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A HISTORY OF RICE POLICIES IN THAILAND†

Oil is said to be a commodity whose economics are very simple but whose politics are very complicated. The same may be said of rice, and nowhere is there more truth in such a statement than in Thailand. For a variety of reasons, Thailand has retained its position as Asia's major exporter, with adequate rice remaining for its own population. The main problem for Thai policy makers has been to ensure that this exportable surplus is traded at prices deemed suitable by producers, consumers, the government, and foreign buyers.[1] The balancing of different interests cannot be resolved through economic means and has to be accomplished through political means.

This paper examines the politics and economics of rice price determination in Thailand since 1851, with special emphasis on the period 1955–73. Thailand's domestic price and export policy will be seen to be inextricably linked.

THAI RICE EXPORTS BEFORE THE SECOND WORLD WAR

Thailand began its career as a rice exporter in 1851 when King Rama IV, who had just ascended the throne, lifted the traditional ban on the export of rice. Previously Thailand had exported rice to a few countries, such as China, and occasionally to various British settlements on the Malay Peninsula, but these irregular exports were made for diplomatic reasons. The lifting of the ban was also dictated more by diplomatic than economic reasoning, since the Thai leadership was remarkably aware of the power of the western nations. This act was a signal to the West that Thailand was willing to revise the previous monarch's policies which were responsible for banning exports and for rebuffing western efforts at "opening up" Thailand. The signal had its effect. The British sent a new mission, and

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† This paper is one of a series of studies reporting the results of a research project on rice economics and policy in Thailand. Participants of the joint project were the Faculty of Economics, Thammasat University, the Department of Agricultural Economics, Kasetsart University, and the Food Research Institute, Stanford University. Views expressed in this paper are the author's and not necessarily those of the sponsoring agencies. The author is indebted to Walter P. Falcon and Delane E. Welsch for encouragement, to William O. Jones for editing assistance, and to Nuannute Piriyawithayopas for research assistance. Errors remaining in this paper are the author's responsibility.

An earlier version of this paper appeared in Prateep Sondysuvan (ed.), *Finance, Trade and Economic Development in Thailand: Essays in Honour of Khunying Suparb Yossundara*, Bangkok, 1975.

[1] There are many domestic prices for the various grades of rice and paddy. Throughout this paper the domestic prices of rice and paddy will be discussed collectively. When the price of rice is mentioned, it will refer to Bangkok wholesale price of 5 percent broken rice. Variations of this price are assumed to be transmitted to the other grades and to paddy, under the assumption that competition in internal trade is perfect.

in 1856 the Bowring Treaty was signed. The treaty inaugurated a seventy-year era of almost completely free trade in Thailand and brought a massive change in the lives of most Thais, particularly those inhabiting the central plains.

The rapid expansion of rice exports from Thailand has been well chronicled by J. C. Ingram (*5*, chap. 5). Certain historical features that cause Thailand to occupy an almost unique position among Asian nations today are worth special mention here.

In the second half of the nineteenth century Thailand had a sparse population, as did all other mainland southeast Asian countries (except the northern part of Vietnam) (*20*). The extremely low man-land ratio enabled Thailand and other southeast Asian countries, particularly Burma and Vietnam, to export rice in large quantities. These countries had abundant land, and the delta lands were suitable for little else but rice.

A great deal of historical work remains to be done to document the massive changes in these countries.[2] Opinions differ regarding the effects of these changes on the welfare of rice farmers. One view is offered in King Rama IV's proclamation (*7*, Proclamation No. 95): "Those lazy [*sic*] people who do not grow their own paddy and have to purchase rice from others would ever want rice prices to be low. Now if rice farmers obtain a low price for their rice which is not worth the labour that they put in, they would be discouraged and leave farming for other activities. That is why the King has kindly permitted rice exports so as to benefit the people."

This proclamation, which was issued in 1856, contains a clear statement of the central problem of Thai rice policy. It cannot be disputed that exports initially led to higher prices for rice, but what is usually disputed is whether these high prices trickled down as benefits to the farmers and whether these benefits were long lasting. In Burma one hears the constant refrain that export-oriented policies have generally been disastrous for the Burmese, who could not cope with the free market system and ended up being poor tenant farmers on lands owned by Indian moneylenders (*4*). The Vietnamese peasantry's share of the gains from rice export has also been questioned. Robert Sansom's conclusion that the welfare of the peasants increased until the 1930s and then dropped off sharply thereafter seems to be reasonable for Vietnam (*10*, chap. 2). Whether export-oriented policies have been beneficial or harmful to Thailand is thus very much a moot point, requiring more research. Social strains caused by the Thai peasantry's thrust into the market economy appear to have been considerably less than in Burma and Vietnam (*11*). That is perhaps why Thailand's conservative elite has been able to retain enough political control to enable it to function effectively with an open-economy framework.

THE IMMEDIATE POSTWAR PERIOD, 1945–54

Although Thailand had obtained substantial fiscal autonomy by 1926,[3] government intervention in peacetime rice trade was minimal and remained so even

[2] See the author's comparative study of Burma, Thailand, and Vietnam (*11*).

