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The growth–equity trade-off in modern economic development: the case of Thailand[☆]

Medhi Krongkaew^{a,*}, Nanak Kakwani^b

^a*School of Development Economics, National Institute of Development Administration (NIDA),
118 Serithai Road, Bangkok 10240, Thailand*

^b*School of Economics, University of New South Wales, Sydney, NSW, Australia*

Abstract

The trade-off between economic growth and income inequality is quite clear in the case of Thailand during the last four decades of its development. Rapid economic growth had brought about rapid reduction in poverty while income inequality had risen. The paper also shows that when poverty reduction is decomposed into two separate effects of growth and income distribution on poverty reduction, the growth impact on poverty reduction was lessened by the incidence of high income inequality. In short, the growth in Thailand was not a pro-poor growth. The high income inequality can be explained, in part, by unequal returns to productive inputs in imperfect markets and unfair competition, by unequal landownership and unsuccessful land reforms, and by political and administrative structures that protect the positions and interests of the relatively well-off. To help reduce the growth–equity trade-off, future growth in Thailand must be pro-poor or more pro-poor.
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1. Introduction

The trade-off between growth and equity in economic development is as old as economics itself. Economics, as a social science, strives to explain human behaviour in making choices between or among sets of alternatives, each of which has associated with it some notions of opportunity costs. What this means is that there is a cost, and/or benefit, associated with every human decision. It is not unusual, therefore, to recognise that development decision or policy that brings about growth may also bring about an

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* Corresponding author. Tel.: +66-2-727-3196; fax: +66-2-375-8842.

alternative cost of growth, of which increased income inequality is a major economic phenomenon. It is possible that this trade-off does not occur, that is to say, growth does not necessarily bring about increased inequality but, on the contrary, income equality may improve with growth.

In the past 30 years, economic literature is replete with arguments for and against the existence of this trade-off,¹ but it seems that, at least in East Asia, such an argument has lost its importance during the high-growth periods of the 1980s and 1990s because as long as the economy continues to grow rapidly, that everyone's pocketbook or wallet is bulging, few would be concerned with the issues of income inequality. But growth without equality or growth with high income inequality is not a sustainable growth. The recent economic crisis in East Asia is a good indication of such vulnerability. Indeed it could be argued that the crisis that started first in Thailand in 1997 was brought about by the deep-rooted inequality situation in the Thai economy and society.

The main purpose of this paper is to address the issue of the trade-off between growth and equity in Thailand as a typical, rapidly-growing modern economy in East Asia. The use of Thailand of a case study is important in a sense that, while the economic development of Thailand exhibits patterns and traits that can also be seen in other East and South-East Asian countries such as Korea and Malaysia, there is also uniqueness associated with Thailand as the only country in South-East Asia never colonised by Western power during the 19th century colonisation push, and the only country in South-East Asia that the overseas Chinese have been completely assimilated with the indigenous Thais during the last 40 years of economic development. This mixture of common or universal and specific characteristics that determine, and/or are influenced by the growth–equity nexus can be used to explain a unique character of Thailand's modern economic development experience.

Normally when a country embarks on its journey to economic development, it faces a series of questions concerning that path to development. One is the question on what development procedure or philosophy to follow: capitalistic or socialistic or a mix of the two. Then other questions may include: Who is to decide on such procedure? What would be or should be the speed and tempo of such development? Who would gain and lose or how the benefits and costs of development are shared among the people in the country? and so on. In a democratic political system, the first question will need to be answered politically through choices of politicians or political parties representing certain economic and political ideas. The process may be long drawn out as everyone is involved in the choice or selection process. But for Thailand when it embarked on its development journey in the early 1960s, this was not a difficult question at all, as the country was run by a military dictator who decided the path of development on behalf of the whole population. Field Marshall Sarit Thanarat was that military dictator when the First National Economic Development Plan was announced in 1961, heralding the start of Thailand's modern economic development.

Lest the above event be looked upon only in bad lights, it should be mentioned at the outset that many have regarded Field Marshall Sarit as the Benevolent Dictator who ushered in the new era of development to the Thai people.² He had made a great use of

¹ See, for example, Okun (1975).

² For a classic treatment on the life of Field Marshall Sarit and how he led Thailand in the late 1950s and early 1960s, see Charoemtiarana (1979).

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