

# The “Populism” Policy and Building/Diminishing Economic “Inequality” and “Unfairness”: Empirical Suggestion on Pork-Barrel in Thailand’s Rice Trading Business

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**Abstract.** This research aims to analyze the two relationships: (1) between the first difference of world market prices of rice and that of domestic market prices of rice; and (2) between the first difference of domestic market prices of rice and that of domestic market prices of paddy. The objective is to demonstrate the pork-barrel, i.e. benefit sharing among different groups of people, in Thailand’s rice trading business among three groups of people having interests, i.e. rice farmers, millers, and exporters, under the conduct of the government before and after its populism policy, i.e. the rimes of paddy pledging and rice farmer income guarantee, which has created pork barrel in a way that has built or diminished economic inequality as well as unfairness. The study further compares the outcomes of the implementations of both patterns of populism policy so as to finally recommend a policy suggestion. With regression analysis, it is found that both relationships under the study have the same direction at the statistical significance of .01 both before and after the implementation of the populism policy. The benefit sharing (pork barrel) structural model among rice farmers, millers, and exporters, before the policy implementation indicates a proportion of 68-2-30, whereas it becomes 32-21-47 after the implementation. After classifying the populism policy as two different regimes of paddy pledging and rice farmer income guarantee, it is observed that the benefit sharing structural model for the paddy pledging scheme is 17-22-61, which shows a tendency to generate deeper economic inequality and unfairness than that under the rice farmer income guarantee scheme, which seems to mitigate such problem at the benefit sharing of 87-4-9.

**Keywords:** Inequality, Populism, Rice Farmer Income Guarantee, Rice Pledging, Unfairness

## 1. Introduction

While the production of rice, export quantity, the world market price, as well as the money circulated in the Thai rice trading business, are projected to continue to increase, farmers who bear burdens and the highest risks, still cannot overcome the deadly cycle of “in-season rice farming is all about stubbles and debts, and off-season one is all about debts and stubbles”<sup>[1]</sup>. This reflects the very existence of the problem of inequality and unfairness in benefit sharing among relevant people.

Since 1965, there have been efforts to innovate and provide assistance by government policies in order to reduce poverty<sup>[2]</sup>, including lessening inequality between producers and consumers in the urban area<sup>[3]</sup>, with the application of the rice price support policy or the minimum price guarantee.

The result of such policy implementations turned out to result in more unfair distribution of economic rents, and millers became the main beneficial of 54%. Rank second was government officers and politicians at the share of 27%; followed by farmer leaders at 6% and farmers for only 13%<sup>[2]</sup>.

The failure of direct price intervention in the aspects of loss, failure to support price, as well as the trend of increasing and severe inequality, caused the government to switch to indirect intervention to market mechanism, that is the paddy pledging scheme from crop year 1981/1982.

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The significant change of the paddy pledging program occurred in 2001 during the Thaksin Shinawatra administration when the government announced to expand its goal of pledging from 2.5 to 8.7 million tons and to augment loans to 100% of the leading goal price. Afterwards, the government assigned the leading goal price higher than the market price for 30% in the next three crop years.

The research of Puapongsakorn and Jarupong<sup>[2]</sup> on benefit sharing in the in-season paddy pledge program for crop year 2005/2006 indicated the change from the policy having been implemented for more than two decades. The farmers participating in the program received large benefit share of 37.25%. The exporters who won the government rice bidding came second with 23.42% share. The millers participating in the program accounted for 18.01%. The cost borne by the government accounted for 13.69% and the remaining 7.63% share went to central inventories and surveyors, as well as qualitative and quantitative depreciations.

During the Samak Suntoravet administration, the paddy pledge price was increased up to 14,000 baht per ton in 2008, which was considered raising the paddy pledge scheme to become a full-fledged “populism” policy in order to respond to the voting constituencies and political positions.

The policy was altered again in the 2009 Abhisit Vejjajiva administration which abandoned paddy pledging and turned to rice farmer income guaranteeing. Up till now, there has been none of research demonstrating benefit sharing structure of such policy enforcement. Only comments and rhetoric<sup>[4]</sup> from academics and exporters<sup>[5]</sup> exist and they are by far the proponents of the rice farmers’ income guarantee scheme and opposed to the paddy pledging scheme.

In contrast, the rice farmers themselves give support to paddy pledging and even indicate their opinion against the rice farmers’ income guarantee that “such policy is to assist the rich, and real farmers will not receive much benefit from it”<sup>[6]</sup>.

