CHAPTER II

REVIEW OF LITERATURE

As part of this study, Thailand has been chosen as the focal point of this research where labor, capital, education, social security, and international trade will be the emphasis of papers read. This section will provide the linkages, models, and theories required in order to show that social security, that concentrates on the wellbeing of the population's base, increases stability and growth of the economy that leads to a better stance in international economics.

2.1. Defining Social Security and Welfare State

The origins of social security could be traced back during France's "Age of Enlightenment" in 1789, written in the Declaration of the rights of Man and of the Citizen. It states that "The goal of any political association is the conservation of the natural and imprescriptible rights of man. These rights are liberty, property, safety and resistance against oppression". Knowing the historical background of France and much of Western Europe, security and safety has been part of public concern and governmental requirement since the end of Kingships.

The paper "Economic theory and the welfare state" (Barr, 1992) is a massive piece of literature that defines what a welfare state is, its institutions, functionality and most important are its objectives that the state wishes the program to achieve. In order to understand what welfare is meant to achieve and what economists perceive is the role and capability of the state to intervene in markets. This is under the impression that the state formulates policies in the best interest of the public, but economic theory requires perfect information and efficiency to achieve their desired models. However, governments are known for inefficiencies since they are not cost driven, and to have perfect information over time is nearly impossible. To ensure the continuation and survival of welfare programs, the state must be willing to improve regulations on a macro level, and funding capabilities on a micro level.

According to the International Social Security Association, and the International Labor office, social protection serves three main purposes, especially towards developing countries. They assure that goods and services are eligible to everyone. Encourage active participation in socio-economic issues, and reduction of poverty with the promotion of sustainability in a developing nation.

As mentioned by the International Labor Office, social security is a means towards relieving poverty, evening the distribution of income, and alleviating financial burdens that comes from social and economic activities. This is under the assumption that under normal market functions, income distribution is uneven, thus social security is needed in order to achieve equality and justice in the market place. With the use of government agencies, social security is able to achieve intergenerational transfers across various income groups.

The paper "Political complements in the welfare state: health care and social security" (Bethencourt; Galasso, 2007) analyzes the vastness of health care and social security in OECD countries. The coexistence of both programs and the extent of it depend on how much the people rely on it, which in democratic regime, voters determine the size of it. Health care increases the life expectancy of individuals, especially in lower-income groups. It can be easily said that low-income groups depend on public health care, while high-income relies on private health care. By having public health care, it has decreased the differential between the rich and poor longevity. Because people see the necessity of public health and social security, voters will want a composition of both programs since it benefits them, who are the majority of the population. With the presence of health care increase political support from voters, thus making it a complementary effect. Therefore as longevity is achieved for low-income groups, the rate of return is thus greater than high-income agents.

"Theories of the Welfare State" (Quadagno, 1987), takes a sociological approach to understanding the development and usages of welfare in a country. It states that to social scientists, welfare is inevitable to occur. What is required is economic capabilities and bureaucratic efficiency for a country to develop itself. Due to the historic development of welfare programs from the age of industrialization, and the latter global financial instabilities, expansion and change in national demographics is agreed to "undermine profitability". The paper goes through various debate topics that concern theories between economist. sociologists, and political scientists, which involve growth vs. development, capitalism vs. democracy, and states vs. party policy. Rather than looking for connections that form the welfare state, Quadagno suggest examining the functions that welfare programs provide.

An excerpt from "Politics, Economics, and Public Welfare", (Dobelstein, 1980) states that social security's origins in today's modern society has roots in socialism, and therefore contradicts free market economics. In a democratic and free market country, it should be left up to the workings of the market place to decide what services to provide and what goods to produce. However services such as social security are financially unprofitable, and costly that is difficult to provide. It is the justification that a free market, democratic government to provide such services in the event that no one privately will give to the masses.

