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INCOME DISTRIBUTION AND THE MEDIUM-TERM TREND OF INEQUALITY IN THAILAND

Abstract

Income distribution in Thailand has become the central issue due to the unequal distribution between modern and agricultural sector especially in the poorest Northeast which has the greatest number of agricultural household among regions. The hypothesis on inequality which has been discussed widely is the Kuznets inverted U- curve hypothesis that income inequality increases in the early stage of economic development and decreases in the later stage. The inequality trend in the medium-term showed the downward trend after the peak of inequality in 1992. This could imply a development of Thai economy. However, income distribution and regional inequality are still problematic. Furthermore, although agricultural sector has an important role for Thai economy, the agricultural wage is still low, 2.61 and 1.69 times lower than the service and production sectors respectively. This research mainly focuses on the results of field survey in Mahasarakham and Kalasin provinces in the Northeast of Thailand. It is important to know the opinions of the people in the most unequal region. As field survey, people still would like to be supported from the government in terms of income more than other aspects but it is difficult to distribute enough support thoroughly. On the contrary, many people are satisfied with their living and not affected by the limitation of income. Moreover, gathering the group to support members could help to improve their living and without waiting only government's support.

Keywords

Income distribution, Income Inequality, Thai Economic and Social Development

1. Introduction

Income distribution has become the central issue in Thailand. The unequal distribution between modern and agricultural sector still occurs. The government have tried to increase the wage accompany with the continuous operation of the income security project to small farmers whom income is low. However, the poverty in the Northeast where contains the greatest number of agricultural household is still higher than in other regions. Although agricultural sector has an important role for Thai economy, the agricultural wage is about 2.61 and 1.69 times lower than the service and production sectors respectively. Furthermore, Agriculture is the second lowest of average income per labour amongs all production sector (Chansarn, 2009).

There was an official report of the National Statistical Office (NSO) that conducted an opinion survey on what people need from the government by regions in 2010 (Table 1).

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Region	Issue that should be prioritized	%
Bangkok	1. Poverty problem	39.4
	2. People's Debt problem	35.6
	3. Price of consumer goods	35.3
Central	1. Price of consumer goods	37.1
	2. Poverty problem	37
	3. People's Debt problem	35.2
North	1. Price guarantee for agricultural produce	41.9
	2. People's Debt problem	34.3
	3. Oil price control	32.8
Northeast	1. People's Debt problem	46.7
	2. Price guarantee for agricultural produce	40.6
	3. Poverty problem	32.4
South	1. Price guarantee for agricultural produce	34.6
	2. Price of consumer goods	33.6
	3. People's Debt problem	28.3

Table 1: *Opinion survey on what people need from the government by regions in 2010 (National Statistical Office (NSO), 2010)*

Another important point is the satisfaction of people on their living. This research is analyzed in order to know that people in the Northeast which have faced high inequality problem is satisfied their living or not as well as to understand their way of thinking.

2. Income distribution in Thailand

2.1. Overview of income distribution in Thailand

During the past 2 decades, income distribution in Thailand had some small improved. Gini coefficient which is an inequality index were about 0.49 to 0.54 in 1998 to 2009. Inequality in 2009 is 0.493. It reflects that most of benefit of economic growth and development fall among some small group especially the rich group. The 10 percent richest group shared 38.41percent while the 10 percent poorest group shared only 1.69 percent of total income (NESDB, 2011).

As estimated regional income inequality, Northeast is the region which highest income inequality for many years. Although, the inequality of the whole country was improved, inequality of the Northeast is still higher than those of other regions.

2.2. The medium term trend of inequality in Thailand

The hypothesis on inequality trend which has been referred and discussed widely is The Kuznets hypothesis of Simon Kuznets since the 1950s that income inequality increases in the early stage of economic development and decreases in the later stage. This could occur when people in the agricultural sector which relatively low per capita of income shift to industrial sector which has higher per capita of income. The income gap between two

sectors and the higher income is incentive for labour to move to the industrial one. Consequently, the expansion of industrial size with more unequal of income distribution occurs in the first period of development. However, in the later stage when the industrialization is adjusted, income inequality decrease, and narrow the income gap. This idea can be illustrated as Kuznets inverted U- curve which the inequality index such as Gini coefficient on y axis and economic development, time or per capita income on x axis. The explanation of Kuznets hypothesis can be applied not only for the case of industrialization but also for other cases when the new industry emerges such as the emergence of technological innovation or IT economy as in the developed countries. The Kuznets hypothesis has been cited and discussed in many researches on income inequality and development.

