

The Trends of Income Inequality and Poverty and a Profile of the Urban Poor in Thailand

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I. THAILAND'S DEVELOPMENT EXPERIENCE: A PRELUDE TO THE PROBLEM

Although Thailand has achieved unprecedented economic growth, the country's income inequality worsened between the 1960s and the mid-1980s. By contrast, the trend in poverty during the same period has markedly improved, except during the recession in the mid-1980s.

Despite the increase in overall poverty during the mid-1980s, poverty in the Bangkok Metropolitan Region (BMR) and in all other urban (municipal) areas except those in the Northeast has decreased. Based on data from the Socioeconomic Surveys (SES) collected by the National Statistical Office (NSO), the overall poverty incidence as measured by the headcount ratio declined from 39 percent in 1968/69, to 30 percent in 1975/76, and to 23 percent in 1980/81. However, it rose to 29.5 in 1985/86.¹ By contrast, poverty in the BMR decreased from 7.8 percent in 1975/76, to 3.9 percent in 1980/81, and 3.5 percent in 1985/86. At the same time, the poverty incidence in all other urban areas, excluding those in the Northeast, decreased from 12.5 percent to 7.5 and 5.9 percent within the same three periods.

The increase in the overall poverty incidence in the mid-1980s was thus concentrated in rural areas, which were the most severely affected by the recession (which resulted mainly from the second oil shock and its consequent impacts, such as the deterioration of crop prices). The directions of change in the overall, rural, and urban poverty incidences during the late 1980s are a matter of empirical research, which will be undertaken in this paper.

Regardless of whether or not the poverty incidence actually improved in the late 1980s, poverty, especially in urban areas, is an important policy issue. This is because urban poverty manifests itself not only in terms of low income levels but also in terms of inadequate working skills and productivity in relation to the rapidly flourishing urban sector. Moreover, the urban poor are also faced with a lower quality of life compared to the rural poor in some ways. This is due to the urban poor's minimal access to basic social welfare services (education, low-cost or decent housing, tenure security, health and nutritional care, family planning, electricity, water supply, etc.) amidst a poorer living environment and greater stress, both of which are intrinsic to urban life.

Sections III and IV of this paper analyze the trend of urban poverty and provide a profile of the urban poor in Thailand using the most recent SES data collected by the NSO in 1988/89. Regional differences are identified as well. The trend of income inequality, together with the trends of rural and overall poverty, is also examined.² A general economic background is outlined in Section II, and Section V concludes.

II. GENERAL ECONOMIC BACKGROUND

Thailand's average annual GDP growth rate has been high since the 1970s. However, it experienced low growth rates in the mid-1980s, when the worldwide recession resulting primarily from the second oil shock reduced the prices of major crops and their outputs. The resulting growth rate was then as low as 2.3 percent, while the agricultural growth rate became negative.

The situation improved substantially in the late 1980s, and Thailand achieved the high average growth rate

of 7.1 percent, the major part of which was due to high growth in the industrial and services sectors. Much of this high industrial growth has resulted from the rapid expansion of manufactured exports, which have recently been growing at the rate of 35-40 percent per annum.

The economic improvement in the late 1980s has contributed to higher crop prices—both external and domestic. Coupled with recoveries from the two internal droughts experienced in the mid-1980s, major agricultural products (except cassava) expanded dramatically. GDP in the agricultural sector rose sharply, from the negative rate of -2.5 percent in 1987 to 10.1 percent the following year. During this period the GDP growth rate in the industrial sector not only remained high but increased as well, from 10.3 to 12.0 percent due to the rapid expansion of manufactured exports. Thus, the average growth rate of 10.3 percent was achieved in 1988.

III. ANALYSES OF INCOME INEQUALITY AND POVERTY TRENDS

Income Inequality Trend

Although there has been a slight decline in income inequality during the late 1980s, the trend of income inequality steadily increased from the 1960s until the mid-1980s. [Table 1](#) classifies the population according to per capita household income into five quintiles. During the period between the mid-1970s and mid-1980s, the income share of the richest 20 percent increased from 49.3 to 55.6 percent. Most of this increase was concentrated in the quintile comprising the richest 10 percent. The income shares of the remaining four lower-income quintiles decreased. The trend of worsening income distribution that existed until the mid-1980s is confirmed by the increasing values of the Gini coefficient and the variance of the logarithm of income, which are the indices measuring income inequality. The former increased from 0.43 to 0.50 and the latter from 0.53 to 0.74.

