

Poverty in Thailand

Mr. Bhanupong

Lecture 27

Chapter 12

The macroeconomic perspective of poverty and
income distribution

Like cancer, poverty is not a single disease. It is a menace with many symptoms and causes. And it is for that reason that, also like cancer, it is so difficult to eradicate.

Outline

1. Poverty incidence and growth
2. Rural vs. urban poverty
3. Farm prices and poverty
4. Inclusive growth
5. Nonmonetary aspects of poverty:
Undernourishment and cognitive ability

1. Poverty incidence *1962-1990*

	Aggregate poverty	Rural poverty	Urban poverty
1962	57.0	61.0	38.0
1975	31.4	36.2	12.5
1990	17.0	20.5	5.3

Aggregate poverty is the percentage of the total population whose income fall below poverty line (held constant over time in **real terms**).

The poverty picture looks different upon thresholds set by the Asian Development Bank (ADB). The latest study by the ADB on poverty in Asia set the poverty line at **\$1.25** based on purchasing power parity. **The World Bank's poverty threshold is \$2 a day**. The threshold of poverty is higher for the World Bank.

Rural Poverty



Village children stunt by poverty as parents leave for Bangkok



Urban Poverty

A slum in Central Bangkok



Comparing the 1990s and the 2000s

Income share of the poor increased at the expense of the rich

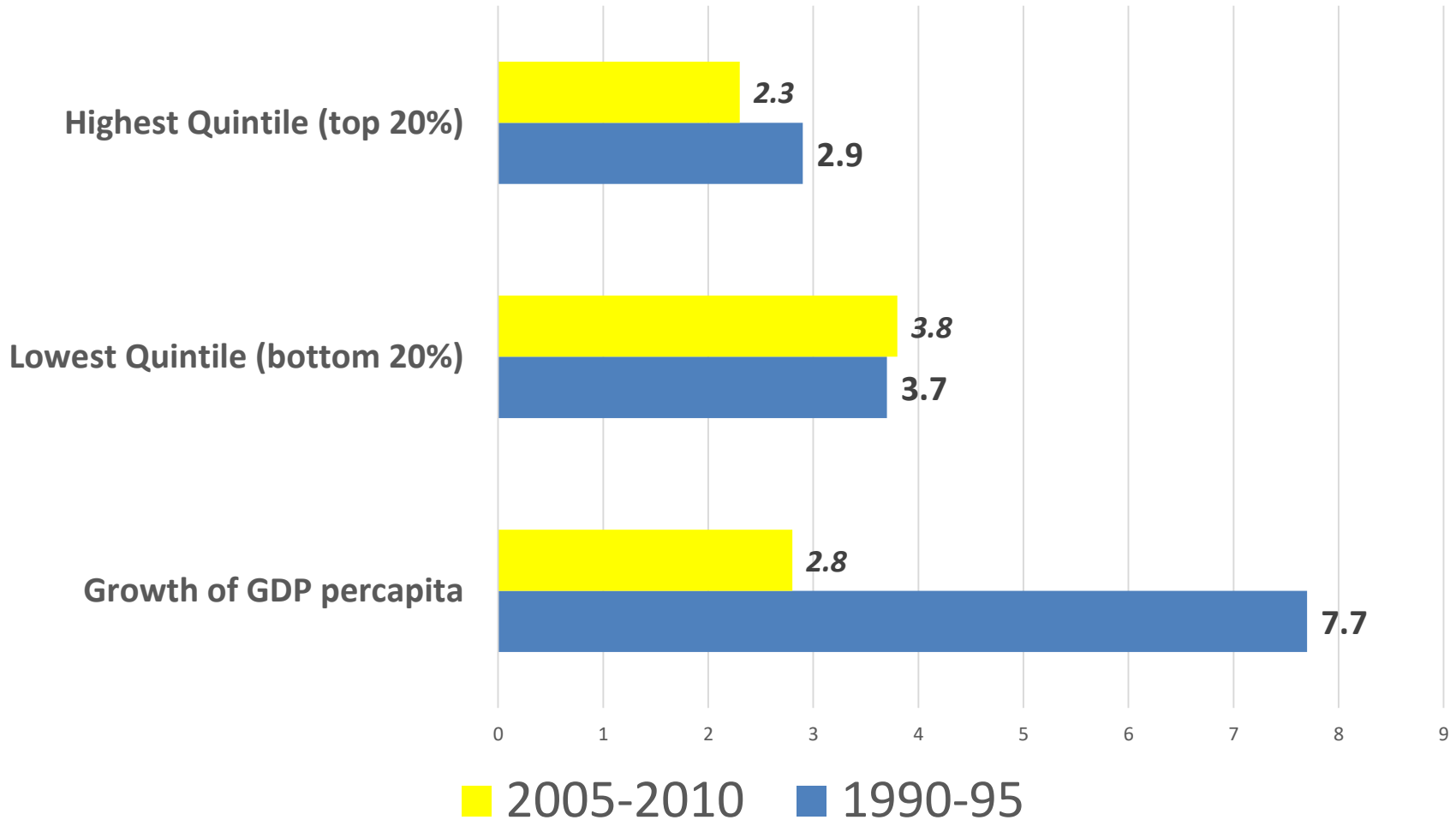
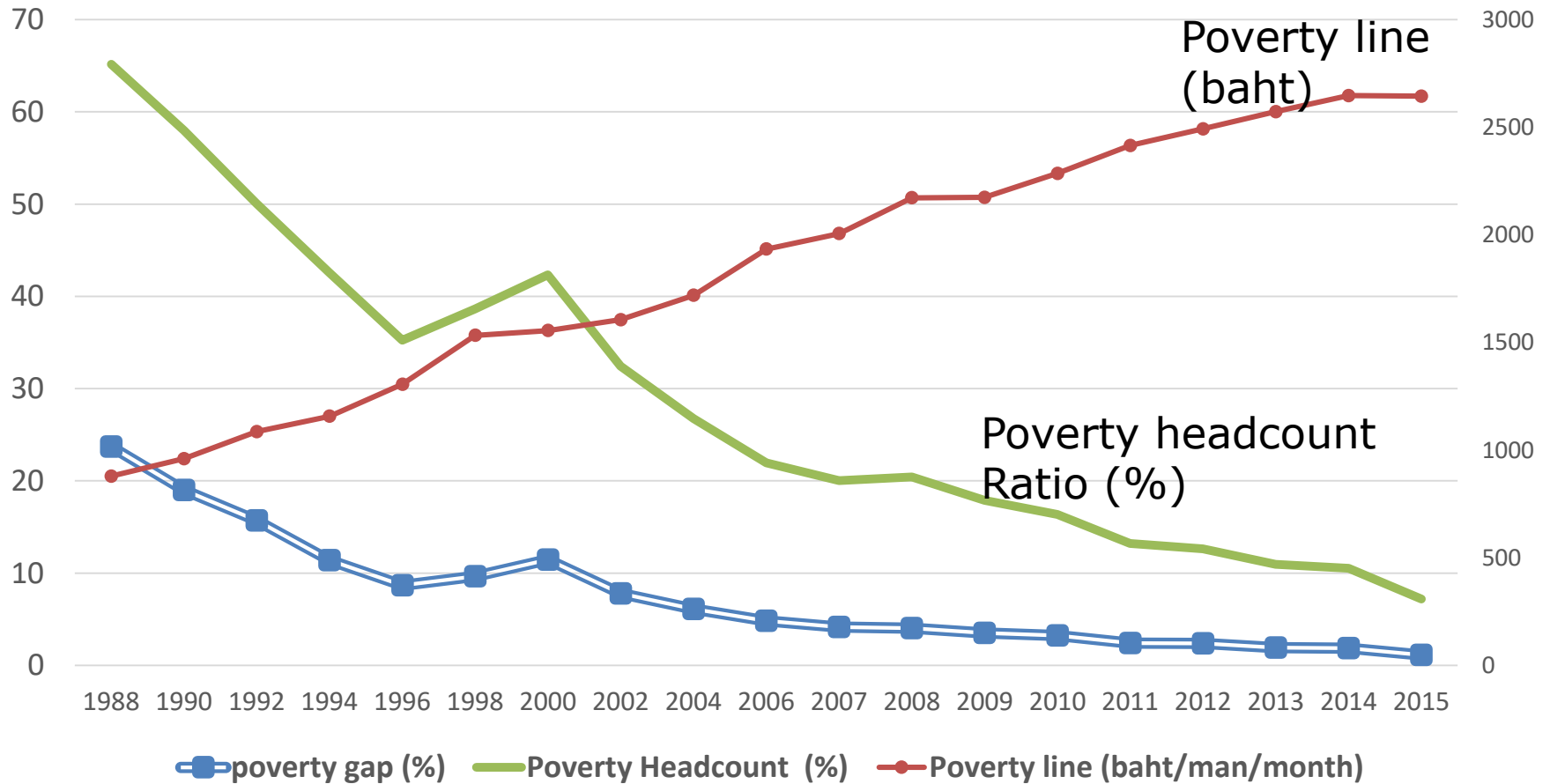


