

Poverty in Thailand

Bhanupong

Lecture 27

Like cancer, poverty is not a single disease.

It is a scourge with many symptoms and causes.

And it is for that reason that, also like cancer, it is so difficult to eradicate.

Outline

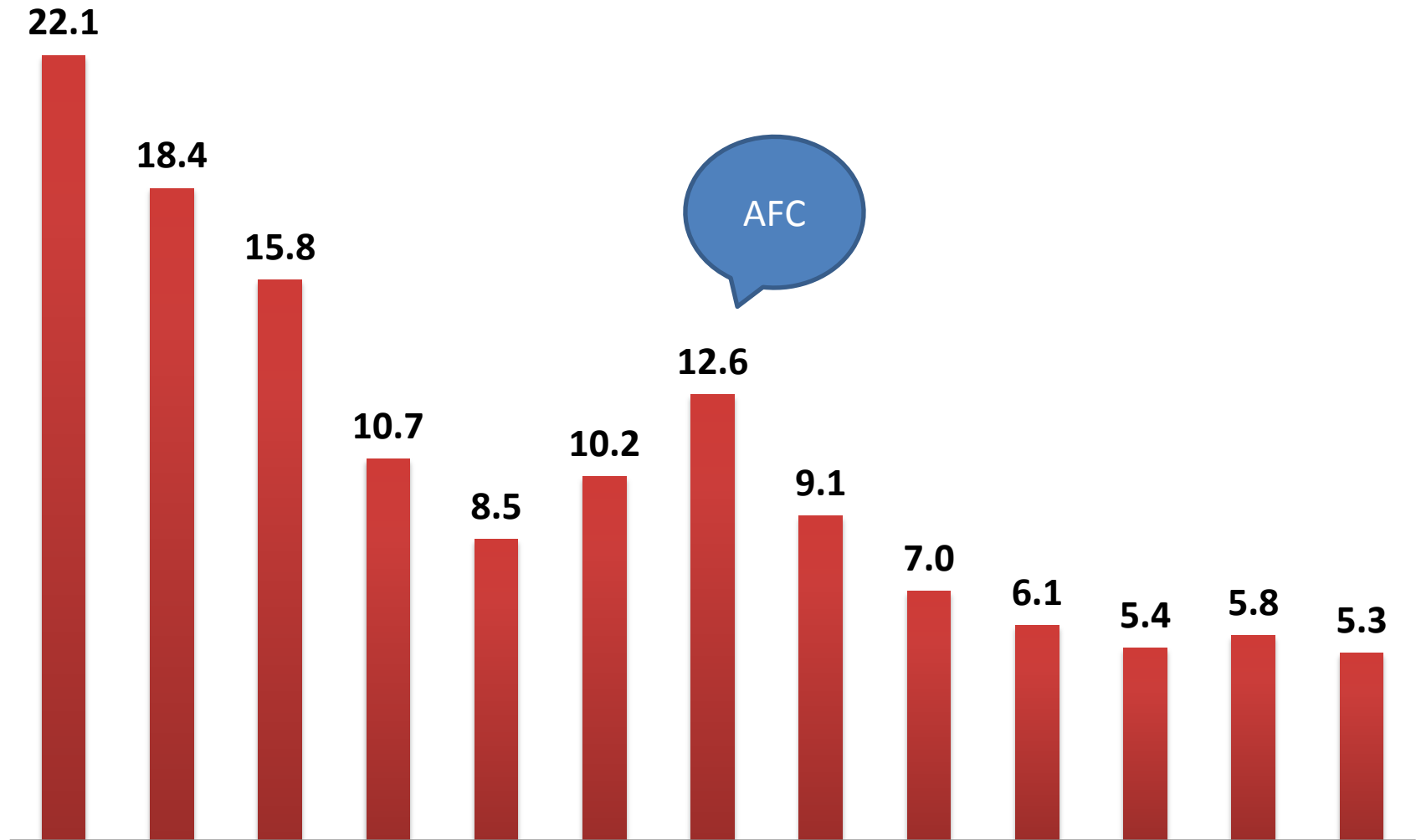
- **Growth and poverty reduction**
- **Employment and poverty**
- **Rural vs. urban poverty**
- **Education, poverty, and politics**

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**).

Declining number of the poor 1988-2011 (million)



Source: NESDB

Poverty lines drawn by ADB and World Bank

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 in Indonesia at **\$1.25** based on purchasing power parity.

The World Bank's poverty threshold is **\$2** a day.

Income poverty is part of the 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. Why does this matter?

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, such as:

Malnutrition, poor sanitation, lack of electricity or limited access to schooling, let alone qualitative aspects such as empowerment and participation.

Growth and poverty reduction: A positive correlation

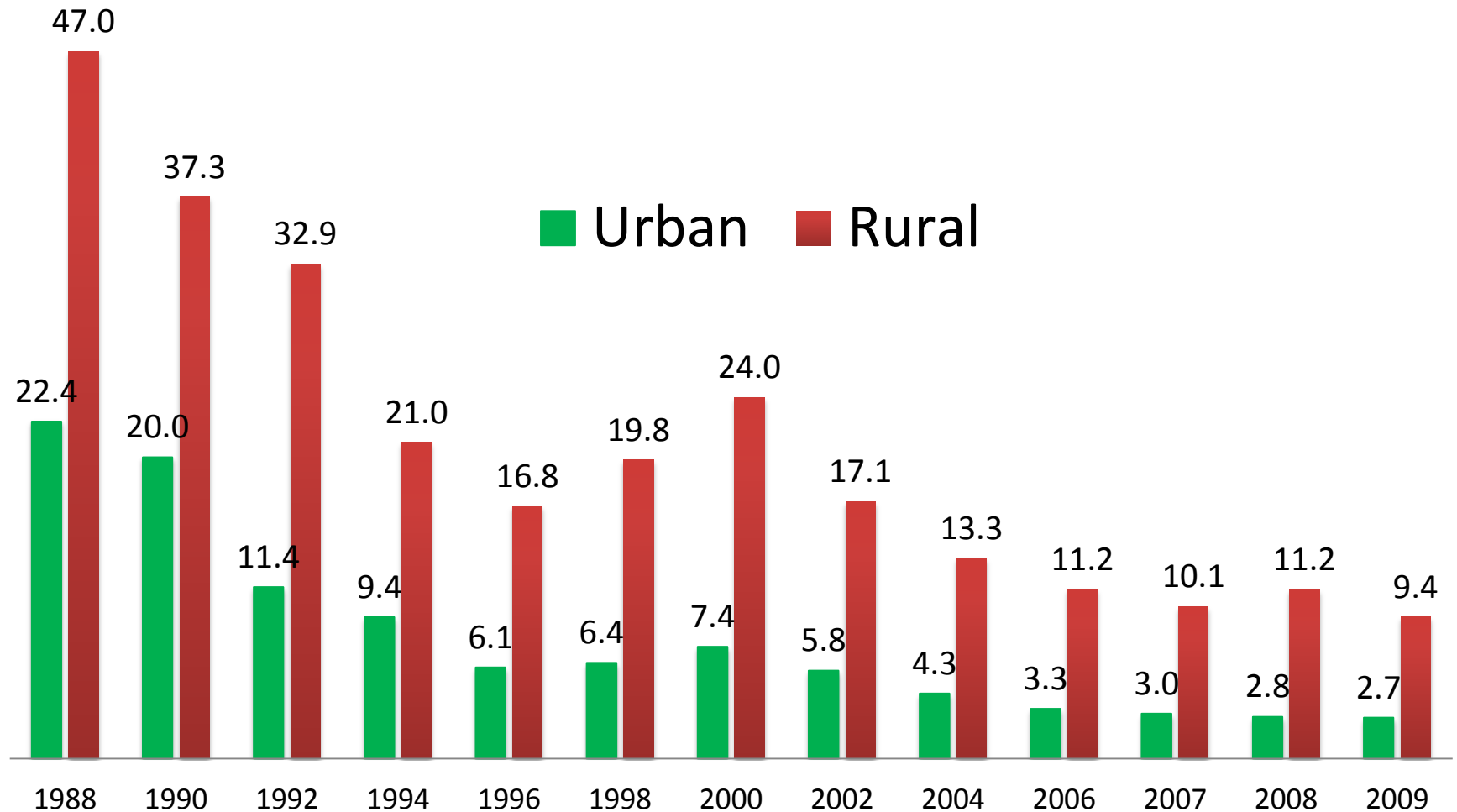
- Large reductions in absolute poverty incidence in Thailand, Indonesia, Malaysia, and the Philippines over the period from 1960s to 1999 were related to high rate of economic growth (Warr, 2000).
- In Thailand, the income share of the bottom 20% is correlated with the GDP growth.
- **Growth is good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

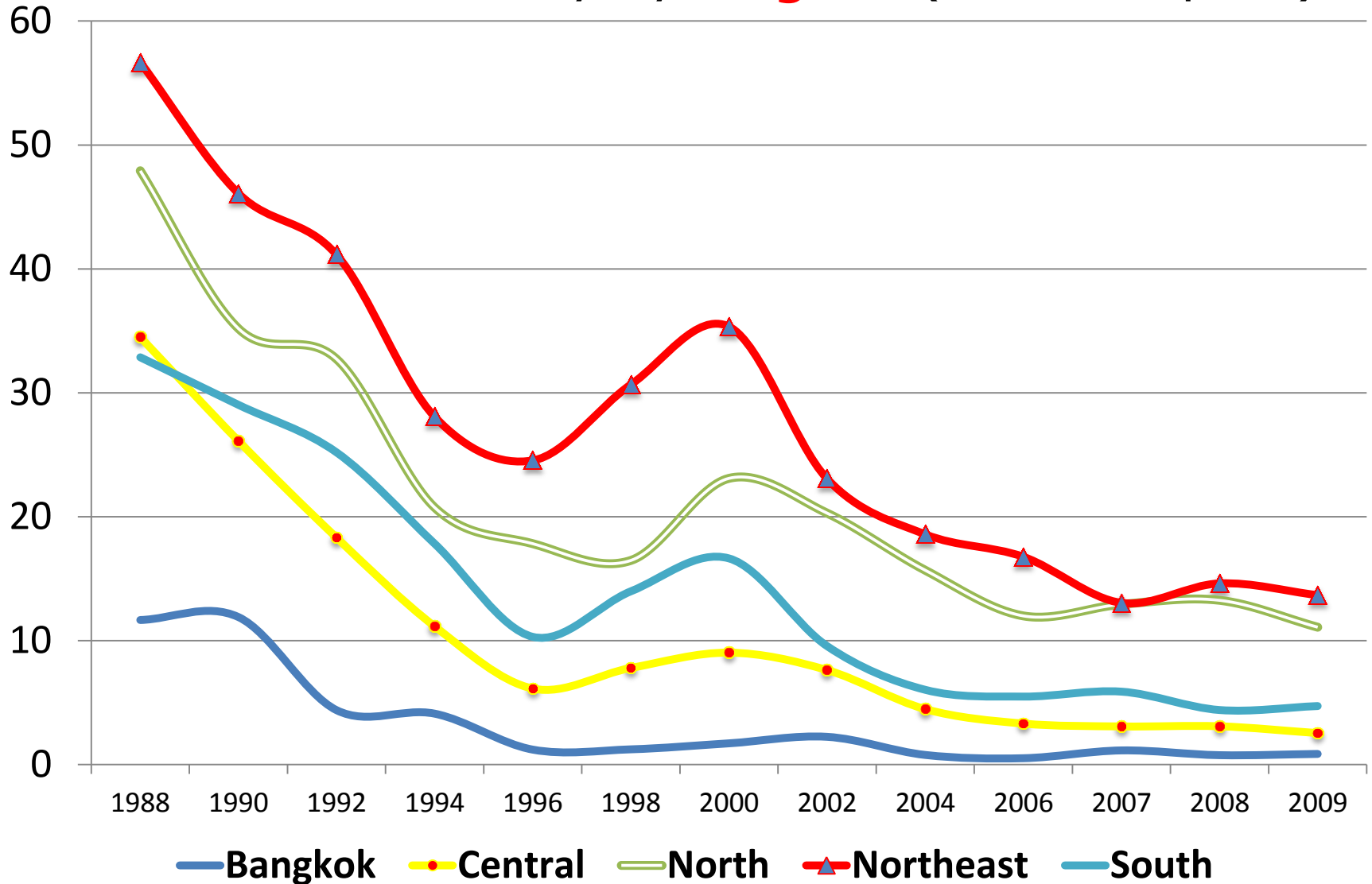
Poverty by residence: Urban vs. Rural Poverty

