

# Land rents with Thai rice

By Phillip Anderson

Events around the world don't happen in a vacuum. They have causes. They're usually linked back to rent and the corruption and self serving nature of government.

Indeed, the biggest problem around the world is now government. Or rather, the people it produces who govern us.

Thailand's political unrest in recent years is a perfect example.

The bombing of a shrine near a railway enclosure in Bangkok at commuter rush hour was a particularly gruesome event.

It was most likely driven by the deep political tensions between different interests in Thai politics.

And the economic rent.

But before I tell you why, here's some recent history...

In a bid to win the 2011 elections, the eventual winner, Yingluck Shinawatra (sister of the former prime minister ousted in a 2006 coup), made promises to initiate a rice-buying program.

This scheme would see the government pay rice farmers a 50% premium over the market rate for their produce. The government would then stockpile the rice.

Thailand is a major global rice exporter. The Thai government wanted to drive global prices up so it could then sell into a rising market and recoup the cost of the subsidy.

Sounds smart?

Politically, Shinawatra knew what she was doing. It proved an electoral ace. A third of the population works on the land.

The rural poor promptly voted Shinawatra in. This is as blatant as you can get about using public funds to buy an election.

But the move further exacerbated tensions with the urban and rural populations. Urbanites tend to vote for the parties opposing the Shinawatras. They also end up paying for the program.

What happened next is of particular interest...

That's because it proves that the landowners invariably take the economic gains.

As soon as the scheme started, the rents that farmers had to pay shot up. Most of them are simply tenants working on the land.

A local paper reported in 2013:

'After the government announced the rice-pledging scheme with a price of Bt15,000 per tonne [around US\$400], land rent shot up to Bt1,500 [US\$400] per rai per season [1 rai = 1600 square metres].'

It also caused farmers to overproduce rice, bringing marginal land (land with lower fertility) into production.

Worse, it created massive potential for fraud.

Some farmers sold sub-quality rice to the government.

Others simply imported rice from lower cost countries such as Cambodia and sold it to the Thai government for a huge premium.

Then they bought a nice house.

Production expanded so much that after just one year, the government was sitting on a mountain of 17 million tonnes of rice. Or half of total global yearly imports.

And then there were the really nasty consequences.

The local paper reported further that:

'Despite the hike in costs, farmers...were happy to pay the rent, but invest even more in chemicals with the hope of increasing productivity... At least seven kinds of fertiliser and pesticides [were] used with each crop.'(my emphasis.)

The farmer who was interviewed for the story had to stop farming because he was 'critically hospitalised' three times after using so much fertiliser.

These chemicals are highly toxic and banned in many countries.

Naturally, the scheme turned out a loss. Production

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*"The landowners invariably take the economic gains."*

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expanded — not just in Thailand — but in places like India. Indian farmers were responding to the rising prices that the Thai government had helped to create.

The Indian government lifted its rice export ban and suddenly Indian imports flooded the Thai market, driving prices down.

So the Thai government had to liquidate its rice stocks at a loss — or not sell at all. Then they had to resort to issuing bonds to fund the scheme.

Starting a scheme like this is much easier than ending it. The government tried to cut the premium it paid in 2012 after recording a \$4.4 billion loss. But they had to reverse the cuts after protests from their core voter base.

Further tensions came in the last couple of years including: more opposition parties, civil disobedience, fighting in the streets, a mass parliamentary resignation,

a boycotted election and a coup d'état.

Earlier this year, Prime Minister Shinawatra was impeached and removed from office on corruption charges.

Despite all the evidence to the opposite, the government persisted with a scheme that ended up costing the Thai taxpayer around \$15 billion.

It has been so expensive that the government can no longer afford to pay farmers what they are owed.

That's all the information you won't see anywhere else but here. And you can now easily follow it with your grasp of the rent issue.

And I'd probably stop eating Thai-grown rice too.

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