The economic recovery in the late 1980s has slightly reduced income inequality. That is, while the income share of the top quintile has decreased, the income shares of the lower quintiles have increased—with the exception of the bottom income group, whose income share continued to decrease. The Gini coefficient and the variance of the logarithm of income also declined from the mid-1980s level.

The Poverty Trend and a Comparison of Poverty by Rural-Urban Location

[Table 2](#) indicates a declining trend in the overall poverty incidence as measured by the headcount ratio, except during the mid-1980s.³ When broken down by location, comprising rural (villages and sanitary districts) and urban (municipal) areas, declining poverty trends were also observed, except during the mid-1980s in the rural areas and in the late 1980s in the urban areas.

The exception in the mid-1980s, during which the overall poverty incidence increased to 29.5 percent from the 1980/81 level of 23 percent, was caused by the worldwide recession and two internal droughts. Major crop prices and farmers' economic status deteriorated, thus exacerbating poverty in the rural areas. Since the overall poverty increase during the mid-1980s was concentrated in rural areas, the poverty incidence in urban areas during this period decreased to 5.9 percent from the 1980/81 level of 7.5 percent.

Along with the recent rapid economic growth driven by the export boom, the overall poverty incidence in Thailand during the late 1980s decreased compared to the mid-1980s level, from 29.5 to 23.7 percent. This overall reduction in poverty has been accompanied by a reduction in rural poverty due to the increases in major crop prices.

Vastly more noteworthy, however, is the recent increase in urban poverty in contrast to the declines in both overall and rural poverty. [Table 2](#) shows that the urban poverty incidence has recently increased to 6.7 percent from the mid-1980s level of 5.9 percent. This might be attributed to the increasing number of new migrants moving into urban areas in order to take advantage of the recent economic boom. Due to their inadequate labor skills and the inadequate provision of basic social services, the urban poverty situation has been aggravated. The associated higher urban consumer price index has also contributed to

this increase in urban poverty.

Another noteworthy aspect of poverty is its severity as measured by the relative income shortfall index.⁴ As shown in [Table 3](#), except for the BMR, the Bangkok Metropolitan Area (BMA), and the North, the changes in this index between the mid-1980s and late 1980s were in the same directions as the changes in the poverty incidence as measured by the headcount ratio. The index for the urban areas of the whole kingdom increased from 0.27 to 0.28. This implies that the income of the average urban poor households in Thailand must be increased by 28 percent of the poverty level income in order to rise above the poverty level.

Comparison of Poverty by Region

As expected, the poverty incidence presented in [Table 2](#) was highest in the Northeast and lowest in the BMR in 1988/89, at 37.5 and 3.4 percent, respectively. These percentages were much different from the national average, which was 23.7 percent in the same year. The North's, which was similar to the national average, was the second highest, followed by the South and the Central regions, respectively. Between the mid- and late 1980s, urban poverty was on the rise in almost all regions, except in the Central region and the BMR. However, the poverty incidence in the BMR's city core also increased.

Surprisingly enough, poverty appeared to be the least severe in the Northeast compared to other regions during the mid- and late 1980s. This is shown in [Table 3](#) by its lowest relative income shortfall index for both periods (.24 and .27, respectively). This indicates that the Northeast's average urban poor households needed a smaller percentage of the necessary income in order to get out of poverty despite the fact that the Northeast has a much higher percentage of urban poor households than do the other regions. On the other hand, poverty was found to be the most severe in the North, followed by the BMA.

The percentage distribution of the urban poor across regions in [Table 3](#) shows that the majority of the urban poor lived in the BMR—the BMA in particular—during both the mid- and late 1980s, though the percentage declined slightly, from 32.9 to 31.4. This is not surprising, since the BMR is composed of huge urban areas offering ample job opportunities, including lower-paid jobs. The Northeast has been the second largest home to the urban poor.

