

Chapter I

Introduction



Thailand's development has caused continuously economic expansion as well as convenient, fast communications and transportations, higher proportion of urban population and people working in the industrial sector. These factors have resulted in changes of life-style, health status, behavior and forms of health services in the whole country. Health and sanitation problems of Thai have changed according to more complicated economic and social conditions. One which is obviously seen is that there has been a rising trend of death from non-communicable diseases; such as cancer, cardio-vascular diseases, and accidents. Several other diseases have also increased; such as diabetes and anemia. However, fatal communicable diseases as well as AIDS, acute diarrhea, malaria and tuberculosis, which have long been problems, still need to be urgently controlled. People's migration and communications across the borders have made communicable disease control difficult and also brought more new diseases into the country. Furthermore, the current social conditions and economic crisis have caused stress to the people. Hence, problems related to mental health and environmental hygiene will become more serious.

A healthy body is the very foundation for all human activities. In a welfare state, therefore, it is the obligation of the state to ensure the creation and the sustaining conditions congenial to good health. Thus, right to live with human dignity includes the right to health care and to provide facilities in this regard is the responsibility of the government.

The government has upheld various legislative and executive actions aimed at ensuring health care and quality products. This approach, however, should not be understood as an encroachment on the powers. The government agency has assumed the role of 'health-related product supervision' and has played an important role on 'health consumer protection'.

The situation and trend on Health Consumer Protection sector in Thailand are as the followings :

1) Consumers

Thai consumers, especially those in rural areas, do not have sufficient knowledge in appropriate health product consumption. Moreover, they have limitations in screening information from producers, and are inclined to be persuaded by advertisements via various media. In urban areas, consumers who have high purchasing power consume more expensive and unnecessary products which do not have the quality as being claimed. Examples of these products are food supplement, health magnetic instrument, etc. Unnecessary and inappropriate consumption too much of drug especially set drug, antibiotics, and addictive substances always takes place. The problem of inequity income distribution makes the majority of rural people who have little income lack of opportunities to consume products with standard quality.

2) Producers

Producers are inclined to break or neglect the law by producing or selling products with low and unacceptable quality or without permission, such as unregistered products. In addition, minor or small manufacturers, especially those in rural areas, lack of production knowledge and skills to produce high quality products. Market techniques, particularly direct sales, are used in accordance with incomplete and boastful information which directly sent to the consumers.

3) Products

Problems related to the quality of products in the markets have been continuously found. Some problems related to bacteria and adulterant substances which exceed the standard acceptance. Toxic substances left in food increased because of pollutions and incorrect methods of production. A great number of sale promotion of expensive and unnecessary products are inclined to be more popular.

4) The government

The government's operational management system is still complicated and out-of-date. Laws are flawed and dated, implied inappropriate for current situations. Moreover, personnels in public health lack of adequate operational knowledge and skills, due to the rapid economic growth, the fast pace of scientific and technological changes, and the job-removal from the government agencies to the private companies. These lead to a more severe shortage of capable personnels, particularly in provincial

and local areas which still faces with ineffective mechanism for coordination among central, provincial and local administration.

The Food and Drug Administration (FDA) is a public health agency that was established for the purpose on consumer protection. Its functions mainly relate to quality control and manufacturing standards, import and distribution of foods, drugs, cosmetics, medical devices, narcotic and psychotropic substances, toxic and volatile substances. In addition to the responsibilities in accordance with laws and regulations, the FDA also plays important roles on public education and information services, promotion and upgrading for quality standard of manufacturers and exporters.

Thai FDA uses laws and regulations as a tool for implementing its works. The benefits of social regulation, however, are likely to be controversial. Given the complexity of modern societies, it has become increasingly difficult for individuals themselves to evaluate risks associated with products and working conditions. Governmental authorities can pursue the goal of improved public health and safety. The powers of government are often used to enforce principles of justice and provide equal opportunity to citizens, as well as transferring income to certain groups. Many citizens also believe there are significant benefits in using governmental power to insure minimum standards of quality and labeling for goods supplied by private firms. In some cases, in the interest of ensuring stable supplies, price supports are used to maintain profitability in certain industries. Supply of environmental quality is one of the benefits derived from governmental regulation that could improve public health, increase recreational use of environmental resources, and improve productivity of inputs which would be damaged by pollution.

