



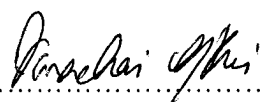
Household Expenditure, Debt and Happiness in the Rural Area


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Fulfillment of the Requirements for the Degree of Doctor of Philosophy
(Population and Development)

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September 2009

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ABSTRACT

Title of Dissertation	Household Expenditure, Debt and Happiness in the Rural Area
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The resources of expenses among consumers were not only from their regular earning but also from loan money that was borrowed in order to help supporting the inadequate resources of the households. The objective of this study is to determine the structural relationships among “household debt”, “expenditure pattern”, “debt value” and “happiness” in the rural Thai households. The model will be analyzed based on the data from sample survey, using a stratified random sampling technique. After developing the model, the multiple regression technique will be used to test the significance of the hypothesized model. Moreover, we know that the income from regular earning tended to be spent carefully such as in households’ basic needs for daily living, children’s education fee, social living such as :- making merit in any opportunity, savings, and investment to get some benefit in the future. On the contrary, it was found that households would not spend their working income on any immoral activities such as :-lottery, bets, whisky, beer, cigarette and paying back installments. In addition, expenses for the immoral acts were usually come from loans. Recently, there was a policy called the Populism Policy that would allow rural villagers easily access to the source of loans. Under this policy especially the Village Fund Project, borrowers were expected to use money for investment or in other words to generate income so that households would be able to clear all their debts. However, it seems that the policy failed and the outcome was just the opposite. That was, it

caused more debts. In addition, it helped to stimulate a new value or a fad among rural people that being in debt or borrowing money was a normal matter. Finally, it was found that the happiness of household members was negatively related to the debt of the Village Fund Project. However, their happiness will be increased when they earn and spend their income honestly.

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Finally, I am only the person who retains entire all responsibility for any deficiencies and shortcoming in this study

Weerachai Thavornthon

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SYMBOLS AND ABBREVIATIONS

Symbols

Equivalence

\bar{X}	Mean
S.D.	Standard Deviation
Beta	Standardized Coefficient
P	Significant Level
Df	Degree of Freedom

Abbreviation

BAAC	Bank for Agriculture and Agricultural Cooperatives
BOT	Bank of Thailand
GDP	Gross Domestic Product
NESDB	National Economic and Social Development Board
NSO	National Statistical Office
OCSC	Office of the Civil Service Commission

CHAPTER 1

INTRODUCTION

1.1 Problems and Significance

As a result of the Thai government's policy, the economy was stimulated by pushing the consumer expenditure to be increased. Especially among rural households, the past 4-5 years marked a period of rapid economic growth for the country. While Thailand saw continuous economic growth rates throughout 2002 to 2006, the country's inflation rates throughout the same period stayed at a controllable level (Table 1.1).

Table 1.1 Thailand's Economic Indicator (2002-2006)

Year	2002	2003	2004	2005	2006
GDP growth rate (percent)	5.1	7.1	6.3	4.5	5.0
Inflation Rate (percent)	0.7	1.8	2.7	4.5	4.7

Source: Bank of Thailand, 2007.

Despite the seemingly successful attempt by the Thai government to stimulate the economy, questions arise with regards to the impacts that the government's populist policy have on the country's economic capability in the long run.

In perspective, it has been apparent that the driving forces for Thailand's economic growth in this period shifted from the growth in investment expenditure to primarily the growth in private consumption spending. According to the economic indicators in 2003, Thailand's private consumption expenditure made up as high as

56.7 percent of the country's GDP (Bank of Thailand: BOT, 2004). Private consumption expenditure, consisting of households' current and future incomes, increased tremendously from 52,000 Baht/household in 1996 to 104,570 Baht/household in 2004 (National Statistical Office: NSO, 2005). This represented an average annual growth rate of as high as 12.6 percent. Despite such rapid increase in households' debt, the growth rate in household income level, was lagged behind. For example, the increment was from 10,780 Baht/month in 1996 to 14,965 Baht/month in 2004 (NSO, 2005), representing an average annual growth rate of a mere 4.9 percent. The lag implied an increase in consumers' purchasing power (PPP), which contributed to the rapid increase in private consumption expenditure, and thus, a high national growth rate.

According to consumption theories, as income rises, the volume of goods and services consumed by consumers also rises. From the consumers' perspective, consumption of goods and services not only satisfies consumption needs, but also fulfills the sense of deprivation. In a capitalist society, 'debt' serves as a tool for a person to respond to his/her consumption desires and needs, leading to an increase in the level of consumer satisfaction. It is the infinite level of human desire that is the main driving force of a capitalist economic system. Availing oneself to resources in order to satisfy consumption desires, including the utilization of future income or debt creation in addition to current disposable income, then becomes the only means to reach happiness in the mainstream capitalist economic system. Projects inaugurated under the government's populist policy—including the village fund project, Thai citizen bank, and the asset capitalization project—directly encourage debt creation, especially among middle and lower income earners. Such encouragement to spend, both on consumption and on investment, has the tendency to create a culture of debt creation, rather than one of savings—thus, leads also to the weakening of communities' savings system. Furthermore, rather than encouraging the use of loans on investment, the culture of debt creation that persists encourages spending on purposes of consumerism and materialism. The aforementioned populist policies, thus, serve as catalysts for the tremendous increase in the value of household debts.

Questions, thus, arise as to whether the attempt by the Thai government to stimulate consumption expenditure through the implementation of populist policy

leads to an increase in debt accumulation. It has been questioned whether the government's populist policies lead to the stimulation of expenditure with future returns, thus an increase in productivity, and an increase in income earning opportunities; or whether these policies encourage voluptuous expenditure with no economic value added. As changes in the normalization of attitudes towards debt creation are becoming apparent in rural Thailand, questions further arise as to whether such normalization process is an influence of the government's populist policies, especially the implementation of the Village Fund Project. Finally, this study inquires the direction of the relationship between debt creation and happiness level of rural households. These questions are investigated in order to propose appropriate adjustments for the government's policies to stimulate consumption expenditure among people at the grassroots level, and to promote sustainable economic development in Thailand.

The results of this study illuminate personal attitudes and norms with regards to debt creation, as well as factors and models in defining the direction of development on the basis of the relationship between consumption expenditure and debt creation in rural communities. Such illumination provides an insight into the direction development theories should take with regards to the attempt to stimulate an increase in consumption level. This study may be of use for government agencies involved in the implementation of development policies including the Bank of Thailand, the Ministry of Finance, the Asset Capitalization Office, the Village and Urban Communities National Committee, the One Tambon One Product Committee, the Office of the Prime Minister, the Farmer's Reconstruction and Development Fund, as well as other public organizations in setting development policy framework that is coherent to the Thai government's strategic goals to eliminate poverty and increase national income level. Such coherence between strategic goals and policy implementations will allow for an increase in living standard, a feasible solution for poverty reduction goal, as well as the creation of added values in the Thai economic system.

1.2 Objectives

1.2.1 To study household consumption patterns and the impacts of indebtedness on the pattern of household consumption expenditure in rural Thailand

1.2.2 To study the norms of Thailand's rural household debt patterns; and the relationship between satisfaction of populist policy and indebtedness of village fund

1.2.3 To study the impacts of indebtedness and the expenditure pattern on family's happiness level in rural Thailand.

1.3 Scope of Study

This study used survey data collected from 334 rural households which were randomly selected from 5 regions, 10 provinces, and 30 villages all over Thailand. In testing the research hypotheses on the relationship between debt, income, and consumption patterns covering such variables as attitudes and norms of debt creation and basic household characteristics that have influences on consumer expenditure pattern and happiness level, this research utilizes multiple regression statistical techniques, as well as secondary data from the Household Economic and Social Status Survey done by the National Statistical Office in order to fulfill the stated research objectives.

1.4 Limitation

1.4.1 Utilizing existing data and information resulting in the inaccuracy on income from un-accounted immoral activities including gambles and lotteries.

1.4.2 Utilizing the 10 scale, instead of 11 scale, in measuring the level of peoples' happiness, which may results in the inaccuracy in the spread of normal distribution.

CHAPTER 2

THEORETICAL REVIEW

2.1 Thoughts on Consumption Expenditure

The increase in consumption expenditure has led to the continuous expansion of the Thai economy in the past 5-6 years—a period which also saw an acceleration in the growth rate of household debt. It is thus apparent that there exists a close relationship between economic expansion, consumption expenditure, income level and debt level.

Theoretical review includes the review of consumption theories, the establishment of an understanding in the relationship between consumption expenditure and the accumulation of household debt, and the reviews of past studies on the relationship between social norms, family backgrounds, income level, debt level, and the goal of economic development—happiness.

2.1.1 Household Expenditure

The apparent change in the structure of Thailand's economic growth, or the growth of national gross domestic product (GDP), from a primary reliance on investment capital to mainly on consumption expenditure—with private consumption expenditure making up as much as 56.7 percent of national GDP in 2003 (NESDB, 2004), and 54 percent in 2007 (NESDB, 2008)—is consonant to the study of Muellbaver & Lattimore's (1994) stating that consumption expenditure, responsible for 50-70 percent of overall economic expenditure, is an essential component of any economic system. Accordingly, understanding mechanics of such relationship between consumption expenditure and economic growth will provide an important insight for the future directions of national economic policy formulation.

Household expenditure can be divided into different categories. Thus, to understand the mechanics of the relationship between consumption expenditure and economic growth, which holds significant implications for policy formulation processes, this study examines 6 categories of household expenditure, namely (1) general consumption (2) human capital and education (3) immoral activities such as alcoholic beverages, tobacco, and gambling (4) debt payment (5) social good, and (6) future benefits such as savings, social, life, and health insurances.

According to the Absolute Income Hypothesis (Keynes, 1936), a key factor that has direct effects on all 6 categories of consumer expenditure is the level of household disposable income. Keynes (1936) hypothesis proposes that consumption is a linear function of income;

$$C_t = \alpha + \beta Y_t$$

Given that,

C_t	=	Personal Total Consumption Expenditure
Y_t	=	Personal Total Disposable Income
α	=	Autonomous Component of Consumption
β	=	Marginal Propensity to Consume (MPC)

As changes in consumption are proportional to changes in income, consumption rises as disposable income rises. Despite its limitations—the lack of consideration of other factors including interest rate and exchange rate—Keynes' consumption theory has become archetypical in explaining the mechanics of consumer expenditure.

Keynes (1936) consumption theory was further developed by Friedman (1957) into what has become known as the Permanent Income Hypothesis. Attempting to incorporate micro components, Friedman's hypothesis concludes that an individual's spending decisions are guided by their lifetime-worth of resources. More specifically, measured income and consumption contain a permanent (expected) element as well as transitory element. Not limiting oneself to current disposable income, an individual will plan his/her spending by also taking into consideration long-term income expectations. Therefore, short-term changes in income may have little effects on consumer spending behaviors. Rather consumption expense is planned in accordance

to what an individual expects to earn over a consideration period of time (permanent/expected income).

Friedman's (1957) hypothesis is; however, alleged with several limitations in terms of policy formulation. Consumption behaviors, for instance, are considered to be influenced only by present and future circumstances—without taking into account past behaviors.

Building on Friedman's (1957) hypothesis, Modigliani's (1986) Life Cycle Hypothesis (LCH) incorporates other household factors that have effects on consumption demands such as changes in households' sizes and the age of head family members. Modigliani (1986) extends the LCH theory to further incorporate income and household consumption patterns that affect an individual's life-long consumption pattern. Additionally, the LCH theory takes in account personal and household wealth.

Hall (1978) further synthesizes Friedman's (1957) Permanent Income Model by incorporating into the analysis the 'uncertainty' factor. On the assumption that households will plan their consumption expenditure in accordance to the value expectations and the conditions of their current assets, changes in those expectations or conditions may thus result in the changes in households' consumption plan. Hall, (1978) theory is considered to have initiated the thinking of the Rational Expectation's Permanent Income Hypothesis (REPI). Fundamentally focusing on the basics of consumer rational expectations, the REPI takes into consideration the changes, such as household incomes and the expected fluctuation of exchange rates, that may have fundamental influences on the present consumption pattern.

Since Hall (1978) many economists, such as Allen & Carrol (2001), have attempted to more concretely prove the LCH Theory, and tried to explain the making of consumption decisions by using the rational expectation model. Though widely accepted, the LCH Theory and its rational expectation model are not without limitations. Pishcke (1995), for instance, has pointed out that rational expectations under the REPI Hypothesis do not apply in situations with imperfect information. Fernandez-Corvyedo (2002) further noted that accesses to the loan and credit system will also negate the thinking of the REPI Hypothesis.

In addition to income level, debt is considered another of the most important variables with direct impacts on consumer expenditure. According to the studies by Bryant (1990) and Godwin (1998) stating that all resources including both current as well as future income and assets have direct impacts on consumer expenditure, ‘debt’ therefore means the utilization of future income or asset, and hence, plays an important role in the increase of resources of consumption expenditure.