Unit: Percentage of the poor

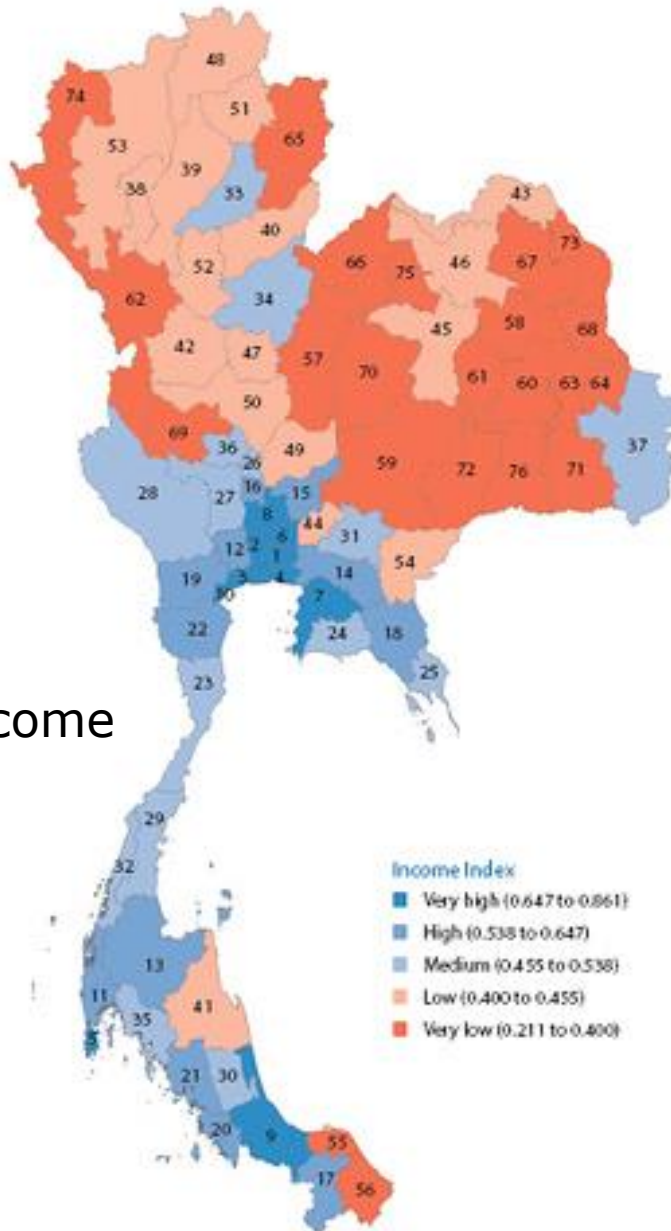


Source: NESDB

Poverty by Region (% of the poor)