However, critics of regulation base their arguments on a belief that the cost of regulation exceeds the benefits. In another way, the same benefit could possibly be obtained at lower costs by using incentive rather than regulatory means. Cost-benefit analysis of various regulatory programs is required by policy-makers. Unfortunately, the actual benefits is difficult to measure both in theory and in practice. A practical way that can be done is to determine the costs of social regulation.

The costs of social regulation can be divided into three categories : administrative costs, compliance costs, and efficiency-loss costs. Administrative costs are those incurred by government to manage and actually enforce the regulations. These costs are part of the government budget and are financed by taxes. Compliance costs are expenditures by individuals and business firms that are required to follow the regulatory goals. For example, installation of equipments to meet emission standard established by the Environmental Protection Agency is a compliance cost concerned with providing clean air or water. The efficiency-loss costs are losses in efficiency caused by regulation of the markets for the output of regulated goods and services. These costs represent losses in well-being caused by regulations that prevent the marginal social cost of goods from equaling their marginal social benefits. If regulations cause such effects, and do not result in any offsetting benefits, they will result in net social losses.

1.1 Statement of the problem

Thai FDA has enlarged its size and expanded its types of services continuously. Considering the size enlargement, it was found that 33% of the total

budgets are officers' salaries. The rest are spent on compensation for committees and cars, training programmes and general expenses eg. office supplied, stationaries, rental, etc. The total budgets have dramatically been increasing during the past ten years. Figure 1.1 shows that the rate of growth increased on the average of 26.2% each year. It means the growth of FDA's size went up very high about three times as much as the growth rate of GDP (about 8%; the Bank of Thailand) during that time.

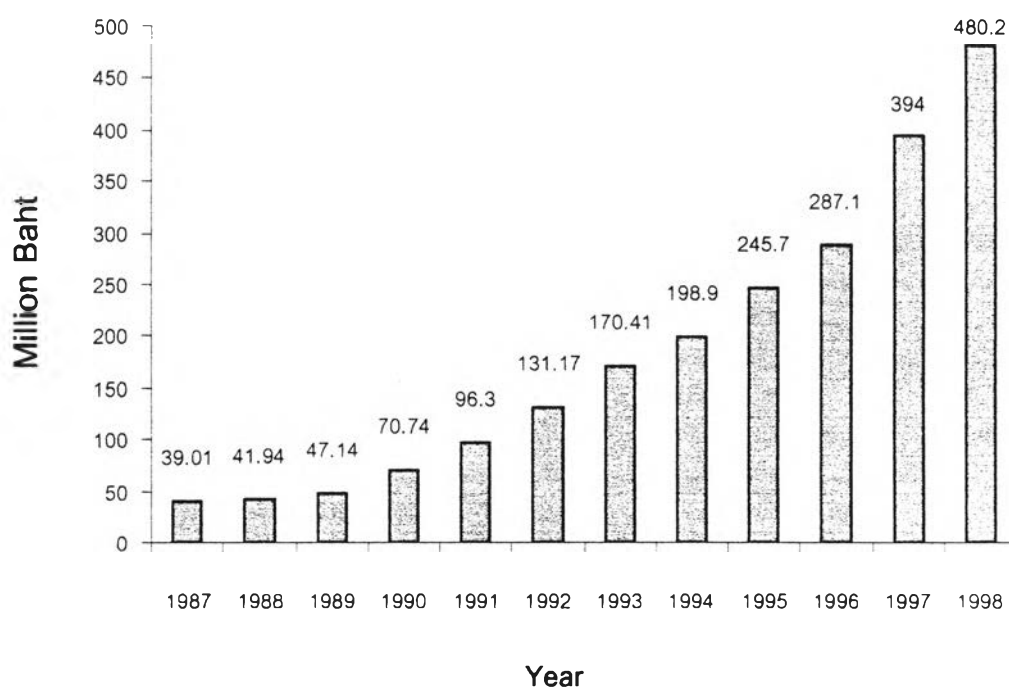


Figure 1.1 Annual total budgets of the Thai FDA by Year, 1987-1998

Source: Office of Food and Drug Administration

In case of types of services, there was also a high growth rate expansion in the scope of services. According to the tremendous changes of social, economic, culture environment and consumers' behavior, the role and responsibilities of FDA has

obviously been vital. The huge expansion of various types of health products push the government's heavy tasks to supervise and ensure safety and quality of products to protect its citizens.