In the case of Thailand, the question that whether Thailand has already passed the turning point of the Kuznet inverted U-Curve has been discussed until the present time. There is important research of Ikemoto and Uehara (2000) that analysed income inequality and Kuznets hypothesis in Thailand include the period of the rapid economic growth of Thailand that started in the latter half of the 1980s when income inequality increased very rapidly and while the industrial sector absorbed underemployed labour force in rural areas in the early 1990s. The results of this research shows that the inequality do not show clear and consistent downward trends in the mid-1990s. However, the Kuznets' curve does not necessarily appear only once but can appear several times when new high-productivity industries appear as an N-Shape.

The medium term trend of inequality in Thailand was analysed by authors as well as consider the Kuznets curve hypothesis. We also predicted the turning point by regression. The result showed that Thailand reached the turning point in the 1990s.

Moreover, as a result of Gini coefficient estimation for the medium term trend of inequality, Thailand reached the peak of inequality in 1992 with the Gini coefficient at 0.543. This also match with the period of our prediction.

It can be seen from the figure 1 below that illustrated from the Gini coefficient from 1989 to 2009 with the Peak year and Bottom year of the Gini index. From this figure, it shows the downward trend of inequality after the peak inequality of 1992 although there was some fluctuation like N-shape but the peak trend was diminish. This could imply the development of Thai economy. However, the income distribution and regional inequality are still problem.

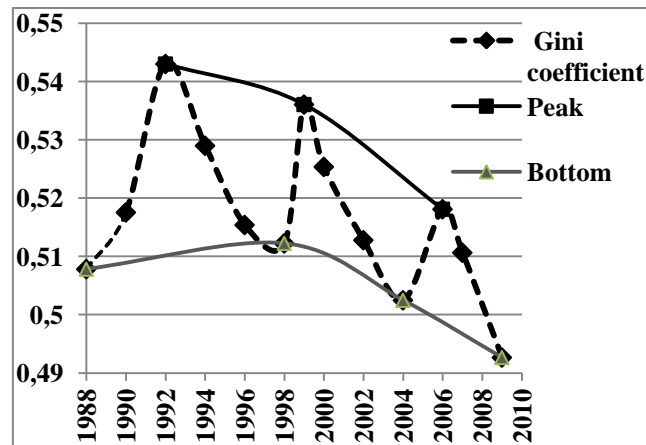


Chart 1: Trend of inequality, 1998-2009 (Authors' Estimate)

3. Field survey analysis

This part is based on field survey in Mahasarakham and Kalasin Provinces in the Northeast of Thailand in order to understand the real situation in the actual area as well as satisfaction of people despite the high inequality. The survey was conducted by interviewing 43 interviewees which consist of farmer about 55 percent, and people in other occupations which some of them do agriculture as well.

The questions can be categorized into 3 main focuses.

1. Opinion on income, occupation and income gap between Bangkok and Northeast
2. Satisfaction of current living
3. Opinion on support of the government

3.1. Opinion on income, occupation and income gap between Bangkok and Northeast

The objective of this part is to know what people think about their income, occupation and the difference of income between Northeast and Bangkok, there are only 18.6 percent think their income is higher than other people in their province, and 81.4 percent think it is not. For the question "Does your occupation provide you with higher income than other occupations in the same province?", 16.3 percent answered "yes" and 83.7 percent answered "no". The group that answered "yes" consists of both farmer and non-farmer. However, most of respondents agree that agriculturists generally earn less income than other occupations. For the question, "Is average income of your province higher than other province in the Northeast?", 16.3 percent answered "yes" and 83.7 percent answered "no". In their point of view that whether the income gap between Northeast and Bangkok is increasing or not, 83.7 percent think the income gap between Northeast and Bangkok is increasing, and 16.3 think it is not increasing. (Chart 2).

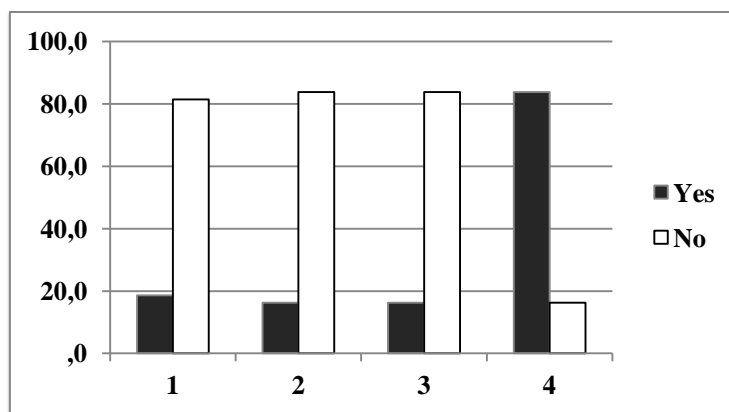


Chart 2: Opinion on income, occupation and income gap between Bangkok and Northeast (Field survey, 2012)

Note:

1. Do you think your income is higher than other people in your province?
2. Does your occupation provide you with higher income than other occupations in the same province?
3. Is average income of your province higher than other province in the Northeast?
4. Do you think the income gap between Northeast and Bangkok is increasing?

