IMPACTS OF FISCAL AND MONETARY POLICIES ON EMPLOYMENT: A STUDY OF THAILAND FROM 1983-2008

Marisa Laokulrach
School of Public Administration, National Institute of Development Administration

Abstract

Employment is one of the key economic indicators. Schools of economics have different perspectives toward the policies to stabilize employment. Keynesian theorists state that deficiency of aggregate demand causes unemployment, so the use of fiscal and monetary policies to increase aggregate demand can increase employment levels. Classical, Monetarist, and Real Business Cycle theories state that employment is generated from supply side factors and nonintervention markets. Employment is also affected by the socioeconomic factors such as labor force growth, urbanization, economic growth, and industrialization. This research aims to study whether the increase in employment level in Thailand is affected by monetary and fiscal policies or if the effect comes from other policies. Multiple regression analysis was applied in the study. The result shows that the supply side policies and socioeconomic factors affect employment in Thailand rather than fiscal and monetary policies. Macroeconomic policies may affect employment in the short run. Human resources development, trade openness, and minimum wage rate have positive impact on employment, while urbanization has a negative relationship with employment.

INTRODUCTION

Employment is a situation that the government sector gives importance to. Many countries include the employment rate as part of macroeconomic growth variables. Employment is volatile as per the economic situation. Employment in many countries, especially open countries, will decrease significantly when a nation faces economic downturn or crisis. Governments implement both fiscal and monetary policies with the targets of increasing the employment rate and stabilizing the economy.

The average employment rate in Thailand has been approximately 95-98 percent for the past 25 years. The employment structure in Thailand has changed during the past two decades as a result of economic development a rising from higher degree of international trade, capital inflows and foreign direct investment. The employment structure has been changed from the agricultural sector absorption to more industrial and service sectors absorption.

The production structure in the country has evolved from agricultural production towards industrialization. The industrial sector generates a higher value in gross domestic product and also in terms of export value. The movement of economy to industrialization also increases the development of urban areas, motivating people in rural areas to move into urban areas for better job opportunities.

The employment rate in Thailand is also affected by the economic cycle. During 1991-1996, the high degree of openness and economic expansion resulted in the shortage of skilled and unskilled labor. During the economic crisis in 1997, Thailand faced a high rate of unemployment. As a result of bankruptcy in the business sector, many employees were laid off.

The Tenth National Economic and Social Development Plan, the master plan of policies for 2007-2011, aims to promote the agricultural sector in Thailand to produce more foods to serve the world market, attract more investment to expand the production base in the industrial sector, and build up the service sector to be a major sector to generate the highest income to the nation.

The government uses monetary and fiscal policies to stabilize the economic activities and employment in the country. The Bank of Thailand uses
policy interest rate to maintain price stability, and stabilize consumption and investment rates to benefit the employment level. The government uses credit policy to each production sector through the Specialized Financial Institutions (SFIs) with the objective of supporting their productions and employment levels. Tax policy is used to support employment generation for example tax exemption or reduction. The government uses the budget deficit to increase government spending to stimulate consumption and investment to benefit the employment situation.

Aside from monetary and fiscal policies, other policies are also used to increase and stabilize employment levels. The infrastructure and technology development, the promotion of trade and financial openness are used to increase a nation’s competitive advantage and productivity to generate higher employment level. Policies of human capital development and the labor protection law are used to improve labor skills and living standard.

The roles of fiscal and monetary policies, and other policies in creating employment are identified differently by schools of economists. Keynessian theory believes that monetary and fiscal policies have important role in term of increasing the aggregate demand and also can increase employment. Classical, Monetarist, and Real business cycle theories explain that supply side factors can increase employment more effectively than monetary and fiscal policies. Economic development theories state that socioeconomic factors, for example industrialization, urbanization, and economic growth affects the employment level. Therefore it is questionable which policies, monetary and fiscal, or other policies, can more effectively increase employment in the nation.

This research studies the effectiveness of fiscal and monetary policies which were used during 1983-2008 in stabilizing employment in Thailand. The study of supply side policies such as trade openness, human capital development, infrastructure and technology development, and deregulation are also included here. The socioeconomic factors of labor force growth, economic growth, urbanization, and industrialization which may affect employment are also taken into account in this study.

The research aims to study if macroeconomic policy or other policies and factors affect employment in Thailand. This study is expected to contribute to the effectiveness of the government’s policies to stabilize employment.

