

Poverty in Thailand

Mr. Bhanupong

Lecture 27

Chapter 12

**The macroeconomic perspective of poverty and
income distribution**

Outline

1. Poverty, economic growth, and Covid-19
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

Grandmother taking care of granddaughter



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

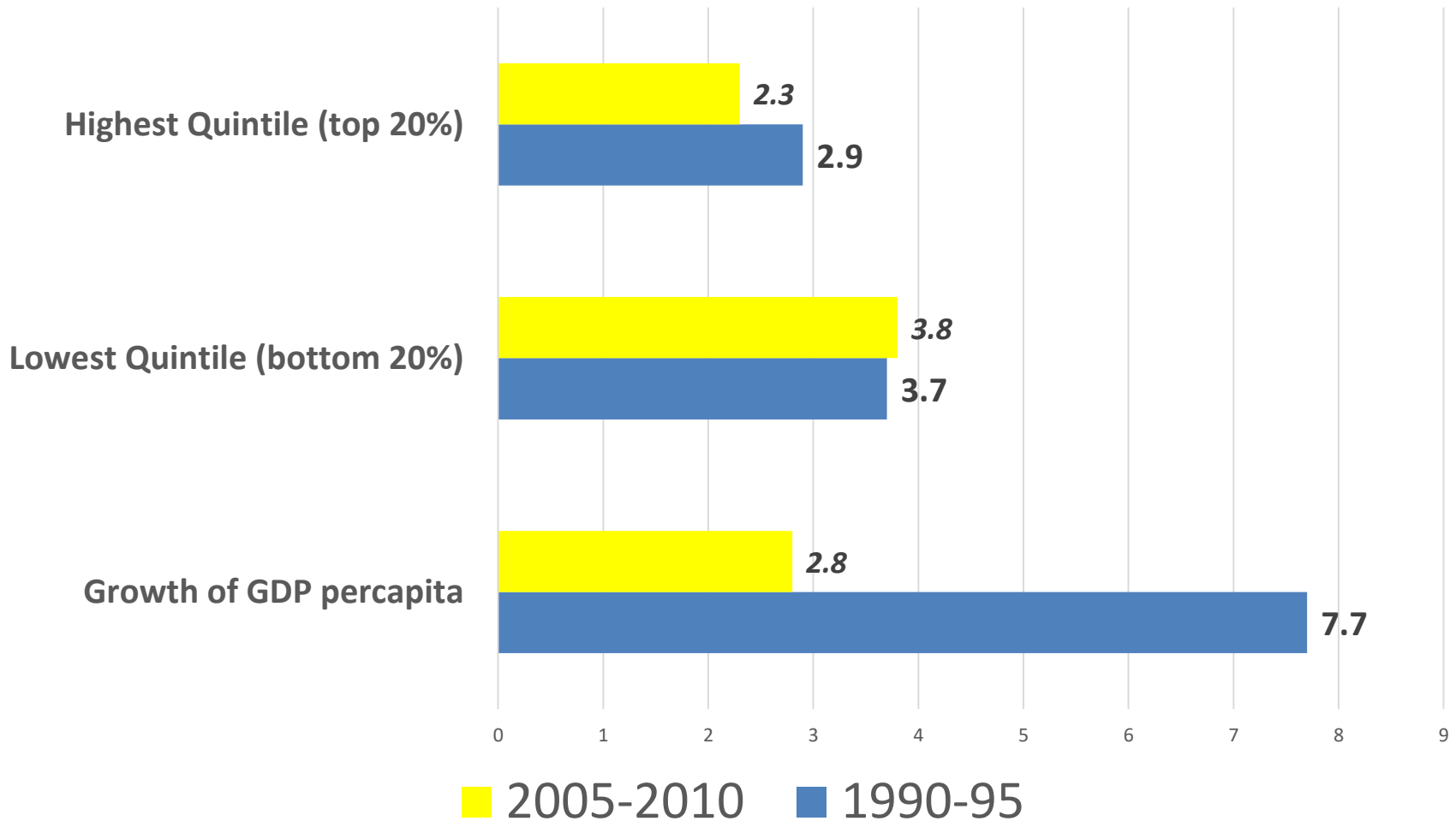
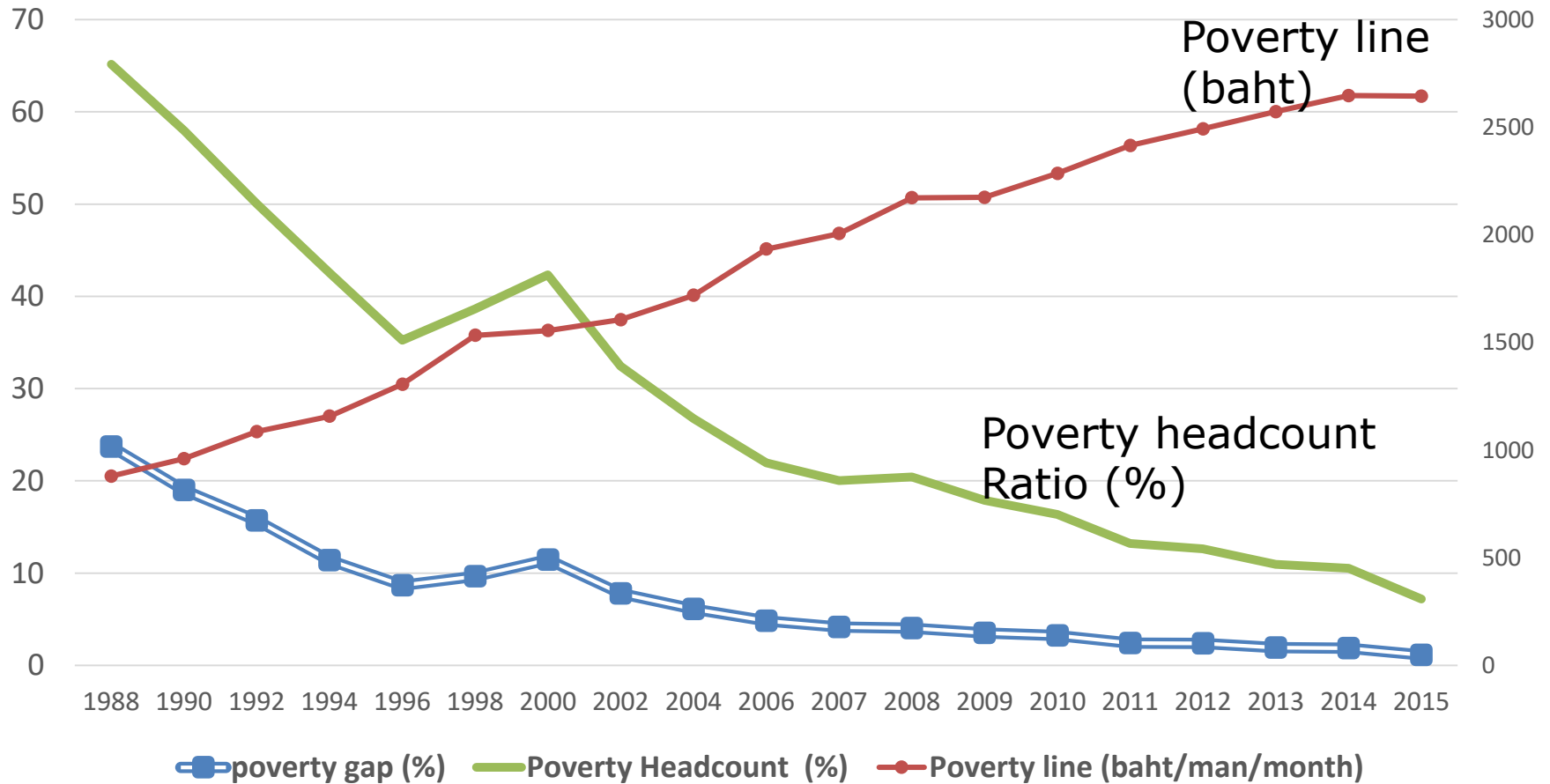


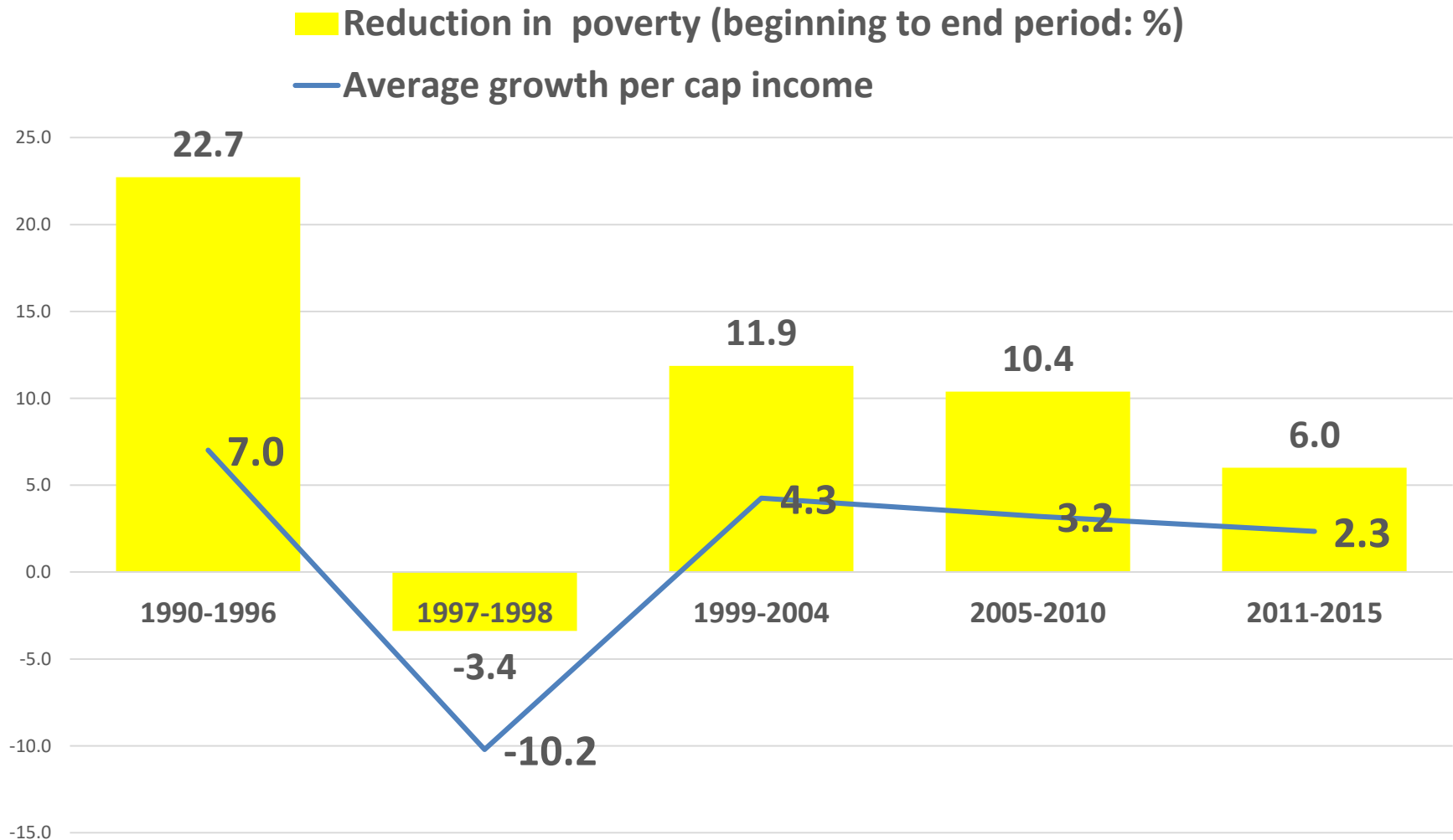
Figure 12.1 Declining Poverty

Poverty gap = Poverty line minus 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 8