[3] In 1926 Thailand still had to declare to Britain that it had no intention to increase export duties on rice.

during World War II. At the end of the war, however, the government abruptly and massively entered the rice trade.

The war itself damaged Thailand very little, but Thailand was on the losing side. Therefore, when the Allies occupied Thailand in 1945, they felt no compunction in requiring Thailand to supply an acutely rice-short world with 1.5 million tons of rice as war reparations. This requirement was formalized in a treaty dated January 1, 1946.[4]

The reparations agreement was the starting point of the government's entry into the rice trade. Clearly the government had to bear the burden of financing the rice reparations. The drain on the budget was immense and the situation steadily worsened as world prices rose, pulling along domestic prices. Not surprisingly, the government tried to depress domestic prices and thus to shift part of the burden of reparations back to the farmers.

To achieve this objective the government banned exports of rice and assigned the sole right to export rice to the new Rice Office. Given the dislocations caused by the war and the lack of money and motivation to pay the full reparations, the creation of this office alone was not sufficient to enable Thailand to meet its obligations. By October 1946 less than 400,000 tons of the original 1.5 million tons requirement had been shipped.

The issue of rice as war reparations underwent constant renegotiation. With each renegotiation, the amount to be supplied was reduced, and the price obtained by the Thai Government increased.[5] Thailand freed itself from all punitive obligations in 1948, but the international rice trade was still regulated by an International Emergency Food Committee, under the United Nations. This control was lifted at the end of 1949. If the government had wanted to return to the prewar position, it could have withdrawn from the rice trade altogether, closed the Rice Office, and permitted unregulated trade in rice again. But the government decided to retain the Rice Office because it saw the possibility of making a profit by keeping domestic prices below world prices. As a result, the Rice Office's monopoly was maintained until 1954. In actual operation this monopoly was nominal. In fact, a great deal of rice was exported by private firms.

During this period all exports of rice, except sales to foreign governments, were initiated by private merchants who obtained export licenses from the Ministry of Commerce. The role of the Rice Office was limited to checking the firms' stocks and the grades to be exported, although all rice was exported in its name. For this service the office collected a nominal fee.[6]

Export licenses were granted on a quota basis, and this arrangement afforded opportunity for much corruption and bribery. In 1950 the value of these licenses

[4] The account that follows rests largely on Ingram (*5*, pp. 87 ff.) and S. C. Yang (*19*, chap. 3).

[5] The details are well summarized in *14*, pp. 19 ff.

[6] A. Mousny implied that this arrangement was very limited in scope (*8*, p. 36): "In spite of the principle of the general monopoly of the Rice Office, these private transactions were sometimes authorized because they were considered as a useful source of information for further government-to-government rice agreements. The rate of the premium, at first as the result of an agreement between the Ministry and the exporters, became fixed unilaterally by the Ministry of Economic Affairs (the name at the time of the Ministry of Commerce) from 1952." On the other hand, a retired official of the Rice Office indicated to the author that all trade which was not government-to-government was conducted by the private traders. Unfortunately, no hard data exist on the proportion of government-to-government sales for the period.

was reduced by imposing a premium to be paid to the Ministry of Commerce. The premium was regarded as a fee to be paid for obtaining a license and not as a tax which would have required approval by the legislature. This interpretation has permitted the executive great flexibility in using the rice premium as a policy instrument.

Exchange control regulations provided an additional means for taxing rice in Thailand. There was great monetary disorder at the end of the Second World War. The *baht* had become a yen-backed currency during the war and the defeat of the Japanese led to the collapse of the baht. Thereafter, it was necessary for Thailand to build up its international reserves and to establish a baht parity.

The exchange rate of 40 baht per pound sterling declared by the government in May 1946 considerably overvalued the Thai currency. The rate recommended as more appropriate was 60 baht per pound sterling (*19*, pp. 30 ff). Despite government attempts at trade and exchange regulations, a black market rate began to emerge.

In 1947 the government surrendered to market forces and embarked on policies that "whitened" the black market in foreign exchange. A multiple exchange rate system was established, and exporters of nontraditional goods were permitted to sell foreign exchange obtained in the free market where the rate was 60 baht per pound sterling. But exporters of rice were supposed to hand over the entire export proceeds to the Bank of Thailand which was quoting 40 baht per pound sterling. This system resulted in a substantial tax on rice exports, amounting to about 33⅓ percent of export proceeds. The system was retained until August 1955, when the multiple exchange rates as applied to rice came to an end. It had been modified to a minor extent in 1953 by permitting part of the export proceeds to be sold in the free market, but the proportion involved was relatively small (*8*, p. 40).

The policy instruments that were used in the period before 1954 were complicated. Contemporary observers had to probe a great deal in order to find out what was actually happening, for what appeared on the surface was not always what actually took place. Looking back at the period there are even worse problems because published documents on various crucial issues, for example, the premium rates, are either nonexistent or very hard to obtain.

Nevertheless, the system that grew up during this period was essentially the same as that in existence after 1955. The export of rice was taxed at a rate of 30 percent or more and quantitative controls were also imposed from time to time.

