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Emerald Article: Is growth good for the poor? Thailand's boom and bust

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Abstract *In the past two decades, Thailand experienced a prolonged economic boom followed by a collapse. During the boom the incidence of absolute poverty fell dramatically but relative inequality increased. The collapse of 1997 had the reverse effects. The poor became significantly worse off in an absolute sense but proportionately less so than the rich; inequality thus declined. The significance of these events depends on a fundamental question: does the welfare of the poor depend on their absolute standard of living, as reflected in measures of poverty incidence, or on their position relative to the rich, as reflected in measures of inequality?*

Introduction

> While politicians claim credit for Thailand's buoyant economic growth, the poor have little to applaud. Only the rich are getting richer. . .

So began a major review article entitled "Growth hides rising poverty", appearing in the Thai press at the end of 1995[1]. The article appeared at what proved subsequently to be the end of a sustained period of economic growth in Thailand, one of the most dramatic economic booms experienced anywhere in the post-war world, and just prior to the onset of the current economic crisis, the most severe economic contraction in recent Thai history. For almost the entire decade ending in 1995, the Thai economy had been the fastest growing in the world. Over this decade real GDP had been increasing at close to 10 per cent per year and over 8 per cent per head of population, placing Thailand firmly within that group of "miracle" East Asian economies whose remarkable performance economists were so anxious to explain (World Bank, 1993). But the above-mentioned article and many like it implied that the economic growth, so called, produced benefits only for the rich, and that poverty was actually worsening. If these claims were true, then the social value of Thailand's economic growth would surely be doubtful.

Sentiments like the above are expressed frequently by academics and journalists alike, and not merely in Thailand. The faster the growth, it seems, the more it is despised. When the growth stops, these statements are not heard. In 1997 Thailand's growth was close to zero and in 1998 real GDP declined by around 8 per cent, or around 9 per cent per person. Many observers noted the adverse implications this contraction would have for the poorest people, including the same writers who had earlier dismissed the value that past growth may have had for the poorest people.

But if economic growth really offered little for the poor, as claimed, the reverse would surely apply as well. The cessation of growth, as in Southeast Asia's present economic crisis, would presumably present few, if any,

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hardships for poor people. Is it true that the poor did not benefit from past growth and is it conceivable that they could have been unharmed, or even have benefited, by the recent contraction?

As with numerous other Asia-Pacific countries, Thailand's economic policies have for decades been directed towards fostering economic growth. The desirability of the growth that has resulted is therefore of great interest. Obviously, the value of economic growth is open to question on many grounds, including its environmental impacts, its effects on traditional cultures, rates of urbanisation, and so forth (Warr, 1993). But controversial as each of these matters has been, its effects on the poor have been at least as contentious, and they are the focus of this article.

Part I of the paper summarises Thailand's economic boom and the subsequent crisis of 1997. Part II considers the impact that these economic events have had on Thailand's poorest people. It is possible for the absolute standards of living of the poor to improve, even while their relative position is deteriorating, and vice versa. Thailand's experience provides a stark illustration of both of these seemingly perverse phenomena.

The basic question is thus what determines the welfare of poor people: is it their absolute or relative position? I shall argue for the former.

I. From miracle to débâcle

In early 1996 Thailand was the darling of the international development set. Although almost all observers had specific criticisms of Thailand's performance, agencies like the World Bank, the International Monetary Fund and the United Nations Development Program were celebrating Thailand's overall economic record as a model of sustained development (Robinson *et al.*, 1991). Over almost a decade, Thailand had experienced an unprecedented boom, with moderate inflation and seemingly healthy foreign exchange reserves.

The currency crisis of 1997 suddenly changed all that. Internationally, Thailand was now seen as the initiator of a "contagion" that infected the financial markets of Southeast and East Asia, undermining economic and political stability and bringing hardship to millions of people. Countries as far away as Europe, the USA and Australia nervously anticipated the inevitable negative effects on their exports to East Asia. Japanese banks dreaded the prospect of massive non-repayment of loans. The very commentators who had previously been so impressed by the Thai experience now cited it as an example to be avoided. What had gone wrong?

Causes of the crisis

In Thailand as well as elsewhere, ethically-deficient currency speculators have been blamed for the collapse, but the financial panic was the culmination of much deeper forces. First among these was the economic boom itself, extending over the previous decade. From 1988 to 1995, Thailand's real GDP grew at an unprecedented rate, Indonesia and Malaysia were not far behind and the

Chinese economy was also booming. In each of these economies, the boom was fuelled by dramatic export growth and high levels of capital inflow, consisting of both long-term direct foreign investment and short-term capital inflows, including bank loans from abroad and speculative portfolio investment (Warr and Nidhiprabha, 1996). Within Thailand, the result was unprecedented business optimism, reflected in enormous property market speculation and construction in Bangkok. Risk taking was paying off.