Bryant (1990) study of the Consumer Utility-Maximization Model has a number of interesting aspects, some of which are applied to this study. Though seemingly straight forward, the economic aspect of indebtedness should first be made clear. First, indebtedness is considered, in economic terms, as dissaving. Secondly, ‘indebtedness’ has been theoretically thought of as the utilization of future resources to increase the volume of present consumption. Such increase is considered to have a positive effect on the economic system as the increase in consumption also translates into the expansion of production, and systematically leads to the ever-expanding cycle of the economic system as a whole. This can be shown by the following equation;

$$R(\text{sub}1) = A(\text{sub}1) + y(\text{sub}1) + y(\text{sub}2)/(1+r)(1)$$

Where R = Total Resources

A = Net assets

y = Income

r = Interest Rate

(sub 1) = Current (time)

(sub 2) = Future (time)

According to the abovementioned equation, the volume of consumption depends on current assets, current income, and the present value of expected future income—discounted by interest rate, or discount rate. From this viewpoint; therefore, consumption pattern is influenced by:

- 1) Households’ present resources
- 2) Expected future resources
- 3) Prices of consumer goods and services
- 4) Interest rates faced by households in various types of credit markets

5) Households' rate of time preference

For Bryant (1990), thus, 'debt' is part of future income that is utilized in advance for present consumption. More generally, the amount total resources spent on the present consumption also include assets, which are considered a part of income as they can be converted into the medium of exchange, which is money.

Bryant's (1990) work has been further expanded by Godwin (1998) with the proposition that the 'income' variable, which is to be taken into consideration, is not limited to current income, but also includes future income—a factor which he argues plays a role in defining the current pattern of consumption expenditure. Additionally, Godwin (1998) further proves that 'asset' also plays a role in defining consumption behaviors. Debt can thus be considered as either future income or future asset that is utilized in advance for present consumption.

Having briefly reviewed consumption theories, it can thus be argued that while consumers plan their consumption expenditure rationally taking into consideration specific household characteristics as well as fluctuations in future expectations, they may also, under specific circumstances, consume irrationally, as Pischke (1995) and Fernandex-Corvyedo (2002) have argued in their studies with regards to imperfect information, access to the credit system, and ability to take out loans. These factors put a further emphasis on indebtedness as a factor with significant influences on consumer expenditure patterns.

As Modigliani's (1986) extended Life Cycle Hypothesis (LCH) has illuminated, household factors such as changes in households' sizes, the age of the leading household members, the number of those under responsibility of a household, and households' wealth all have effects on the consumption pattern. While taking into consideration personal and household net wealth, Modigliani further examines the effects of income level and household consumption pattern on an individual's life-long consumption value

Modigliani's (1986) framework has been extended by Yunyong Thaicharen et al., (2004). By studying the life cycle of household debt creation, He created a Life Cycle Hypothesis Framework, which is in fact a 'stripped-down' version of the life cycle model, depicted in a bell-shaped curve as shown in graph 2.1

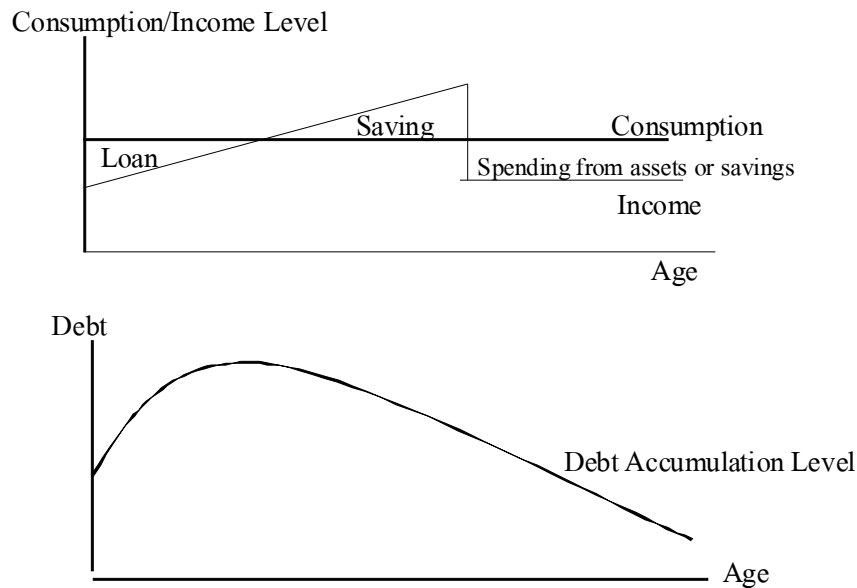


Figure 2.1 Debt Creation Life Cycle

The above debt creation life cycle reveals that level of accumulated debt and the debt to income ratio reach their peaks during mid-life ages. The bell-shaped curve implies that the level of debt accumulation is highest during the first part of life, wherein consumption resources are at an inadequate level. As income rises, the level of savings also rises, thus, providing consumption resources for the later part of life. What remains unclear, though, is the direction of changes in the level of debt accumulation at times of family building or child bearing.

Mantana Panairamai (2008) further studies an individual's life-long consumption cycle by utilizing national transfer account which categorizes the population into the following 6 age groups: small children (0 – 4 years), children and economically dependent teenagers (5 – 24 years), adults with an income level higher than consumption expense (25 – 29 years), young elders (60 – 69 years), mid-ranged elders (70 – 79 year), and elders (more than 80 years and up)

Both Yunyong Thaicharoen et al., (2004) and Mantana Panairamai (2008) works have put a further focus on the patterns of debt creation as well as of consumption expenditure of people from different age groups. The studies find that

reliance on family income for consumption expenses persists during pre-employment ages and again when entering the beginning of old ages. Personal income and assets may be used for consumption expenses only up until the beginning of old ages.

This study, therefore, explains the relationship between indebtedness and household expenditure on the following hypotheses;

Research Hypothesis 1: Given that household factors and the level of income and assets are controlled, the relationship between indebtedness and all types of household expenditures still exists

Though providing a foundation for this study, the aforementioned theories on consumption behaviors fail to provide an adequate explanation for the differences in consumption pattern due to the differences in personal values and social norms. This study attempts to provide such explanation.

2.2 Debt Creation Norms and Populist Policies

An individual's debt creation behaviors can be influenced by the interrelations of internal and external factors.

Most studies focus on objectifying external variables that may have measurable effects on an individual's debt creation behavior such as income level, type of occupation, and education level. Internal factors, on the other hand, have not as often been the subject of examination.

In Thailand, the changes in social norms have been tremendous. Historically, the Thai society had held 'honor,' rather than 'money,' as most socially valuable. Today, however, money and 'things' are given highest social values. It is, thus, unsurprising to see that the struggle to accumulate more and more money has essentially come to define so many modern lives. In addition to being the mean for personal wealth, money serves also as the mean to accumulate power and credibility in the modern Thai society. When money has earned the most valuable position in the society, it is, thus, not surprising that many will do whatever it takes, regardless of legality as well as morality, to accumulate more and more of it. Taking out loans and credits, which is also a form of debt creation, has essentially become a normal part of today's life. Virut Khunnasombati (1999) illuminated such phenomenon by studying

consumption behaviors of credit-card holders. Confirming the argument, his study finds that for many credit-card holders, credit card is considered a regular medium of exchange for consumption rather than being considered a medium of debt creation.

Furthermore, the period from 2001 to 2006 saw a significant increase in the level of debt in Thailand's rural households—a direct consequence of the government's populist policy, the Village Fund Project. It will, thus, be interesting to study the relationship between the level of satisfaction with the government's populist policy, the norms of debt creation in rural Thailand, and the amount of debt remained in the government's village fund project. Similarly to the analysis of household consumption expenditure, this study proposes the following hypothesis;

Research Hypothesis 2: The level of satisfaction with the government's populist policy and being indebted to the village fund have a positive statistical relationship with the norms of debt creation.

2.3 Thoughts on Happiness

The works of Yunyong Thaicharoen et al., (2004) and Murphy (1998) can be compiled into the following model;



Figure 2.2 Debt Creation Model I

Debt, in a sense, is the increase of existing available resources by borrowing. It could thus be argued that indebtedness is the ability to compensate for the unavailability or the shortage of consumption resources. In accordance to the model above, debt creation, in economic sense, should thus leads to an increase in consumer's happiness (given that happiness is defined as meeting consumption demands) as it means the increase in available consumption resources.

In another sense, O’Keefe (2003) presents a different view;

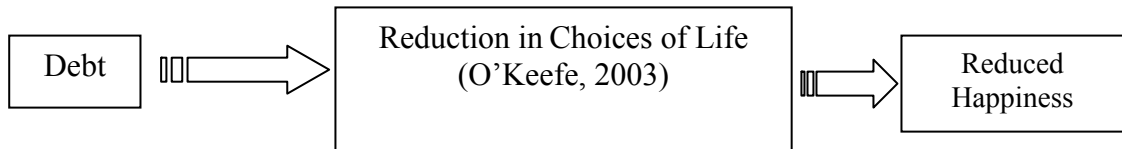


Figure 2.3 Debt Creation Model II

O’Keefe’s (2003) model creates a conflicting view. While the first model presents debt creation in a positive light as it leads to the increase in the level of happiness for consumers, O’Keefe contrarily argues that debt creation, or indebtedness, leads rather to the reduction of consumers’ happiness. As debt creation means the utilization of future resources, being indebted also means losing the part of future income flow which has to be used as debt payment. Such loss translates into the reduction in future available consumption resources. The apparent conflict between the two viewpoints, however, may be a result of different points of focus.

Regardless of the conflicting models, one proposition that needs to be tested is that if the level of expenditure, or the need to spend, serves as a push for the struggle to find a way to increase available resources, as reliance on income is inadequate—one of which may be debt creation; and if debt creation and savings are negatively related ($\text{Debt} = \text{Disserving}$), then the economic argument stating that savings increase as income rises may no longer hold.

Happiness is the goal of developmental process. Thus, development strategies must aim at creating happiness, or in other words, to meet consumption demands. Problems persist, however, as development and its entailing goal and strategies are aimed purely towards growth in the economic terms. Persisting income gaps reflect not only the lack of income distribution, but also as important the distribution of opportunities. It has been acknowledged that development aimed only at economic growth is not the means to happiness. Rather, developmental processes should be fundamentally balanced, with a focus on the distribution of income as well as opportunities.

Happiness, in other words, is the meeting of wants personal desires. When you answer to those desires, we acquire a level of happiness, (Phra Promkunaporn, 2008). For Buddhism, happiness is composed of different levels, depending on our changing desires, which may also change as we engage ourselves in the processes of personal enlightenment. For capitalism; however, those desires are limited only to consumption—the more you consumer, the happier. Such is a never-ending cycle. Thus, a capitalist development, with the aim to continually increase the ability to consume, may not be the right answer to the development question. Rather, development, in Buddhist terms, focusing on personal development and enlightenment, may be the mean to reach real and lasting happiness.

In testing the level of individual happiness in rural Thailand, we apply Karuhat happiness framework, which covers physical as well as psychological happiness (the lack of worries). Phra Promkunaporn (2008) has explained Karuhat happiness to be composed of 4 elements. Firstly, Auttisuk, happiness from wealth, is acquired by working and earning a sufficient level of wealth (or money). Secondly, Phokasuk is the happiness which is acquired by the ability to spend. Aunnasuk is the happiness from not being indebted. Lastly, Aunnawatchasuk is the happiness from having an honest, trustworthy, and legal occupation.

It can be argued that Aunnasuk, the third element of Karuhat happiness, coincides with O’Keefee’s study (2003) that indebtedness leads to a reduction in the level of happiness as debt creation means, in other words, the utilization of future resources. The loss of future income flow that has to be used for debt payment, thus, means the reduction in choices of life. This study, therefore, proposes the following hypothesis on the relationship between general happiness in life and indebtedness, income sources, and expenditure pattern:

Research Hypothesis 3: Given that factors on household, income and assets are controlled, 1) Indebtedness has a negative relationship with the rural households’ level of happiness 2) Income earned from an honest and legal work has a positive relationship with the rural households’ level of happiness

2.4 Government's Populist Policy: Village Fund and Urban Community Projects

2.4.1 Purpose

The Village and Urban Community Fund Project, more widely known as the Village Fund project, was initiated by the government of Former Prime Minister Thaksin Shinawatra. Targeting village communities and small household enterprises, the Fund aimed to provide financial capital for investment opportunities and income accumulation by stimulating production and distribution, and thus, the increase in people purchasing power at the grass-roots level. It was estimated that the government would have to spend more than 70,000 Million Baht to operate the Fund. To administer the Fund at the national level, the government set up the Village and Urban Community Fund National Committee, which is comprised of the Minister of Finance, the Government Savings Bank (GSB), the Prime Minister's Office, and the Minister of the Interior. At the community level, the Fund established a Village Fund committee to draft credit regulations and manage the fund in accordance to the conditions of the specific community. With the intention to improve the quality of life at the grass-roots level, the Village Fund project aims to strengthen communities by supporting a self-reliant development approach. Focusing on career development to level up household industries and local state enterprises, the Fund aims also to transform rural and urban communities into sources of jobs and income. In reaching its objectives, the Village Fund Project is intended to bridge community-level developments with developments in the industry and technology sectors; and overall, leading to a sustained economic developmental process at the national level.