There were two ways in which the government benefited from this policy of taxing exports. First, the direct revenue that the government earned was substantial, as can be seen from Table 1. A less obvious, but nonetheless important benefit arose because export taxes helped to depress domestic rice prices. The postwar inflation had dealt a heavy blow to the real incomes of civil servants. Because the overall fiscal situation was tight, the government was not in a position to increase civil servants' salaries; on the other hand, it was not willing to see its own employees' incomes eroded by further cost-of-living increases. A cheap rice policy therefore seemed to be the answer.

The plentiful supply of Thai rice in the immediate postwar world of scarcity generated unshakable faith among policy makers that Thai rice enjoyed a quasi-

TABLE 1.—GOVERNMENT REVENUE FROM RICE EXPORT TAXATION, 1947–53*
(*million baht*)

Year	Exchange profit earned by Bank of Thailand	Premium plus Rice Office profits handed to Min. Finance	Export tax	Total revenue from rice export taxation	Total government revenue	Revenue from rice as a percentage of total government revenue
1947	—	32	—	32	996	3
1948	—	166	—	166	1,692	10
1949	190[a]	340	—	530	1,930	27
1950	111	180	—	291	1,136	26
1951	95	170	—	265	2,351	10
1952	336	365	74	775	3,347	23
1953	315	807	135	1,257	3,930	32

* Data from A. Mousny, *The Economy of Thailand; An Appraisal of a Liberal Exchange Policy* (Bangkok, 1964), p. 37.

[a] This figure is a rough estimate based on S. C. Yang, *A Multiple Exchange Rate System* (Madison, Wis., 1957), Table 26, p. 173.

monopolistic position in the world market. Whether this faith was justified is probably the single most important policy question of postwar Thailand. Nevertheless this perception led policy makers to justify export taxation as a means of improving Thailand's terms of trade. In actual fact, the world demand for Thai rice has not been perfectly inelastic, and part of the burden of the policies of export restriction has been shifted backwards and reflected in lower domestic prices, all the way back to farm prices. To the charge that their policies have been detrimental to Thai farmers, government officials have contended that if all taxes on rice exports were lifted, the only groups in Thailand to benefit would be the exporters and middlemen, who in Thailand tend to be exclusively Chinese; the Thai farmers would gain little or nothing. There is a germ of truth in this claim. Throughout much of this period, there were quantitative controls, and these controls were often effective constraints on exports. Under such circumstances, any reduction in premium or any move to eliminate the multiple exchange rate system would benefit the exporters, unless such moves were accompanied by a lifting of the controls. Consequently, the control system itself was the effective policy instrument during much of the period. Use of the control system was debated in somewhat subdued fashion because of its close relationship to corruption in high places. The aim of its opponents was first and foremost the elimination of this corruption. They probably felt that a complete dismantling of the system was too radical and would be unacceptable to the cabinet. The premium was thus proposed as a means of curbing the excess profits of the exporters and the resulting corruption.

Whether the effective constraint on export was the quantitative control or the multiple exchange system, the price received by farmers for their paddy had declined, and it would be difficult to attribute this fall to any cause other than government policies (*8*, pp. 38 ff).[7] However, following the end of the Korean

[7] Mousny's comparisons seemed to be between 1938 and 1963, but the same results would hold for a comparison between 1938 and 1954, as there was little shift between 1954 and 1963. Mousny pointed out that between 1938 and 1963 rice prices increased 13 times while general prices went up 19 times. The rice yield in 1938 was 231 kilograms per rai while in 1963 it was 253 kilograms per rai.

War in 1953 and the general easing of the supply situation in the world rice market, the quantitative control was no longer an effective constraint on exports. De facto export taxation in the form of multiple exchange rates and the premium took its place.

THE 1955 REFORMS

The changes that took place in 1955 were more a matter of form than of substance. The basic structure to a great extent had already been shaped in the previous four or five years during which private trading in rice was permitted as long as the government profited by it. In 1955 the government simplified the system considerably.

The first step was to recognize explicitly the existence of private traders and of the premium. In December 1954 the Ministry of Commerce announced that premiums of 400 baht per ton for all grades except broken rice and of 200 baht per ton for brokens would be imposed on private traders who obtained licenses. As explained above, the premium was tied to licensing as a legal maneuver to avoid bringing the matter to the legislature. On August 15, 1955, the requirement that Thai exporters sell the bulk of their foreign exchange earnings to the Bank of Thailand was abolished. Although the government attempted to retain part of the revenues by raising the premium rates, the net effect was to reduce the tax burden on rice exports. Because of the post-Korean War slump, the Thai government was keen to expand exports and earn foreign exchange.

THE INSTITUTIONAL BACKGROUND OF POLICY MAKING ON RICE IN THAILAND AFTER 1955

For the entire period under discussion, the executive has been the dominant branch of government in Thailand—so much so that political scientists have called Thailand a bureaucratic polity. The main bureaucracy of concern is the Ministry of Commerce (or, the Ministry of Economic Affairs, as it was known before 1972). The Bank of Thailand's role in rice policy ended with the termination of the multilateral exchange system. The Ministry of Commerce is theoretically in charge of all aspects of the rice trade, both internal and external. All government programs or policies connected with paddy or rice once it has passed the farmgate, but not with rice milling, are handled by this ministry. The only policies employed to influence rice prices have been trade policies administered by the Ministry of Commerce.