EMPLOYMENT IN THAILAND DURING 1983-2008

From the data of National Statistical Office of Thailand, the average employment rate during the past 25 years was 95-98 percent and the average unemployment rate for the same period was 2-3 percent. Several reasons were attributed to the low open unemployment rate. First, 54 percent of the labor force comprises own-account workers (self-employed) and unpaid family workers, mainly in agriculture. This is considered a large proportion of the total workforce. Second, as in many other developing economies, the informal sector plays an important role in providing employment opportunities for the labor force.

The Thai labor market can be characterized as a production segmented labor market, consisting of agricultural, industrial, and service sectors. The data of National Statistical Office shows that employment in the agricultural sector has changed dramatically during the past 25 years. The agricultural sector was once the major sector to absorb the employment in the past. However, this degree of absorption has reduced significantly from approximately 60 percent of total employment during 1983-1992 to 40 percent in 2008.

In contrast, employment in the industrial sector increased from 13-15 percent in 1983-1992 to 22 percent in 2008 which reflects the greater absorptive ability of the sector during the past two decades. These figures are in line with the value of industrial production in GDP which is also higher among production sectors.

The service sector has also absorbed more employees during the past 25 years with an increase in the employment rate from 24 percent to about 40 percent. The service sector is the biggest sector of employment in Thailand, at the present.

EMPLOYMENT POLICIES IN THAILAND

According to the Tenth National Economic and
Social Development, Thailand aims to promote the agricultural sector to be the food provider for the world market, encourage investment, expand production in the industrial sector, and establish the service sector to be the nation’s main source of income.

The monetary and fiscal policies as well as the other policies have been used in Thailand to influence and support the employment. The Bank of Thailand has been using inflation targeting since the year 2000 to ensure price stability. The monetary policy stance is signaled through the policy interest rate. The impacts of monetary policy to investment, consumption, and employment level are through five main transmission channels including interest rate channel, exchange rate channel, asset price channel, credit channel, and expectation channel. The development of the financial markets, particularly the primary and secondary markets for money market and bond market, have been implemented to facilitate the business sectors to raise funds to expand their investment level.

Fiscal Policy is the use of government expenditure and revenue collection to influence economic stability. The government provides tax advantage to certain sectors, such as SMEs and companies that comply with the BOI’s requirements. This tax advantage is a way to support the companies in reducing companies’ burden and increasing profits. The government expects these sectors to generate higher production level in the nation, and also maintain and increase the level of employment.

The government uses quasi-fiscal policies to stimulate the economy through loans granted by the Special Financial Institutions (SFIs). The SFIs are under the supervision of the Ministry of Finance to increase funds raising opportunities for people and business sectors such as the agricultural sector, SMEs, and exporters.

The development of skills training and education has been the focus of the government since the Eight National Economic and Social Development Plan after facing the economic crisis in 1997. The government allocates its spending to education in order to increase capabilities of people and develop the labor force to match the skills in demand. In addition, the government increases motivation in people by providing better health care services.

The other important spending of the government is on infrastructure and technology development to increase the competitive advantage of Thailand in the world market. This development benefits the trading which results in higher employment level.

The promotion of trade and financial openness has been developed since 1997 to expand and facilitate the market for production. Thailand also joined different Free Trade Agreements (FTAs) within and across the region. Thailand’s openness now has resulted in seven major trade partners, including ASEAN, Australia, the USA, the EU, China, Japan and India.

Thailand developed the labor protection law in terms of minimum wage and social security to promote the living standard and right of labors. The minimum wage (tripartite) committee adjusts the minimum wage in each area based on the cost of living, inflation, standard of living, costs of production, firms’ competitiveness, labor productivity, GDP and other economic and social conditions. In 2008, there were 14 minimum wage levels, ranging from 148 to 203 baht a day. The social security schemes provide sickness, maternity, invalidity, death, old age, survivor benefits, and child allowances for nonagricultural employees working in firms with 10 or more workers. In 2004, the unemployment insurance program took force.

REVIEW OF LITERATURE

Employment means the state of being employed or having a job. The prevalence of employment is usually measured by using the employment rate, which is defined as the percentage of those in the labor force who are employed (Miles and Scott, 2005).

Economists have explained the influence of employment differently. Keynesian theory believes that fiscal and monetary policies influence the aggregate demand and affect employment. Classical, monetarist, and real business cycle believe that fiscal and monetary policies do not affect the employment situation; instead the real factors influence employment. Governments should not intervene in the market but should increase real factors such as education, technology, and capital formation to increase labor productivity, which would influence the aggregate sup-
ply in the nation (Froyen, 2005).