Income poverty is not the whole story

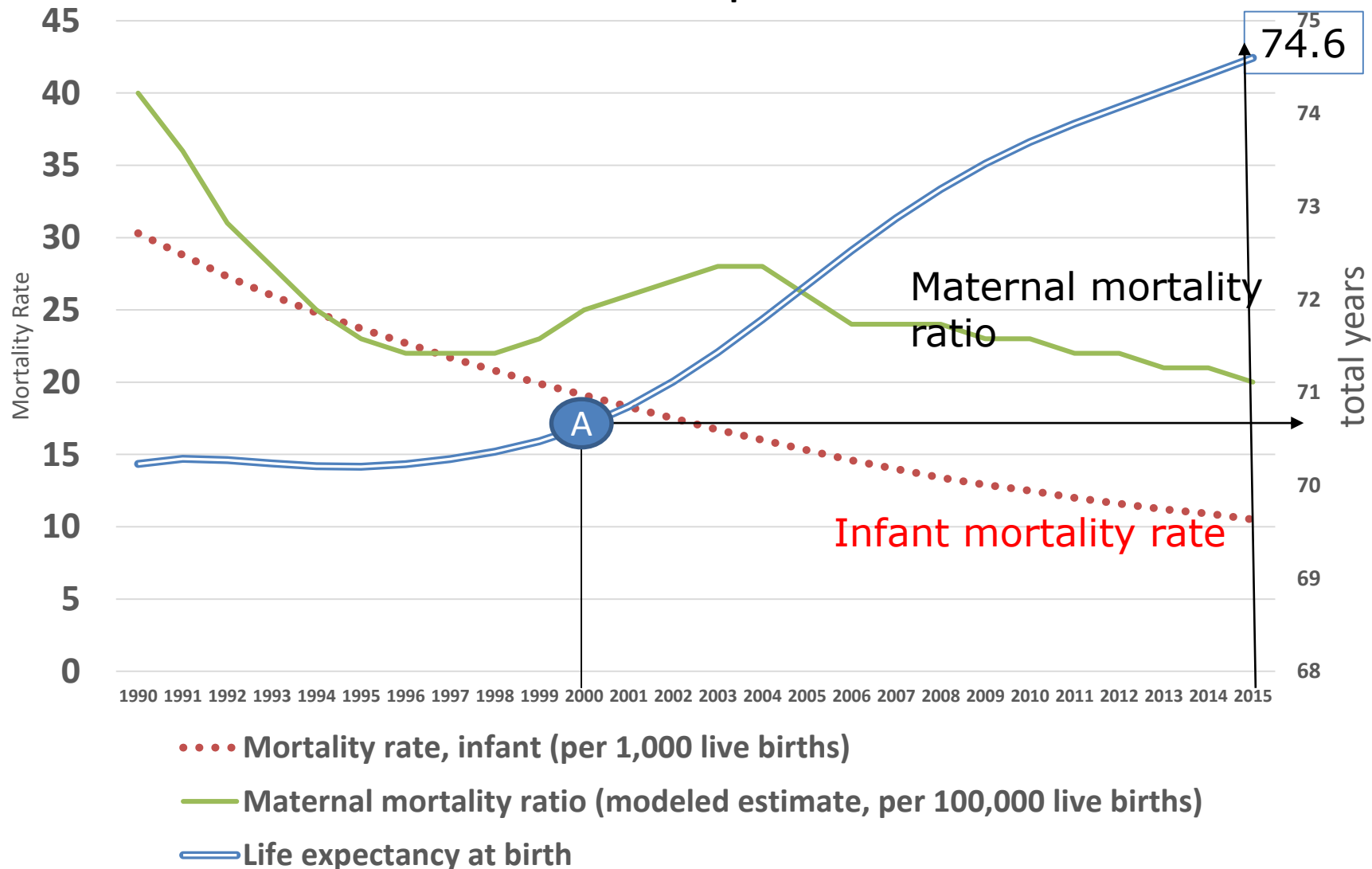
All these numbers are all based on monetary measures, revealing income or expenditure poverty.

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, empowerment and participation.

Mortality and Life expectancy

Source: World Development Indicators



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.
- With negative GDP growth, the income share of the bottom 20 will be lower too.
- Poverty is therefore related to income inequality

Growth is good for the poor: poverty alleviation effect of growth

- 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.

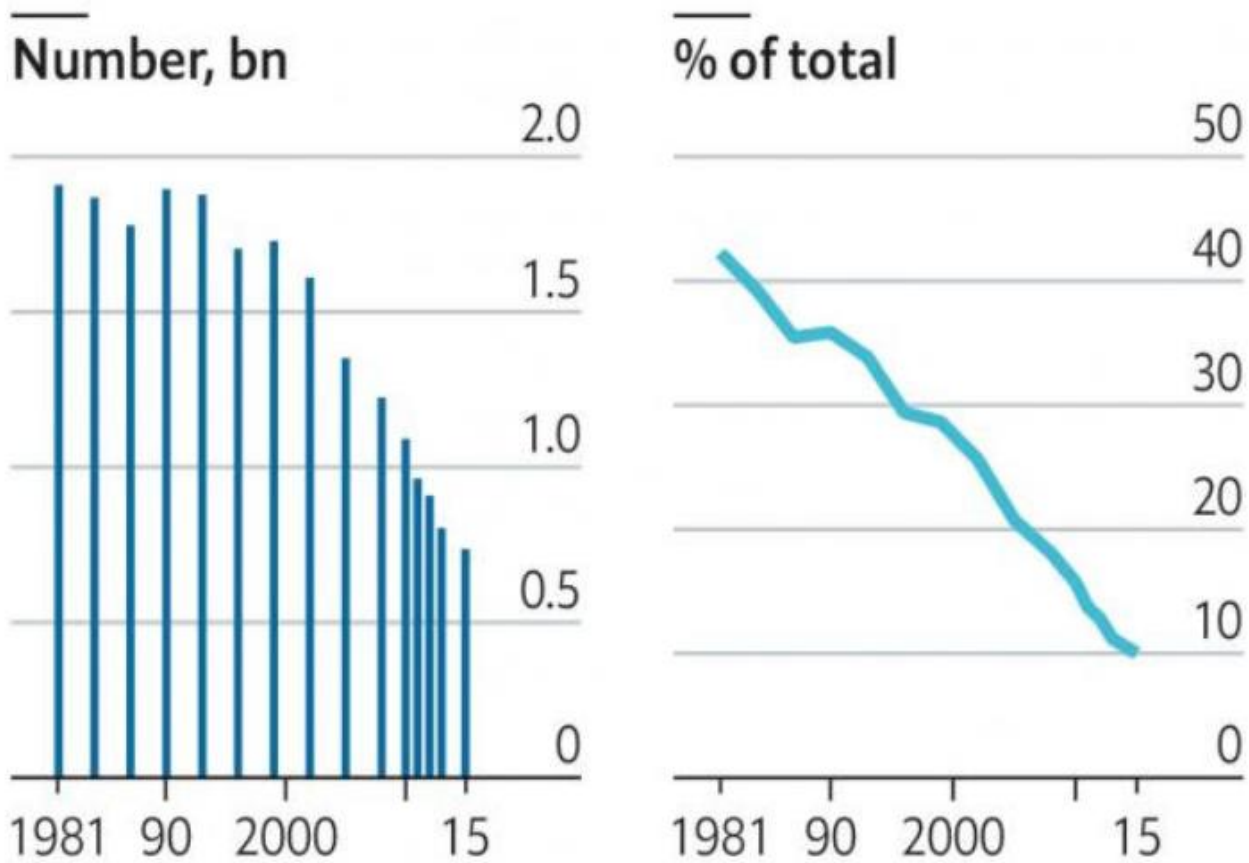
A poor result: poverty

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, by 2019, the percentage declined below 1%.

Penury progress

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



Source: World Bank

*2011 prices at purchasing-power parity

Thailand's factory output declined in March for the 11th month running.



In the soup: Thailand's economy

The Economist: April 29, 2020

- Today's industrial-production figures will show that Thailand's factory output declined in March for the 11th month running.
- South-East Asia's second-biggest economy was ailing before covid-19. Now it is suffering the deepest recession in the region.
- The IMF expects GDP to fall by 6.7% this year. The country's two economic mainstays, tourism and trade, are suffering.

Poverty and inequality are rising

- Although a fiscal stimulus equivalent to 3% of GDP is under way, domestic demand is in a funk. Some 20m people have applied for state aid and a third of the workforce faces unemployment.
- Despite this grim outlook (and just seven new covid-19 infections reported yesterday), the government has extended the state of emergency and lockdown measures until the end of May.
- Thailand's last economic calamity, in 1997, became known as the tom yum kung crisis, after a searingly hot local soup. This one will not be any easier to swallow.

At breaking point, Thailand's poor are killing themselves

- An Isaan mother unable to buy milk for her children. A Bangkok taxi driver upset over government mishandling of aid relief. An English teacher despairing from financial calamity. A father followed by his daughter.
- Those are just a few of the dozens of people who have taken their lives in a surge of suicides related to the COVID-19 crisis throughout the kingdom.

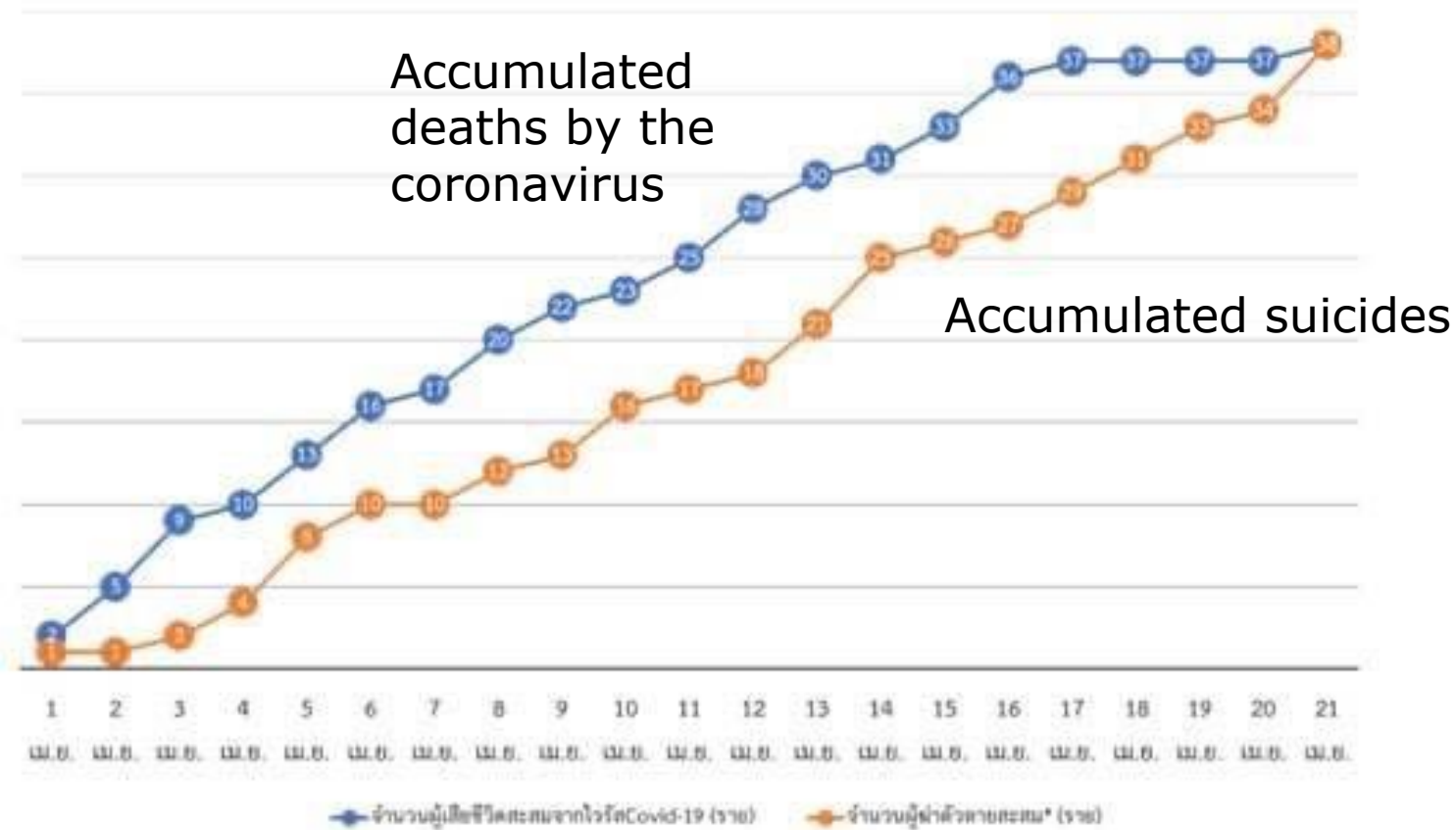
Thailand's suicide rate increasing during coronavirus pandemic

- The research was conducted by a group of academics from Chiang Mai, Chulalongkorn, Thammasat, Thaksin, Khon Kaen and Burapha universities, based on press reports published during *the first three weeks of April*, during which the national lockdown measures were in place.
- The report says that there were 38 suicide attempts during that period, resulting in 28 deaths, adding that, while the lockdown has been somewhat successful in slowing the rate of new COVID-19 infections and deaths, it has also had a devastating impact on the economy.