2.2. Sources of Growth: Human Performance and Capital Investments

In order for welfare to be initiated, depending on the scale and scope the state wants to accomplish, taxes need to be levied to fund such programs. The tax rate according to "Public policy and economic growth: developing neoclassical implications" (King; Rebelo, 1990) will have long term effects on the stability of growth. The paper starts with the basis of Schultz, that public policies can cause disincentives for growth because of the returns associated with the accumulation of capital and labor. With the level of taxes that are used to fund public policies, they can directly affect the growth rate of an economy over the long run. The technology required on production and human capability varies due to the inability to carefully assess the value of human capital over time. Technology plays a large roll in influencing policy towards increased or stagnant growth rates.

The Solow growth model, which was developed by Robert Solow, showed there are two factors of output. That is labor and capital, which both are required to achieve growth. Given that there is a sustainable level of capital accumulation, with conditions towards inflation and money supply, there will always be a point of diminishing return for a given level of capital. Same goes for labor, where technology can be another factor to increase output, however it to is subject to diminishing returns.

"On the mechanics of economic development" starts off with the analysis of the Solow growth model, and asserts that both labor and capital have points of diminishing return (Lucas, 1988). Therefore once capital or labor reaches their output potential, the economy as a whole begins to slow, or becomes stagnant. In order to maintain continual growth improvements in capital accumulation need to be addressed. But will receive only short run effects in economic growth. The flip side is labor accumulation, which improves productivity, if the worker so chooses between times of leisure and education. Human development in productivity therefore will achieve long-term sustainable growth. Lucas asserts that individuals need to divide their time between work, leisure, and education. If they are able to work and study at the same time, thus improving their production capabilities, this should improve growth of the country.

This paper (Prarolo; Lancia, 2007) analyzes the conditions of OECD countries, specifically towards the variety of age groups, education, and income, bringing about the concern of a decreasing productable labor force. It shows that the retired population of OECD countries have increased, which has caused a policy shift in economic growth and development, with its effects on a population's education attainment in a lifetime. On the side of politics, the workers normally dominate the voice of votes, but now a more diversified group includes the young, laborers, and the retired. In the early 1900s retirees were not a concern since a large majority would work beyond the age o 60. Human capital and technology is what drives an economy, therefore how does increased medical service and longer life expectancy benefit a country? Ages vary, diverse political groups, incentives to participate politically, and investment capabilities also differ. Interest of the young, adults, and retired do not coincide to form a unified political message where growth and development is needed.

In 1997, an updated version of "Education and economic growth", empirical study shows the same course of analysis similar to Lucas, but has stronger emphasis on the effects and importance of education (Barro, 1997). In this study, per capita income is used to monitor the effects of improved well being of the country's workforce. Following the concept of long-term versus short-term effects of the Solow growth model, Barro suggest that education is key for sustainable growth in the future of a country. Although he addresses the effects of education on a country, he does not mention the quality of education required.

All things considered, economics is the study of resource allocation, "Finance and the source of growth" (Beck; Levine; Loayza, 1999) states that financial intermediaries choose how to distribute savings. This idea was developed by Joseph Schumpeter in 1911, based on productivity growth and technological change that affects financial markets. Through this, confidence in domestic finances will increase the savings rate and attract foreign capital. The difference between various country's growth rate not only includes physical and human capital but also the development of financial markets. The methodological analysis of this study uses a great extent of econometrics, which has found a significant relationship between real per capita GDP growth, total factor productivity growth, and financial intermediary development. This shows that well developed financial institutions help with the allocation of resources and improves factor productivity.

First developed by Fritz Zwicky in 1966, Morphological analysis is a method by which to find solutions to a multi-dimensional, non-quantifiable problem (Ritchey, 2003). This model allows for the analysis of multi variables, such as politics, finances, economics, and social information. Originally designed to look at astrophysics, is now being used for organizational planning, and strategic management. Such tool can be applied to the problem of social security in Thailand. This is also under the assumption that there is a problem with the scheme, and that through this process, addresses the problem, and possible solutions, which will be used as a policy analysis of the current system.