Fiscal policy is carried out by the executive and legislative branches of government that make policies regarding government spending programs and taxation (Eggert and Goerke, 2003). According to Keynes’s theory, high unemployment is the result of a deficiency in aggregate demand. Keynes advocates using monetary and fiscal policies to regulate aggregate demand. Keynesian theory highlights the potential of fiscal policy to solve macro problems such as using fiscal stimulus to step up government spending, tax cuts, and increase transfers to create employment. These increases consumption and investment which can increase the level of employment (Froyen, 2005).

The classical, monetarist, and business cycle theories state that the effects of the increase in government spending and reduction in taxes do not increase employment. The question of how the increase in spending and reduction in taxation are financed arises. The government has two sources of funds: selling bonds to the public and creating new money. At this point, we assume the fix in money supply and taxation, and government finances their spending and loss in revenue by issuing bonds. The increase in government spending creates an increased demand for loanable funds as the government sells bonds to the public. The interest rate will increase enough to “crowd out” an equal amount of private expenditure on consumption and investment (Froyen, 2005).

If the government finances its spending and reduction in tax revenue by printing new money, the quantity of money is changed and the price level will change proportionately. In classical system and real business cycle, the source of increase in the money supply does not increase output and employment. So the increase in government spending has no independent effect on aggregate demand (Froyen, 2005).

Governments also implement expansion using monetary policies. Keynesian theory states that money affects income via interest rates. An increase in the money supply lowers the interest rate and in turn increases the consumption and investment in aggregate demand, which can increase the employment (Froyen, 2005).

To classical and real business economists, money was a “veil” that determined the nominal values, but had no effect on real quantities (Froyen, 2005). Monetarists believe that expansionary monetary policy can only temporarily move the unemployment rate below the natural rate. There is a trade-off between unemployment and inflation only in the short run. In the long run, the influence of the money supply is primarily on the price level and other nominal variables. The unemployment rate will gradually return to the natural rate and the lasting effect of the expansionary policy will be a higher inflation rate (Froyen, 2005).

Classical, monetarist, and real business cycle economists believe in the importance of real factors in determining the “wealth of nations” and stressed the optimizing tendencies of the free market in the absence of state control. The growth of an economy is the result of increased stock of the factors of production and advances in technique of production. Among those forces, the following policy options have been emphasized: Human Capital Investment, Deregulation, Infrastructure and Technology Development, and Trade and Financial Openness (Schiller, 2006).

The way to reduce the costs of supplying goods and services is to improve the nation’s infrastructure, that is, transportation, technology, communications, judicial, and other systems that bind the pieces of the economy into a coherent whole (Schiller, 2006). The invention of new products that serves as substitutes for old ones will tend to reduce the labor demand curve in the older sector. If greater product substitution possibilities are also created by these new inventions, the demand of labor of new products will increase (Ehrenberg and Smith, 2003). A nation’s ability to supply goods and services depends on its human capital as well as its physical capital. Most countries focus on three types of training programs: (1) Retraining aimed at the long term-unemployed (e.g., unemployed for more than 12 months); (2) Retraining displaced workers, especially those displaced en masse as a result of enterprise/industrial restructuring; and (3) Training programs aimed at young people, often with special attention to school drop-outs (World Bank, 2004). Another way to increase human capital is to expand and improve the efficacy of the education system, both formal and non-formal. This method is more likely to
develop human capital gradually than to spur short-term economic growth (Schiller, 2006; Sussangkarn, 1991).

Government intervention affects the shape and position of the aggregate supply curve. The government intervenes directly in supply decisions by regulating employment and output behavior. In general, such regulations limit the flexibility of producers to respond to changes in demand (Schiller, 2006). Minimum wage laws are one of the most familiar forms of factor market regulations. The prohibition for employers to hire lower paid workers limits the ability of employers to hire additional workers. Wage-employment studies indicate that wages higher than equilibrium reduce employment in the formal sector (Nafziger, 1997). The other government regulations are social security system and unemployment insurance which increase the production cost to employers, so they tend to hire fewer employees (Nissim, 2007).

Openness policies are policies that support international trade and international capital flows across nations. Economists have long recognized that trade would lead to a division of labor advantageous to everybody involved. Indeed, by reshuffling resources in accordance with the principles of comparative advantage, they can be used more appropriately and effectively for production, thus creating the so-called gains from trade. Highly productive producers will be able to expand as they start selling their goods or services abroad. Producers and consumers will be able to take advantage of cheaper imports and of a larger product and quality choice (Jansen and Lee, 2007).