All this ended in 1996. Much of the investment in real estate and commercial office space proved to be financially non-performing, destroying many of the companies which had financed it. Why had investors acted so imprudently? Euphoria induced by almost a decade of high growth was a major reason. The classic bubble economy is one in which real estate prices continue to rise well beyond levels justified by the productivity of the assets, but so long as the asset prices continue to rise, existing investors are rewarded and collateral is created for new loans to finance further investment, and so on – until the inevitable crash. Unrealistic expectations of continued boom are the underlying fuel for this process. These expectations are generally possible only after several years of sustained boom. The boom therefore generates the mechanism for a crash. This is why economic booms almost never peter out gradually. They collapse. In these respects, Thailand's financial panic was similar to many previous examples around the world, including the Mexican crash of 1994.

In the case of Thailand, there was another, less well understood cause for over-investment. Banking licences in Thailand are highly profitable. The issuance of new licences is tightly controlled by the Bank of Thailand. It had become known that the number of licences was to be increased significantly, and Thai finance companies immediately began competing with one another to be among the lucky recipients. To project themselves as significant players in the domestic financial market, many companies were willing to borrow large sums abroad and lend domestically at low margins, thereby taking risks they would not ordinarily contemplate. With lenders eager to lend vast sums, real estate was a favoured investment because purchase of real estate requires almost no specialist expertise, only the willingness to accept risk.

Thailand's capital market liberalisations also contributed to the crisis. The economic boom since the late 1980s had emboldened the Bank of Thailand, with IMF encouragement (Kochhar *et al.*, 1996), to remove almost all of its earlier restrictions on movement of financial capital into and out of Thailand. In part, the hope was to turn Bangkok into a regional financial centre, taking advantage of what was then expected to be an exodus of financial institutions from Hong Kong prior to the 1997 hand-over to China. But the liberalisation meant that speculative attacks on the baht were now much easier than previously. To attract large volumes of financial capital into Thailand it was necessary to demonstrate not only that entry was unobstructed, but that the exit was open as well.

The trigger: export slowdown

The underlying causes of the crisis were long-term, as discussed above, but the trigger that actually undermined confidence sufficiently to set a speculative attack on the baht in process was the collapse of export growth in 1996. The annual rate of export growth declined from around 20 per cent in previous years to approximately zero in 1996. The current account deficit rose to an unsustainable 8.3 per cent of GDP.

Several forces contributed to the slowdown of exports, but policy decisions played a major role. By pegging its currency to the US dollar, Thailand was badly affected by the large depreciation of the Japanese yen relative to the dollar which had occurred since 1995. While the baht remained pegged to the US dollar, it thereby appreciated relative to the yen by more than 12 per cent. On international markets, Thai goods became more expensive, relative to Japanese goods, and sales fell.

Largely as a result of the export slowdown, rumours of impending devaluation circulated throughout 1996. This provoked capital outflow and speculation against the baht because it produced the expectation of a devaluation. Once this expectation developed and mobile capital headed for the exit, the process was unstoppable. Because of its importance in triggering the crisis it is useful to look at this export slowdown in more detail. The slowdown of exports was widespread among Thailand's various export destinations but was greatest in exports to Japan, North America and the Chinese economies. This is shown in Table I. But by looking at the composition of exports by major commodity groups the nature of the slowdown becomes somewhat clearer[2]. The decline in exports was heavily concentrated in manufactured exports from labour-intensive industries such as garments, footwear and textiles[3].

The export slowdown has attracted many attempted explanations from observers of the Thai economy. Arranged in what would seem to be increasing order of importance, the causes of the export slowdown included the political events of the previous two years, monetary policy, Thailand's trade liberalisation, the congestion of industrial infrastructure, the falsification of export data to receive value added tax rebates, increasing competition in international markets from China since its devaluation in 1994, effective appreciation of the baht through pegging to the dollar while the latter appreciated relative to the yen from late 1995 through 1997, and a slowdown in demand in importing countries. Each of the above probably played some role, but the concentration of the slowdown in labour-intensive industries, shown in Table I, suggests that another factor was more important – the large increase in real wages that occurred over the preceding few years.