2.3. Effects of Social Security on the Economy and Society

Determinants of Trade (Ruffin, 1992) described by the Ricardian model of factor endowment and technology explains why international trade occurs. With due consideration that factor endowments and technology are symmetrical, does not help shine any more light as to why countries trade. Countries like Hong Kong, Taiwan, and Korea show asymmetries where their sizes are small. In this paper rather than having preferences identical and homothetic, demand plays an important determinant of trade patterns. Now that trade depends on international demand, it no longer matters for the country's factor endowments to propel trade. But this is contingent upon the level of productive comparative advantage the country has on specific goods. This will state whether the increase in exports will occur by using the Ricardian model with Ruffin's theory.

Trade occurs between countries because there is a difference in factor endowments where it is cheaper to produce in one country than another. A growing concern addressed in "Trade and the distribution of human capital", is the shift in trade towards developing countries due to lower costs associated with production. This has caused trade inequality where industrialized countries are facing higher competition from low wage countries. For human accumulation to occur, in a simple model, the agent must choose between time spent on learning and producing. In such a case too much time spent on education can lead to underemployment, and increased cost to education. Government policies to alleviate the situation can be redistributive or education policies. However the basis for redistribution depends on the political make up of the country, which in turn will affect trade.

Government policy and issues it pursues cannot be left up to the few elite to determine what should be done in a country. Democracy and partisanship determine what the people want and normally always determines the types of policies the state initiates and performs. Trade policy can be categorized as either pro labor or pro capital, depending on what the government is trying to achieve (Dutt; Mitra, 2005). Countries that are capital abundant will use redistributive measures towards the labor side, but at the same time increase barriers to trade to protect domestic production. Governments who observe liberal ideologies will construct protectionist trade policies in order to protect domestic labor if they are capital abundant. But if they are labor abundant they will have open trade policies.

Wealth inequality and distribution of income is a concern of economist over policy design, especially towards the role of government and its duties (Gokhale and Kotlikoff, 2002). The paper "Simulating the transmission of wealth inequality" analyzes the effects of bequest and inheritance in the United States. This also includes the role of social security in the transfer of wealth from one generation to the next, ensuring that there is a decrease in wealth inequality. They state that inheritance can equalize the distribution of wealth, however, the form of inheritances come from only one generation of the family to the next, not from the rich to the poor. According to their model, inequality exists because of various levels of earning capabilities from individuals, not because of an individuals savings capabilities or the system of social security.

"Wealth taxation and economic growth" stated in this model that there are two origins of wealth (Ihori, 1998). Those that are accumulated over the lifetime of a individual person, and those that are transferred from intragenerational transfers such as inheritances. Earning capabilities of individuals largely depends on their learning capabilities, where human capital accumulation is dependent on intragenerational transfers. This paper concludes that increased taxes on wages reduces the desire for intragenerational transfers, and increase the need for leisure over production. Because of this paper's concentration on the accumulation of wealth through inheritances or lifetime earnings, overall the increase on bequest taxes with decrease in income taxes will maintain the need for intragenerational transfers, which reduces the marginal cost of reducing leisure, and keep educational standards constant.

The paper "Fiscal policy and indeterminacy in models of endogenous growth", uses the Lucas – Uzawama model with two – sector models of endogenous growth, which shows that distortionary taxation causes equilibria in a balanced growth path (Ben-Gad, 1999). The main concern here is indeterminacy, which are expectations that are consistent with "self-fulfilling prophecies". The study here tries to understand if there are sudden shocks to the system, when there is an introduction of policy change that will either have positive or negative effects. This change would be due to government expenditures and taxation effects on human and capital accumulation depending on current policies that the government initiates. The end result is that endogenous growth models can only affects certain aspects of its variables, however does not account for distortionary shock that comes from sudden change in policy or public perception of what is to come.

Wealth and social security has become a key focus towards some economist towards the study of intragenerational transfers from parents to children as a method of distribution of wealth over time (Kaganovich and Zilch, 1998). However the fact remains that assets transferred are not all the same, nor do they guarantee the well-being of each family's offspring. Therefore social security is added into the equation as a government incentive towards adding competition and evenness in the transfer of income redistribution. "Education, social security, and growth", where government subsidies are used for education of the younger generation towards the generation of wealth, and government outlays towards the retirement population. Increasing education standards and quality will later in the future make it possible for individuals to become productive members of an economy's output, and therefore able to fund a social security system for later usage, which overall maximizes the long-run growth rate.