IV. ANALYSES OF THE PROFILE OF THE URBAN POOR AND NON-POOR AND A COMPARISON BY REGION

Both the demographic and socioeconomic characteristics of the urban poor and non-poor are analyzed and compared in this section. Differences across regions are also examined. However, since quite a few characteristics are considered, they cannot be tabulated here due to space limitations. However, some important figures representing these characteristics can be extracted without tabulation.

The findings reveal that on average, the poor have a larger family size than the non-poor (4.7 vs. 3.5 persons). This is true in all regions. The largest average family size for the non-poor was found in the five BMR vicinity provinces (4 persons) and in the South for the poor families (5.4 persons). Since most people in the South are Muslim, their fertility rate and their average family size are expected to be higher than those in other regions. Due to the successful family planning programs in the North, the average family size there appeared to be lowest for both the poor and the non-poor (4.1 and 3.2 persons, respectively) compared to the rest of the regions.

As a result of the larger family size, the poor's dependency ratio—which measures the number of dependents that an average earner in a household has to take care of—was higher than that for the non-poor (1.8 vs. 1.2). Again, this is true in all regions. For the poor, the South was more burdened with dependents (2.3) than all other regions. For the non-poor, the region with the highest number of dependents was in the BMR's five vicinity provinces (1.3). As expected, the North had the lowest dependency ratios for both the poor and non-poor (1.4 vs. 1.1). Nevertheless, the poor had a greater number of earners than the non-poor (1.9 vs. 1.7 persons) despite their having a higher dependency ratio.

This implies that the poor must have had a larger number of dependents associated with higher fertility than the non-poor. Comparison by region indicates that the average number of earners for both the poor and non-poor were higher in the regions with more ample job opportunities, i.e., the five BMR vicinity provinces, the BMA and the Central region.

Female-headed households have become a more common phenomenon among the poor than among the non-poor; 28.9 percent of the poor were headed by females compared to 26.9 percent of the non-poor. This is because a greater proportion of female-headed households has been observed over time and because the resulting number of earners is inevitably smaller in such households. These findings are true in all regions except the BMA, where females are more independent due to better economic opportunities compared with other regions. This explains why a much higher percentage of non-poor compared to poor households in the BMA were headed by females (17.6 vs. 8.4 percent).

When classified into different age groups, the poor had a smaller percentage of household heads aged less than twenty compared to the non-poor (1.8 vs. 2.8 percent). The poor have a much higher percentage of household heads aged 60 and over than the non-poor (18.9 vs. 13.9 percent) which was consistent with their having a much higher dependency ratio as explained earlier. Similar findings emerged for almost all regions.

It is no surprise that a much greater percentage of poor household heads had no education or had only a primary education compared to non-poor household heads (16 vs. 7.1 and 70.1 vs. 52.3 percent, respectively). In the remaining higher levels of education, higher percentages were found among the non-poor. Comparison by region also reveals more or less the same results. The non-poor heads having a secondary education tended to concentrate in the BMA, thus comprising a much greater percentage than the poor household heads living there with the same educational level (10.9 vs. 4.5 percent).

Poor households were found to be engaged more often in agriculture and other lower-class occupations (e.g., laboring and trading) than the non-poor. The poor's percentages of lessee farmers, owner-operator farmers, laborers, and traders were all much higher than the non-poor's. On the other hand, non-poor workers were more often employed as other kinds of employees and professionals than were poor workers (31.2 vs. 15.9 percent and 13.5 vs. 0.9 percent, respectively). A higher percentage of the non-poor were inactive compared to the poor. This may reflect greater unemployment (especially in certain educational levels) among the non-poor, who tend to be more selective about jobs.

A comparison by region indicates a higher concentration of all occupations in the BMA, where greater employment opportunities have been available for both the poor and the non-poor. The exception emerged among poor household heads who were owner-operator farmers and traders. The majority of them were located in the poorest regions, namely the Northeast. By contrast, lessee farmers seemed to concentrate in regions other than the Northeast.

