

Discussions on

“เศรษฐกิจไทยเติบโตอย่างทั่วถึงเพียงใด:  
บทวิเคราะห์และนโยบาย”

How Inclusive has Thailand’s Economic Growth been?

An Analysis and Policy Implications

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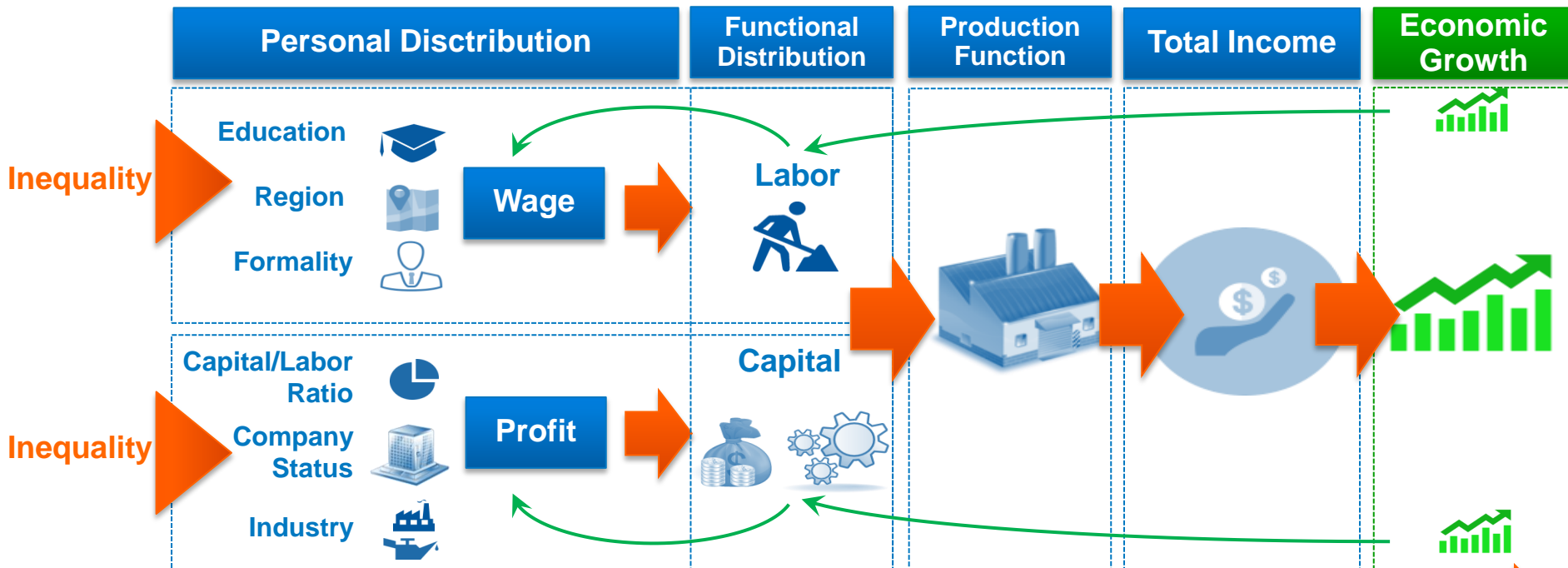
พีรวัฒน์ สำราญจิตต์

ศูนย์วิเคราะห์เศรษฐกิจ TMB (TMB Analytics)

วันที่ 18 กันยายน 2558

# Framework: What is inclusive growth?

Inequality in each component will consequently reflect on wage and profit, and then cause the nationwide income inequality and economic growth.



**Inequality can transmit from small components to the national level**

Hence, **reducing inequality** in small components could **amplify** the **economic growth** and possibly lead to **“Inclusive Growth”**.

- This paper studies **inclusive growth through the production inputs – wage and profit.**
- Visualize stylized facts of inclusive growth on macro level:
  - **Decline of inequality (GINI) with the growth trend may be evidence against inclusive growth in Thailand.**
  - Based on functional distribution, the rise of the rich's share (%Share of capital to GDP) despite the growth slowdown shows the lack of inclusive growth in Thailand.
- Wage:
  - **Education, region, and formal sector** can explain most of the wage.
  - Work experience can reduce wage inequality for at-least secondary school graduate
- Profit:
  - **Accessibility to capital** is very supportive for company to reduce profit inequality.
- Policy Implications:
  - **Government should support education-related policies** in terms of accessibility and sufficient quality.
  - **Policies supporting SMEs for increasing capital availability** is helpful to reduce a gap of profit inequality.
  - **Discussions on Institutional factors** – Political allocation, Corruption, Democracy are factors that interplay with economic inequality.