The Ministry of Agriculture is in charge of all programs connected with paddy production. Since the main goal of rice production policy has generally been to increase yields and output, the Ministry of Agriculture's efforts in this area have been determined largely by the existence of worthwhile programs, availability of money, or other such considerations. For a brief period during 1969–71, low rice prices did influence some officials to question how much effort should be made to increase rice production. Generally, however, there has been little tailoring of agricultural programs to reflect relative prices of the various commodities. Consequently, policies designed to influence production will not be examined in this paper.

THE CLASSICAL YEARS, 1955–66

The classical period was marked by great stability in the world rice markets.[8] As a result, the changes in the rice premium were small, and emphasis was placed much more on varying the relative rates between grades than on drastic changes in the overall level. Frequent use was made, however, of quantitative restrictions. This method was applied in the second half of 1957, 1958, and partially in 1959. It was again put into effect in 1962 and in 1965. During this period, the main objective was to stabilize domestic prices, and the primary instrument was quantitative restriction of exports. The signal for such action would occur when domestic prices rose above certain levels. The critical level appears to have been about 110 baht per picul (60 kilograms) for 5 percent rice.[9]

Intervention relied heavily on price signals because information about the quantity of rice produced and consumed was very poor or nonexistent. Nevertheless, attempts were made to compute the domestic rice availability whenever the price of rice began to climb beyond the critical level. The government computed domestic rice availability from grossly imperfect data on domestic end-of-year stocks, the latest harvest, and expected consumption.[10] Whenever there were doubts, these calculations had a definite conservative bias, in the sense that to be on the safe side the lower figure for domestic availability was always chosen.[11] The export quotas were set using these frequently underestimated availability figures. Consequently, Thailand tended to hoard rice when world prices were high. This practice might have stabilized domestic prices, but its effect on world prices was definitely destabilizing.

The policy makers seem to have preferred the quantitative control of exports to premium adjustments as policy instruments to control domestic rice prices. This preference follows from an assumption that foreign elasticity of demand for Thai rice is extremely low, an assumption which is probably correct when there is excess demand.[12] Under such circumstances, the burden of a "reasonable"[13] increase in the premium would be largely shifted to foreign buyers. Domestic prices would hardly be affected. Further increases in the premium would then be necessary to reduce domestic prices.

Some economists might counter by citing the theorem that for every quantitative restriction, there is an equivalent tax which is superior from the fiscal point of view. Hence, whether one uses premium changes or quantitative restrictions to lower domestic prices by a given amount, the disruptive effect on the foreign markets will be the same. On the basis of this argument the premium is a superior

[8] For narrative convenience, the years from 1955 to 1966 will be classified as the "classical years"; the period from 1966 to 1968 as the "first crisis"; 1968 to mid-1972 as the "surplus years"; and, finally, the period after 1972 as the "second crisis."

[9] This conclusion is obtained by correlating points at which quantitative restrictions were introduced with prevailing prices.

[10] All these quantities, particularly consumption, were assumed to be fixed and not to vary with price.

[11] Until the Household Expenditure Survey of 1963 (published in 1966) forced a considerably upward revision of estimates of production, the export quotas were set on the basis of much lower estimates emanating from the Rice Department. This practice imparted an over-cautious bias to rice policy during the period.

[12] For a good theoretical discussion of this possibility, see (*1*).

[13] "Reasonableness" is defined in terms of minimization of the disruption in the foreign markets.

tool, for it enables the government to obtain the revenues which would otherwise accrue to private traders receiving quota allocations.

Policy makers have sufficient justification for not accepting this line of argument, however. The equivalence theorem is not valid in a year when the market is not in equilibrium and excess demand conditions persist. Government officials bent on seeing prompt results generally prefer the effectiveness of quantitative controls. Policy makers could be criticized, however, for their reluctance to use the premium effectively to capture the excess profits that accrue to exporters when quantitative restrictions are in effect.

Stablization of prices during the classical period meant essentially lowering prices when they were high rather than raising them when they were low. This asymmetry, which was to become much more marked in later periods, was obscured at this time by the fact that the world price level was remarkably stable at a low level. Between 1956 and 1965, the f.o.b. quotation for 5 percent rice did not stray much from the range of £45 to £50 per metric ton. The highest price was £58 in November 1962, while the lowest point was £41 in mid-1960. No attempt was made to reduce premium rates, and the domestic price sank to 80 baht per picul.

It was relatively easy to control domestic prices at a time when world prices were stable. What little the policy makers had to do, they did adequately, so that the stability of the world market was largely translated into stability at home.