2.4.2 Administration

The Village Fund Project was established with the objective to generate income and create a better quality of life nationwide. The budget allocated to each village or community is then used to set a revolving fund for its members. The Village Fund Committee is given the responsibility to operate the fund and draft regulations on interest rate to be charged—which vary across villages/communities.

The operation of the Village Fund must be in compliance with the Village and Community Fund Act of 2004, under the supervision of the Village and Urban Community Fund National Committee and the Village Fund committee at the community level. Meetings are to be held in the villages and urban committees to finalize their respective project proposals following the guidelines of the Village Fund Committee. After the proposals are approved by the Village and Urban Community Fund National Committee, a 1 million baht fund will be sent to local branches of the Government Savings Bank (GSB), or Bank of Agricultural Cooperatives (BAAC) in the case when no GSB branch is located within reachable area of the community.

Once the Village and Urban Community National Committee approves the proposal and establishes the fund, the Village Fund Committee must then register the fund with the Government Savings Bank (GSB) or the Bank of Agricultural Cooperatives. All members of the village and urban community fund are eligible to apply for a loan not exceeding 20,000 Baht per person. Although in certain cases, the loan may be extended beyond 20,000 Baht per person up to no more than 50,000 Baht per person. The Village Fund Committee must organize meetings between the Village and Urban Community Fund Committee and members of the Fund to investigate and define the scope and details of the project, the size of a loan, as well as interest rates to be charged. In addition to the aforementioned conditions of a loan, the central regulations further determine the term of a loan, which should be one year. Given such conditions, the sizes of a loan and interest rate thus differ from communities to communities. The Village Fund Committee must register 2 accounts with its respective bank—either the GSB or the BAAC—whereby one account is for the 1 million Baht fund transfer, and in the case of excellent operation, also the operational support fund of 100,000 per community; and the other to be a revolving account for the fund's activities.

2.4.3 Objectives

2.4.3.1 To serve as a financial capital source in rural/urban communities for such purposes as investment, career development, income generation, job formation, emergency abatement, and creation of self-managed village/urban community welfare fund

2.4.3.2 To promote and develop ability to establish and manage own capital and credit systems in villages/urban communities

2.4.3.3 To promote a system of self-reliance in such aspects as learning and the taking of initiatives to deal with problems; as well as to enhance the capability to execute sufficiency economy in villages/urban communities

2.4.3.4 To stimulate Thailand's grass-roots economy, as well as to establish and develop the country's social and economic immunization

2.4.3.5 To promote social as well as economic strengths and capabilities in villages/urban communities

2.4.4 Other Government-Initiated Policies that Support the

Village Fund Policy:

2.4.4.1 Debt Moratorium Policy: aims to help farmers relieve their burden on interest payment for a short period.

2.4.4.2 One Tambon [sub-district] One Product Policy (OTOP): aims to strengthen local communities to be self-dependent, as well as to create jobs and income for community members. The project employs local wisdom and resources to develop quality products and service specific to each community with their own advantages and value added.

2.4.4.3 Internet Tambon Project: is carried out by the Department of Local Administration (DOLA), the Ministry of Interior. The project aims to connect all tambons (sub-districts) with the DOLA, and to promote the use of the Internet by residents of the tambon. The project is expected to increase not only online commercial trade in rural communities, but also provide learning opportunities on information technology for local residents.

The philosophy of the village fund is to reinforce the sense of locality within the community, with members of that respective community be given the chance to define the direction of development and the projects to be implemented in their own community. Given such opportunity, the fund must be beneficial to the less fortunate within each village/community, as well as be able to create a connection in the learning processes between the community, public administrations, as well as private sector. If successfully implemented, the fund will not only be part of the

power devolution processes, but will also lay the foundation for fundamental development of democracy.

The management structure of the village fund committee is composed of at least 9, but no more than 15 committee members who are nominated by the members themselves. The committee members must have an equal male/female ratio. In accordance to the village fund regulations, the village fund committee holds the following responsibilities

1) Manage the fund, as well as investigate, regulate, supervise, and distribute the benefits of the fund to accord to and to complement the community's other existing funds. Determine rules, regulations, criteria or direction in managing the fund so that they comply with established rules and regulations. Make sure that rules and regulations receive positive agreement member meetings

2) Responsible for membership registrar—including local organizations as well as individual members in villages and urban communities

3) Research and document data and information on occupation, household industry, and local enterprises within respective village/community area; as well as research and document such data and information of the village's/community's other existing funds.

4) Consider the giving out of loans in compliance with the established rules and regulations. Loan applications may be for the following purposes,

- (1) Career development
- (2) Job creation
- (3) Income generation
- (4) Expense reduction
- (5) Household industry and/or small household businesses
- (6) Emergency expense

The size of a loan should not exceed 20,000 per person. Exceptions may be made for loan applications in excess of 20,000 baht, but not more than 50,000 Baht given the consensus of the committee. Loan applicants must open a saving account with the Government Savings Bank (GSB), or the Bank for Agricultural Cooperatives (BAAC) in order to receive the loan approved by the bank for their stated purposes. The loan is on a one-year term.

5) Responsible for legal works, as well as determine the conditions with regards to the repayment processes of the fund

6) Organize member meetings as agreed to, or call for a meeting in the case when at least one-fifth of the members request for a meeting. Meetings must be organized within 15 days of such request.

7) Responsible for the organization of accounts, and the distribution of benefits, interests, or income generated from the fund received from the committee in the full amount as had been allowed to take out in the case when the committee issue a letter or a final demand due to non-compliance by the fund committee, or due to mismanagement of the fund.

8) Other responsibilities as defined or assigned by the committee

2.5 Household Indebtedness and the Level of Development

Western development approaches often carry economic growth as their main objectives. Resources used for current a country's economic development are not limited to current investment capital and other resources. The utilization of future resources is considered as providing for development opportunities. Increases in the amount of resources used for developmental purposes are believed to also lead to economic growth and development. On the other hand, the utilization of future resources, as earlier agued, is also a form of debt creation. The risks such forms of debt creation may have for national development process; however, has not been carefully investigated.

Yunyong Thaicharoen et al., work (2004) provides a cross-countries comparison of the ratio of household debt to income level. The study finds that the ratio of household debt to income level in Thailand is low in comparison to other countries, especially among developed countries including the United States, the United Kingdom, Canada, Japan, Australia, and South Korea. Furthermore, household debt to national gross domestic product (GDP) ratio in Thailand in 2003 is merely at 33.2 percent—comparatively lower than those in the US and the UK, which are at 84.3 percent and 77.0 percent respectively. It is suspected that the level of household debt may, thus, be related, to a great degree, to development process. A question,

then, arises whether debt creation or the increase in household debt level is an inevitable condition in the process of national economic development.

In addition to the use of household debt to gross national product (GDP) ratio in measuring household debt level, Murphy's and Robert's work (1998), published in *Business Economics Journal* in 1998, further proposes the use of debt service to income ratio in determining expenditure both at the macro and micro levels. The debt service to income ratio can also be further used to forecast the increase in consumption expenditure.

CHAPTER 3

RESEARCH METHODOLOGY

This study utilized survey data collected from 334 rural households randomly selected from 30 villages, in 10 provinces which was also selected from 5 regions all over Thailand.

3.1 Data Sources

This research utilized data from a national survey research project, “the Impacts of Non-Budgetary Government Expenditure on Thailand’s Economic and Social Systems.” The project was conducted by the Economic Department of Chiang Mai University, with financial supports from the National Economic and Social Advisory Council’s working group on macro-economic and finance in 2007. Data collection was conducted by interviewing household heads or representatives from 334 rural households in 10 provinces—including Nakornpathom, Singburi, Chaing Mai, Tak, Khonkaen, Mahasarakham, Phuket, Phang Nga, Rayong and Prajeenburi—covering 5 region of Thailand.

3.1.1 Population and Sample Selection

3.1.1.1 Population

In this study, population referred to the total number of households in Thailand which, in 2006, is at 19 million (NSO, 2007).

3.1.1.2 Sample Selection

Studied sample was selected by stratified random sampling in accordance to the following steps,

- 1) Step 1: Dividing Thailand’s 76 provinces into 5 strata, or 5 regions, including

(1) Stratum 1: Central Region consisting of 20 provinces including Nontaburi, Pathumtani, Samutprakarn, Karnjanaburi, Chainat, Nakornnayok, Nakornpathom, Prajuabkirikun, Pranakornsriayutthaya, Petchburi, Rajburi, Lopburi, Samutsongkram, Samutsakorn, Srakaew, Saraburi, Singburi, Suphanburi and Angthong

(2) Stratum 2: Northern Region consisting of 17 provinces including Kampangetch, Chiang Rai, Tak, Nan, Nakhornsawan, Mae Hong Son, Phayao, Pichit, Pitsanulok, Petchaboon, Phrae, Lumpang, Lumpoon, Sukhothai, Uttaradit and Uthaitani

(3) Stratum 3: Northeastern Region consisting of 19 provinces including Kalasin, Khonkhaen, Chaiyapoom, Nakornpanom, Nakornratchasima, Burirum, Mahasarakam, Mookdaharn, Yasothorn, Roied, Laey, Sisaket, Sakonnakhon, Surin, Nongkhai, Nongbualampoo, Umnardjareon, Udonthani and Ubonrajathani

(4) Stratum 4: Southern Region consisting of 14 provinces including Krabi, Chumporn, Trang, Nakornsrihammarat, Narathiwat, Pattani, Phang Nga, Phuket, Yala, Ranong, Songkla, Satun and Suratthani

(5) Stratum 5: Eastern Region consisting of 5 provinces including Chonburi, Chantaburi, Trad and Prajeenburi

The categorization of strata by geographical regions as specified above was done to accord with the categorization by the National Economic and Social Advisory Council.

2) Step 2: 2 provinces were then selected from each of the 5 strata based on the size and per capita income. The first province was a largest one with high per capita income in the region. While the second one was of a small or medium in size with low or medium per capita income. Thus, 10 provinces were selected as following

(1) Stratum 1: Central Region include Nakornpathom and Singburi

(2) Stratum 2: Northern Region include Chiang Mai and Tak

(3) Stratum 3: Northeastern Region include Khonkhaen and Mahasarakam

(4) Stratum 4: Southern Region include Phuket and Pang Nga

(5) Stratum 5: Eastern Region include Rayong and Prajeenburi

3) Step 3: Cast lots were utilized in the random selection of 3 villages from each selected provinces. Therefore, 30 villages were selected as sample groups.

4) Step 4: 10 – 12 households were randomly selected from each of the village selected in Step 3—thus, resulting in 300 – 600 households.

3.2 Research Variables and Measurement

Table 3.1 Research Variables and Measurement

Variables	Measurement
Dependent Variables	
1. Total Household Expenditure	Total Household Expenditure by Month (Baht)
2. Consumption Expenditure	Household Basic Living Expenses (such as food, clothes, hydro and electric expenses) by Month (Baht)
3. Human Capital Expenditure	Household's Education Expenses by Month (Baht)
4. Immoral Expenditure	Immoral Expenses (such as alcohol, beer, cigarettes and gambling) by Month (Baht)
5. Debt Payment Expenditure	Household Installment Debt Expenses by Month (Baht)
6. Social Expenditure	Household Social Expenditure (such as funeral donation and housewarming gift expenses) by Month (Baht)

Table 3.1 (Continued)

Variable	Measurement
7. Expenditure for Future Returns	Savings and/or Social Insurance/Life Insurance/Health Insurance and/or Other Investment Capital by Month (Baht)
8. Social Value of Debt Creation	<p>Measured by 10 survey questions in accordance to the Likert Scale Type, divided into 10 levels, with 5 levels of negative answers (disagree) and 5 levels of positive answers (agree). This measurement scale, thus, ranges from 0 (debt creation is bad) to 100 (debt creation is good/normal). The 10 question items are as follow,</p> <ol style="list-style-type: none"> <li data-bbox="831 1061 1406 1151">1. I think that those who are indebted have credits <li data-bbox="831 1173 1406 1317">2. I feel that the ability to spend more than what you earn reflects good financial management skills <li data-bbox="831 1339 1406 1429">3. I believe that a sense of being indebted provides a motivation to work better <li data-bbox="831 1451 1406 1594">4. Having an appropriate level of personal loans will allow you to better manage your financial standing <li data-bbox="831 1617 1406 1760">5. I believe that no one has become rich without taking out loans or borrowing from someone else <li data-bbox="831 1783 1406 1872">6. If I need to buy something, but have no money, I will borrow someone else first.

