

Invited Article

**Commentary Note on Thailand's Current
Inequality Situation and Its Prospects**

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I became interested in economic aspects of inequality because economic inequalities underlie inequality of power, social position, and access to resources of all kinds, including good education, a fair trial and a decent chance in life of individuals and their children.

In this commentary note I first give a sketch of the international debate on the impact of inequality on economic growth and democracy. I then outline the trends of inequality of income and wealth in Thailand and explain the reasons for the steep rise in inequalities. Next I briefly discuss findings about the impact of inequality on social division and political conflict. This is followed by an outline of policies and actions that can lead to a reduction of inequality in Thailand today. Last is a brief concluding remark on the future prospects.

1. The debate on the effect of inequality on economic growth and democracy

There is no consensus on the impact of inequality on economic growth¹, but mechanisms through which inequality

¹ Traditionally many economists have held the view that inequality is good for growth because of a higher saving rate by the rich, sunk cost and investment indivisibilities, and higher incentives to work (Aghion et al., 1999). Alesina and Rodrik (1994) add that in countries with high inequality a majority votes in favor of redistributive policies, resulting in higher taxes and lower growth (see also, Person & Tabellini, 1994). In a context of credit constraint, however, redistribution may be good for growth because it helps entrepreneurs who lack resources to start up new businesses. Redistribution can also promote growth in the long term because it enables children of poor household to have education. A recent study finds a large and statistically significant association between income inequality and growth duration; a one percentage point higher Gini decreases the expected length of a growth spell by 11 to 15 percent (Berg & Ostry, 2011). Berg et al. (2008) also ranks

may be harmful to growth have been identified: in particular, when inequality is coupled with credit market imperfections resulting in under-investment in human capital and credit restraints on entrepreneurs without collateral; and when large inequalities foster social and political instability as more people engage in crime and violent protests, which deter investment (Perotti, 1996). Acemoglu's analysis of oligarchy postulates, on the basis of historical evidence, that extreme inequality in the command over resources is prejudicial to economic growth (Acemoglu, 2008).

In the US, a thorough study for the period 1979-2007 found that although inequality did not reduce the overall growth rate or contribute to economic crisis, there is strong evidence that it reduced the rate of growth of middle class income, increased disparities in education, health, family structure and happiness and heightened residential segregation (Epstein et al., 2003). In Thailand, economic inequalities lead to other forms of economic and social inequality, such as in access to tertiary education (Lathapipat, 2016), which is prejudicial for growth in the long term.

On the impact of inequality on democracy, there is also no consensus but an inclination to see the impact as negative. In his monumental work, *Capital in the Twenty-First Century*, Piketty finds a relationship between inequality and anti-democratic forces (Piketty, 2014:517). The new institutional economist, Acemoglu and his co-authors have produced a game theory analysis using two actors, rich elites and poor masses. They show how, as the masses press for democracy to gain from redistributive policies, the elites are likely to resist, especially where inequality is high, as they fear they will be

income distribution as the most influential and robust factor for growth sustainability followed by trade openness, political institutions, foreign direct investment, exchange rate competitiveness and external debt.

forced to pay higher taxes to finance redistribution. Acemoglu et al. also show that the higher is the proportion of the rich elites that is dependent on land for their income, the stronger is the resistance to democracy because land is vulnerable to tax and difficult to conceal (Acemoglu & Robinson, 2006; Acemoglu et al., 2010).

The model has been criticized,² but it fits contemporary Thailand rather well (Phongpaichit, 2016).

From the 1960s to the early 90s, Thailand achieved rather high economic growth rates. This period came to an end in the financial crisis of 1997. Over this period of rapid growth, inequality shifted from a relatively moderate level to a very high level, comparable to some Latin American countries. Proposals for land tax reforms have been stalled.

The power structure has become more ossified and the movement towards democratization in the 1980s and 90s, following the fall of the military regime in the early 70s, has not been consolidated. For the last decade a battle has been waged between those who want elected parliamentary democracy, and those who want a “managed democracy”, believing that it is necessary to curb the power and authority of corrupt elected politicians. The conflict has been played out in street protests by both sides, causing confusion and instability. Coups to topple the elected governments staged by the military junta of the same camp in 2006 and 2014, which were supported by non-democratic forces, have moved Thailand back to a military dominated political regime.

² By those who disagree with their assumption about the rational self-interested motivations of actors in their model, and doubt if their hypothesis that distributional conflict is at the heart of political transition of all counties is always true. See American Political Science Association (2013).