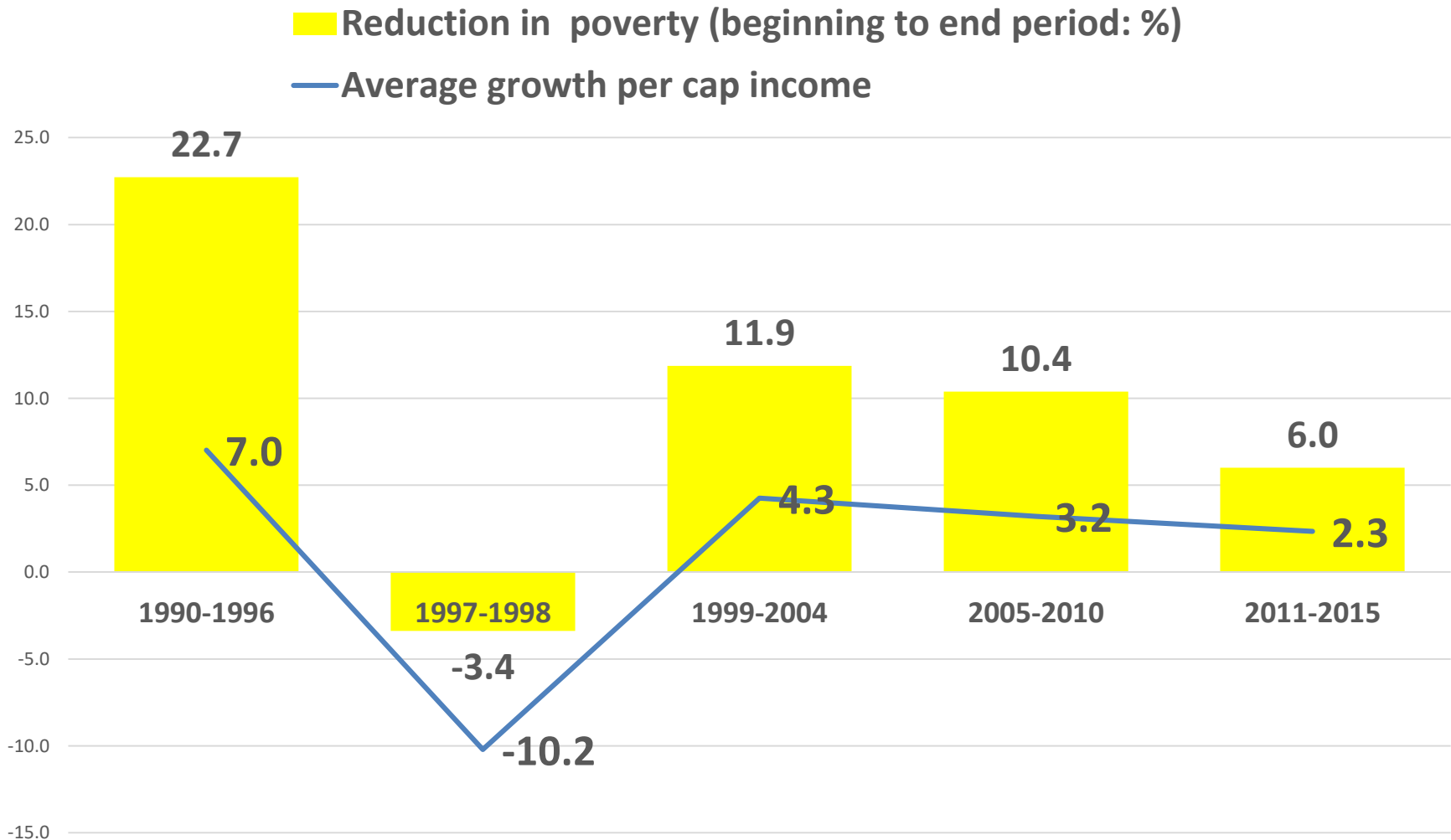
Figure 12.1 Declining Poverty

Poverty gap = (Poverty line – consumption expenditures of the poor)



Narrowing poverty gap (%) implies the poor are less hungry

Figure 12.2 Poverty Reduction and Income Growth



The higher the income growth rate, the faster the poverty reduction 9

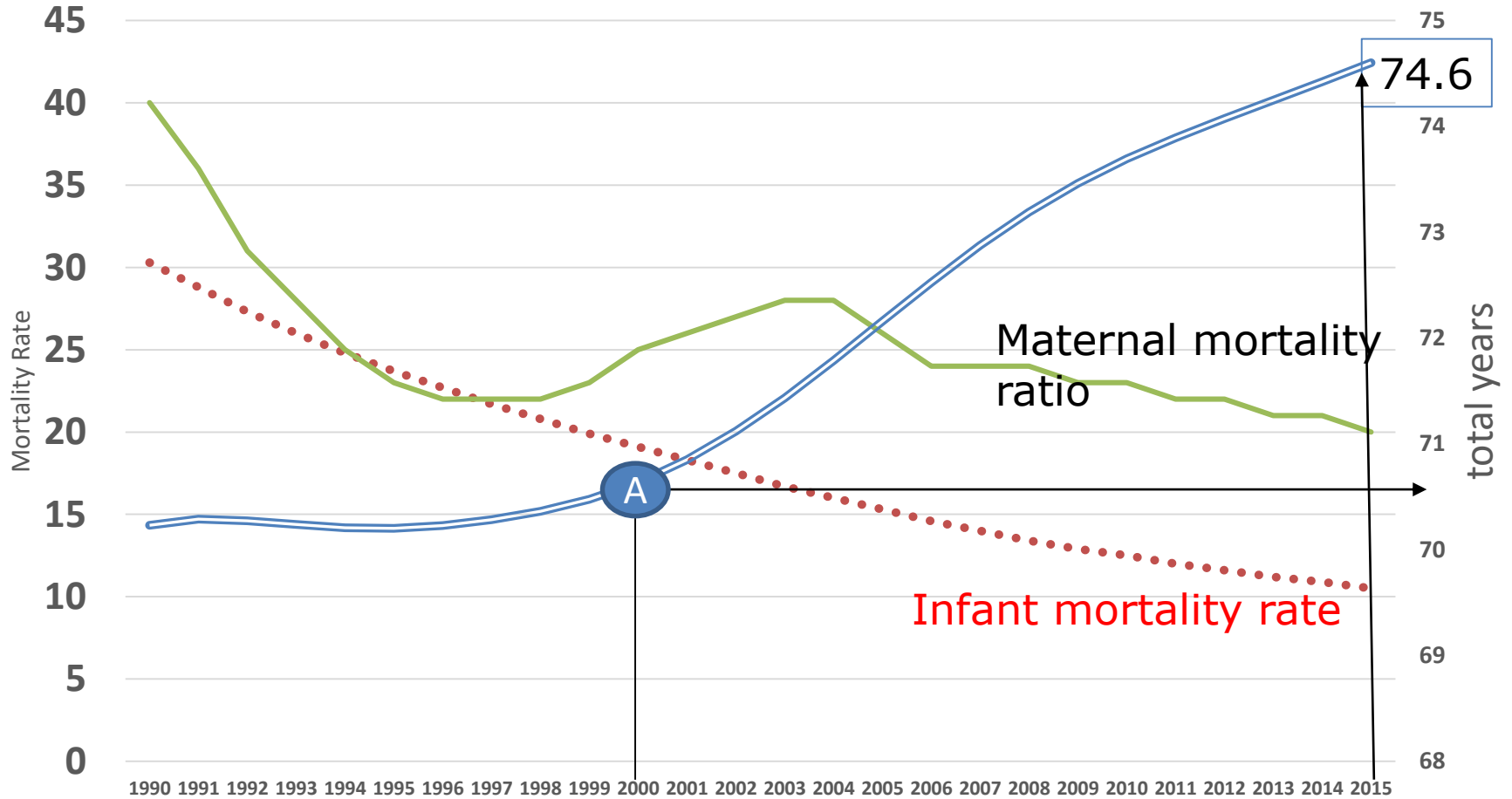
But **income poverty** is just a part of the whole story

All these numbers seem to differ but have one thing in common. They are all based on monetary measures, revealing income or expenditure poverty.

The figures only tell part of the story. They do not reflect other forms of poverty and the many **overlapping disadvantages experienced by the poor: Malnutrition, poor sanitation, lack of electricity or limited access to schooling, let alone qualitative aspects such as empowerment and participation.**

Mortality and Life expectancy

Source: World Development Indicators



- Mortality rate, infant (per 1,000 live births)
- Maternal mortality ratio (modeled estimate, per 100,000 live births)
- Life expectancy at birth

Growth and poverty reduction: A positive correlation

- Large reductions in absolute poverty incidence in Thailand, Indonesia, Malaysia, and the Philippines over the period from 1960s to 1999 were related to high rate of economic growth (Peter Warr, 2000).
- In Thailand, the income share of the bottom 20% is correlated with the GDP growth.

Hence, growth is good for the poor.

Favorable impact of growth: poverty alleviation

- High growth years were followed by a drastic reduction of the number of the poor.
- The percentage of the poor, i.e. people who live below poverty declined from 32 % in 1988 to 11% in 1996.
- ***When growth rate fell below the trend growth path*** in 1982 and 1986, poverty alleviation in subsequent years was not as effective as during the boom years.
- During the financial crisis in 1998, the percentage of the poor rose to 13%.
- With sustained high growth in **China** in the last three decades, the poverty eradication is remarkable.

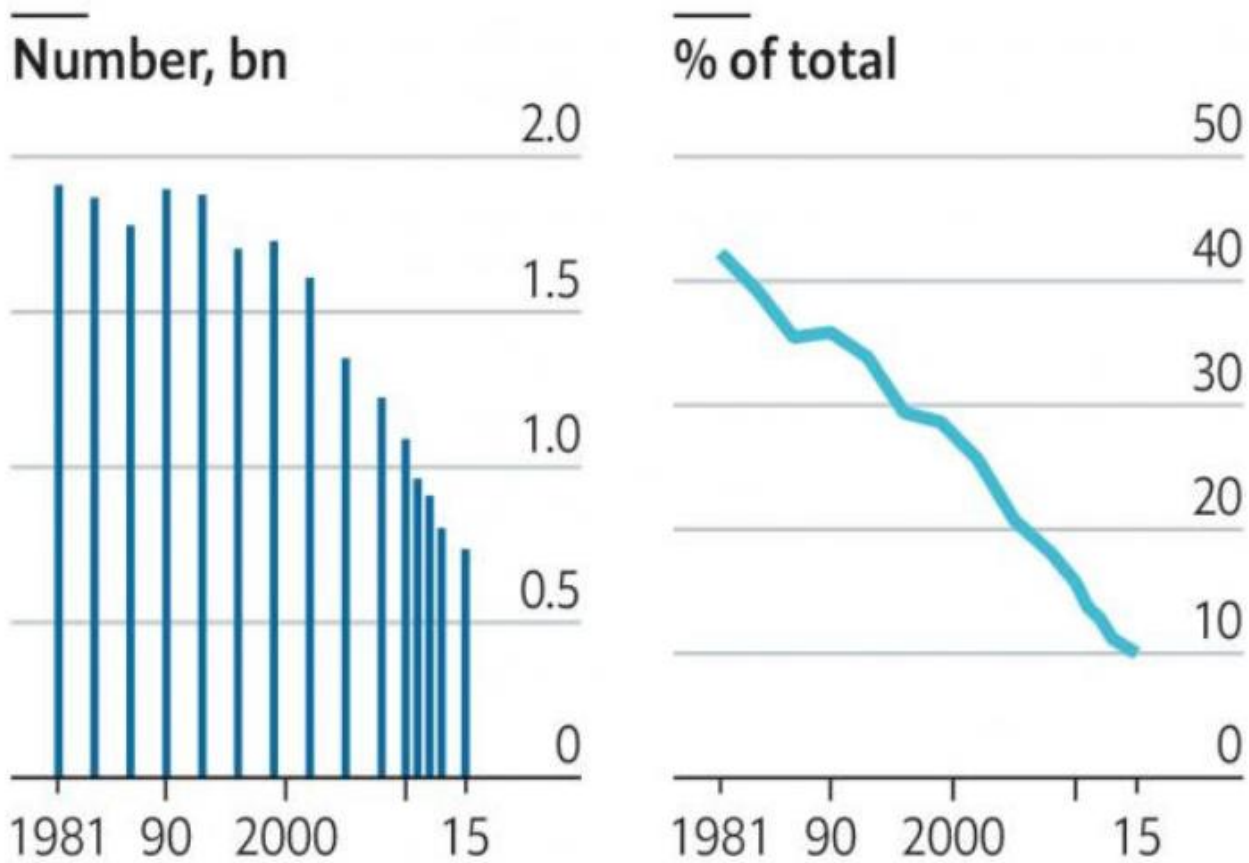
A poor result: poverty

In 1992 the United Nations designated October 17th the International Day for the Eradication of Poverty. As a day, this lacks the obvious appeal of International Jazz Day (April 30th), World Television Day (November 21st) or International Mountain Day (December 11th). And you will probably be able to walk down the street today without tripping over somebody hunched over the latest World Bank poverty numbers. But that is a pity, because the numbers are worth celebrating. In 1993 just over a third of people worldwide were extremely poor. At the last count, in 2015, one in ten were. There are various reasons for the drop, including better agricultural technology and less awful government in Africa. But the big reason is China. Since the first international poverty day, the proportion of people in the world's largest country who are afflicted by extreme want has fallen from 57% to below 1%. Three cheers for that.

