Myths and Facts about Inequalities in Thailand

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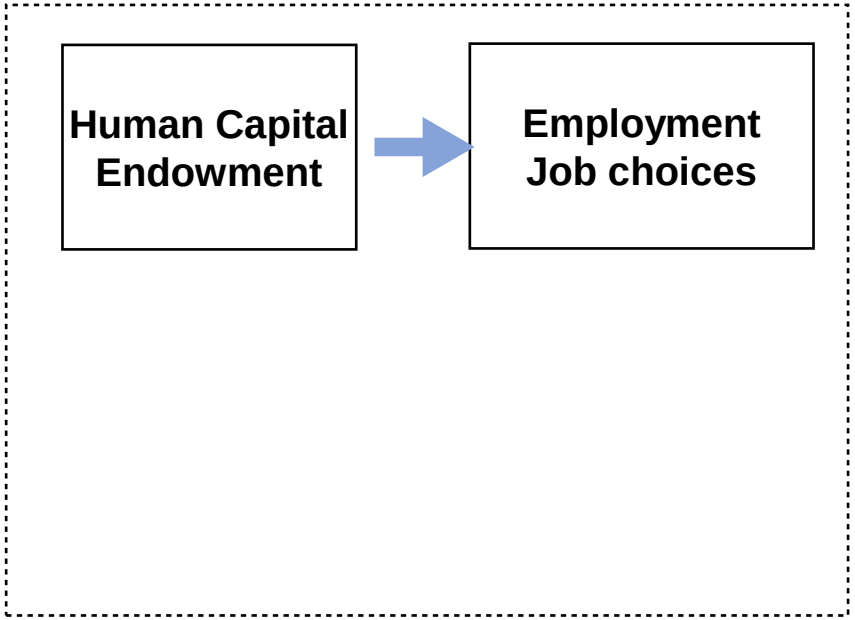