During this period a debate opened up on the issue of the rice premium as a long-term tax. Leading the attack were M. C. Sithiporn Kridakara and Dan Usher.[14] The ensuing debate has been somewhat grandly compared to the Corn Laws controversy (*5*, p. 244). The issues raised can be separated into two levels, one factual and the other the broader development questions arising from the premium. The factual issues centered on the question of who bore the burden of the rice premium. The critics based their attacks on two premises: (1) The structure of the internal rice trade is quite competitive so that it approximates the perfect competition model; and (2) the foreign elasticity of demand for Thai rice is very high, at least in the long run, because Thailand has a very small share of the world's rice output. Given these two premises it is easy to demonstrate that the bulk of the burden is ultimately borne by the farmers.

The empirical work that has been done[15] tends to confirm the first premise, at least for the central plains of Thailand from which much of the surplus rice comes. This evidence refutes the frequently heard argument by the proponents of the premium that if it were abolished, the beneficiary would be the Chinese middleman.[16] If, however, there are quantitative restrictions on exports the burden of the premium falls entirely on the exporter.

With respect to the second issue, the critics are on weaker ground. Usher argues that the foreign elasticity of demand for Thai rice is extremely high because of Thailand's small share of world output (approximately 3 percent) (*16*). His

[14] See M. C. Sithiporn Kridakara, 1970 (*6*), and Dan Usher, 1967 (*16*). The papers were circulating well before the publication dates of either of these books.

[15] There are two studies in Thai that are cited in (*12*).

[16] W. L. Baldwin does not agree that the internal trade has been proven to be competitive (*2*), but he points out that even if the market were not competitive, the farmers would nonetheless have to bear part of the burden of the premium.

reasoning would be valid only if the rice could be freely moved across borders all over the world. In this case, Thailand would be like a small firm in a large unified market and would be essentially a price-taker. Since the world rice market is full of barriers of various kinds, the use of output-share as an indicator of elasticity cannot be defended. A better indicator is the share of Thailand's exports in the total volume of traded rice, which was approximately 20–25 percent between 1955 and 1966. Indeed, if concessionary exports (largely from the United States) were excluded, Thailand's share would be even larger.

Despite the importance of this issue, there exists only one econometric estimate of the foreign elasticity of demand for Thai rice, that by H. Tsujii (*15*). He computes the elasticity of demand for Thai rice to be slightly less than one.[17] This result would support the arguments of the proponents of the premium.

The issue is thus far from resolved, but most would agree with the view that some burden has rested on the farmers, especially when the rice market was tranquil between 1955 and 1966. It can thus be assumed that it was near enough to equilibrium to permit discussions of such concepts as tax burdens and elasticities.

There were also various attempts to relate the question of the premium to broader development issues, for example, the desirability of having cheap wage-goods for industrialization, the desirability for Thai agriculture to diversify away from rice, and the question of income distribution, among others. But these issues were largely raised in abstract debates conducted away from the realms of policy making. The aim of policy makers in Thailand has generally been to maintain the prices of rice at levels which are politically acceptable, which usually means not too different from that prevailing in the previous one or two years.

Because of their interest in prices, policy makers also focused mainly on short-range problems. Long-range problems seldom figured in the decision-making process. The only matter of a long-range nature considered was the importance of the premium as revenue.

The revenue from the premium for the years 1955–71 is given in Table 2. The premium provided revenues which were roughly stable in absolute amount in 1956–66. Policy makers were reluctant to drop this source, even though the government was much less dependent on it than during the early postwar period.

THE FIRST CRISIS PERIOD, 1966–68

The real test for the classical period of stabilization came in the crisis of 1966–68 when price fluctuations went beyond the range experienced during 1955–66. Prices rose above the £60 per ton limit in the middle of 1966 and climbed steadily to reach £90 toward the end of 1967 and early 1968, after which they began to drop. The jump in foreign prices to £90 meant roughly a doubling of the norm for 1955–66 which had been around £45 to £50 per ton. In contrast, the peak for the domestic price of 177 baht per picul in September 1967 was about 75 percent higher than the norm for 1955–66 of 100–105 baht per picul. The classical methods, therefore, were moderately successful in restraining domestic price fluctuations in 1966–68.

[17] Tsujii kindly supplied this reduced-form estimate which was obtained from his complex simultaneous equation model of the world rice trade.

TABLE 2.—GOVERNMENT REVENUE FROM RICE PREMIUM, 1955–71*
(*million baht*)

Fiscal year	Rice premium	Total government revenue	Rice premium as percent of total revenue
1955	441.3	4,185.4	10.5
1956	841.7	5,080.8	16.6
1957	840.3	5,198.5	16.2
1958	811.7	5,616.0	14.5
1959	755.9	6,055.2	12.5
1960	744.6	6,786.4	11.0
1961	689.5	5,689.9	12.1
1962	803.8	7,986.2	10.1
1963	798.4	8,633.1	9.3
1964	1,090.1	9,655.5	11.3
1965	1,248.9	11,157.0	11.2
1966	1,067.5	12,711.6	8.4
1967	929.3	14,874.1	6.3
1968	1,115.7	16,850.3	6.6
1969	1,249.4	18,361.7	6.8
1970	652.1	18,807.9	3.5
1971	261.6	19,886.6	1.3

* Data from Thailand, Ministry of Finance, *Statistical Yearbooks*, 1958 through 1971, except the last four figures of column two which are from the Bank of Thailand, *Monthly Bulletin*, December 1973.