In 1992, there were 57 % of Chinese who were extremely poor, but 2019, the percentage drops below 1%.

Penury progress

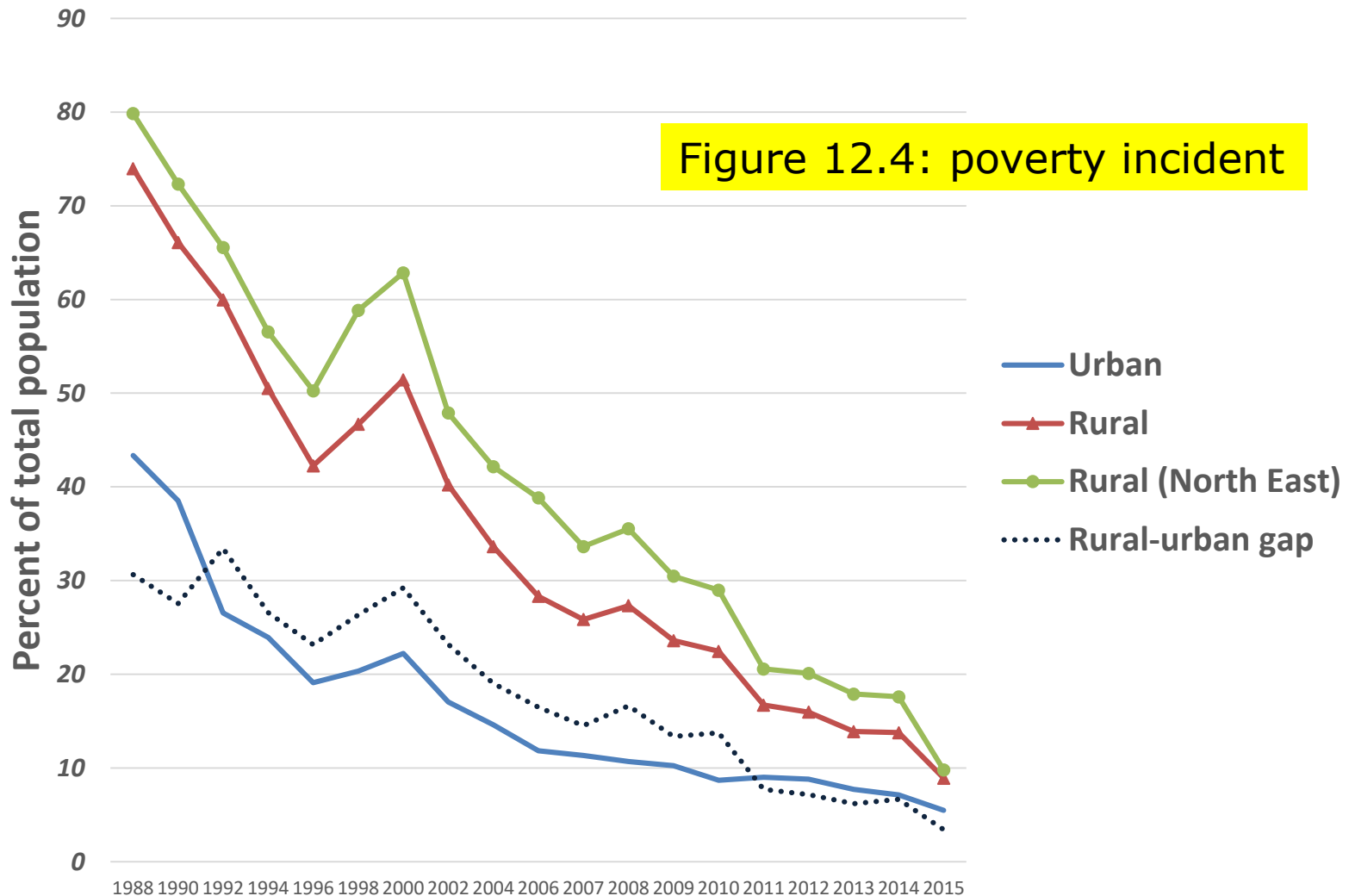
World, people living on less than \$1.90 a day*



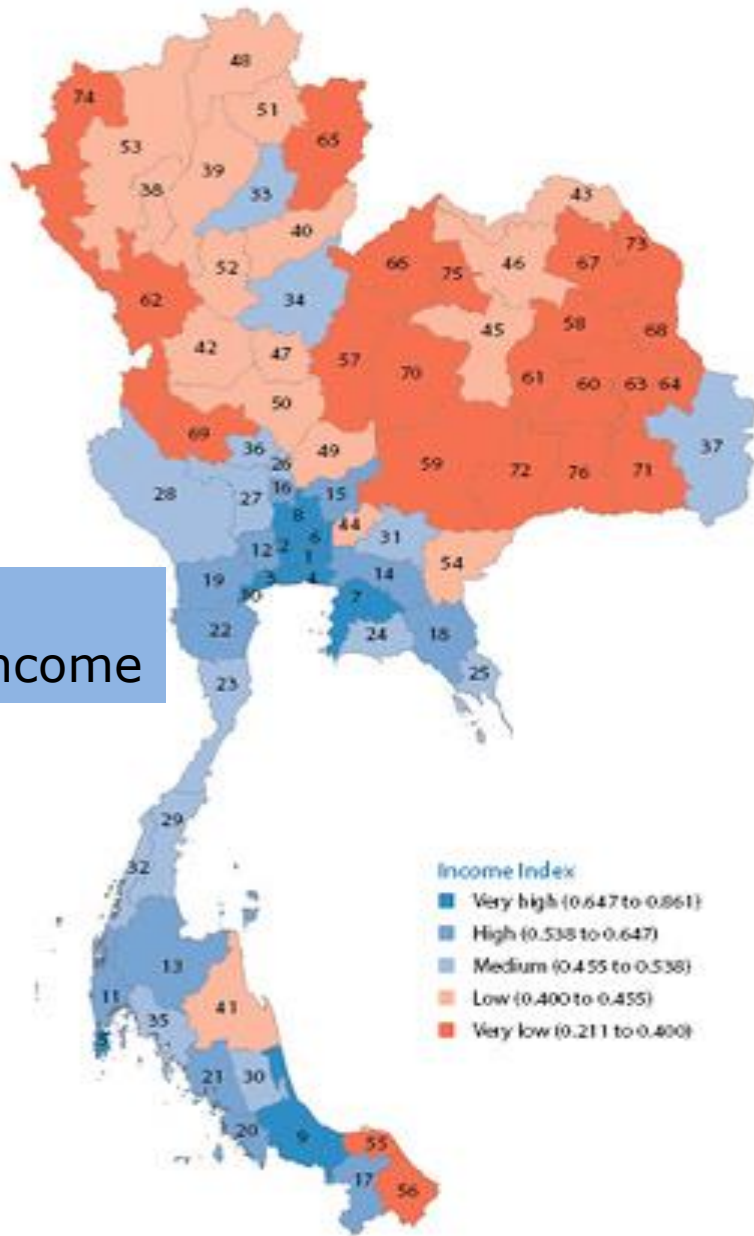
Source: World Bank

*2011 prices at purchasing-power parity

2. Urban vs. Rural Poverty



ANNEX I
Human Achievement Index



Income Index

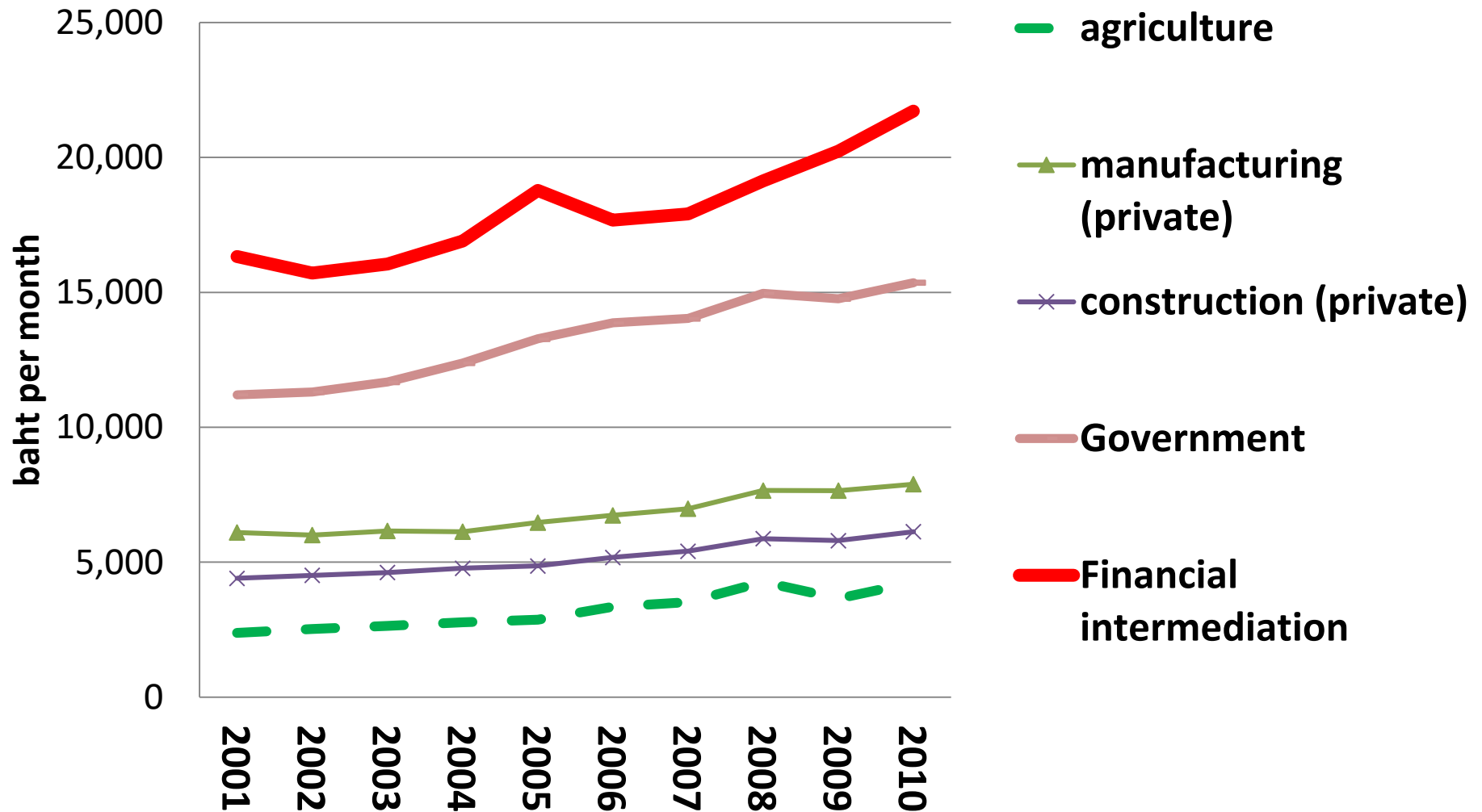
- Very high (0.647 to 0.861)
- High (0.538 to 0.647)
- Medium (0.455 to 0.538)
- Low (0.400 to 0.455)
- Very low (0.211 to 0.400)