Source: NESDB

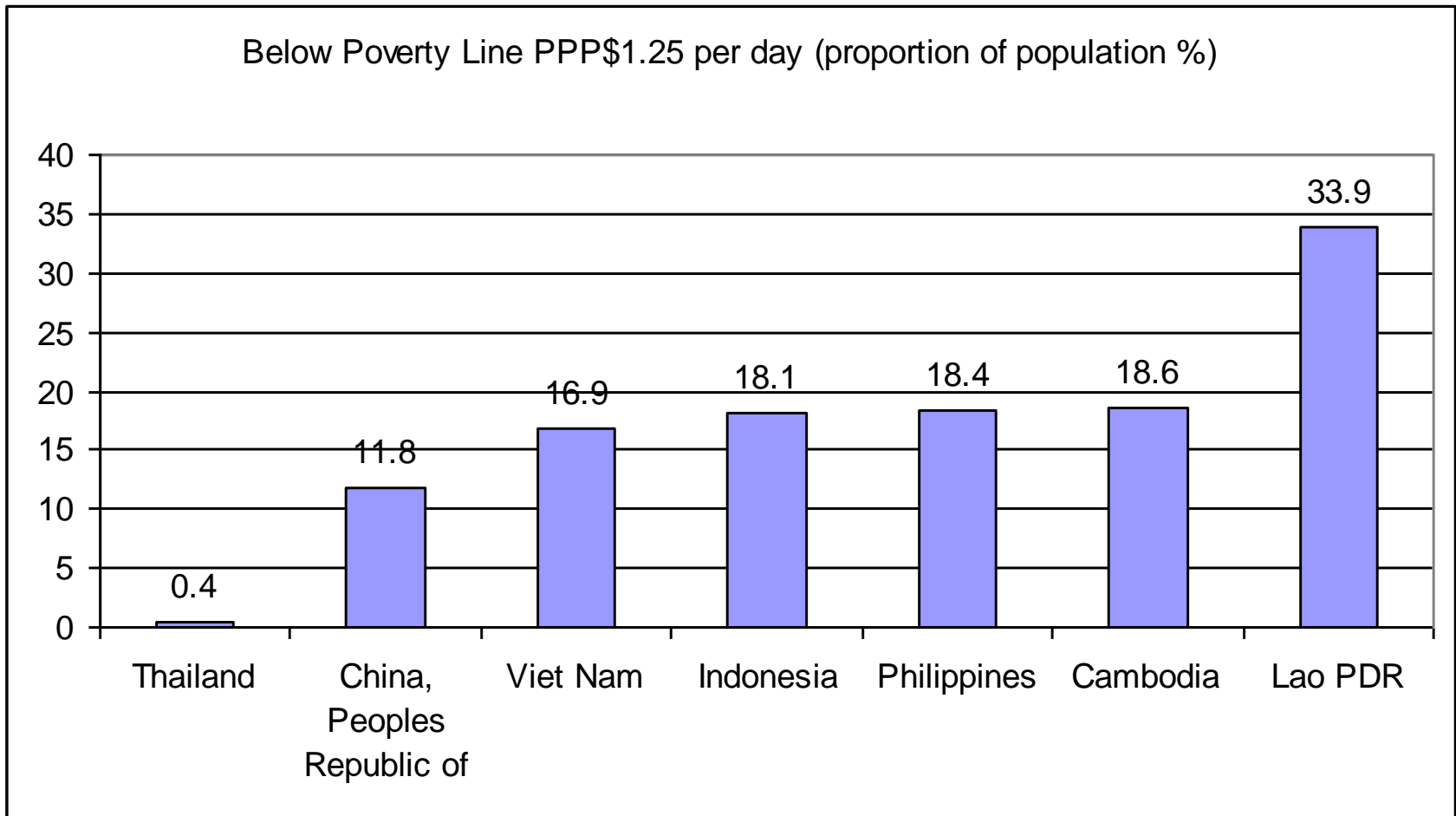


Dark blue
Very high income

Dark orange:
Very Low income

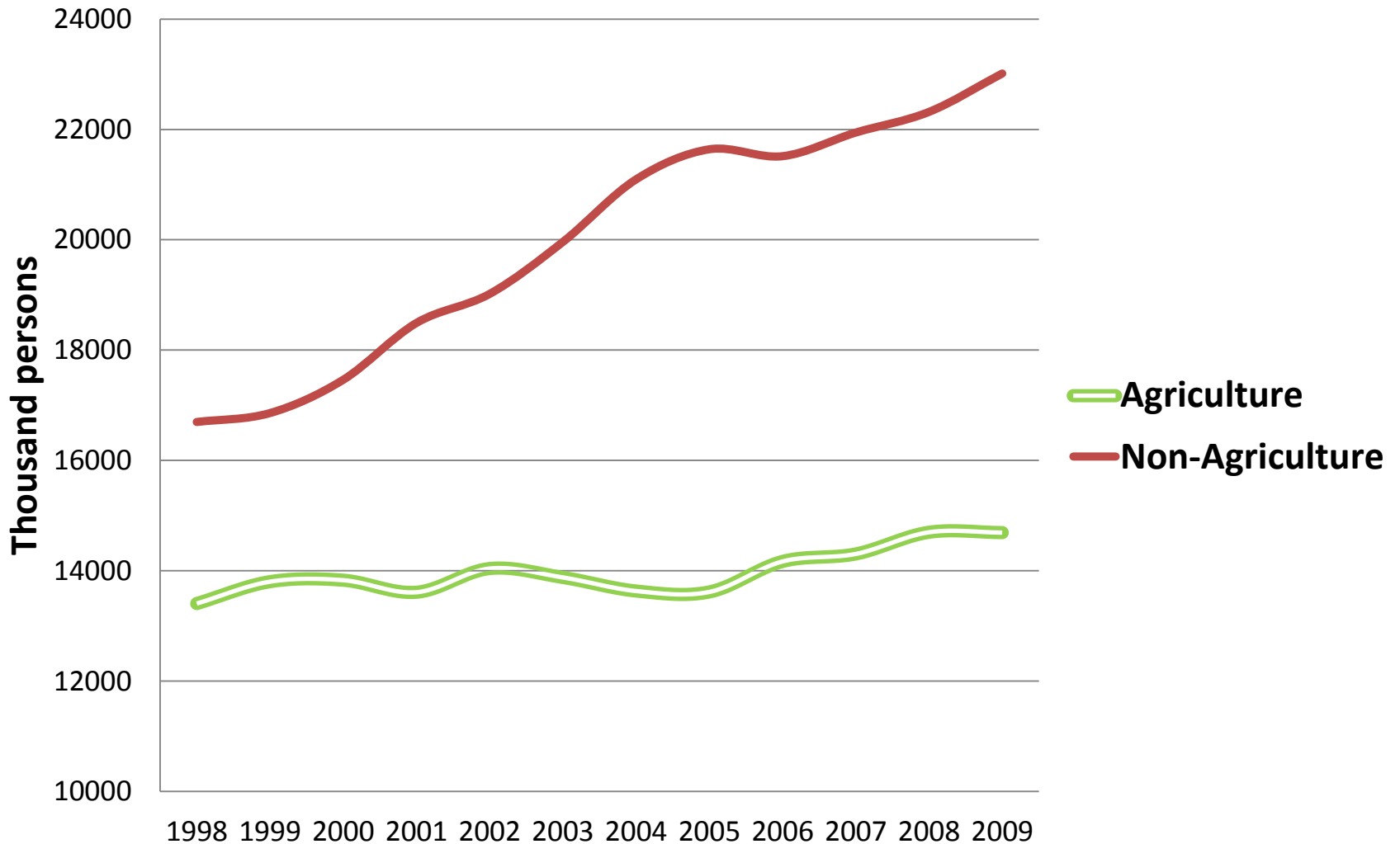
Rank	Province
1	Bangkok
2	Nonthaburi
3	Samut Sakhon
4	Samut Prakan
5	Phuket
6	Pathum Thani
7	Chon Buri
8	Phra Nakhon Si Ayutthaya
9	Songkhro
10	Samut Songkhram
11	Phangnga
12	Nakhon Pathom
13	Surat Thani
14	Chachoengsio
15	Saraburi
16	Ang Thong
17	Yala
18	Chanthaburi
19	Ratchaburi
20	Satun
21	Trang
22	Phetchaburi
23	Prachuap Khiri Khan
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	Komphaeng 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	Si Kaeo
55	Pattani
56	Narathiwat
57	Phetchabun
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	Mekong
69	Uthai Thani
70	Chalyapthum
71	Si Sa Ket
72	Buriram

Poverty in China and ASEAN 2012

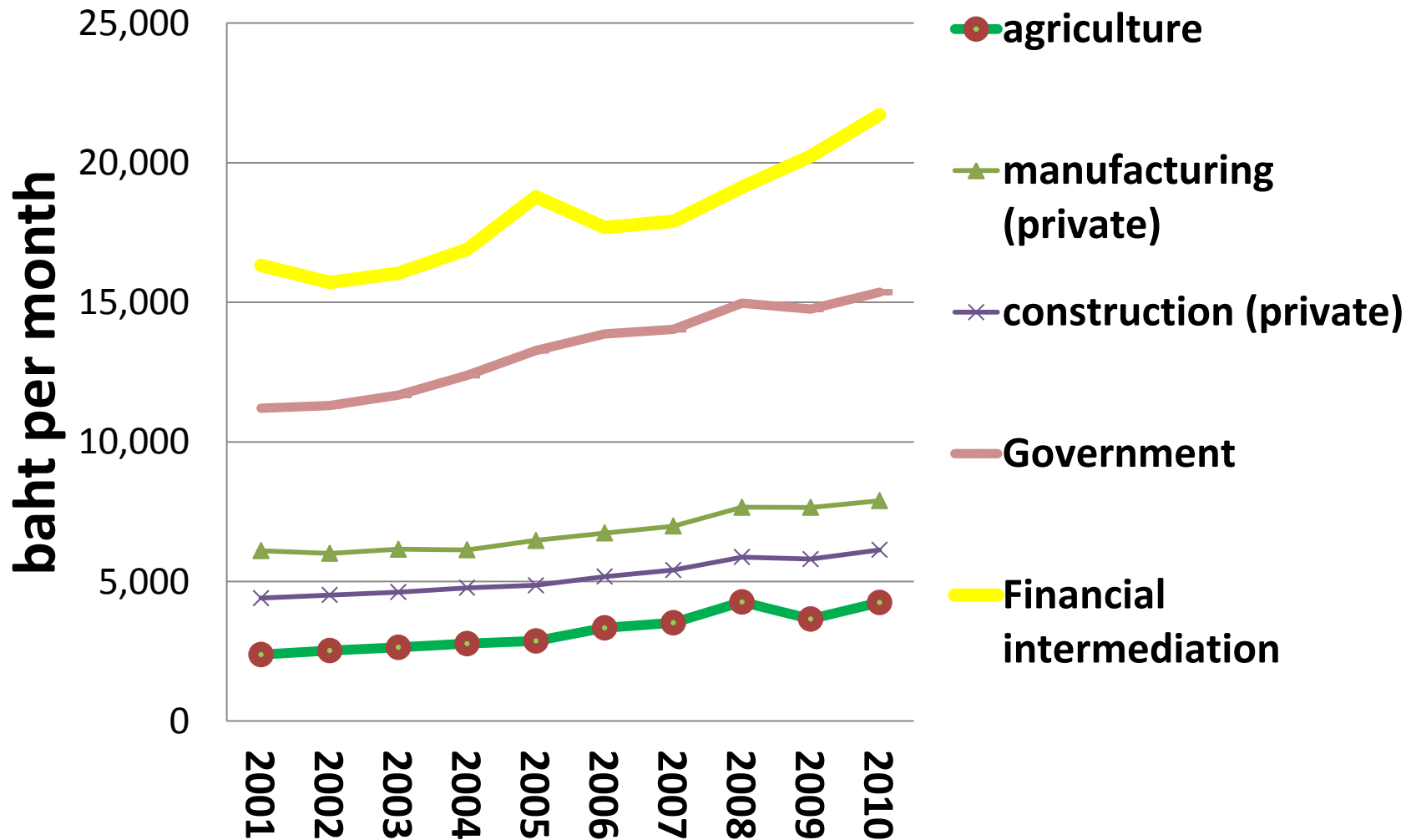


ADB poverty line: \$1.25 per day

Thailand's employment-generating sector: non-agriculture

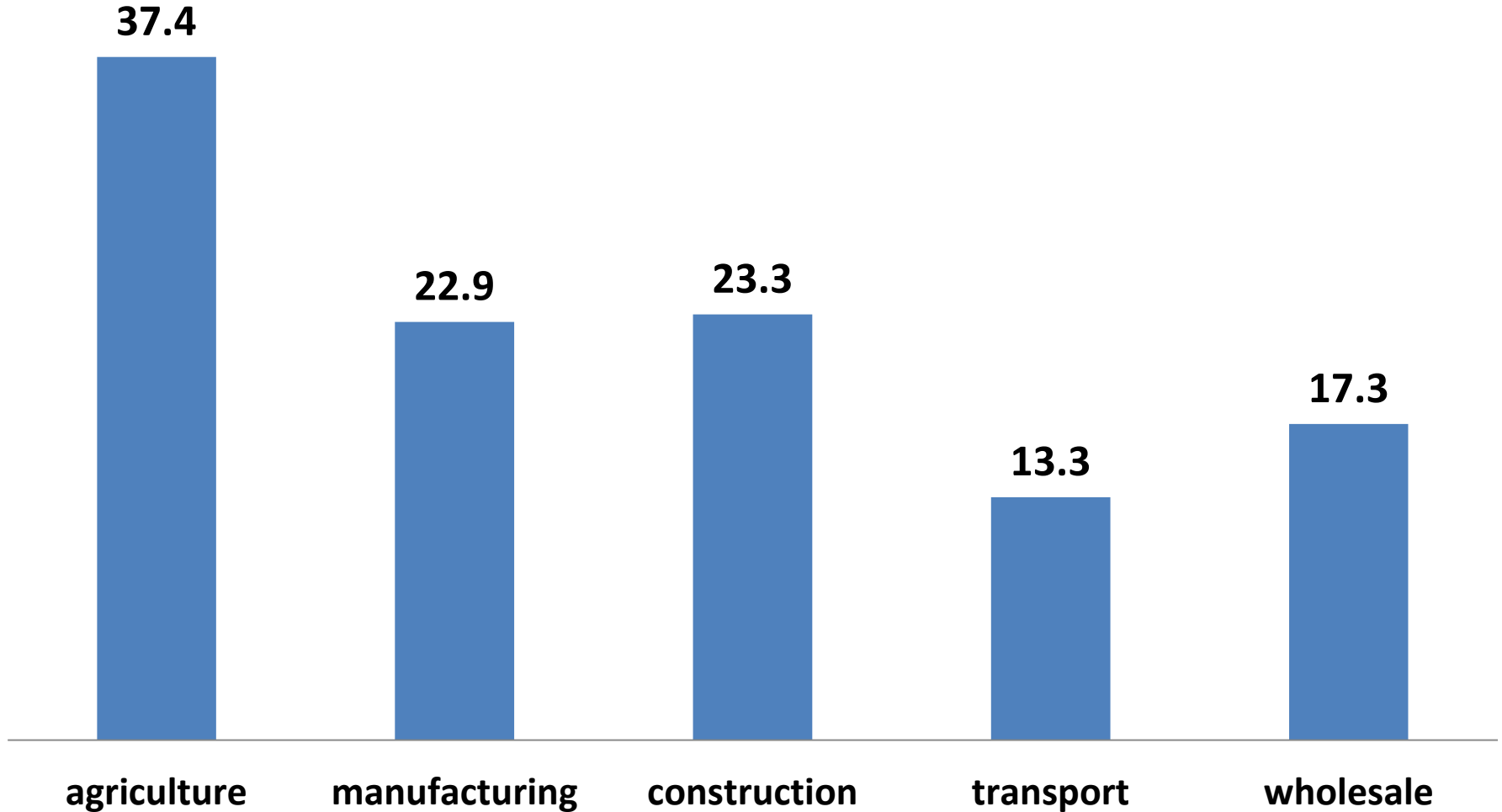


Limited upward mobility: From low to high income (productivity)