## **2. Objective of the Research**

First, the researchers aim to analyze two relationships: (1) between the first difference of the world market price of rice and that of the domestic market price of rice and (2) between the first difference of the domestic market price of rice and that of the domestic market price of paddy, before and after the implementation of the populism policy of paddy pledging and rice farmers’ income guarantee.

Later, the study will reveal whether the determination, as well as the change, of the first difference of the domestic price of rice and that of the domestic price of paddy, is influenced by the first difference of the world market price of rice and that of the domestic price of rice. If so, how much does the influence have effects for each application of policies/schemes?

Next, the researchers aim to prove that there is a pork barrel, i.e. benefit sharing, in the Thai rice trading business, among three interested groups, which are rice farmers, rice millers, and exporters, by applying the abovementioned empirical data on correlations and rates of change of both pairs of variables. This will indicate the nature of benefit sharing, in a way that could build or diminish economic inequality and unfairness in the rice trading business, which came from the government policy implementation, whether it is recognized as populism or not.

## **3. Research Methodology**

### **3.1. Data and Variables**

The researchers select to use the time series data collected from the Agricultural Trade Support Bureau, Department of Internal Trade of the Ministry of Commerce of the total of 136 months, from January 2000 to April 2011, for the following variables:

1. The first difference of the world market price of rice (CHGFOB) which is transformed from the world market price of rice (FOB) by the first difference method to represent the changing rate of price at which exporters sell to their foreign customers during each time period.

2. The first difference of the domestic market price of rice (CHGBANGKOK) which is transformed from the domestic market price of 5% rice (BANGKOK) by the first difference method to represent the changing rate of price at which millers sell to their exporters during each time period.

3. The first difference of the domestic market price of paddy (CHGRICE) which is transformed from the domestic market price of paddy at 15% moisture (RICE) by the first difference method to represent the changing rate of price at which rice farmers sell to their millers during each time period.

### 3.2. Data Analysis

The data are analyzed by regression analysis available in a built-in computer program application.

## 4. Research Outcome

### 4.1. Before the Populism Policy Implementation (January 2000 – March 2008)

Table 1 indicates that before the populism policy enforcement, CHGFOB has a positive correlation with CHGBANGKOK. Every change for one US dollar of CHGFOB causes the same-direction change of CHGBANGKOK for 27.92 baht. CHGFOB explains CHGBANGKOK at 67.18%.

Table 1: Regression Analysis on CHGFOB and CHGBANGKOK

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.889514	21.70279	-0.087063	0.9308
CHGFOB	27.91590	3.751695	7.440877	0.0000
R-squared	0.671813	Prob(F-statistic)		0.000000
Newey-West HAC Standard Errors & Covariance (lag truncation=4)				

Table 2 indicates that before the populism policy enforcement, CHGBANGKOK has a positive correlation with CHGRICE. Every change for one Thai baht of CHGBANGKOK causes the same-direction change of CHGRICE for 0.58 baht. CHGBANGKOK explains CHGRICE at 77.68%.

Table 2: Regression Analysis on CHGBANGKOK and CHGRICE

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.855135	11.57959	0.592002	0.5552
CHGBANGKOK	0.575596	0.081747	7.041189	0.0000
R-squared	0.776803	Prob(F-statistic)		0.000000
Newey-West HAC Standard Errors & Covariance (lag truncation=4)				

Every change for 27.92 baht of CHGBANGKOK will cause a change in the same direction of CHGRICE for 16.07 baht.

At the average currency exchange rate of 1 US dollar equivalent to 40.01 Thai baht during the period, the change of CHGFOB at every one baht will cause CHGBANGKOK to change for 0.70 baht and CHGRICE to change for 0.40 baht.

Therefore, when considering the pork barrel derived from the change of the world market price of rice every one baht, the domestic market price of paddy, representing the benefit share to the rice farmers after calculation for the portion for milling paddy to rice at 1.67:1, results in 0.68 baht. The millers receive the difference at only 0.02 baht and the exporters at 0.30 baht.

### 4.2. After the Populism Policy Implementation (April 2008 – April 2011)

Table 3 indicates that after the populism policy enforcement, CHGFOB has a positive correlation with CHGBANGKOK. Every change for one US dollar of CHGFOB causes the same-direction change of CHGBANGKOK rice for 17.58 baht. CHGFOB explains CHGBANGKOK at 43.90%.

