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Evaluating the Link Between Public Spending, Fiscal Devolution, and Economic Expansion in Myanmar

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ABSTRACT

This article examines the intricate relationship between government expenditure, fiscal decentralization, and economic growth, with a specific focus on Myanmar. Fiscal decentralization, the devolution of financial responsibilities and authority from central to sub-national governments, is a complex process with the potential to significantly influence a nation's economic trajectory. While theoretically, it can enhance efficiency, accountability, and responsiveness in public service delivery, its practical outcomes are often context-dependent. This study delves into how different facets of government spending, particularly under a decentralized framework, impact Myanmar's economic performance. Drawing upon existing literature, it explores the theoretical underpinnings of fiscal decentralization, analyzes its potential benefits and drawbacks, and discusses the challenges and opportunities for Myanmar in leveraging decentralized fiscal policies for sustainable growth. The findings contribute to a deeper understanding of the dynamics between fiscal policy, governance structures, and economic development in emerging economies.

KEYWORDS: Public spending, fiscal devolution, economic expansion, Myanmar, fiscal policy, decentralization, government expenditure, regional development, economic growth, intergovernmental finance.

INTRODUCTION

The role of government expenditure in fostering economic growth has been a subject of extensive debate among economists for decades. Classical economic theory often suggests that excessive government spending can crowd out private investment, while Keynesian perspectives emphasize its potential to stimulate demand and stabilize economies. More recently, the discussion has evolved to include the qualitative aspects of public spending, such as its allocation to productive sectors like infrastructure, education, and healthcare, and the efficiency with which these funds are utilized ^[1]. Concurrently, the concept of fiscal decentralization has gained prominence as a governance reform aimed at improving public service delivery and promoting regional development ^[5,9]. Fiscal decentralization involves transferring fiscal powers and responsibilities to lower tiers of government, enabling them to make decisions closer to the needs of their constituents ^[6].

Myanmar, a nation undergoing significant political and economic reforms, presents a compelling case study for analyzing the interplay between government expenditure, fiscal decentralization, and economic growth. After decades of centralized governance, Myanmar has embarked on a path

towards greater decentralization, aiming to empower sub-national authorities and foster more equitable development across its diverse regions ^[4]. This transition, while promising, also presents significant challenges, including capacity constraints at the local level, potential for increased regional disparities, and the need for robust intergovernmental fiscal transfer mechanisms.

The objective of this article is to critically examine the impact of government expenditure on economic growth in Myanmar through the lens of fiscal decentralization. It aims to synthesize existing theoretical frameworks and empirical evidence to understand how the decentralization of fiscal powers might influence the effectiveness of public spending in stimulating economic activity, improving public service provision, and ultimately contributing to sustainable development in Myanmar. By exploring these dynamics, this study seeks to provide insights relevant for policymakers grappling with similar reforms in other developing economies.

2. Literature Review and Theoretical Framework

The theoretical underpinnings of fiscal decentralization are largely rooted in the works of Musgrave [7] and Oates [8], who emphasized the potential for decentralized governments to better match public goods and services to local preferences (the "Tiebout hypothesis"). The "decentralization theorem" posited by Oates [8] suggests that, under certain conditions, decentralized provision of public goods is more efficient than centralized provision due to better information and responsiveness to local needs.

However, the empirical evidence on the relationship between fiscal decentralization and economic growth is mixed and often context-specific [13]. Some studies suggest a positive correlation, arguing that decentralization can lead to improved efficiency in public spending, greater accountability of local governments, and enhanced innovation [10]. For instance, proponents argue that local governments, being closer to the populace, are better positioned to identify and address specific local needs, leading to more effective allocation of public funds and, consequently, greater economic benefits [9]. This can manifest in improved public service delivery, such as better education and healthcare, which are crucial for human capital development and long-term economic growth.

Conversely, other research points to potential downsides. Concerns include the possibility of increased regional disparities, where wealthier regions benefit more from decentralization than poorer ones [3]. There are also risks of corruption and mismanagement at the local level if oversight mechanisms are weak [11]. Furthermore, a lack of capacity in sub-national governments, particularly in developing countries, can hinder their ability to effectively manage fiscal resources and implement development projects [5, 6]. The institutional quality plays a moderating role in the relationship between public debt and environmental degradation [2].

Regarding the direct impact of government expenditure on economic growth, numerous studies have yielded varying results across different countries and time periods. Some studies, such as those focusing on Kosovo [15], Nigeria [16], India [17], Afghanistan [18], and Ghana [19], have found a positive relationship between government expenditure and economic growth. This positive impact can be attributed to productive government spending on infrastructure, education, and health, which enhances productivity and attracts private investment. On the other hand, some research indicates that inefficient or unproductive government spending can have a neutral or even negative impact on growth. The effectiveness and equity in social spending, as seen in Spain, highlights the importance of how funds are allocated and utilized [1].

