‘Thaksinomics’ and Thai Populism Redux

By Peter Warr

With the recent election of Prime Minister Yingluck Shinawatra, her brother Thaksin Shinawatra’s populist ethos has returned to Thailand. But Peter Warr argues that Thaksin’s politically motivated promises, including mega-projects, eliminating drug dealers and spending government funds to prop up rice prices, are unsustainable and don’t address core issues in Thai society.

ON JULY 3, THAILAND elected a new government, with a majority of seats won by the Pheu Thai Party, led by Yingluck Shinawatra, the younger sister of fugitive former Prime Minister Thaksin Shinawatra. It is commonly said that Pheu Thai (which literally means “for Thais”) is a populist party while the defeated government, led by Oxford and Eton-educated Abhisit Vejajiva of the Democrat Party, is more representative of the urban, monarchist Thai establishment. Thaksin is now based in Dubai, having been convicted while abroad of conflict of interest during the 2001-2006 period he was in office before being ousted in a military coup. He was later sentenced to two years imprisonment but, not surprisingly, declined to face prison. Although Yingluck is now Prime Minister in situ, her older brother is widely considered the leader in absentia. Less than two months after Thaksin declared his choice for party leader, Yingluck found herself prime minister. She has no prior political experience. What she does have is a pleasant manner and an admirably explicit policy agenda, publicly provided by her absentee brother and widely described as populist.

THE POPULIST PATH

So what does the label “populist” mean, and does it really apply to the new Thai government? Wikipedia describes populism as an ideology that emphasizes the difference between the “people” and the “elite,” and comments that in practice populist discourse typically buttresses an authoritarian, top-down process of political mobilization in which a charismatic leader addresses the masses directly, rather than through political parties or other institutions. The Cambridge Dictionary adds that populism is in opposition to “statism,” which holds that a small group of professional politicians know better than the people and should therefore make decisions on their behalf. In their book Populism in Asia, Mizuno Kosuke and Pasuk Phongpaichit note that populist rhetoric is typically complemented by “anti-intellectualism, anti-elitism, and often anti-foreign sentiments.”

More recently, in his book on populism in Latin America, Left Behind: Latin America and the False Promise of Populism, the economist Sebastian Edwards at the University of California, Los Angeles, describes economic populism as an emphasis on public expenditures that win political support through large, poorly evaluated projects and short-term redistribution of wealth towards particular groups, often with an overlay of large-scale corruption and disregard for the fiscal consequences of these various measures. Such projects are contrasted with carefully evaluated public investments that raise long-term productivity.

THE RETURN OF THAKSINOMICS

Do these descriptions apply to Pheu Thai and its putative leader, Thaksin? I think, to a large extent, they do. On April 23, Thaksin announced his party’s economic policies for the anticipated election, reviving what before the military coup had been called “Thaksinomics.” Speaking to a meeting of the Pheu Thai faithful by video transmission from Dubai, Thaksin outlined a detailed set of economic initiatives with two components: capital intensive mega-projects and redistributive initiatives designed to attract new sources of political support. Thaksin’s proposed mega-construction projects include:

• Ten new electric train lines in Bangkok.
• A “land bridge” (not a canal) linking the Gulf of Thailand with the Andaman Sea.
• A high-speed railway service linking Bangkok with major cities.
• A “land bridge” (not a canal) linking the Gulf of Thailand with the Andaman Sea.
• Ten new electric train lines in Bangkok.

Each of these mega-projects is popular with a significant segment of the population, and like all public construction projects in Thailand they offer the prospect of huge kickbacks for politicians and contractors. There is every possibility that at least some of these mega-projects, or a variant of them, would make economic sense, if they were properly evaluated. But Thaksin seems to have no interest in waiting. The projects are already approved. The redistributive initiatives include:

• A three- to five-year debt moratorium for people owing 500,000 to 1 million baht.
• A 10 million baht minimum revenue guarantee for local municipalities.
• A farmers’ credit card project, presumably backed by the government.
• A 15,000 baht per month minimum salary guarantee for bachelor’s degree graduates.
• A 1 billion baht education fund for state and private universities.
• A tax cut for first-home buyers.
• A tax cut for first-car buyers.
• Free wi-fi in public areas nationwide.
• A guaranteed price of 15,000 baht per tonne for unmilled rice.
• An increase in the minimum wage to 300 baht per day. (This is one initiative that Democrats agreed with, but their proposed increase was smaller, at 250 baht per day.)