Real wages

Data on real wages provide a powerful explanation for Thailand's export slowdown and its concentration in labour intensive industries. Research at the

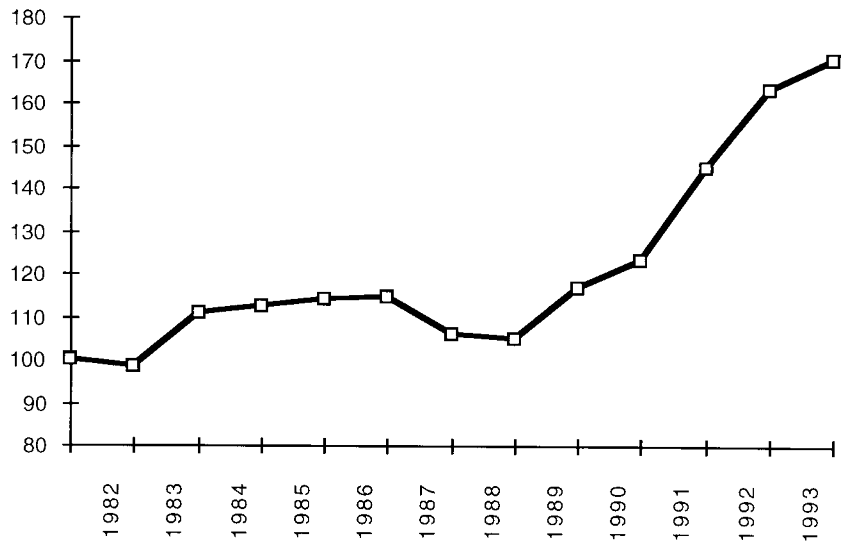
	1994	1995	1996
Total exports (US$ millions)	45,504	56,252	56,056
Growth rate (%)	20.9	23.6	–0.35
Composition by destination (%)			
ASEAN	18.2	19.9	19.3
Chinese economies	9.5	10.5	8.7
Japan	17.1	16.8	16.7
European Union	14.9	14.5	15.8
NAFTA	22.6	19.1	18.5
Rest of world	17.7	19.2	21.0
Growth rate by commodity (*% p.a.*)			
1 Computer and parts	44.9	38.7	31.3
2 Garments	12.4	1.3	–21.9
3 Rubber	43.3	46.5	1.4
4 Integrated circuits	27.5	28.4	3.4
5 Gems and jewellery	8.3	11.5	8.4
6 Rice	18.9	24.1	8.4
7 Sugar	41.2	67.2	11.7
8 Frozen shrimps	29.9	2.3	–17.8
9 Television and parts	26.2	12.7	14.1
10 Footwear	40.5	37.0	–40.9
11 Canned seafood	24.7	4.1	–0.3
12 Air-conditioner and parts	62.1	49.6	33.6
13 Plastic products	–29.1	102.2	51.4
14 Tapioca products	–13.6	–2.8	16.7
15 Textiles	4.5	22.1	–4.4
15 Commodities sub-total Value (US$ millions)	24,461	30,629	29,627
Growth rate (%)	20.7	25.2	–3.27
Share in total exports (%)	53.8	54.4	52.9

Source: Calculated from *Bangkok Post*, *Year-end Economic Review*, December 1996, p. 26

Table I.
Thailand: exports by destination and commodity, 1994 to 1996

Thailand Development Research Institute has recently produced a reliable series of real wage data for Thailand's manufacturing sectors. These data are reproduced in Figure 1 for the years 1982 to 1994. The data describe average nominal wages in manufacturing deflated by the consumer price index, re-indexed so that the level of real wages for 1982 is 100. Over the 12 years from 1982 to 1994, real wages increased by 70 per cent, but this increase was heavily concentrated in the years after 1990. Over the years 1982 to 1990 the increase was from an index of 100 to 117, an average annual compound rate of increase of 2 per cent. But over the following four years to 1994 the real wage increased to an index of 170, an average annual compound rate of increase in real wages of over 9 per cent!

During the early stages of Thai economic growth the rising industrial and services sector demand for labour could be satisfied from a very large pool of rural labour with relatively low productivity. The potential supply of unskilled rural labour was so large and so elastic that, as workers moved



Source: Thailand Development Research Institute, Bangkok.

Figure 1. Thailand: real wages, 1982 to 1994 (1982 = 100)

from agriculture to more productive jobs in the manufacturing and services sectors, it was possible for these sectors to expand their levels of employment without significantly bidding up real wages. Thailand was the classic Lewis "surplus labour" economy (Lewis, 1954). But as this process continued, that pool of "cheap" rural labour was largely used up, so that by the early 1990s labour shortages were becoming evident. Labour supply was no longer as elastic as it had been. Agricultural industries were themselves experiencing serious problems of seasonal labour shortages. Further increases in the demand for labour outside agriculture then led to rising wages.