Table 3.1 (Continued)

Variable	Measurement
	7. Even though I have an amount of savings, I try to avoid using it. Rather, I take loan offers.
	8. I don't think being indebted is a bad thing. Or else, the government would not establish the village fund project as well as other projects that encourage the taking out of loans.
	9. I should thank the bank and other financial institution for providing access to credits and loans. Or else I wouldn't be able to own a house or a car.
	10. I don't feel the difference between spending my regular income and spending personal loans, village fund loads, and other.
9 Happiness	Measuring the satisfaction level in the current living standard. Satisfaction is divided into 10 levels, with 1 as the lowest possible score (least happy) and 10 as the highest possible score (very happy)
Independent Variables	
1. Household Income	Real Household Income by Month (Baht)
2. Net Fixed Asset	Value of Fixed Assets (Baht) including debt-free land and capital assets able to exchange into the medium of exchange
3. Current Asset	Value of cash and other bank savings (Baht)

Table 3.1 (Continued)

Variable	Measurement
4. Outstanding Debt	Value of current outstanding debt both in the formal and informal system (Baht)
5. 1-year Outstanding Debt	Value of current outstanding debt both in the formal and informal system including the expected value of future loan in the next year (Baht)
6. Village Fund Outstanding Debt	Value of Village Fund's Outstanding Debt (Baht)
Controlled Variables	
1. Age of Household Head	The length of time that the person as the household head has lived by aging (Yrs)
2. Household Size	The aggregate number of household members (Persons)
3. Child Dependency Ratio	The number of household members below 20 years old in comparison to the aggregate number of household members
4. Old Age Dependency Ratio	The number of household members more than 60 years old in comparison to the number of all household members
5. Motherhood Status with Child	The dummy variable which describe as :- If 0, then that household does not have a child If 1, then that household has a child
6. Age of Respondent	The length of time that the person as respondent has lived by aging (Yrs)
7. Gender or Sex of Respondent	The biological and physiological characteristics that define men and women. This dummy variable describe as :- If 0, then the sex of respondent is female If 1, then the sex of respondent is male

3.3 Data Collection and Statistical Analysis

3.3.1 Questionnaire as a data collecting tool comprised of 3 parts as follows,

3.3.1.1 Part 1: Demographic Data comprised of general information of family members such as gender, age, religion, education, occupation, and income

3.3.1.2 Part 2: Income and Household Expenditure Data comprised of income sources, composition of household expenditure, and household assets

3.3.1.3 Part 3: Household Debt Status Data comprised of current debt level (both in the informal and in the formal sectors), tendency to create more debt in the near future, debt creation decision making, utilization of indebted resources, reasons for debt creation, as well as norms and attitudes towards debt creation, and happiness in present living standards

3.3.2 Statistical Techniques

3.3.2.1 Descriptive Statistics were used to describe general features of important variables including percentage, average, frequency distribution, and standard deviation.

3.3.1.2 Statistical Inference, by multiple regression technique, was used to examine the relationships between independent variables and dependent variables

Data analysis were done in the following order,

1) Testing analytical models in accordance to all aspects of research frameworks

2) Summarization of research results in order to satisfy research objectives in a comprehensive manner, as well as to propose policy suggestions.

3.4 Analysis Models

The study on the conditions of indebtedness and happiness level of people at the grassroots level was done on the conditions for debt creation and expenditure patterns of Thailand's rural households. Data from 334 households sample group was used to represent the whole of Thailand's rural households. In addition to debt creation and expenditure patterns, this study also attempts to define the meaning of happiness and its value to Thailand's rural households. This research was done in accordance to the following models,

3.4.1 Explanatory Model for Household Expenditure

This research defines the explanatory framework for household expenditure into 6 models in order to explain the different categories of expenditures. In addition the independent variables of each category would lead to different statistical impacts

3.4.1.1 Independent variables include controlled variables and testing variables

1) Controlled variables included household factor variables

(1) Household factor variables include

- Household size
- The age of household heads
- Child dependency ratio as the number of household members below 20 years old in comparison to the aggregate number of household members
- Old age dependency ratio as the number of household members more than 60 years old in comparison to the number of all household members
- Motherhood status with child as dummy variable
 - If 0, then that household does not have a child
 - If 1, then that household has a child

2) Testing variables are comprised of 2 parts including income and asset variable, and debt variables, which according to Godwin (1998) and Brayant (1990) are spending resources

(1) Income and Asset Variables included,

- Current income
- Net permanent asset = land + capital – debt
- Current asset = cash, bank savings, and other forms of

savings

(2) Debt variable included,

1-year outstanding debt = current outstanding debt + expected debt in the next year

3.4.1.2 Dependent Variables included

- 1) Household Consumption Expenditure
- 2) Human capital expenditure
- 3) Immoral expenditure
- 4) Debt payment expenditure
- 5) Social expenditure
- 6) Expenditure for future returns (Capital Expenditure)

Utilizing 6 equations as follows,

1) Household Consumption Expenditure = f (household size, age of leading household member, child bearing status, child dependency ratio, old age dependent ratio, household income, household's net assets, household's current assets, and 1-year outstanding debt)

2) Human Capital Expenditure = f (household size, age of leading household member, child bearing status, child dependency ratio, old age dependency ratio, household income, household's net assets, household's current assets, and 1-year outstanding debt)

3) Immoral Expenditure = f (household size, age of leading household member, child bearing status, child dependency ratio, old age dependency ratio, household income, household's net assets, household's current assets, and 1-year outstanding debt)

4) Debt Payment Expenditure = f (household size, age of leading household member, child bearing status, child dependency ratio, old age dependency ratio, household income, household's net assets, household's current assets, and 1-year outstanding debt)

5) Social Expenditure = f (household size, age of leading household member, child bearing status, child dependency ratio, old age dependency ratio, household income, household's net assets, household's current assets, and 1-year outstanding debt)

6) Expenditure for future returns = f (household size, age of leading household member, child bearing status, child dependency ratio, old age dependency ratio, household income, household's net assets, household's current assets, and 1-year outstanding debt)

Using multiple regression technique, the 6 models were tested.

3.4.2 Explanatory Model for Populist Policies and Debt Creation Norm

3.4.2.1 Independent variables included controlled variables and testing variables

1) Controlled variables included household factor variables which included age and gender of survey respondents

2) Testing independent variables including satisfaction with the government's populist policies and village fund's outstanding debt variable

3.4.2.2 Dependent variable included norms about debt creation = scoring measurement representing a view that debt creation is a norm on the levels of 0 – 100

Utilizing the following testing equation

Debt Creation Norm = f (age of respondent, gender of respondent, satisfaction with the government's populist policies, and village fund's outstanding debt)

After testing the models using multiple regression technique, two further tests were done by substituting the village fund's outstanding debt independent variable with first, current outstanding debt, and second with 1-year outstanding debt

3.4.3 Explanatory Model for Happiness

3.4.3.1 Independent variables included controlled variables and testing variables

1) Controlled variables included personal and household basic characteristics

(1) Personal basic characteristic variables are collected from respondent's data including age and gender

(2) Household basic characteristic variables included the size of a household, child dependency ratio, old age dependency ratio, current assets (cash, bank savings, and other forms of savings)

2) Testing variables at the household level included

(1) 1-year outstanding debt = current outstanding debt + expected future debt in the next year

(2) Moral expenditure = total expenditure – immoral expenditure

(3) Immoral expenditure = spending on raffles, gambling, alcohol, cigarettes, and debt installments

(4) Moral working income = work salary excluding transferred money

3.4.3.2 Dependent variables included happiness, which is the measurement of happiness at an individual level, implies in the survey question, “how would you rate your current level of happiness?” which ranks happiness into 10 levels (from 1-10; with 10 as highest happiness level, and 1 as lowest happiness level). This question is designed to measure the satisfaction level of present living standards of respondents.

Utilizing the following testing equation,

Happiness = f (respondent's gender, respondent's age, household size, child dependency ratio, old age dependency ratio, household's current asset, moral income earnings from work, moral expenditure, immoral expenditure, 1-year outstanding debt)

After testing the model using the multiple regression technique, 2 further tests are done by substituting the 1-year outstanding debt independent variable with first current outstanding debt, and second, village fund's outstanding debt.

CHAPTER 4

HOUSEHOLD ECONOMIC STATUS IN THAILAND

In comparison to Thailand's other regions, households in the Northeastern region had the lowest average income level. As shown in Table 4.1, the Northeastern region had the average household income level of 7,765 Baht/month in 2000, followed by the Northern region, which had the average household income level of 8,652 Baht/month. The sequence remained unchanged in 2006—with the Northeastern region having an average household income level at 11,815 Baht/month, followed by the Northern region at 13,146 Baht/month.

Table 4.1 Average Household Income Per Month by Regional Work Locations
2000 – 2006

Year	2000	2001	2002	2004	2006
Average Income Per Month (Baht)	12,150	12,185	13,736	14,963	17,787
1) Bangkok and 3 adjacent provinces	25,242	24,365	28,239	28,135	33,088
2) Central Region	13,012	12,807	14,128	16,355	19,279
3) Northern Region	8,652	8,930	9,530	10,885	13,146
4) Northeastern Region	7,765	8,281	9,279	10,139	11,815
5) Southern Region	11,186	10,914	12,487	14,469	18,668

Table 4.1 (Continued)

Year	2000	2001	2002	2004	2006
Monthly Working Income	70.4	70.5	71.6	72.3	72.7
To Total Income Ratio					
(Percentage)					
1) Bangkok and 3 adjacent provinces	77.3	78.0	76.8	78.1	77.7
2) Central Region	74.5	73.9	75.9	76.4	76.9
3) Northern Region	64.2	65.4	68.0	68.5	66.8
4) Northeastern Region	57.2	57.8	60.6	61.2	62.2
5) Southern Region	74.4	74.3	74.3	74.8	77.8

Source: The National Statistical Office, 2000-2006.

The high level of poverty in the Northeastern region was not only reflected by income factors, but also by the income earned. Considering working income to total household income ratio, which, in comparison to Thailand's other regions, was lowest—at 57.2 percent in 2000 and 62.2 percent in 2006. In the same manner as the above income factors, the ratio of income earned by working to total household income in the Northern region closely followed those in the Northeastern region remaining at 64.2 percent in 2000 and at 66.8 percent in 2006. Other than these two regions, Thailand's other regions all had the income earned by working to total household income ratios of higher than 74 percent. Table 4.1, thus, shows the persistence of poverty in the Northeastern and the Northern regions. Consumption expenditures were reliant on other sources of income, including government's loans through various policy channels, as well as loans from expatriated family members. Without such sources of income, it may be the case that income levels in the Northeastern and the Northern regions are ranked even lower than those in the country's other regions resulting from the unbalanced expenditure to income ratio.

Proposition may be further made with regards to the negative relationship between income level and the level of debt creation. From the above analysis, more than in other regions, households in the Northeastern and the Northern regions remain in poverty due to low income levels, thus leading to the reliance on other sources of income in addition to income earned by working. In support of such proposition, Table 4.2 shows that the Northeastern region had the highest number of indebted households, which was at 4.44 million households in 2006, as well as the highest average debt level, at 101,882 Baht per household. In the same manner, the Northern region had the second highest number of indebted households, at 2.41 million households, and the average debt level of 114,201 Baht per household.

Table 4.2 Number of Indebted Household and Average Household Debt by Sources of Loan by Region 2006

Sources of Loan	National	Bangkok and 3 Adjacent provinces	Central Region	Northern Region	Northeastern Region	Southern Region
Aggregate Number of Indebted Household	11,626,300	1,216,700	2,118,400	2,413,300	4,444,100	1,433,800
Indebted Household Ratio (Percentage)	61.2	n/a	n/a	n/a	n/a	n/a
Number of Indebted Household in the Formal Section at Minimum	6,354,594	588,603	1,097,448	1,256,394	2,783,893	628,256
Number of Indebted Household in the Formal Section at Minimum to Total Indebted Household Ratio (Percentage)	54.7	48.4	51.8	52.1	62.6	43.8
Number of Indebted Household in the Informal Section at Minimum	1,682,990	284,247	392,379	257,675	480,549	268,139
Number of Indebted Household in the Informal Section at Minimum to Total Indebted Household Ratio (Percentage)	14.5	23.4	18.5	10.7	10.8	18.7
Average Household Debt Level (Baht)	116,585	155,212	113,475	114,201	101,882	114,179

Source: The National Statistical Office, 2006.

According to Table 4.2, the aggregate number of indebted household (National column) was at 11.6 million household, which equal to 61 percent of the aggregate number of households in Thailand. Furthermore, it indicated that more than 14.4 percent of all indebted households still relied on credit access in the informal sector

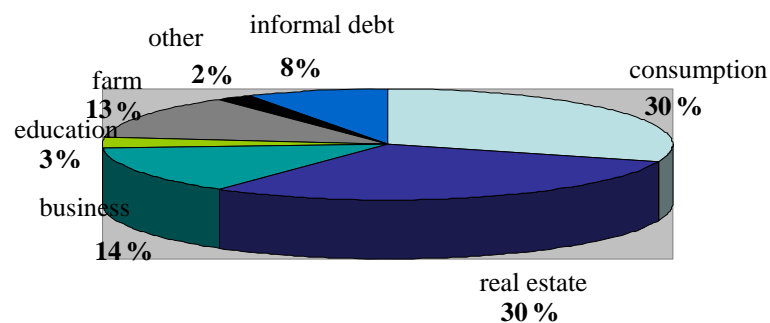


Figure 4.1 Composition of Aggregate Household Debt

Source: NSO – BOT SES 2006 Q4.

According to Figure 4.1 which shows the composition of aggregate household debts. The aggregate household debt was spent on consumption as much 30 percent. Whereas, business investment, agricultural activities, and education account were spent for only 14 percent, 13 percent, and 3 percent respectively. Though indebted consumption expenditure can, to a certain extent, stimulate the economy, it did not last in the long run as unlike investment expenditure, consumption expenditure, which generated only a small amount of economic multiplier, did not lead to capital accumulation in the economy.