- Rank
- 1 Bangkok
 - 2 Nonthaburi
 - 3 Samut Sakhon
 - 4 Samut Prakan
 - 5 Phuket
 - 6 Pathum Thani
 - 7 Chon Buri
 - 8 Phra Nakhon Si Ayutthay
 - 9 Songkhla
 - 10 Samut Songkhram
 - 11 Phangnga
 - 12 Nakhon Pathom
 - 13 Surat Thani
 - 14 Chachoengsao
 - 15 Saraburi
 - 16 Ang Thong
 - 17 Yala
 - 18 Chanthaburi
 - 19 Ratchaburi
 - 20 Satun
 - 21 Trang
 - 22 Phetchaburi
 - 23 Prachin Buri
 - 24 Rayong
 - 25 Trat
 - 26 Sing Buri
 - 27 Suphan Buri
 - 28 Kanchanaburi
 - 29 Chumphon
 - 30 Phatthalung
 - 31 Prachin Buri
 - 32 Ranong
 - 33 Phrae
 - 34 Phitsanulok
 - 35 Krabi
 - 36 Chai Nat
 - 37 Ubon Ratchathani
 - 38 Lamphun
 - 39 Lampang
 - 40 Uttaradit
 - 41 Nakhon Si Thammarat
 - 42 Kamphaeng Phet
 - 43 Nong Khai
 - 44 Nakhon Nayok
 - 45 Khon Kaen
 - 46 Udon Thani
 - 47 Phichit
 - 48 Chiang Rai
 - 49 Lop Buri
 - 50 Nakhon Sawan
 - 51 Phayao
 - 52 Sukhothai
 - 53 Chiang Mai
 - 54 Sa Kaeo
 - 55 Pattani
 - 56 Narathiwat
 - 57 Phetchabon
 - 58 Kalasin
 - 59 Nakhon Ratchasima
 - 60 Roi Et
 - 61 Maha Sarakham
 - 62 Tak
 - 63 Yasothon
 - 64 Amnat Charoen
 - 65 Nan
 - 66 Loei
 - 67 Sakon Nakhon
 - 68 Mukdahan
 - 69 Uthai Thani
 - 70 Chaiyaphum
 - 71 Si Sa Ket
 - 72 Buriram

Dark orange:
Very Low income

Dark blue
Very high income

Limited upward mobility: From low to high income (productivity)



Principal source of income for the poor is their labor

- The poor earn income from their own assets (i.e. their labor, which are largely unskilled)
- Agricultural land (not as important as labor)
- Economic development that increases the ***demand for labor*** and land raises the income of the poor and consequently reduces the poverty incidence.
- ***Import substituting industrial policy*** does not advance the welfare of the poor since it does not significantly increase the demand for ***the principal resource which they own—unskilled labor***.

Debt and Minimum Wages

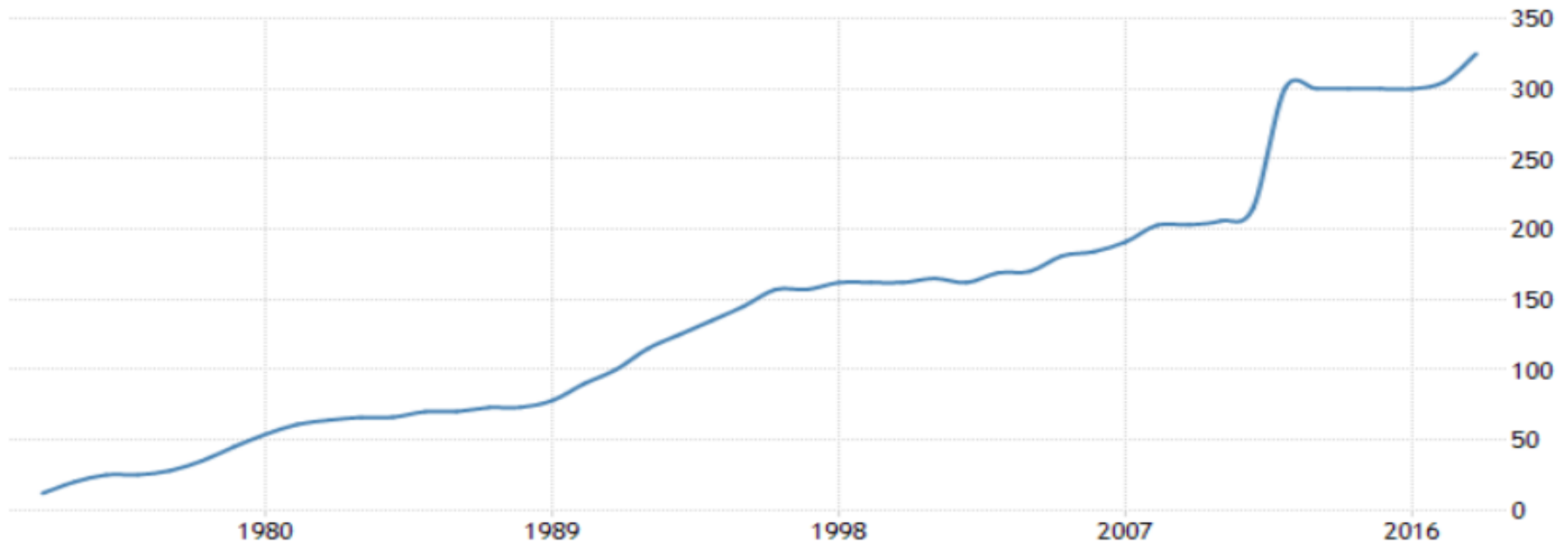
- In April **2016**, the **average debt** per household was 119,062 baht.
- ***Loans from unorganized (informal) markets*** represented **60%** of debt.
- The debt incurred mainly by daily expenses, vehicles, and residential property purchases.
- **The study recommends daily wage to make them afloat is 356 baht.**
- The minimum wage is supposed to provide a living wage for a family with two children.

BoT regulation

Max loan-to-Income ratio: **credit cards**

Income range (baht)	Loan-to-income Ratio
15,000-30000	1.5
30,000-50,000	3.0
50,000 +	5.0

Minimum Daily Wage increased to 325 baht/Day in 2018 from 305 baht in 2017. In 1973, it was 12 baht



SOURCE: TRADINGECONOMICS.COM | BANK OF THAILAND

3. Farm prices and poverty

Global commodity prices



DESPAIR: A rice farmer in Ayutthaya's Bang Sai district takes a break from her routine work in the fields. Like most other farmers, she is in a financial predicament due to farm debts. (Photo by Pattanapong Hirunard)

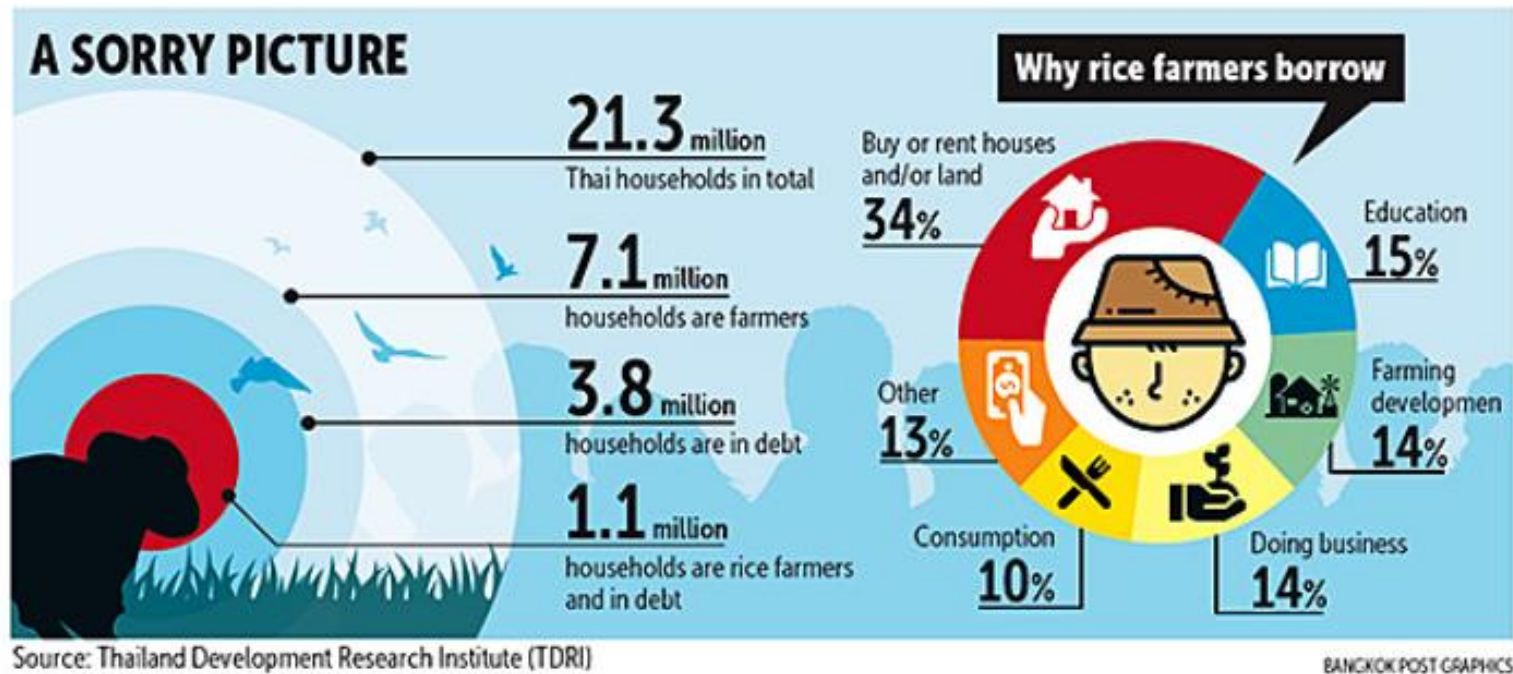
Farm debts and despair

Farmer debt, most incurred by rice farmers, rose from 2.4 trillion baht in 2016 to 2.8 trillion baht as of last year, according to the National Statistical Office (NOS).

