EE460: Poverty in Thailand

Mr. Bhanupong

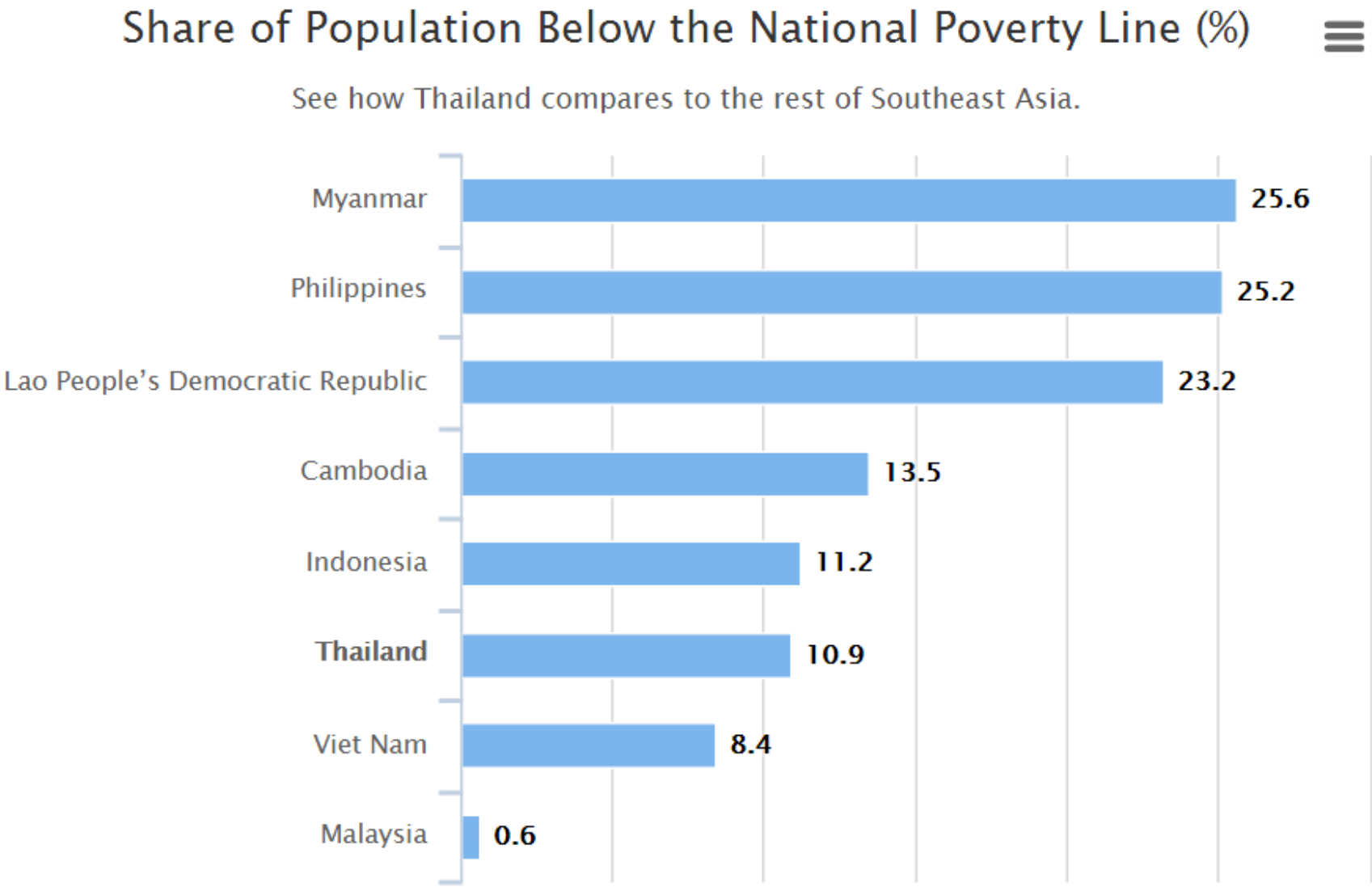
Lecture 27

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

- **Framework of inclusive growth indicators (Asian Development Bank)**
- **Growth and poverty reduction**
- **Employment and poverty**
- **Rural vs. urban poverty**
- **Global food crisis and the vulnerable**
- **Education, poverty, and politics**

Poverty in 2014



Poverty and Debt in 2016

April 29, 2016

- UTCC conducted a survey on workers who earn less than 15,000 baht per month (1, 212 respondents)
- The average debt per household is 119,062 baht, the highest level in eight years.
- ***Unorganized loans represented 60% of debt.***
- The debt incurred mainly by daily expenses, vehicles, and residential purchases.
- The study recommends daily wage to make them afloat is 356 baht.
- ***Examine the consequences on poverty from this policy is it was adopted***.

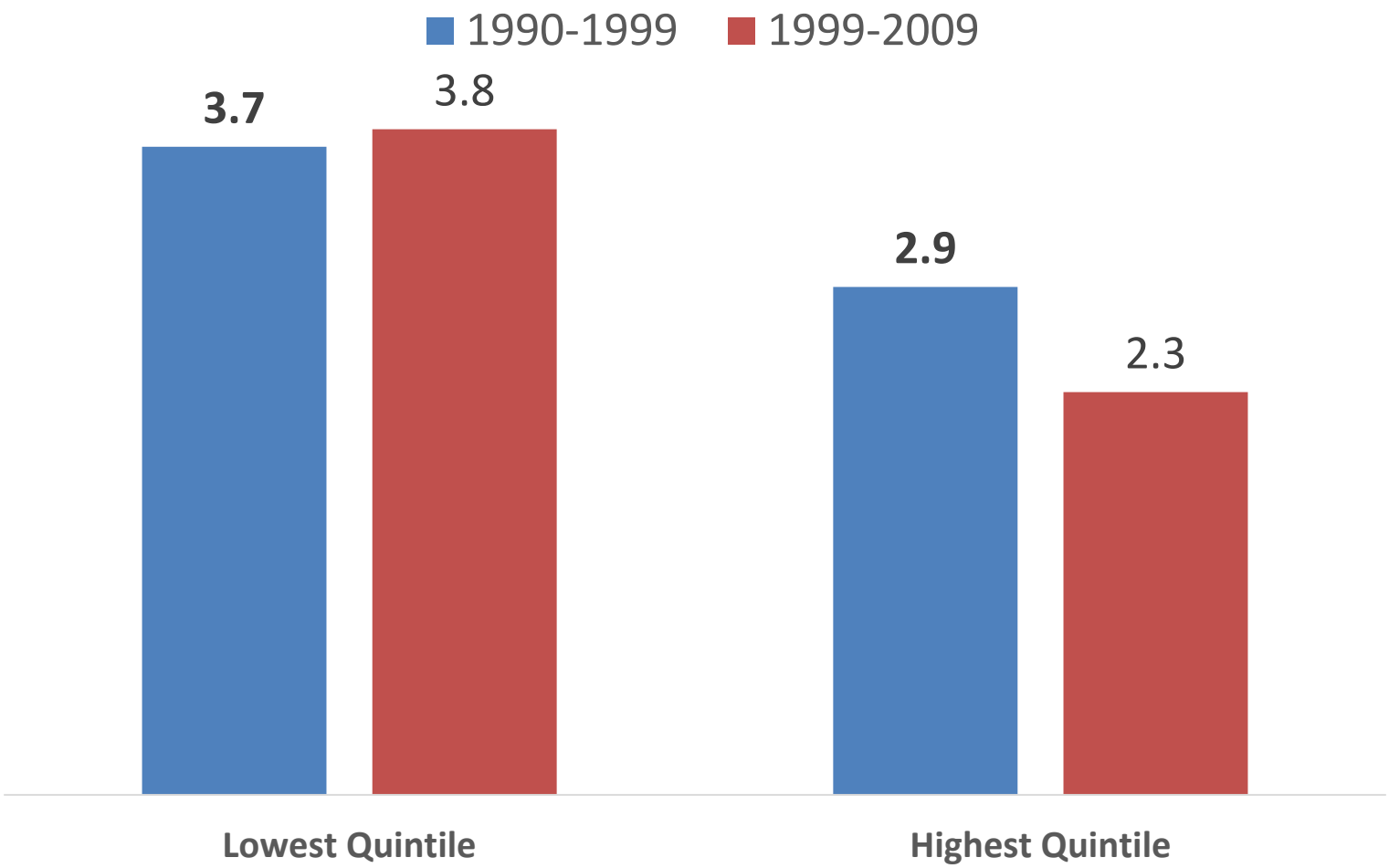
Poverty incidence: 1962-1990

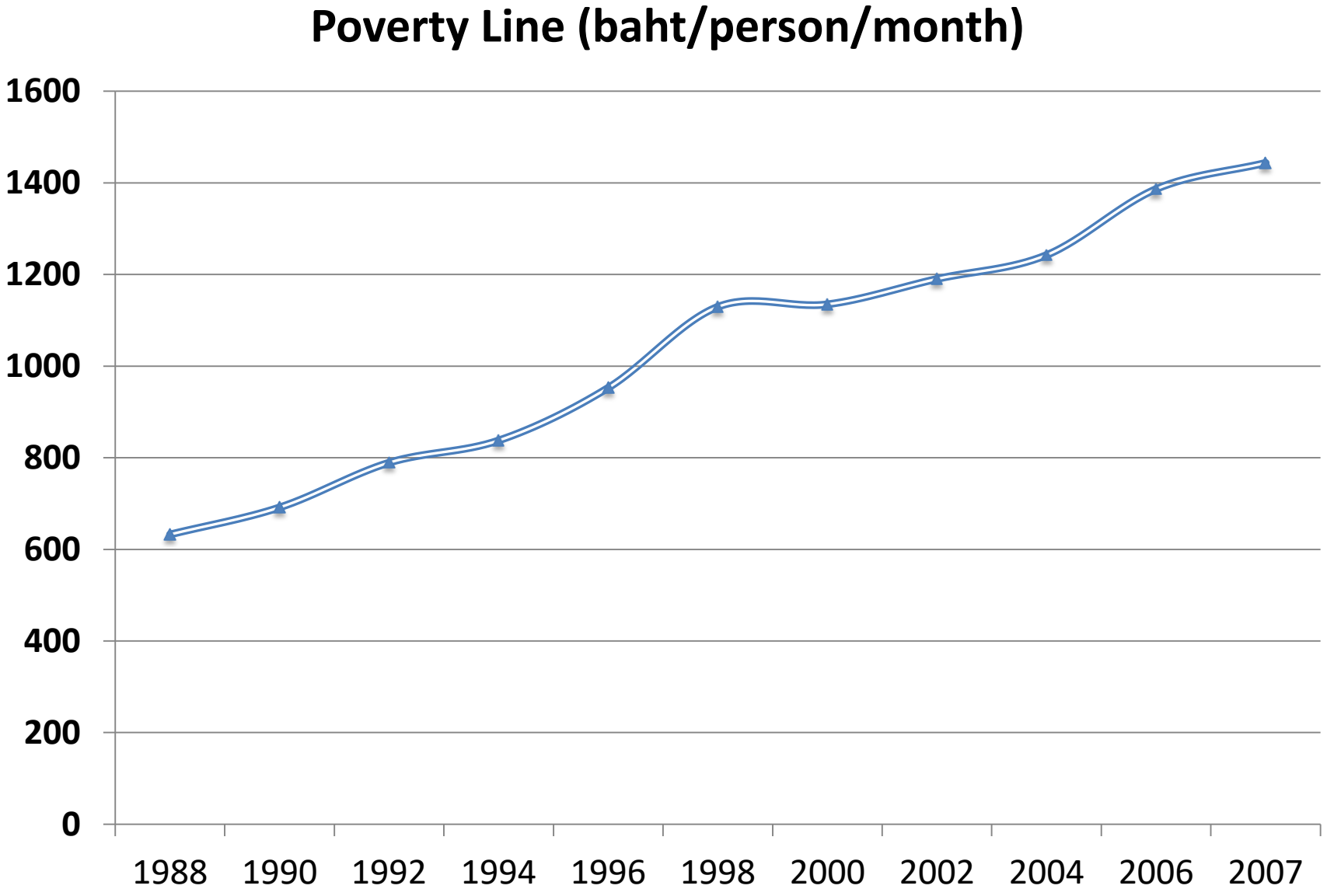
	Aggregate poverty	Rural poverty	Urban poverty
1962	57.0	61.0	38.0
1975	31.4	36.2	12.5
1990	17.0	20.5	5.3

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

How do we draw a poverty line: earning per day is $2 (WB) or $1.25 (ADB)?