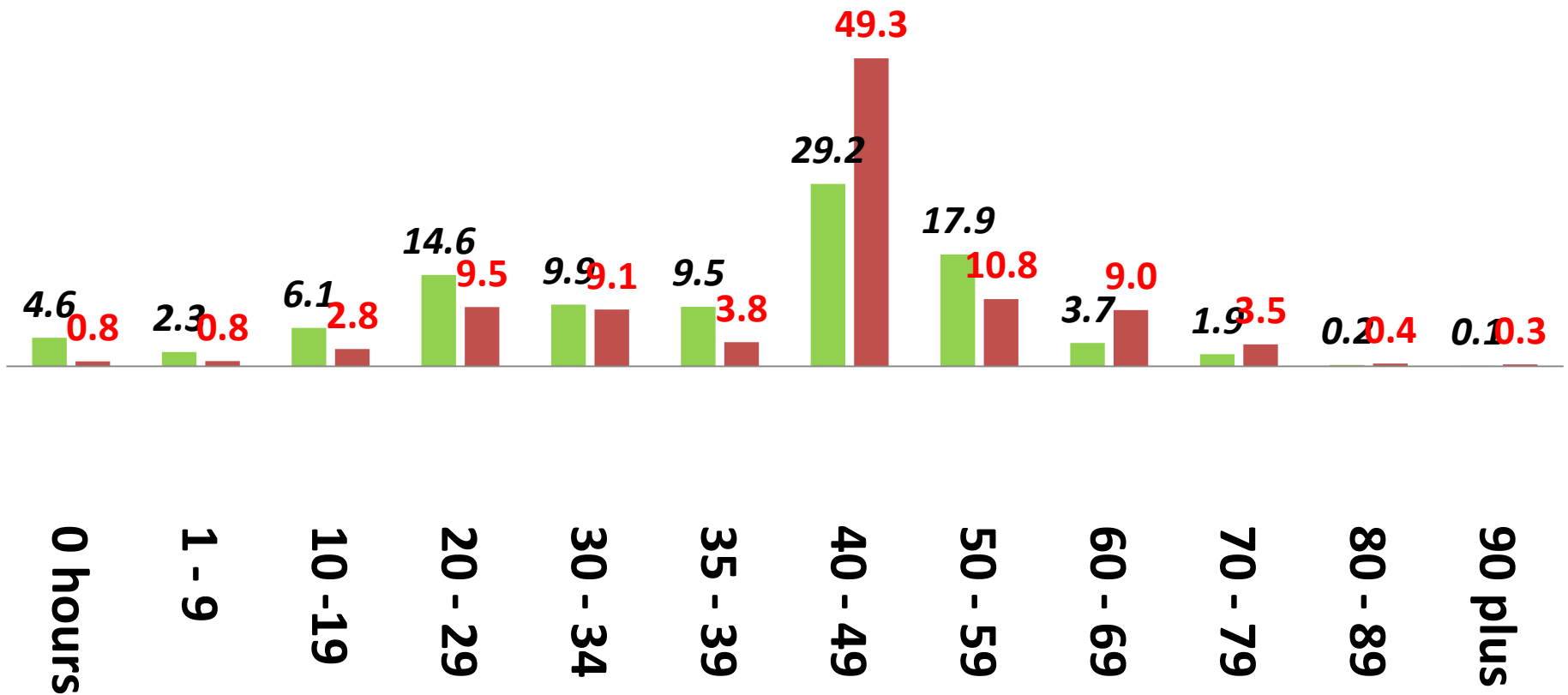
Underemployment in 2011

percentage of those who worked *fewer* than 34 hours a week in

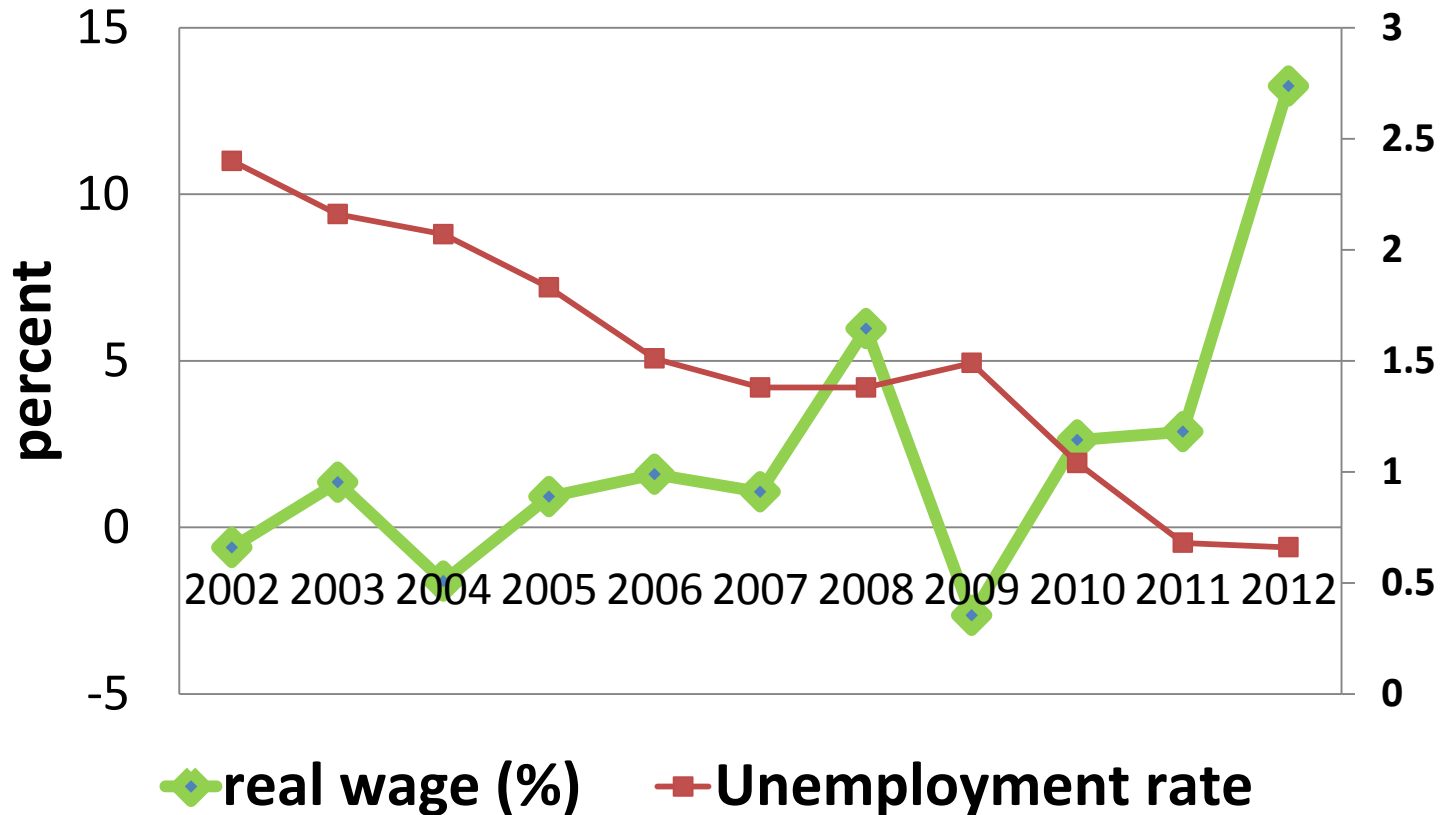


Employed person by hours per week in 2011 (percent)