Employment is also affected by other socioeconomic factors, apart from public policies, which include labor force growth, economic growth, urbanization, and industrialization.

The increasing growth rate of labor force cannot be absorbed by industry, resulting in increased unemployment and underemployment. Labor force is growing faster than job opportunities result in growing unemployment. Many developing countries must contend with a much more rapid labor force growth than what developed countries faced at a similar stage in their growth (Nafziger, 1997).

Migration also affects the unemployment rate in particular areas or regions. Migration to urban areas where there are rapidly growing demand of workers are increasing (Sussangkarn, 1991). Harris-Todaro whose model views a worker’s decision to migrate on the basis of wages and probability of unemployment, explains that migrants respond to urban rural differences in expected rather than actual earnings. Employees expect higher probability to earn income in urban areas (Nafziger, 1997).

Employment falls along with production during recessions, and rises again during recoveries. Employment grows along with potential national outputs as farms hire more workers to produce growing output. Okun’s law states that for each percentage point by which unemployment rate is above the natural rate, real GNP is 3 percent below potential GNP (Hall and Taylor, 1991).

As an economy edges toward ever higher paths of development, there is further structural transformation as even more workers shift from the secondary sector towards the industrial and service sectors. Overtime, then, more modern and more developed economies tend to have the majority of the labor force employed in, and the greatest part of total income generated in the modern industrial and service sectors as the importance of agriculture and rural industries shrinks (Cypher and Dietz, 2004).

RESEARCH METHODOLOGY

This research aims to study the impact of monetary and fiscal policies on employment in Thailand. This study is based on quantitative method by using secondary data of different variables. Multiple Regression analysis is applied to analyze the relationship of independent variables to dependent variable. Each pair of independent variable has correlation value not more than 0.75 which means that there is no multicollinearity between independent variables so multiple regression analysis can be applied in this study. The research uses the yearly data from year 1983 to 2008.

The researcher employed 3 models in this study. The first model includes the monetary and fiscal policies to affect employment. Money supply as a percentage of Gross Domestic Product (GDP) is used to measure the monetary policy. Tax revenue as a percentage of GDP, government’s expenditures
as a percentage of GDP, and the budget deficit as a percentage of GDP are used to represent the fiscal policy.

The second model includes the macroeconomic and the supply side factors that follow the theories of classical, monetarists, and real business cycle. The objective of the second model is to study if the supply side policies are included in a model together with the macroeconomic policies, which can increase the employment. There are 4 supply side policies in this study. First, the infrastructure and technology development is measured by the government capital expenditure in economic service function as a percentage of GDP. Second, human capital development is measured by the government budget allocation to community and social services as a percentage of GDP. Third, deregulation is represented by percentage change in minimum wage and growth rate of social security distributed by private sector. The fourth is trade openness and financial openness. Trade openness is measured by the total value of export and import to GDP. Financial openness is measured by gross capital flows to value of GDP.

The third model includes the socioeconomic factors to the supply side and macroeconomic factors. Again, the objective is to see if the monetary and fiscal policies affect employment when the other policies and factors are taken into account. The socioeconomic factors include the labor force growth rate, GDP rate, the growth rate of urbanization, and the level of employees in industrial sector.

The dependent variable is the employment rate of Thailand. The standardized coefficient is used to interpret the relationship between the independent variables and dependent variable in this study. The adjusted R square measures the determinant degree of each model. Durbin-Watson value is used to identify if there is autocorrelation among the independent variables. Durbin-Watson value of the first model with 4 independent variables should be 1.767 to 2.33. The second model of 10 independent variables must have value of Durbin-Watson 1.440 to 2.560, the third model with total of 14 independent variables must have Durbin-Watson value of 0.881 to 3.199 for non-autocorrelation. The researcher uses 95 percent level of confidence.

RESULTS OF THE STUDY

Durbin-Watson from three models has the value which indicates no autocorrelation problem among independent variables.

From the first model’s results on Table 1, the monetary policy has a significant negative relationship to employment, and fiscal policy has no impact to employment. If money supply as a percentage of GDP increases by 1 percent, the employment rate will be reduced by 0.491 percent. Fiscal policy has no significant relationship to employment rate. The negative relationship between the monetary policy and the employment rate confirms the study by monetarists that the level of money supply level cannot increase employment. The increase in money supply level tends to increase price level expectations. Employees start to realize that their real wage decreases from lower purchasing power, so they demand a higher nominal wage. If employers can not increase the nominal wage to cover inflation rate, employers may decrease the level of hired employees. The policy maker cannot peg the unemployment rate at some arbitrary determined target rate.