Average per capita income growth rate
PPP (2005 price)

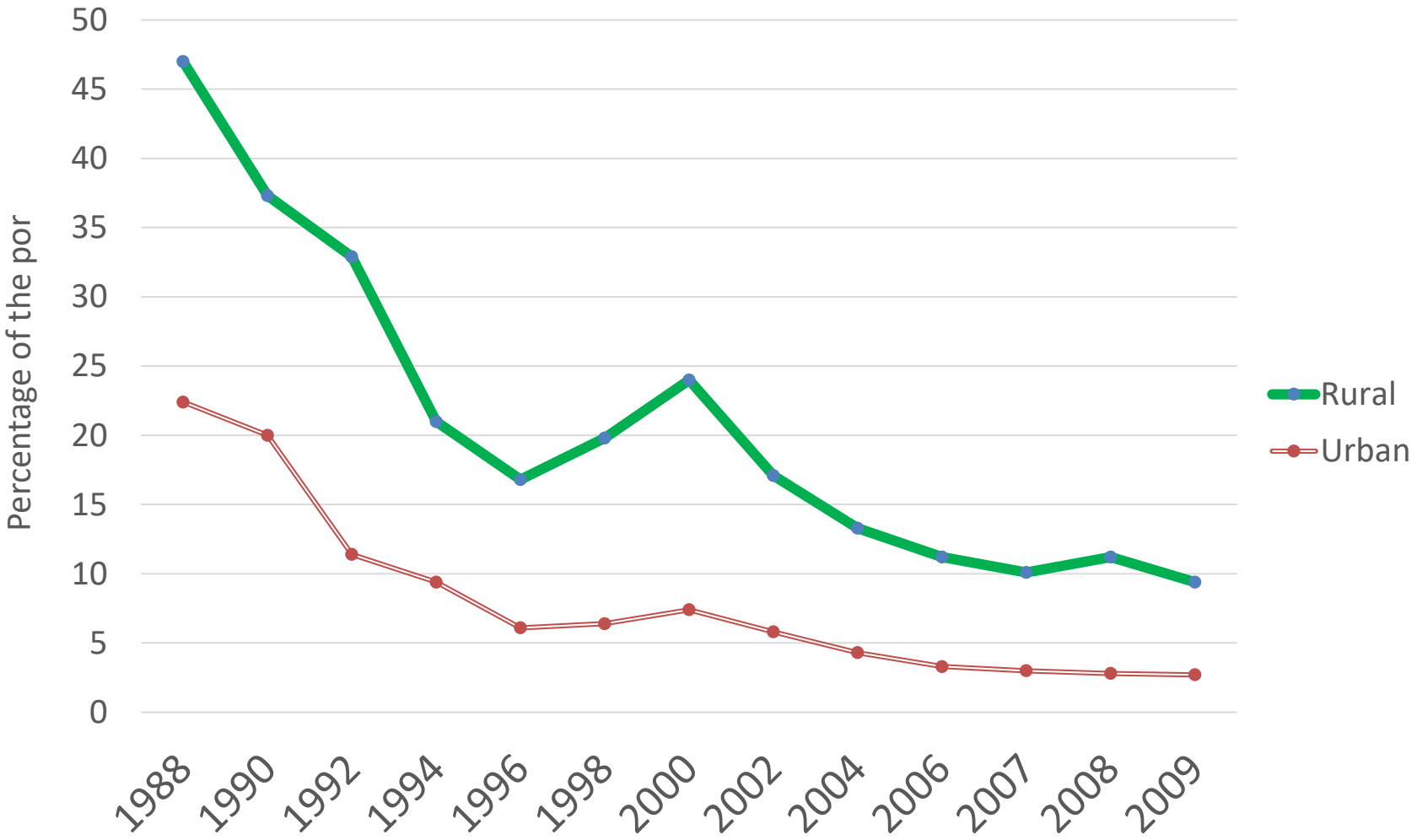




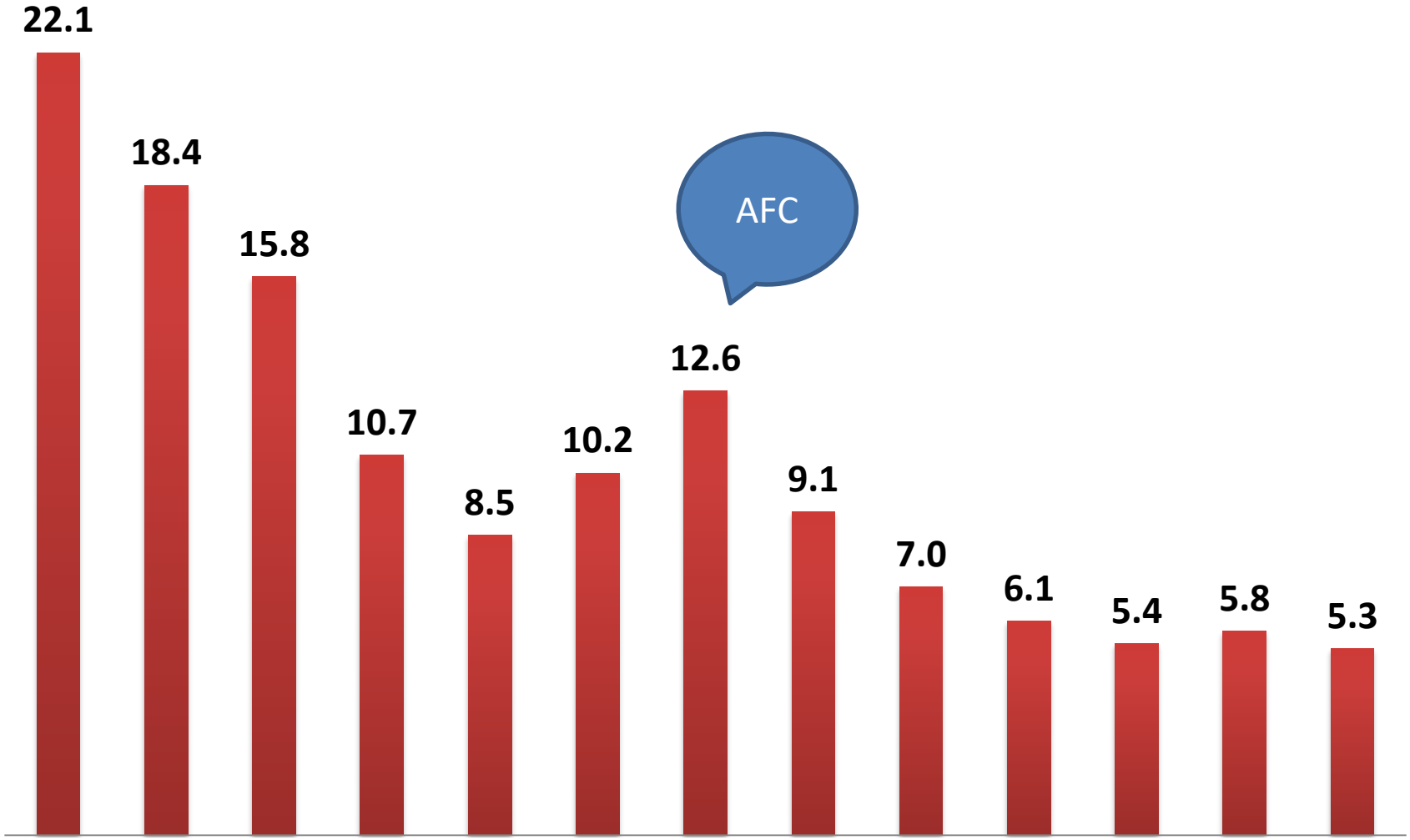
Source: NESDB

The national poverty line was 62 cents per day in 1988 and 78 cents in 1999.

Declining poverty: Rural vs. Urban



Declining number of the poor 1988-2011 (million)



Source: NESDB

Poverty measured by monetary measures

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 (poverty incidence) 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:

Other forms of poverty

For every 1,000 babies born in Thailand, 11 die before their first birth day.

Malnutrition

poor sanitation

lack of electricity

limited access to schooling

Qualitative aspects: empowerment and participation.

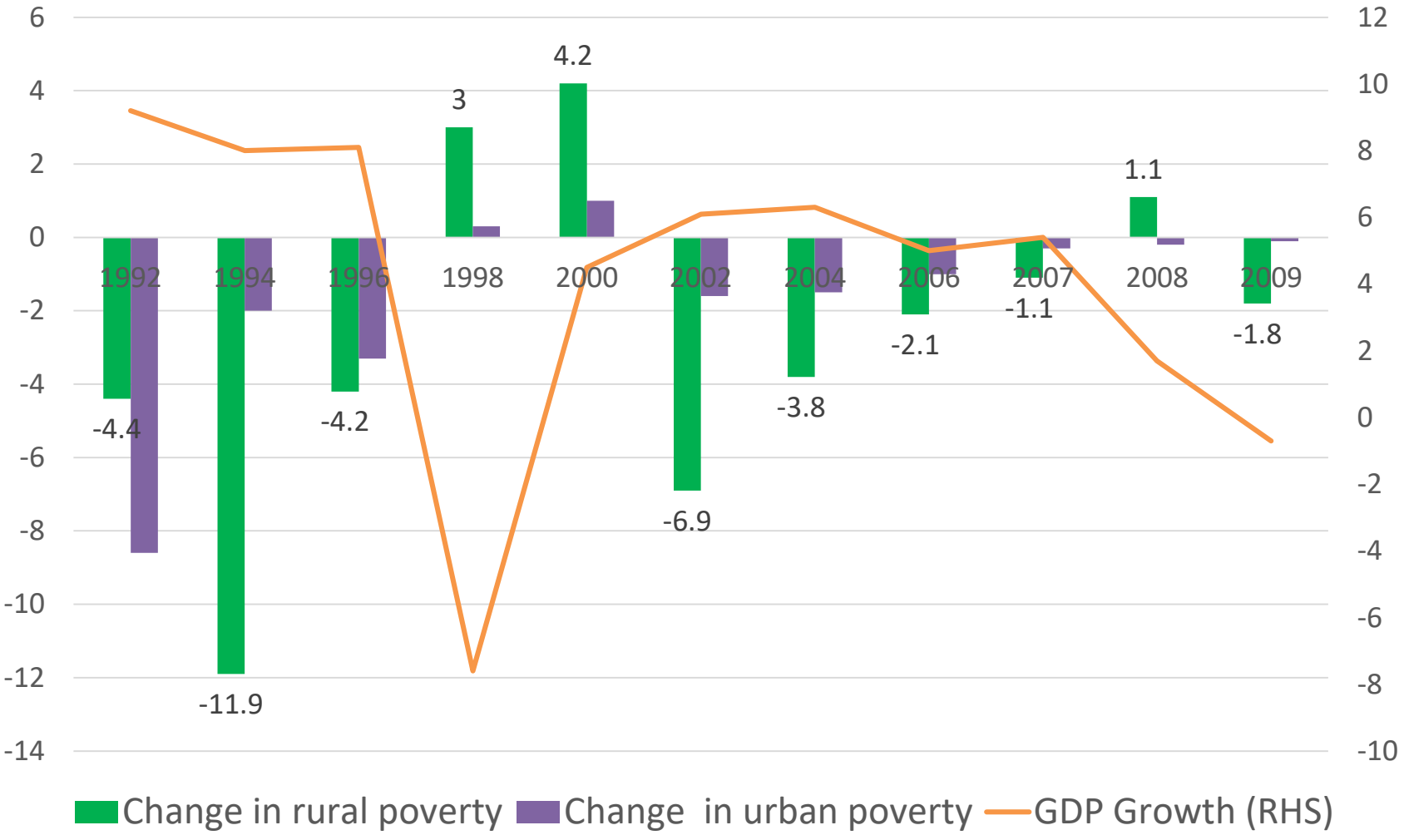
Growth and poverty reduction: A positive correlation

- 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 (Peter Warr, 2000).
- In Thailand, the income share of the bottom 20% is positively correlated with the GDP growth.

