



Why has income inequality in Thailand increased? An analysis using surveys from 1975 to 1998

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Abstract

This paper identifies the determinants of income inequality in Thailand, which increased between 1975 and 1998. Our regression results strongly suggest the significance of agricultural factors. We also obtain some limited evidence that sectoral factors, financial development, and education level disparities play a roughly equally important role in explaining inequality changes in Thailand.

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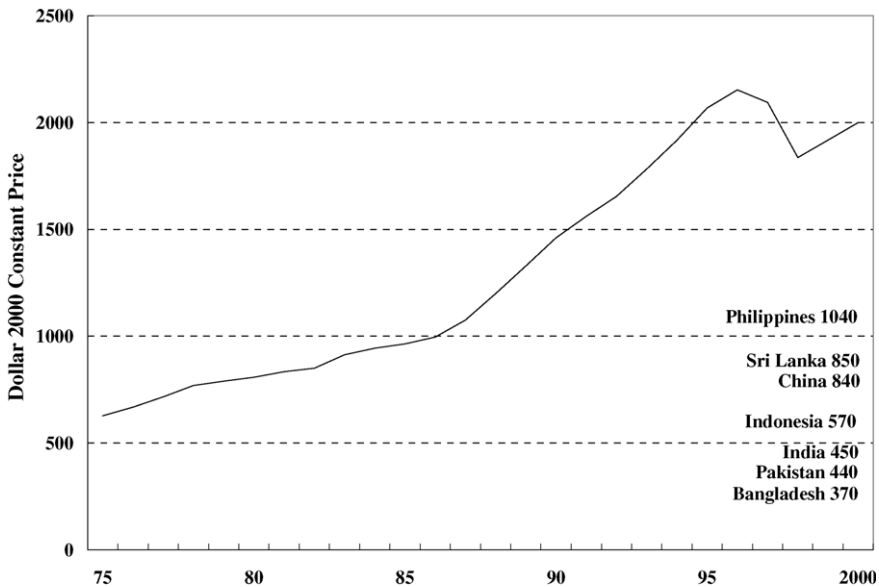
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1. Introduction

This paper identifies the determinants of the changes in income inequality that took place in Thailand. Fig. 1 illustrates the recent trend in per-capita GNP for Thailand, which increased from US\$ 625 in 1975 to US\$ 1831 in 1998 (both in constant 2000 dollars). Consequently, Thailand acquired some status as a more-developed country and was seen as having set a precedent for other developing countries. At the same time, Fig. 2 shows that income inequality in Thailand also increased significantly over the same 24 years. This is significant, because “income inequality is relatively stable within countries,” and it “varies significantly among countries” (Li et al., 1998; p. 26).

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Note: Figures on the right hand side of the figure is per capita GNP in 2000.
Source: Asian Development Bank *Key Indicators*.

Fig. 1. Per-capita GNP.

While the incidence of poverty in Thailand decreased as a result of its economic growth (Deolalikar, 2002; Kakwani and Krongkaew, 2000), the coincident increase in income inequality remains problematic from the perspective of the policy goal of fairness. In addition, some studies have found significant effects of inequality on economic growth.¹ Therefore, it is important to clarify the determinants of the recent increase in inequality in Thailand.

Kuznets (1955) pointed out the importance of considering the agricultural sector for understanding changes in income distribution during the process of economic development. His insight is even more important because it helps to explain the changes in the distribution of income in Thailand. Studies of income distribution in Thailand have stressed the importance of the role of the agricultural sector (Deaton, 1989; Ikemoto, 1991; Krongkaew et al., 1996). While the share of the agricultural sector in the total GDP decreased (from 27% in 1974 to 12% in 1998), the labor force in the agricultural sector still accounted for 51% of the total labor force in 1998.

We used longitudinal data from 24 years and nine national surveys for 13 regions, taken from Thailand's Household Socio-Economic Survey (HSES). For developing and more-developed countries, it is not always easy to obtain detailed regional data to identify the determinants of income inequality during development. The Thai HSES is one of the few exceptions. The regression results suggest the significance of agricultural factors, although

¹ For example, see Deininger and Squire (1998) and Forbes (2000).

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