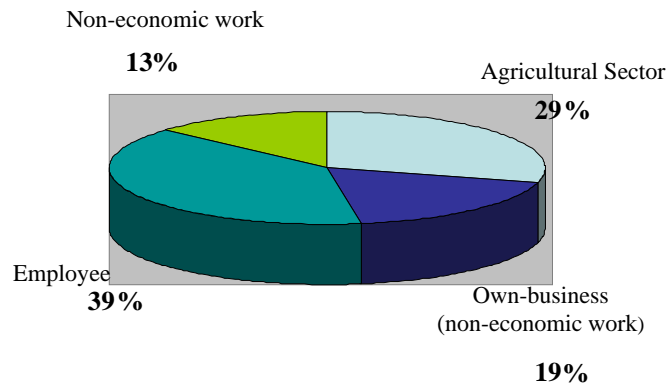


Figure 4.2 Indebted Household by Household Economic and Social Status 2006

Source: The National Statistical Office, 2006.

According to Figure 4.2, the aggregate number of indebted household, as high as 29 percent, or 3.36 million households, were from the agricultural sector while 19 percent, or 2.14 million households, operated their own business (non-agricultural).

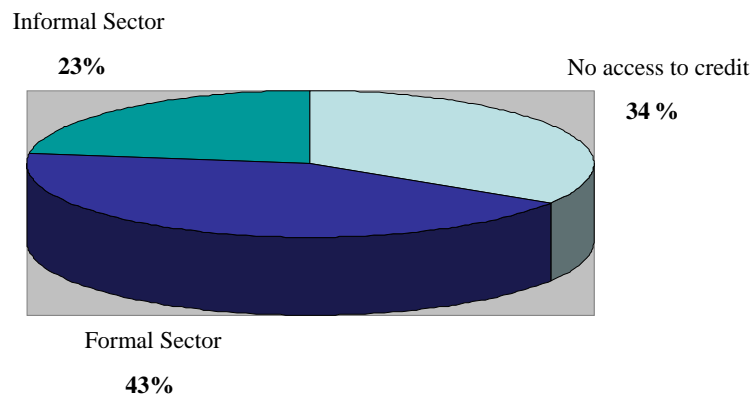


Figure 4.3 Household Credit Access Structure

Source: NSO – BOT SES 2006Q4.

The structure of household credit access as shown in Figure 4.3 illustrates that 34 percent of the aggregate number of households had no access of credit. This percentage explained the popularity of the government's populist policies, especially the Village Fund

project. Among people at the grassroots level, the percentage represented accessibility to a credit system. Forty three percent of the aggregate numbers of households had access to credit in the formal sector including financial institution credit system, cooperative credit system, credit card access, and access to personal loans. Finally, the other 22 percent of the aggregate number of households was still relied on credit accesses in the informal sector.

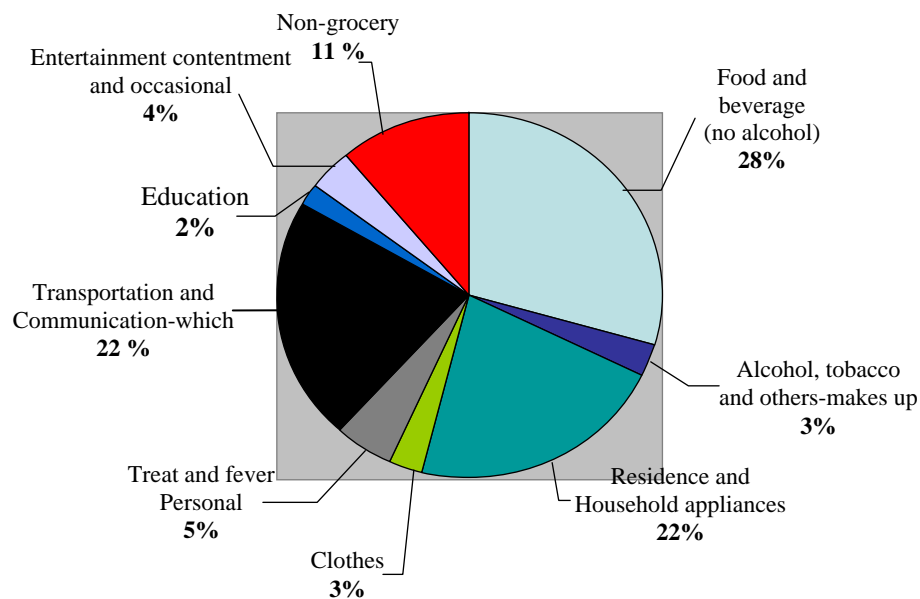


Figure 4.4 Household Expenditure by Expenditure Category 2006

Source: The National Statistical Office, 2006.

According to household consumption expenditure data as shown in Figure 4.4, the 3 highest expenditure ratios were food and beverage (non-alcoholic), residence and household appliances, and transportation and communication with the ratios of 33.2, 24.5, and 24.3 percent respectively. Voluptuous expenditure comprised of spending on alcohol, tobacco, and others—makes up were at 3 percent. Which was higher than education expenditure, that was the lowest rank at a mere 2.2 percent of aggregate household expenditure.

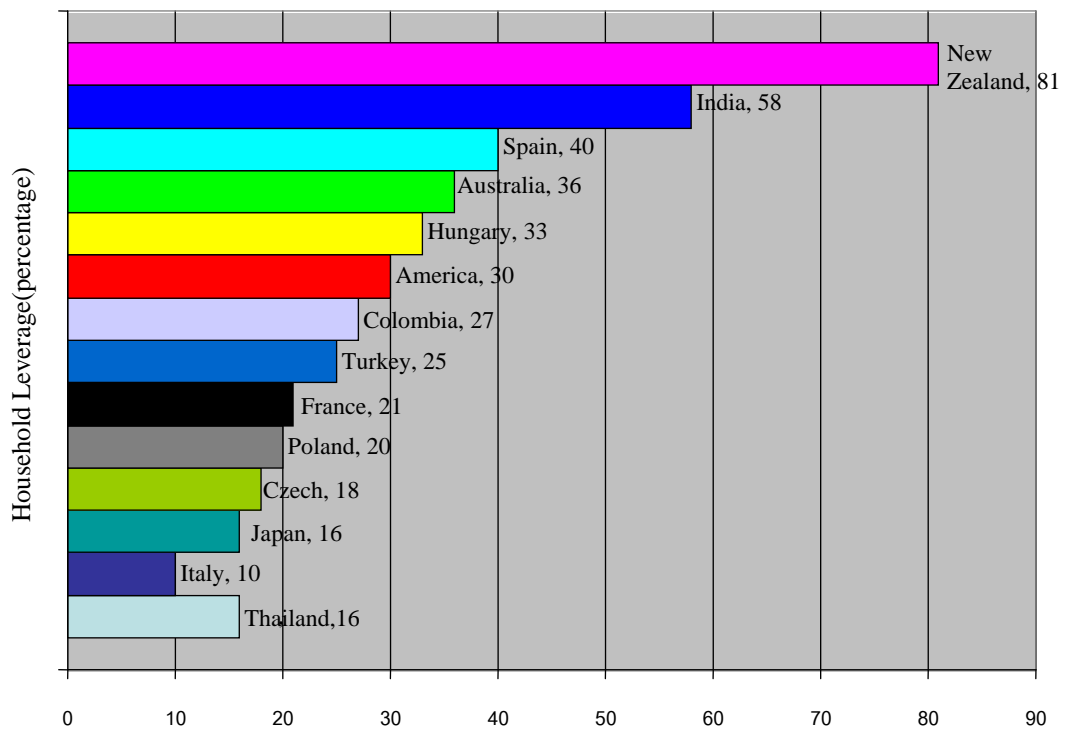


Figure 4.5 Liabilities to Assets Ratio (Household Leverage) Household Financial Leverage is Defined as Ratio of Total Debt to Total Assets

Source: CEIC, IMF Staff calculations based on Data from Central Bank, NSO.

Note: Data for Columbia, India and Japan as of end 2004 , Thailand as of end 2006.

According to Figure 4.5, it shows the household leverage ratio, defined as the ratio of total debts to total assets. Thailand's household leverage ratio was still low in comparison to those in other countries. Only higher than that of Italy's, which was at 10 percent, Thailand's household leverage ratio was at 16 percent. However, it was found that while Japanese household leverage ratio was equal to that of Thailand, Japan was 20 years ahead of Thailand in terms of development level. Thus, following initial analysis by comparing development level with a developed country like Japan, it was proposed that Thailand would have a higher household-debts-to-assets ratio. Debt crisis was starting to appear in developed countries such as New Zealand and Australia. Which have the household leverage ratio of 81 percent and 36 percent respectively. Today, the governments in those developed nations were attempting to reduce the growth rate of household debts. Despite the fact that some developed

countries had higher household-debts-to-assets ratios than Thailand, debt problems were controllable as long as household income level was adequate for debt payments. For instance, even though the majority of households in New Zealand were in the agricultural sector, facing a high debt level, the financial resources were made available through a mechanism of advance transactions of agricultural production. Thailand, however, lacks such effective mechanism to provide supports for farmers and households in the agricultural sectors who, as a result, face high level of debt with low payment possibility.

Table 4.3 Farmer Debt Registration Assistance Request

No.	Creditors	Cases	Accounts	Capital
1	Office of the Civil Service Commission (OCSC)	8,166	9,029	510,046,429.03
2	Bank for Agriculture and Agricultural Cooperatives (BAAC)	202,306	290,670	60,164,808,810.94
3	Commercial Banks	15,742	18,844	20,382,712,385.04
4	Cooperatives	111,062	144,238	10,081,570,523.05
5	Juristic Persons	16,857	19,177	9,220,481,923.00
6	Others	12,663	14,315	644,330,730.02
	Total	366,796	496,273	101,003,950,801.07

Source: Farmer Rehabilitation Development Fund, 2008.

According to Table 4.3, more than 370,000 of Thai farmers were facing critical debt crises, and were requesting the assistance of the Farmer Rehabilitation Development Fund as their lands in the process of being expropriated, thus, they were

no longer able to pay for their debts. Thus, a large number of Thai households were facing a situation of inadequate income to expenditure ratio, especially those in the agricultural sector in rural Thailand. The volatility and the low prices of agricultural products mean financial losses, Thai farmers, then, became reliant on debt creation. The more fortunate groups of farmer were availed with accesses to the credit system in the formal sector, such as the Bank for Agriculture and Agricultural Cooperatives (BAAC). However, many remain unfortunate were not provided such accesses, and thus, were reliant on credit accesses in the informal sector. Which the interest rate was extremely high as much as 20 percent or higher than that in the formal sector. In addition to the low prices of agricultural products, Thai farmers also faced high risk of natural disasters such as draught, flood, and windstorm. Facing with natural disasters, farmers were forced to re-invest or re-start the whole work processes. New loans, thus, need to be taken out leading to losses in profit earned. Such cycle of problems lead to the un-ending accumulation of debts. Unlike farmers in most developed countries, Thai farmers were not socially respected, and were not provided with the essential social safety nets that would allow them to enjoy a better standards of living.

CHAPTER 5

RESULTS AND DISCUSSION

5.1 Sampled Household Characteristics

The majority (84.1 percent) of household heads of 334 sample households were males. About one half of them (52.1 percent or 174 members) finished elementary education. For child dependent's highest education level, data in Table 5.1 shows that Education levels of child dependencies were higher than that of the household heads. For example, 97 households or 29 percent of the children finished secondary education, 21.6 percent finished bachelor degree, and so on. Therefore, it can be said that most households view education as an important factor.

With regards to the number of child dependencies per household, it was found that 129 households, or 51 percent had 2 child dependencies; and 84 households, or 33.2 percent had 1 child dependency. For household members, most of the households, i.e., 119, or 35.6 percent had 4 members. The data collected with regards to various household factors inferred that while modernization processes had led to the reduction in the number of child dependencies as well as the reduction in household sizes. Households were paying most attention to the education of their child dependencies. In compliance to Caldwell's (2001) Intergeneration Wealth Flow Theory, children are representatives of their parents' status in the society. Following such, then, wealth should be transferred from parents to child. Thus, modern households tend to have fewer child dependencies, most of them receiving higher level of education than their parents.