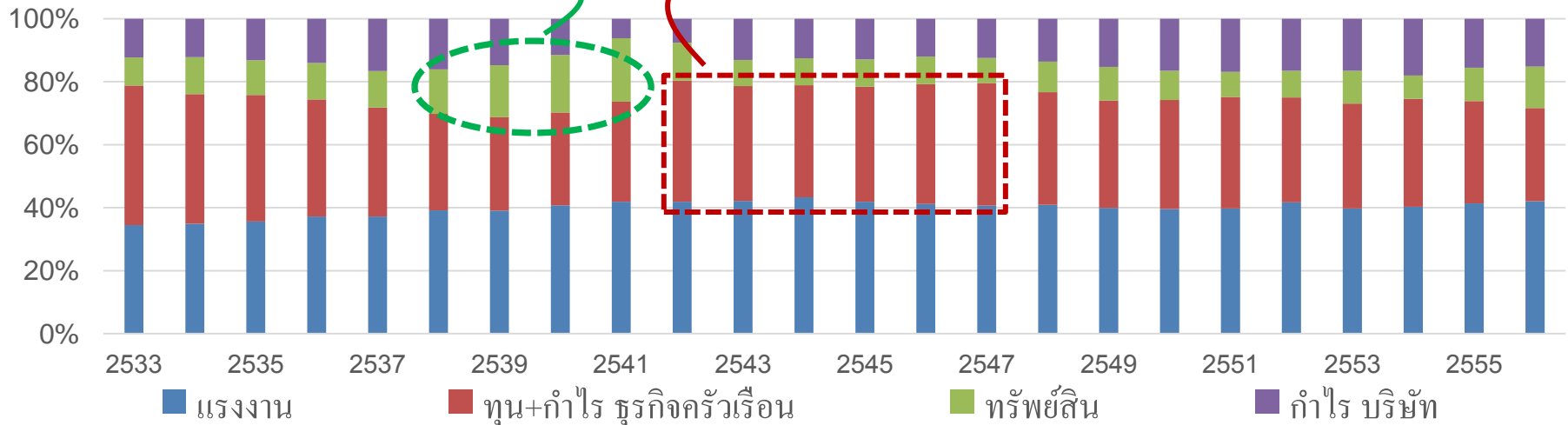
# Key Highlight 1: Does Thailand have an Inclusive Growth?

The paper says **No**, by arguing that....

## Share of Revenue from Different Production Inputs excluding Tax

Share of assets, represented the rich, grew in line with economic growth

The share went up only because other components contracted during economic downturn. No benefit to family business.



Source: สมชัย, ชานนทร์ และจิราภรณ์ (2558)

However, this assertion may face 2 shortcomings.

- Reliance on visual inspection, not statistical relationship
- Relative vs. Absolute measure of “Inclusivity”

# Key Highlight 2: Rewards to Factors of Production

## Wage Analysis

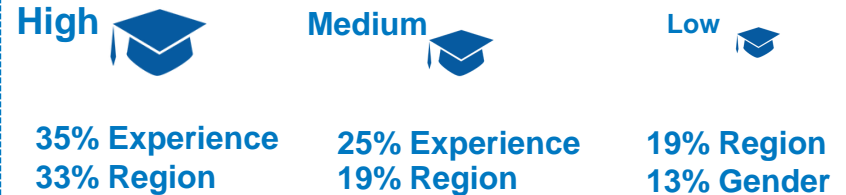
- Level of education is the main factor that can explain wage inequality.
- Region-related policy, i.e., minimum wage, is very supportive to reduce wage inequality across the board.
- Work experience efficiently reduces wage inequality for at-least secondary school graduate.
- Gender inequality still exists in the low level of education.
- **Model is quite robust. Adj R-Square is about 52%.**

## Profit Analysis

- Accessibility to capital is very supportive for company to reduce profit inequality (capital/labor ratio =14% for Large & Medium).
- Government policy should facilitate credit availability to SMEs to narrow down the profit inequality.
- **Because of low adj R-Square (11%), the adjustment of the model should be consider to have more explanatory power.**