Thaksin even recycled two sweeping promises from the 2001 election, a pledge to eliminate the illegal drugs problem within 12 months and eradicate poverty within four years. Following that 2001 election, in which Thaksin won an unprecedented parliamentary majority, eliminating illegal drugs meant giving the police permission to kill anyone suspected of drug dealing. The police themselves are widely said to be the most important drug dealers, so the policy was interpreted by many as a license for the police to remove their competition. More than 2,000 extra-judicial murders occurred, none properly investigated; of course, no one was ever charged. But the policy was indeed popular with Thaksin’s supporters, even if the drug problem was not eliminated.

Thaksin similarly did not succeed in eliminating poverty during his earlier period in office, and
indeed the annual rate at which poverty declined was lower than the historical average over the preceding three decades, even though global economic conditions were relatively favorable during Thaksin’s period in office. More important, Thaksin’s redistributive expenditures were implemented at the expense of investments that can raise long-term productivity, especially in agriculture, the economic base of a high proportion of Thailand’s poor.

DOES AGRICULTURE BENEFIT?

In a recent paper, “Research and Productivity in Thai Agriculture,” a Thai colleague Waleerat Suphannachart and I demonstrated that under Thaksin’s government, expenditure on agricultural research and extension declined as a proportion of agricultural output by 77 and 60 percent respectively. Numerous studies, including our own, demonstrate that agricultural research is a powerful driver of productivity growth in agriculture and hence a driver of sustained poverty reduction. Redistribution of income toward the poor can reduce poverty, but this effect lasts only as long as the redistribution continues. There is no sustained effect on the productivity of the recipients.

The most important feature of Thaksin’s announced policies is what they do not contain: anything about reforming Thailand’s antiquated educational system, the single greatest impediment to long-term economic progress in the country. Nor does his populist agenda say anything about raising the long-term productivity of Thailand’s unskilled and semi-skilled workers, reforming a regressive tax system that favors the rich over the poor or reducing corruption.

Unlike the Democrats, however, Thaksin’s proposed policy measures do not ignore rural people. Despite decades of rural-urban migration and the growth of Bangkok in particular, two thirds of the Thai people still live in rural areas, including almost all of the country’s poorest people. Populism in Asia points out that prior to 2000 Thaksin had shown no interest in agricultural policy, and his speeches had not mentioned “the people.” But Thaksin is an outstanding businessman and knows how to sell things. His political insight was
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to recognize that populist rhetoric offered him the chance to win the support of Thailand's huge, relatively impoverished and disaffected rural population and thereby to capture government.

THE FAULTY RICE PRICE SCHEME
Because of the importance of rural people for Phue Thai's political strategy, it is useful to examine one of its central features, the guaranteed price of rice. The scheme apparently to be implemented is based on one Thaksin introduced in 2002 that used the name of an existing “price pledging” mechanism, but radically changed its characteristics. After some initial confusion, the “pledging” price was set at about 20 percent above the market price for rice and by 2005-6 this differential had expanded to about 30 percent. Farmers were thus able to sell a portion of their crop at a price significantly above the current market price.

This scheme continued until 2006, when Thaksin was deposed. The new military government reverted to the old price pledging scheme under which the price remained below the market price. A new Thaksin-aligned government under Prime Minister Samak Sundaravej re-instated the price support component in 2008 and again offered a pledging price well above the market price, even though rice prices were already at record high levels.

In late 2008, the new Democrat-led government modified the policy to what was called an “income support” or “income guarantee” policy. This name was also misleading because it guaranteed prices, not incomes. If the market price was below a pre-established reference price, the government would pay the farmer the difference for up to a maximum 25 tonnes of rice per farmer. Because market prices for rice were high and normally exceeded the reference prices, the scheme delivered very little subsidy to farmers.