Covid-19 deaths and Suicides

April 1-21, 2020

กราฟแสดงตัวเลขสะสม ผู้เสียชีวิตกรณีติดเชื้อไวรัส Covid-19 และ ผู้ฆ่าตัวตาย*
ระหว่างวันที่ 1 - 21 เมษายน 2563

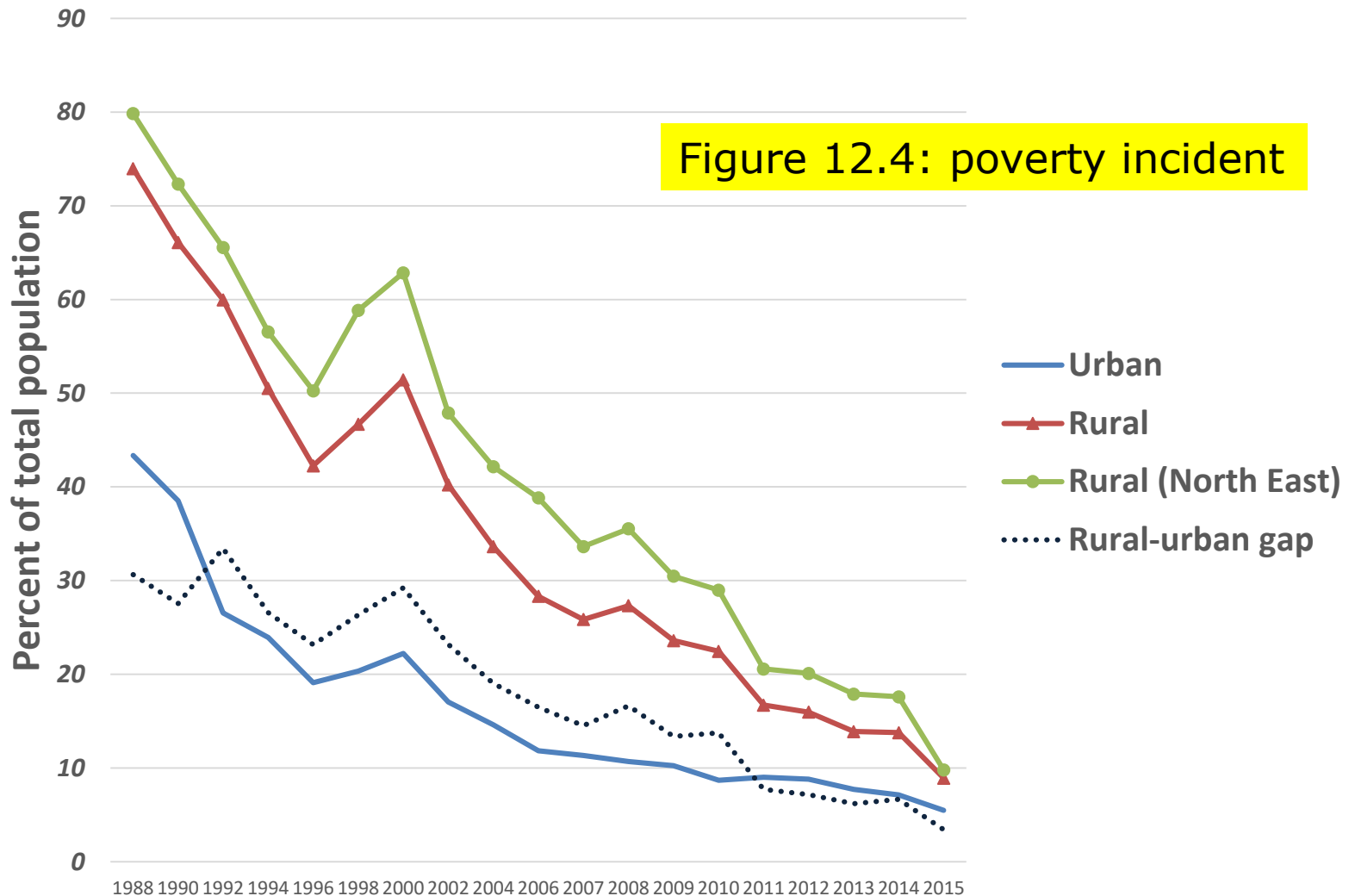


* หมายถว้การรวมถึง การฆ่าและพยายามฆ่าตัวตาย

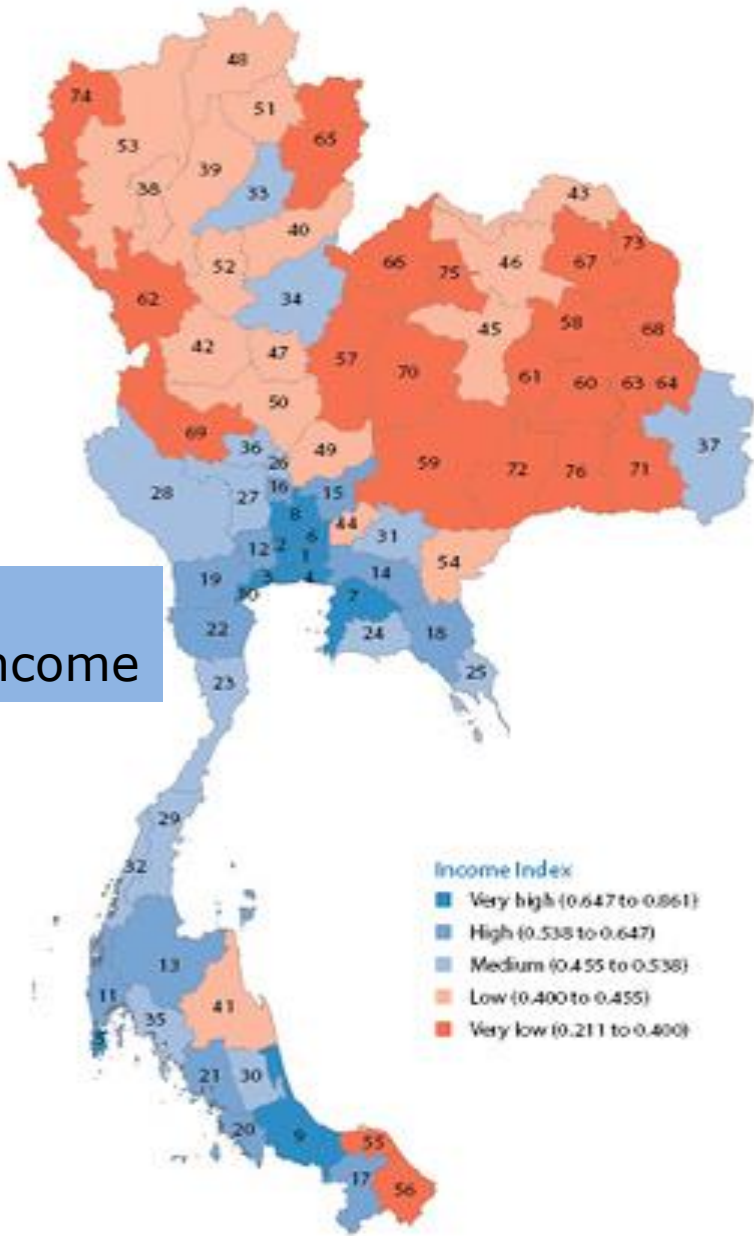
Unprecedented health and economic crisis

- The researches accused the Government for not being well enough prepared and slow to come up with remedial measures to cushion the impacts on the people, especially ordinary workers, freelancers and the urban poor, who were caught unawares, blaming the bungled 5,000 baht/month subsidy scheme for driving some people to kill themselves.
- *Is there any trade-off between health and economic crisis?*

2. Urban vs. Rural Poverty



ANNEX I
Human Achievement Index



- 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 Chandraburi
 - 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 Burirum

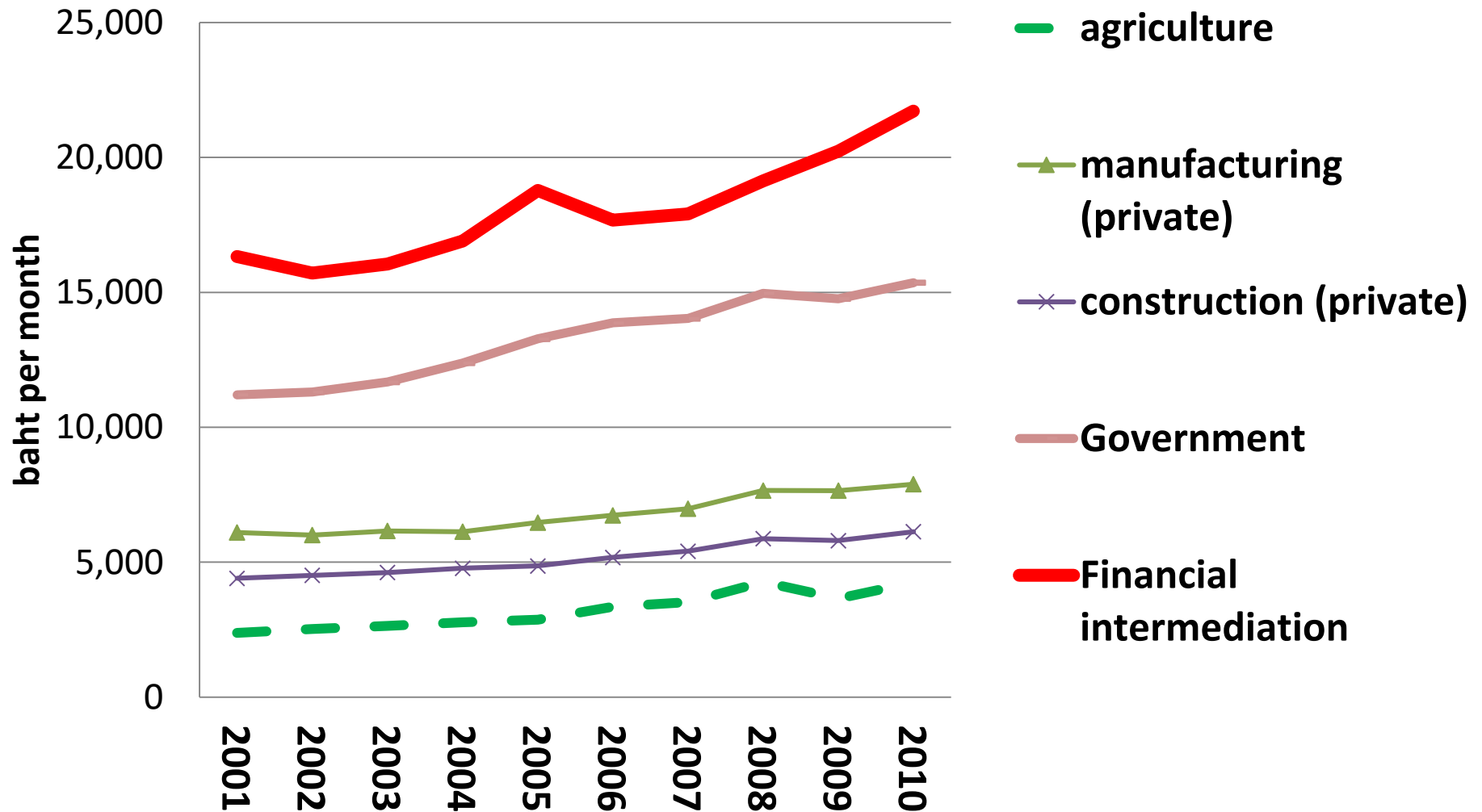
Dark orange:
Very Low income

Dark blue
Very high income

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)

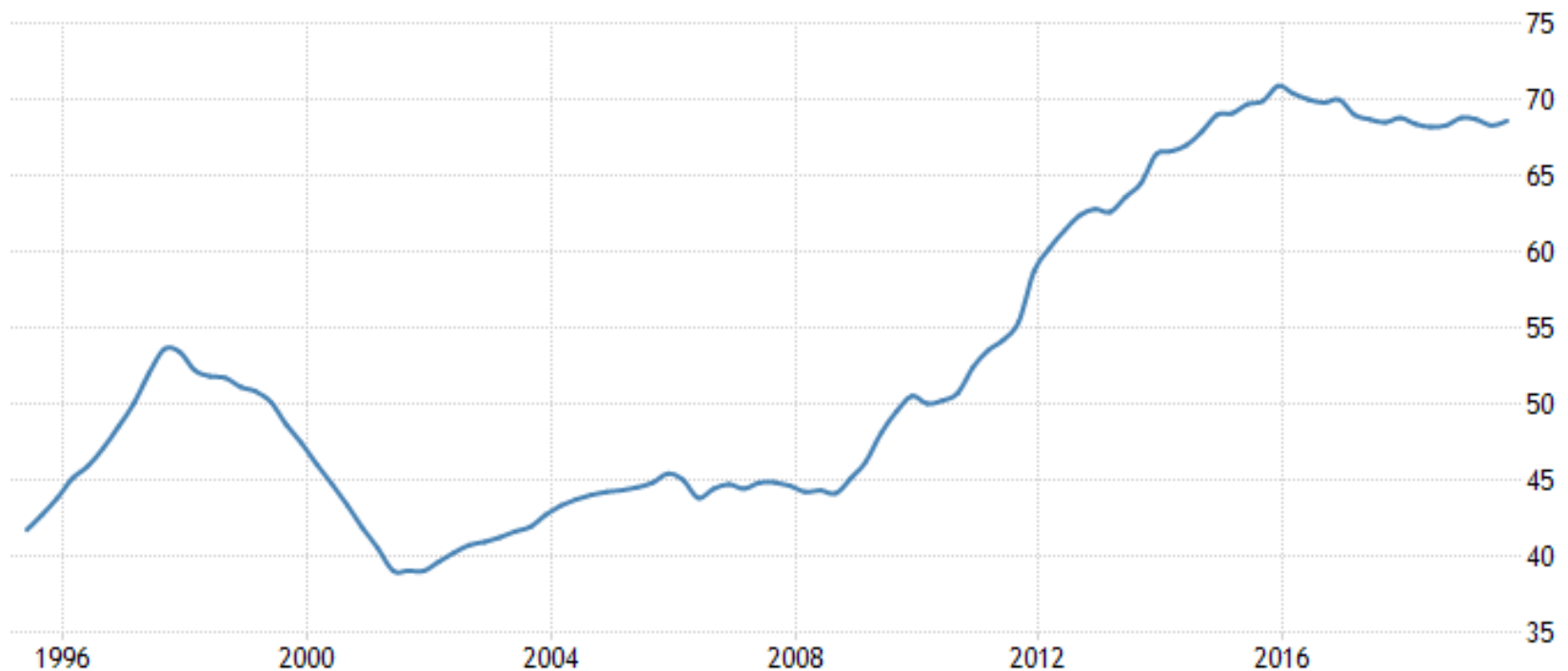
Limited upward mobility: From low to high income (productivity)