Rice policies during this period were marked by an efficiency and a lack of panic that was to be conspicuously absent in the second crisis of 1972–73. The rise in domestic prices was the occasion for some expressions of discontent from the urban population, but Thailand (particularly urban Thailand) was at that time basking in the prosperity engendered by a long period of high growth rates in the early 1960s and in the artificial stimulus created by the involvement of the United States in Southeast Asia. The government undertook to justify the high prices that were beginning to be felt in early 1967 by arguing that they would benefit the farmers.[18]

The argument that high prices were desirable for farmers required as the next step that the government also should undertake measures to help the urban poor. The government therefore introduced special sales of inexpensive rice in the urban areas.

Inexpensive rice had been available to specified consumers, mostly civil servants, since 1962. In August 1966 it was decided that rice would be allotted by the Public Warehouse Organization (PWO) to specified shops[19] to be sold at prices below the market to anyone, the only limitation being on the volume of sales per transaction, which was that deemed sufficient for a week's consumption. Rice for this purpose was obtained by imposing mandatory sales on exporters. For every ton of rice (of any grade) a merchant exported, he was required to pro-

[18] Interview by Sunthorn Hongladarom, then Minister of Commerce, reported in *The Daily Trade News* (Thai language newspaper), March 4, 1967.

[19] These shops are specially designated Thai-owned shops that received allotments from the PWO, a government-owned body.

vide a fixed proportion to PWO at prices set by the government.[20] The amount required would be fixed according to local needs.[21]

Between 1966 and 1968, the sale of inexpensive rice did not interfere much with government action on other fronts. The reason why it worked was basically that the price set by the government for concessionary sales (32 baht per 15 kilograms for 5 percent rice) was not much below the market price of 35 to 38 baht. As a result, the reserve ratio was set at only 15 percent of the exported amount, a level sufficient to cover the small requirements of the cheap rice shops.

The basic classical policy thus served Thailand reasonably well in this crisis period although there were some significant changes. The most striking change was a large increase in the rice premium which was at times double that of its previous highest levels. As is usual during a period of high prices, this instrument was used in conjunction with quantitative restrictions which remained the primary controlling factor under this policy.

THE SURPLUS YEARS, 1968 TO MID-1972

The realization that the classical policy had severe limitations came when prices began to drop. The high prices of 1966–68 had altered the expectations of Thai farmers. Once they had realized paddy sales of 1,400 baht a ton, they were understandably less than happy when in 1969 they faced the prospect of going back to the level of 800 to 900 baht, characteristic of the early 1960s. The government consequently felt that it had to do something to help the farmers.

For almost three years (mid-1968 to early 1971) the government was very slow in easing the premium rates. It stubbornly maintained that the elasticity of foreign demand was quite low. This assumption may have been approximately correct at a time of shortage. But by 1969 market conditions were totally different. With sufficient stocks, buyers could afford to shop around among the many sellers, and hence the elasticity of demand for Thai rice in the world market was much greater during 1969–72.

As the world rice market softened in 1968, the premium was gradually reduced, and at the end of 1969 it was stabilized at the levels prevailing in the early 1960s. Given the higher elasticity of demand in world markets, this retention of high premium rates had two effects. First, Thai rice began to lose its competitive edge in the world market. Consequently, the share of Thai exports fell to 14.6 percent in 1970, the lowest since the war (*18*). Second, in order to maintain the level of exports with high premium rates, domestic prices had to be depressed. The Bangkok wholesale price for 5 percent rice fell to 82 baht per picul in March 1971, a level considered low even in the early 1960s. Farm prices for paddy declined steadily from a high of 1,505 baht per metric ton in September 1967 to a low of 765 baht in April 1971.

To help the farmers, the government opted for a price support program. Price supports were initiated in 1965, but the program had little impact because the

[20] The prices received by the exporters on these mandatory sales were fixed below market prices to allow the PWO a profit on the operation.

[21] The ups and downs of this proportion, henceforth known as the rice reserve ration, are traced in (*14*). Also illustrated therein is the implied tax for the exporters, which has been calculated using the Bangkok wholesale price of rice for the particular grades as costs to the exporters.

support prices were below market prices. In 1969, however, the government began to support prices in earnest. The program met with total failure for a variety of reasons.

Each normal year, Thai farmers produced about 13 million tons of paddy, part of which they kept for their own consumption. They sold the remainder usually within the first four or five months after the harvest. It is difficult to know how much of the rice entered the marketing system and how much was retained for on-farm consumption, but the breakdown may have been about 8 million tons for the market and 5 million tons for consumption.[22] To have an impact on the price of this 8 million tons of paddy, the government must have the finances to purchase a sizeable proportion of this marketed amount.[23]

The subcommittee in charge of the price support program was given 150 million baht to purchase paddy, which at the support price would enable it to buy somewhat less than 150,000 tons. It was given no regular personnel, no financing for a building, and no office facilities. Indeed, it was surprising that the subcommittee was able to buy as much as 105,800 tons in 1971.[24] Clearly such a miniscule program could not be expected to have any noticeable impact on paddy prices.