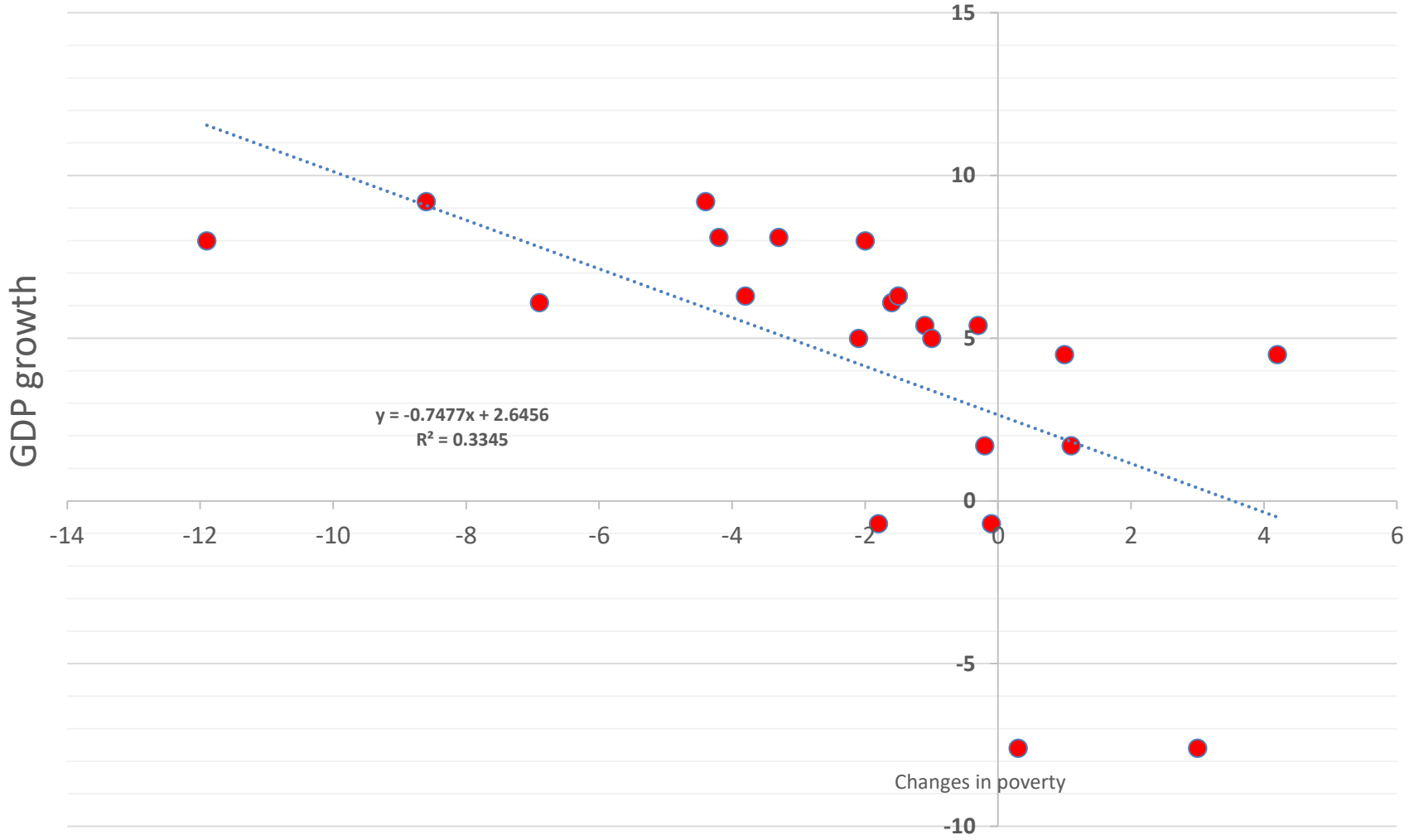
Favorable impact of growth: poverty alleviation

- 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.
- *18 years afterward, very little progress was made: the poverty declined marginally to 10.9 % in 2014. Explain why.*
- ***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%.

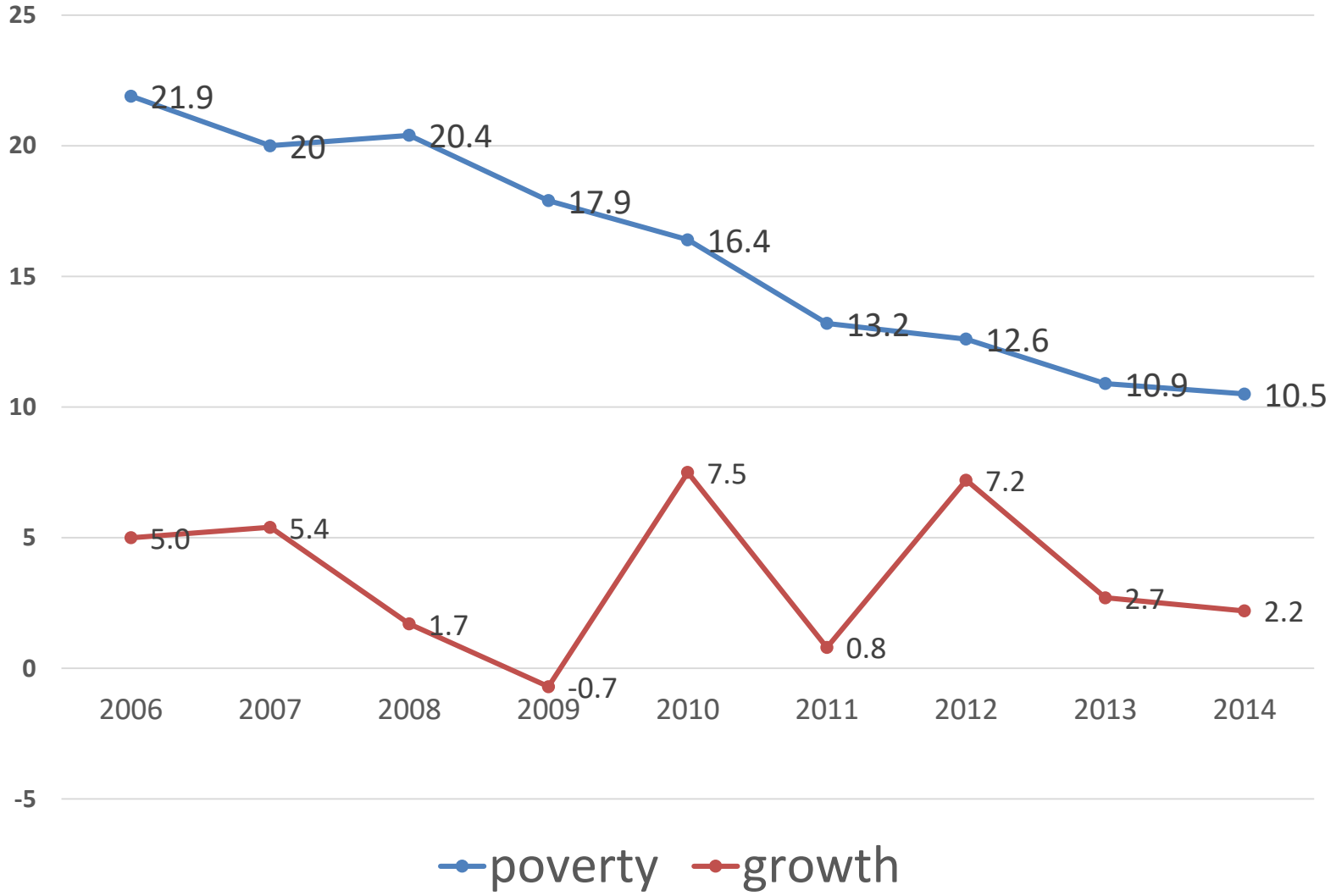
Poverty Eradication (urban and rural) and GDP growth (1992-2009)