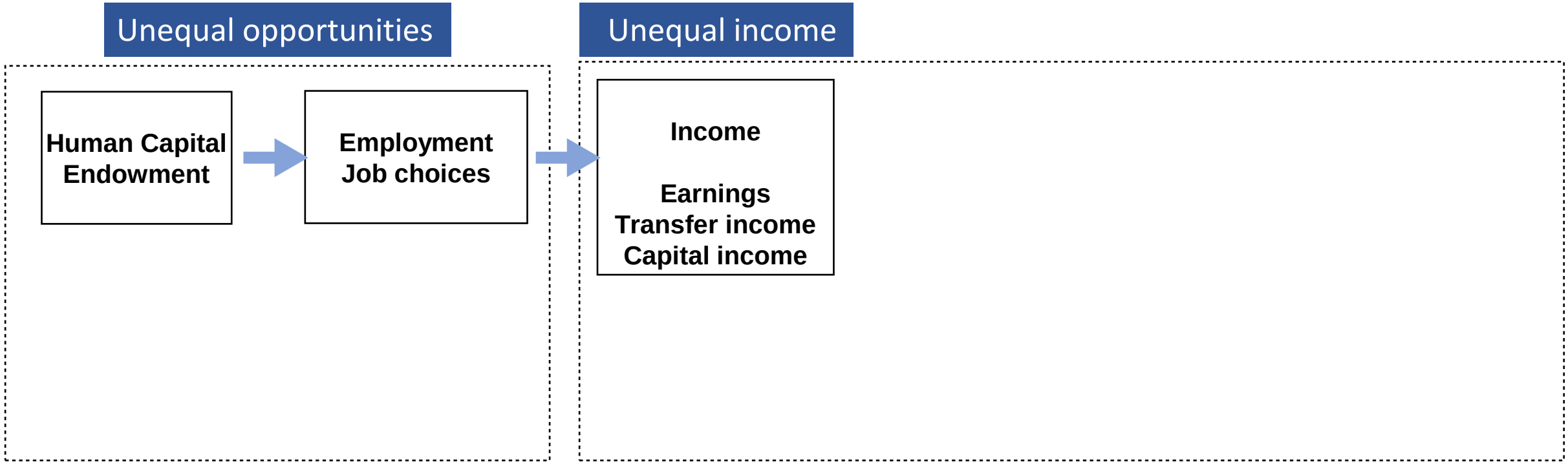
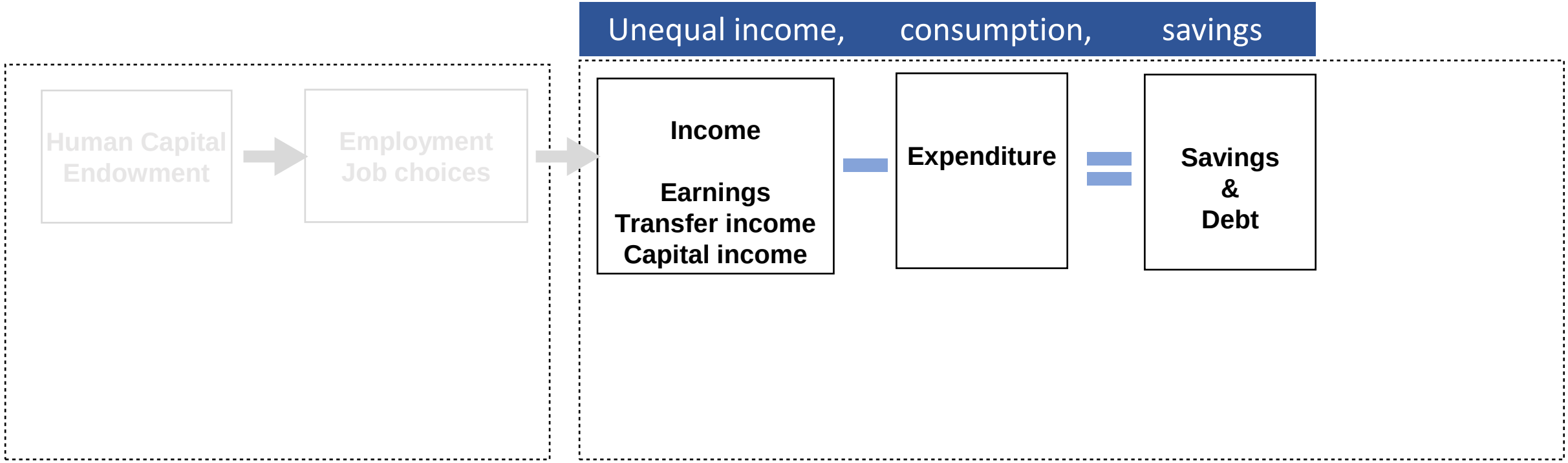
Unequal opportunities