Principal source of income for the poor is their labor

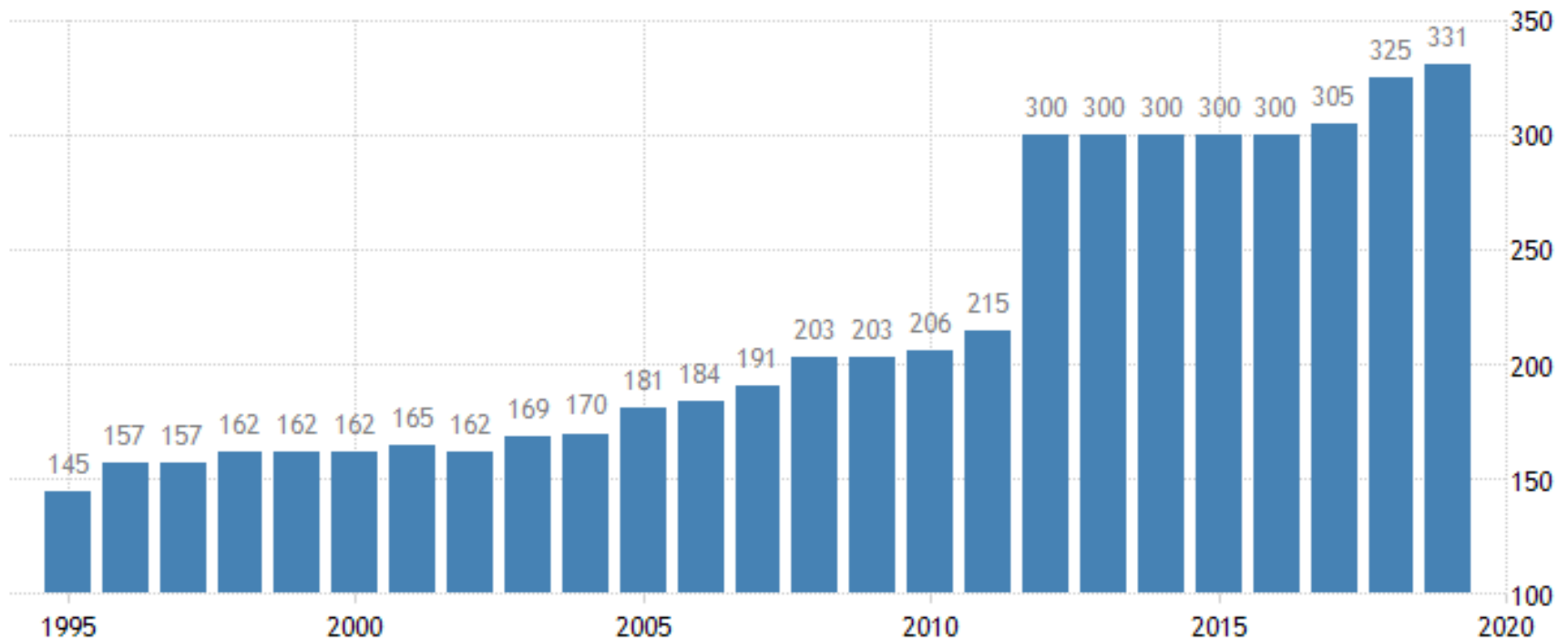
- The poor earn income from their own assets (i.e. their labor, which are largely unskilled)
- Agricultural land (not as important as labor)
- Economic development that increases the ***demand for labor*** and land raises the income of the poor and consequently reduces the poverty incidence.
- ***Import 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***.

Households Debt in Thailand increased to 68.6 percent of GDP in the third quarter of 2019 from 68.3 percent of GDP in the second quarter of 2019.



SOURCE: TRADINGECONOMICS.COM | BANK FOR INTERNATIONAL SETTLEMENTS

Minimum Wages in Thailand increased to 331 THB/Day in 2019 from 325 THB/Day in 2018. In 1973, it was 12 baht



SOURCE: TRADINGECONOMICS.COM | BANK OF THAILAND

3. Farm prices and poverty



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

Farmers need a debt-relief or a “haircut”

- Farmer debt increased from 2.2 trillion baht in 2016 to 2.8 trillion baht in 2017.
- There are 3.8 million debtors with state-funded loans, 1.1 million of them are rice farmers, according to the National Statistical Office.
- The government granted them debt relief with interest hair-cut.

Rice farmers' borrowing purposes

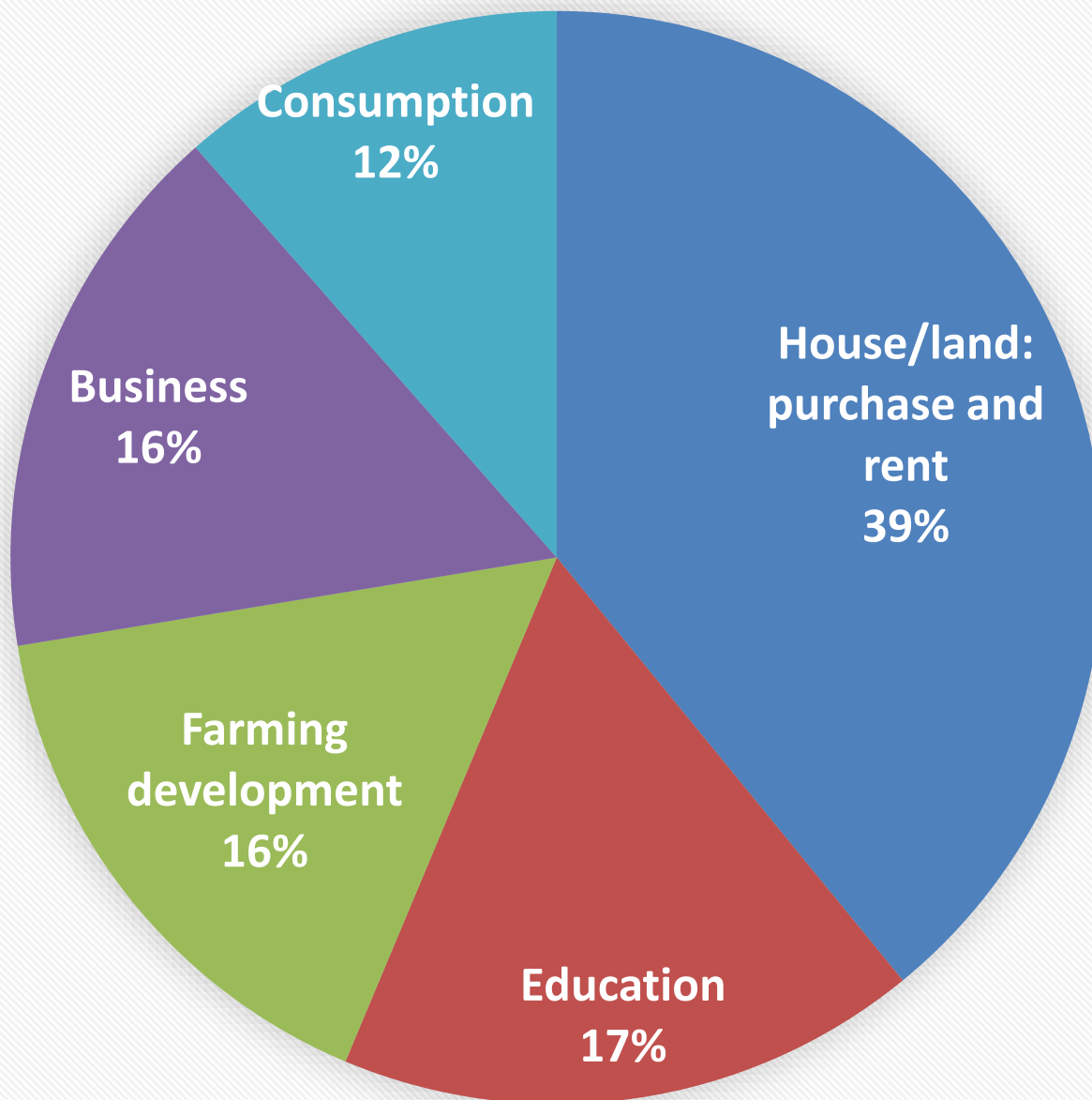
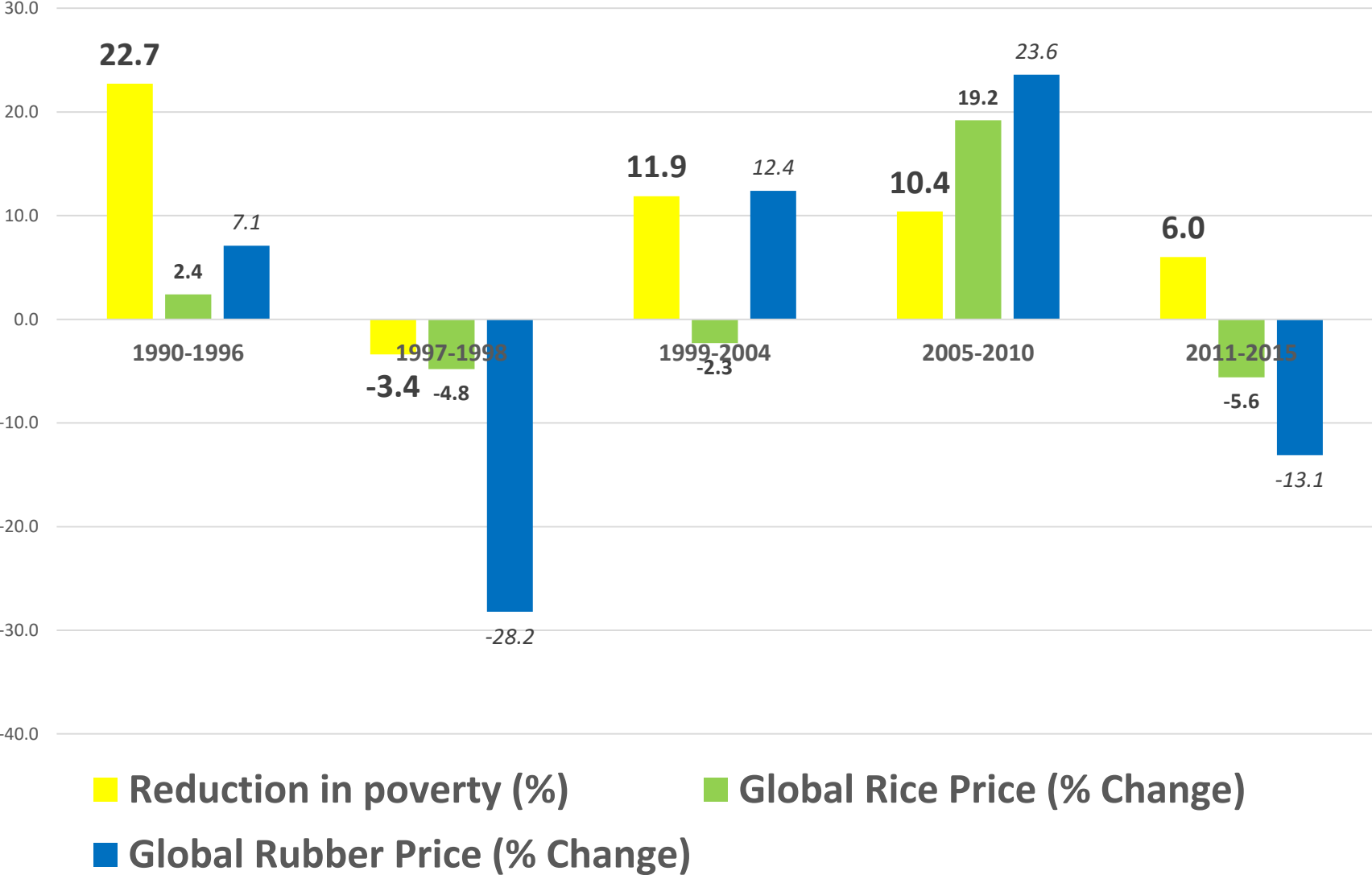