Among 3.8 million debtors with state-funded loans, 1.1 million of them are farmers, according to the NOS.

Last August, hundreds of rice farmers gathering in front of commercial banks and the Bank for Agriculture and Agricultural Cooperatives (BAAC) demanded help.

The government granted them debt relief, with an interest hair-cut.

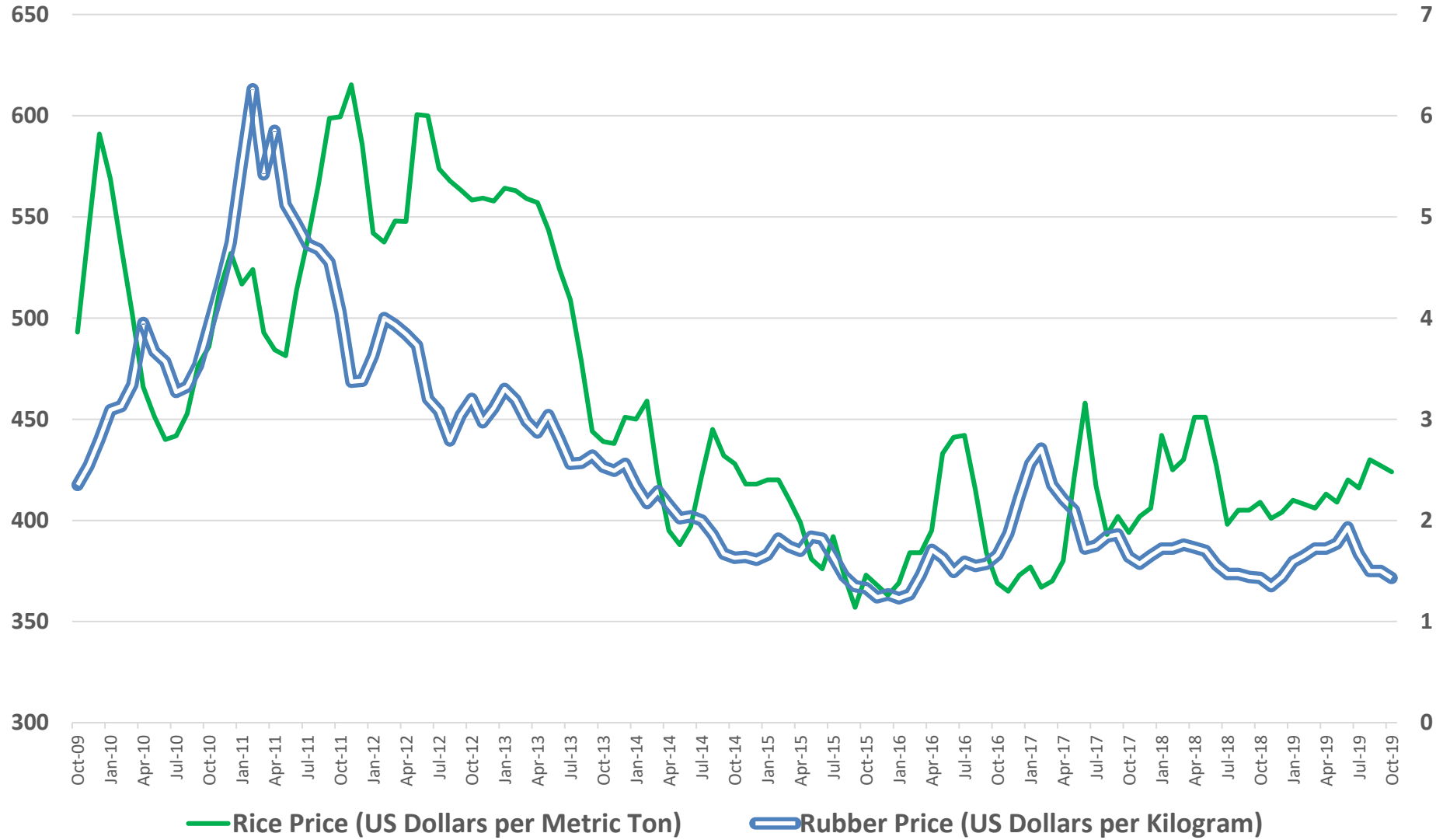


But the bigger question is how to tackle farmers debt so it disappears for good.

Commodity prices and poverty reduction

- Between the periods 1990-1996 and 2005-2010, both global prices of rice and rubber were favorable to Thai farmers.
- The speed of poverty reduction was strong.
- **Commodity slumps** during the period 1997-1998 and the period 2011-2015 resulted in a **decelerated the poverty reduction.**
- Most of the time, prices of rice and rubber ***moved in tandem.***

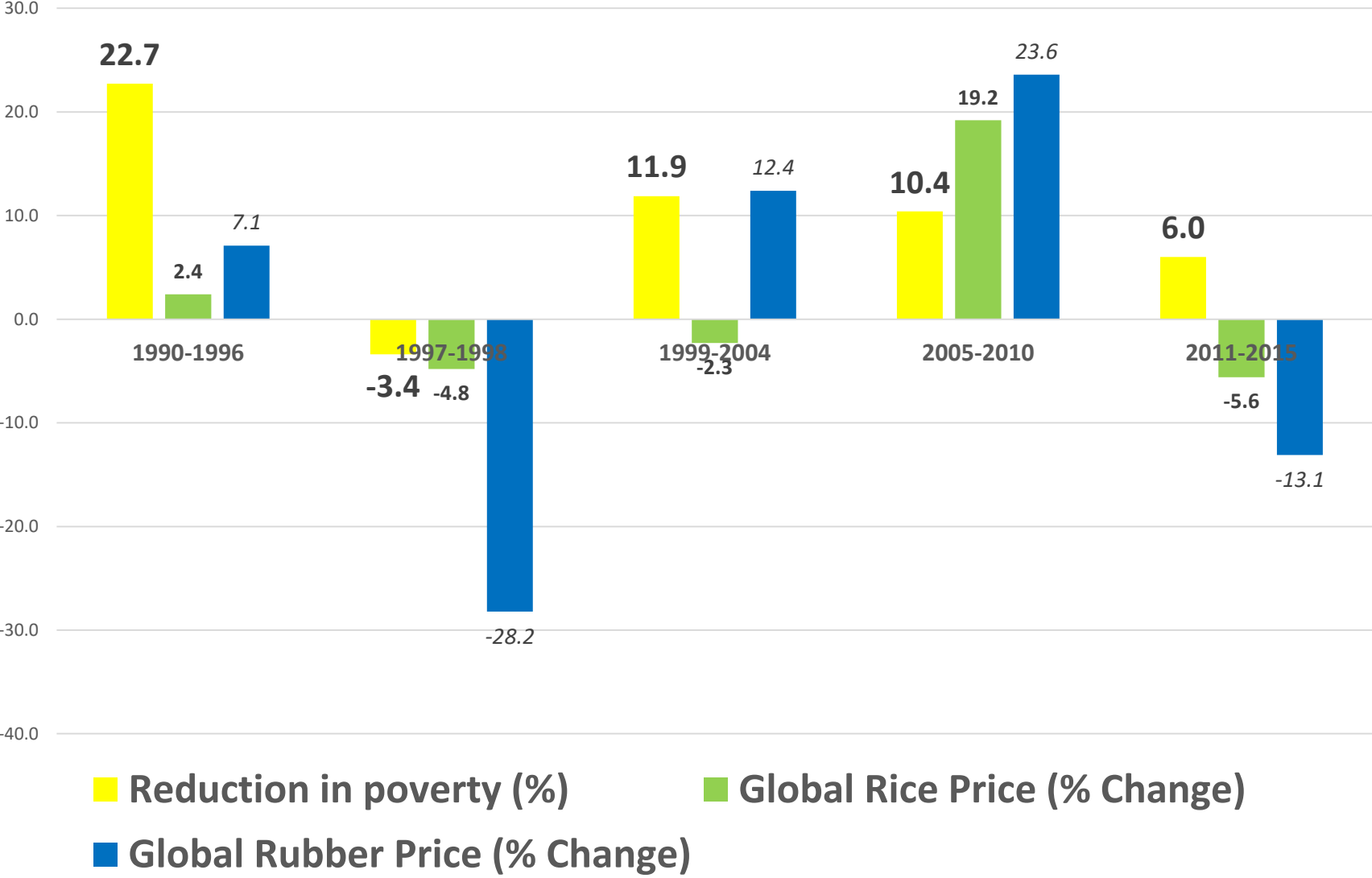
Rice and Rubber Prices



Commodity Prices and poverty reduction

- However, between 1999-2004, they moved in opposite direction.; Rubber price went up by 12.4 % and the rice price went down by 2.3%. Yet the poverty continued to decline by 11.9 %, thanks to the high export prices of *maize* and *tapioca* during the same corresponding periods.
- Indeed, **poverty reduction depends significantly on the strength of commodity prices.**

Figure 12.3 Global Commodity Prices and Poverty Reduction



What do farmers get when food prices go up?

Spend *more* on inputs; therefor they earn *less* from selling farm produces at high prices

The paradox of high farm prices for small farmers

- All input costs — water, fertilizer, seeds, machines, labor and fuel — have gone up, while prices obtained for the final produce have not risen commensurately.
- Withdrawals of subsidies by public authorities has further aggravated the burden.
- This has made farmers with **small land holdings** unviable.