In April 1971 the government finally decided to abolish the premium on all grades of rice except 5 percent and 100 percent rice.[25] Domestic prices showed some improvement over the levels prevailing during the two or three months preceding the move. The huge stockpile of rice that accumulated as a result of faltering exports in the previous years continued to depress the market, however.

THE SECOND CRISIS PERIOD, 1972–73

Thai exports recovered rapidly in 1972. During the early part of 1972, export markets which were thought to have been lost to competitors were recaptured. The effects of worldwide production failures began to be felt and rice prices rose in mid-1972. The Thai government began to take classical measures in August to hold domestic prices down, using the new reserve requirement as well. Concern about the state of the Thai rice crop turned into alarm as it became clear that the 1972 crop would barely enable Thailand to meet its own requirements, leaving a small and statistically uncertain exportable surplus.

These conditions led the government to step up the use of the classical measures to choke off private exports. At the same time, however, the government itself concluded some extremely large sales, particularly to Indonesia. As news of the government sales reached the market, prices rose very rapidly.

The sale of cheap rice was conducted at a price somewhat below the market price. As long as the difference was small, as in 1966–68 when the scheme was introduced on a large scale, there was no problem. In the second quarter of 1973,

[22] Assume that 55 percent of the population in 1970, or about 20 million people, are paddy farmers and their dependents. If these 20 million people consumed rice at the rate of 250 (paddy equivalent) per annum, they would require 5 million tons for on-farm consumption.

[23] The view of the Ministry of Commerce is that it has to be a sizeable proportion not of the marketable surplus but of the exportable surplus, in which case the relevant figure is about 2 to 3 million tons (see 9).

[24] Data are from the Internal Trade Department, Ministry of Commerce.

[25] The premium on these two grades was retained because it was believed that these grades of Thai rice had a special quasi-monopoly status in Hong Kong and Singapore.

however, the difference began to widen rapidly, and the casual manner of program administration proved disastrous. Large leakages occurred from the government shops to the free market. Release of the reserves to plug the leaks proved inadequate. Long lines of customers formed at the rice shops. For most Thai consumers, standing in line for any commodity is an indignity, and doing so for rice was an affront. The government was pushed into action.[26]

The first move was to ban all exports of rice, which was done on June 12. Unfortunately, the rice reserves, which were being sold to the public cheaply, had their source in the requirement that exporters supply a certain amount of rice, at this time one ton for every ton exported. Because the cheap government rice was selling briskly, government stocks dwindled rapidly. Moreover, since exports were forbidden, there was no replenishment of stocks. Somewhat melodramatically, the Ministry of Commerce announced that the rice reserve ratio would be increased to 200 percent.

The lines failed to shorten as the government price (at 36 baht per 15 kilograms of 5 percent rice) remained significantly below the free market retail price (about 45 to 50 baht). According to the production statistics, the low 1972 crop was expected to last until the new main crop of late November, with an extremely small and statistically uncertain margin to spare. Nevertheless, alarming calculations were made by the press that the rice would be exhausted in July with no supplies left for the remaining five months of the year (*17*).

These exaggerated accounts eventually led to panic buying in the free market. When some ministers began to advocate price controls (which were never implemented), rice began to disappear from the free market and became almost unavailable at any price.

After seeking other plausible villains—statisticians, smugglers, and even American soldiers—the government predictably settled on middlemen-hoarders as the culprits. Emergency powers were given the Board for Inspection and Follow-up Government Operations (BIFGO) which seized 134,000 tons of rice, allegedly hoarded in Bangkok, in four days. Considering that in normal times about 1.2 million tons are exported from Bangkok annually, that its citizens consume about 300,000 tons annually, and that it is the entrepôt for much of the internal flow of rice from the surplus North to the deficit South, the 134,000 tons seems insignificant.

The rice crisis mysteriously disappeared by the end of August. Explanations, apart from the energetic action by BIFGO, include the rather good dry-season crop for 1973, and the delayed impact of the severe measures of June and July.

The rice crisis of mid-1973 was both a consequence of, and in turn had its effect on, the political crisis which led to the downfall of a very long-established regime. The problem of finding an optimal mix of policies to manage the rice economy has not been resolved by the new government. In particular, it has not resolved the problem of handling sales of rice out of reserves deposited with the government at the time of export. The new government has managed, however,

[26] *The Nation* (June 20, 1973) reported: "Field Marshal Prapass Charusathiara reportedly very disturbed by newspaper pictures showing long queues of rice buyers demanded that the deadline [of an ultimatum by the Cabinet to the Ministry of Commerce to solve the crisis in three days] be met and be accompanied by the disappearance of such scenes."

to give an aura of orderliness and calm to the rice trade which is welcome after the confusion of mid-1973.

CONCLUSION

This account has been limited to government policies which affected the price of rice until 1973 only. The set of policies used was almost entirely in the field of trade. Unlike most importing countries, the government of Thailand never tried to influence prices by influencing production. When prices were high, they did not engage in drives to increase production, and hence there is no parallel in Thailand to BIMAS in Indonesia or to Masagana 99 in the Philippines. The government also has not considered restriction of domestic consumption to be politically feasible. In these circumstances, the only way remaining to influence domestic availability and therefore domestic prices was to increase or decrease exports. Therefore, in Thailand export policy has determined price policy for rice.

