



✎ Editorial ✎

The Economics of Food, Health-care and Risk Mitigation

Given the choice and the information, consumers actually can decide for themselves what kind of food to purchase and the price they would be willing to pay for it. A banal statement, but consider this: Government sometimes make policies that give consumers little choice, even as some sectors seem to decide with strong advocacy (which regulators take as a signal to ban the farming ie. of a GMO crop or restrict the sale ie. of a GMO product) what people, including the many who are poor and poorly nourished, should not be eating. The issue of choice and information is central to the article **Urban Household Demand for Fresh Fruits and Vegetables in Thailand**. From the analysis of “revealed preference” data of 300 households in Bangkok and 200 households in urban areas of Chiang Mai, the study found that the trend in domestic demand for fresh fruits and vegetables is towards an emphasis on safety, quality and convenience; and this has been spurred by higher household income and educational level of consumers. Households are becoming more price responsive to fresh produce from the modern supply chain because of a perception of higher quality and safety. This is a signal for the entire food sector to adapt efficiently and quickly to changes in consumer preferences. Learning from supermarket chains traditional retailers, which still command a substantial customer base, can create customer trust by adopting safety and quality standards and striving to offer fresh produce with upgraded quality attributes. Modern retailers, which now have a widening customer base, can sustain their reputation and improve product lines by adopting premium standards.

The government should encourage the development and adoption of credible standards and product and process certification schemes and lead the campaign including suitable product labeling to educate consumers on food safety and quality. Policies and programs that foster income growth along with better education have spurred demand for better quality products. And the small farmers? They will benefit from the higher demand, but only if they can comply with the standards and efficiently access market information. This is where government as well as the modern retail sector, which is now imposing its own standards on producers, should focus a large part of their assistance – encourage farmers to adopt better management practices (BMPs), improve their

access to market information and markets, and adopt certification standards. Being associated would improve the capacity to comply cost effectively with BMPs and certification standards. An insurance scheme would reduce the risk of adopting a new process in food production.

A related issue is that if the market enjoys just the lightest touch of government intervention, the net social benefit from the production and trading of a commodity increases. This is suggested by the article **The Effects of Trade Liberalization on Groundnut Market in Myanmar**. Groundnut enjoys a large share of the domestic oilseed market and plays a significant role in the livelihood of farmers and processors in Myanmar. However, the government heavily intervenes in the oilseed market ostensibly to maintain self-sufficiency in edible oil. The government bans occasionally the export of groundnut seed, notwithstanding that it is price competitive in the international market. Because of these farmers lack incentive to produce more so that the country is chronically short of edible oil. As well, the low output from farms leaves processors without much raw material to process and trade. To make up for the deficit, the government imports a cheaper edible oil – palm oil. To see what might happen if the ground nut market is liberalized, the study constructed the supply and demand of groundnut seed market using a simultaneous equations system. The partial equilibrium framework described the welfare impacts on producers, consumers and society by measuring alternative scenarios of export demand. The main finding is that welfare gains of farmers would be larger than the consumer surplus losses in both direct consumption and processing sectors (ie. farmers would be better off and consumers and processors worse off). But, overall, society gains.

A vibrant trading regime of another export commodity – sesame seed – does exist in Myanmar. That is because the price transfer mechanism works efficiently owing to a better information system on local and export prices, even if the sesame seed market is no less regulated than groundnut seed. This is described by the article, **Market Performance and Price Analysis of Sesame in Myanmar**. Intermediaries of the sesame marketing channels in the townships of Mandalay, Monywa, Pakokku and Yangon were interviewed and the price spread, gross margin and share in the export price were calculated for each intermediary. Co-integration analysis revealed that (a) Mandalay farmers obtained the highest gross margin for black and white sesame seed; (b) farmers in the three townships received the highest gross margin for white sesame exported to China; (c) exporters received the highest gross margin for black sesame exported to Japan; and

(d) wholesalers received the highest share of the export price. The Mandalay market was integrated with the other two markets, Monywa and Pakokku. All three domestic markets were integrated with the export markets because exporters set the export price based on the domestic wholesale price. The study suggests that deviation from domestic long-run equilibrium of black sesame price can be corrected by lowering its price in Mandalay and raising it in Pakokku. The adjustment of the export price to correct its deviation from long-run equilibrium was faster than that of all domestic prices. The study concludes that long-run equilibrium of the prices of sesame seed could be achieved by increasing export price and decreasing domestic wholesale prices.