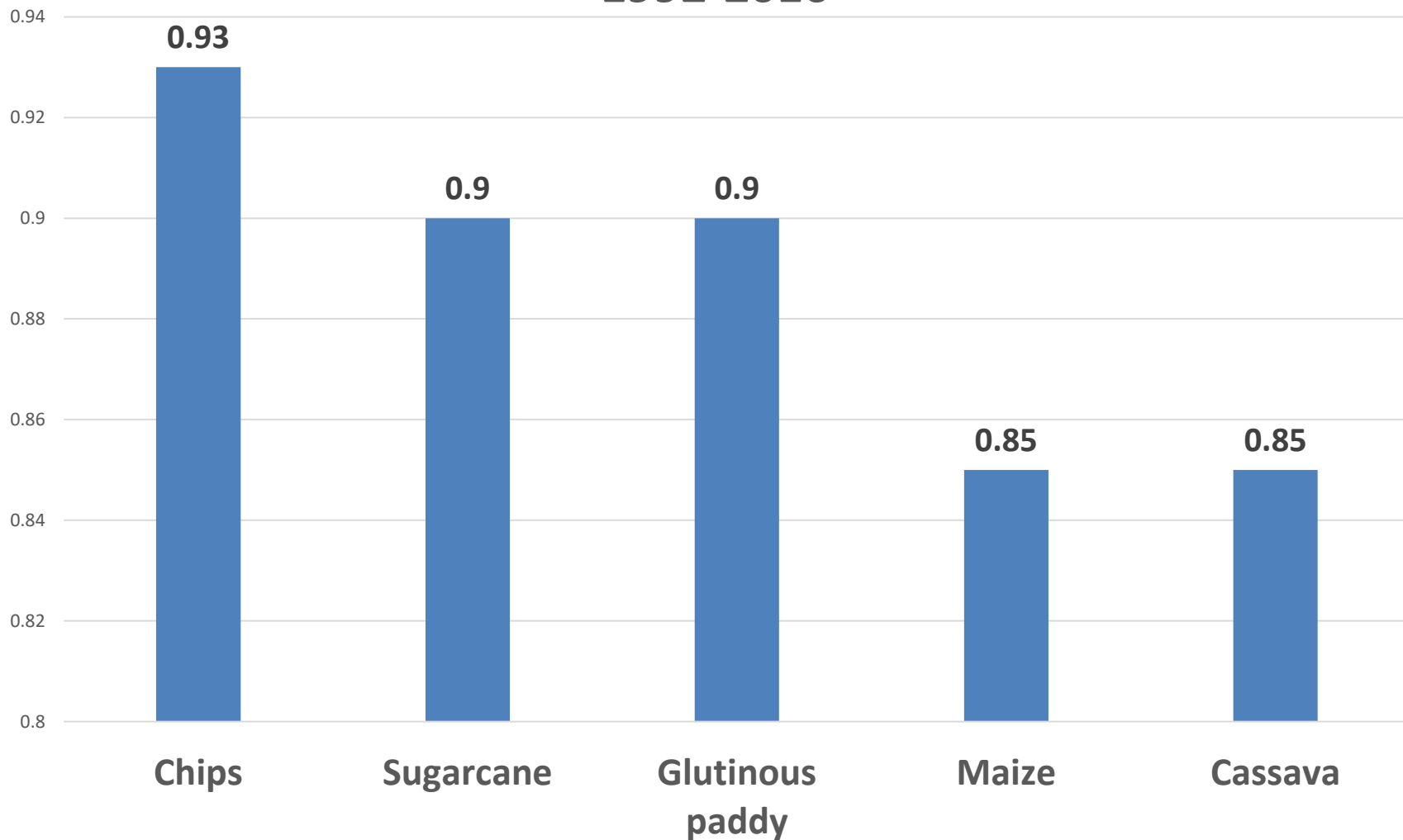
Large vs. small farmers

- The food price crisis affected the small and marginal farmer, and less severely, the medium one.
- **Large farmers are thriving during the food crisis in 2008, which worsen rural inequality.**
- Income inequality does exist in rural areas ***where farm lands are not evenly distributed.***

Why large land-holders do well while the smaller ones fail?

- **Big farmers** have a large area under cultivation, yielding more marketable **surplus** and they can **bargain** for more remunerative prices for their produce.
- **Small holders** have low production (due to less area) and, thereby, less marketable surplus.
- Their transactions costs (i.e., transporting grains to markets, lacking storage barns) are also very high.
- Large farmers also have **access to credit**, extension, technology, which the small holders do not.
- *Should farmers switch from paddy to other crops?*

Figure 12.5: Correlation Coefficients of Jasmin Paddy Prices with other crops 1992-2016



A complete eradication of poverty by 2018, said
Dr. Somkid

- Between 1990 and 2015 the proportion of people going hungry in the ***developing world*** fell by nearly half, from 23.3% to 12.9%. Absolute numbers fell, too, by 216m.
- Unlike many of the 169 targets set for the United Nations' ***Sustainable Development Goals, ending hunger and malnutrition by 2030*** is both laudable and atypically specific.
- None of which makes this easier to achieve, as a progress report published today by five UN agencies will reiterate—especially against a backdrop of a ***changing climate***.

Climate change can hamper world's poverty reduction

- Poverty also depends on how we deal with the problem of climate change.
- Ever-harsher droughts and floods will undermine efforts to grow enough food for the 795m who remain **undernourished**, plus 2bn extra mouths that demographers expect by 2050.
- At the same time, agriculture accounts for 21% and **rising of global greenhouse-gas emissions**.
- ***More crop fields means fewer forests***, which absorb planet-heating carbon.

4. Inclusive Growth

- Economic growth ***must generate employment, reduce poverty, and mitigate inequality***: Inclusive growth.
- **Virtuous cycle of growth** can reduce poverty through increasing employment with rising productivity.
- Growth ***may not*** help the poor due to segmented labor markets and labor immobility: ***exclusive growth***

Neo-Liberal View on Growth

- **World poverty and income inequality fell over the past two decades** due to rising density of economic integration across national borders (One of the deep determinants of economic development).
- Over the past 20 years, the number of people living on less than \$1 a day has fallen by 200 million.
- With 38% of the world's population, China and India *shape* the world trends in poverty and inequality.

Anti-globalization view: A counter argument for trade

- According to this view: World poverty and inequality have been **rising** not falling due to force unleashed by ***globalization***.
- There is **no** systematic relationship between openness and poverty reduction (True, false, or uncertain in the case of Thailand?).
- If so, why have Vietnam and Myanmar opened their economies to FDI and trade?

Anti-globalization view on development policy

The role of visible hand and government intervention

- To promote equality, ***market rules which are in favor of the rich*** should be lessened, **more non-market influence** on resource allocation to counter the tendency of free market should come into public and political attention.
- Thaksin's 30 baht universal health care program
- **PCOC** (500 baht per head for the poor, welfare cards—free goods and transportation for the 11 million poor) and a lot more to come as new year gifts in 2018.
- ***More gifts in 2019 for the elderly*** (1000 baht plus)

Invisible foot: intensifying competition

- Joseph Berliner once called the “Invisible Foot,” the neglected counterpart to Adam Smith’s “Invisible Hand.”
- Young firms make a substantial direct contribution to creating jobs.
- They can also make an indirect contribution to job creation by forcing incumbent firms out of their defensive crouch and into a fight to retain and gain market share.
- Consumers will also stand to benefit from this kick of the invisible foot as competition forces down prices and gives rise to entirely new products and services.

The role of the Thai government

- Since public spending on education, health, welfare services can mitigate the plight of the poor,
- Thailand's public spending on health and welfare increased gradually during the past three decades, from 1.2% of GDP to 2.4% during 1997-2000.

Average years of Thailand's total schooling in 1990 and 2009
This is absolutely shocking!

	1990	2009
Youth (Aged 15–24)	7.2	10.6
Male	7.0	9.8
Female	7.5	11.4
Adults (Aged 25 and over)	4.6	6.6
Male	5.0	6.9
Female	4.1	6.2

(Too late to re-tool)?

(low cognitive ability for
Those who are now 55 years old plus)