The other explanation for the negative effect from monetary policy is liquidity trap. A liquidity trap results when demand for money becomes infinitely elastic so that further injections of money into the economy will not serve to lower the interest rates. Under the Keynesian theory in which this arises, it is specified that monetary policy affects the economy only through its effect on interest rates. Thus, if an economy enters a liquidity trap, further increases in the money stock will fail to lower the interest rate and, therefore, fail to stimulate the economy in terms of increasing aggregate demand.

The fiscal policy has no significant independent effect on employment rates. This result tends to conform to classical, monetarists theories and real business cycle theories. Consider the effects of an increase in government spending and reduction in tax revenue. The Thai government usually finances its spending by issuing bonds or borrowing. The increase in government spending creates an increased demand for loanable funds as the government sells bonds to the public, interest rate will increase. The interest rate is pushed up by enough to "crowd out" an equal amount of private expenditure on consump-
Table 1: The Model's Results

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>90.569</td>
<td>89.003</td>
<td>89.005</td>
</tr>
<tr>
<td>Money Supply as a percentage of GDP</td>
<td>-0.491 (-2.819)**</td>
<td>0.067 (0.380)</td>
<td>-0.063 (-0.371)</td>
</tr>
<tr>
<td>Tax revenue as a percentage of GDP</td>
<td>0.194 (1.108)</td>
<td>0.121 (0.945)</td>
<td>0.034 (0.291)</td>
</tr>
<tr>
<td>Expenditure as a percentage of GDP</td>
<td>0.295 (1.185)</td>
<td>0.023 (0.132)</td>
<td>0.037 (0.252)</td>
</tr>
<tr>
<td>Budget deficit as a percentage to GDP</td>
<td>-0.048 (-0.244)</td>
<td>-0.098 (-0.716)</td>
<td>-0.209 (-1.829)</td>
</tr>
<tr>
<td>Infrastructure and technology development</td>
<td>0.208 (1.403)</td>
<td>0.041 (0.318)</td>
<td></td>
</tr>
<tr>
<td>Human capital development</td>
<td>0.284 (1.683)</td>
<td>0.360 (2.477)**</td>
<td></td>
</tr>
<tr>
<td>Trade Openness</td>
<td>0.890 (6.109)**</td>
<td>1.082 (4.464)**</td>
<td></td>
</tr>
<tr>
<td>Financial Openness</td>
<td>0.016 (0.114)</td>
<td>0.284 (1.232)</td>
<td></td>
</tr>
<tr>
<td>Minimum wage</td>
<td>0.276 (2.026)**</td>
<td>0.342 (2.934)**</td>
<td></td>
</tr>
<tr>
<td>Social Security</td>
<td>-0.194 (-1.852)</td>
<td>-0.105 (-1.109)</td>
<td></td>
</tr>
<tr>
<td>Labor Force Growth</td>
<td></td>
<td>0.161 (1.242)</td>
<td></td>
</tr>
<tr>
<td>Urbanization</td>
<td>-0.299 (-3.436)**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic Growth</td>
<td>0.033 (0.167)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrialization</td>
<td>-0.203 (-0.576)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted R2</td>
<td>0.573</td>
<td>0.792</td>
<td>0.891</td>
</tr>
<tr>
<td>F-Sig</td>
<td>0.001</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Durbin Watson</td>
<td>1.770</td>
<td>1.502</td>
<td>2.337</td>
</tr>
</tbody>
</table>

Note: ***significance at 95 percent confidence interval level
      Number in the parenthesis is t-value.

...tion and investment. Crowding out keeps aggregate demand from increasing when the government component of demand rises.

If the government finances its spending and reduces tax revenue by printing new money, the quantity of money is changed and the price level will change proportionately. In classical system and real business cycle, the source of the increase in money supply does not increase the output and employment.

The other explanation for the insignificance of fiscal policy to employment creation is the inelasticity of income to government spending. The government injects more spending to different projects with the objective of increasing the aggregate demand especially in consumption and investment in the system. If the amount of consumption and investment is changed very little from increased government spending, employment cannot be increased significantly.