With the end of the era of "cheap labour", Thailand's labour intensive export industries suffered declining competitiveness. The importance of this point is confirmed by the fact that the export slowdown shown in Table I was concentrated in labour intensive industries such as garments, footwear and textiles.

Thailand's export industries are especially vulnerable to increases in real wages for two basic reasons. First, many of Thailand's most successful export industries are highly labour intensive, implying that a given increase in real wages has large effects on their costs. Second, these export industries face highly competitive international markets for their products, where they must act as price-takers. This means that cost increases cannot be passed on in the form of increases in product prices, whereas producers for the domestic market may have greater scope for doing so.

Exchange rate policy

The export slowdown triggered a loss of confidence in the viability of the prevailing exchange rate. Nevertheless, there would have been no crisis had the Bank of Thailand not attempted to defend the existing rate in spite of this market perception. Since the late 1950s the exchange rate between the baht and the US dollar had been tightly controlled by the government's central bank, the Bank of Thailand, and since 1984 the rate had been maintained at around 25 baht/US$. The commitment to a fixed exchange rate meant that the bank stood ready to convert unlimited quantities of baht into foreign currency at this rate. But the significant slowdown in Thailand's export growth in 1996 convinced currency market traders that the rate could not be maintained. They responded by moving mobile financial capital offshore. The bank was determined to maintain its pre-announced policy of supporting the fixed rate, but could do so only by depleting its reserves of foreign exchange.

The bank maintained this stance for far too long. The enormous volume of funds presented to the bank for conversion into foreign currency surprised everyone, not least the bank itself. As the reserves dwindled, speculative pressure on the currency accelerated. These events culminated, on 2 July 1997, with the decision to float the baht. The rate immediately moved to 30 baht/US$. Confidence in the country's financial system had by then deteriorated so much that the rate continued to slide. By January 1998 it was 55, recovering by March to 40. Late in 1997 IMF assistance was requested, in return for which a stringent package of financial measures was required. In a desperate attempt to arrest the slide in the exchange rate the Bank of Thailand, with IMF support, raised domestic interest rates markedly, inducing a severe and protracted recession.

The underlying cause of Thailand's crisis was over-confidence, based on its long period of sustained boom. It seemed that the business practices and government policies that had been so successful in the past should be maintained. Why wouldn't they continue to work well? But both the international environment and the domestic economic environment had changed. Once the over-confidence was punctured, panic replaced it and the boom came crashing down. Thailand's very success thus contained the seeds of its undoing.

Despite the hardship it will bring, the large depreciation of the baht that has now occurred will stimulate the exports required for short-term recovery. The long-term future remains uncertain. Thailand's industrialisation was based on cheap labour, but that era is essentially over. It is now vital to move to more skill-intensive modes of industrial production.

At similar stages of their own development, Taiwan and Korea had invested heavily in education. Thailand lags badly, especially in secondary education (Khoman, 1993). Enrolment rates remain very low, even by Southeast Asian standards. Secondary education is a prerequisite for effective vocational training, and development of Thailand's base of skilled labour requires that secondary school enrolment rates increase significantly. A massive investment will be required.

II. Effects on the poor

How did the above events affect Thailand's poor? During the boom, the manufacturing and services sectors grew much faster than agriculture. The manufacturing and services jobs that this growth created were located heavily in urban areas. To participate in the boom, large numbers of people thus found it necessary to migrate from rural to urban areas and, in Thailand, this primarily means Bangkok. Thailand has by far the largest proportion of its urban population in a single city of any developing nation with a population over 10 million[4]. The supply of unskilled rural labour was so vast and so elastic that, despite the massive relocation of labour away from agriculture, real wages scarcely rose. This phase ended in the early 1990s with the increase in real wages noted above.

The crisis of 1997 changed all that. As the crisis developed, in spite of the inflation induced by the 60 per cent currency depreciation, money wages for unskilled workers actually fell, for many of those fortunate enough to retain their jobs, while food prices continued to rise. For the hundreds of thousands who lost their urban sector jobs, the immediate prospects were grim. Many returned to rural areas, but continued drought, agricultural mechanisation and the presence of vast numbers of illegal migrants from Myanmar and Laos meant that the prospects in rural areas were not promising either.

The rich were seriously affected as well, and proportionately even more so than the poor. The upper middle class suffered especially from the collapse in asset values, increased interest rates and the increased cost in domestic currency of servicing foreign debt. In Bangkok, a Sunday market quaintly called "the market for the formerly rich" developed in what is normally a busy street, in which upper income and middle income people devastated by the crisis could sell off personal possessions acquired during happier times.