In the context of Myanmar, the theoretical implications of fiscal decentralization are particularly relevant. Myanmar's journey towards decentralization is a relatively recent phenomenon, with the transition to a decentralized financial

budgeting framework beginning in 2011 [4]. The success of this transition in fostering economic growth will depend on several factors, including the clarity of fiscal assignments, the adequacy of intergovernmental transfers, the capacity of sub-national governments, and the presence of robust accountability mechanisms. Effective fiscal decentralization can empower local authorities to address specific regional needs, leading to more targeted and efficient public investments, which in turn can contribute to overall economic development [4]. However, if not carefully managed, it could exacerbate existing inequalities or lead to inefficiencies.

METHODOLOGY

To analyze the impact of government expenditure and fiscal decentralization on economic growth in Myanmar, this study primarily employs a qualitative synthesis approach, drawing upon existing literature, reports, and theoretical frameworks. Given the nascent stage of fiscal decentralization in Myanmar and the limited availability of comprehensive, disaggregated data specifically linking decentralized spending to economic outcomes, a purely quantitative econometric analysis is challenging at this juncture.

The methodology involves:

- **Review of Theoretical Literature:** A thorough examination of foundational theories on public finance, fiscal federalism, and the relationship between government expenditure and economic growth, as established by economists such as Musgrave [7], Oates [8], and others [13].
- **Analysis of Empirical Studies:** A critical review of empirical research conducted in other developing and developed countries on the impact of fiscal decentralization and government expenditure on economic growth [3, 12, 14, 15, 16, 17, 18, 19, 20]. This includes examining studies that present mixed results and exploring the contextual factors that explain these variations.
- **Contextual Analysis of Myanmar:** Examination of available reports and policy documents pertaining to Myanmar's fiscal decentralization reforms, including their stated objectives, implementation challenges, and early outcomes [4]. This involves understanding the specific institutional, political, and economic landscape of Myanmar that influences the decentralization process.
- **Identification of Key Mechanisms:** Synthesizing the information to identify the key mechanisms through which government expenditure, particularly under a decentralized framework, is expected to influence economic growth in Myanmar. These mechanisms could include efficiency gains in public service delivery,

enhanced local accountability, improved resource allocation, and the potential for increased regional disparities.

- **Discussion of Challenges and Opportunities:** Based on the synthesis, outlining the primary challenges and opportunities that Myanmar faces in leveraging fiscal decentralization to achieve sustainable economic growth.

This approach allows for a comprehensive understanding of the complex interactions, even in the absence of readily available direct quantitative evidence for all aspects in the Myanmar context. It provides a framework for future empirical research as more detailed data becomes available.

RESULTS AND DISCUSSION

The analysis of existing literature and the specific context of Myanmar reveals several key insights regarding the impact of government expenditure and fiscal decentralization on economic growth.

Government Expenditure and Economic Growth:

The general consensus in the literature suggests that government expenditure can positively impact economic growth, provided it is channeled into productive sectors and managed efficiently. Investments in physical infrastructure (roads, energy, communication), human capital (education, healthcare), and research and development are widely recognized as growth-enhancing. Studies from various developing countries corroborate this. For example, research on Kosovo [15], Nigeria [16], India [17], Afghanistan [18], and Ghana [19] have shown a positive relationship, emphasizing the importance of judicious public spending. Conversely, unproductive spending or spending marred by corruption can stifle growth, highlighting the importance of institutional quality [2]. While specific quantitative data for Myanmar's government expenditure and its direct link to growth under decentralization is still emerging, the theoretical and empirical evidence from other nations provides a strong basis for understanding the potential impacts. Myanmar's GDP growth rate was 1.0% in 2023, following a 4.0% growth in 2022 and a contraction of 12.0% in 2021 [Source: Macrotrends, Asia Insight]. This indicates a period of recovery and resilience despite challenges.

The Role of Fiscal Decentralization:

The theoretical benefits of fiscal decentralization, as posited by Oates [8] and others, suggest that local governments are better equipped to understand and respond to local needs, leading to more efficient allocation of resources and improved public service delivery. This can contribute to economic growth by fostering local economic development

and enhancing the productivity of the workforce. Evidence from some countries, like Indonesia, indicates the potential for decentralization to positively impact economic growth [14]. However, the actual impact is highly contingent on several factors:

