Growth, Poverty, and Inequality: Essays on the Bhutanese Economy

A thesis submitted in fulfilment of the requirements for the degree of Doctor of Philosophy (Economics, Finance and Marketing)

Jigme Nidup

M A Economics (Polytechnic University of the Philippines)
B Com (Hons) (Sherubtse College, University of Delhi)

School of Economics, Finance and Marketing
College of Business
RMIT University

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ABSTRACT

This thesis is comprised of three distinct contributions, which are interrelated but can be read independently.

The first of the three contributions considers the aid-growth nexus in Bhutan and is explored in chapter three of this thesis. The study employs an Auto Regressive Distributed Lag (ARDL) approach, and findings suggest that foreign aid, governance and parliamentary government are detrimental to economic growth. Policy and investment are found to be insignificant determinants. Only labour force and technology are found to foster economic growth in Bhutan. This indicates that Bhutan should focus primarily on human capital and technology improvement.

The second contribution examines the determinants of four distinct measures of well-being: income poverty; multidimensional poverty; perceived poverty and happiness, using probit and ordered probit models. Findings suggest that whilst there is some commonality between the four measures, there are also some contradictions. The two primary points of consistency are that first, higher levels of income poverty, multidimensional poverty and perceived poverty are negatively associated with happiness, and second, each of the four measures are driven by common fundamentals, including having access to a savings account and literacy levels. However, the study also finds that there is little evidence to suggest that income poverty and multidimensional poverty are strongly related. The study finds that each of the four aspects of well-being is uniquely characterised, driven, in part, by different variables and the degree of influence each of the common fundamentals exert. These findings suggest that policymakers should be cautious
about focusing on the improvement of just one component of well-being as improving one aspect of human well-being will not necessarily advance other important measures of the quality of life.

The third contribution is presented in chapter five. This contribution consists of a study that examines changes in inequality and its determinants through a Regression Based Inequality Decomposition Analysis of rural Bhutan. The study finds that inequality has widened in eastern and western regions, while inequality has narrowed in the central region of Bhutan. The changes in inequality are largely driven by unequal regional development. As such, the study finds that the single most important variable for narrowing inequality is that of higher secondary education. Therefore, rural Bhutan must focus on expanding access to education at the higher secondary level in order to provide greater proportionate distribution of income and to narrow rural inequality.