

CHAPTER 12

CONCLUSION AND POLICY IMPLICATION

The present study confirms that all the four Southeast Asian countries underwent a significant structural change over the period under investigation and consequently the estimated causal relationships between government revenue and government expenditure were not stable under historical dataset. All the chosen countries adopted different fiscal principles over the period of study. Indonesia and Singapore were found to follow the tax-and-spend principle with the historical dataset and Thailand and Malaysia have undertaken fiscal neutrality principle over a historical dataset. These empirical evidences exhibit that the countries concerned adopted one and only one policy in fiscal management over the period of historical dataset.

Chow test along with plots of recursive residual test and CUSUM test identified various structural breaks in all the chosen countries in different years over the period of study. Several macroeconomic shocks like Asian Financial Crisis in 1997, commodity shocks in 1981-82, macroeconomic uncertainty in 1987-88 and global economic recession in 2008-09 took place in Southeast Asian region. These shocks caused significant changes in intertemporal relationship between government revenue and government expenditure during the period of study. The empirical evidences demonstrate that the causal relationships in different sub-periods underwent significant changes following structural changes in four Southeast Asian countries under study.

Country Indonesia followed the principle of fiscal synchronization in the first sub-period 1968-1997 and in the second sub-period 1998-2007 fiscal authority of Indonesia followed tax-and-spend principle. In Malaysia fiscal policy makers were concerned mainly with revenue management and then adjust expenditure accordingly in the first sub-period 1963-1984. However, after structural break the policy makers of Malaysia shifted the balance in favour of expenditure and then adjust revenue accordingly in the second sub-period 1985-2007. Following structural break in 1987 in Thailand fiscal policy makers followed tax-and-spend principle before and after structural break. Singapore adopted spend-and-tax principle before the structural break and after the structural break in 1987 the Singapore government shifted the decision in favour of spend-and-tax principle.

The empirical evidences from Granger causality in different sub-periods show different fiscal principle as followed in four Southeast Asian countries and the findings indicate that barring

Thailand and other three Southeast Asian countries followed diverse fiscal patterns before and after structural change over the period of study. These fiscal management in four Southeast Asian countries differed from the ones observed in historical dataset. Thus, the fiscal authorities of four Southeast Asian countries did not stick to any uniform fiscal management. As a matter of fact they changed their fiscal policies time to time in order to keep the fiscal budget under control.

These findings consist in suggesting the instability of estimated causal relationship between government revenue and government expenditure in all the four Southeast Asian countries during different time periods under investigations. As a result, the estimated causal link between government revenue and government expenditure with a long-run fiscal dataset may not provide appropriate and reliable guideline to the fiscal authority for making policy decisions in order to control fiscal imbalances. The estimated causal relationships under different sub-periods may provide appropriate guideline to the policy makers for achieving fiscal sustainability.

The implication of diverse fiscal patterns in different sub-periods is that fiscal authorities of the concerned countries may not follow any unique principle over a long stretch of time in order to keep their fiscal budget under control. Fiscal policies are changing time to time following the structural adjustments made in the countries concerned. Such changes in fiscal policies help attain the economic and social need of the time. By doing so, countries attain better economic gains. This becomes evident from the fact that three South Asian countries like Indonesia, Malaysia and Thailand were played with economic crisis over the period concerned. However, with varying fiscal management policies, these countries attain remarkable growth rate along with substantial improvement.

Another important implication of the findings on Granger causality test between Government revenue and Government expenditure in different sub-periods is that wider variations in the estimated causal relationships in four Southeast Asian countries might pose a problem towards an economic and monetary integration within the Southeast Asian region. In moving towards economic and monetary integration within the Southeast Asian zone all the countries should take uniform fiscal principle.

In a very influential article Robert E. Lucas, Jr. (1976) raised a serious 'critique' against econometric models that were used for policy evaluation. Lucas argued that any external or internal shocks in the economy have immediate effects on the relationship between macroeconomic variables estimated with the historical dataset. The dynamic relationship among the variables undergoes changes if any structural changes occur during the period of study. This study establishes the relevance of 'Lucas Critique' in case of fiscal management in South East Asian countries. The study further implies that pragmatism in fiscal management demands that policies should be designed in accordance with the socio-economic needs of the countries concerned.