The government has a responsibility to make sure that it receives value for money from its departments. The government owns its departments' resources and assets, which must be managed properly. The finding from a study of the Public Economics Division, Policy Research Department of the World Bank organization, illustrated that Thailand's overcentralized system did not capitalize on useful information from line agencies and lower levels of government (Campos and Pradhan, 1996). This came from the lack of transparency and accountability which meant that rules were not enforced and budgets were often remade in a centralized way, so that the flow of resources to any level of the government agencies was unpredictable.

Poorly planned and managed system led governmental budget constraints to unacceptable tradeoffs between quantity and quality. One way to boost quality and productivity while saving costs and help governments implement the action plan for maximum results is to improve financial management system. The public sector financial management system assists governments to translate its strategies into actions, informs decision-making and accountability, and encourages a responsive and efficient public sector.

The mechanism whereby the government specifies its financial performance for the coming year is the Budget. The government should set out its fiscal and monetary objectives and demonstrate the progress made towards achieving them. This encourages

a longer-term view of fiscal and monetary management, and consistency of government policy with stated objectives. The budget processes allow the government to plan for the period ahead, allocate resources in line with policy priorities, and seek authority from the Parliament for spending.

To govern the size, allocation, and use of budgetary resources and improve transparency and accountability, some far-reaching reforms introduced in Australia and New Zealand. In Australia, reform focused on strategic priorities and a shift from central to line agencies to identify savings within hard budget constraints. In New Zealand, reform focused on achieving general fiscal discipline and technical efficiency; getting the best output at the least cost. Outputs to be supplied by the government agencies must be clearly specified with a description of the goods and services to be produced including information about quality, quantity, cost, time and place of delivery. Chief executives of the government departments are expected to exercise a high degree of control over output costs.

Therefore, it is worth examining the nature of costs and multiple-output production characteristics of Thai FDA in order to elucidate the observed trends in its size and scope of tasks. It might be necessary to tell the policy-makers whether the existence and cost magnitude of FDA in the present are appropriate or not. The study will be important for policy-relevant predictions and development direction of health consumer protection sector in the future.

1.2 Objective

The aim of this study is to investigate the determinants of administrative cost of the Thai FDA.

1.3 Scope of study

The study only focused on administrative cost of the Thai FDA which provides health consumer protection activities in Thailand. The time series data of cost and output components were gathered for the time period 1980-1999.

1.4 Definition

Administrative cost is defined as total cost which incurred by the Thai FDA to manage its tasks.

1.5 Possible benefits

It is expected that this study could explain the determinants of FDA's cost and provide some policy guidelines for policy-makers to consider about the performance of FDA. It is important to know how far a given organization can be expected to increase its outputs without absorbing the further resources. Moreover, if the government hopes FDA to contribute more for consumer protection, the government could estimate appropriate financial plan in the next period so that the quality

standards of health products would be guaranteed and it would finally reflect to the safety and health status of people in the society.

1.6 Organization of the study

After this introductory chapter, the literatures related to the costs of Thai FDA and some relevant regulatory agencies will be reviewed in Chapter II. In chapter III, some overviews which were helpful for understanding the roles and responsibilities of the Thai FDA as well as its cost and output structure will be presented. Chapter IV deals with the theoretical concept, methodology and model of the study in accordance with data gathering and variables identification. The empirical results will be discussed in chapter V. Finally, a summary of empirical findings, conclusion and some policy recommendation together with suggestion for further studies will be illustrated in chapter VI.