Farming the staple food of three-fourths of humanity, rice, has not generally made the small-scale farmers wealthy. But in Thailand, it has made them less poor. This was one of the major findings of the study, **Two Decades of the Rice Economy of Thailand**. It examined the impacts of the structural and technological changes between 1988 and 2008 in the rice economy of Thailand and the changes in the structure of farm households' income on income distribution and poverty. During this period, improved technology has raised yields. But the continuously rising cost of production has led to declining returns. Because of industrialization and expansion of the service sector, the income structure of farm households has changed: the proportion of non-farm income to the total income of households has increased. The exception is in irrigated areas where rice farming still contributes the major part of household income. Income inequality widened; this disparity occurred in the income from rice farming but also from the non-farm sector. The other source of inequality was in agriculture hired labor income. Non-farm employment earned higher wages than on farm although farm wages have also increased because of a growing farm labor scarcity. Despite a widening inequality, the income of rice farmers improved. The incidence of poverty was lower in irrigated areas than in the rain-fed and flood-prone villages. The findings confirm that an effective policy would be one that can reduce input costs and usage, thereby helping farmers reduce production cost, without reducing yields. A well developed, properly maintained and efficiently managed irrigation system remains an important factor in a national program to reduce farm household poverty.

Public expenditure on health care and securing peoples' lives are a growing concern because of the increasing cost of health care and the crucial need to determine the acceptable

level of risk and thus the cost of mitigating it. These two issues are addressed by the articles **Financial Status of the Universal Health Care Coverage in Thailand** and **The Value of Statistical Life in Flood- and Landslide-prone Areas**.

The first looks at the financial prospects of Thailand's Universal Coverage Scheme by comparing the trend in revenue (mainly money from the government) with the trend in health expenditure in various scenarios. In the base case scenario, the financial status of the Scheme would be slightly in deficit but widening in the long term. The Health and Welfare Survey however shows the Scheme was underutilized so that it might actually be in surplus. In a scenario of increasing health expenditure from improved service quality and an increasing rate of utilization, government allocation to the Scheme should be in line with the growth rate of the real GDP to maintain its stability. The study also suggests the expansion of the Social Security Scheme to cover private employers and their workers who are covered by the Universal Coverage Scheme. Their contribution could be added to the Universal Coverage Fund.

This second study estimates the value placed by people living in a hazardous environment on the risk to loss of life. The study areas are the flood- and landside-prone areas in the provinces of Nan, Chiang Mai and Chiang Rai. The results show that the value of statistical life of people living in these areas is 0.67-4.47 million baht per person, and people's willingness to pay for an early warning system is 118-123 baht/person/year. The amount is based on the person's belief that early warning can reduce the risk to loss of life. In the study, the value of statistical life is the minimum value placed on the risk to loss of life from flood and landslide based on the current economic and social status of a person. Unsurprisingly, the higher the status, the higher the VSL. The study suggests a guideline for determining people's willingness to pay for projects that protect them from risks originating from natural hazards. The methodology could also be applied to determining the cost people would be willing to bear for measures such as insurance to mitigate risk impacts from chemical hazards in the air, water or food, or from biological factors such as diseases and food-borne pathogens.

A new publication **Development of Assessment Methods for Greenhouse Gas Emissions: Shared-responsibility in the Industrial Sector between Developed and Developing Countries**, by Chayun Tantivasadakarn, Sirintornthep Towprayoon, and Chalotorn Kansuntisukmongkol, attempts

to apply economic principles and tools to arrive at recommendations for the Thai Government's use in negotiations over climate change issues. Reviewer Vute Wangwacharakul, member of the National Technical Sub-committee on Climate Change for Thailand,¹ says the book is a laudable attempt in Thailand to develop a basis for climate change negotiations in the international arena. However, the review implies that there is much more to be developed to make the application more practical and effectively support negotiations.

Publisher's Note: The Journal's new name – the previous was Kasetsart University Journal of Economics – reflects the actual and planned broadening in its geographical scope and coverage.

¹ Professor Vute of the Kasetsart University, Faculty of Economics, was also a member of the Expert Group on Technology Transfer and the Consultative Group of Expert on National Communication from Parties not included in Annex I, under the UNFCCC.