The second model includes the effect from the combination of the macroeconomic policies with the supply side policies into the study. Supply side policies include 4 perspectives that increase productivity. The model shows a significant relationship to the employment rate. The coefficient of determinant is 0.792. When macroeconomic policies and supply side policies are added into the model, the monetary and fiscal policies play no role in increasing employment. The supply side policies which are trade openness and minimum wage have significant positive effects to increase the employment rate. One percentage change in the minimum wage increases employment rate by 0.276 percent. If the trade openness index increases by one level, employment rate will be increased by 0.890 percent. Infrastructure and technology development, human development, and social security have no independent effects on employment.

The third model includes the entire effects from macroeconomic policy, supply-side policy, and socioeconomic factors to employment rate. The model again shows that the supply-side policy and socioeconomic factors affect employment rather than the
monetary and fiscal policies.

Human capital development, trade openness, and minimum wage rate have significant positive relationship with employment. If the human capital development spending as a percentage of GDP increase one percent, this can increase the employment rate by 0.360 percent. Trade openness affects employment rate positively with the highest degree. The increase in the value of export and import by 1 time more than the value of GDP, increases the employment rate by 1.082 percent. One percentage change in minimum wage rate increases the employment rate by 0.342 percent.

The increase in urbanization level has a significant negative relationship to employment. If the number of people in the urban areas to total population increases by one percent, the employment rate decreases 0.299 percent.

CONCLUSION AND RECOMMENDATION

From the results of the study, the supply side policies and socioeconomic factors tend to have more impact on employment in Thailand. Those supply side factors are human capital development, minimum wage, and trade openness. Urbanization from socioeconomic factor has negative impact on employment. The results confirm the studies of classical, monetarists, and real business cycle school of thought that the real factors affect level of employment. The monetary and fiscal policies cannot increase the employment or can affect the employment only in the short term period. This result contradicts with the Keynesian’s school of thought.

The researcher would like to propose policies to stabilize employment in Thailand. Even though the results shows no significant impact of monetary and fiscal policies on employment when other policies and factors are taken into the study, the government still needs to use them to stabilize the economic system and counter economic fluctuation. The government should use monetary policy through inflation targeting to stabilize the price level to benefit the operation of each production sector. The development of financial markets such as money markets and bond market is also needed to help business sectors to raise the needed funds to reduce the reluctance lenders problem.

Tax advantage should be provided to corporate sectors. Government should provide tax advantage to firms which are 1) labor intensive production firms 2) agricultural industrial firms 3) export oriented industrial firms, or 4) operate in province areas.

Regarding the government spending, the amount of spending for human capital development should be emphasized. Skills and knowledge of the workforce should be developed either by on the job training or the training programs. The government should allocate spending to improve the quality of education at every level to prepare the educated persons to match with labor force requirement. The health care and community services also need to be considered. When people have better skills and knowledge as well as better standard of living, they can work more efficiently.

Second, the openness to international trade influences the shape and position of aggregate supply and employment absorption. From the result, trade openness has the highest degree of positive relationship to increase employment. With less trade regulation, producers can access to lower cost raw materials. Government should try to get the most benefit out of the free trade agreements (FTAs). International trade should be expanded and support should be given to the agricultural sector rather than only to industrial and service sectors.

Third, the minimum wage rate, which can increase the employment level, does not rely on the nonintervention concept from classical, monetarist, and real business cycle theories. The higher level of minimum wage rate increases the purchasing power of the household sector. They spends more for products and this results in the higher level of production and employment especially for agricultural or food products. Government should adjust the minimum wage rate to be in line with the changes in the inflation rate.

Finally, is the decrease in level of urbanization. Employees move to urban areas with the expectation of getting better jobs with higher wages. However, this movement of labor leads to excess supply of labor in urban areas and higher unemployment rate. The government should create jobs in rural areas. The employment in the rural areas should be
stabilized and supported, such as by providing tax privilege to corporations that invest and create jobs in the rural areas.

The above policies together can support the increase and stabilization in a nation’s level of production and employment. Firms can access sources of funds from financial markets development. They can have price advantages from tax privileges, can expand to international markets via higher degree of trade openness, and can have labor that have the required skills so they can increase the production level as their expectation. The jobs are distributed to the rural areas, and agricultural sector employment will be better supported. Labors can have better standard of living from minimum wage rate which is in line with the changes in inflation rate.

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About the author:-

Marisa Laokulrach is a Ph.D. Candidate (Development Administration), in the School of Public Administration, National Institute of Development Administration, Thailand. She can be reached at marisa.laokulrach@gmail.com.