2. Inequality has come down but not fast enough

Inequality in income and wealth rose fast following the economic boom of the 1980s. Since the mid-1990s a declining trend is noticeable, but the level is still rather high and higher than other Asian neighbors.

The Gini Index on household income rose from 0.413 in the early 1960s to 0.536 in 1992. Over the boom era from 1981 to 1992, the top 10 percent of the population increased their share of total income by 8 percentage point from 34 to 42 percent. Inequality has tended to decline over the past two decades, but slowly and fitfully. By 2011, the Gini of household income was 0.484, which is still the highest in ASEAN (Phongpaichit & Baker, 2016: Introduction; Phongpaichit, 2016).

Kobsak Pootrakul has made a detailed study of the trends in inequality over the period from 1988 to 2011. He found that the income of the top 1 percent grew spectacularly fast, around 2.8 times the average rate. So while the trend towards better income distribution now seems well established, Kobsak Pootrakul has shown Thailand has a “1 percent problem,” just like the US and many advanced economies. He estimates that the top 1 percent group includes around 600,000 people in families headed by business people, property owners, professional and managers (Pootrakul, 2013).

On wealth inequality, recently available data on household assets, bank deposits and land ownership, have shown extreme inequality. Laovakul (2016) found a highly skewed distribution of titled land, with a Gini Index as high as 0.88.

There are many reasons behind the high inequality in Thailand in the 1990s. Among the most prominent are the development strategy that favored capital, coupled with repressive policies on labor organizations; the urban bias in development with investment being concentrated around Bangkok; the rise of prices, profits and salaries in the modern

sector to assimilate to international levels; a boom in urban property prices that especially benefited prime land in certain areas; falling agricultural prices from the mid-1970s onwards; and a lack of political interest or will to combat growing inequality. As a result, Thailand does not have progressive property or wealth taxes, nor really progressive personal income tax, although the official rates may appear so.³ Because of the revenue constraint, overall expenditure on public goods has been low, with a distinct pro-rich and pro-urban bias, leading to great inequality in access to public services including education.

Combining these wealth data with other information on the trends in corporate wealth in the aftermath of the financial crisis of 1997, including the recent Forbes lists of wealthy families, two recent trends can be noted (Phongpaichit, 2016). The first is that wealth has become more concentrated at the high end of the business community. The second is the growing importance of non-wage income from profits, rents, and financial assets. These findings corroborate Pootrakul's (2013) finding that income from rents and financial assets is very highly concentrated at the upper end of the income scale in the period from 1988 to 2011.

With the distribution of wealth, especially land and savings, being highly skewed, and with no tax policy to moderate this situation, a very few at the top earn much from rent, dividends, interests and other investment income while the majority have very limited assets or negative savings. From his study of many countries over the 18th and 19th centuries, Piketty (2014) shows that investment income always grows

³ A preliminary look by the author's research team on the effective personal income tax rates in Thailand for the period 2006-2009 found that the tax is regressive at the highest end of the income band because of a large number of exemptions and allowances which counteract the nominally progressive tax rates.

faster than GDP, and hence the trend towards inequality of wealth is self-sustaining.

An additional factor is the political system, in which power is concentrated in the hands of the few, and little attention is paid to social justice or redistributive policies.⁴

3. Inequality, social division and political conflicts

The effects of inequality on social cleavages and political conflict has become a prominent topic of debate around the world. A widening income gap among people in the same society can cause deterioration in the sense of community and a decline in mutual trust. Many societies have experienced a decay in social cohesion and a rise of protest and conflict. Stiglitz, the Nobel Laureate expresses this worry, “It’s easier to act together where most people are in similar situations”.

Researchers in the UK found that unequal societies have more crime, less trust, more anxiety, more mental and physical health problems, poorer education performance, more violence and less mobility (Wilkinson & Pickett, 2009)

A recent study on the US shows that growing income inequality results in increased political influence among the top wealthy, with potential harmful effects on policies concerning health, education expenditure, taxation, and climate change (Mayer, 2016).

In Thailand, researchers have drawn attention to the impact of inequality on crime, teen pregnancy, prostitution,

⁴ Technocrats in the Ministry of Finance have proposed a reform of the existing regressive land development tax for some time, but have not succeeded. The first inheritance tax was approved in 2016, but the original proposal was so watered down that it is not effective as a measure to reduce wealth inequality, as originally intended. On the impact of rule by the few, Winters (2011) has argued that the wealthy in all societies strive to control or influence politics to protect or promote their wealth.

insecurity in life, and access to education, as well as the political conflicts of the last decade.