■ agriculture ■ manufacturing

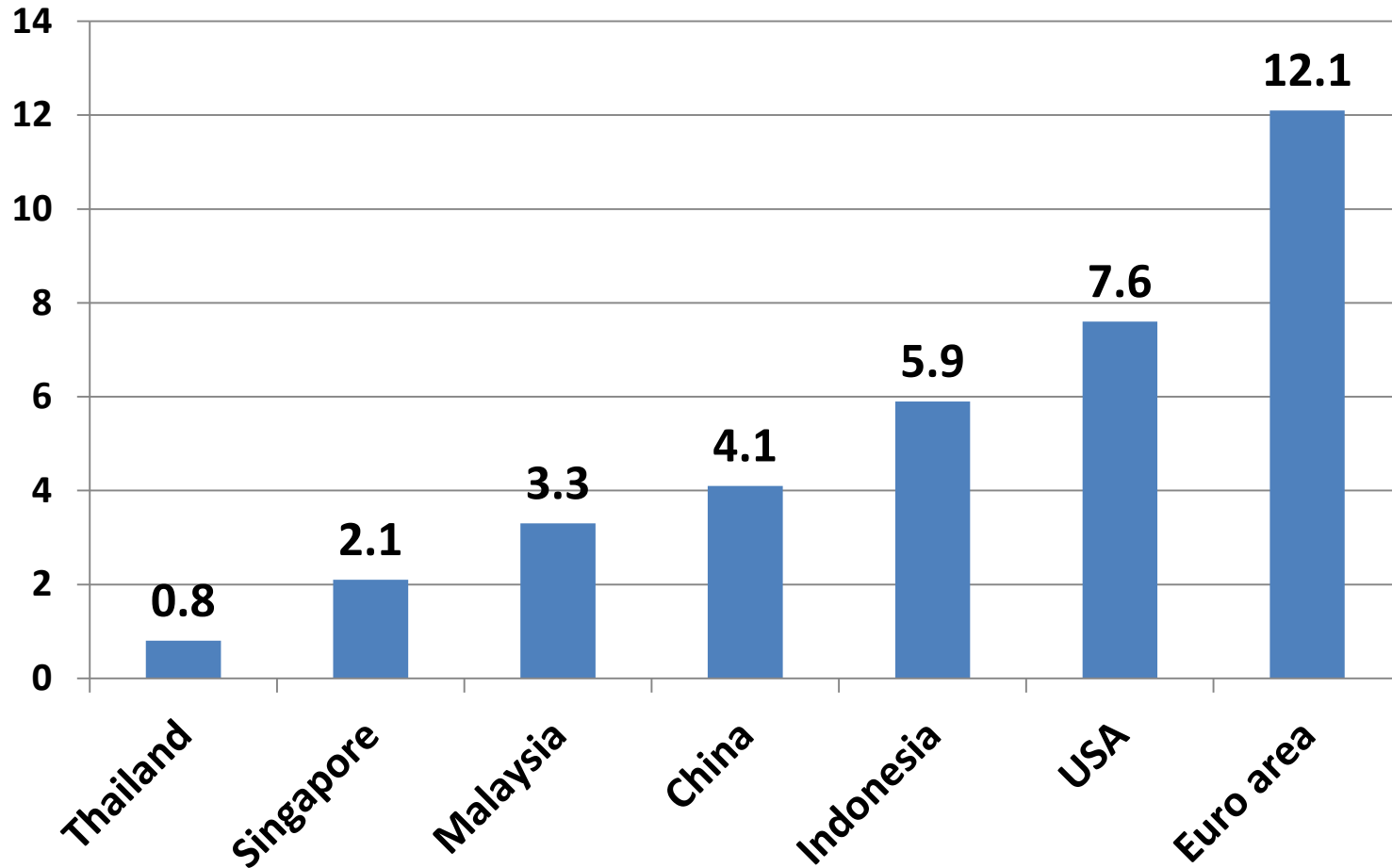


Unemployment and rate of change in real wage rate



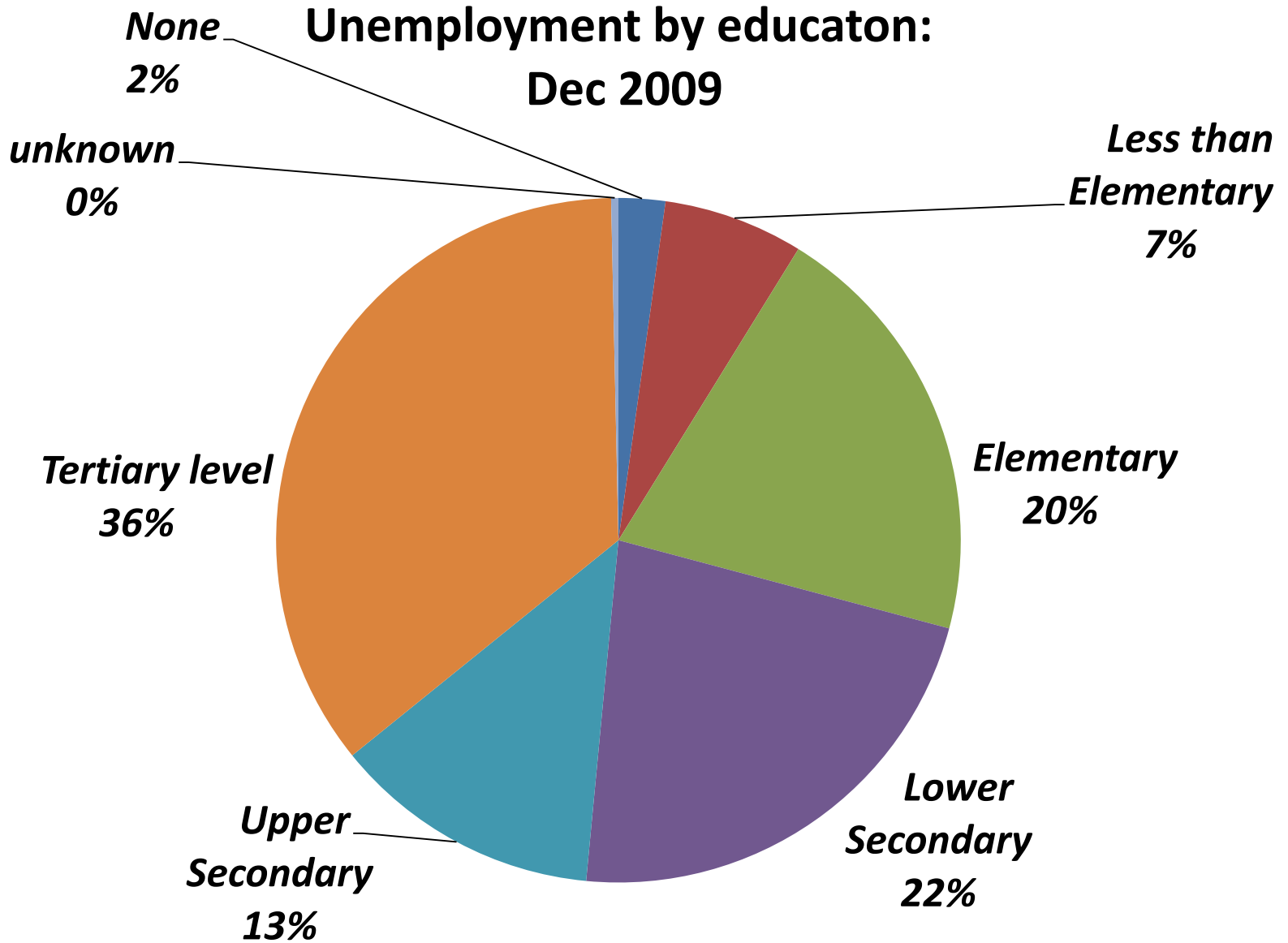
Excess demand for labor leads to wage pressure

Comparative Unemployment Rate in 2013



Thailand: too good to be true

Unemployment by education: Dec 2009



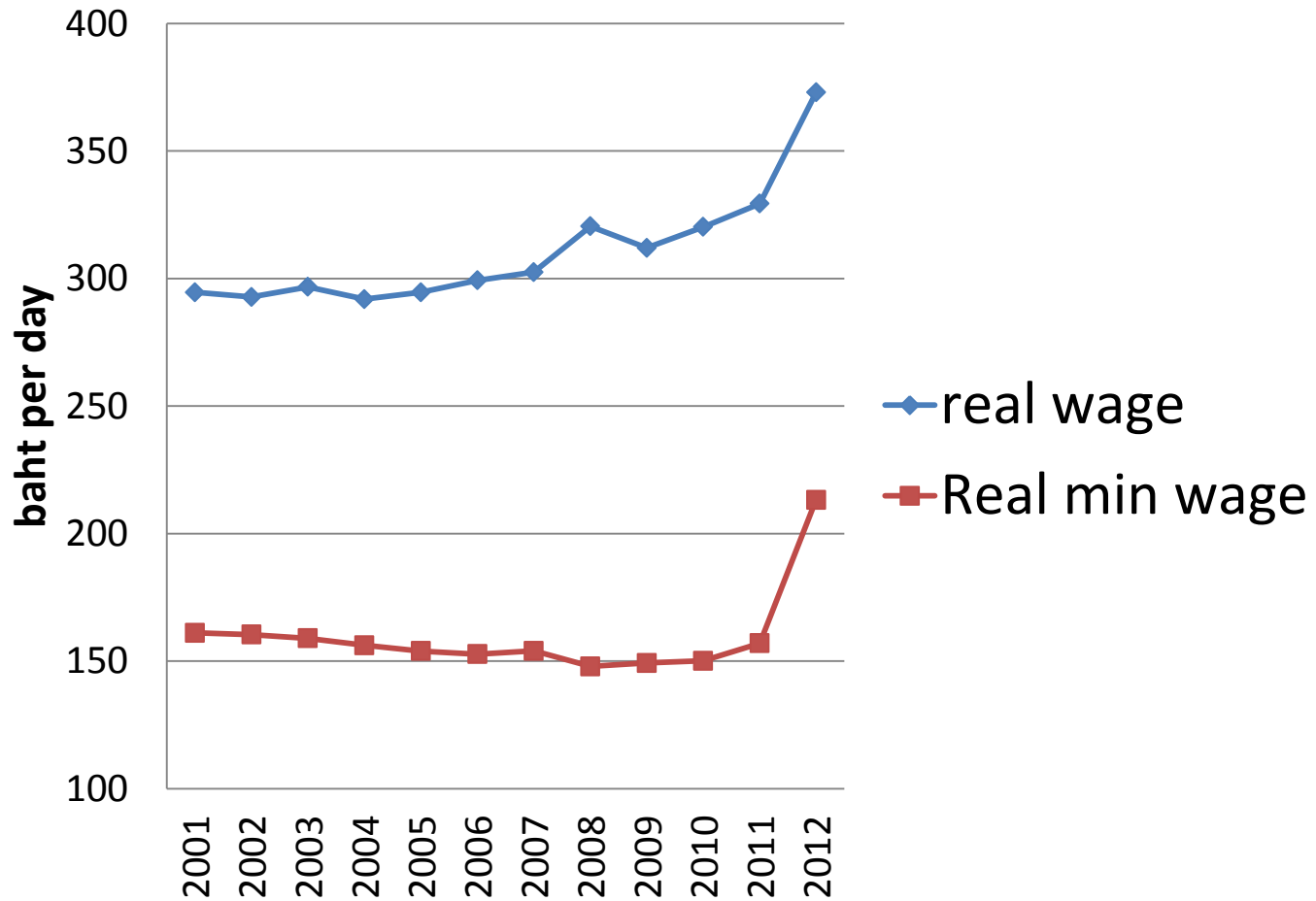
The importance of the service sector: employment effect

- Poverty reduction was strongly related to growth of **agriculture and services**, but not to the growth of manufacture.
- Except for Indonesia, growth of **services** in the three countries has made a larger contribution to poverty reduction **than** growth of agriculture, because growth of services has made the overall growth much larger.