Table 5.1 Total Amount, Percentage, and Percentage Distribution by Household Characteristics

Characteristics	N	Percentage	Average
1.Number of Sampled Household	334	100	
2.Household Factors			
2.1 Household Size			3.57
1 member	18	5.4	
2 members	49	14.7	
3 members	81	24.3	
4 members	119	35.6	
5 members	46	13.8	
6 members	21	6.3	
Missing	0	0	
2.2 Sex of Household Heads			
2.2.1 Male	281	84.1	
2.2.2 Female	47	14.1	
Missing	6	1.8	
2.3 Age of Leading Household Heads			50.7
2.4 Education of Household Heads			
2.4.1 Less than elementary	1	0.3	
2.4.2 Elementary	174	52.1	
2.4.3 Secondary/Professional Certificate	91	27.2	
2.4.4 Diploma/Advanced Professional Certificate	12	3.6	
2.4.5 Bachelor Degree	18	5.4	
2.4.6 Higher than Bachelor Degree	3	0.9	
Missing	35	10.5	

Table 5.1 (Continued)

Characteristics	N	Percentage	Average
2.5 Number of Child Dependents			1.43
None	78	23.4	
1 Child Dependent	84	25.1	
2 Child Dependents	129	38.6	
3 Child Dependents	30	9	
4 Child Dependents	8	24	
5 Child Dependents	2	0.6	
Missing	3	0.9	
2.6 Child Dependents' Highest Education Level			
2.6.1 No Child Dependents	78	23.4	
2.6.2 Less than elementary	0	0	
2.6.3 Elementary	52	15.6	
2.6.4 Secondary/Professional Certificate	97	29	
2.6.5 Diploma/Advanced Professional Certificate	13	3.9	
2.6.6 Bachelor Degree	72	21.6	
2.6.7 Higher than Bachelor Degree	5	1.5	
Missing	17	5.1	
2.7 Child Dependency Ratio (Below 20 yrs)			0.22
2.8 Old age Dependency Ratio (Above 60 yrs)			0.11

In addition, data in Table 5.1 shows that the average age of the household heads was 50.7 years old. This implies that the size of modern households becomes smaller, households were increasingly becoming single-family households; thus, the lower age of household heads. While the old age dependency ratio (more than 60 years old) is at the average of 11 percent, the child dependency ratio (lower than 20 years old) is at an average of 22 percent.

With regards to household expectations, Table 5.2 shows that the majority of households express some levels of doubt towards the future economic situations. Further, as most rural households were in the agricultural sector, it is not surprising that as many as 259 households, or 77.5 of the sample households, did not expect to have increasing income, There were only 2-3 percent having annual income growth. It should, however, be noted that the economy at the time of the survey (March 2008) was in better conditions than present situation. A low level of doubts was only the beginning signs. However, the majority of sample households identified themselves as having insufficient or just sufficient income for expenditure. Only 54 households, or 16.2 percent, were found to have enough income for expenditure and savings.

Table 5.2 Rural Household Expectations of Future Economic Status

Items	N	Percentage
Number of sampled households	334	100
Future Income Expectation		
No income growth	128	38.3
2-3% average annual income growth	131	39.2
4-5% average annual income growth	32	9.6
5-6% average annual income growth	3	0.9
7-10% average annual income growth	16	4.8
11-20% average annual income growth	4	1.2
More than 20% average annual income growth	11	3.3
Missing	9	2.7
Future Asset Expectation		
Assets have tendency to decline	16	4.8
Assets have tendency to remain the same	148	44.3
Assets have tendency to increase	166	49.7
Missing	4	1.2
Sufficiency of Income		
Insufficient for expenditure	126	37.7
Sufficient for expenditure	151	45.2
Sufficient for expenditure and savings	54	16.2
Missing	3	0.9

5.2 Household Expenditure

Sample households survey results with regards to the different expenditure categories indicated that Thailand's rural households with an average household size of 3.56 members (with a standard deviation of 1.24 members) had an average monthly aggregate expenditure of 14,973.47 Baht (with a standard deviation of 12,373.43 Baht) which is comprised with various expenditure categories as shown in Table 5.3.

According to Table 5.3, sample rural households had a monthly average consumption expenditure of 8,720 Baht, which composes the highest portion of all expenditure categories. Other expenditure categories were ranked as follow, (1) Immoral expenditure such as alcohol, beer, tobacco, and gambling ($\bar{X} = 2,979.41$, $S.D. = 3,922.56$), and as many as 72 percent of rural households had expenditure in this category (2) expenditure for future returns such as savings, social insurance, life insurance, and health insurance ($\bar{X} = 2,659.78$, $S.D. = 4,572.43$), an expenditure category present in 83.5 percent of rural households (3) debt payment expenditure ($\bar{X} = 2,447.20$ $S.D. = 3,688.00$) present in 65 percent of rural households (4) human capital expenditure ($\bar{X} = 1,107.91$, $S.D. = 2,797.52$) present in about half of sample rural households (5) social expenditure ($\bar{X} = 614.30$, $S.D. = 1,007.44$), which is present in almost all rural households

Table 5.3 Average, Standard Deviation, Minimum, and Maximum for Each Category of Household Expenditure

Expenditure Category	N	Percentage	Average	Standard Deviation	Minimum	Maximum
Consumption	334	100	8719.98	8325.62	450.00	91447.00
Human Capital	174	52.1	1107.91	2797.52	0.00	38000.00
Immoral Expenditure	241	72.2	2979.41	3922.56	0.00	25000.00
Debt Payment	217	65.0	2447.20	3688.00	0.00	25000.00
Social Expenditure	308	92.2	614.30	1007.44	0.00	10000.00
For Future Returns	279	83.5	2659.78	4572.43	0.00	40167.00

In order to examine the 1st research hypothesis with regards to the influence of debt on the household expenditures, 6 multiple regression models were used to study the different types of household expenditures. The first model studied factors that influence total household consumption expenditure. The other five models are as follow (i) Model 2, analysis of factors that influence human capital expenditure (ii) Model 3, study of factors that influence immoral expenditure (iii) Model 4, study of factors that influence debt payment expenditure (iv) Model 5, analysis of factors that influence social expenditure, and (v) Model 6, study of factors that influence expenditure for future returns. Results of the analysis are shown in Table 5.4.

Study results of Model 1 showed the overall picture of household consumption expenditures. Statistical multiple regression data analysis found that 3 independent

variables including household sizes, current household income, and 1-year total debt expectation had important statistical implications in defining the level of household consumption expenditure. In comparing the weight of influences of each variables on the changes in household expenditure level, it was found that given that other independent variables were constant, the weights of the three independent variables on the changes in household expenditure level were ranked from highest to lowest as follow (1) current household income (Beta = 0.295, $p < 0.01$) (2) household size (Beta = 0.166, $p < 0.05$), and (3) 1-year total debt expectation (Beta = 0.111, $p < 0.05$). These independent variables were thus considered to have positive relationship with dependent variables. As household sizes and household incomes increase, household consumption expenditure also increases. The reason for such positive relationship could be interpreted that increasing household size lead to increasing the volume of consumption, the increasing household income lead to the consumption of higher quality goods. In addition, debt variables were to be further considered. Other independent variables did not show important statistical implications. According to consumption theories, current household income is a variable that has important implications on household consumption expenditure. This study, thus, reaffirmed such proposition. Model 1 found that current household income had direct positive relationship with household expenditure. However, it is interesting to note the study results of Model 3 and 4 that current household income did not have any influences on immoral expenditure (such as gambling, alcohol, beer, and tobacco), or on debt payment expenditure. Furthermore, it was found that debt variable (1-year total outstanding debt) had important statistical implications on immoral expenditure and debt payment expenditure in the same direction. Study results from Model 1, 2, 5, and 6 implied that consumers were still somewhat reasonable, when spending their own income, in making spending decisions, whether they were on consumption, household members' education, other social spending, as well as expenditure for future returns. Current household income was shown to have no important implications on immoral expenditure shown in Model 3, and on debt payment expenditure shown in Model 4.

In the same fashion as is in business, the cost of equity is normally higher than the cost of debt. Thus, the cost of household income earned from working is higher than the cost of borrowed resources. Therefore, household income earned from work was likely to be spent on beneficial activities with future returns. As shown in Model 2, 5, and 6, household income variables were positively correlated to, and have important statistical implications on other beneficial expenditure categories.

Table 5.4 Standardized Regression Coefficients of Factors Influencing the Various Categories of Household Expenditure

Independent Variables	Models					
	1	2	3	4	5	6
	Consumption Expenditure	Human Capital Expenditure	Immoral Expenditure	Debt Payment Expenditure	Social Expenditure	Expenditure for Future Returns
Personal and Household Factors						
Age of Household Head	-0.113	0.141*	-0.103	-0.078	0.121	-0.007
Household Size	0.166**	-0.043	0.047	0.003	0.114	0.033
Motherhood Status						
With Child (Reference group: Without Child)	-0.007	0.001	0.089	0.115	-0.096	0.071
Child Dependency Ratio	-0.077	0.332***	-0.099	-0.064	-0.060	0.031
Old Age Dependency Ratio	-0.058	-0.065	-0.077	-0.053	-0.090	-0.060
Income and Asset Factors						
Current Household Income	0.295***	0.254***	0.050	0.044	0.190***	0.342***
Net Fixed Asset	0.009	-0.116*	-0.003	0.003	-0.105	-0.051
Current Asset	0.070	-0.067	-0.024	-0.023	0.065	0.024
Debt Factor						
R Square	0.126	0.130	0.092	0.082	0.068	0.145
F – statistic	4.766***	4.927***	3.027***	2.930***	2.401**	5.583***
N	306	306	306	306	306	306

Notes: *Significance level of 0.10 **Significance level of 0.05 ***Significance level of 0.01

According to Bryan's work (1990), a point was clearly made that debt could be considered as a tool to increase household's current consumption resources. Additionally, Fernandez-Convyedo (2002) had argued that as consumers were availed with accesses to the credit or loan system, their consumption behaviors would be subjected to a lesser degree of reasonableness. Following the above two propositions, and following Model 1's test results, it was established that 1-year total outstanding debt had positive relationship with household expenditure. As the level of debt increased, household expenditure also increased. Thus, it can be concluded that in addition to regular household income, loans had been financed in order to adequately satisfy the increases in household expenditure. More importantly, loans taken out for consumption purposes were a variable with important implications on household expenditure in rural Thailand. Thus, Keynes's consumption theory (1936) stating that the level of household expenditure was positively correlated to the level of household income was invalid. It was clear that debt variable was another important variable which has important implications on the level of consumption expenditure. In accordance to Bryant's work (1990), debt, in addition to household income, should be considered as another source of spending resources. Thus, short-term debt expectation also had important implications on the level of household expenditure, as it served to assure an increase in spending resources in the near future.

When analyzing the different categories of household expenditure, test results from Model 3 showed that debt variable, which was 1-year total outstanding debt, had an important statistical implication on the level of immoral expenditure. Furthermore, it was statistically shown in Model 4 that indebtedness was likely to persist in rural Thailand. It was found that new debts were created in order to pay for old outstanding debts, thus resulting in an un-ending cycle of debt creation. Without appropriate policies and efficient implementation by the government to solve such cyclical problems, the cycle of debt accumulation and poverty were likely to remain rural Thailand's ugliest problems.

Debt can also be considered as the utilization of future income. The fact that the level of debt has no important statistical implications on expenditure for future returns, as shown in Model 6, further reinforces the proposition that many rural communities in Thailand are still mainly focused on present living conditions, rather

than worrying about the future. Future resources are regularly utilized in order to satisfy present needs and desires. Such inconsideration of future returns such as savings underpins the fact that most rural households still do not see the importance of present expenditure for future returns. Future conditions remain at a distance, thus, are often overlooked. It is, then, not unexpected that the level of debt creation in rural Thailand remains high. Because the future is too far in a distance, resources are used at an extensive level to satisfy present needs and desires. Excuses are often made with regards to the lack of or the low level of savings that present available resources are still inadequate for present consumption needs. However, resources are often spent on alcohol, beer, and tobacco. Such voluptuous expenditure feeds directly into the normalization of attitudes towards debt creation, and thus, the increase in debt level, and the un-ending cycle of debt creation.

Statistical tests in Model 2 show interesting results finding that net fixed assets have important negative implications on human capital expenditure, which is education expenditure for household members. As tangible accumulated capital increases, rural households often decrease the level of expenditure on human capital accumulation. If rural households value their assets in the same manner, incoming resources would be unequally distributed among the different categories of assets. However, the negative correlation shows that because tangible capital accumulation is valued higher than human capital accumulation among Thailand's rural households; as the accumulation of tangible capital such as land increases, households are willing to reduce the amount of resources designated for human capital accumulation. This is so despite academic arguments that investment in human capital will be more beneficial to the economy as well as to the households in the future.

Given that personal, households, and assets factors are held constant, it can be concluded that debt is positively correlated in statistical manners to household consumption expenditure, immoral expenditure, as well as debt payment expenditure. On the other hands, the other 3 categories of expenditure—including human capital expenditure, social expenditure, and expenditure for future returns—do not have any important implications on household consumption expenditure.

5.3 Social Values of Debt Creation, Satisfaction with Populist Policies, and the Outstanding Debt to the Village Fund

The lowest unit in measuring the social value of debt creation in this study is 0, which reflects the sense that debt creation is a bad thing; and the highest unit of measurement is 100, which reflects the sense that debt creation is a normal financial activity. According to empirical data analysis as shown in Table 5.5, the average social value of debt creation measured from sample group is 39.70 (S.D. = 19.16), which reflects a tendency towards the sense that debt creation is a bad thing. When considering the results by age groups, changes in the average social value of debt creation among the different age groups appear. The age group of less than 30 years old has a higher average social value of debt creation than the age of more than 30 years old. Such difference suggests that people of the younger generations see debt creation as a normal financial activity. It is, however, interesting to note that the standard deviations for the social values of debt creation are quite high for all age groups. Thus, social values with regards to debt creation are diverse. It could be the case that a section of the rural population is starting to change their views about debt creation, especially among those who are less than 30 years old. This, however, should be subjected to further studies.