### Explanatory power of top variables responding to wage inequality between 2006 and 2013

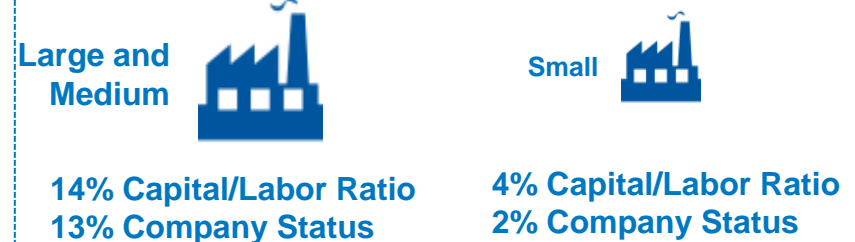
#### By Level of Education



Source: สมชัย, ชานนทร์ และจิราภรณ์ (2558), TMB Analytics

### Explanatory power of top variables to profit inequality as of 2012

#### By Size of Factory



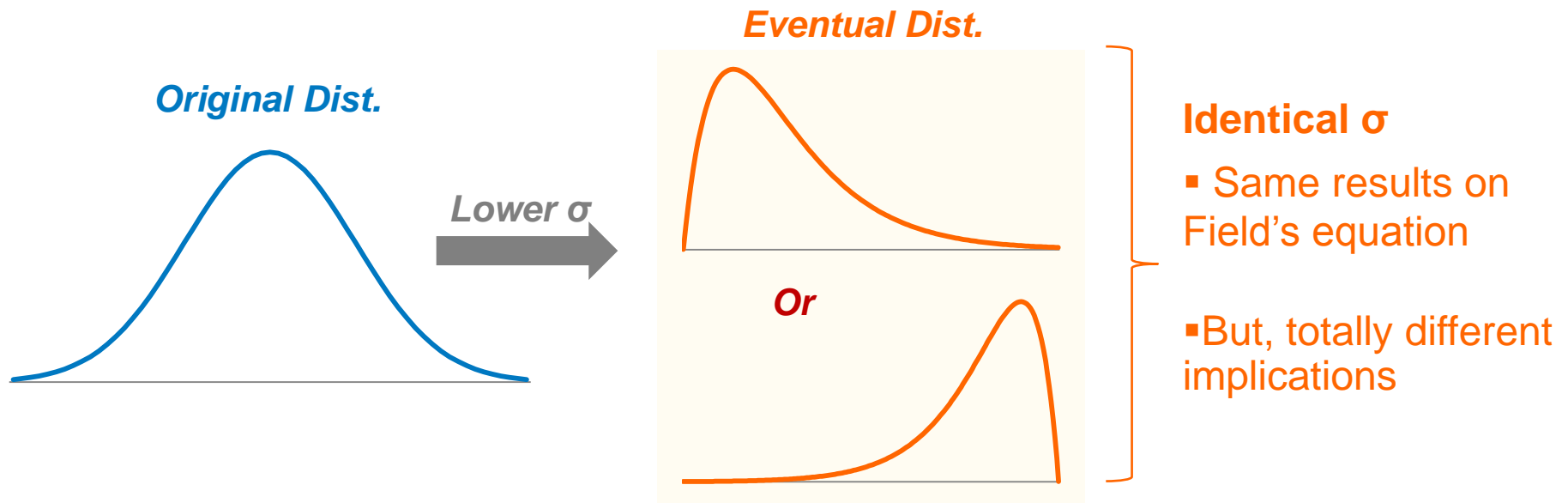
Source: สมชัย, ชานนทร์ และจิราภรณ์ (2558), TMB Analytics

# Comment 1: on Methodology

The analysis is based on equation proposed in Field (2003).

$$s_j[\ln Y] = \beta_j \cdot \sigma(X_j) \cdot \text{cor}(X_j, \ln Y) / \sigma(\ln Y)$$

- Field (2003) stated that the equation is devised to decomposed the level of “income inequality” – a difficult task to do.
- Though  $\sigma(X)$  may represent an inequality in  $X$ , it does not reflect the shape of the distribution. Thus lower inequality from lower  $\sigma(X)$  could be misleading.



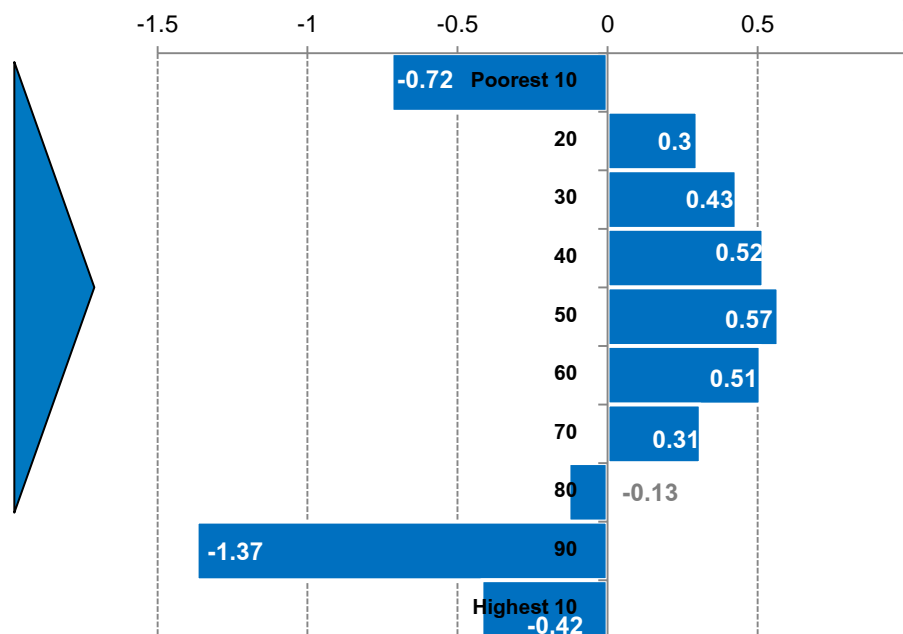
## Comment 2: Declining Gini ≠ Falling inequality

- “ ‘Decline of inequality (Gini)’ with the growth trend may be evidence against inclusive growth in Thailand.” →
- Problem:** Gini is insensitive to changes in *extreme income groups*.

ตารางที่ 1 : สัดส่วนรายได้ของประชากร จำแนกตามกลุ่มประชากร ตามลำดับรายได้ (Decile by Income)