When different types of tenure status are considered, the poor had much lower tenure status than the non-poor. A much higher percentage of the poor than the non-poor owned neither a house nor land (43.4 vs. 29.3 percent). Greater percentages of the non-poor either owned both a house and land, owned a house on rented land, or lived rent free (31.7 vs. 30.1 percent, 12.8 vs. 11.1 percent, and 26.2 vs. 15.3 percent, respectively).

A regional comparison indicates that the majority of non-poor household heads with all types of tenure status were located in the BMA. For the poor, however, only those with lower tenure status (i.e., those who owned neither a house nor land and those who owned a house only) were found to be concentrated in the BMA. These results are consistent with the fact that the BMR has as many as 1,682 slums, the majority of which are located in the BMA. Moreover, about 20-25 percent of the BMA population are slum dwellers.

V. CONCLUSIONS AND POLICY IMPLICATIONS

In contrast to the trend of income inequality, which has worsened over time (except in the late 1980s), the

poverty trend is decreasing. Overall poverty conditions, especially in urban areas, have improved significantly since the 1960s. Even during the recession in the mid-1980s, when both overall and rural poverty increased, urban poverty proved to be more resilient. However, while the economic boom in the late 1980s contributed to declines in income inequality as well as in both overall and rural poverty, it also triggered an increase in the incidence of urban poverty. Since the economic boom was accompanied by greater urban employment opportunities, larger numbers of migrants moved into urban areas. Inadequate labor skills and inadequate provision of basic social services, together with the associated higher urban consumer price index, inevitably led to an increased poverty incidence.

That the urban poor lacked adequate labor skills and adequate basic social services was reflected in their having lower-status jobs, a lower level of education, and a lower tenure status compared to the non-poor. Moreover, the poor also possessed less favorable demographic characteristics, which led to a lower economic status relative to the non-poor. These characteristics included a larger family size, a higher dependency ratio, and the greater possibility of having female household heads.

Thus, any attempt to attack urban poverty should recognize the interrelationship between non-welfare and welfare policies. The non-welfare policies emphasize the role of the urban poor as an important factor of production, which should be well integrated into the process of economic development. These policies thus aim at promoting the productive use of the poor's human capital assets through skill development or vocational training programs. In order for the poor to take full advantage of economic opportunities, welfare policies are needed to improve their quality of life by providing them with basic social welfare services (education, low-cost housing, tenure security, family planning, health and nutritional care, etc.).

Comparison by region confirms the belief that the poverty incidence—be it overall, rural, or urban—has been highest in the Northeast and lowest in the BMR. Yet, distribution of the urban poor across regions shows that the largest percentage lived in the BMR (the BMA in particular), which is characterized by huge urban areas. These results imply that any non-welfare and welfare policies for attacking urban poverty should be concentrated in the BMA. The Northeast should also be the target, since it had the highest poverty incidence, including urban poverty, relative to other regions.

When the socioeconomic characteristics of the urban poor were compared across regions, the majority of those engaged in lower-status jobs seemed to be concentrated in the BMA, followed by the Northeast and the North. Larger proportions of urban poor who were self-employed were found in these three regions as well, particularly in the Northeast. Many of the urban poor having no more than a primary education were also located in these three regions. These findings point to the need for non-welfare policies promoting skill improvement and for welfare policies encouraging better access to education among the urban poor in these three regions, particularly the BMA and the Northeast.

Regarding demographic characteristics, the urban poor in the North had the lowest family size and dependency ratio due to the successful family planning programs there. These characteristics were highest in the South, followed by the five BMR vicinity provinces and the Northeast. Based on these results, welfare policies such as family planning should be more strongly encouraged in these regions.

In terms of tenure status, the poor had a lower tenure status than the non-poor, as expected. A regional comparison indicates that the poor who owned both a house and land as well as those who lived rent free tended to be concentrated in the Northeast and the North, where the problem of tenure status has not been as severe as in the BMR, in particular, the BMA. The BMA itself was found to contain a much larger percentage of poor people having no housing of their own. According to these findings, the BMA should be given priority in designing relevant welfare policies aimed at improving the tenure status of the urban poor, particularly among slum dwellers.

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