Table 5.5 Average and Standard Deviation for the Social Values of Debt Creation by Ages of Respondents

Age of Respondent	Average	Standard Deviation	Total
< 30	45.63	22.90	19
30-49	39.70	18.82	155
> 49	38.46	18.43	134
Total	39.70	19.16	308

As for households' outstanding debt to the Village Fund, approximately 49 percent of the cases studied had outstanding debt to the Village Fund with an average outstanding debt of 24,043.22 Baht (S.D. = 35,316.26 Baht). Satisfaction level with populist policies was quite high, with an average of 7.19 (S.D. 3.31), on the scale of 1 – 10, regardless of whether the respondents were from indebted households ($\bar{X} = 7.54$, *S.D.* = 2.05) or not ($\bar{X} = 6.85$, *S.D.* = 4.18)

In testing our second research hypothesis, which explores the correlation between factors related to populist policies and the social values of debt creation, it was found, as shown in Table 5.6, that when taking into consideration the independent testing variables in Model 1, satisfaction with populist policies and outstanding debt to the Village Fund were positively correlated to the social values of debt creation. Those with high levels of outstanding debt to the Village Fund or those with high levels of satisfaction with populist policies tended to have high social values of debt creation. Such finding corresponds to the established research hypothesis.

Trapped in the cycle of poverty, many of Thailand's rural households also face chronic debt problems. Despite heavy financial burdens, many realize that debt creation should be avoided unless inevitable. Such realization may explain the empirical test results of Model 2 and Model 3 showing that debt variables, including both outstanding debt and 1-year expected outstanding debt, were not correlated to the social values of debt creation, which negated the results of empirical tests of Model 1.

Table 5.6 Standardized Regression Coefficients of Factors Influencing the Social Values of Debt Creation of Household Members

Independent Variables	Models		
	1	2	3
	(Independent Debt Variable: Outstanding debt to the Village Fund)	(Independent Debt Variable: Outstanding Debt)	(Independent Debt Variable: 1-Year Debt Expectation)
	Beta	Beta	Beta
Personal Factors			
Sex of Respondent (Reference group: Female)	0.035	0.020	0.020
Age of Respondent	-0.065	-0.058	-0.055
Satisfaction and Debt Factors			
Satisfaction with Populist Policies	0.140**	0.151***	0.151***
Outstanding Debt to the Village Fund	0.098*	-	-
Outstanding Debt	-	0.048	-
1-Year Debt Expectation	-	-	0.051
R Square	0.033	0.026	0.026
F – statistic	2.568**	2.000*	2.026*
N	307	307	307

Note: * Significance level of 0.10,
 ** Significance level of 0.05,
 ***Significance level of 0.01

Throughout 2001-2006, Thailand's rural communities had, to a great extent, been excited by populist policies. One of the most important ones was the Village Fund Policy, which provided an initial funding of 1 million Baht for each village directly. The Village Fund provided uninsured accesses to funding to all village members. An acceptance to should be made with regards to the argument that the implementation of the Village Fund Policy had led to a tremendous increase in the level of debt among Thailand's rural households. The rural populations were very satisfied with the government's populist policies at the time. As people were increasingly satisfied, changes in their consumption behaviors were apparent. The normalization of debt creation expanded to a greater extent while voluptuous spending became a fashion. As the two mechanics synchronized—with the extensive degree of satisfaction with the government's populist policies, and the implementation of the Village Fund Policy as the flagship policy for grassroots-level credit access provision—social behaviors in rural Thailand saw tremendous changes. Rather than strengthening the already fragile section of the populations, these changes may greatly weaken Thailand's rural communities—both in economic and social terms.

5.4 Happiness

On the happiness level of household heads or household representatives measurement scale of 1 (least happy) to 10 (happiest), the average level of happiness of the household heads or household representatives was 7.6, with a standard deviation of 1.9, which was considered quite high.

Table 5.7 shows the data analysis for the testing of the third research hypothesis which inquires into the influences of debt, income sources, and moral spending on the happiness level of rural household members. All 3 models shown in the table find corresponding results. Given that personal, household and asset factors are held constant, both income and earnings from moral work, and moral expenditure are positively correlated to the level of happiness—with a significant statistical relationship of 0.10. On the other hand, the level of happiness and immoral expenditure are not statistically correlated.

As for the impacts of the different types of debt including 1-year expected outstanding debt in Model 1, outstanding debt in Model 2, and outstanding debt to the Village Fund in Model 3, on households' level of happiness, empirical tests show negative correlation, but with no important statistical implications, except for outstanding debt to the Village Fund, which has a significant statistical correlation of 0.10. Despite the same statistical correlation as legal income and expenditure, outstanding debt to the Village Fund has a lesser impact on happiness level.

The fact that outstanding debt to the Village Fund negatively influences personal happiness level shows that participation in the government's populist policies through the Village Fund project partly leads to the normalization of debt creation as credit access is easily provided. While a certain percentage of the fund is used towards basic consumption, a great amount of the fund is used for voluptuous expenditure as people were stimulated by consumerist and materialist values. Rather than utilizing the fund for investment purposes, the Village Fund was used to finance voluptuous spending. Thus, the Village Fund Policy is partly responsible for the increase in the level of household debt. With easy and uninsured credit access, as well as encouragement from the government, those among the rural populations who participated in the government's populist policies were not informed to prepare for the future burden of debt payments—thus, negative impacts on the level of happiness among the rural population.

Table 5.7 Standardized Regression Coefficients of Factors Influencing the Happiness Levels of Household Members

Independent Variables	Models		
	1 (Independent Debt Variable: 1-Year Total Outstanding Debt)	2 (Independent Debt Variable: Outstanding Debt)	3 (Independent Debt Variable: Outstanding debt to the Village Fund)
Personal Factors			
Sex of Respondent (Reference group: Female)	0.081	0.083	0.069
Age of Respondent	-0.165**	-0.166**	-0.154**
Household and Asset Factors			
Household Size	0.006	0.006	0.016
Child Dependency Ratio	-0.062	-0.064	-0.058
Old Age Dependency Ratio	0.053	0.055	0.046
Cash, Bank Savings, and Other Forms of Savings	0.067	0.069	0.064
Income Factors			
Moral Working Income	0.108*	0.107*	0.102*
Expenditure Factor			
Moral Expenditure	0.114*	0.116*	0.106*
Immoral Expenditure	0.044	0.030	0.041
Debt Factor			
1-Year Total Outstanding Debt	-0.004	-	-
Outstanding Debt Village Fund's	-	0.042	-
Outstanding Debt	-	-	-0.096*
R Square	0.070	0.071	0.078
F – statistic	2.205**	2.259**	2.505***
Df	305	305	305

Note: * Significance level of 0.10 ** Significance level of 0.05 ***Significance level of 0.01

It can, therefore, be concluded that study results correspond with the third research hypothesis with regards to the positive correlation between legal income and expenditure and the level of happiness among rural household members, given that personal, household, and asset factors are held constant. As for the correlation between indebtedness and happiness, relation only exists between outstanding debt to the Village Fund and happiness.

CHAPTER 6

CONCLUSION AND PUBLIC POLICY SUGGESTIONS

6.1 Study Result Conclusion

As a result of the past 5-6 years of Thailand's national development process, rural, or the so-called grassroots, communities have seen important social changes. One of the most apparent changes is the social value of debt creation—a financial activity which is now normalized. Rural Thailand's past attitudes towards debt creation, in the opinion of the author, can be reflected by the present social attitudes and behaviors of Laotians towards debt creation. Credit system is not accepted within the Laotian society. Transactions are mostly done through the use of cash. Such social behavior reflects a certain degree of financial safety net in the Laotian community as debt creation would lead to the un-ending cycle of poverty.

This research discovers a connection between changes in the social values of debt creation and the implementation of the government's populist policies with specific reference to the Village Fund Project. In addition to being an important factor which leads to the changes in the social values of debt creation, the Village Fund project also serves as a catalyst for the rapid increase in debt level in rural Thailand. Thus, despite that debt variables have a lesser influence on household expenditure in comparison to aggregate household income; debt still plays a significant role in influencing the pattern of expenditure in rural Thailand.

In-depth analysis further shows that household income is also spent on beneficial activities with future returns such as on human capital, savings, and personal investment. This, thus, reflects that for rural communities, household expenditure—whether financed by the formal or the informal sectors—has little value added for the economy in the long term as expenditure financed by debt not only has no correlations to beneficial spending, but further reinforces immoral expenditure such as gambling, alcohol, tobacco, and debt payments.

As the ultimate aim of development in accordance to the theory of sufficiency economy is happiness, Buddhist concepts of 'Karuhat' (layman) happiness can be considered in the attempt to determine factors which lead to individual happiness. One of the most significant factors that lead to the creation of happiness is legal expenditure variables. Corresponding to economic theories, the increase in spending will lead to an increase in consumers' benefits, which lead to the creation of happiness. Immoral expenditure, which includes spending on raffles, gambling, alcohol, tobacco, and debt payment, does not have impacts on the creation of happiness. Thus, it can be initially concluded that benefits on consumers, thus the creation of happiness, stand on the basis of legal expenditure. Following such then, income legally earned from working also leads to the creation of happiness. As income level rises, worries about future uncertainties decrease as individuals are more confident about their future living conditions. Most importantly, income that is legally earned from working do not come attached with worries, thus further reinforces happiness creation. Finally, this study finds that debt variables, or happiness from not being indebted in accordance to 'Karuhat' (layman) happiness, do not have important statistical implications on the level of happiness. This is due to the fact that today, debt still serves as an important tool for households to increase basic spending resources. Thus, study results show no significant statistical relations between debt variables and individual happiness. An important note should be made, however, with regards to the impacts of the government's populist policies, especially the Village Fund project, on the level of individual happiness. This study thus concludes that as a result of the government's attempt to stimulate debt creation through the implementation of populist policies, people's attitudes and behaviors towards debt creation have changed. Debt creation has become a normalcy among the Thai population. Not only are people ready to utilize the fund provided by the government through credits and loans, they are also ready to use those funds in an uncontrollable manner. Such, in the end, leads to a decrease in the level of individual happiness as unlike debt created for the purposes of investment or future returns, unreasonable and voluptuous spending behaviors mean a huge number of debt payment.

6.2 Public Policy Suggestions

The research on the debt status and happiness level of grassroots population is an attempt to find a solution to improve the Thai government's populist policies, especially those that provide the population with unrestricted and uninsured funding despite the good intentions of those policies to provide easy accesses to funding and credit systems and to allow them to be used as investment to raise income level, especially among the rural households. Furthermore, this study has attempted to find a solution that may lead to a transformation of social values, especially those on debt creation. Encouraging savings rather than debt creation, this study reflects Thailand's current economic situation being near a point of initial savings crisis. Finally, this study attempts to show that individual happiness among the rural households is in fact sustainable if delivered in according to the sufficiency economy theory. Following these findings, thus, this study proposes the following policy suggestions,

6.2.1 The Government Should Change the Ways it Implements Populist Policies, Especially the Village Fund Project.

Prior to the continuation of those policy implementations, the government should consider group-specific assistance. In addition, criteria should be established with regards to the terms of assistance, and the conditions for the use of the funds in order to change the present social values on debt creation. One reason is that the stimulation of debt creation for the purpose of goods and services consumption in accordance to the government's populist policies does not lead to an increase in households' happiness levels. On the opposite note, such increase in the level of household debt leads to a reduction of happiness levels. Furthermore, the easy-access to loans and credits provided by the fund which attracts a large group of the population is not a natural economic stimulus. Rather than having the needs to take out loans or search for financial assistance for basic living purposes, debt created as a result of the these populist policies often leads to voluptuous spending. It can be said that the government's populist policies serve as a catalyst for debt creation guise as an economic stimulus package. This leads to a decrease in the level of happiness, especially among the rural households.

This study further finds that criteria have not been established with regards to the terms of funding to make sure those provided with accesses to funding are really in need of financial assistance. The continuation of such policy implementation will have a negative impact on the social values with regards to debt creation in the future. As debt creation becomes a normalcy among a wider range of the rural population, it will increasingly become a dangerous obstacle for Thailand's path to sustainable economic growth.

6.2.2 The Government Should set as a National Agenda the Creation of Social Values on Savings Rather than on Debt Creation.

Thailand's savings statistics show a continual decline. Research shows a monthly average household savings to household income ratio of a mere 5.7 percent while debt level is rapidly increasing. Debt service to household income ratio is as high as 11.3 percent while 1-year aggregate debt is as high as 6.4 times the household income level. It is apparent that social norms and values in Thailand have tremendously changed. Debt has become a normalcy, and a regular part of income to be used for the purposes of goods and services consumptions.

6.2.3 Values and Importance of Education Should Rapidly be Made a Social Norm, Especially Among Thailand's Rural Households.

It has been established that household education expenditure is the society's most important capital accumulation as it represents an investment on human capital, the most important factor affecting the country's competitive competency in the long run. This study has found that a large number of Thailand's rural households unfortunately pay higher attention on the accumulation of tangible capital including land and buildings, rather than on human capital accumulation.