Table 3: Regression Analysis on CHGFOB and CHGBANGKOK

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-159.3955	170.7596	-0.933450	0.3572
CHGFOB	17.57973	5.672764	3.098971	0.0039
R-squared	0.439045	Prob(F-statistic)		0.000000
Newey-West HAC Standard Errors & Covariance (lag truncation=4)				

Table 4 indicates that after the populism policy enforcement, CHGBANGKOK has a positive correlation with CHGRICE. Every change for one Thai baht of CHGBANGKOK causes the same-direction change of CHGRICE for 0.36 baht. CHGFOB explains CHGBANGKOK at 49.74%.

Table 4: Regression Analysis on CHGBANGKOK and CHGRICE

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-28.88301	57.70964	-0.500489	0.6200
CHGBANGKOK	0.360805	0.073215	4.927994	0.0000
R-squared	0.497396	Prob(F-statistic)		0.000000
Newey-West HAC Standard Errors & Covariance (lag truncation=4)				

Every change for 17.58 baht of CHGBANGKOK will cause a change in the same direction of CHGRICE for 6.33 baht.

At the average currency exchange rate of 1 US dollar equivalent to 32.91 Thai baht during the period, the change of CHGFOB at every one baht will cause CHGBANGKOK to change for 0.53 baht and CHGRICE to change for 0.19 baht.

Therefore, when considering the pork barrel derived from the change of the world market price of rice every one baht, the domestic market price of paddy, representing the benefit share to the rice farmers after calculation for the portion for milling paddy to rice at 1.67:1, results in 0.32 baht. The millers receive the difference at only 0.21 baht and lastly the exporters at the highest benefit share of 0.47 baht.

### 4.3. After the Paddy Pledging Regime Implementation (April 2008 – October 2009)

Table 5 indicates that after the paddy pledging regime enforcement, CHGFOB has a positive correlation with CHGBANGKOK. Every change for one US dollar of CHGFOB causes the same-direction change of CHGBANGKOK of rice for 13.22 baht. CHGFOB explains CHGBANGKOK at 28.21%.

Table 5: Regression Analysis on CHGFOB and CHGBANGKOK

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-307.9085	341.7926	-0.900864	0.3810
CHGFOB	13.22464	6.631904	1.994094	0.0635
R-squared	0.282090	Prob(F-statistic)		0.000000
Newey-West HAC Standard Errors & Covariance (lag truncation=4)				

Table 6 indicates that after the paddy pledging regime enforcement, CHGBANGKOK has a positive correlation with CHGRICE. Every change for one Thai baht of CHGBANGKOK causes the same-direction change of CHGRICE for 0.26 baht. CHGFOB explains CHGBANGKOK at 31.67%.

Table 6: Regression Analysis on CHGBANGKOK and CHGRICE

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-131.5186	109.4077	-1.202097	0.2468
CHGBANGKOK	0.256527	0.061354	4.181126	0.0007
R-squared	0.316621	Prob(F-statistic)		0.000000
Newey-West HAC Standard Errors & Covariance (lag truncation=4)				

Every change for 13.22 baht of CHGBANGKOK will cause a change in the same direction of CHGRICE for 3.44 baht.

At the currency exchange rate of 1 US dollar equivalent to 34.14 Thai baht the change of CHGFOB at every one baht will cause CHGBANGKOK to change for 0.39 baht and CHGRICE to change for 0.10 baht.

Therefore, when considering the pork barrel derived from the change of the world market price of rice every one baht, the domestic market price of paddy, representing the benefit share to the rice farmers after calculation for the portion for milling paddy to rice at 1.67:1, results in 0.17 baht. The millers receive the difference at 0.22 baht and lastly the exporters at the highest benefit share of 0.61 baht.

### 4.4. After the Rice Farmers' Income Guarantee Regime Implementation (November 2009 – April 2011)

Table 7 indicates that after the rice farmers' income guarantee regime enforcement, CHGFOB has a positive correlation with CHGBANGKOK. Every change for one US dollar of CHGFOB causes the same-direction change of CHGBANGKOK for 28.92 baht. CHGFOB explains CHGBANGKOK at 89.96%.

Table 7: Regression Analysis on CHGFOB and CHGBANGKOK

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-121.7549	60.12796	-2.024931	0.0611
CHGFOB	28.92340	2.093555	13.81545	0.0000
R-squared	0.899614	Prob(F-statistic)		0.000000
Newey-West HAC Standard Errors & Covariance (lag truncation=4)				

Table 8 indicates that after the rice farmers' income guarantee regime enforcement, CHGBANGKOK has a positive correlation with CHGRICE. Every change for one Thai baht of CHGBANGKOK causes the same-direction change of CHGRICE for 0.57 baht. CHGFOB explains CHGBANGKOK at 81.14%.

