

7. Conclusion

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Conclusion

Income inequality has been one of the most important problems in Thailand for several decades now, and many scholars have been developing arguments concerning this issue. Some people were so eager to emphasize the worsening income distribution in Thailand that they used income distribution data incorrectly. This meant, of course, that they arrived at mistaken conclusions. Part of this study was devoted to the correction of such errors.

Much research has been conducted to make clear the situation of income distribution in Thailand. But the limited scope of such surveys prevented them from showing correctly the trend of income inequality since the early 1960s. In this study, however, changes in income inequality were presented for the longest period for which data is available at present: 1962 to 1986. One of the most interesting conclusions of this study is to show that in the first half of the 1970s there was an equalization of income distribution, which is contrary to the general view people have that income distribution has worsened throughout this period. In fact, this point has already been made by Meesook [37] and by Ikemoto and Limskul [21]. But these conclusions concerning the equalization that occurred in this period have been disregarded in an excess of zeal to stress the seriousness of the problem of worsening income distribution.

This study provides some evidence which supports the conclusions showing that equalization did actually occur. This equalization may seem to be due to a statistical error at first glance. Nevertheless, the evidence indicates that income distribution really did improve during this period.

Not only did income distribution improve but regional income disparity also lessened during the 1970s. This phenomenon may also contradict the general view that people have concerning Thailand.

This confusion in recognizing this improvement in income distribution in Thailand may be caused by erroneously using two different kinds of data, that is, household income (which is mainly used in this study) and per

capita GRP. The latter may be more suitable to make a comparison of the production levels of each region but is less suitable for a comparison of the income level of households or persons. In a country where the mobility of the population is very high, per capita GRP does not indicate the regional gap of household income accurately because income also moves between regions. Accordingly, the income gap is much smaller than the per capita GRP indicates. This is indeed the case for Thailand. The gap between Bangkok and the North reaches 8:1 for per capita GRP while it is only 3:1 for household income. Thus we must be very cautious whenever we use per capita GRP data.

In this study we have also argued about some factors which brought about this equalization, that is, the favorable agricultural condition and the political situation. A lesson from our results is that favorable agricultural conditions are very powerful in improving income distribution but that government intervention such as expenditure policy to create jobs in rural areas is not sustainable in the long run if it aggravates the fiscal condition, regardless of how effective the policy may be in the short run.

Income distribution is a very complicated phenomenon because it is determined by many factors which may be interrelated to each other. Accordingly it is very difficult to point out the definite factors which caused a change in income distribution.¹ In this study we limited ourselves to pointing out some factors of equalization without analyzing quantitative impacts on income distribution. It seems that the phenomenon of equalization needs to be analyzed further to reveal the factors of equalization quantitatively. This analysis will be useful to evaluate not only policy measures for income distribution but also the democratic period of the early 1970s, during which some income distribution policies were undertaken. Quantitative analysis will reveal whether equalization was brought about by these policies or by external conditions.

The period from 1975 to 1986 was one of worsening income distribution. Especially in the first half of the 1980s, income distribution worsened very rapidly, largely because of unfavorable commodity prices, the world recession, and the conservative expenditure policy. In this period high priority was given in government policy to reduce the government budget deficit, and a lower priority was given to income distribution. While the government expenditure for income redistribution such as rural job creation shrank, income distribution worsened very rapidly. This is a phenomenon that has been experienced in those developing countries where conservative expenditure policy has been adopted to resolve serious debt problems.

Even though the inequalization in the first half of the 1980s was very

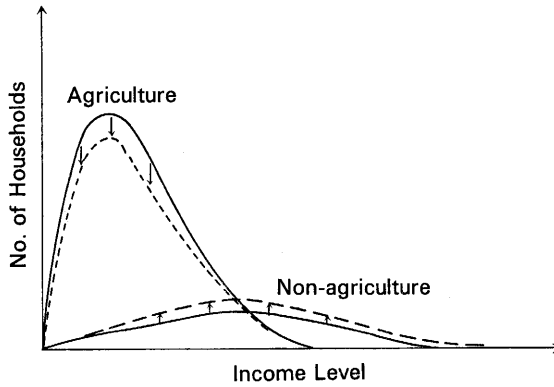
rapid, the level of income inequality was still lower than both those countries that have the highest income inequality in the world and other Southeast Asian countries. Until the 1970s it can be said definitely that the level of income inequality in Thailand was lower than that of other Southeast Asian countries. After the rapid increase in income inequality in the first half of the 1980s, however, this has become less and less definite. According to the *Fifth Malaysia Plan (1986-1990)*, the Gini coefficient in Malaysia decreased from 0.513 in 1970 to 0.480 in 1984. This is only a bit higher than 0.471, the Gini coefficient of Thailand in 1986. For Indonesia and the Philippines the limitation of data prevents any comparison with Thailand. But when we take into consideration their extremely high income inequality and also the preliminary result of the *1988 Socio-Economic Survey of Thailand*, showing that income inequality decreased between 1986 and 1988, it might be concluded that the level of income inequality is still lower than that of other Southeast Asian countries.