For a more systematic study of poverty incidence and inequality, the periodic socio-economic surveys (SES) conducted by the Thai government's National Statistical Office (NSO) provide virtually the sole source of reliable information that can be compared over time (Krongkaew, 1993). The survey was conducted periodically prior to the 1980s. The earliest round of the survey for which poverty incidence can confidently be compared with later periods relates to 1975/76. Another was undertaken in 1981 and since 1986 surveys have been conducted every two years. Unfortunately, long delays between the collection of data and their public release mean that it will probably not be until the year 2000 before survey based data will become available on the impact that the crisis had on poverty incidence. These will be the 1998 results. But what do past data indicate about the relationship between poverty incidence, inequality and economic growth?

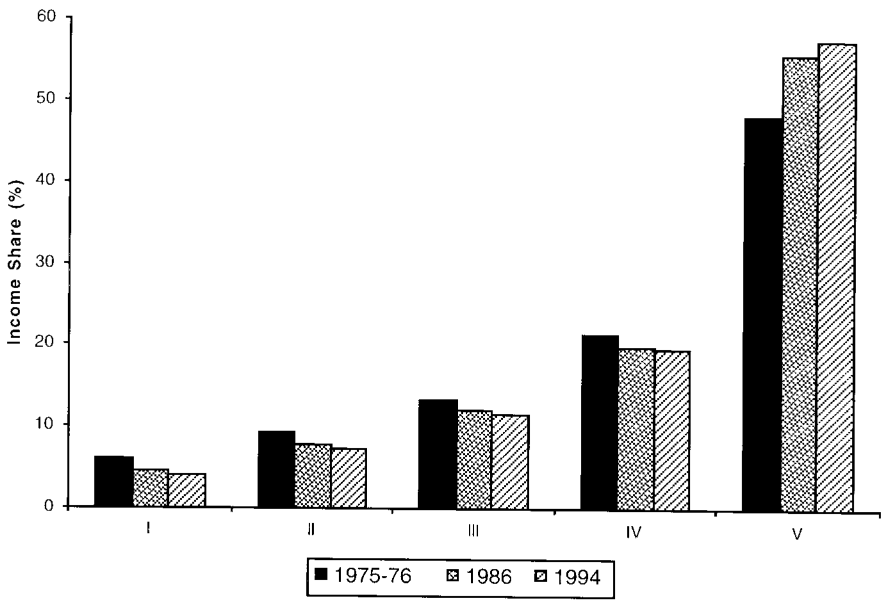
Despite the limitations of the underlying SES data, a clear picture emerges. These data are summarised in Table II. Relative inequality increased during the period of rapid growth, as indicated by both the Gini coefficients and the quintile group income shares summarised in the Table and in Figure 2. But at the same time, the incidence of absolute poverty fell dramatically. The headcount measure of poverty incidence – the proportion of the population whose incomes fall below a threshold kept constant in real terms over time – fell from almost 30 per cent of the total population in 1986 to less than 10 per cent in 1994, the latest year for which data are currently available in this form. This decline was not confined to the capital, Bangkok, or its immediate environs, the Central Plains. In fact, the largest absolute decline in poverty incidence occurred in the poorest region of the country, the North-East (see Table II).

Did economic growth contribute to poverty reduction? It is obvious that, over the long term, sustained economic growth is a necessary condition for large scale poverty alleviation. No amount of redistribution could turn a poor country into a rich one. But what does the evidence indicate about the short-run relationship between aggregate economic growth and poverty reduction?

Table II. Thailand: poverty incidence and income distribution, 1975/76 to 1994

	1975/76	1981	1986	1988	1990	1992	1994
Absolute poverty incidence							
Head count ratio (%)							
Whole kingdom	30.0	23.0	29.5	22.2	16.6	13.1	9.6
North	33.2	21.5	33.0	20.7	16.6	13.6	8.5
North east	44.9	35.9	42.7	34.5	28.3	22.3	15.7
Central	13.0	13.6	12.8	16.0	12.9	6.0	5.2
South	30.7	20.4	30.4	21.5	17.6	11.8	11.7
Bangkok	7.8	3.9	7.2	2.9	2.0	1.1	0.5
Relative inequality							
Income share by quintile (%)							
Quintile 1 (poorest)	6.07	5.41	4.55	4.60	4.20	3.94	3.99
Quintile 2	9.73	9.10	7.87	8.13	7.38	7.02	7.29
Quintile 3	14.00	13.38	12.09	12.46	11.50	11.06	11.60
Quintile 4	21.96	20.64	19.86	20.66	19.26	18.95	19.60
Quintile 5 (richest)	49.26	51.47	55.63	54.16	57.67	59.04	57.52
Ratio of income share of quintile 5 to quintile 1	8.1	9.5	12.2	11.8	13.7	15	14.4
Gini coefficient	0.426	0.453	0.502	0.485	0.522	0.536	0.525