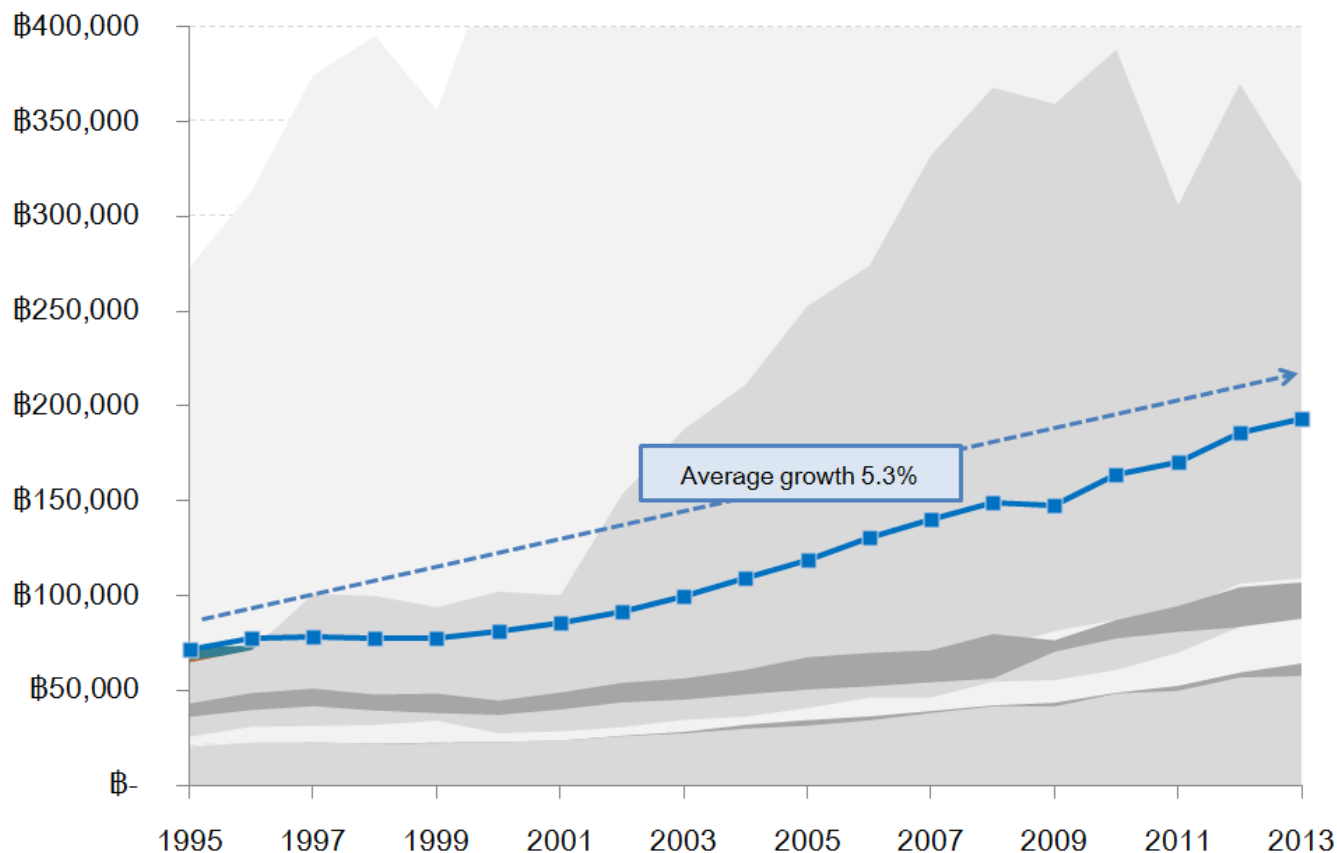
กลุ่มประชากรตามระดับรายได้	สัดส่วนรายได้ของประชากร (ร้อยละ)					
	2531	2537	2543	2547	2552	2556
กลุ่ม 10% ที่1 (จนสุด)	1.78	1.59	1.50	1.75	1.62	1.06
กลุ่ม 10% ที่2	2.80	2.48	2.45	2.73	2.80	3.10
กลุ่ม 10% ที่3	3.60	3.25	3.22	3.56	3.66	4.03
กลุ่ม 10% ที่4	4.45	4.10	4.06	4.46	4.59	4.97
กลุ่ม 10% ที่5	5.50	5.17	5.09	5.55	5.65	6.07
กลุ่ม 10% ที่6	6.89	6.51	6.42	6.90	7.01	7.40
กลุ่ม 10% ที่7	8.84	8.39	8.37	8.73	8.84	9.15
กลุ่ม 10% ที่8	11.78	11.29	11.48	11.61	11.43	11.65
กลุ่ม 10% ที่9	17.14	16.50	17.06	16.41	15.95	15.77
กลุ่ม 10% ที่10(รวยสุด)	37.23	40.72	40.36	38.30	38.44	36.81
รวม	100.0	100.0	100.0	100.0	100.0	100.0
สัดส่วนกลุ่มที่10/กลุ่มที่1 (เท่า)	20.91	25.62	26.82	21.93	23.76	34.85

Change in Share if income for each decile group



- Extreme groups: Income ratio 10:10 of the 10% riches group to bottom 10% is **34.9 times in 2013** (or 20-21 times after adjustment of inflation – Sethaput & TFF (2014)) comparing to **20.9 times in 1988**.