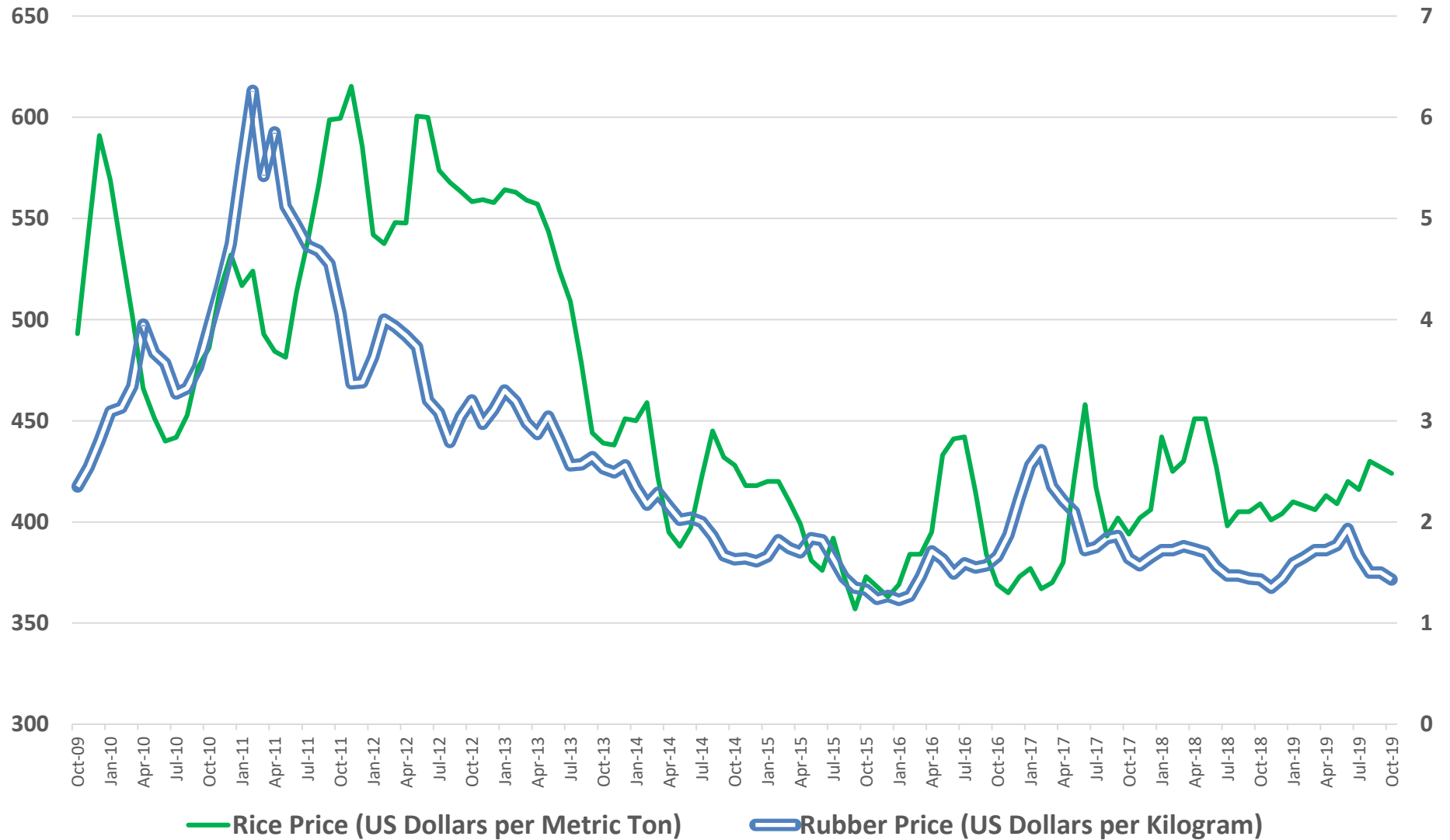
Figure 12.3 Global Commodity Prices and Poverty Reduction



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.***

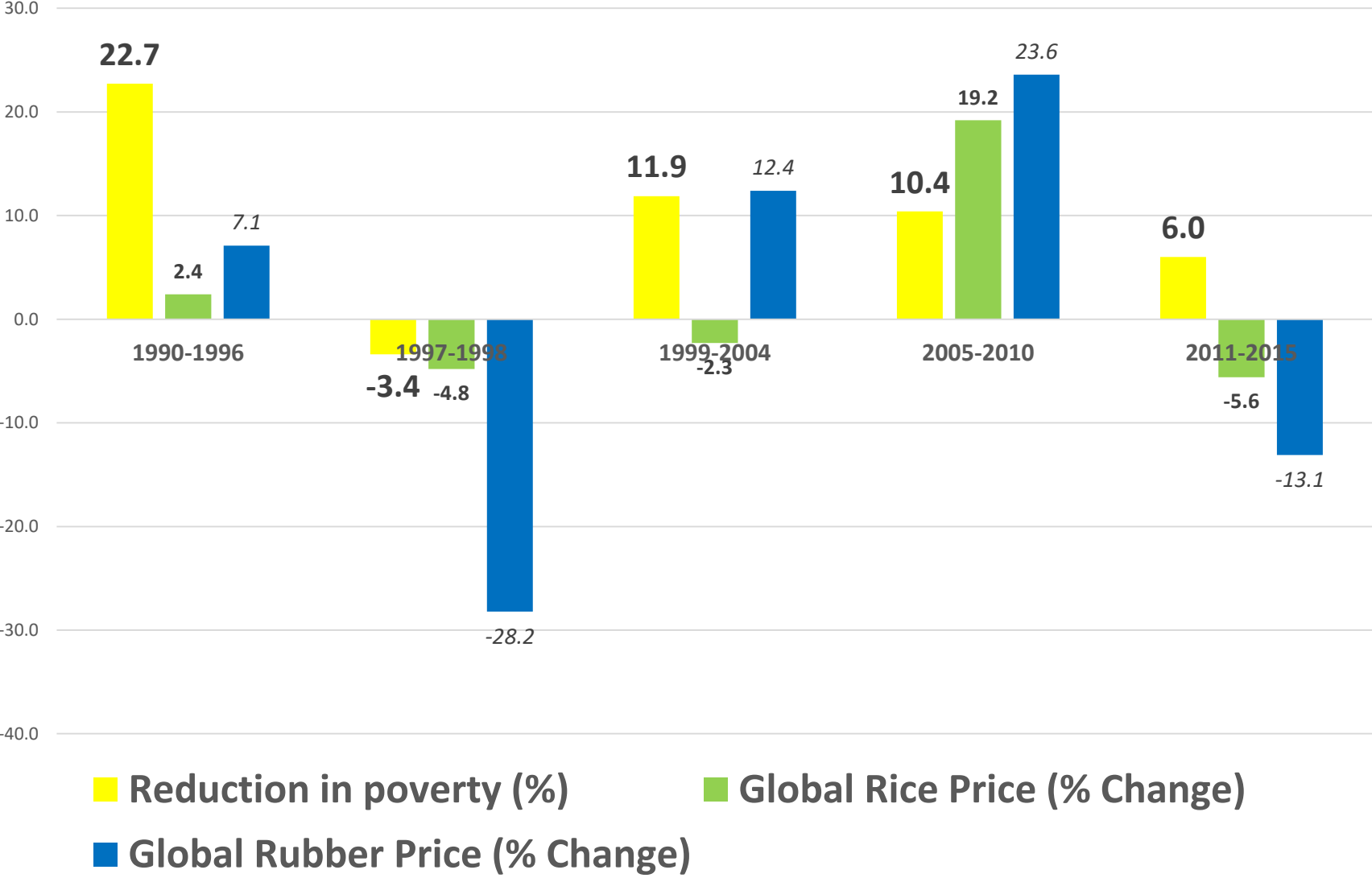
Rice and Rubber Prices



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?

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.
- **Farmers spend *more* on inputs; therefor they earn *less* from selling farm produces at high prices**
- Withdrawals of subsidies by public authorities has further aggravated the burden.
- This has made farmers with **small land holdings** unviable.

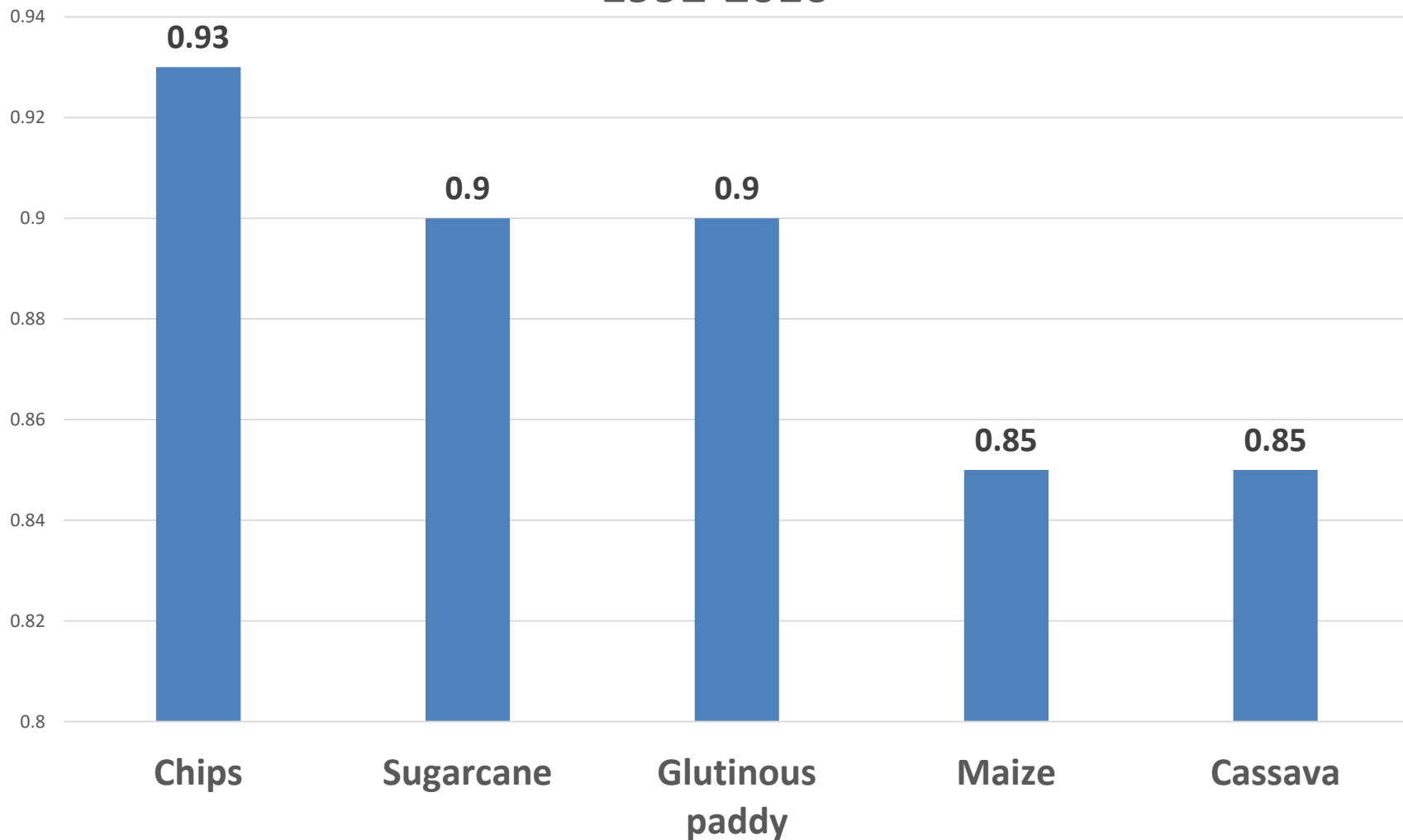
Large vs. small farmers

- 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?