The welfare state (Lindbeck, 2002), socioeconomics is introduced to see the favorability of a welfare state in comparison to today's values, and voter's concern for the economy. The politics involved has evolved itself from the state providing a public service, to the people demanding more state funded programs. Starting out with the industrial age which made the agrarian society obsolete, to the conditions labor markets in Europe faced after World War II. Starting out as programs intended for poverty relief, has gradually transformed into income supports to sustain a defined standard of living. Politics of the country also determines the extent of a welfare state, as programs introduced require increased taxes, where voters and interest groups influence how policies are designed. Reform of a welfare state is now a concern for developed countries as the funding capabilities, programs available and population demographics are limitations as to what the government can or is willing to do.

Social welfare is a contradiction of economics, in the sense that it is a system in which no free market economy would development on its own without proper incentives (ESIP Conference, 2005). Thus pension regimes are designed and initiated by government bodies, and require high government expenditures in order for it to be funded. The paper "Economic performance and social welfare" offers opposing arguments as to the usefulness and effectiveness of social security in European markets. Arguments such as discouragement of private savings, financial capabilities of social security, increase of unemployment, and lack of effectiveness for social security spending. While those who agree with social security state that it creates economic stability and wealth, improving labor productivity, and income transfers of generational gaps. All of these issues are addressed in this paper with concluding remarks that such specific arguments should not be the problem, where the overall policy should be designed and implemented towards the welfare and development of individual European states.

A concern of large structural organizations of social security is a crowding out effect of insurance companies (Chetty and Looney, 2006). If the state provides extensive social security in a country, citizens tend to become dependent upon it and therefore become less risk averse. In the paper "Consumption smoothing and the welfare consequences of social insurance in developing economies", include shocks to the economy that may affect household behavior towards consumptions. The focus here is on developing nations who have a large population of lower income citizens, who may or may not be sensitive to changes in economic trend. Fluctuations in consumption, however small or large, do not necessarily mean that social insurance measures are sufficient. Nevertheless, households in low income countries have high risk aversion, where social security acts as the mechanism of assurances for those living in developing countries.

2.4. Problem: Thailand's Social Security Measures

The problems addressed in the follow literature, shows different aspects by the various authors as to what sort of issues Thailand should be concerned with in their social security program. Starting from demographics, structural financial capabilities, sustainability of services, and ending with effectiveness of health care delivery.

In 1954 Thailand drafted the first Social Insurance Act, but lacked the proper guidelines required to fully implement it (Social Security Office, 1997). Instead of a social protection mechanism for the masses, the Thai government initiated the Labor Act in 1956, which was focused towards employee benefits of the working class. Development of this act over the years improved compensation received by workers from employers which made companies liable for the welfare of their employees. In 1990 was the initiation of a fully operational Social security scheme, but focused towards the existing working class population, already part of the workmen's compensation fund. It was the beginnings of a comprehensive social security scheme in Thailand that is supposed to provide stability and assurance of the working class.

The paper on "Social Security Systems in Thailand" offers a complete insight on government initiatives and policies from the past to present of welfare regimes (Chandoevwit, 2006). Using current data on demographics and government expenditures, the study gives an in-depth analysis on the functions of various levels of institutions and welfare programs. Mechanisms in place provide social and health insurance that covers health care, invalidity, old age, death, survivor, unemployment and child education benefits. Each one of these is also administered by different institutions. Thailand does already provide universal health care, known as the "30 Baht Scheme", but usage excludes government employees and the formal workforce. It covered 46 million people in 2002, which is 73.2 percent of the population, and gives 85 percent coverage to lower income households. The largest segment of labor belongs to the agriculture industry, which fluctuates according to seasonal crop cycles. The northeast and central regions contain the highest population densities, and also the lowest education attainment levels. Informals differ in education, income, employment, property and networking skills, that account for 60 percent of the workforce in 2004. Social security for formals was adapted from the Workmen's Compensation Fund (WCF), founded in 1974, to provide employees with sick leave, and injury due to work related activities. The Social Security Office (SSO), established in 1990, extended benefits to cover sickness, maternity, invalidity, and death benefits, with the inclusion of the WCF. Policy concerns and challenges are employees who voluntarily become unemployed, budgetary capabilities to maintain sustainability, and the burden of small to medium firms suffering the cost of employees taking advantage of them in a competitive market.

