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The Elder's Contract Job Program : A New Hope For Thailand

Motivation

As the global trend shows that the world is now moving forward to the aging society (1), many countries are facing this problem which causes significant growth implications : the unpreventable decline in number of productive workforce which could resulted in a stagnant or even decline in GDP growth, income per capita, savings and investments level. The elder, by most people, are regarded as unproductive in terms of economic value creation , or even being a huge government financial burden (healthcare and other welfare provisions). By this global trend, Thailand is no exception. The United Nations (UN) expects that there will be 19.5 percent of population aged above 65 in 2030, while the newspaper ,'The Nation', says that by 2040, a quarter of the Thai population could be over the age of 65. However, at the society level, with the economic hardship and the rising in cost of living, there will be more and more elderly left in the rural area with decline in financial support from their offsprings who are busying earning money in Bangkok or somewhere else.

However, the mechanics that prevent the elder from having a good welfare after their retirement are that, first, they lack of access to social group gathering which prevent them from engaging in potential economically and socially beneficial activities, as their age is considered them as a retiree in formal labor market, however, with this type of program, it's beneficial to all related players ; employer(local factory), employee(the elder),government.

Secondly, they lack of savings for retirement, workers in the agricultural and informal services sectors, which accounted for over 20 million workers, do not have such savings schemes like those in a formal sector and it is likely that they will not have enough savings to retire on(2). As a result, poverty among older persons in rural area stood at a high rate of 20.7 percent compared to the national average of 9.8 per cent.(1)

Even though , there is other source of income for them which is a Government cash grant (an elderly allowance) applicable to the people upon aged 60 , with the progressive rate (100 more Baht once you enter the next 10-year range ,starting at 600 up until 1,000 Baht),it is insignificant in determining their well-beings. From this, other than a sense of dependency is generated, they might negatively regard themselves as a burden which would worsen their mental-wellness, increasing the chance for them to have an unhealthy physical conditions, and causing other related problems.

Theoretically, one of the main problem that trap a community in Multiple-equilibria poverty trap is a coordination problem which is quite subjective, however, it helps connect people, increase human capital and as result, has a long lasting impact on economic development.

Basically, most of the existing program for rural people is the supply-driven project, for example, project supported by the Bureau of empowerment for older persons, Royal support project, even though they bring pride to community for local wisdom ,however, the market demand is what that determines their incomes. Therefore, the intervention I purpose has the advantage over them as it is demand-driven, then the income is guaranteed as stated in contract.With the benefit of short term contract , the elder are incentivized to work (given piece wage rate and are flexible in entry and exit the program). However, the government also provides incentive to local factory to employ the local elderly by giving them special tax treatment, and by the nature of the program the factory can hire the elder labor at cheaper wage than the full-time worker (they are considered as part-time) as they have lower opportunity cost than the young. Moreover, the indirect benefit ,apart from making the elder be able to rely on themselves financially, other people in communities should become more hard-working as there is a peer pressure effect in community. This creates win-win situation to all parties involved , instead of aiming to help the poor without consideration on the sustainability of the program as mutual benefits among players are out of concern. The increasing social interaction resulted from this program is beneficial in building up human capital and it should, to some extent, recreates the social norm of hardworking and new perception towards to elder's economic capabilities.

Description of policy intervention

The intervention aims to coordinate the demand and supply of local labor market, says, local factory and the elder in the village, to increase elder's income ,sense of self-dependency(increase human value and human capital), and have a positive impact on social norm on the practice of hard-working and improving negative perception on the elder, which the impact on changing social norm is the most desirable goal in sustainable development. The intervention will coordinate the local factor and the village where the elder has applied for the short-term employment contract through the set-up website where the chief village will collect the elder's data and screening the potential one by co-working with □□□ (a community volunteer group) who have a close relationship to households in the village. This process helps the factory lower monitoring cost and creates trust and reliability to the elder. Basically, we assume that the elder type of labor supply will have lower bargaining power relative to the factory worker as they are alternative, part-time labor with lower opportunity-cost than the full-time one, thus, it is reasonable to give the elder lower wage rate. (However, government needs to announce to minimum wage for this specific type of worker)

The program will be partnered with BACC (extensive government institution) , the Bureau of empowerment for older persons and ministry of labor (control for wage issue)

Once the promotion has been made and short-term contract reach the agreement, the local factory will go to village and give the training to them (assume the work need modest skill level between skilled or unskilled). Here, the factory might give a trial work order to them to see whether they meet the criteria (quality, time). Once the job are matched, the factory will provide input and supplies, then come back to take the products and pay (piece-rate) wage, monthly. Moreover,the elder can work in a relaxing working environment, condition.