Source: *Bangkok Post*, *Year-end Economic Review*, December 1995, p. 63 and December 1996, pp. 22-3



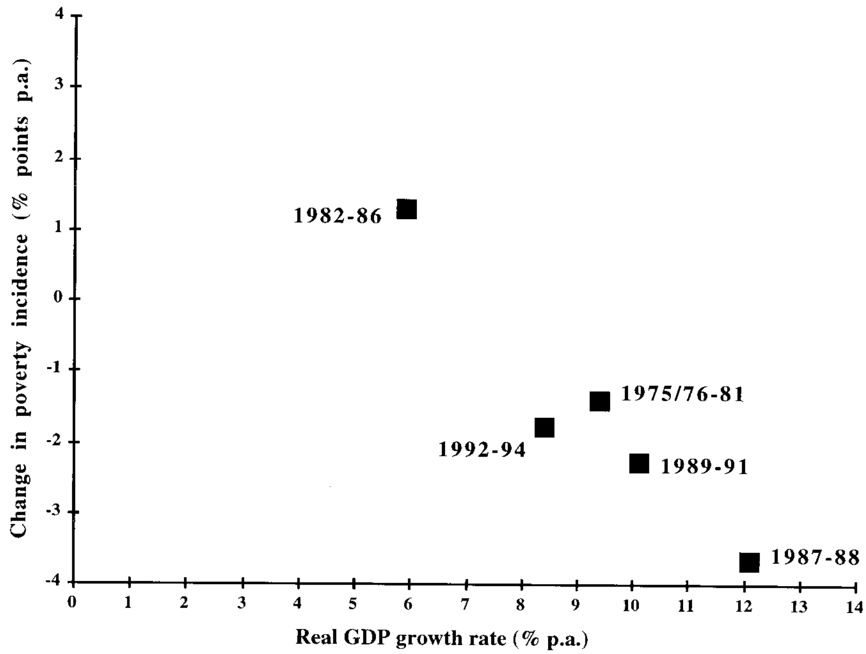
Note: Quintile I is the poorest; quintile V is the richest.
Source: National Statistical Office, Bangkok.

Figure 2.
Thailand: income shares by population quintile, 1975-76, 1986 and 1994

The data summarised below cover the period 1975/76 to 1994, during which data on poverty incidence are available for seven rounds of the SES survey. When the rate of economic growth during the intervals between SES data points is graphed against measured changes in poverty incidence over the same periods, we obtain the relationship shown in Figure 3.

Although the number of data points is small, the implications seem clear. Economic growth was strongly associated with reduced levels of absolute poverty incidence. Rapid growth from 1976 to 1981 coincided with declining poverty incidence. Reduced growth in Thailand caused by the world recession in the early to mid-1980s coincided with worsening poverty incidence in the years to 1986. Finally, Thailand's economic boom of the late 1980s and early 1990s coincided with dramatically reduced poverty incidence. The evidence from Thailand provides no support at all for the notion that economic growth is bad for the poor in absolute terms. On the contrary, the data strongly confirm that the rate of aggregate growth is an important determinant of the rate at which absolute poverty declines, even in the short run. Reduction of poverty incidence must obviously depend on more than just the aggregate rate of growth, but the evidence shows clearly that faster growth has been associated with faster reductions in absolute poverty.

Figure 3 reveals a further significant point. The rate of economic growth at which poverty incidence neither rises nor falls is not zero, nor is it the rate of



Source: Poverty data from Table II and GDP data from World Bank, *World Tables,* various issues.

Figure 3.
Thailand: poverty reduction and economic growth, 1975 to 1994

population growth, currently around 1 per cent per year. According to the data, the rate of growth at which poverty incidence is stationary is at least 6 per cent. With growth above that level, poverty falls. When the growth rate falls below 6 per cent, poverty incidence actually rises. This empirical observation has major implications for the way the present crisis will impact upon the poor.