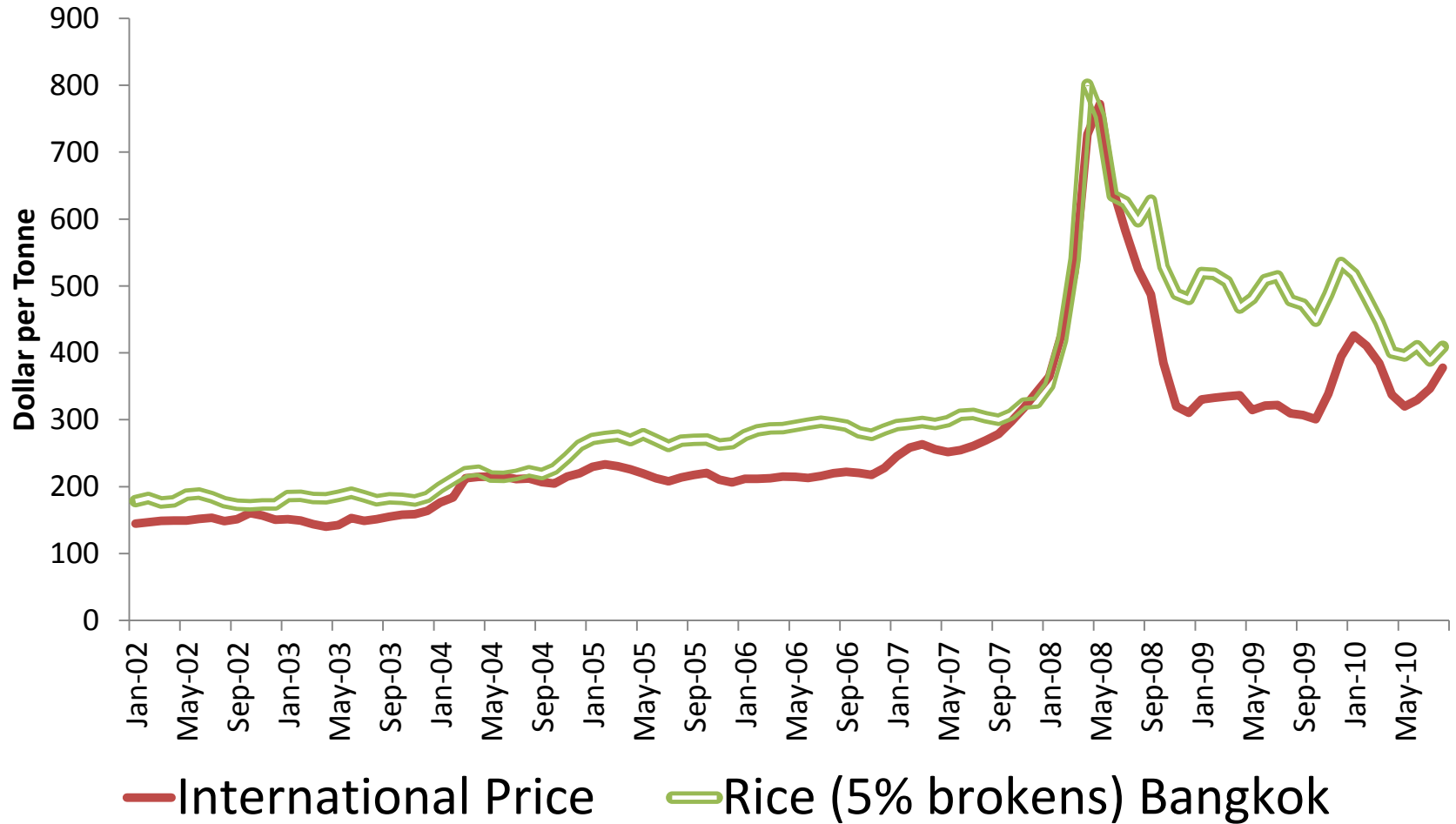
Principal income sources of the poor

- Their own labor—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.

Real Wage Rates

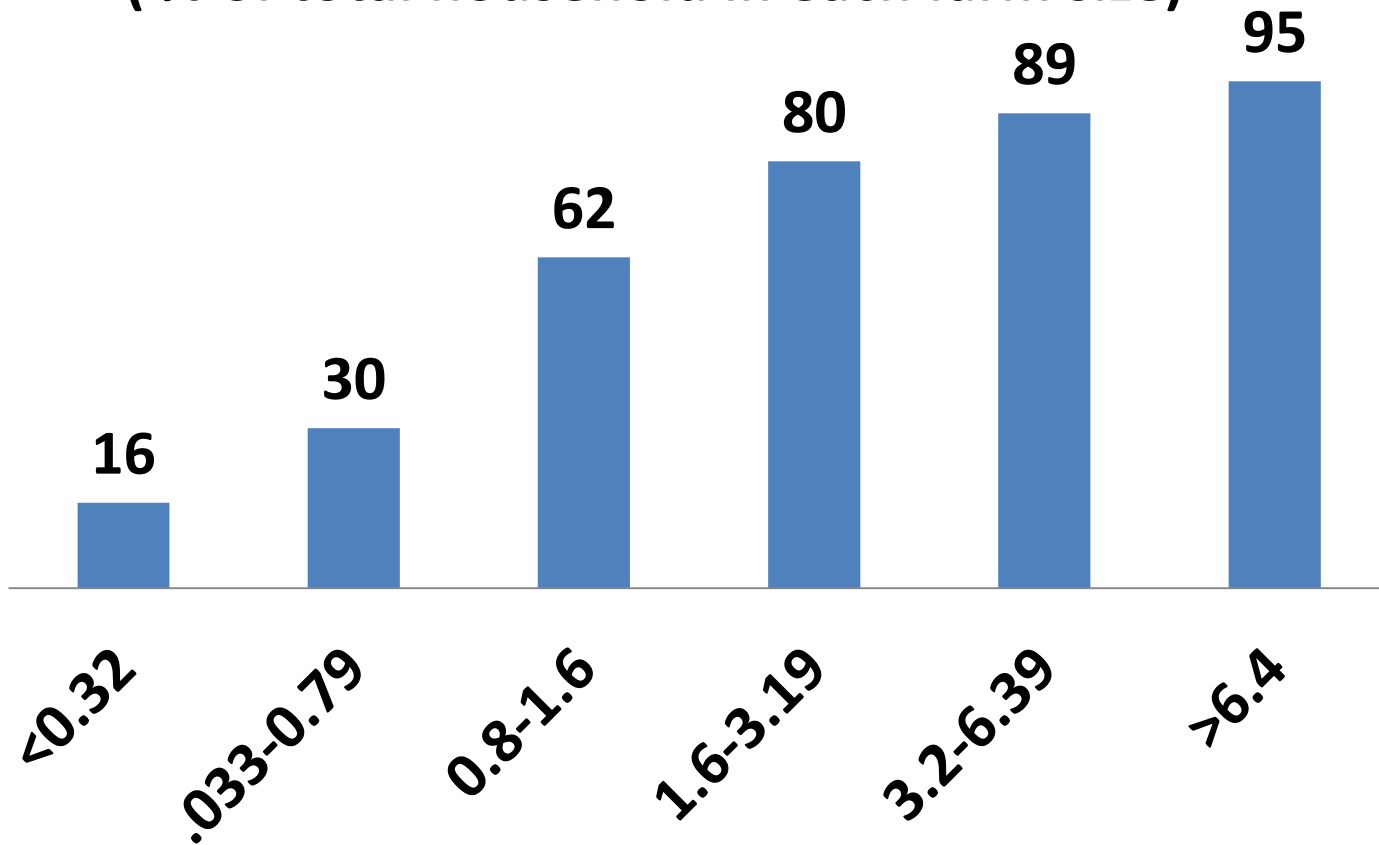


Rice prices from Jan 2002 to Aug 2010



Source: Jackson Son & Co. (London) and BOT

Thailand's net food sellers (% of total household in each farm size)

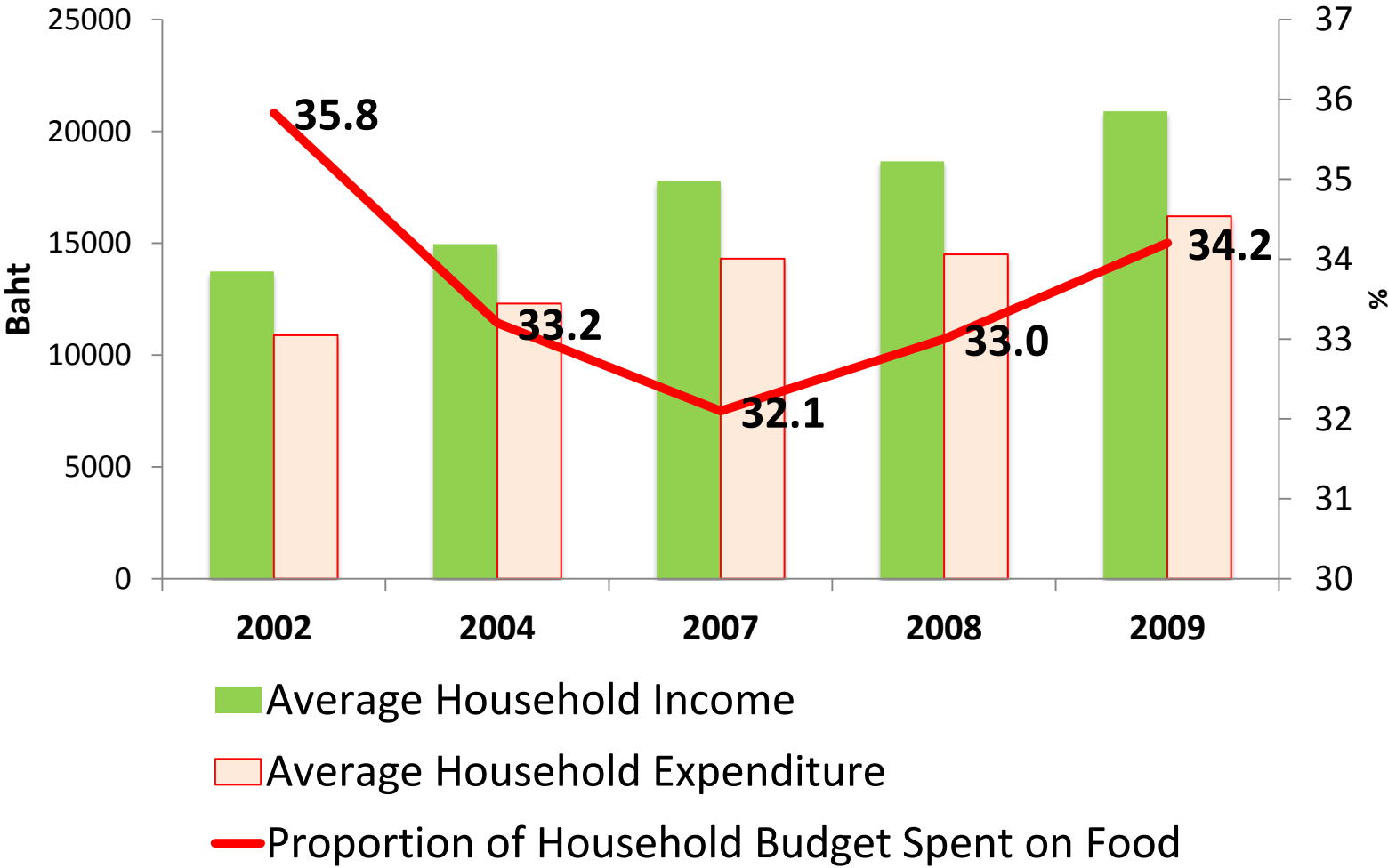


Farm size by hectare

Size matters

- The small farmers' distress — the unrelenting rise in input costs, which the small farmers are unable to cope with while the big ones, though affected, can still take in their stride.
- This is happening in India.