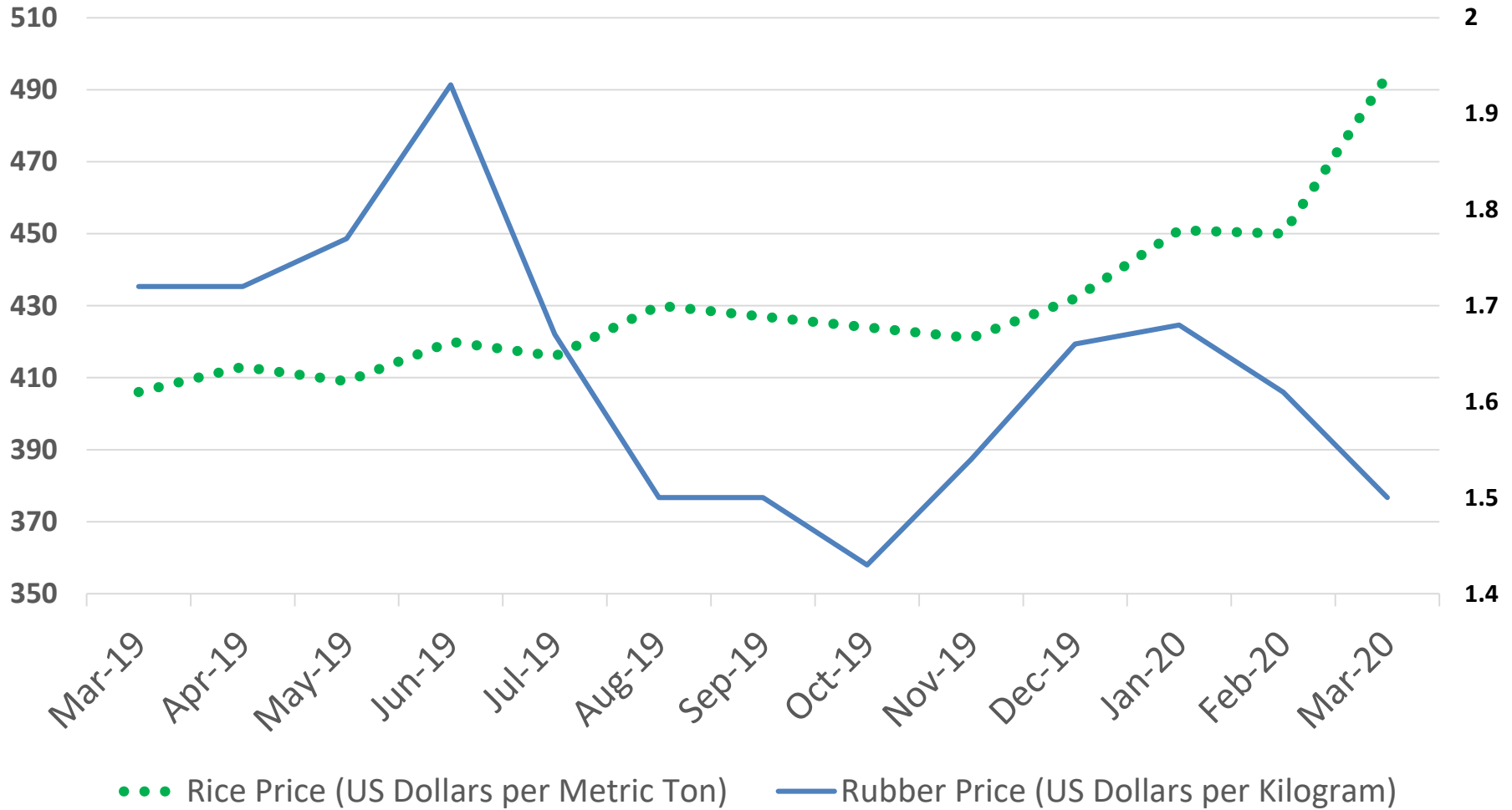
- **Big farmers** have a large area under cultivation, yielding more marketable **surplus** and they can **bargain** for more remunerative prices for their produce.
- **Small holders** have low production (due to less area) and, thereby, less marketable surplus.
- Their transactions costs (i.e., transporting 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 paddy farmers switch to sugarcane, maize, and cassava?*

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



Rice and rubber prices

March 2019-March 2020



'Don't mention the economy'
Somkid frets about scaring off investors
Bangkok Post: 19 November 2019



We will have a complete eradication of poverty by 2018, said Dr. Somkid

Can the world end hunger and malnutrition by 2030?

- 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 (SDG)*** ***ending hunger and malnutrition by 2030*** is both laudable and atypically specific.
- None of which makes this easier to achieve, especially against a backdrop of a ***changing climate***.

Climate change hampers world's poverty reduction

- 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

To be inclusive, economic growth *must*

(1) generate employment,

(2) reduce poverty, and

(3) mitigate inequality

- **Virtuous cycle of growth** can reduce poverty through increasing employment with rising productivity.
- On the contrary, growth can be exclusive if it does not help the poor due to **segmented labor markets and labor immobility**.
- Exclusive growth can create **vicious cycle of growth via increasing poverty and income inequality**.

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 counterargument 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?
- *“Thailand, in particular farmers and the poor, would lose considerably if we join CPTPP”*
Discuss

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 was an example of non-market influence resource allocation.
- **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)

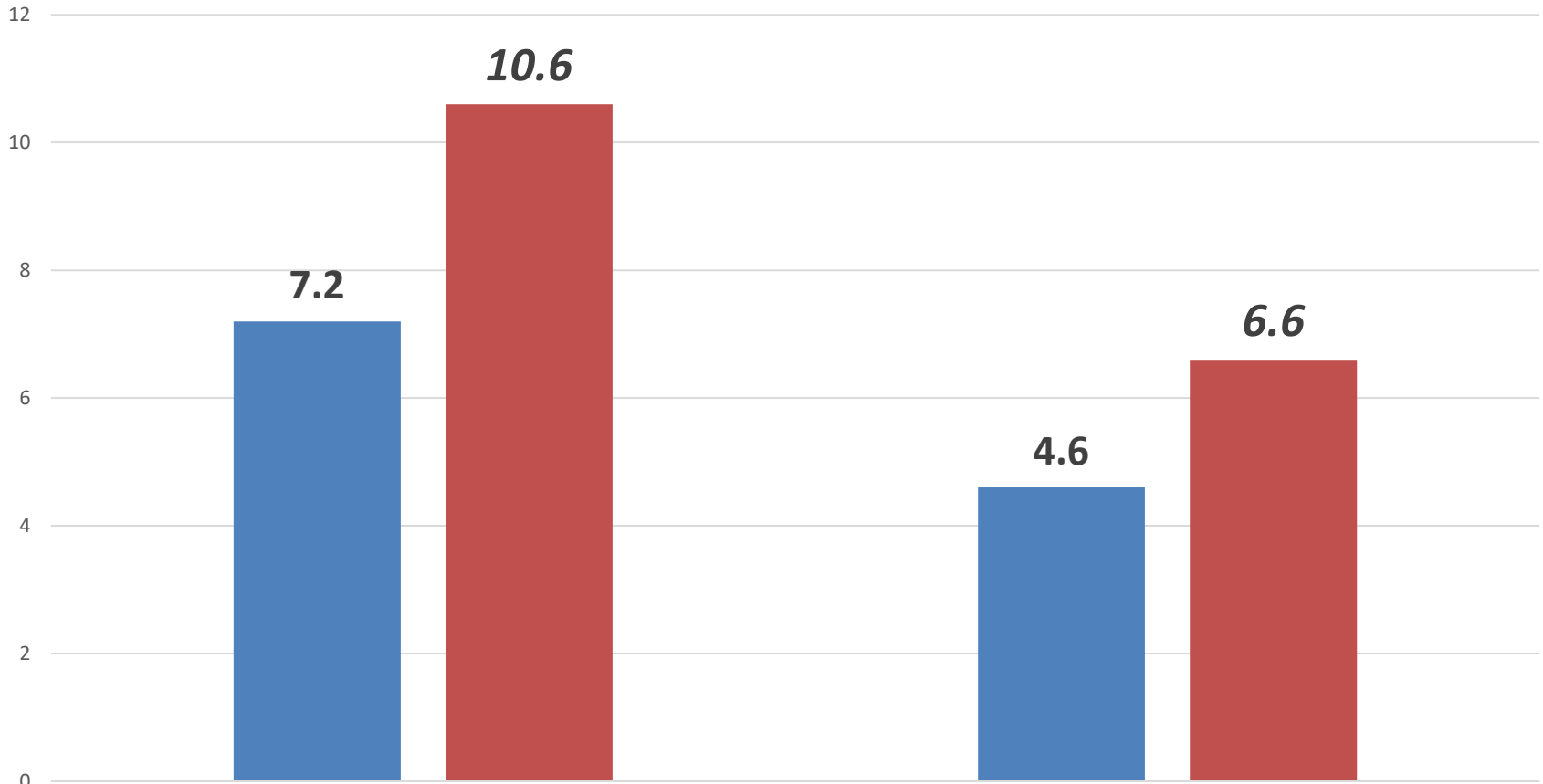
Invisible foot: intensifying competition via emerging new firms

- 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.
- Young firms 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 Schooling



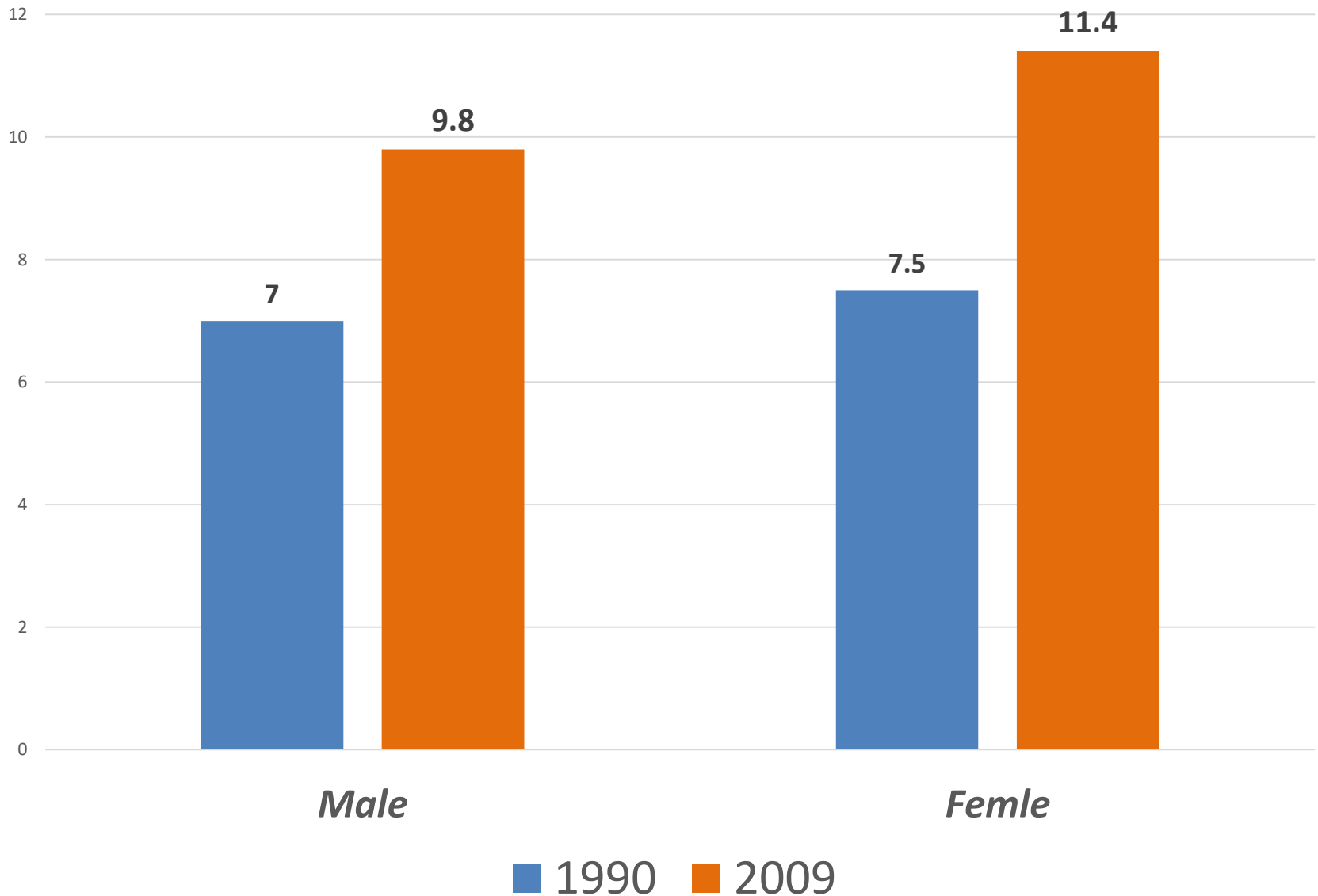
Youth (12-24)

Adult (25+)