- **Capacity of Local Governments:** A critical factor for Myanmar is the capacity of its sub-national governments. Many regions, particularly those historically underserved, may lack the administrative, technical, and financial expertise to effectively manage devolved responsibilities [4, 5]. Without adequate capacity building, decentralization could lead to inefficiencies rather than improvements. Studies suggest that the role of subnational governments in Myanmar is still modest, with limited own-source revenues and heavy reliance on central government transfers [Source: Fiscal Decentralization in Myanmar: An Analysis of Localities for Fiscal Years from 2017-2018 to 2020-2021].
- **Intergovernmental Fiscal Transfers:** The design and implementation of intergovernmental fiscal transfers are crucial for equitable development. If transfers are insufficient or poorly designed, they can exacerbate regional disparities, undermining the potential benefits of decentralization [6]. Myanmar's nascent decentralization efforts need to ensure fair and transparent transfer mechanisms to support less developed regions.
- **Accountability and Transparency:** For fiscal decentralization to truly foster growth, robust accountability mechanisms are essential. Local governments must be accountable to their constituents for the efficient and effective use of public funds. Without this, there is a risk of corruption and misallocation of resources, which can hinder economic development [11].
- **Political Context:** The political landscape in Myanmar, with its history of centralized control and ongoing peace processes, significantly influences the pace and effectiveness of fiscal decentralization. The extent to which genuine autonomy is granted to sub-national entities and the level of public participation in local governance will determine the success of these reforms [4]. There is an ongoing challenge of unclear assignment of functions and responsibilities across the multiple tiers of government in Myanmar [Source: Myanmar's Fiscal Decentralization and Public Service Impediments].

Interplay in Myanmar:

In Myanmar's context, the interaction between government expenditure and fiscal decentralization is particularly complex. The transition from a highly centralized system

means that sub-national governments are still developing their fiscal management capabilities. While increased expenditure at the local level could potentially lead to more targeted investments in critical areas like infrastructure and social services, the effectiveness of these investments hinges on the institutional strength and governance quality at the local level [10].

The challenge for Myanmar is to balance the desire for local autonomy with the need for strong central oversight and support. Without a well-structured framework for fiscal decentralization, increased local spending may not translate into desired economic outcomes. For instance, if local authorities lack the expertise to identify optimal investment projects or are prone to rent-seeking behavior, decentralized expenditure could be less productive than centrally managed funds. However, when decentralization is effectively implemented, it can lead to improved public service delivery and more efficient resource allocation, thereby fostering economic growth [10]. The financial development can also have an effect on economic growth [20].

CONCLUSION AND RECOMMENDATIONS

The impact of government expenditure on economic growth in Myanmar, particularly within a framework of fiscal decentralization, is a multifaceted issue with both promising opportunities and significant challenges. While theoretical arguments and empirical evidence from other contexts suggest that well-managed public spending and effective fiscal decentralization can stimulate economic growth, the specific outcomes in Myanmar will depend on the nuanced implementation of these reforms.

KEY CONCLUSIONS:

- Government expenditure, when strategically directed towards productive sectors like infrastructure, education, and healthcare, holds the potential to significantly contribute to Myanmar's economic growth.
- Fiscal decentralization offers the promise of more efficient and responsive public service delivery by bringing decision-making closer to the local level.
- However, the success of fiscal decentralization in Myanmar is contingent upon addressing critical challenges, including building the capacity of sub-national governments, establishing equitable intergovernmental fiscal transfer mechanisms, and ensuring robust accountability and transparency.

Recommendations:

Based on this analysis, the following recommendations are crucial for Myanmar to leverage government expenditure and fiscal decentralization for sustainable economic growth:

1. **Capacity Building for Sub-National Governments:** Prioritize comprehensive training and technical assistance programs for local government officials in areas such as financial management, project planning, public procurement, and revenue generation. This is crucial for their ability to effectively manage devolved responsibilities [5].
2. **Clear Fiscal Assignments and Transparent Transfers:** Establish clear and unambiguous assignments of revenue and expenditure responsibilities between central and sub-national governments. Develop a transparent, formula-based system for intergovernmental fiscal transfers to ensure equity and predictability, reducing reliance on discretionary grants and preventing exacerbation of regional disparities [6].
3. **Strengthening Accountability and Oversight:** Implement robust mechanisms for financial oversight and public accountability at the local level. This includes independent audits, performance monitoring, and citizen participation in budget processes to mitigate risks of corruption and ensure efficient use of funds [11].
4. **Phased and Adaptive Implementation:** Recognize that fiscal decentralization is a long-term process requiring continuous adaptation. Myanmar should adopt a phased approach, learning from initial reforms and adjusting policies based on ongoing evaluations of their impact.
5. **Data Collection and Research:** Invest in collecting disaggregated data on sub-national government expenditures and their impact on local economic indicators. This will enable more rigorous empirical research in the future, providing concrete evidence to guide policy decisions.
6. **Focus on Productive Spending:** Irrespective of the level of government, prioritize public expenditure on investments that enhance productivity and human capital, such as infrastructure development, education, and healthcare, which have proven links to long-term economic growth.

By strategically navigating the complexities of government expenditure and fiscal decentralization, Myanmar can unlock its potential for inclusive and sustainable economic development, ultimately improving the living standards of its diverse population.

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