Thaksin's scheme was said to benefit small farmers. Those who participated did receive significant benefits, depending on how much they sold to the scheme. A 2008 study by Nipon Poapongsakorn and Somporn Isvilanond, entitled “Key Policy Issues in Thai Rice Industry: Myth, Misguided Policies and Critical Issues,” indicated that larger farmers, especially those in the central plains and lower northern regions of the country, received most of the benefits. Smaller (and hence poorer) farmers, especially those in the northeastern and upper northern regions, received proportionately much less. The poorest 20 percent of farmers received only 4.5 percent of the total benefit, measured by the value of total paddy pledged.

Large profits were also reaped by warehouse owners and millers chosen by the government to store and mill the rice purchased under the scheme. The rice was eventually sold to exporters, but the bidding system was non-transparent and allegedly corrupt. Huge profits were made by exporters able to buy rice below market prices. The exporters whose bids were successful were few in number (not more than two or three) and sometimes turned out to be mysterious new participants in the industry. One such company, a new entrant to the rice export industry said to be owned by the wife of a prominent member of the government, was the sole successful bidder in one round of negotiations, even though its bid was well below the prevailing market price.

The scheme was unpopular with established rice exporters. Because of the non-transparent and non-competitive nature of the bidding process they were largely excluded from the economic rents enjoyed by other “exporters,” and their profit margins were squeezed. The Thai Rice Exporters Association is currently campaigning against the scheme’s re-introduction, presumably in anticipation of similar practices.

Calculations by Poapongsakorn of the operation of the scheme in the wet season of 2005-06 indicate that about a quarter of the total crop of paddy was pledged. Total government expenditure was around 50 billion baht and total revenue from the subsequent sale of rice was 32 billion baht, implying a loss of about 18 billion baht. This loss comprised a transfer from general revenue — Thai taxpayers — to the beneficiaries of the scheme plus the costs of operating it. In summary, a little over a third of the benefit was received by farmers, mostly large farmers, and the rest went to a small number of selected millers, warehouse owners and exporters, the last group receiving windfall profits of not less than 4.3 billion baht in the 2005-06 wet season alone. The total benefit to the poorest fifth of farmers was at most a twentieth of that.

The scheme has some features in common with an export subsidy. The government buys rice domestically and sells it for export at a loss borne by the taxpayer. It has been claimed that the scheme caused domestic market prices for paddy to be higher than they would otherwise have been because the scheme increases domestic demand. This would mean that some indirect benefits were received by the majority of rice farmers, who did not participate in the scheme. Any such effect must have been small, but it is important that the largest benefit from higher prices is received by those who sell the most rice, the largest farmers. The largest losses accrue to the poorest consumers, those for whom rice accounts for the highest share of household expenditures.

During the Thaksin and post-Thaksin operation of the rice scheme the commercial export industry continued to co-exist with it. If domestic market prices were increased significantly, commercial exporters — who must pay market prices for their stock and then sell abroad in competition with exporters able to buy more cheaply under the scheme — would have been bankrupted. It is possible that some market price increase occurred, squeezing the narrow profit margins of the traditional rice exporting firms. This provides a further explanation for their current opposition to it. But the effect cannot have been large. The test of the future size of this domestic price effect will be whether commercial exporters remain in business after the scheme is reintroduced.

The rice mortgage scheme reduces the quality of Thailand’s rice exports because the pledging price advantage applies regardless of the quality of the rice pledged. Farmers will offer their lowest quality rice to the scheme, and if lower quality rice can be produced more cheaply, participating farmers will shift towards these varieties. This effect has negative long-term implications for Thailand’s rice exports.

The rice mortgage scheme is being reintroduced at the same time as a large minimum wage increase. The former is meant to appeal to farmers while the latter is targeted at urban workers. Neither policy addresses the fundamental necessity of raising productivity. Many economists fear the long-term loss of economic competitiveness and the fiscal implications of this populist approach to economic policy.

Without a doubt, Thaksin’s policies — and now his sister’s — include some innovative ideas, something that can hardly be said of the Democrats. But his brand of populism is short-sighted. It increases the population’s dependence on the state and threatens to take Thailand down an unsustainable Latin American-style dead end.

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