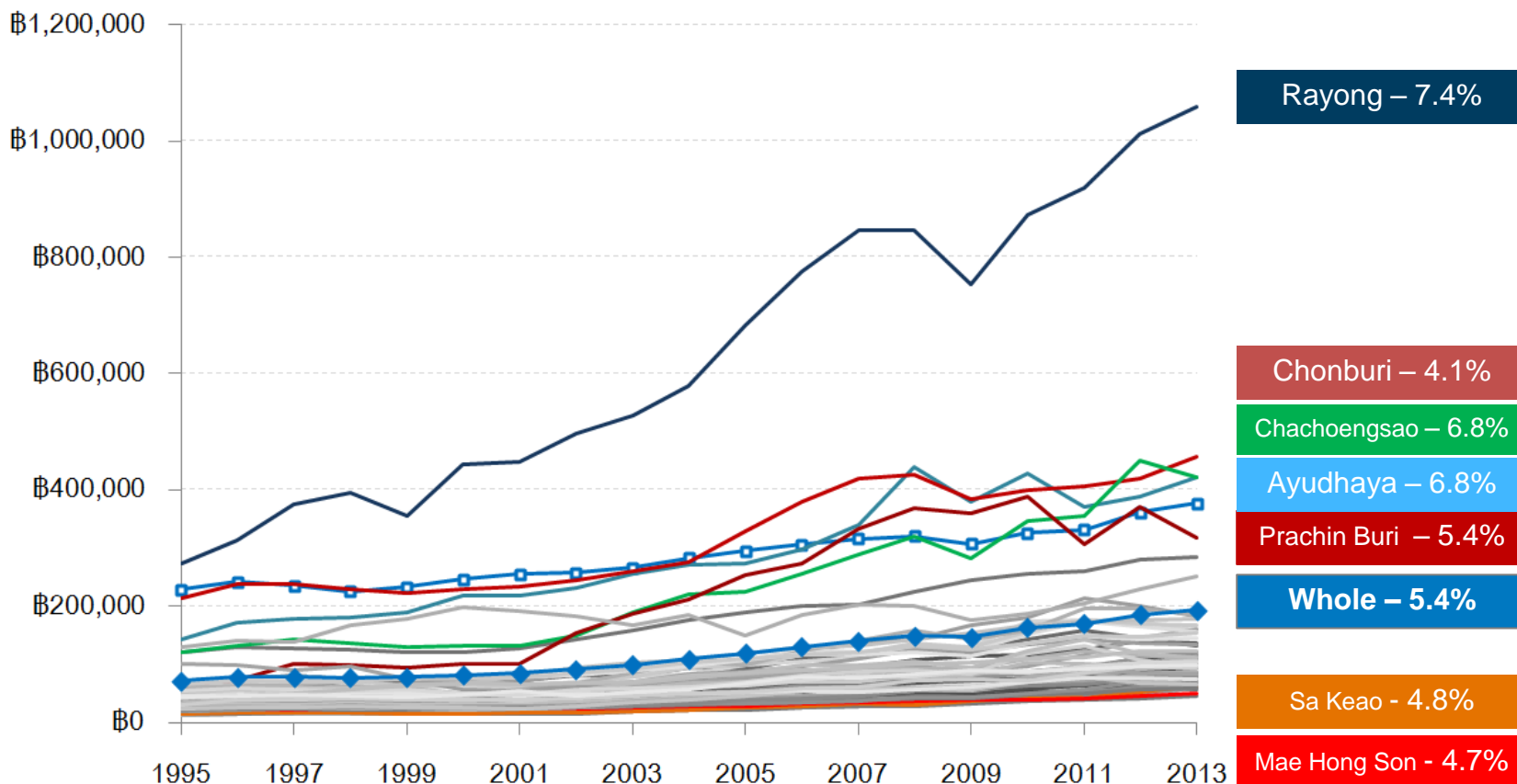
## GDP per capita – A reassuring trend of growth?



- Average growth of GDP per capita at 5.3%. Inclusive growth should mean participation to this income growth from as many regions as possible
- ... or is it?