Proportion of Household Budget Spent on Food



Source: NSO

Inclusive Growth

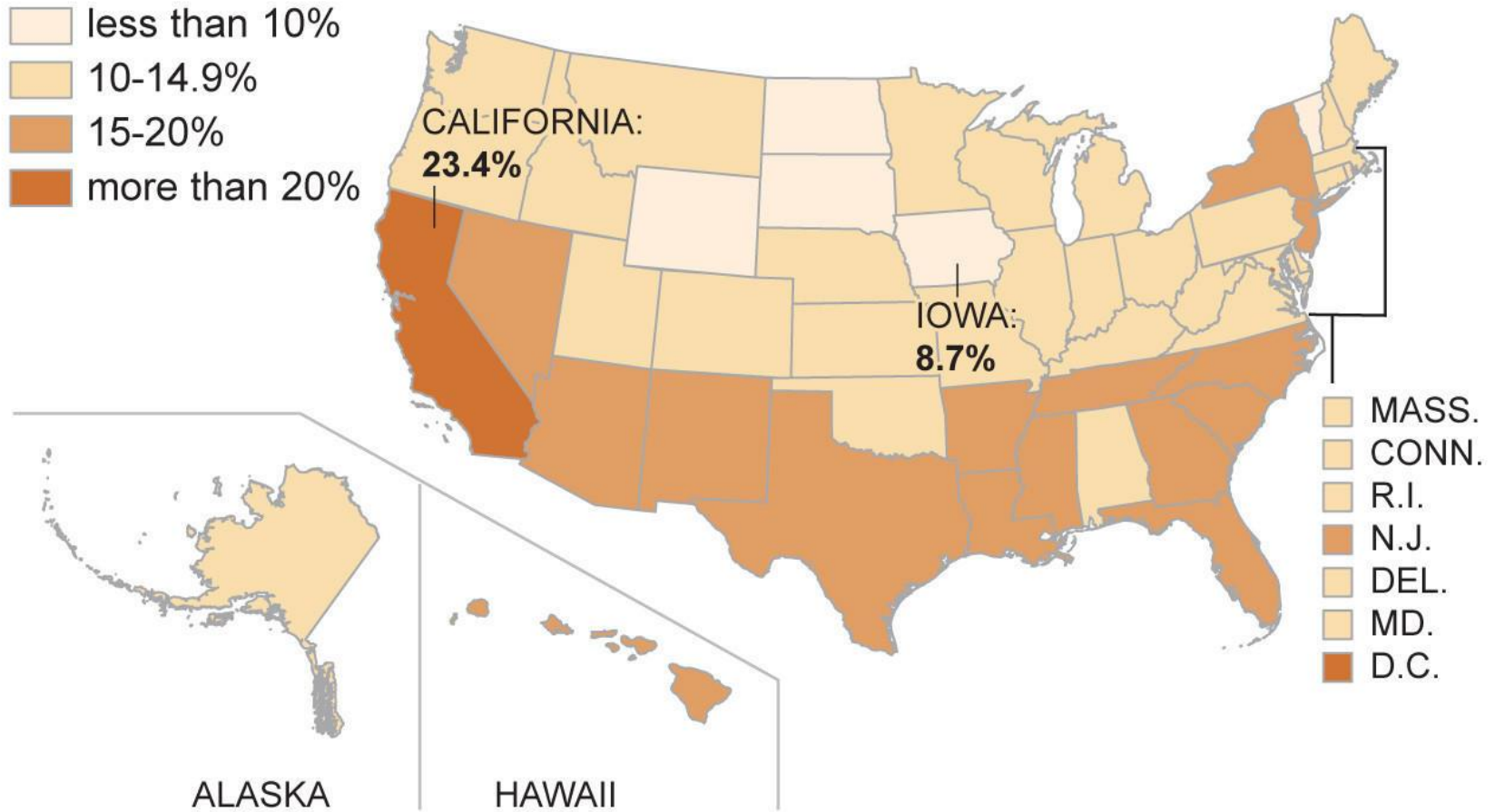
- Economic growth must generate employment, reduce poverty, and mitigate inequality.
- Virtuous cycle of growth can reduce poverty through increasing employment with rising productivity.
- Growth may not impact the poor due to segmented labor markets and labor immobility.

California's economy is booming, so why is it no. 1 in poverty?

- California has added jobs at a faster rate than the rest of the country in recent years.
- But that swift economic growth hasn't improved the fortunes of California's poorest.
- The state's official **poverty rate** (based on a federal threshold of \$24,230 for a family of four) is at **16.4%**, according to the most recent census data from 2014, up from 12.4% in 2007.

Percentage of people living in poverty by state in 2013.

Based on a census measure that factors in costs of housing, food, utilities and taxes



LA Times: November 15, 2015

- Cost of living makes an impact on poverty
- The percentage of people living in poverty in each county differs widely when factoring in costs such as housing.
- declining wages for the low and middle classes are a big contributor to elevated poverty rates.
- Median wages in California declined significantly during the Great Recession, according to an analysis of U.S. census data by the California Budget & Policy Center.
- “Millions of people in our state are not benefiting from our growing economy.”
- An example of exclusive growth

A.K. Sen

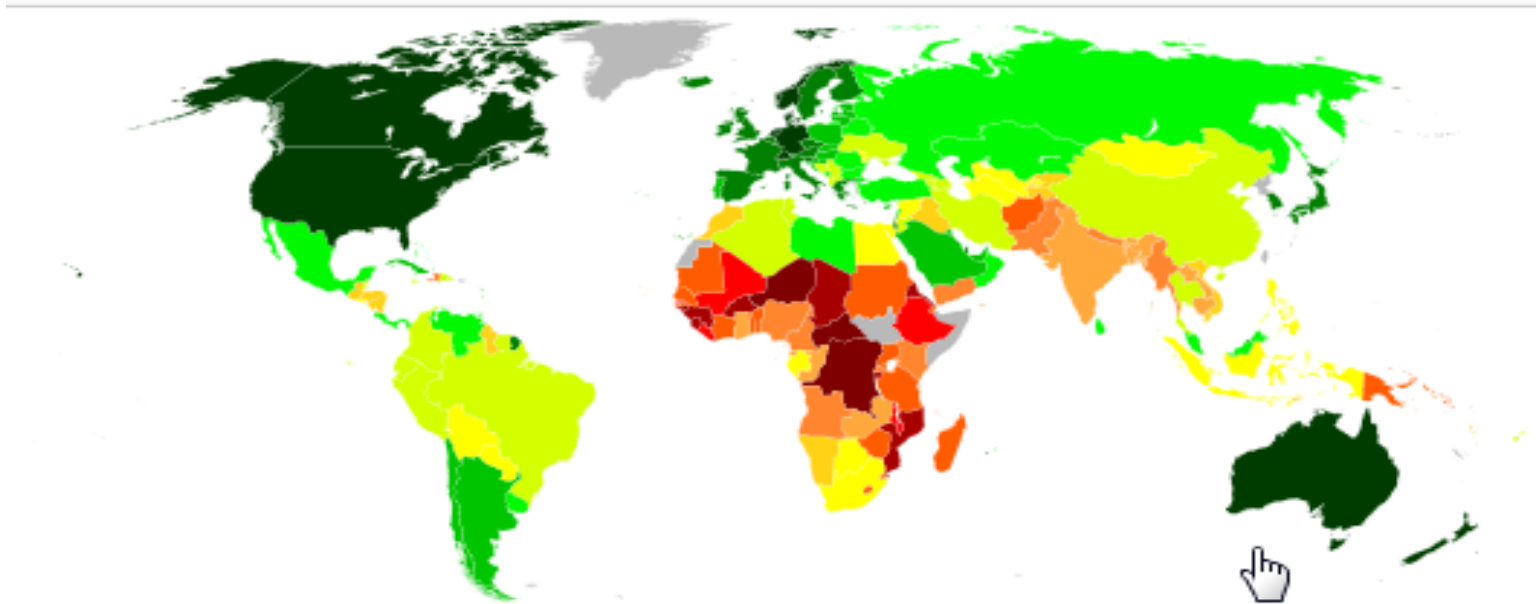
- Poverty, as asserted by Amartya Sen in his famous book, *Development as Freedom* (2000), must be seen “as a deprivation of basic capabilities, rather than merely as low income”.

Poverty represents more than a low standard of living; the national poverty line does not capture the other vital and multiple dimensions of necessities required by the poor.

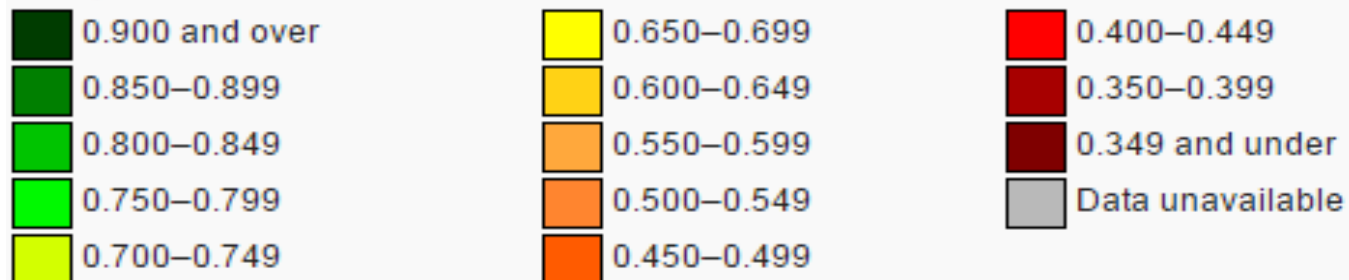
The role of the Thai government

- Public spending on education, health, welfare services can mitigate the plight of the poor.
- Public spending on health and welfare increased gradually during the past three decades, from 1.2% of GDP to 2.4% during 1997-2000.
- Thailand was ranked 29 by the **Human Poverty Index (HPI)** which measures the deprivation of knowledge, economic provisioning, and long and healthy life.