Table 8: Regression Analysis on CHGANGKOK and CHGRICE

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	52.43527	66.19733	0.792106	0.4406
CHGBANGKOK	0.569554	0.090677	6.281123	0.0000
R-squared	0.811494	Prob(F-statistic)		0.000000
Newey-West HAC Standard Errors & Covariance (lag truncation=4)				

Every change for 28.92 baht of CHGBANGKOK will cause a change in the same direction of CHGRICE for 16.48 baht.

At the currency exchange rate of 1 US dollar equivalent to 31.61 Thai baht the change of CHGFOB at every one baht will cause CHGBANGKOK to change for 0.91 baht and CHGRICE to change for 0.52 baht.

Therefore, when considering the pork barrel derived from the change of the world market price of rice every one baht, the domestic market price of paddy, representing the benefit share to the rice farmers after calculation for the portion for milling paddy to rice at 1.67:1, results in 0.87 baht. The millers receive the difference at only 0.04 baht and the exporters receive the share of 0.09 baht.

## 5. Conclusion and Recommendations

### 5.1. Conclusion of Research Outcome

The analysis of the relationship between CHGFOB and CHGBANGKOK and between CHGBANGKOK and CHGRICE for each policy/regime, brings about the model of the structure of pork-barrel among rice farmers, millers, and exporters in the Thai rice trading business as follows:

Before the populism policy implementation, rice farmers received the highest share of benefits that is at 68%, whereas the exporters acquired at 30% and the millers at 2%.

After the application of the populism policy, the structure of benefit sharing altered. Rice farmers who previously had been the highest beneficiaries of 68% were reduced their benefit share by more than half to 32%. Meanwhile, exporters and millers received higher benefit shares of 47% and 21% consecutively.

When classifying the populism policy as the paddy pledging scheme and the rice farmer income guarantee one, the researchers found that paddy pledging provided the highest of history-recorded share of benefits to exporters at 61%. In the meantime, rice farmers acquired the lowest history-recorded benefit share of merely 17%.

Comparing with the structure of benefit sharing in the regime of rice farmers' income guarantee, the share of benefits to rice farmers turned out to be the highest in the history at 87%. During the same period, exporters received the benefit share of 9% and millers' of 4%. All of these imply that the populism policy, which is observed as more advantageous than disadvantageous and at the same is deeply attached to the Thai society, has become one variable which could either build or diminish economic inequality as well as unfairness.

In the case of the Thai rice trading business, outcomes of the analyses show that even though paddy pledging has been recognized and applauded by rice farmers, such regime provides the highest benefit share to exporters and the least to rice farmers. On the contrary, the regime of rice farmers' income guarantee turns out to be the regime appropriating the highest benefit share to rice farmers. However, likely due to the fact of continuously decreasing world market price of rice, as well as the policy, the rice farmer income guarantee regime has not been approved nor appreciated by rice farmers.

So as to examine the actual phenomenon of these regimes/policies, the researchers interviewed three experts who are Chaiyawonnagal<sup>[7]</sup>, Ratuengrabin<sup>[8]</sup> and Mr.S.<sup>[9]</sup>. The information from the interviews is found to be close to the empirical data results.

Table 9: Comparison of the Benefit Sharing Classified by Each Policy/Regime Implementation

	Rice Farmers	Millers	Exporters
<b>Before the Populism Policy Implementation (Experts)</b>	68 50-55	2 15-20	30 30
<b>After the Populism Policy Implementation (Experts)</b>	32 30	21 15-30	47 20-70
<b>After the Regime of Paddy Pledging</b>	17	22	61
<b>After the Regime of Rice Farmer Income Guarantee</b>	87	4	9

## 5.2. Recommendations

This analysis of the empirical data is, therefore, a reminder to two groups of peoples. First, a group of people having their interests in establishing a government policy must be more thorough in issuing or applying any populism policy regime because besides the poverty aspect, an aspect of inequality and unfairness is also one important problem in the Thai society, which becomes more and more severe these days. Second, and the most important of all, is civil people who need to realize the necessity of proofs and the truth whether different policies established and applied by the government are implemented with good faith or with a hidden agenda, as well as whether and how much they are beneficial to the public as a whole.

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