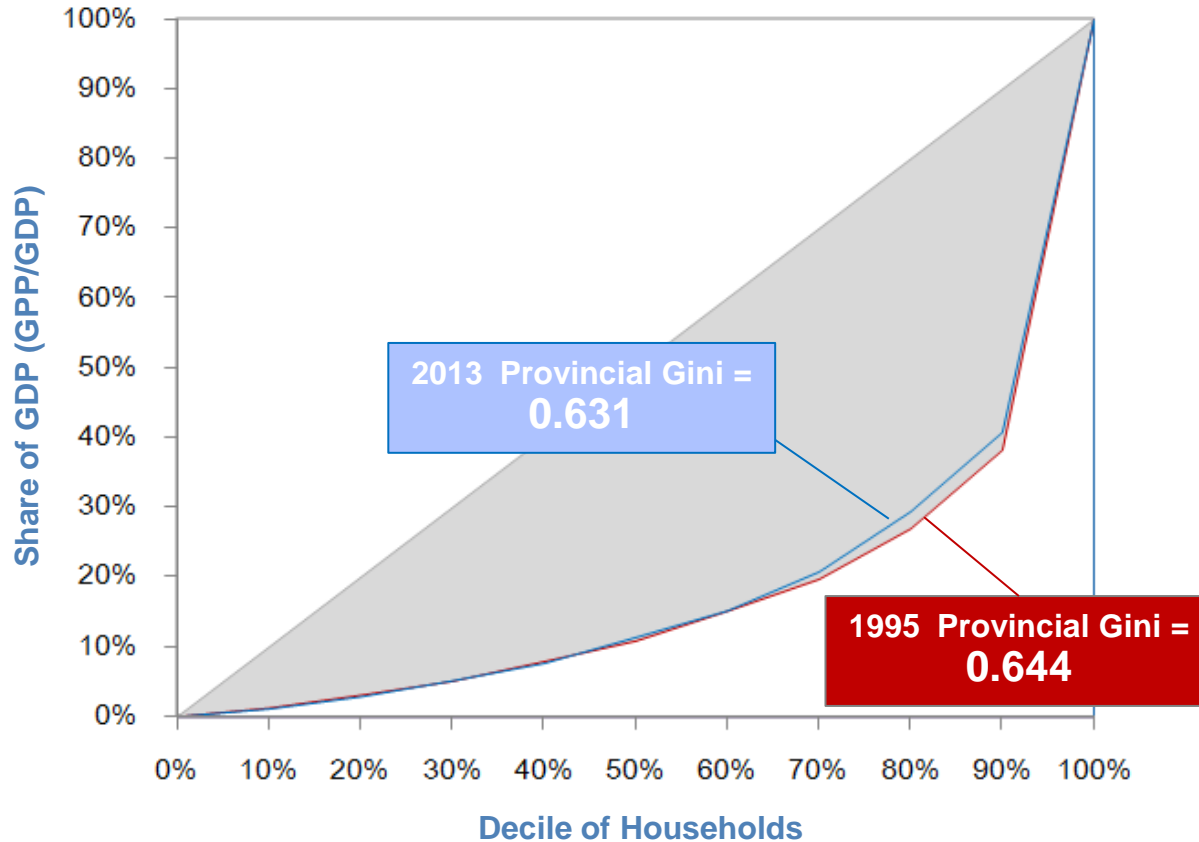


## GPP per capita – Learn from provincial miracle?



- GPP per capita gives a glimpse of where economic activities grow. So, yes regional matters.
- But it does beg a question... is BOI the cause or the effect of regional disparity?
  - Investment needs infrastructure, utility, and connectivity... could that be the cause?

## Provincial Lorenz Curve



Decile Households	1995	2013
0%	0%	0%
10%	1.2%	1.1%
20%	1.9%	1.8%
30%	2.0%	2.3%
40%	2.8%	2.5%
50%	3.0%	3.7%
60%	4.3%	3.8%
70%	4.6%	5.6%
80%	7.2%	8.7%
90%	11.3%	11.4%
100%	61.8%	59.2%

- Almost two thirds of Thailand's economic activity happens in approx. 10 provinces.
- So again. YES, regional factors matter. But why these 10 provinces?
- How could growth be inclusive if it only takes 10% of provinces to generate around 60% of our GDP? Simple, unlikely.

### Inequality – focus on distribution

“Income inequality is an indicator of **how material resources are distributed** across society.”

*OECD (2011)*

“Gini index measures the extent to which **the distribution of income or consumption** expenditure among individuals or households within an economy deviates from a perfectly equal distribution.”

*World Bank*

### Inclusive growth – more on opportunity

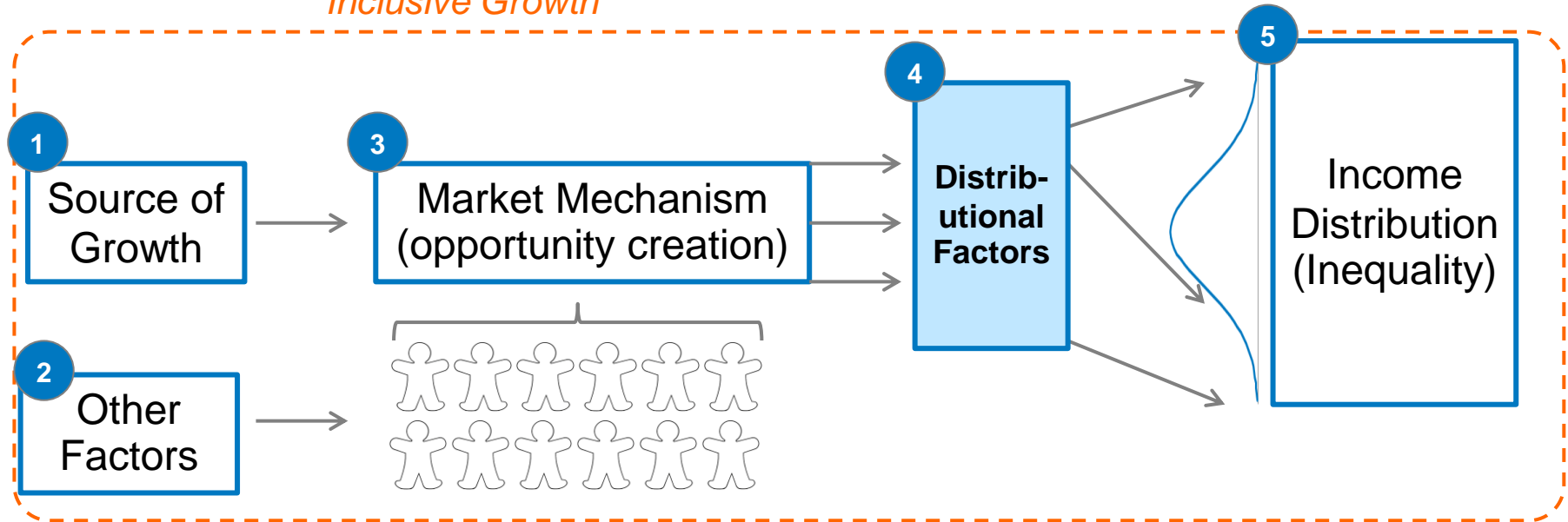
“Rapid and sustained poverty reduction requires **inclusive growth that allows people to contribute to and benefit from economic growth.**”

*Ianchovichina and Lundstrom (2009)*

“The concept of more inclusive growth avoids targeting any specific income groups for special treatment and instead focuses on **facilitating the participation of those less well off in the expanding market opportunities.**”

*ADB (2007)*

## Inclusive Growth



- On studying inclusive growth, the focus should be on **how economic growth creates opportunities and how those opportunities are shared among different groups**, whether through the market mechanism or through distributional factors (1-5) before arriving at income distribution.
- However, the paper seems to focus on factors which help explaining difference in income within group of production inputs (that is 2 & 5).