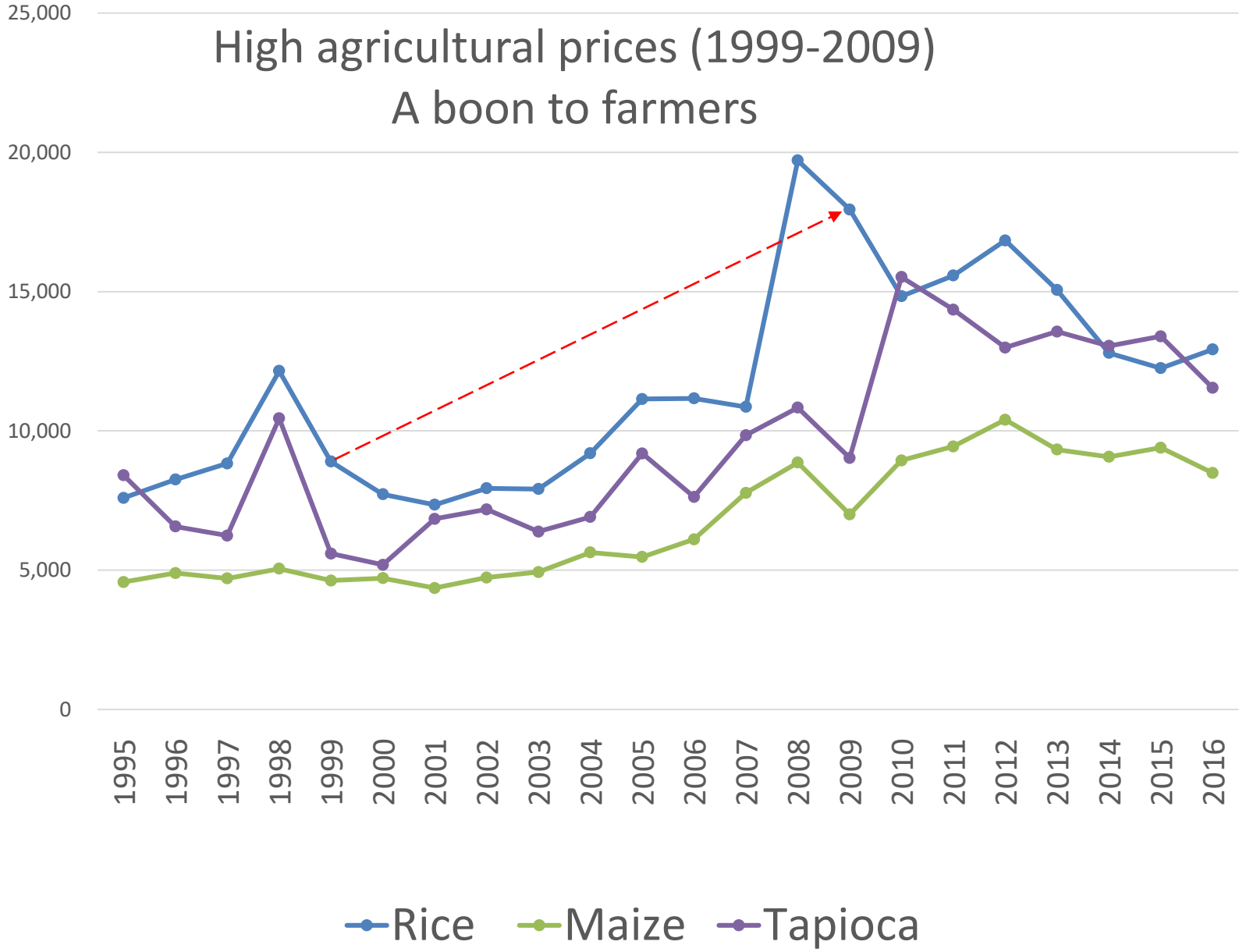


High GDP growth and reduction of poverty: rural and urban 1992-2009

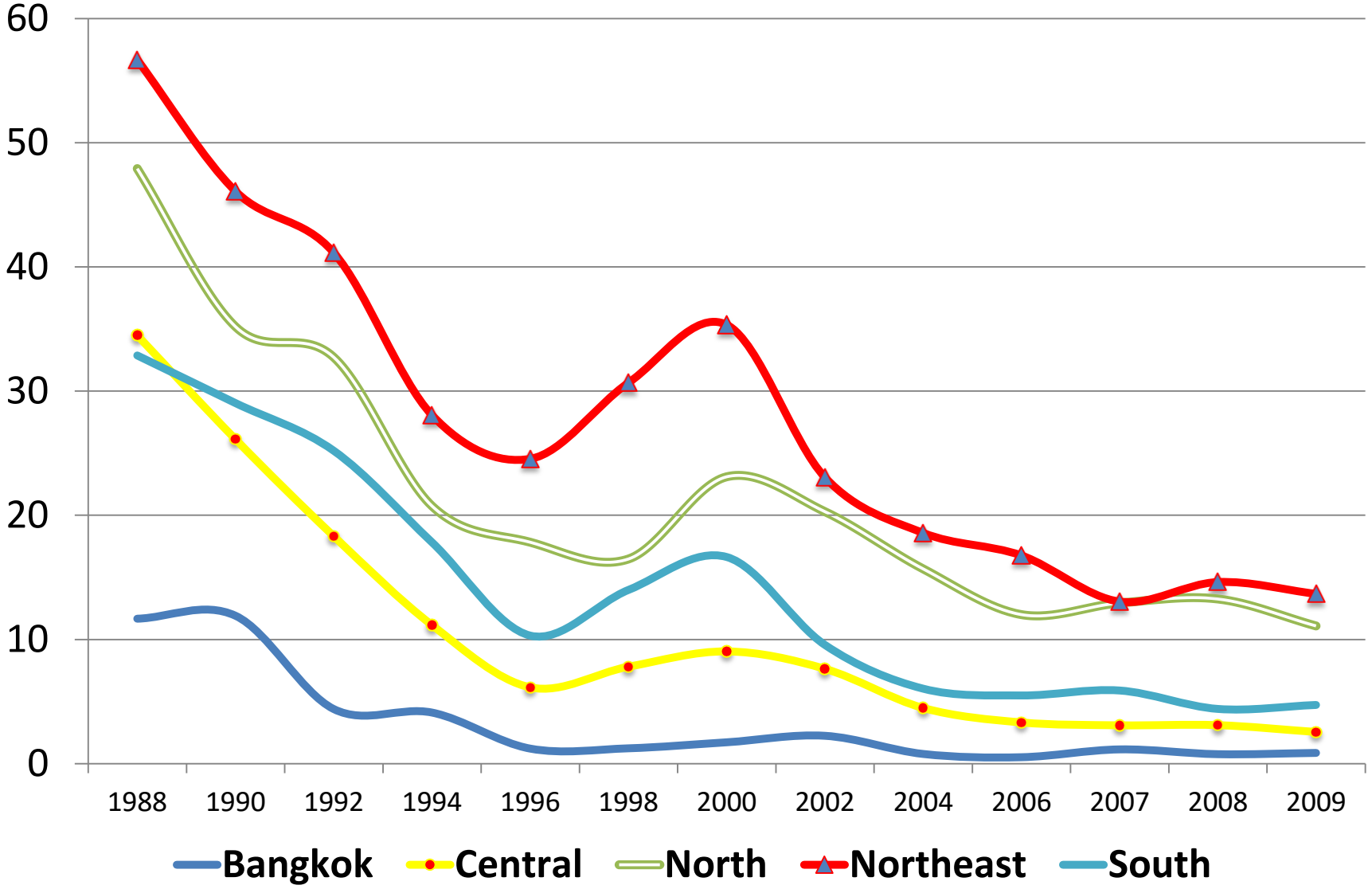


Poverty is declining, while GDP growth rate slowed down from 2006 to 2014



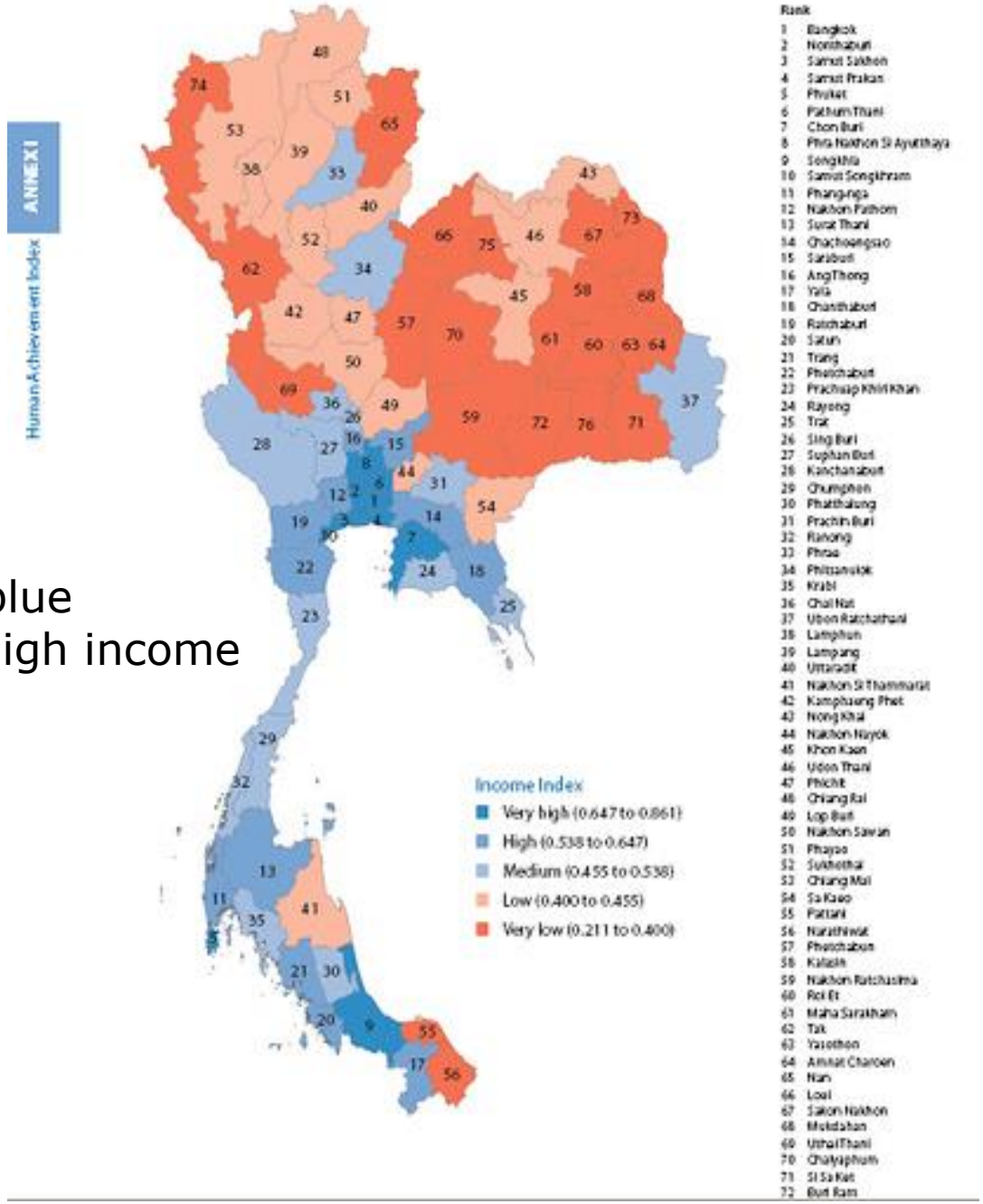

High agricultural prices (1999-2009)
A boon to farmers
25,000
20,000
15,000
10,000
5,000
0
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Rice
Maize
Tapioca

Poverty by Region (% of the poor)



