 'unplanned deficit' as the difference between the planned and actual deficit. The unplanned revenue, unplanned expenditure, and unplanned deficit can be thought of as a result of the responsiveness of automatic fiscal stabilisers.

Now consider the relationship between year-on-year variations in fiscal policy and year-on-year fluctuations in income. By 'expansionary fiscal policy' we mean that the ratio of the deficit to GDP is larger than in the previous year. 'Fiscal impulse' is defined as the change in the ratio of the deficit to GDP, and an expansionary fiscal policy will thus mean a positive fiscal impulse. The 'unplanned fiscal impulse' is defined as the difference between the actual and planned fiscal impulse.

The behaviour of these variables is correlated with the actual fiscal impulse. As described above, the behaviour of Thailand's actual fiscal impulse was stabilising in that it was stronger during periods when the real growth rate fell below its trend path, and was weaker during economic expansion. But a decomposition of the actual impulse into its planned and unplanned components reveals the source of the stabilisation. While planned fiscal impulse is positively (but weakly) associated with income growth, a striking negative correlation can be observed between unplanned fiscal impulse and growth deviation.

It is difficult to draw inferences from short sample periods, but the results suggest that any short-term stabilisation with respect to income was due *entirely* to the role of automatic stabilisers. Planned fiscal impulses were weakly destabilising with respect to current income. Clearly, to understand Thailand's fiscal stabilisation with respect to income it is more important to understand the operation of automatic stabilisers than the discretionary behaviour of the planners.<sup>6</sup> The key to this inverse relationship is that tax revenues are more responsive than expenditures to changes in aggregate income.

Short-run discretionary changes in fiscal policy do not seem to have been stabilising at all. But 'policy' clearly had a crucial effect in a deeper and longer-term sense. Most obviously, short-term discretionary behaviour was not significantly destabilising. It could have been otherwise, and the macroeconomic instability experienced by so many other developing countries may well reflect a significant difference in this respect. Equally important, the structural features of the Thai revenue and expenditure systems that produce the automatic stabilising outcomes we have demonstrated are themselves the products of past policies.

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<sup>6</sup> This interpretation differs from Robinson et al. (1991:16). This important study mentions automatic stabilisers in passing, but emphasises what is described, without supporting evidence, as the stabilising role of *discretionary* fiscal policy.

### The Sources of Macroeconomic Stability

What does explain Thailand's macroeconomic stability? With a Thai colleague, I have discussed elsewhere the long history of macroeconomic conservatism in Thailand (Warr & Bhanupong, 1994), but here I shall mention just one crucial source of sustained fiscal discipline in Thailand. It is the law. Legal limits on planned expenditures date back to laws introduced during the Sarit Government of the late 1950s and early 1960s. The 1959 Budgetary Law stipulated that the excess of planned spending over planned revenue should not exceed 20 per cent of the level of planned spending. In 1973, the limit on spending was relaxed somewhat by the amendment that the deficit must not exceed 20 per cent of planned expenditure plus 8 per cent of the principal repayments of the public debt. Since 1959, while actual spending has often approached these legal limits, the maximum levels of spending permitted by the law were almost never exceeded (Warr & Bhanupong, 1994).

This law contributed to stabilisation in two vital ways. First, because planned expenditure is constrained by the forecast level of revenue, through the operation of the Budgetary Law, the size of the actual budget deficit tends to be anticyclical, since during booms actual revenues exceed planned revenues, but actual expenditures do not exceed their planned levels. In boom years, the planned level of the deficit thus tends to exceed the level that is finally experienced, assuming that the boom was not fully anticipated by the planners. Similarly, during a slump, the planned level of deficit is less than the actual deficit. This mechanism produces a short-run stabilising feature from the revenue side of the budget. This effect has been much important than discretionary policy changes. Second, these budgetary laws contributed to long-run fiscal discipline by limiting the *overall magnitude* of planned fiscal deficits and so, in effect, constrained the capacity of fiscal policy to be destabilising, in both the short term and the long term.

What is most intriguing about these legal expenditure limits is that they have remained intact and effective for over 30 years. Subsequent governments could have repealed the laws concerned and could even have disregarded them; after all, several changes in the constitution have occurred over the three decades since 1960. But the Sarit laws were not abolished and were not disregarded. Even though the existence of these laws was at times politically inconvenient, it seems that once they were in place the political cost of removing or disregarding them was prohibitive. Their existence and wide acceptance, especially within the bureaucracy, generated a political inertia that helped constrain subsequent fiscal behaviour for at least three decades.

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*This article is a revised and shortened version of a paper presented at the Retirement Conference for Ross Parish (Warr, 1994). A more detailed presentation of the empirical material reviewed in this article can be found in the longer version.*