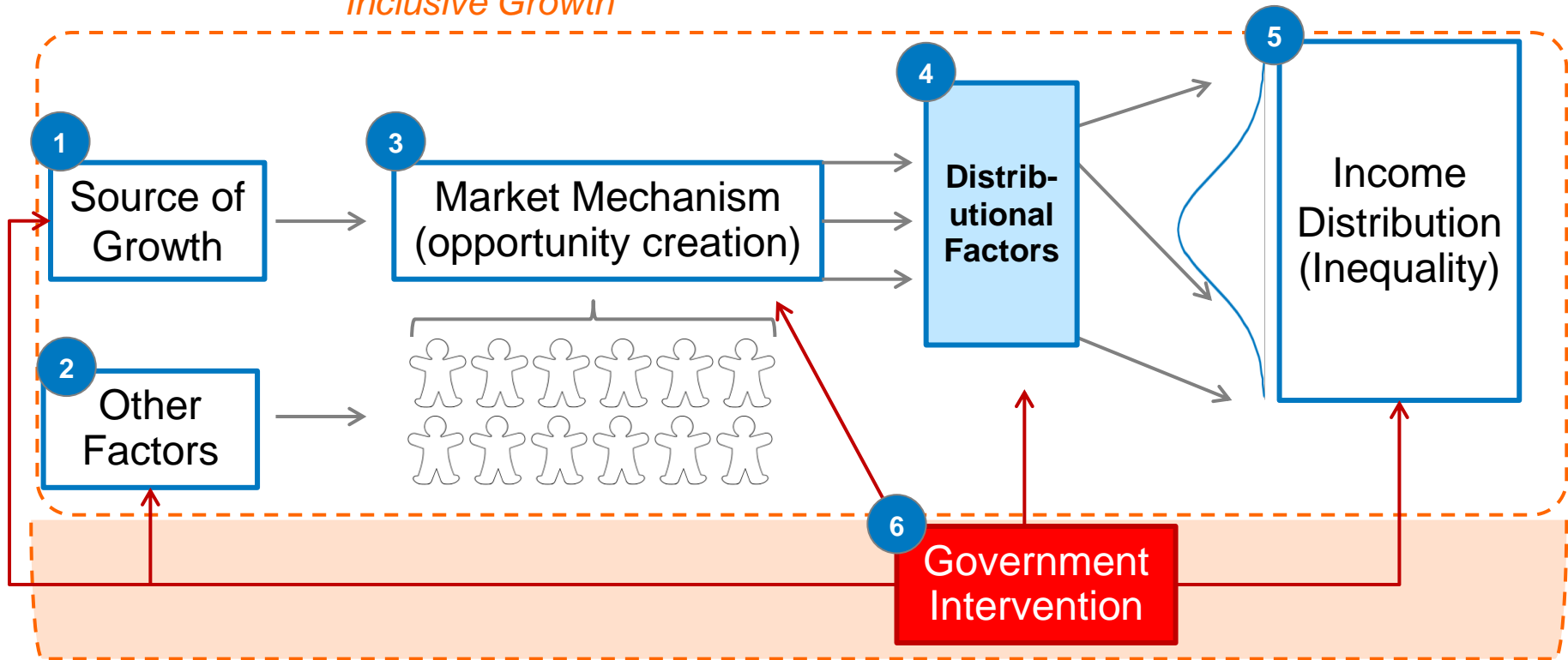
**Ali and Son (2007)** studied the opportunities for education and health services in the Philippines.

- They found that the *opportunities* for both primary and secondary education expanded during 1998-2004.
- However, the *opportunity* in secondary education expanded more for students from rich families than the poor.
- For health services, though higher *opportunities* were created to all group, most of the services were utilized by those at the top of income distribution.

**Ianchovichina and Lundstrom (2009)** provided a solid framework to analyze the constraints that impede the inclusive growth - the economic growth and poverty reduction.

- Background: Identify major factors driving growth and poverty reduction in the past.
- Profile of economic actors: How income is earned? Distinguish between sectors, size of firms, geographical etc. Pay particular attention to excluded groups.
- Identify constraints to inclusive growth
- Applying to Zambia, authors concluded that inclusive growth could be reduce by eliminating constraints - higher infrastructure-related cost, lack of education, and weak governance.

## Inclusive Growth



- The role of government seems to be missing from analysis, though appears in the discussion on minimum wage and BOI policy discussion.
- Roles of the government in:
  - Generating the source of growth to create opportunity (1)
  - Provided enough basic social infrastructure (2)
  - Intervene market mechanism to ensure better allocation of *opportunities* (3)
  - Distribution of market outcome or even income redistribution policy (4 & 5)

Other dimensions of inequality that may play an important role to Inclusive Growth (and indicators that have been used)

1. ด้านรายได้ (สัดส่วนของรายได้ และ Gini-coefficient)
2. ด้านสินทรัพย์ทางการเงิน (เงินฝาก)
3. ด้านหนี้สินครัวเรือน (หนี้ครัวเรือน ตามกลุ่มรายได้ – จนมาก กู้มาก รวยมากกู้ได้)
4. ด้านการถือครองที่ดิน (การถือครองที่ดินที่มีโฉนด)
5. ด้านการศึกษา (ระดับการศึกษาของครัวเรือนในแต่ละกลุ่มรายได้)
6. ด้านสาธารณสุข (ภาวะและงบประมาณระบบหลักประกันสุขภาพ)
7. ด้านการคุ้มครองทางสังคมและแรงงาน (แรงงานในระบบและนอกระบบ)
8. ด้านความยุติธรรม (ผลการดำเนินงานของกองทุนยุติธรรม)
9. ด้านการเมือง (ยังไม่สามารถวัดได้)