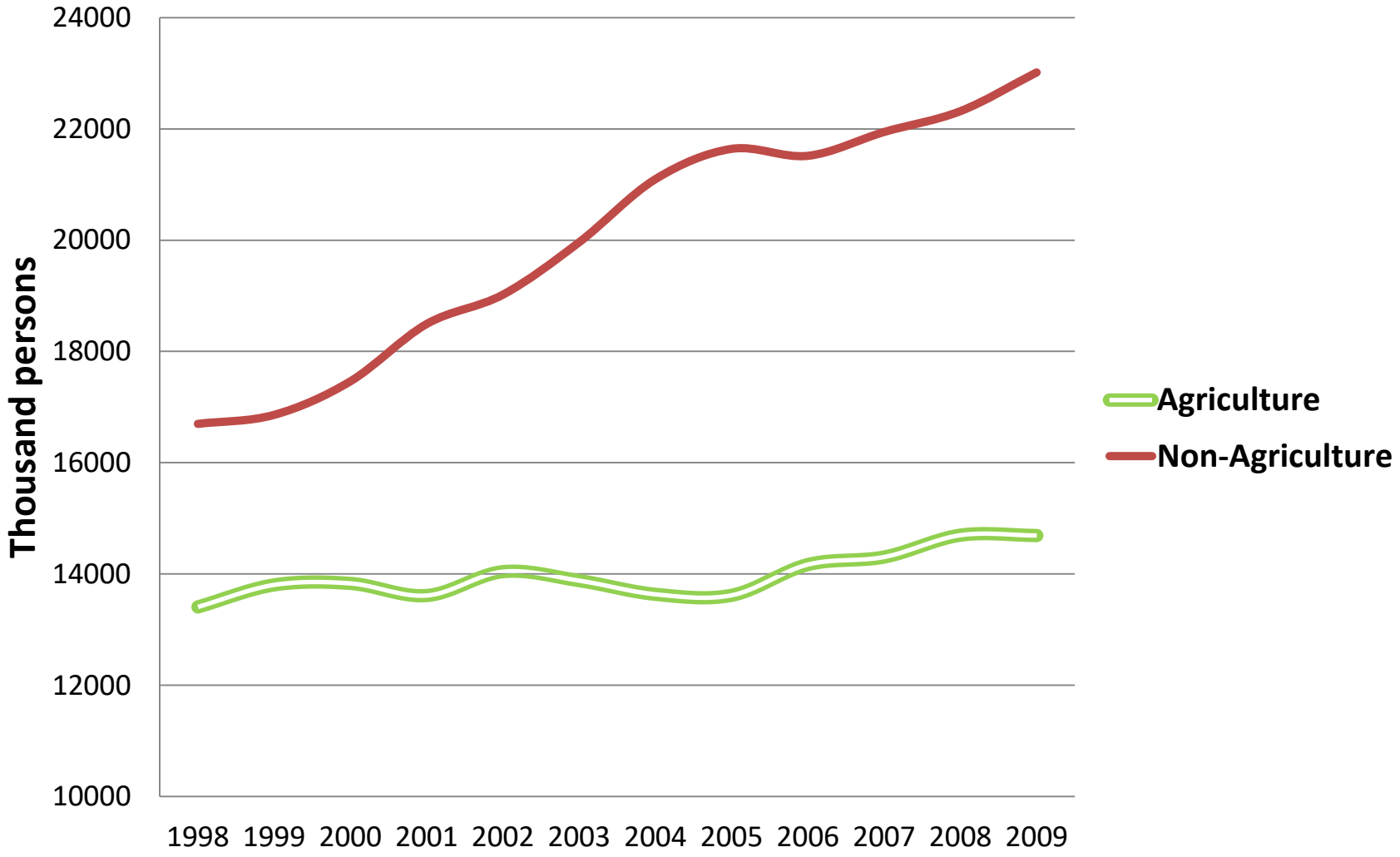
Source: NESDB

Dark blue
Very high income

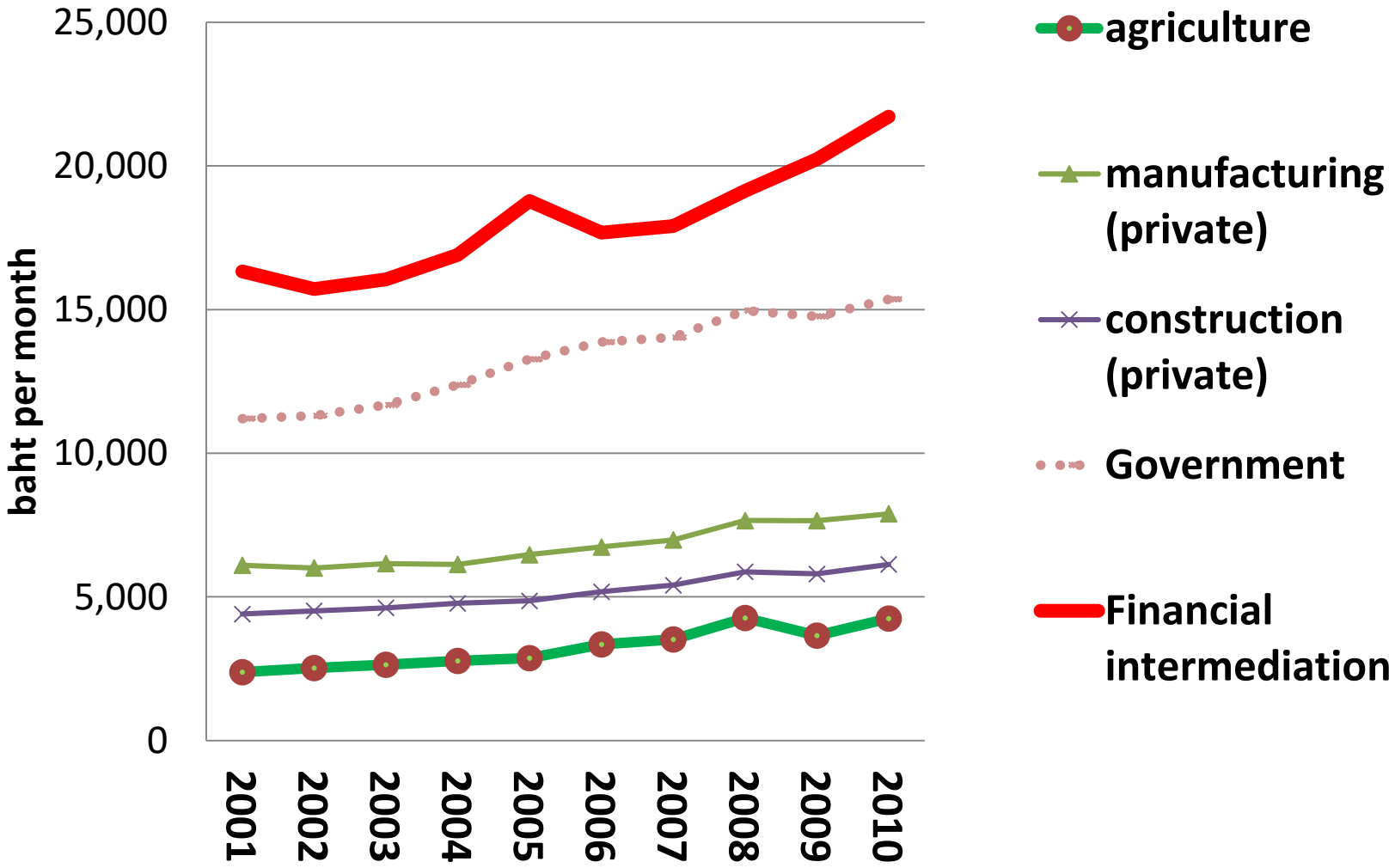


Dark orange
Very Low income

Thailand's employment-generating sector: non-agriculture



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



Mincer earnings function

Jacob Mincer (JPE 1958)

- The Mincer earnings function is a single-equation model that explains wage income as a function of schooling and experience

$$lnW = lnW_0 + \rho S + \beta_1 X + \beta_2 X^2$$

W_0 = wage with no education and working experien

S $= number\ of\ years\ of\ schooling$

X = years of experience

$\rho\ and\ \beta_1$, β_2 are the returns to schooling and experience

Note the quadratic function

Average years of schooling (S):
This is absolutely shocking!
Blame the boom in the 1990s: Instant gratification and myopic behavior

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

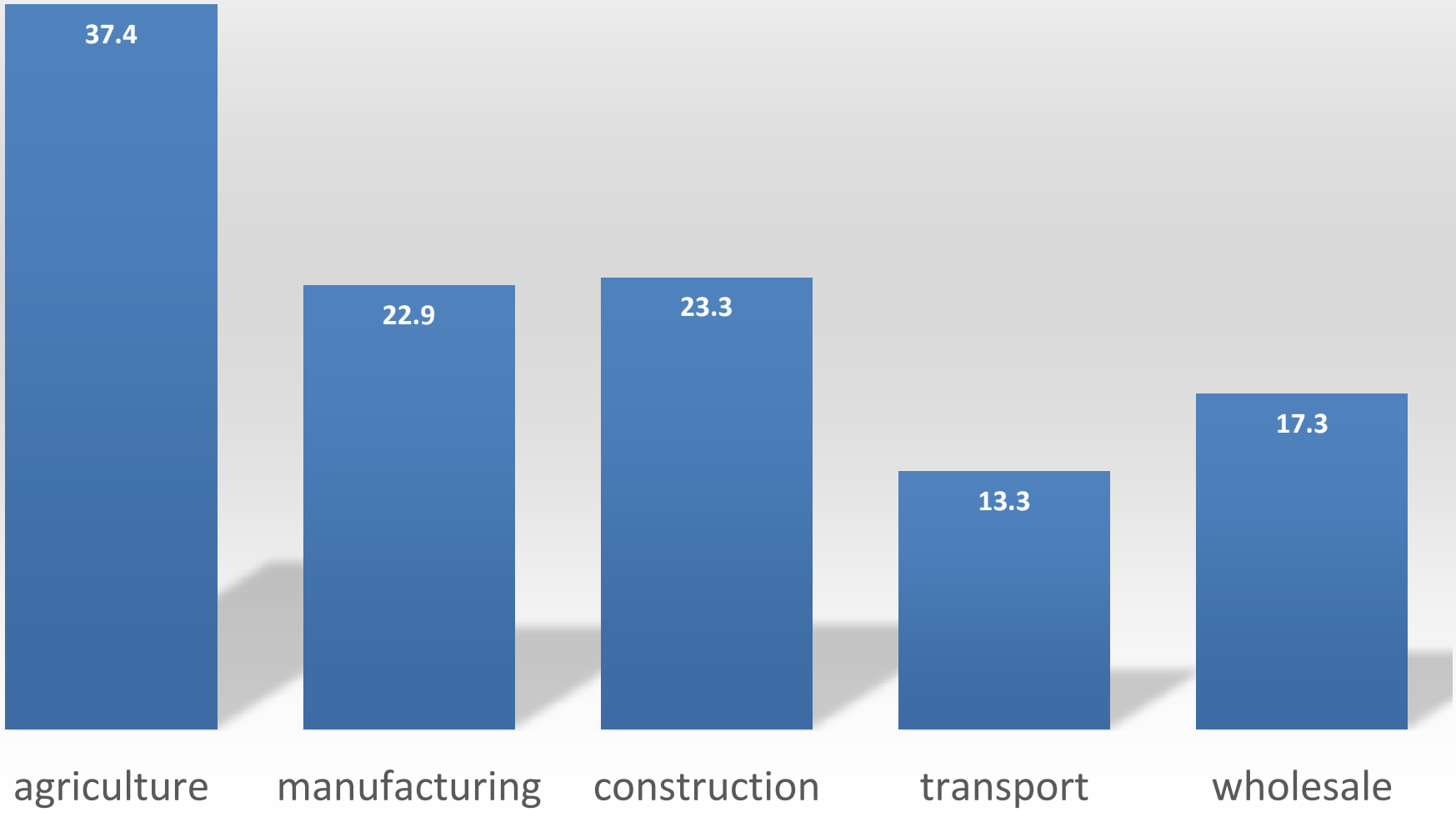
(Too late to re-tool)?

(low cognitive ability)

Underemployment

(percent of those underemployed by sector in 2011)

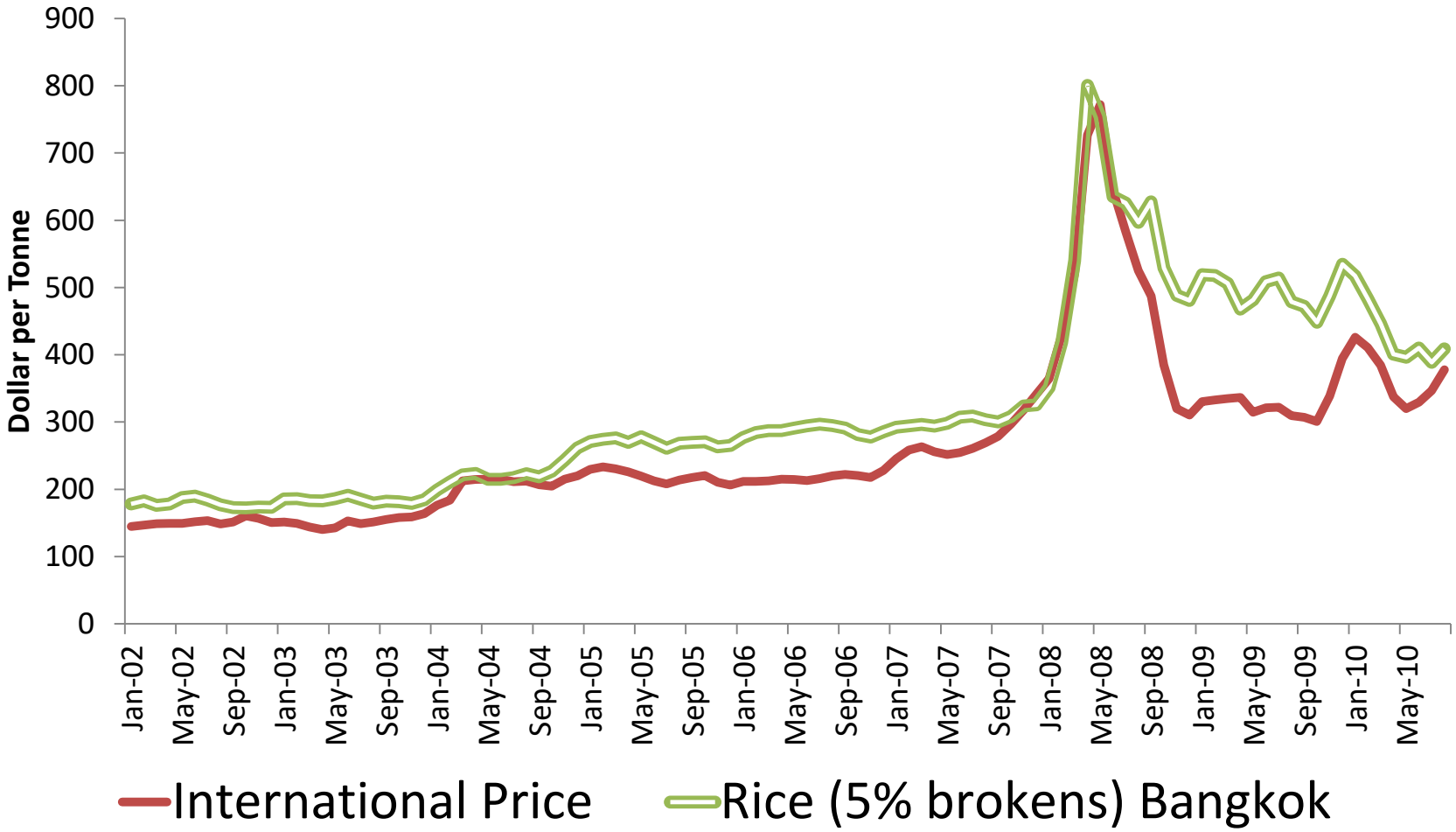
Definition: percentage of those who worked fewer than 34 hours a week