Concern over the relationship between inequality and Thailand's political conflict is shared across the political spectrum. The National Council for Peace and Order, the military junta which seized power from the elected government by a coup in 2014, made solving inequality one of its priorities. The prime minister and head of the NCPO, General Prayut Chan-ocha, said, "The disparity is a big challenge to the government. We have to create jobs and income for people and solve the corruption problem."⁵ In his address to the UN in September 2015, he stated that "to reduce inequality" was among "the first priorities of my administration."⁶ Borwornnsak Uwanoo, the chairperson of the first Constitutional Drafting Committee in 2015 stated that "disparity in income, wealth distribution, and access to opportunities constitutes the underlying root cause of the social and economic ills of the Nation," and claimed his draft was designed to cure this problem.⁷

⁵ "Prayut declares battle against inequality," *The Nation*, 5 Oct 2014

⁶ "The Royal Thai Government attaches importance to creating equal opportunities and access to natural resources because we do not wish to leave anyone behind. We cannot allow the abuse of power for political gains at the expense of the majority, which led in the past to social discord and exploitation, injustice and corruption, still causing divisions in society." <http://www.mfa.go.th/main/en/media-center/14/60612-Statement-by-Prime-Minister-of-Thailand---Interact.html>

⁷ Borwornnsak Uwanoo and Navin Damrigan, "Constitutional drafting in Thailand," distributed by the authors at the presentation at the Foreign Correspondence Club of Thailand on April 8, 2015. Subsequently, Bavornnsak's draft constitution was rejected by the National Legislative Assembly under the junta. A new drafting committee headed by Meechai Ruchuphan was later appointed and a new draft, known as the Meechai Draft was unveiled in March 2016. The new draft has been promoted as an anti-corruption constitution, but critics called it undemocratic, as it does not give adequate guarantee of rights and representation, and it contains

4. What policies and actions are needed?

There is a large debate on policies to mitigate inequality, with a large spectrum of different views. However, the basic policies needed, especially in a situation of rather extreme inequality such as Thailand today, are rather simple and obvious. The key factors are: rights, representation, education, and public goods.⁸

Ensuring equal access to quality education is one of the most important measures, not to mention the fair access to other quality public goods and services in general.

Most important of all, a country should have a political system that adequately guarantees rights and representation to enable citizens to defend their rights, their property, and their opportunities against injustice, unfairness and exploitation.

In Thailand, apart from the universal health care scheme, public goods and services are highly unevenly distributed and the rich and powerful have greater access to them, including good quality public education. The only way to improve fairness in access to public goods and services is to increase the quantity and improve the quality. This will require not only better management of existing government spending, but also an increase of tax revenues. The demand for public goods and services, required both for economic growth and for social provision, has far outstripped the rate of increase in government revenue from taxation, which lags behind the rate of growth in GDP (Cripps, 2016).

provisions which perpetuate the junta's control over elected government. Educationists pointed out that it reduces the years of free education for Thai citizens, among other weaknesses.

⁸ Others include macro policies to support full employment, finance regulations that ensure directing investment to productive activities, well-designed institutions that govern work contracts, other public and social policies that support the working and non-working population in the same way (Berg, 2015).

Therefore, a reform in the taxation system is imperative, both to increase the flow of revenue, and to increase the fairness within the tax system itself. Given the very skewed distribution of land and other assets, wealth taxes should be part of the tax reform agenda.

5. A concluding remark

“Reform” has been the clarion call of the military government and its supporters. How have the reforms completed or promised so far including the current draft constitution (Meechai version), contributed to its declared aim of reducing inequality?

Popular representation has been cut back, and the constitution aims to continue that trend. The discourse of rights has been discouraged, community rights has been undercut significantly by cancelling planning regulations and provisions for environmental protection. The draft constitution reduces the provision of free education by two years. Both corporate and income tax rates have been reduced, and new provisions for wealth tax will not provide significant revenues.

There seems little chance that inequality will be further reduced under this policy regime.

Acemoglu and Robinson have argued in *Why Nations Fail* that only countries with inclusive political and economic institutions can blossom to modern prosperity (Acemoglu & Robinson, 2012). Political elites that refuse to cede power to inclusive institutions are in fact working against their own interests in the long term.

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