3.2. Satisfaction of current living

This section was asked in order to know that how people feel about their overall living, satisfied or unsatisfied among the high inequality situation. The question was whether they are satisfied their current living or not. The answer of interviewees was inverse to the high inequality problem. There are up to 79% of interviewees answered that they are satisfied, and 20.9% are unsatisfied (Chart 3). Both answers are from the respondents who are farmers and non-farmers.

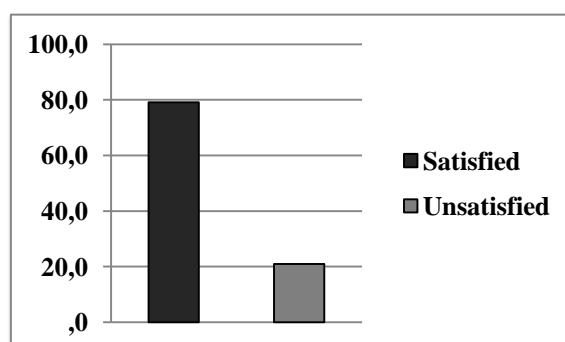


Chart 3: Satisfaction of current living (Field survey, 2012)

For the interviewees who answered "satisfied", there are 52.9 percent whose household have income more than expense (shown in the Table 2). The interesting point is the interviewees who answered "satisfied" also consist of people whose household have income less than expense 4 percent. It is because most of them feel that their current living is better than in the past. Therefore, they feel satisfied. There are 94.1 and 97.1 percent of "satisfied" group think that their current living is better comparing to 10 and 5 years ago.

In the group of people who answer "unsatisfied", in term of income condition, 77.8 percent of people who are unsatisfied their current living have income less than expense. However, 44.4 percent of unsatisfied group think their current living is better than in 10 and 5 years ago, and believe that their future will be better.

		Satisfied (100)	Unsatisfied (100)
Income	>Expense	52.9	22.2
	<Expense	47.1	77.8
Current living compare to 10 years ago	better	94.1	44.4
	same	-	33.3
	worse	5.9	22.2
Current living compare to 5 years ago	better	97.1	44.4
	same	-	33.3
	worse	2.9	22.2
Think that their future will be	better	97.1	44.4
	same	-	44.4
	worse	2.9	-
	Not sure	-	11.1

Table 2: Satisfaction of current living of interviewees by conditions (Field survey, 2012)

3.3. Support of the government

In every period, each government attempted to create many policies to provide high benefit to low income people. However, it is difficult to distribute enough support to all people thoroughly, and sometimes the benefit could not reach to low income people due to many reasons such as misapplication of policies.

The policies which were launched to elevate people's well-being not only in term of income but also quality of life. The policy which used and mentioned widely is the Universal Coverage Scheme or 30 baht for all health care which provide the access to necessary health services for only 30 baht(1 US\$). This public service could reduce health expenditure and improve quality of life for low income people. However, as field survey, some inconvenience could occur because of the equity and quality of service. There are also policies focused to support the farmer group such as dept moratorium to farmers for 3 years and price guarantee for agricultural produces.

3.3.1. Enough support or not to improve the living

As survey, when asked that "Do you think you have received enough supports from the government, and those government policies are efficient enough to improve your living?" There are 27.9 percent of respondents think those are enough while 72.1 percent think those are not enough (Chart 4).

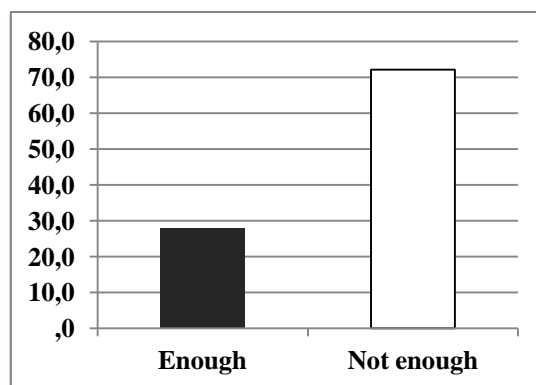


Chart 4: Supports of the government and its efficiency (Field survey, 2012)

3.3.2. Issue of Political conflict

The issue of political conflict can affect the economic and social development as well as impact on people's income and income distribution through the policy instability. In this part, we would like to know that whether they think the political conflict affected their work and life or not. The result is shown in the Chart 5. There are 51.2 percent answered “yes”, they think the conflict lead to the change to new government, discontinued policies and affect to the economy that make their living more difficult, and higher cost of living. There are 48.8 percent answered “No” because they do not pay much attention on the conflict but rely on self sufficiency.