The government has entered domestic trade through its sale of inexpensive rice to urban consumers. This practice has been only partially successful. A substantial number of urban consumers were still able to buy rice at prices somewhat below the market prices in 1973. When the market prices rose rapidly above the government prices as in the middle of that year, however, this new instrument tended to exacerbate the problem. Accordingly, the government was again forced to use its export policy to lower prices.

The price of rice then is an objective and export quotas and the premium are the main policies. What then determines the establishment of a particular price level?

Inertia plays a very large role in this decision. Minimization of changes in the price levels is the most important, but not the sole consideration. If it had been the only consideration and if the government had been completely successful, the domestic price level would have been held at some stable level throughout 1955–73. However, the price did fluctuate, either because the government was pursuing other objectives or because the government was unsuccessful in its stabilization policy. The price regarded as politically acceptable therefore had to be adapted to the actual prices. Roughly speaking, the average of the prices ruling in the past several years has generally been regarded as politically acceptable.

Before proceeding to discuss other government objectives, one aspect of the government price policy should be noted. The government generally was more successful in decreasing rice prices than in increasing them. The stabilization attempts of the government have thus had asymmetrical effects on the welfare of the consumers and of the producers. Urban consumers were more effectively cushioned when prices were high, while the farmers were completely unprotected when prices were low.

The government of an exporting country can lower domestic prices by raising export taxes and by imposing export quotas. This policy also increases government revenue. Raising domestic prices, by contrast, would in most years lose revenue. Conversely, in an importing country it is financially easier to raise prices than to lower them. The hope of shifting the terms of trade in favor of Thailand by keeping the export taxes at a high level also results in lower domestic prices.

Falcon and Timmer identify eight objectives that most Asian nations pursue (*3*). Each government assigns different weights to each of these objectives. Table 3 contains the author's judgements on the relevant weights for Thailand. Since the discussion above is largely concerned with the period 1955–73 and considerable change has occurred during this time, two sets of weights are shown, corresponding to the first and last years.

Each of these objectives implies certain domestic price policies. The last column indicates whether the government would want domestic prices to increase or decrease to attain the objectives. A question-mark is placed for the objective of price stability because if it is to be pursued, the impact on prices over some long period (for example, over a cycle) should be neutral.

Given the weights suggested in Table 3, government policy has normally aimed to keep prices down. The only exception to this rule was in 1969–71, when the requirement to stabilize prices together with the need to increase farm income were influential in persuading the government to try to raise prices—an attempt which failed, significantly enough. Otherwise, the record has been remarkably consistent, and Thai rice prices have always been among the lowest in Asia.

POSTSCRIPT ON DEVELOPMENTS TO MID-1975

The above essay ends in 1973. This postscript will give a brief sketch of events since then to the middle of 1975.

The world rice market peaked in May 1974. Domestic prices rose in response to the world prices and farm prices of paddy rose to an unprecedented 2,600 baht a ton (compared to the 1,400 baht peak reached during the crisis of 1967–68).

The government's response to the price increase has been very unusual. For the first time, the government is paying a great deal of attention to the farmers' interests. Despite the very rapid inflation of over 40 percent per annum in the first half of 1974, the government did not try to bring rice prices down by curtailing exports drastically. An annual export target of 1 million tons with a monthly target of 150,000 tons for the first three months of the year was announced and formed the basis of the quota policy for 1974.

The rapidly rising prices have had predictable effects on the sales of inexpensive rice by the government. There were "runs" on the government reserves in February and March to which the government responded by raising prices, ex-

TABLE 3.—RELATIVE IMPORTANCE GIVEN TO SPECIFIC OBJECTIVES AND THE REQUIRED IMPACT ON DOMESTIC PRICE IN THAILAND, 1955 AND 1973

	1955	1973	Required impact on domestic price
Farm income	0.1	0.2	+
Consumer welfare	0.1	0.2	−
Government revenue	0.5	0.1	−
Foreign exchange	0.2	0.2	−
Domestic price stability	0.1	0.3	?

plaining to the urban population that these increases were to provide higher income to the farmers.

This increase in concern for the farmers is also reflected in legislation which requires that revenues from the premium are no longer to go into the general budget but into a special fund that will be used for agricultural purposes only. Of course, it does not follow that total allocation for agriculture (both from the general budget and from the special fund) will necessarily increase. It is too early to say, however, whether, and by how much, the special fund will displace allocations from the general budget.

Since June 1974 the world rice market has softened considerably. The government, however, has been relatively more active in reducing premium than in the corresponding period of 1969, with the consequence that domestic prices have held up remarkably well. Of course, the farmers' expectations in the meantime have changed because of high rice prices and the general inflation of 1972–74.

It is not possible to be very exact about the causes of this new attitude toward farmers' welfare. In particular, it is too early to attribute it to the change in October 1973 which has brought in somewhat more open politics than Thailand is accustomed to. We have to await future events before we can be sure that this new stance is the result of a basic change in political structure.

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