Schooling in Contrast: Bangkok and the Deep South

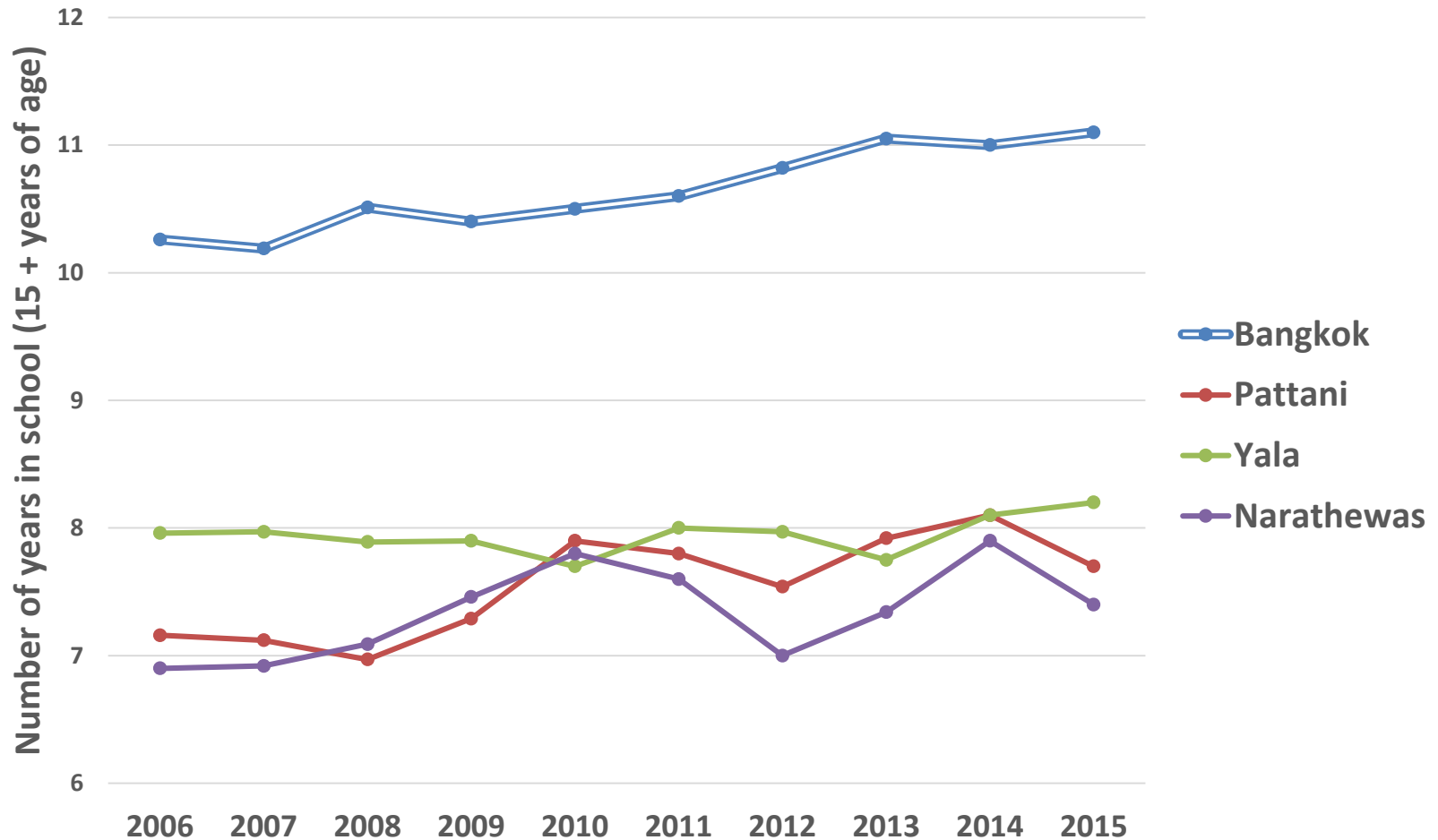
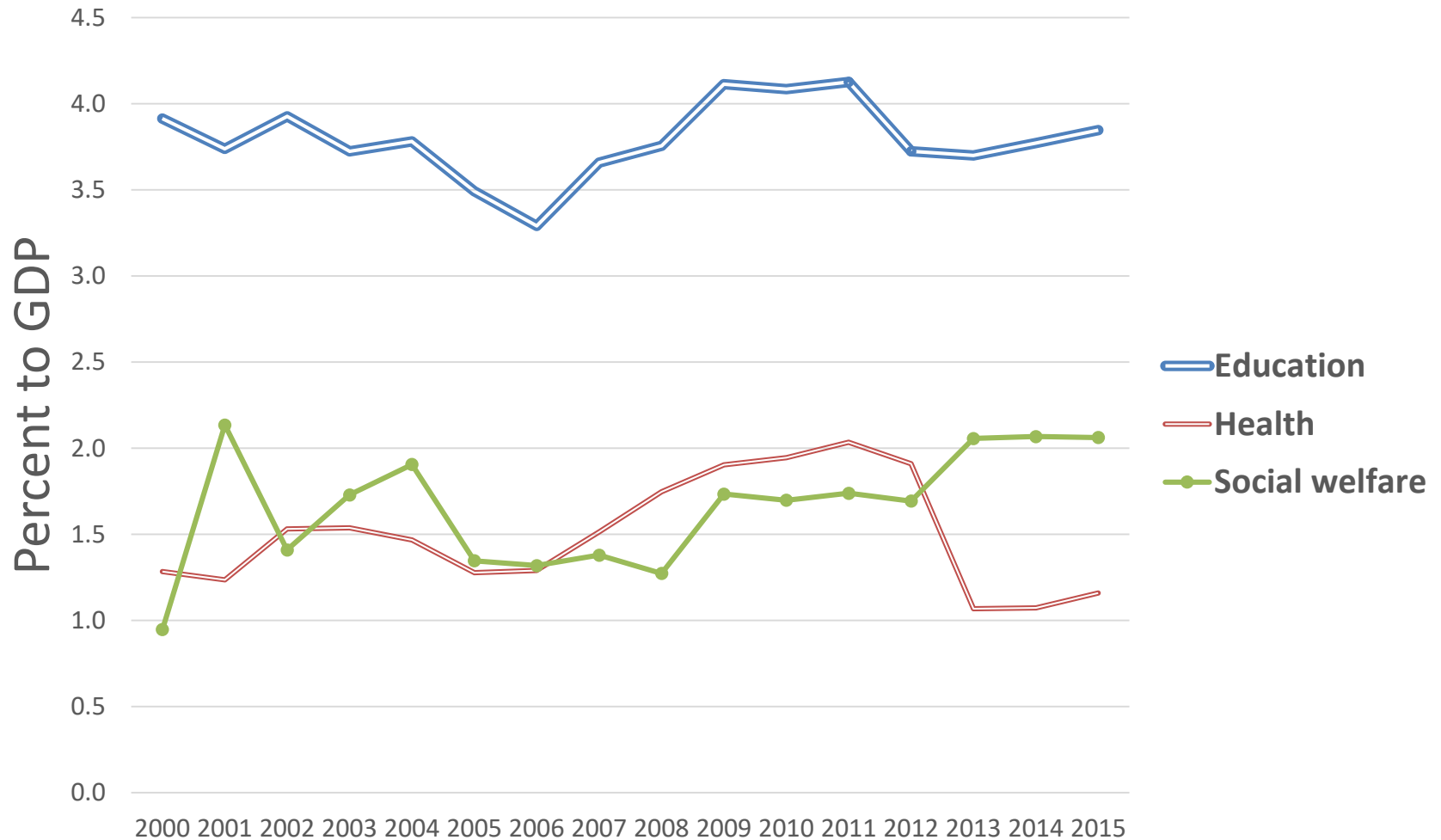


Figure 12.14: Public Spending on Human and Health Capital



Education attainment and poverty

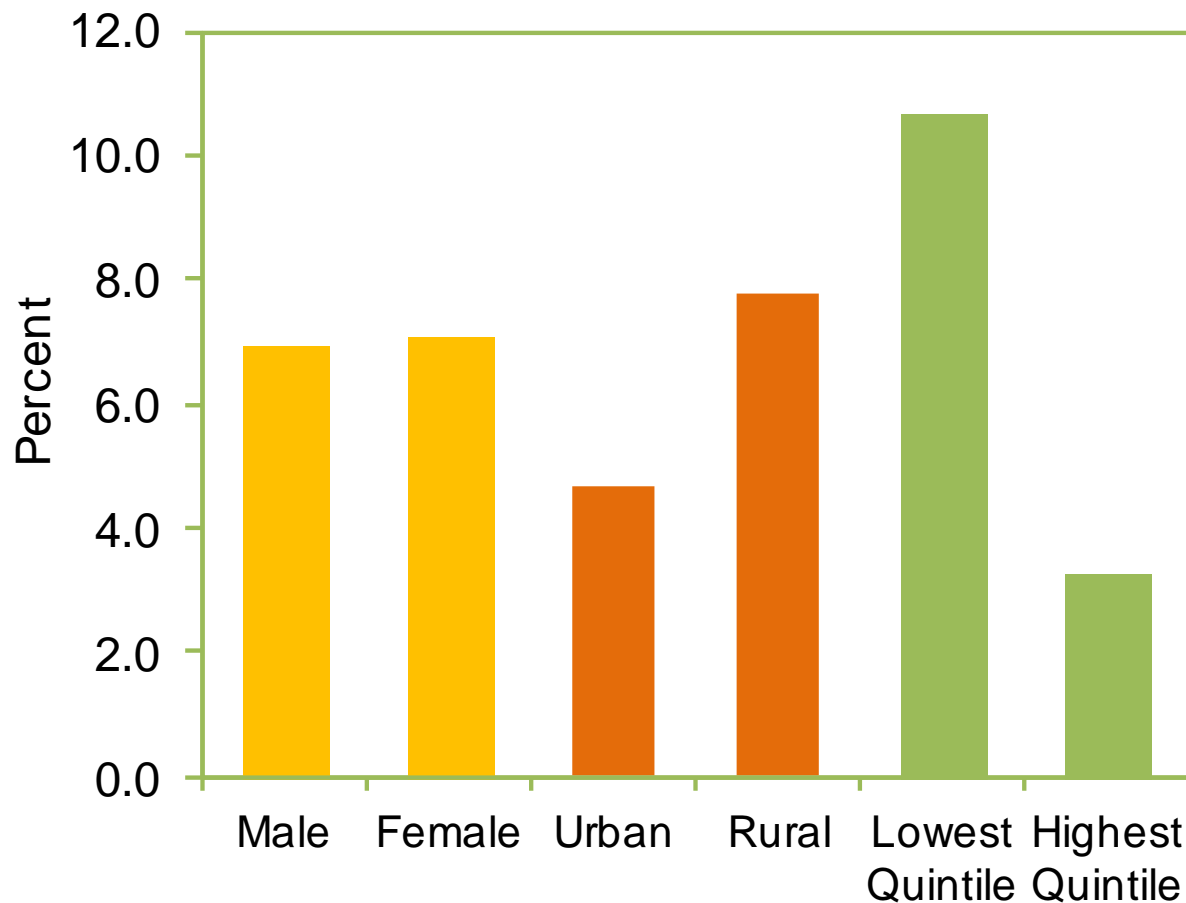
Mincer Earning function



5. Non-monetary aspects of poverty

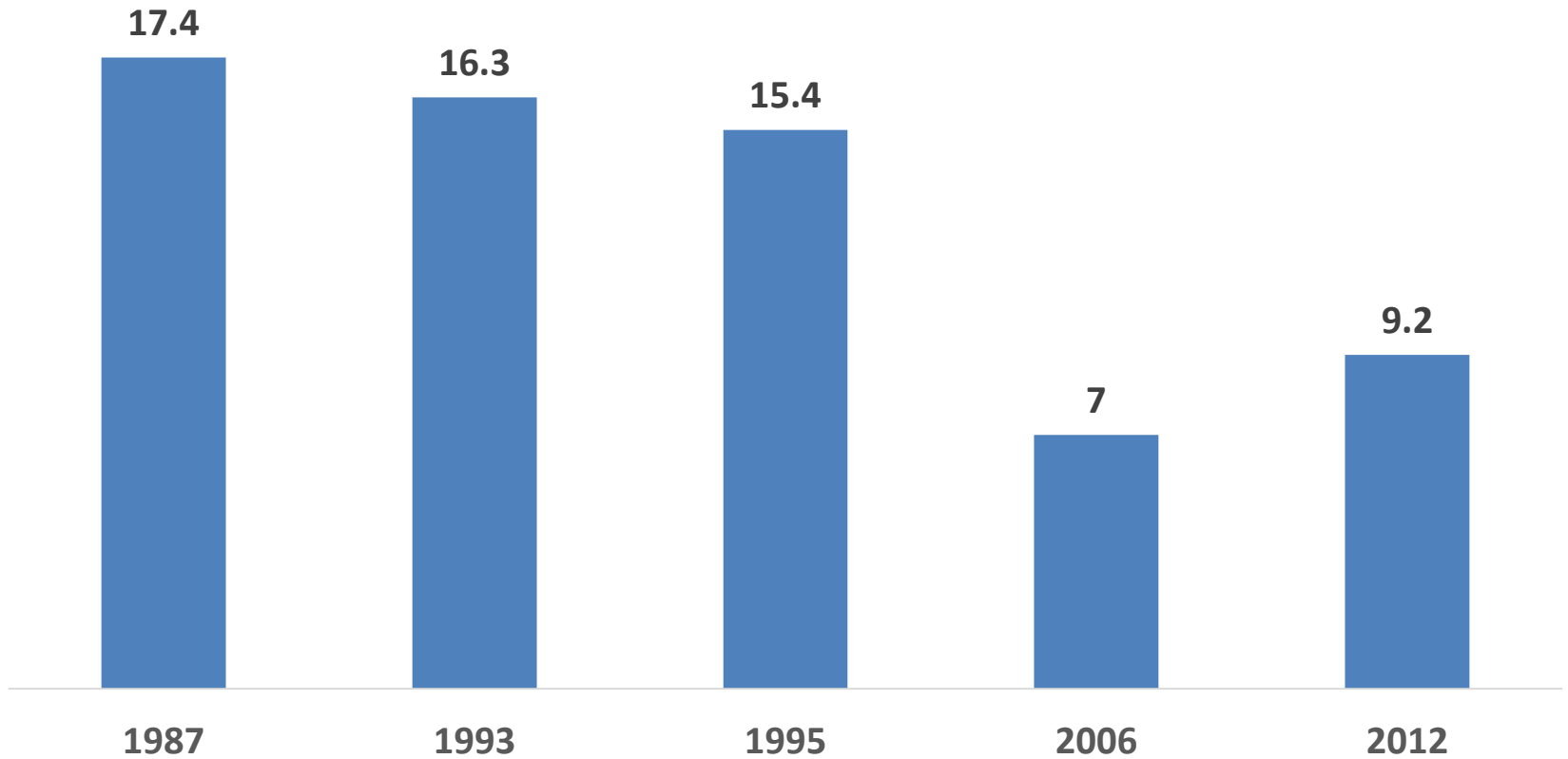
Underweight and undernourishment

Children under five – Underweight, 2006



The stark contrast
Between the rich
and the poor, between
Urban and rural area
Not much of gender
inequality though.