■ 1990 ■ 2009

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

Average years of schooling for youth by gender



Schooling in Contrast: Bangkok and the Deep South

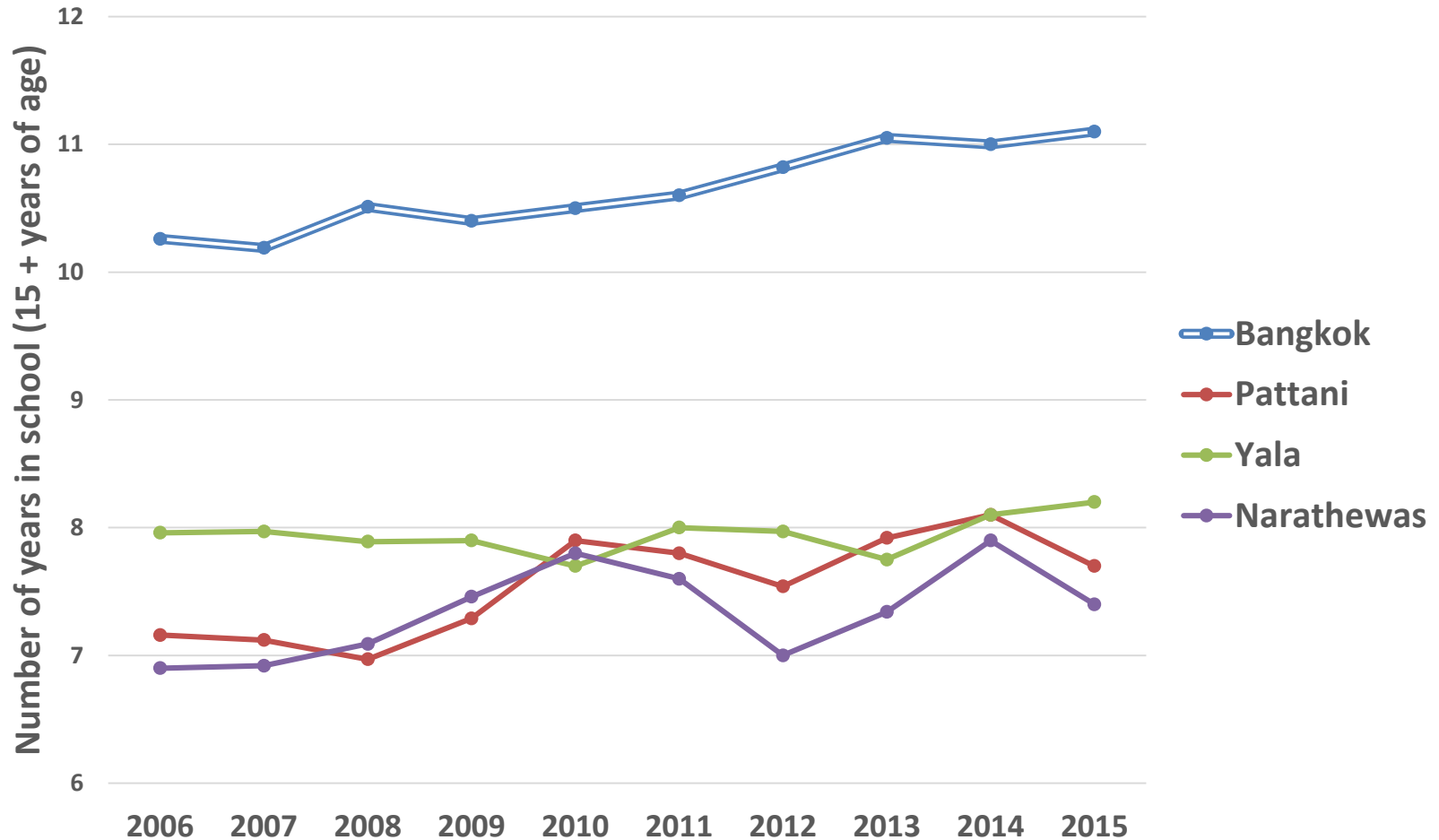
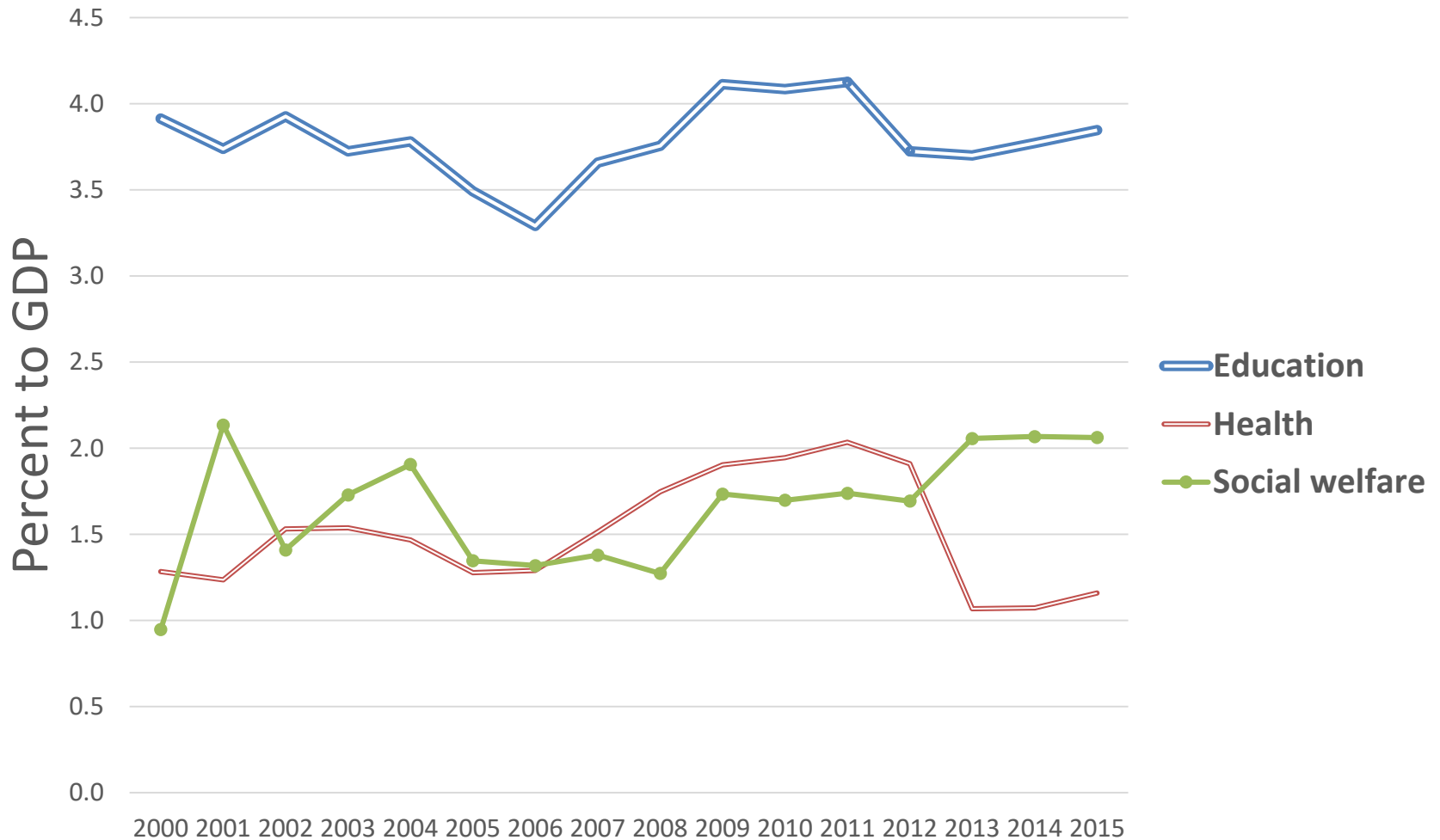
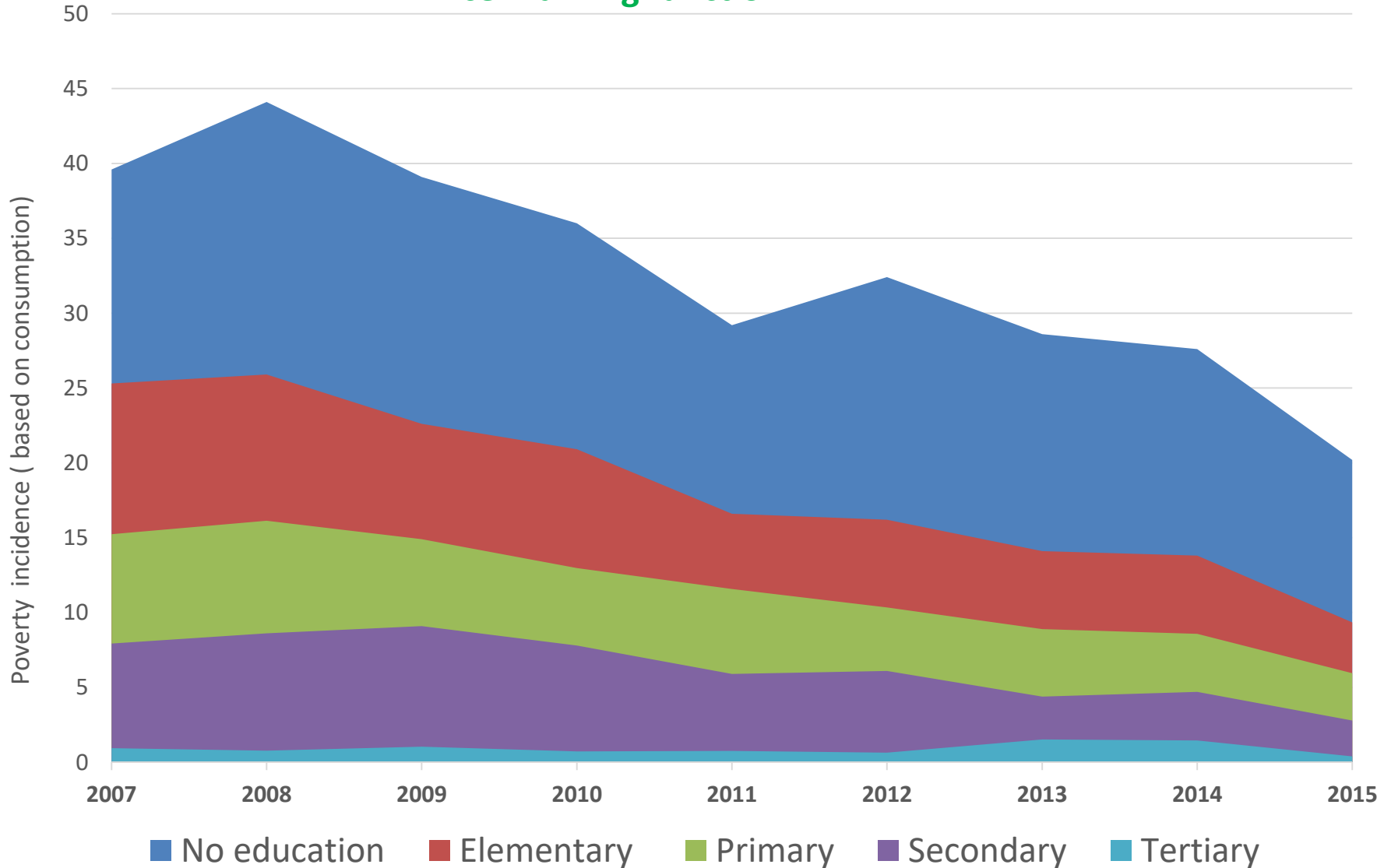