In 1997 Thailand's real GDP growth rate was almost zero (minus 0.4 per cent), and the National Economic and Social Development Board projects a decline in real GDP of at least 7 per cent in 1998. Extrapolating the relationship between growth and annual changes in poverty incidence, as shown in Figure 3, we obtain an estimated increase in poverty incidence over these two years of 14 per cent of the total population (just over 5 per cent in 1997 and over 9 per cent in 1998). If these calculations are roughly correct, they mean that around eight-and-a-half million people will have moved from incomes above the poverty line to incomes below it in just two years. Whereas poverty incidence was probably around 8 per cent of the population in 1996, by the end of 1998 it could be 22 per cent, eliminating almost all of the dramatic reductions of poverty incidence achieved since 1981. If growth remains below 6 per cent beyond 1998, poverty incidence can be expected to rise even further.

Absolute or relative poverty?
A deeper question is raised by these events. Suppose the real purchasing power of poor people increases. Does this mean that they are actually better off? Does it make a difference if, simultaneously, the real incomes of the rich are rising even more rapidly? Are changes in the welfare of the poor more nearly represented by changes in their absolute income position, as reflected in measures of absolute poverty incidence, or by changes in their income position relative to the rich, as reflected in measures of inequality, or both, or maybe neither? The fundamental and difficult question this raises is how poor people themselves view the changes that have affected them. The way their economic circumstances are viewed by external observers, including academics and journalists, is incidental.

Karl Marx thought relative positions were all that counted:

> A house may be large or small; as long as the surrounding houses are equally small it satisfies all social demands for a dwelling. But let a palace arise beside the little house, and it shrinks from a little house to a hut. The little house shows now that its owner has only very slight or no demands to make; and however high it may shoot up in the course of civilisation, if the neighbouring palace grows to an equal or even greater extent, the occupant of the relatively small house will feel more and more uncomfortable, dissatisfied and cramped within its four walls[5].

For Marx, in fact, absolute standards of welfare were meaningless because he considered all wants to be socially determined, and he took this to mean that wants were purely relative:

> Our desires and pleasures spring from society; we measure them, therefore, by society and not by the objects which serve for their satisfaction. Because they are of a social nature, they are of a relative nature[5].

Does this make sense as a description of the values of poor people? I say no. Suppose a poor person becomes 10 per cent richer but at the same time his or her richer neighbour becomes 30 per cent richer. Is the poor person better or worse off? If the reader is tempted to agree with Marx that the poor person is worse off, on the grounds that wants are always relative and the poor person's relative position has deteriorated, then consider this. Suppose the real income of the poor person declined by 10 per cent while that of the rich declined by 30 per cent. Would the poor person consider him or herself better off then? His or her position relative to the rich person would be improved by these events. If that was all that counted, the poor person would welcome the change, even though less food, clothing, medical care and education for his or her children could now be afforded than before.

The example is not at all hypothetical. Income changes like this are precisely what has happened in Thailand, and elsewhere in Southeast Asia, in the recent past. The effects of the economic crisis are most concentrated on the rich. Relative to them, the poor are less seriously affected, but their real incomes have fallen as well. When applied to poor people, the Marxian relativist proposition is surely untenable. If we agree that poor people would suffer from declines in their absolute standards of living, regardless of what happens to the rich, we are confirming the social relevance of absolute measures of poverty above relative measures. Truly poor people cannot afford to be concerned with much other than their own absolute living conditions for one over-riding reason. These matters are the determinants of their very survival; mind games involving envy are not.

If the reader remains unconvinced, then please consider a construction worker, laid off from a site in Bangkok, as many thousands have been, both male and female. These people are now struggling desperately to feed their families and themselves in the absence of any social security system or any immediate prospects of regular work. Now imagine explaining to such a person that he or she is really better off than before the crisis because rich people are now suffering proportionately even more! "So what?" would surely be the answer, and that is my point as well.

A common response to the above arguments is that both the absolute and relative positions of the poor are relevant for their welfare. This possibility cannot be excluded, but it would seem likely that if the relative position of the poor enters their own utility function at all it does so in a minor way. To assume otherwise is to assume that the poor are actively malevolent towards the rich. Consider an event that would cause misfortune to a rich person while leaving the absolute position of the poorer neighbour unchanged. In a purely statistical sense, this change will improve the relative position of the poorer individual. If that individual's relative position is relevant in a significant way for his or her utility, the poor person would thus welcome this event. If actions on the part of the poor person could engineer harm to the rich person without direct benefit or cost to the poor individual, the latter would benefit from taking such actions and would surely take advantage of all such opportunities. Indeed, if their relative position was a significant determinant of their welfare, then there would be some level of absolute cost that the poor would be willing to bear merely for the pleasure of inflicting harm on the rich, even though it was of no direct benefit to themselves.