Note that once the matching is established, it might lead to longer ST contracts as there will incur high cost in switching the match). However, to make the program more sustainable, government might provide incentive to both parties (in return for the decrease expenditure for the elder welfare program and note that the government does not intervene the market, only reward/punish economic agents towards a beneficial economic decision), by giving special treatment on tax deduction to the factory and give more government elder grant to those who apply for this program (for example, previously government gives 500-1,000 bath according to age-range of the elderly , now with new incentive, government will give only 200-600 bath with the plus of 100 bath if one applies for the program or giving a lower rate for borrowing in government financial institution – interlink contract)

To promote the program, we will focus on the viral marketing from □□□ , social events, even worker from participated factories, and government institutions (e.g. bank)

The place to implement the program is in Chainart province since the areas are similar in many aspects , people career, job opportunity, population structure, infrastructure.

Research question and hypothesis

Research question	Testable hypothesis	Expected outcome
1) What determines the elder to work?	Demand for work depends on availability of job? (demand elasticity with respect to job availability is elastic?)	More job available, higher demand for job
2) The peer pressure effect with-in village?	Rough estimation (hard to test)	The higher uptake rate in the next contract round
3) The program is effective in increasing elder's income?	After participating program, higher income level	Program is effective in raising elder's income

Research design and methodology

One year randomized experiment (4 contracts each for 3 months) across 100 villages with similar characteristics (eg. population structure, job opportunity, labor market). The □□□ will randomly promote the program to some household and not in some household (disregard of income level, so that the impact of program will not be biased by the self-selection as only the poor hh will attend the program).However, since we cant force the elder to participate the program(pure randomization), therefore, we create instrument variable Z (encouragement to participate the program: promote the program) to solve the self-selection problem (the poorer elder will be likely to participate the program which might underestimate the impact of program in raising income level).

We run the 2SLS to estimate the impact of program on income level (2 stages least square model)

Y_{it}= α + β$program_{it}$+$X_{it}\delta$ +ε_i

$Program_{it}$ = a + bZ_{it} + X_{it}c + e_i

Y_{it}= income level

$program_{it}$: participant =1 (treatment group) , non-participant=0 (control group)

X_{it}=control variable for other factors (gender, preference, social exclusion)

$\varepsilon_{i\,,}e_i$ = error terms

Z_{it}= encouragement to participate the program (IV)

Expected outcome and potential challenges

We expect that the elder who participates in the program will have more income without the bias from self-selection problem that is β is positive. Also, since the intervention only acts as a coordinators among economic agents, the program should be cost-effective ,giving a considerable marginal benefit to the elder. For individual level, the increase in self-respect, self-dependency, self-satisfaction due to higher ability to earn themselves will change the miserable perception on the elder ,and the elder is expected to viewed their lives more positively as they no longer consider themselves as a burden to household,society, better physical and mental health, as a result. For community level, the positive spillover effect (similar effect as peer pressure) and the changing social norm over hard-working will generate growth in community economy, less social problem, better neighborhood,as a result, higher well-being. For the national level, the financial burden will be decreased largely as it can save for the elder welfare program which mostly is a giveaway-grants with no economic productivity (in terms of real sector economy, surely it has money multiplier effect).

Challenges

1) The spread of promotion is hard to control (as there will be gossip across the village that the experiment is operating and some poor elder will attend the program)
2) There might be peer pressure within village or the newly-created social norm, which can either encourage the program uptake or discourage. However, it is unobservable variable.
3) The employment through short-term contract might be vulnerable to external shock (from fluctuating economy)
4) With the government incentive, it may induce harsh competition among local factory which may increase the elder's bargaining power and wage rate, making the program no longer attractive to local employee.
5) Due to the nature of the program , says, the participants must be voluntarily to participate, it needs big samples to experiment.
6) To sustain the program in long term, it needs government support in creating incentive for economic agents to participate, gain mutual benefits, perpetuate the program on its own demand and supply.

References

1 http://www.un.org/esa/population/publications/worldageing19502050/

2 http://www.cnbc.com/id/101119344