Figure 12.14: Public Spending on Human and Health Capital



Education attainment and poverty

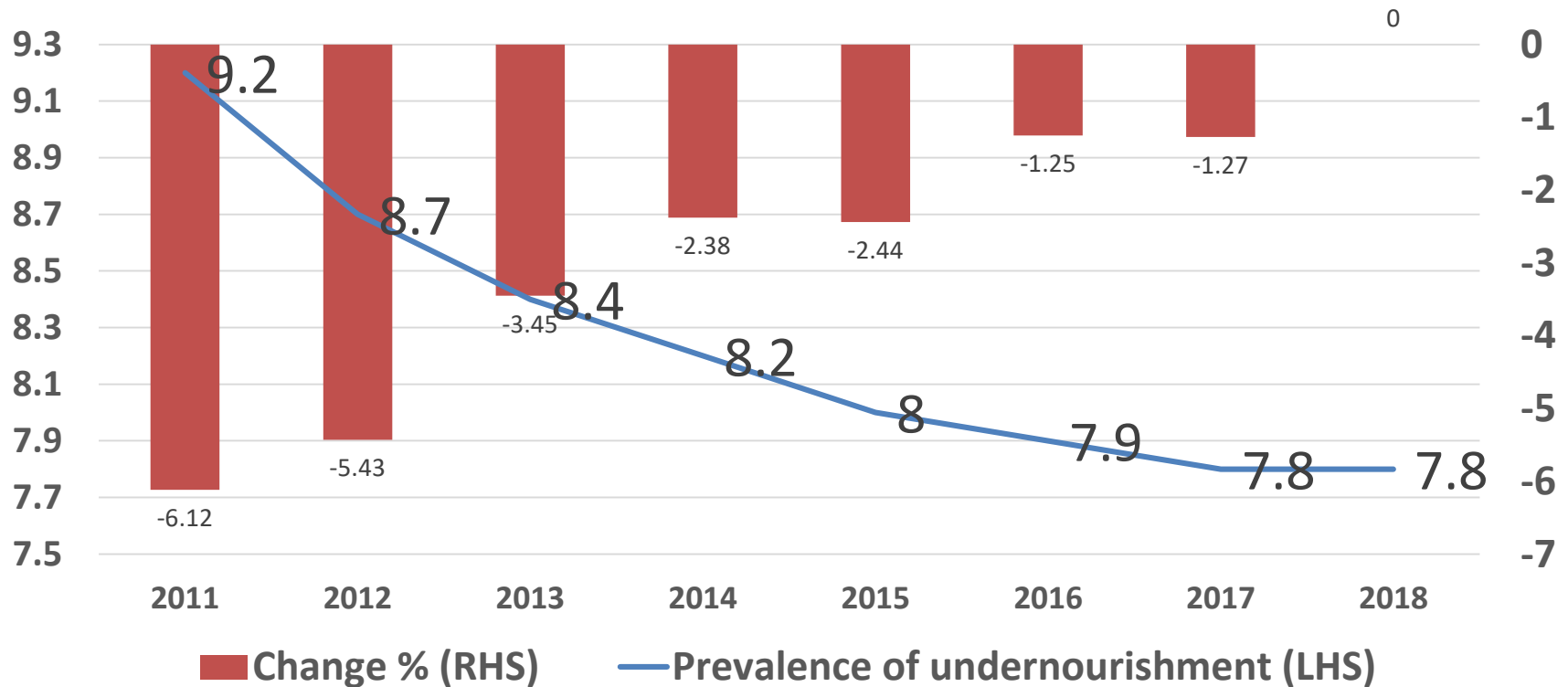
Mincer Earning function



5. Non-monetary aspects of poverty

Prevalence of undernourishment as a share of population

Thailand's prevalence of undernourishment

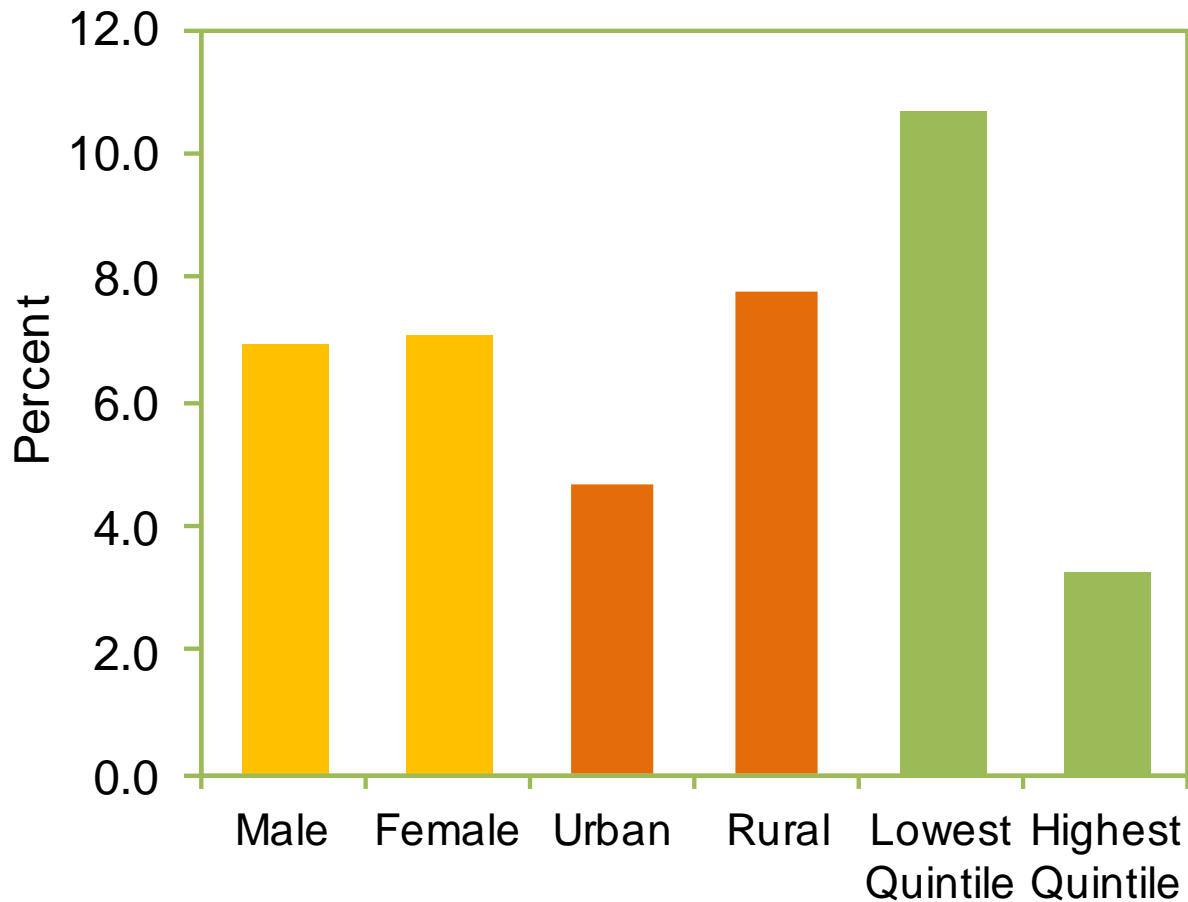


What is prevalence of undernourishment?

- Population below minimum level of dietary energy shows the percentage of the population whose food intake is *insufficient to meet dietary energy requirements* continuously.
- In 2018, prevalence of undernourishment for Thailand was 7.8 %.
- Prevalence of undernourishment of Thailand fell gradually from 15.8 % in 2004 to 7.8 % in 2018.

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.

The first five years of our lives are extremely important: Childhood health

- **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.



More recent research argues that cognitive abilities explain ***the positive height-wage relationship***.

Non-cognitive abilities underpins success in school and at work

- Non-cognitive abilities include: A set of attitudes, willpower, motivation, perseverance, and self-control.
- These non-cognitive abilities also attribute to **wage premium**.
- Taller workers receive a substantial **wage premium**.

“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.
- 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, because it supports *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

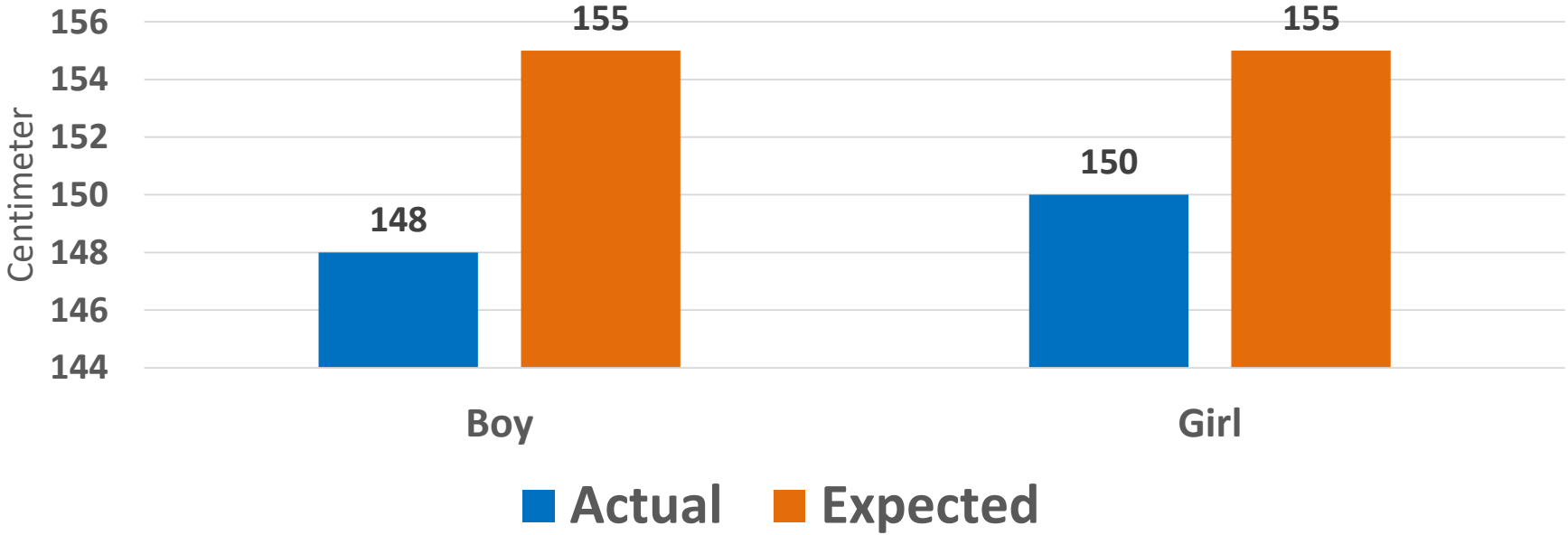
- Using data from Britain's National Childhood Development Study (NCDS), they show that **taller children have higher average *cognitive and non-cognitive* test scores**, and that each aptitude accounts for a substantial and roughly equal portion of the stature premium.
- Together these abilities explain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

Poverty and low nutritious food intake, Thai kids have low cognitive ability

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

Thai kids are not as tall as they should have been

The average height of 12 years old kids (2019)



กรมอนามัย เผยเด็กวัยเรียน ร้อยละ 8.8 มีภาวะเตี้ย ชานดื่มนมรสจืดวันละ 2 แก้วช่วยเพิ่ม ความสูง

6-14 years old

สยามรัฐ | สยามรัฐออนไลน์

เผยแพร่ : 31 พฤษภาคม 2562 เวลา 11.55

แก้ไข : 31 พฤษภาคม 2562 เวลา 11.20

What kids need every day:

Two glasses of milk

One egg

10 hours of sleep

60 minutes of jumping up and down

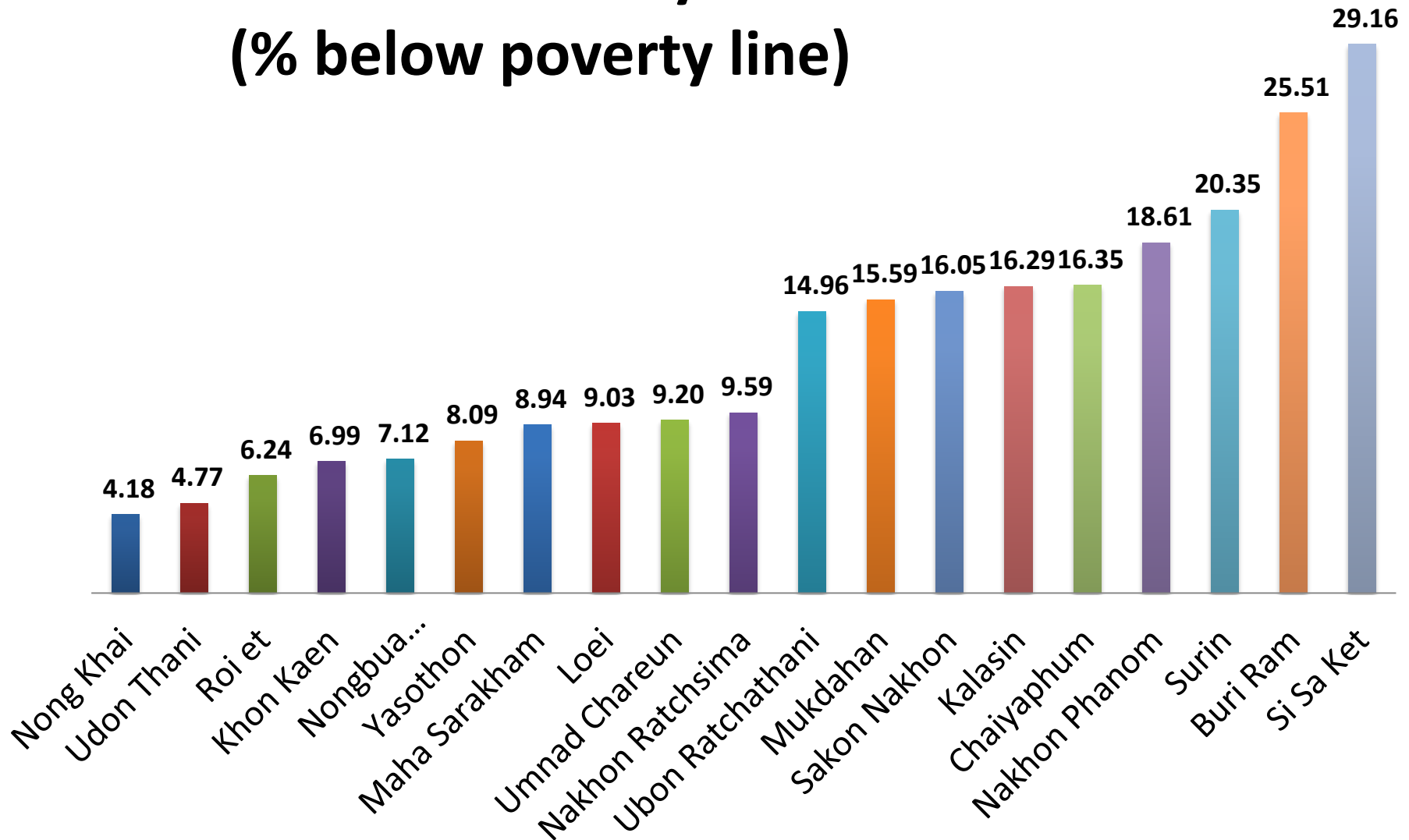


Food deprivation is common among the poor in the northeast, hence their height and income are low.



*Height is **a marker** of early childhood health and nutrition, both of which affect cognitive development.*

Northeastern poverty is the highest in the country (% below poverty line)



Review Questions

- (1) How does the coronavirus *affect* poverty in Thailand?
- (2) How are the poor affected by the current commodity price collapses?
- (3) What were the impact of the growth slowdown (2014-2019) on poverty?
- (4) “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.”
Discuss.