6.2.4 The Government Must Cease its Supports or Encouragements for Immoral Economic Activities or Businesses Such as Gambling and Raffles.

In addition to having a negative effects on the change in social values, it is found that household immoral expenditure does not in any sense lead to an increase in

individuals' levels of happiness. Rather, household legal expenditure is statistically shown to lead to an increase in the level of happiness among Thailand's rural households.

6.2.5 Finally, The Government Should Embark on Policy Implementations That Put a Focus on Income Creation Among the Country's Rural Households.

Instead of conveniently giving out money to the Thai people to be used on voluptuous activities with no economic value added, the government should rather encourage activities that will lead to career opportunities and income creation. Not only would they lead to a rise in the level of income among the rural households, thus a reduced gap in the rural-urban income distribution, they will also lead to a sustainable economic growth, and an increase in the level of happiness among the Thai population.

The author is of an opinion that an important factor that will lead to an increase in household happiness level is individual income legally earned from working, which will lead to reasonable spending behavior, more so than indebted income sources. As has been shown, consumers are more likely to spend their legally earned income in a reasonable and beneficial manner, especially on investment and savings.

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APPENDIX

No.....

**Questionnaire: The Impact of Thai government Fund policy in Economy and Social.
(Citizen)**

Explication:

This Closed questionnaire is a part of research in the topic of Household Expenditure, Debt and Happiness in the Rural Area by the Faculty of economic, Chiangmai University which is supported by Macroeconomic, Finance and Public finance, National Economic and Social Advisory Council. Thank you for your cooperation for filling out this questionnaire with your willingness and truth. Thank you.

Researcher

Data Collector's Name.....
Date.....

1. First name – Last name of

Interviewee.....

AddressCity.....Zip
Code.....

Phone number.....Email.....

2. Have you ever been a member of these following government's projects?

- Village and Urban Community Fund
- SML
- Debt Moratorium
- Securitization
- Community Bank Project
- Student Loan Project
- Low-cost housing project

Part 1: General Information

3. Family Positions

Householder Member Resident others.....

4. General Information of Family Members

First Name – Last Name	Relationship between Householder	Sex	Age (year)	Religion	Education	Occupation	Income (baht/Moth)
1.							
2.							
3.							
4.							
5.							
6.							

Remark: In case of the interviewee isn't householder, please fill the next part of questionnaire as a householder.

Part 2 : Income and Mammon

5. Monthly Family income..... baht
 () Agriculture.....

Baht

- () Worker / laborer/ employee baht
 () Mechanizations baht
 () Livestock..... baht
 () Employee/ government official..... baht
 () Pension baht
 () Interest/ bonus baht
 () Rental baht
 () Family member baht
 () Others (please specific) baht

6. Expenses

Description	Baht/ month	Baht/ year
Food and beverage		
Personal belonging		
Clothing		
Facility bill (electricity, water, phone etc.)		
Cell phone bill		
Traveling expenses		
Community Charge		
Drinking and smoking		
Lottery/ grambling		
Entertainment		
Health care		
Education		
Insurance		
Amortization		
Saving		
Others (please specific.....)		

7. Do your income cover the expense?
 Deficit Balance Saving
8. What do you think about your future income?
 Stability Increasing 2-3% per year Increasing 4-5% per year
 Increasing 5-6% per year Increasing 6-10% per year
 Increasing 11-20% per year Increasing more than 20% per year
9. what do you think about future income of all family members?
 Stability Increasing 2-3% per year Increasing 4-5% per year
 Increasing 5-6% per year Increasing 6-10% per year
 Increasing 11-20% per year Increasing more than 20% per year
10. Recently Family property

Land.....Rai Value per RaiBaht Total
value.....Baht
Debt landRai Value per Rai.....Baht Total
Value.....Baht
Real estateunit Valuebaht
Debtunit ValueBaht

Description	Baht
Cash	
Saving Money	
Bond	
Government Saving Bank Drawing	
Share	
Village Fund	
Time Deposit Account	
Saving Community	
Cooperative	
Agriculture Community	
Others (please specific.....)	

11. Personal property expectation
 Decreasing Invariant
Increasing
12. Family property expectation
 Decreasing Invariant
Increasing

Part 2: Debt Condition

13. Family 's Debt

Source	Amount (baht)	Propose of Debt ⁽¹⁾	Date	Behind payment
1. Commercial Bank				
2. Bank for Agriculture and Agricultural Cooperative				
3. Government Saving Bank				
4. Saving Cooperative				
5. Village and Community Fund				
6. Illegal Loan				
7. Others (please specific.....)				
Total Debt				

Remark ⁽¹⁾ Propose of Debt ⁽¹⁾ define to
 1) Buying and renting housing and land
 2) Education
 3) Living expenses
 4) Booth business (not agriculture)
 5) Agriculture
 6) others (please specific.....)

13.1 Total debt in behind payment

..... baht

14. Who is the most influence to debt?

() Yourself () Householder () Family

15. Do you have any plan to loan money in the future?

() For buying or rent housing
baht

() For home facility
baht

() For consuming.....
 ..baht

() For Agriculture business
baht

() For non-agriculture business
baht

() For education.....
baht

() Others (please specific.....baht

16. Please order the most important to be debt (Order 1 – 10 1 = most , 1 = less)
- | | |
|--|---|
| <input type="checkbox"/> Shortage of income and saving | <input type="checkbox"/> having the opportunity to debt |
| <input type="checkbox"/> Home facility needed | <input type="checkbox"/> Social Status |
| <input type="checkbox"/> Family matter | <input type="checkbox"/> Running Business |
| <input type="checkbox"/> Emergency | <input type="checkbox"/> Low interest |
| <input type="checkbox"/> Pay the old debt | <input type="checkbox"/> Others (specific) |
17. Do you know and understand about how to live with the HM self-sufficiency Economy? (Ranking: 1 – 10 ; 10 = Most, 1= Less)
- 1 2 3 4 5 6 7 8 9 10
18. Do you satisfy with government's policy (Village Fund, SML, Local Community Bank etc.) (Rank 1 – 10 ; 10 = most satisfy, 1= Less satisfy)
- 1 2 3 4 5 6 7 8 9 10
19. How much happiness do you have? (Rank 1 – 10 ; 10 = Most happy, 1= Less happy)
- 1 2 3 4 5 6 7 8 9 10
20. Have you a family leadership? (Rank 1-10 ; 10= Have a family leadership; fix problem, look after others, supporter etc., 1=never pay any attention to anyone)
- 1 2 3 4 5 6 7 8 9 10
- Please rank according to your opinion (10= most agree , 0 less agree)**
21. Being debt is more creditable.
- 0 1 2 3 4 5 6 7 8 9 10
22. If you can spend money more than you earn, you're smart.
- 0 1 2 3 4 5 6 7 8 9 10
23. Being debt is a powerful inspiration to work hard.
- 0 1 2 3 4 5 6 7 8 9 10
24. Having a suitable debt to yourself will help you more manageable.
- 0 1 2 3 4 5 6 7 8 9 10
25. Nobody will be millionaire without debt.
- 0 1 2 3 4 5 6 7 8 9 10
26. I want to pay debt but I don't have money, so I have to borrow some from others.
- 0 1 2 3 4 5 6 7 8 9 10
27. Even though I have a saving money, I will not spend it and I will borrow from others.
- 0 1 2 3 4 5 6 7 8 9 10
28. Due to The Village Fund Project and others government projects, I don't think being debt is wrong.
- 0 1 2 3 4 5 6 7 8 9 10
29. I have to thank the bank and financial Institute giving my money. If there isn't any I will not have a car, house.
- 0 1 2 3 4 5 6 7 8 9 10
30. I feel no difference between my money and money that I have borrowed.
- 0 1 2 3 4 5 6 7 8 9 10

BIOGRAPHY

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Bachelor's Degree in Engineering from Chulalongkorn University, Bangkok, Thailand in 1992 and a Master's Degree in Business Economics at School of Development Economics, National Institute of Development Administration (NIDA) Bangkok, Thailand in 1997

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Advisor to the Minister of Labour, Ministry of Labour, Dindaeng District, Bangkok, Thailand

EXPERIENCES

2008-2009: Deputy Secretary General at Farmer s' Reconstruction and Development Fund, Thailand.

Advisor in the Economic, Finance and Fiscal Committee, NESAC, Thailand since 2007.

2007: Official Assistant of the member of Constitution Drafting Committee, Constitution Drafting Council, Thailand.

Lecturer in financial management, economics and investment analysis in various courses and universities sine 1997.

สัญญาอนุญาตให้เผยแพร่วิทยานิพนธ์

ทำที่ คณะสถิติประยุกต์.....

สถาบันบัณฑิตพัฒนบริหารศาสตร์.....

วันที่ 30 เดือน กันยายน พ.ศ. 2552.....

สัญญาฉบับนี้ทำขึ้นระหว่าง นายวีระชัย ถาวรทนต์
ที่อยู่เลขที่ หมู่ ถนน แขวง
เขต จังหวัด ซึ่งต่อไปในสัญญานี้เรียกว่า “ผู้อนุญาต”
ฝ่ายหนึ่ง กับ สถาบันบัณฑิตพัฒนบริหารศาสตร์ โดย รองศาสตราจารย์ สุรพงศ์ เอื้อวัฒนามงคล
คณบดีคณะสถิติประยุกต์..... สถาบันบัณฑิตพัฒนบริหารศาสตร์
ที่อยู่เลขที่ 118 หมู่ที่ 3 ถนน เสรีไทย แขวง กลองจั้น
เขต บางกะปิ จังหวัด กรุงเทพมหานคร ซึ่งต่อไปในสัญญานี้เรียกว่า “ผู้รับอนุญาต”
อีกฝ่ายหนึ่ง คู่สัญญาทั้งสองฝ่ายได้ตกลงทำสัญญามีข้อความดังต่อไปนี้

1. ผลงานลิขสิทธิ์

ผู้อนุญาตเป็นเจ้าของลิขสิทธิ์งานวิทยานิพนธ์ เรื่อง HOUSEHOLD
EXPENDITURE, DEBT AND HAPPINESS IN THE RURAL AREA ซึ่งสร้างสรรค์
โดย นายวีระชัย ถาวรทนต์ ผู้อนุญาตรับรองว่า เป็นผู้สร้างสรรค์งานขึ้นเอง

2. เงื่อนไขการอนุญาต

ผู้อนุญาต ตกลงให้ผู้รับอนุญาตใช้สิทธิดังต่อไปนี้

2.1 ผู้รับอนุญาตมีสิทธิเผยแพร่ต่อสาธารณชน ซึ่งงานวิทยานิพนธ์ตาม

ข้อ (1) เพื่อประโยชน์ในการวิจัย หรือศึกษา อันมิได้มีวัตถุประสงค์เพื่อหากำไร

2.2 ผู้อนุญาตให้ผู้รับอนุญาตใช้สิทธิตาม 2.1 เพื่อใช้ในห้องสมุด

และเครือข่ายอินเทอร์เน็ตของห้องสมุด สถาบันบัณฑิตพัฒนบริหารศาสตร์ รวมทั้งเครือข่าย
อินเทอร์เน็ตของโครงการพัฒนาเครือข่ายห้องสมุดในประเทศไทย (ThaiLIS)

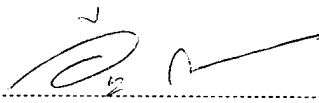
3. การโอนสิทธิและ / หรือหน้าที่ตามสัญญา

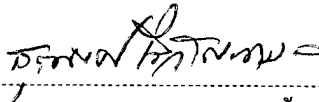
ผู้อนุญาตและผู้รับอนุญาตไม่สามารถโอนสิทธิและหรือหน้าที่ ความรับผิดชอบ ของตนตามสัญญาฉบับนี้ให้แก่บุคคลภายนอกได้ เว้นแต่จะได้รับความยินยอมเป็นลายลักษณ์อักษรจากอีกฝ่ายก่อน

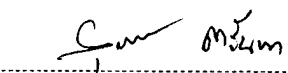
4. สิทธิของเจ้าของลิขสิทธิ์

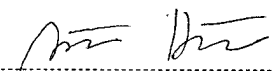
ภายใต้บังคับแห่งสัญญาฉบับนี้ ผู้อนุญาตยังคงเป็นเจ้าของลิขสิทธิ์ในงานวิทยานิพนธ์ตามสัญญาทุกประการ

สัญญานี้ทำขึ้นเป็นสองฉบับมีข้อความถูกต้องครบถ้วน คู่สัญญาได้อ่านและเข้าใจข้อความในสัญญาโดยตลอดดีแล้ว จึงลงลายมือชื่อพร้อมทั้งประทับตรา (ถ้ามี) ไว้เป็นสำคัญต่อหน้าพยานและเก็บไว้ฝ่ายละหนึ่งฉบับ

ลงชื่อ  ผู้อนุญาต
(นายวีระชัย ถาวรทนค์)

ลงชื่อ  ผู้รับอนุญาต
(รองศาสตราจารย์ สุรพงศ์ เอื้อวัฒนามงคล)

ลงชื่อ  พยาน
(นางสุภาพร ตรีนภา)

ลงชื่อ  พยาน
(นางนิลาวัลย์ เดิมผล)