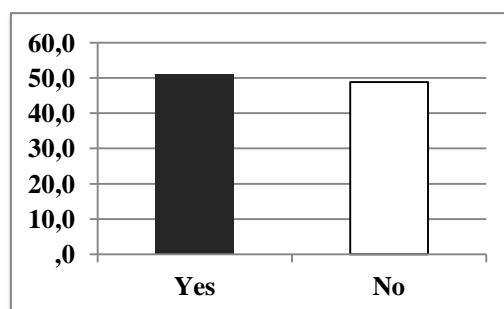


Chart 5: Political conflict affected the work and life in interviewees' opinion (Field survey, 2012)

3.3.3. Policies which people need from the government

The Chart 6 shows the policies which interviewees think the government should launch to assist people. The policies which interviewees need the government to operate for people are as follows:

1. Income, expense, and debt problem
2. Agricultural related policies
3. Electricity and water supply
4. Market for product distribution
5. Support the local group and knowledge exchange for self-sufficiency
6. Funds
7. Quality of life support such as health service and education
8. Job creating and job training
9. Same standard welfare to all people
10. Represents the opinion from people who not expect the government support.

The policy which most requested is policy to support higher income level, reduce the cost of living and solve debt problem, 26.09 percent of all requested policies. The second one is

the agricultural related policies, 21.74 percent which the policy for agricultural produce's price guarantee was included. These results are consistent with the survey on what people need from the government in the Northeast of the National Statistical Office in the Table 1.

Besides, not only support of the government, people in the local community have created the group to support member and exchange their knowledge for better living.

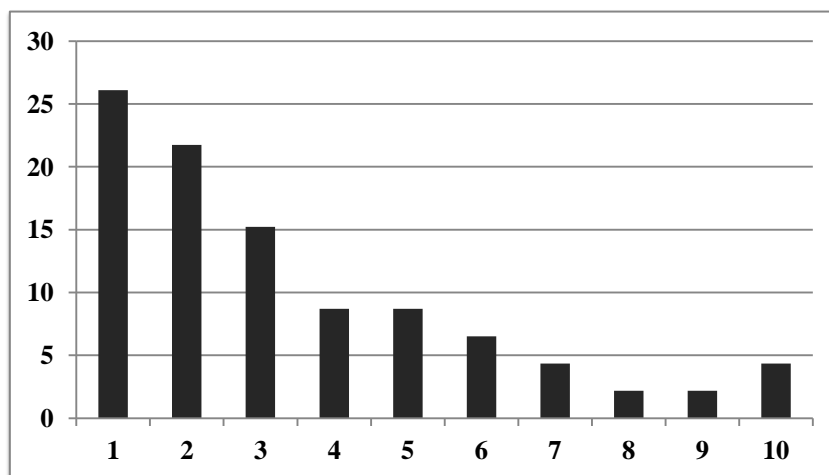


Chart 6: Policies which people need from the government in interviewees' opinion (Field survey, 2012)

Note: 1. Income, expense, and debt problem 2. Agricultural related policies 3. Electricity and water supply 4. Market for product distribution 5. Support the local group and knowledge exchange for self-sufficiency 6. Funds 7. Quality of life support such as health service and education 8. Job creating and job training 9. Same standard welfare to all people and 10 represents the opinion that not expect from the government support

4. Conclusion

Income distribution is one of the most important problem on economic and social development which difficult to eliminate within the short period. Although Thailand has already passed the turning point of the Kuznet's curve and the medium term trend of inequality showed some downward trend, the income distribution and regional inequality are still problem. It is important to receive the information from the people in the most unequal region in order to know their opinion in many aspects including satisfaction of living.

When asked interviewees to evaluate their income status, about 81.4 percent think they have lower income than other people even in the same province. There are 83.7 percent think their occupation does not provide them higher income than other occupations. Some people in non-farmer group also included in this answer. Furthermore, 83.7 percent of respondents also think the income gap between Bangkok and Northeast is increasing.

The interesting result is the answer of satisfaction of people on their living. The answer of interviewees was inverse to the high inequality problem. There are up to 79 percent of interviewees answered that they are satisfied, and only 20.9 percent are unsatisfied. Both answers are from the respondents who are farmers and non-farmers. It is because most of

them feel that their current living is better than in the past. These could be imply that income level is not always the good indicator of life satisfaction.

The policy which most requested is policy to support higher income level, reduce the cost of living and solve debt problem, 26.09 percent of all requested policiies. The second one is the agricultural related policies which is 21.74 percent.

Although, people still would like to be supported in term of income, percentage of interviewees who are satisfied their living is quite high. Futhermore, Gathering the group to support members could help to improve their living and without waiting only government's support.

5. Bibliography

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