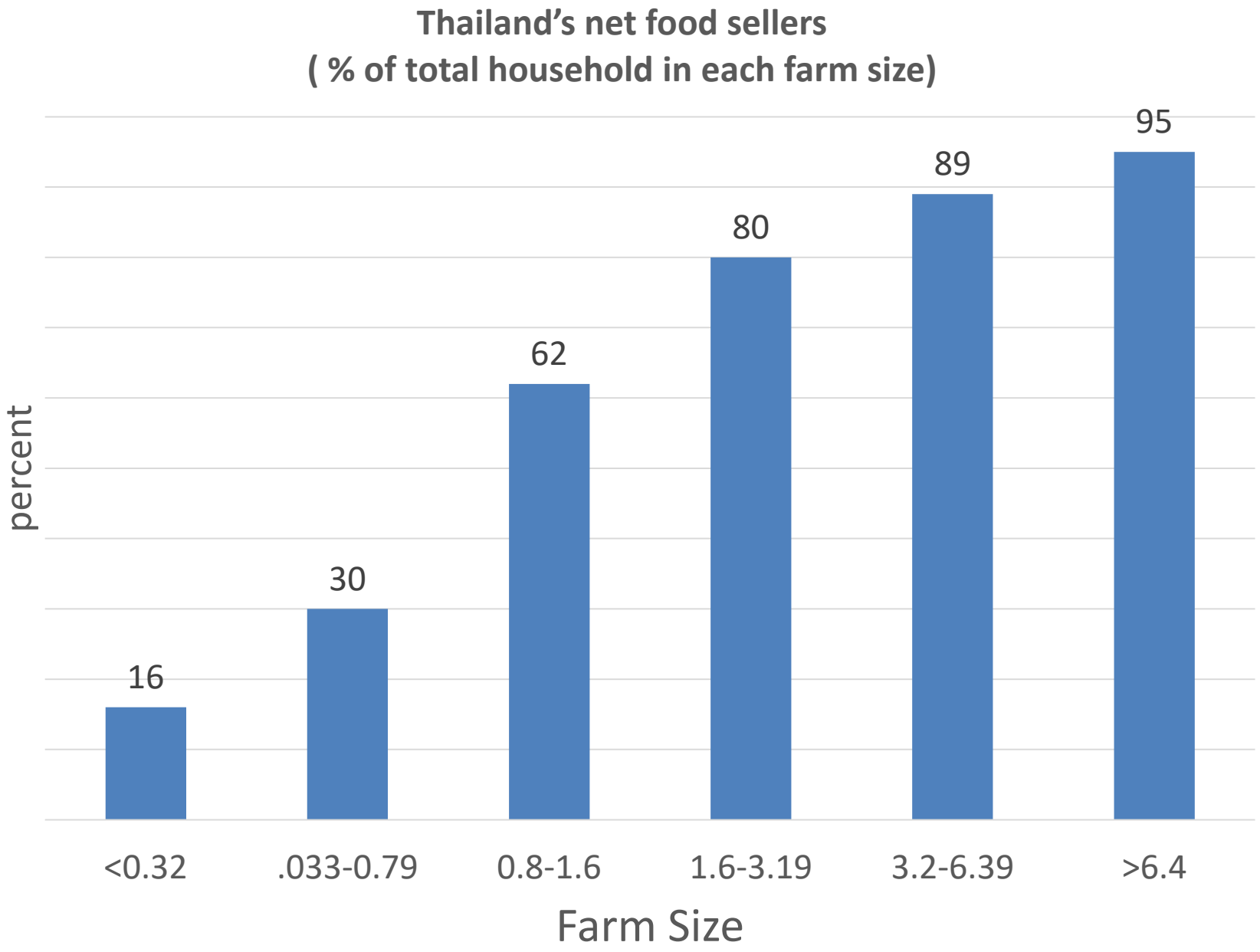
Principal sources of income for the poor

- 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.
- High prices of cash crops can lower poverty but may aggravate income inequality problem

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)
percent
16
30
62
80
89
95
<0.32
.033-0.79
0.8-1.6
1.6-3.19
3.2-6.39
>6.4
Farm Size

Spend more on inputs, but earn less from selling farm produces

- All input costs — water, fertilizer, seeds, machines, labor and fuel — have gone up, while prices obtained for the final produce have not risen commensurately.
- Withdrawal of subsidies by public authorities has further aggravated the burden. This has made small holdings unviable.
- Rich farmers benefit more from commodity booms than small sized farmers

Large vs. small farmers

- The crisis affects the small and marginal farmer, and less severely, the medium one.
- **Large farmers are thriving during the food crisis.**
- Income inequality exists in rural areas

Why can 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 are very high.
- Large farmers also have access to credit, extension, technology, which the small holders do not.

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.

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.

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: Counter argument

- 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 would Vietnam and Myanmar have opened their economies?
- To promote equality, market rules in favor of the rich should be lessen, ***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 health care program
- PCOC (500 baht per head for the poor, 600 baht for the elderly per month)

The role of the Thai government

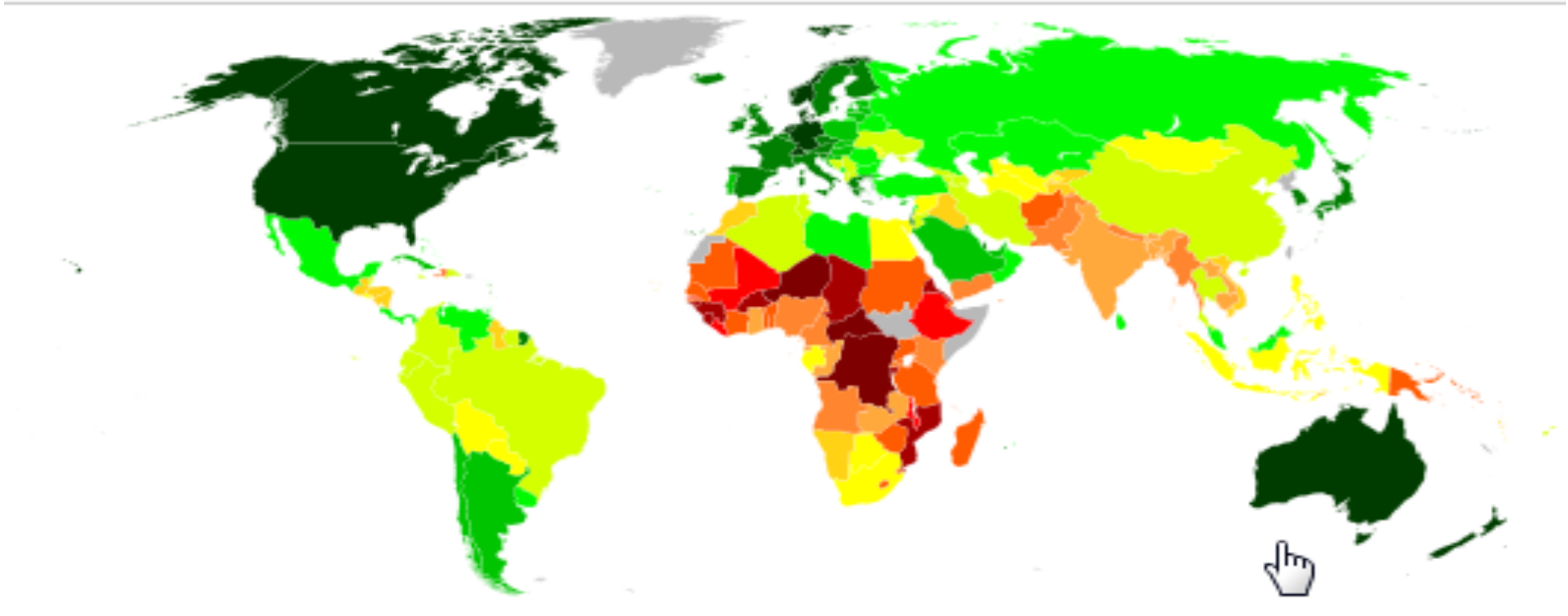
- Public spending on education, health, welfare services can mitigate the plight of the poor.
- Public spending on health and welfare increased gradually during the past three decades, from 1.2% of GDP to 2.4% during 1997-2000.
- **Human Development Index (HDI)** indicates the quality improvement of human resources

East Asia and the Pacific

10 highest HDIs

Rank	Country	HDI New 2014 estimates for 2013
Very high human development		
1	Australia	0.933
2	New Zealand	0.910
3	Singapore	0.901
4	Hong Kong	0.891
4	South Korea	0.891
6	Japan	0.890
7	Brunei	0.852
High human development		
8	Palau	0.775
9	Malaysia	0.773
10	Thailand	0.722

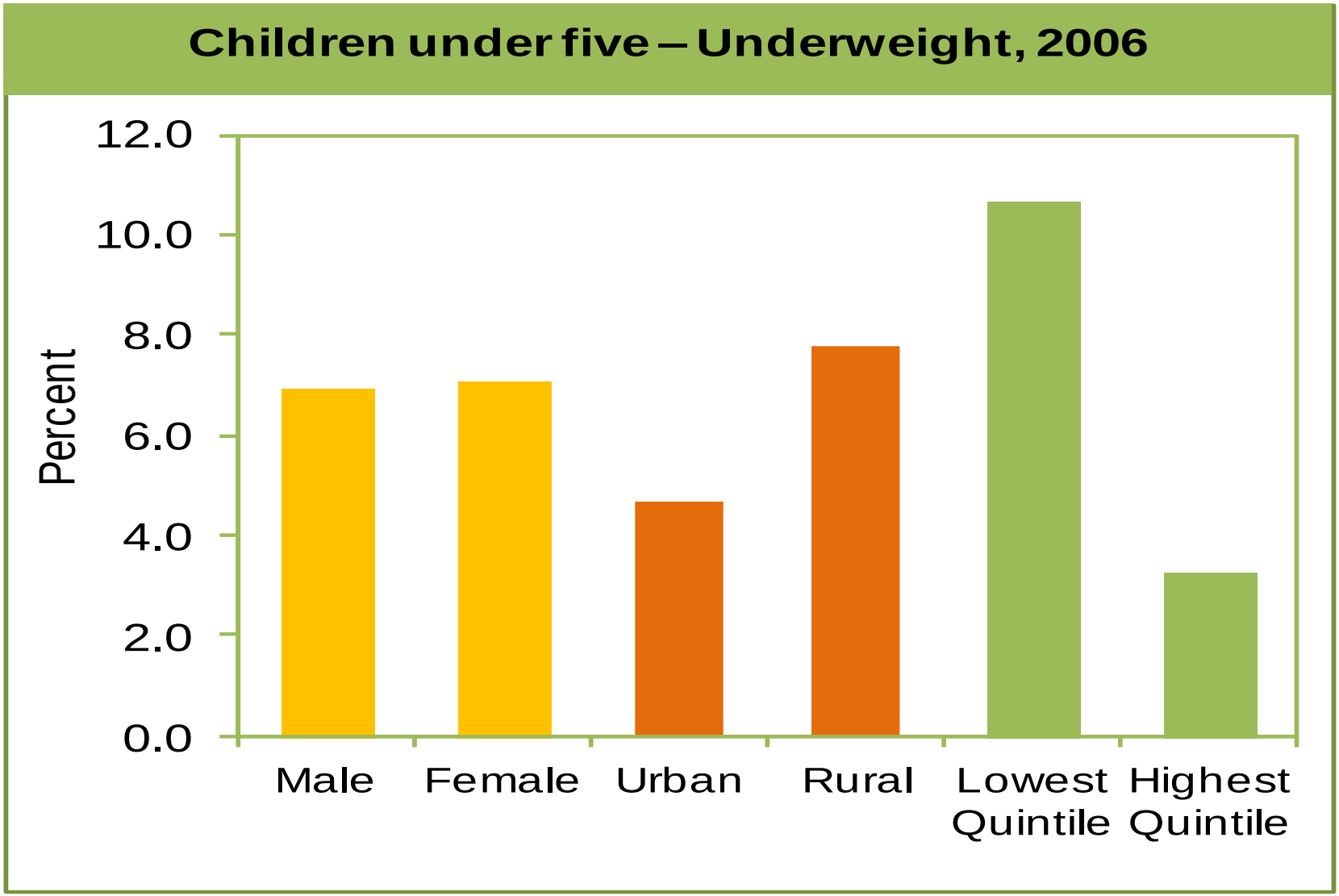
World Map indicating the HDI



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

0.900 and over	0.650–0.699	0.400–0.449
0.850–0.899	0.600–0.649	0.350–0.399
0.800–0.849	0.550–0.599	0.349 and under
0.750–0.799	0.500–0.549	Data unavailable
0.700–0.749	0.450–0.499	