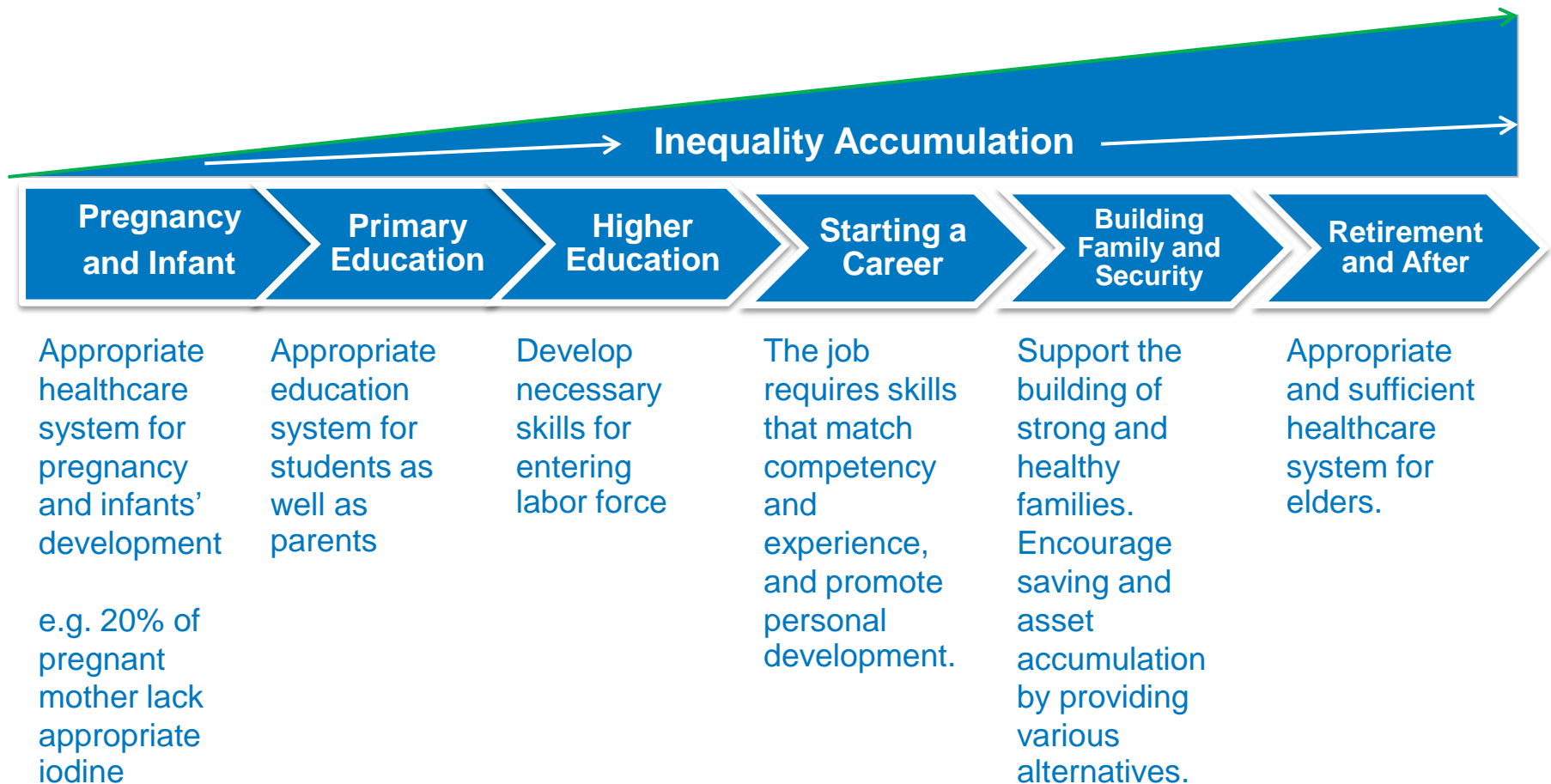
Unequal Opportunities + Growth = Income Inequality

*Further Reading: สถิติ อาชวานันทกุล ความเหลื่อมล้ำฉบับพกพา (2554)*

# Comment 7: Inequality as Research Agenda – Snowball Effect

Inequality usually develops from small issues since birth, and keeps accumulating overtime (snowball effect). Thus, when addressing inequality,

... one should look at the *life cycle approach to inequality*.





Not to the authors, not to the paper, but **calling a response from authority** to the stack of research and findings we have so far.



- We need **an accountable body** to handle end-to-end approach to inequality problem
  - NESDB?
  - **Dual mandate: Growth and inequality**
- We need a target (development goals of inequality reduction)
  - Target for 5 to 10 years along with growth targets
  - Targets on different types of Inequality (life cycle approach as previously discussed)
  - Promote inclusive growth (dual mandate)
- Build a network to deal with inequality. Private sector is aware of the problem, and trying to come up with parts of the solution. E.g.
  - “1 ไร่ 1 แสน” for small farmers
  - German-style vocational education with real-life training and education
  - School in factory programs

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# THANK YOU

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