**Prevalence of Underweight
weight for age (% of Children under 5)
Source: NESDB**



Underweight implies undernourishment, which declined over the last decades

The first five years of our lives are extremely important

- **Nutrition** (*in utero*) before birth and in infancy may set the stage for the chronic disease burden that an individual will face in middle age.
- **Childhood health** may also have significant effects on economic outcomes in adulthood.
- Collectively, *a set of childhood health measures* can account for a large fraction of the explained variance in employment and social status.

Cognitive abilities

- **Cognitive abilities** are **brain-based** skills we need to carry out any task from the simplest to the most complex.
- Cognitive skills have more to do with the **mechanisms of how we learn, remember, problem-solve, and pay attention** *rather than* with any actual knowledge.



Non-cognitive abilities

- Non-cognitive abilities include: A set of attitudes, willpower, behaviors, and strategies that are thought to underpin success in school and at work, such as motivation, perseverance, and self-control.
- These non-cognitive abilities attribute to wage premium.
- Taller workers receive a substantial *wage premium*.
- More recent research argues that cognitive abilities explain *the positive height-wage relationship*.

“Height, Health, and Cognitive Function at Older Ages”

Anne Case and Christina Paxso (AER: May 2008)

- There are many reasons why height may be associated with better cognitive function, health, mental health, and activities of daily living at older ages.
- **Height** *is a marker of early childhood health and nutrition*, both of which affect cognitive development.
- Together, childhood environment and cognitive development affect educational attainment and school achievement and, later, occupational choice.
- All of these may in turn affect health and cognitive function in old age.

**“Height, Health, and Cognitive Function at Older Ages”
Anne Case and Christina Paxso (AER: May 2008)**

Education is thought to be protective of health status, in part through the role that education (or the level of abstract reasoning that accompanies education) plays in supporting *adherence to medical protocols*.

If you are tall, most likely your cognitive and non-cognitive ability will also be high, and so will your salary

- Using data from Britain's National Childhood Development Study (NCDS), they show that **taller children have higher average *cognitive and non-cognitive* test scores**, and that each aptitude accounts for a substantial and roughly equal portion of the stature premium.
- Together these abilities explain why **taller people have higher wages.**

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สยามรัฐ | สยามรัฐออนไลน์

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What kids need every day:

Two glasses of milk

One egg

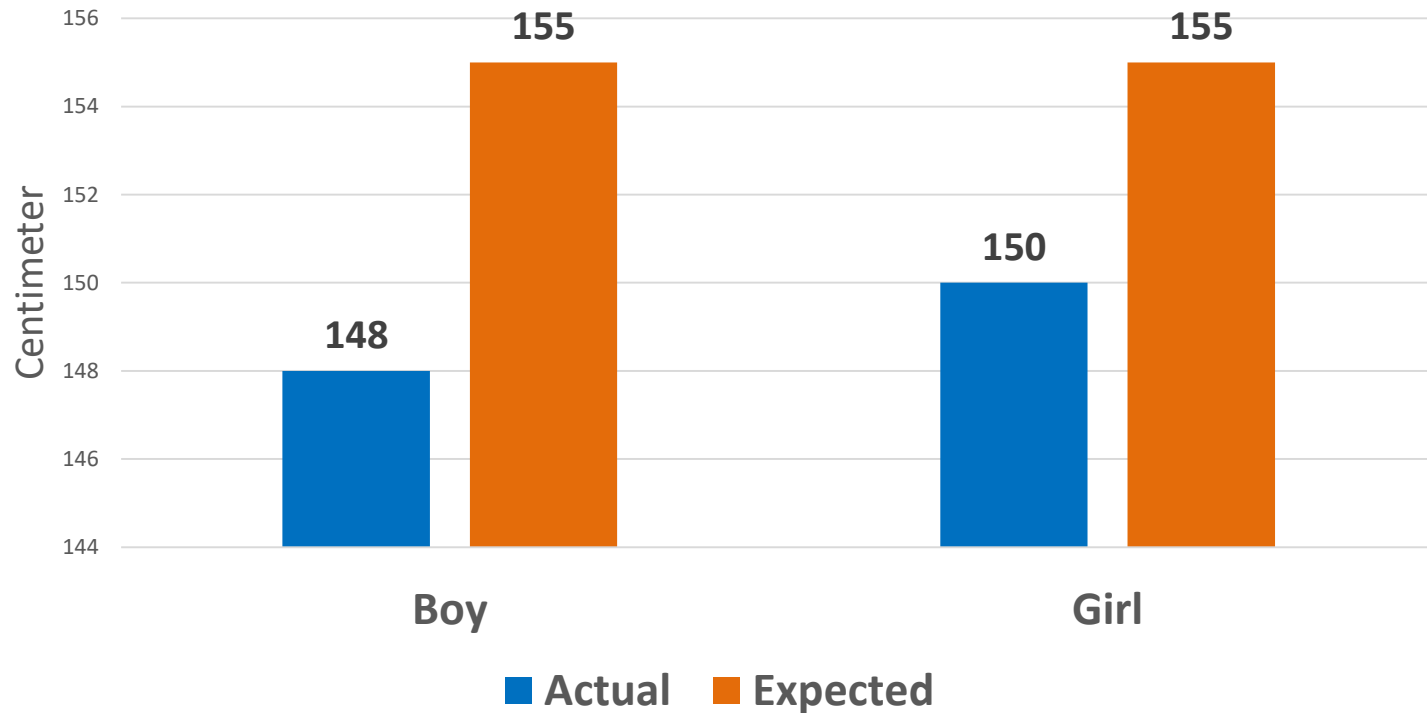
10 hours of sleep

60 minutes of jumping up and down



8.8 % of Thai kids (6-14 years old) are not as tall as they are supposed to be

The average height of 12 years old kids
(2019)



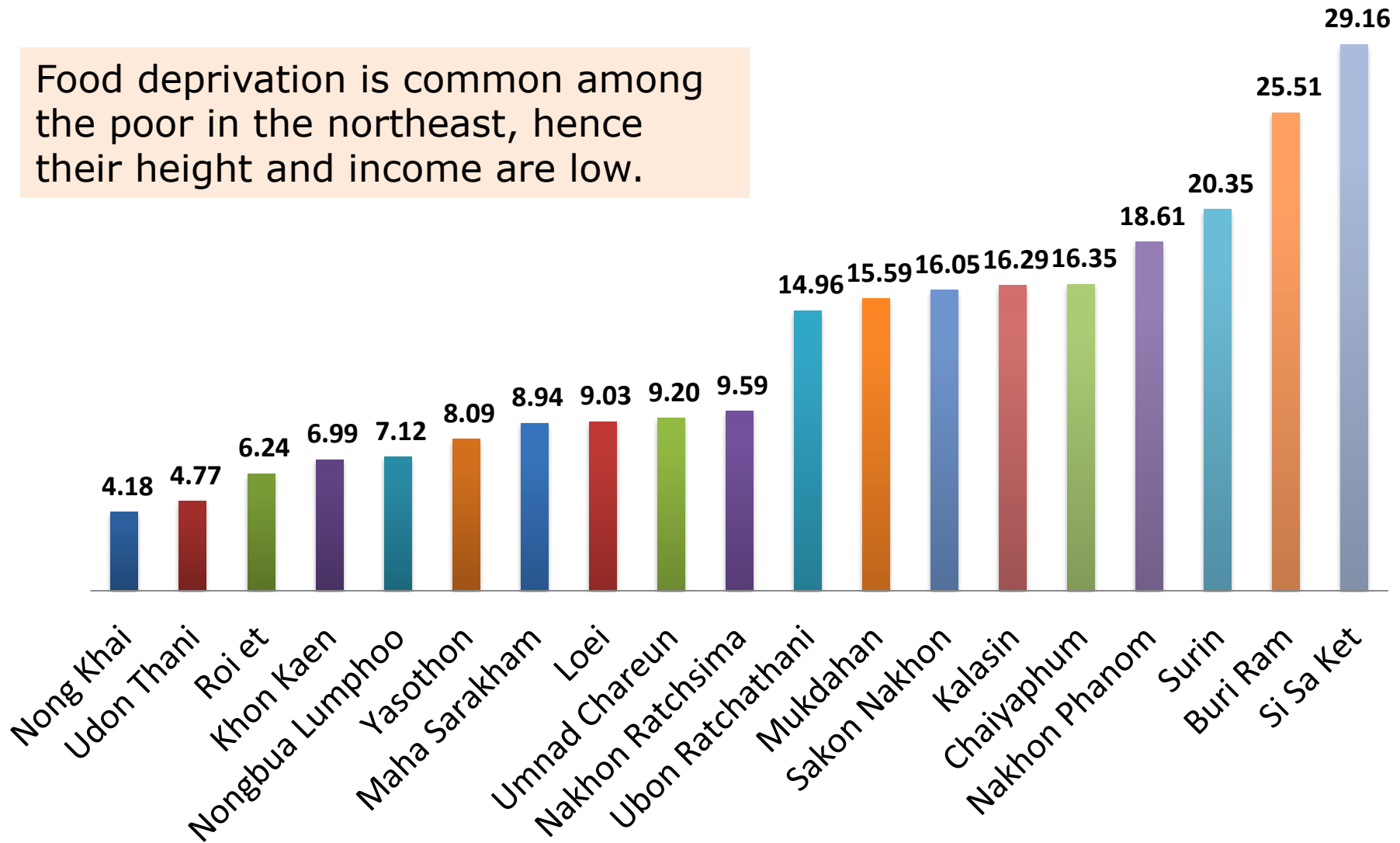
A disappointing outcome

- Because of the low level of cognitive ability, poverty, and ineffective schooling and teaching methods,
- Thai children spent 12.4 years in schools, on the average , but its outcome was equivalent to 8.6 years of learning. Almost three years were lost in memorizing facts without critical thinking.

Poverty in the northeast

% of people living below the poverty line in 2007

Food deprivation is common among the poor in the northeast, hence their height and income are low.





Review Questions

- How did global economic crisis *affect* poverty in Thailand?
- How were the poor affected by the current commodity price collapses?
- What were be the impact of the growth slowdown (2014-2019) on poverty?