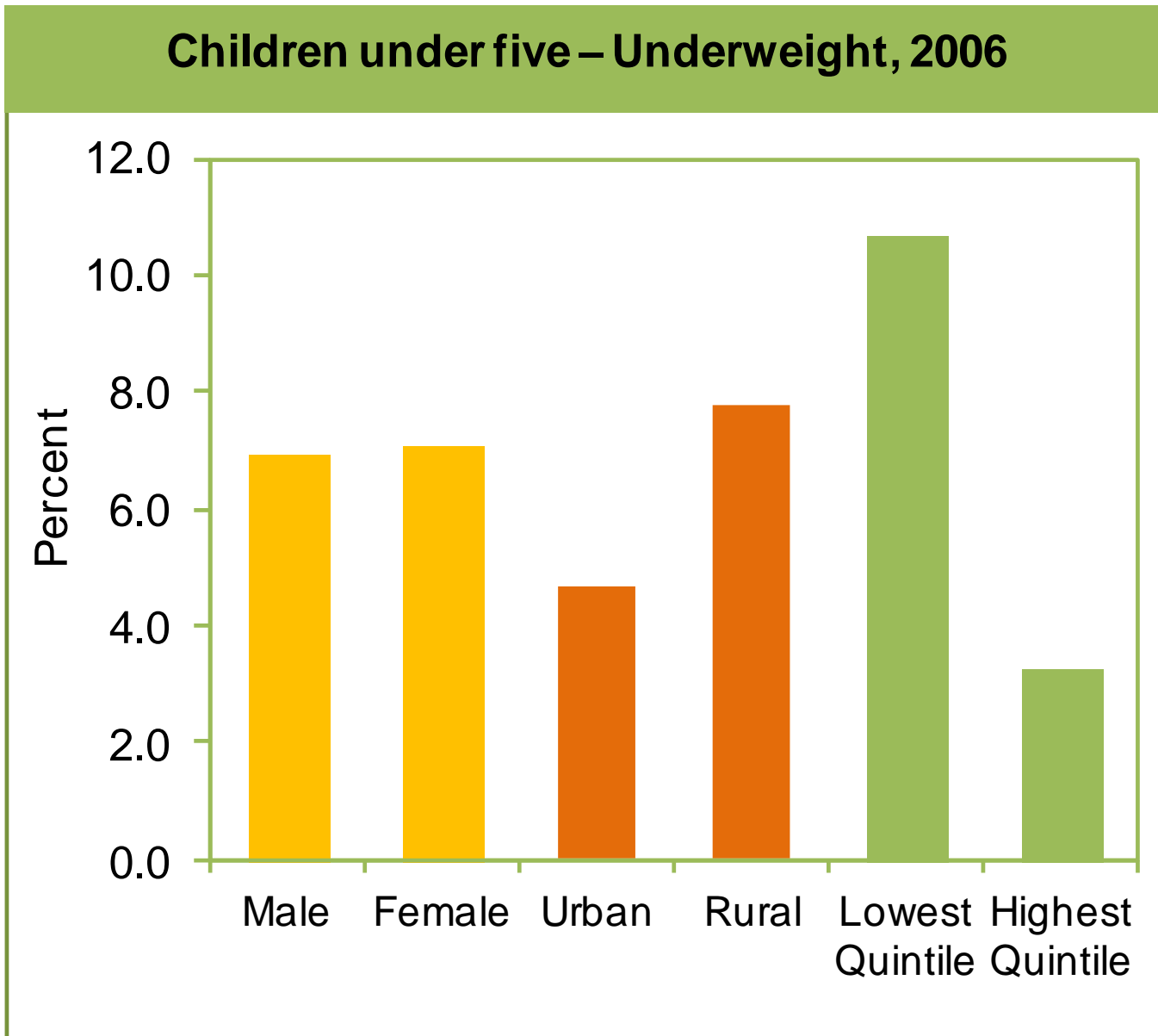
World Map indicating the HDI



World map indicating the Human Development Index (based on 2013 data, published on July 24, 2014).^[1]



The first five years of Thai Children



Cognitive abilities

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



Height as a Proxy for Cognitive and Non-Cognitive Ability

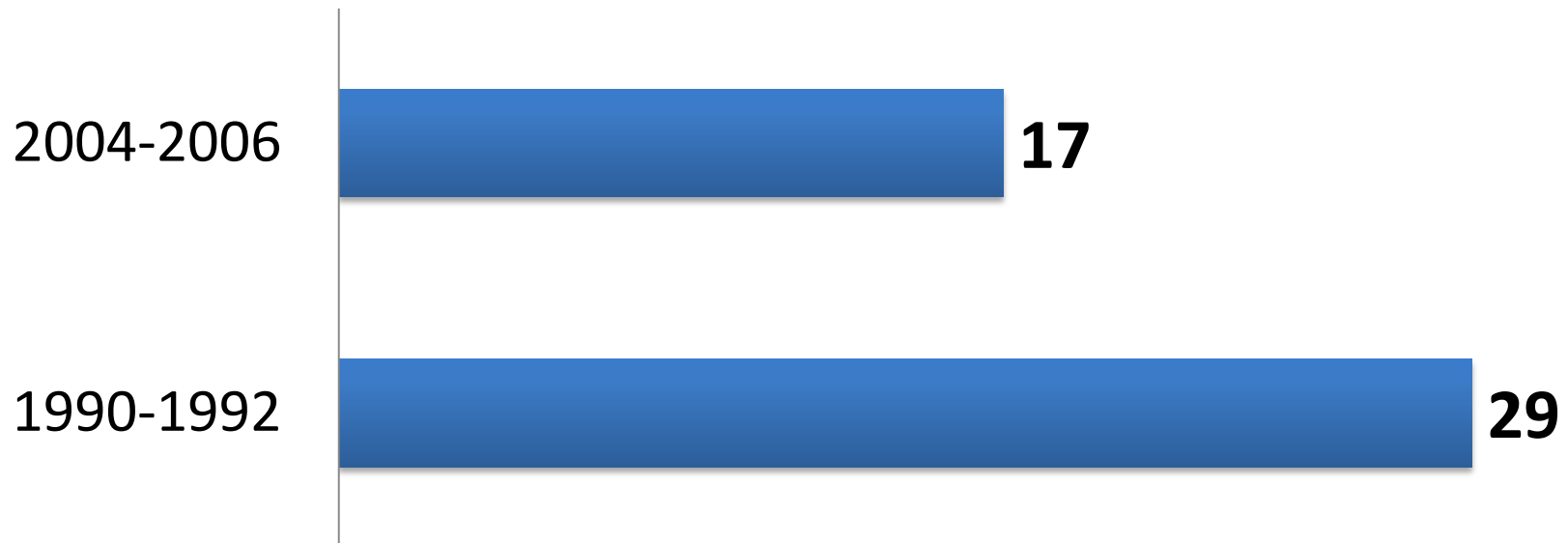
[Andreas Schick](#), [Richard H. Steckel](#)

NBER Working Paper No. 16570

Issued in December 2010

- Taller workers receive a substantial wage premium.
- Studies extending back to the middle of the last century attribute the premium to non-cognitive abilities, which are associated with stature and rewarded in the labor market.

Prevalence of Thailand's Undernourishment (% to total population)



Cognitive abilities explain the stature-wage relationship.

Undernourishment

- Undernourishment fell across the world throughout the 1980s and early 1990s.
- But then in 1995 things went into reverse.
- Today there are more hungry children, women and men than at any time since 1970.
- Last year 46 million extra people fell below the UN poverty benchmark of having less than \$1.25 to live on every day.

Height as a Proxy for Cognitive and Non-Cognitive Ability:

[Andreas Schick](#), [Richard H. Steckel](#)

NBER Working Paper No. 16570, Issued in December 2010

- Their work reconciles the competing views by recognizing that **net nutrition**, a major determinant of adult height, is integral to our cognitive and non-cognitive development.
- 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.

Intensity of food deprivation

(average % shortfall in minimum dietary energy requirement)



Source: UNDP

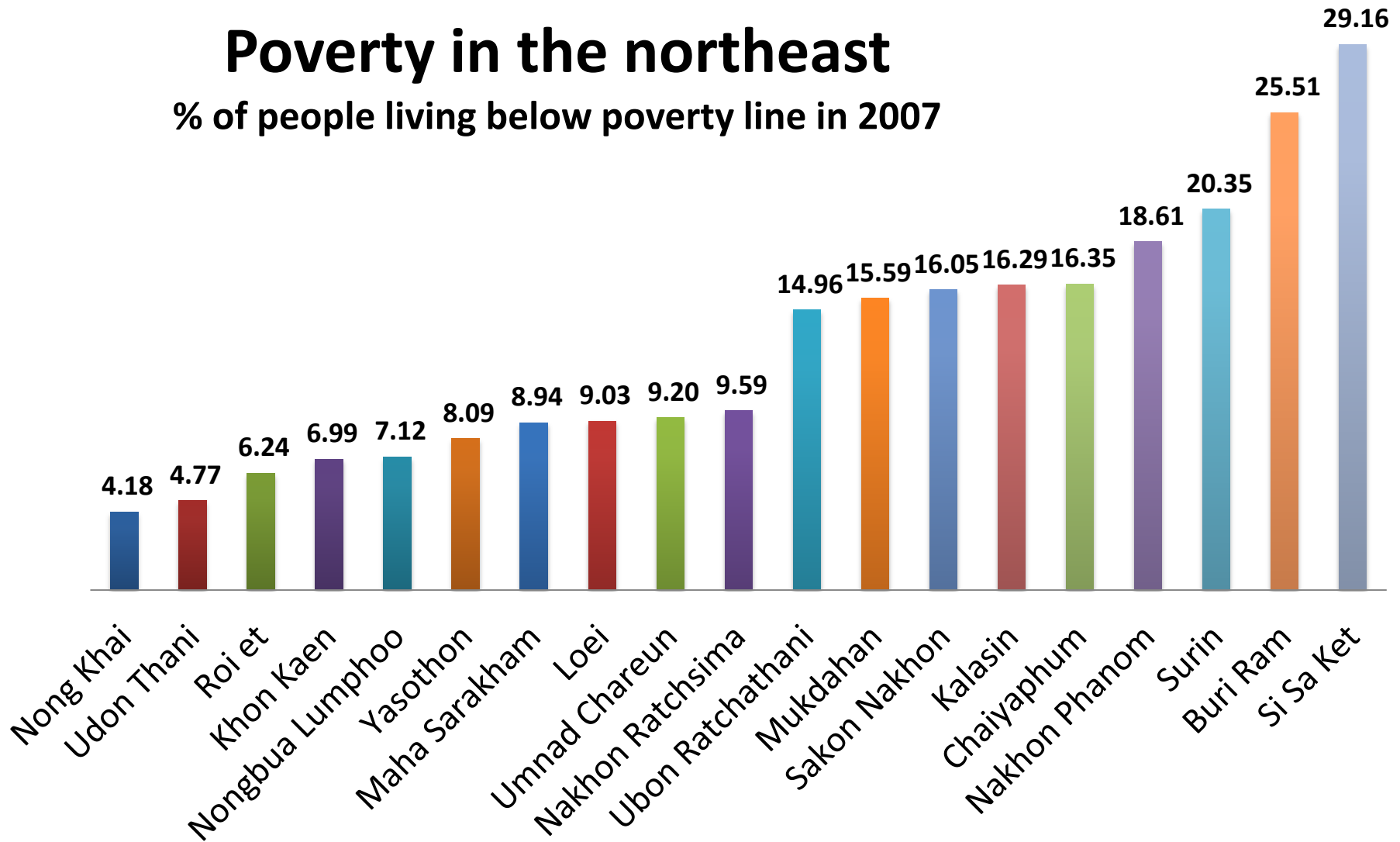
Nutrition is a major determinant of adult height which in turn determines wages and poverty

Food for thought

- Winston Churchill: “There is no finer investment than putting milk into babies”
- JFK: The war against hunger is truly mankind’s war of liberation.
- Charles de Gaulle: How can you govern a nation that has 246 different kinds of cheese?

Poverty in the northeast

% of people living below poverty line in 2007



Questions

- How did global economic crisis *affect* poverty in Thailand?
- How were the poor affected by the global food crisis in 2008?
- What would be the impact on poverty from the growth slowdown in 2015?