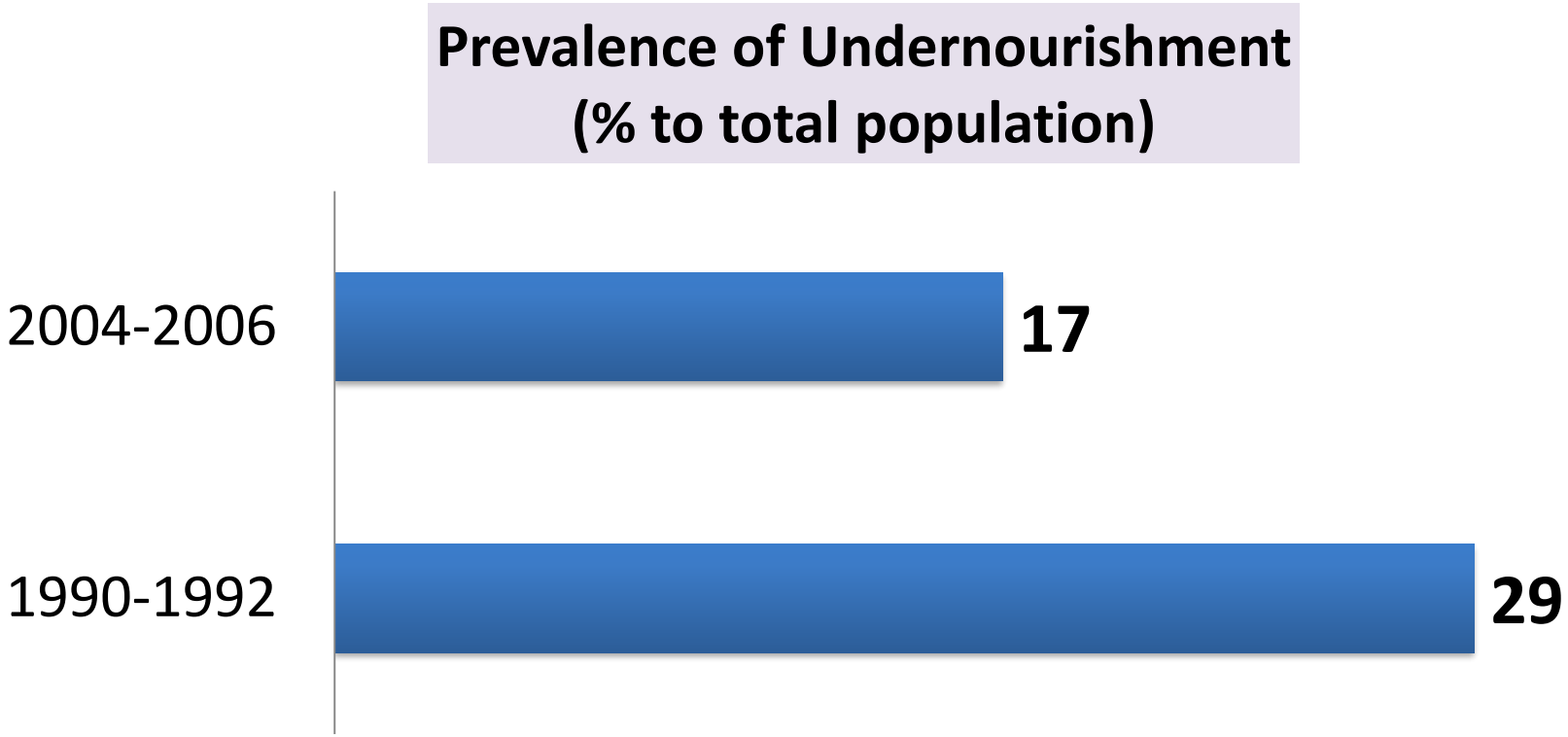
The first five years of our lives are extremely important for our future
The stark contrast between the rich and the poor, urban and rural areas



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.

The degree of undernourishment in Thailand has declined since the last three decades, due to rising income level



Why do tall people earn more?

- Taller workers receive a substantial ***wage premium.***
- More recent research argues that **cognitive abilities** explain the ***height-wage relationship***.
- Studies extending back to the middle of the last century attribute the ***wage premium*** to ***non-cognitive abilities*** (a set of attitudes, behaviors, and strategies that are thought to underpin success in school and at work, such as ***motivation, perseverance, and self-control***).

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

Andreas Schick, Richard H. Steckel

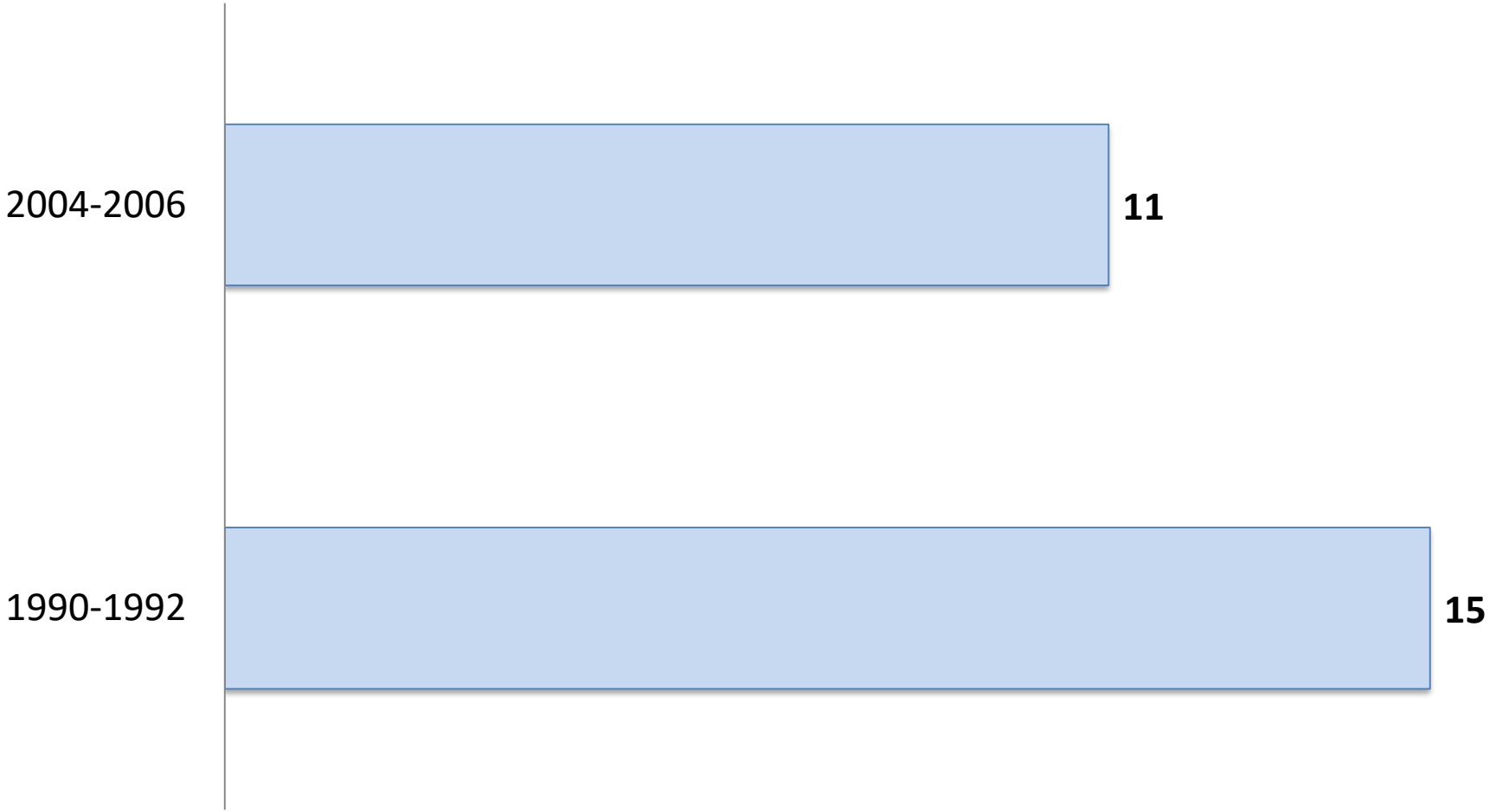
NBER Working Paper No. 16570 Issued in December 2010

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

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.

Intensity of food deprivation (average % shortfall in minimum dietary energy requirement)



Source: UNDP

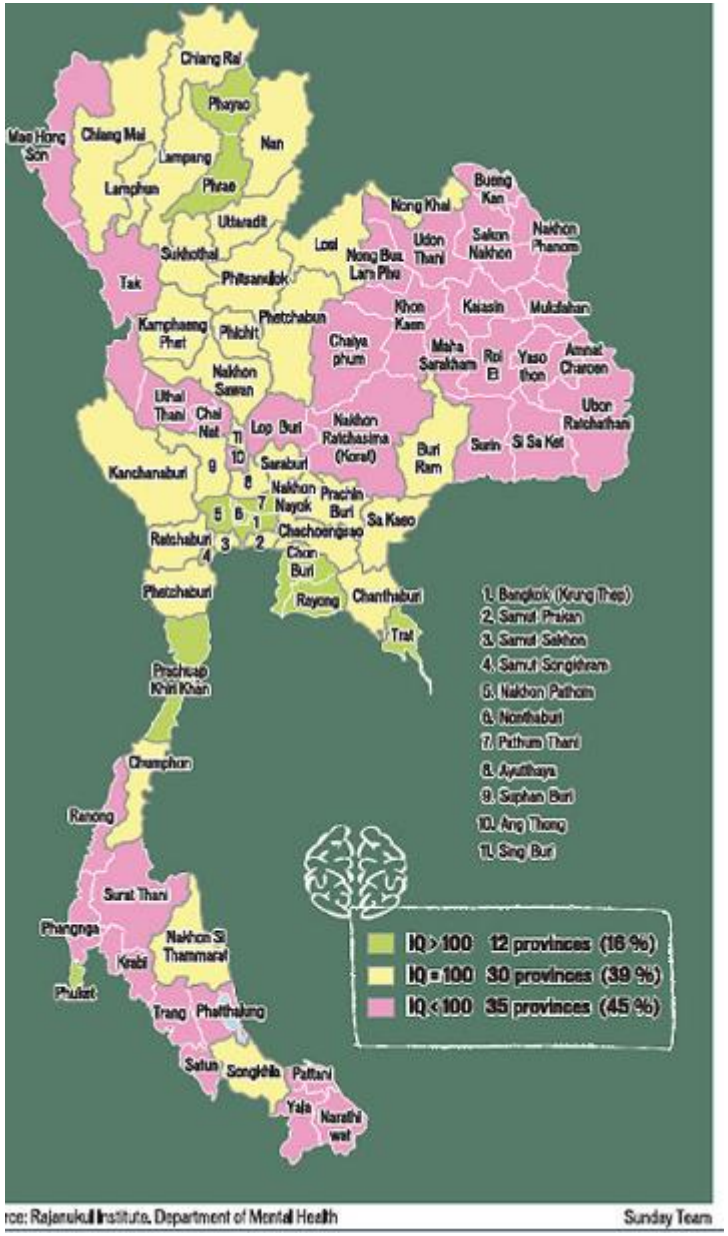
Nutrition is a key factor in development of children intelligence

Brain food: Nutrition is a key factor in the development of children's intelligence. PHOTO: Jetjaras na Ranong

Poverty, advantageous cognitive ability, and income inequality

The Public Health Ministry reported that the average IQ of Grade 1 Thai students is 98.2, according to a survey of more than 23,000 students nationwide in 2016. However, Thai children's IQ rose from 94 in 2011.