The economic recovery since 1986 will have a considerable impact on income distribution. It is often argued that the rapid expansion of the non-agricultural sector will increase the income disparity between the rural and urban areas. At the aggregate level this is definitely true. But at the household or individual level this is not necessarily the case. If people move from the agricultural sector to non-agricultural sectors while these non-agricultural sectors are expanding, the rural-urban income disparity at the household or individual level will change at a smaller rate than the aggregate indicates. Thus when we argue about the impact of the economic boom on rural-urban disparity, we have to take the changes in the employment structure into consideration.

One of the urgent problems caused by the recent economic boom in Thailand is the shortage of skilled workers. While the non-agricultural sector is expanding, unskilled labor is supplied from the huge unskilled labor pool of the rural area, just as the unlimited labor supply model assumes. But there is no such huge pool of skilled workers; therefore, what is happening is the reallocation of skilled workers between firms and an increase in their salaries. The salary hike will increase the supply of skilled manpower and as a result the income share of these classes will increase.

These changes can be shown with very simple figures. Figure 7-1 shows the impact of an expanding non-agricultural sector on the income distribution of the whole kingdom. Figure 7-1A shows the expanding non-agricultural sector and contracting agricultural sector. Corresponding to these changes, the income distribution of the whole kingdom changes is shown in Figure 7-1B. This figure clearly shows that the number of households with about the mode income decreases while those of the higher

A. Agricultural and Non-agricultural Sector



B. Whole Kingdom

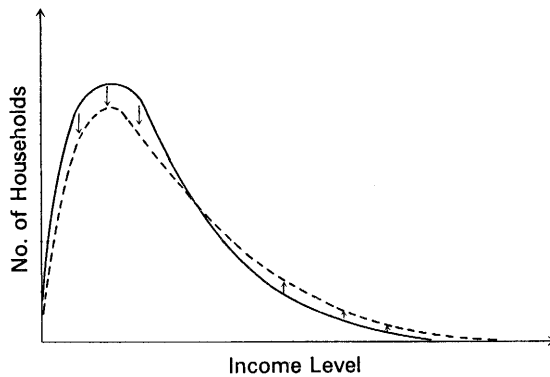


Figure 7-1

The Impact of the Expanding Non-agricultural Sector

income class increase. In other words, this means that the income share of the lower income class decreases while the income share of the middle income class increases. As mentioned in the latter part of chapter 4, this change indicates that the shape of income distribution is changing toward one typical of developed countries.

Whether such a change will reduce income inequality or not cannot be determined a priori. As shown in chapter 3, even though there has been no change either in income distribution within rural and urban areas nor in income disparity between rural and urban areas, the expansion of the

non-agricultural sector will increase income inequality until the household share of the non-agricultural sector reaches a certain level. Thailand is undergoing such a process and a part of inequalization is due to this process. Some argue that the inequalization on such assumptions need not be deemed an unfavorable phenomenon. There can be some counterarguments to this view but at least it can be said that so long as the assumptions hold true, income inequalization is inevitable when an economy changes toward a more industrialized one as Kuznets inverted-U-shaped curve hypothesis indicates. In this sense the inequalization that accompanies this process must be discounted to some extent.

The arguments mentioned above may seem to emphasize that income distribution in Thailand is not as unequal as is generally believed. This is not true. What is intended here is to present the situation of income distribution in Thailand on an academic basis. Inequality in income distribution has often been exaggerated in an excess of zeal to emphasize the problem. Sometimes wrong data and wrong methodology have been adopted to exaggerate income inequality. Some of these mistakes were corrected in this study. As a result, this study may seem to emphasize that income distribution in Thailand is not so unequal.

Nevertheless it must be emphasized that income distribution is one of the most important problems in Thailand. Even though the Gini coefficient is not extremely high, income distribution can be seen as being the most important problem, especially if we follow the welfare function of Thailand. This welfare function of Thailand can give different results from those of the Gini coefficient and may evaluate income distribution more seriously than other countries.

When income distribution is related to other aspects, income distribution can be seen as a more serious problem. For example, in Malaysia income distribution is an important problem because it is related to the ethnic problem. In Thailand it is related to the regional one, especially to the income gap between Bangkok and the Northeast, and thus to the poverty in the Northeast. This is what makes income distribution such a vivid issue in Thailand.

Even in the Northeast the share of agriculture in GRP has decreased to less than half of the total GRP. Therefore, we cannot deem all regional disparity to be a result of the productivity gap between the agricultural and non-agricultural sectors. This is not to deny that the low productivity in the agricultural sector is still responsible for the low income level in the Northeast.

Even though the industrial sector is expanding rapidly, a large number

of people are still engaged in the agricultural sector and other activities that have only a low productivity level. So long as these people remain left behind by the prosperity brought about by economic growth and are dissatisfied with the changing economy, income distribution will remain one of the most important problems of Thailand.