Reforming social security in Thailand is a research paper written in 1997 by the Thailand Development Research Institute (Boadway, Cuff and Flatters, 1997), which addresses the issue of decreasing birth rates in Thailand, and the ratio required in order to maintain a fully funded regime. Currently the majority concentration of the population is towards those aged 15 to 25 (20% of the population), while the retirement age group of 60 to 70 constituent only 10 percent of the country. This implies that a social security regime implemented today towards a comprehensive system is most opportune. Thailand now containing a large working class population is able to fund the system towards those who are retiring today. However this also proves problematic towards 40 to 50 years from today, when the larger working class today begins to retire, especially with a diminishing birthrate. Suggested reforms include development stages of a provident fund, which increases national savings rates, and eventually the funding of a comprehensive plan. Problems today are low coverage due to the voluntary nature of the scheme, which needs to be changed to a mandatory regime. Redistribution of income through the tripartite system where government pays a third of the taxes required could mean that the state is able to dictate budgetary policy in the allocation of funds.

In 2001, The Economic and Social Commission for Asia and the Pacific wrote a paper on Thailand's social safety nets, mainly concentrated on the effects of the 1997 Economic crisis, and how prepared Thai policies were in coping with the situation (United Nations, 2001). In the 1997 Thai constitution contained a section on social policy that was aimed towards the development of human capabilities. This focused the establishment emphasis in three areas of labor, which are, social welfare, education, and health. Due to the crisis, and massive levels of unemployment, and bad debt, incentive programs initiated by the government and partial private sectors tried to increase employment and cash in hand for those hardest hit. Overall, programs implemented during this time to improve employment, and productivity of the country was ill conceived due to unfounded processes and the requirement of financial support from the government, which was not willing to begin with.

Thailand's total workforce population is at 35 million, where 13 million are members of the social security office (SSO) and another 22 million who are not covered (Evans-klocks, Sooksamrit and Lo-Utai, 2004). The research was conducted by the International Labor Office in 2004 and addresses the priorities and needs of the current regime, which is towards the 22 million people who are part of the informal sector, that need financial assistance the most. The study presents questionnaires to a sizeable sample group of informal sector workers which puts their concern of unemployment, maternity, and disability as a high priority of their concern for their future. Which none of them are covered by the SSO, but are provided universal health care and education by the government.

The effects of various levels in the Thai education system and its capabilities in producing quality students that enter the workforce has become a major issue, which is addressed in this study (Chalongphob, July 1991). It is seen as the demand in the labor market versus the supply of the country's education system. Despite obvious advances in production diversity, Thailand is still largely dependant on agricultural exports, which accounts for in part, its economic successes amongst other factors. Thailand has been lagging in the field of technology and science in education, but what makes up for this loss is on the job training provided by firms and some government training programs. Shortages in skilled labor are attributed to the education institution's inability to change according to industry demands of students. In the 1980s with the inclusion of prior decades, the state was the main employer of higher educated graduates. But due to fiscal policy reforms, the government could no longer continue to absorb new graduates. This caused a shift of an educated class from the public to the private sector. A concern now is low quality admittance of future civil servants. Education enrollment also fluctuates as households put lesser importance on attendance during economic hardships and vice versa. Policy recommendations are on the job training to focus workers in their respective industries, and transition mechanisms from study to work.