Theft is not necessarily an example of malevolent behaviour because so long as the theft goes unpunished there is a direct benefit to the thief from his or her actions, in the form of the material stolen. Purely malevolent conduct – that is, actions whose sole motivation is injury to the other party, in this case the rich – does indeed occur. The daily news constantly reports incidents of this kind, but they are not "normal". Generally, it takes extraordinary circumstances to elicit the passions that produce purely malevolent actions. But the assumption that the relative position of poor people is a significant determinant of their welfare leads to the prediction of purely malevolent behaviour. If the assumption were true, malevolent conduct would surely be a great deal more common, and the life of rich people a great deal more uncomfortable, than it actually is.

Obviously, we must be cautious about inferring the preferences of others, and wary also of excessive generalisation. Reasonable people can and do disagree about these matters and there are always individual exceptions to any generalisations about these matters. Nevertheless, from introspection alone it seems apparent that, in general, the welfare of poor people could not depend exclusively, primarily, or even significantly, on their position relative to the rich. The relativist characterisation of welfare probably does not apply, in its pure form, to any significant social group. The envy-driven, information-rich middle class probably comes closest but, since the middle class does most of the talking, its values are the ones most often represented in public discussion.

Conclusions: two cheers for economic growth

Claims that past economic growth bypassed the poor frequently share a common feature: they base their evidence on a comparison of the incomes of the poor with those of the rich. That is, they define poverty in relative, not absolute terms, although this departure from the conventional definition is not always made explicit. It is impossible to think sensibly about issues of poverty without distinguishing clearly between:

(1) absolute poverty; and

(2) relative inequality, or "relative poverty", which amounts to the same thing.

Unfortunately, this basic distinction is so often blurred in public discussion, leading to great confusion. In assessing the benefits from economic growth this issue is crucial because, in the early stages of economic development, the relative inequality of incomes often, but not always, increases. The point is that the absolute standards of living of the poor may move in the opposite direction from their relative position. The Thai experience provides a good illustration of this possibility, in both directions.

In the Thai case, rapid economic growth over the last two decades coincided with increased relative inequality, but all major socio-economic groups in the country benefited in absolute terms. Poverty incidence fell significantly and the rate of poverty reduction over time was greatest in periods when the rate of aggregate economic growth was also greatest. The economic contraction that followed Thailand's currency crisis of 1997 produced observable absolute economic hardship for both rich and poor people. Almost no one who observed these events seems to doubt that Thailand's poor were severely harmed by them, despite the fact that the rich fared even worse. But many of the same observers cling to the notion that past growth failed to benefit the poor because it benefited the rich even more. These views are inconsistent.

Thailand's long-term growth can be said to have been bad for the poor only if we insist on evaluating the economic circumstances of poor people solely in comparison with those of the rich, and that seems unjustified. It is true that the rich benefited disproportionately from past growth and it is clear that political corruption and other social evils contributed to this outcome. The fact remains that in spite of this the growth also enabled very large numbers of poor people to improve their material standards of living substantially. No such changes in the circumstances of the poor were apparent in those neighbouring countries which did not grow rapidly.

The social and policy context within which economic growth occurs will influence both the rate and the nature of that growth, thereby affecting the manner in which economic growth, or its absence, impacts on the poor. Poverty fell in Thailand because of increased demand for the resource from which the poor derive most of their incomes – their labour. Economic growth exacerbated existing social and environmental problems in Thailand and created some new ones, but it also created millions of better paying jobs for low income people, even in the poorest parts of the country, expanding the range of economic opportunities available to them. By drastically reversing this process the present crisis in Thailand threatens to increase absolute poverty incidence to an alarming degree. The sooner the Thai economy returns to high rates of growth the better for practically everyone, including the poor.

Notes

1. The article referred to appeared in the December 1995 edition of the influential *Year-end Economic Review*, an annual magazine supplement to the *Bangkok Post*, Thailand's principal English language newspaper. The data on poverty incidence analysed in the present paper are identical to those reported in the article concerned.
2. The 15 commodities represented in Table I comprised between 52 and 54 per cent of total exports in each of the three years shown.
3. Frozen shrimp exports were a special case, where US import restrictions were important in 1996, effectively banning imports of non-farm shrimps from Thailand. These restrictions were lifted in the following year.
4. United Nations Development Program (1996). The restriction to populations over 10 million excludes city states like Singapore and Hong Kong, where the entire population is concentrated in a single city.
5. From Marx's pamphlet, "Wage labour and capital", first published in 1849. This and the following quotation are drawn from Tucker (1972, p. 182).

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Members of the Chinese forestry delegation visiting Australia plus the members of the Harrison family at Dr Harrison's farm. They came to see Dr Harrison's joint venture with the forestry department in Queensland in growing eucalyptus trees