The average IQ of a normal person is between 90-110. People with IQs higher than 130 are considered geniuses. An IQ level of lower than 70 is considered an intelligence deficiency.



IQ of Grade 1 students
In 2016

Pink (45%) less than 100
In 35 provinces

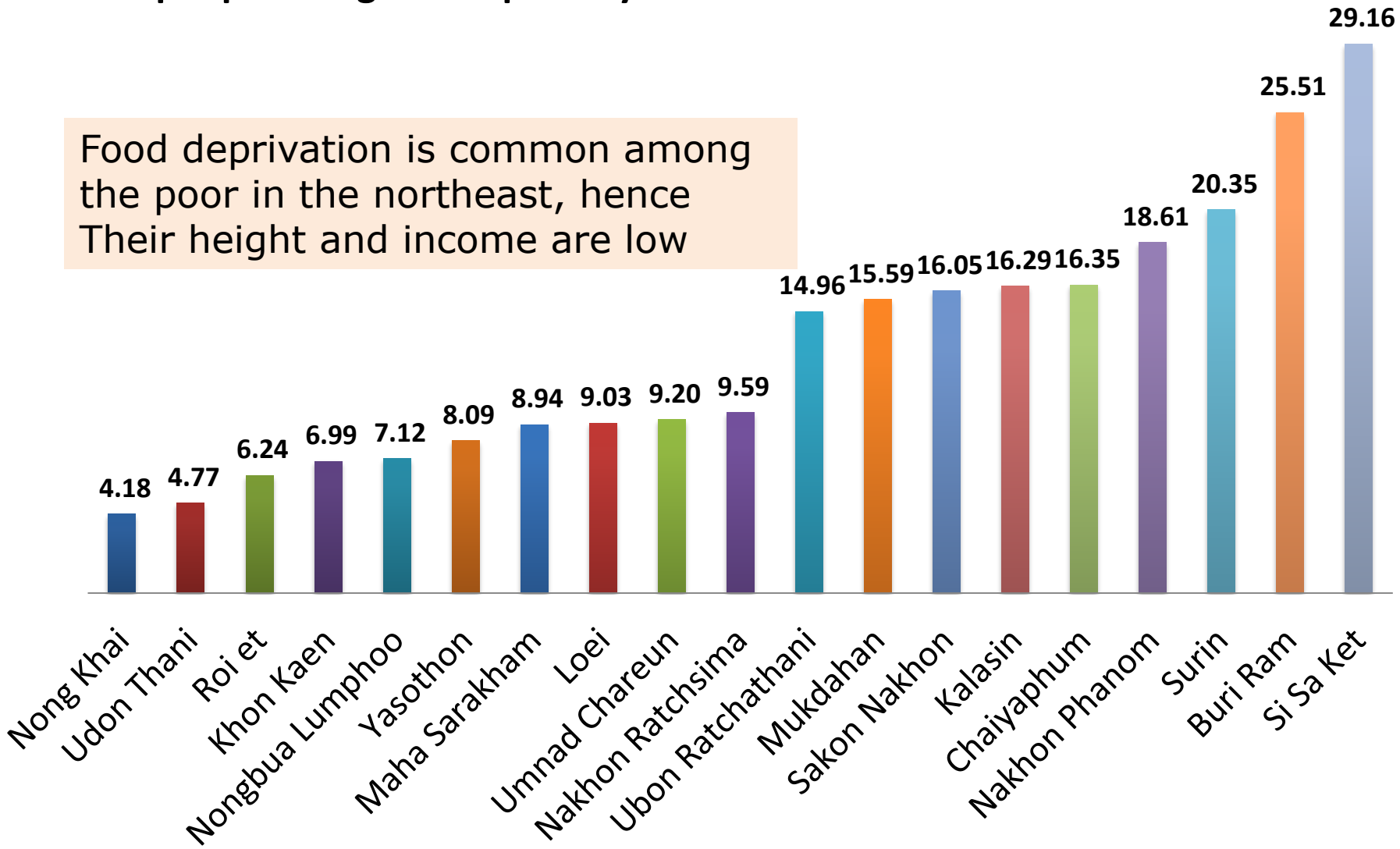
Yellow (39%) about 100
In 30 provinces

Green (16%) above 100
In 12 provinces

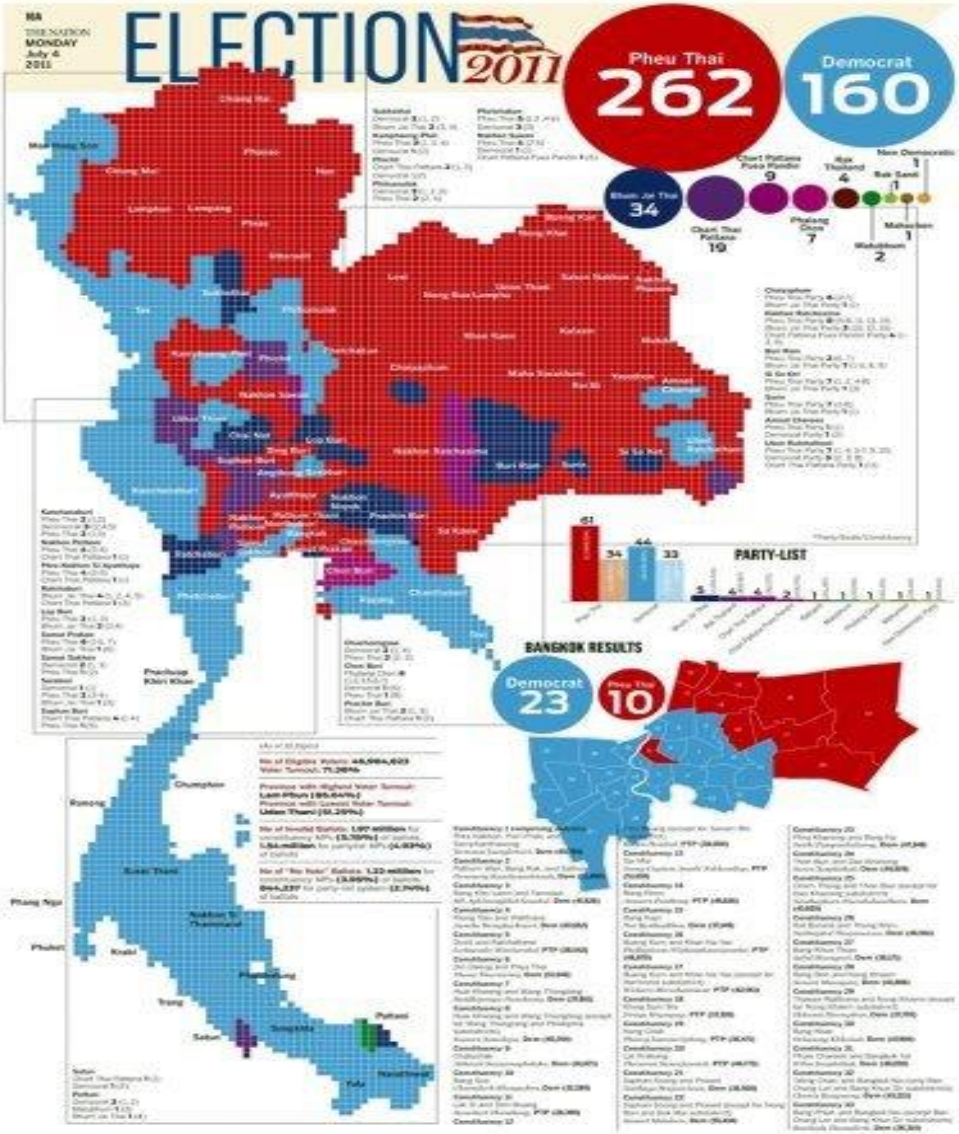
Poverty in the northeast

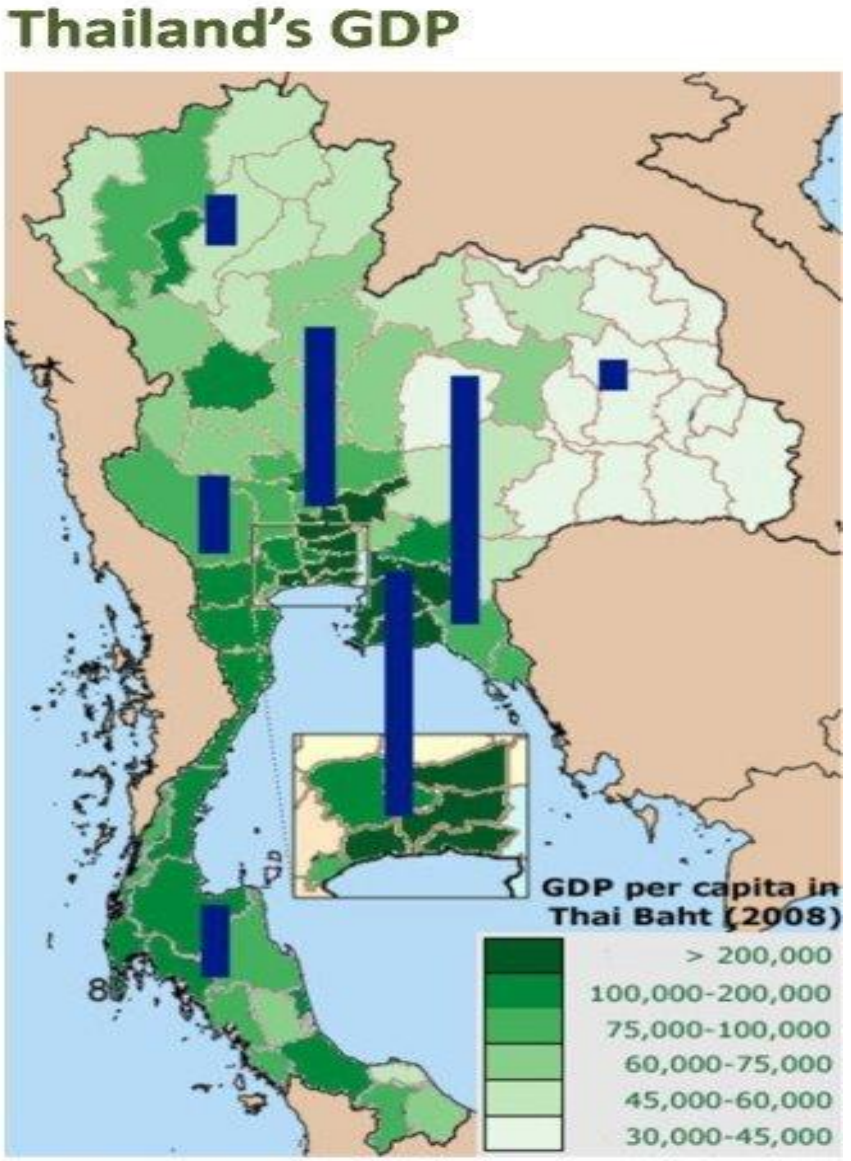
% of people living below poverty line in 2007

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



Poverty and Politics
Growing income gap affect political attitudes





Questions

- How did global economic crisis ***affect*** poverty in Thailand?
- How were the poor affected by the global food crisis in 2008?
- What were be the impact of the growth slowdown in 2014-2016 on poverty in Thailand?