In this paper (Sussangkarn, February 1991), Thailand is used in the study where it creates a model that shows a form of correlation between population, education, and the work force. By reading this research, you need to keep in mind the time frame used, and the period in which it was written. Being roughly 17 years old the simulation itself is not the main concern by the implications of the results are. The method of analysis looks at age groups, sex, various levels of education provided by the Thai system, and workforce survey, each derived from various Thai institutions to see the number of student enrolment and educational attainment. From this, 1991 shows a high school drop out rate before entering college of 40%, with projections to increase every year. Those that do continue their education end up in vocational institutions, where quality of students and educators are of questionable standards. This shows that later in the future, production and technological capabilities will diminish with 83.2% of the labor force only completing primary level education. Workforce and production are the end result of a population's education and required for sustained economic development, which will take an incredible amount of time to establish and wait for results.

Labor quality is the concern of policy makers when it comes to diminishing production capabilities compared to other countries. Adaptability of workers within a country towards new industries will determine the success or failure in the international arena. This paper (Phananiramai; Tonguthai, 1994) analyzes the Thai labor market, its development and employment opportunities with implications towards the future. The workforce make up of Thailand in 1991 shows that 67% are beyond labor protection laws, and therefore not covered by social security. The 1980s saw increasing economic growth due to high unskilled labor coming from the northeast. Although employment increased for unskilled labor in the manufacturing sector, policy towards this did little to help educated workers, creating a gap. But with world competition, the gap narrowed, as labor intensive production was replaced by value added goods. In order to improve unskilled labor it is recommended that school based institutions are not suitable, but corporate training programs can directly focus on the needs of specific industries. A study also shows that Thai corporations have high employee turn over rates, which is a reason that discourages job training. A trend is show that a large proportion of the Thai workforce is not covered by social security, which makes it difficult for labor laws to be enforced and welfare provided.

The development of human resources in Thailand has to be based on 4 areas of education quality, transition from school to work, worker training, and research and development (Myers, 1991). The comparison can be seen across other Asian nations and their approach towards human performance, which explains capability and productivity attained in the international economy. A simple concept to connect education to international trade is the demographics of a country as a transitory mechanism that moves the population from school to work to training and industrial innovations. All depends on how firms respond to employment, household behaviors and the international environment. Trade occurs because of production and goods that have a comparative and competitive advantages that are desirable globally. The next step to this is quality, which shows the level of adaptability of production techniques and the technology required to maintain an international standing. Demographics also shows that as developing nations become more educated, each household tends to have lesser children, which in turn allows parents to invest more in each child, rather than multiple offspring. Households also demand higher quality education, which comes at a cost from private institutions, but not if the state improves the quality of public establishments. Expectation also plays a role in the performance of students where ability and motivation will lead to success or failure. Capabilities of a nation toward research and development, improves international competitiveness and the knowledge to adapt and adopt new technology when introduced or discovered in the country. In Thailand other than improvements in public higher education, enhancements in transition mechanisms from school to work will be beneficial for future labor markets.

Social security in Thailand has been around since the 1950s, but only a fully realized and implemented system was established in the 1990s. The importance of worker's welfare came after the 1997 economic crisis when there was soaring inflation, and increasing unemployment. At this time the Thai government designated numerous policies to ensure that the people would have the basic necessities for survival, where the Social Security Office had a new directive of emphasizing on protection and expanding its base towards the formal sector of the labor market. Now a new task is to extend coverage to the informal sector, which constitutes a larger portion of the workforce, in order to achieve some sort of universal plan, or bring under the current systems to realize social, economic, and fiscal responsibilities (McClearly; Phananiramai; Chulamwong, 1998). Providing security to those that can easily be affected by financial hardships should be the purpose of these programs. Currently informal members are on a voluntary basis for membership, which is incredibly low, unless some emergency arises, and gives concern towards adverse selection. In order for extended coverage to be financially viable, cost must be shared by the entire group and be made mandatory. Why informal's have not yet been included is mainly due to income, location, and accountability. Countries like Germany and Japan started with communal coverage and slowed expanded as incomes and industrial stability was achieved. Informal's do not receive the same level of protection but are provided with medical coverage and assistance that are highly subsidized by the government. The national government should act as a regulator, and let the municipality be responsible for operations, in order to meet more individual needs in different regions. Extension should be built upon existing regimes, and provide attractiveness for participation. Programs implemented should minimize risk to the user, or realize the ability to pay for those with lower incomes.