Unequal opportunities
Unequal income
Human Capital
Endowment
Employment
Job choices
Income
Earnings
Transfer income
Capital income


Unequal income, consumption, savings
Human Capital Endowment
Employment Job choices
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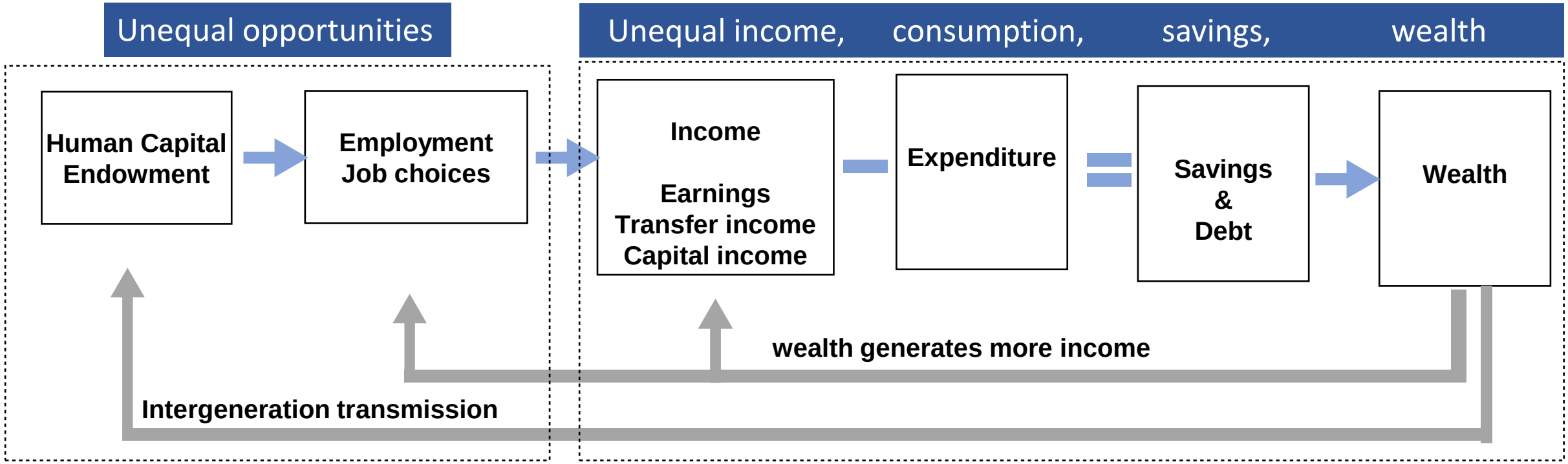
Capital income
Expenditure
Savings & Debt


Unequal opportunities
Unequal income, consumption, savings, wealth
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Wealth
wealth generates more income
Intergeneration transmission

Unequal opportunities

Unequal income, consumption, savings, wealth

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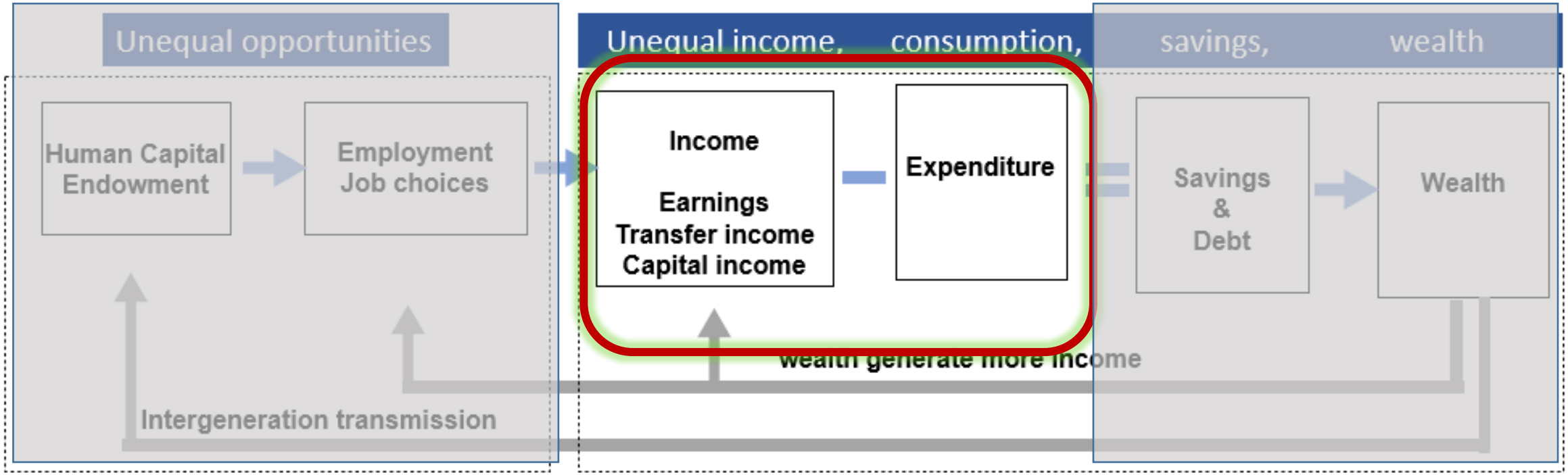
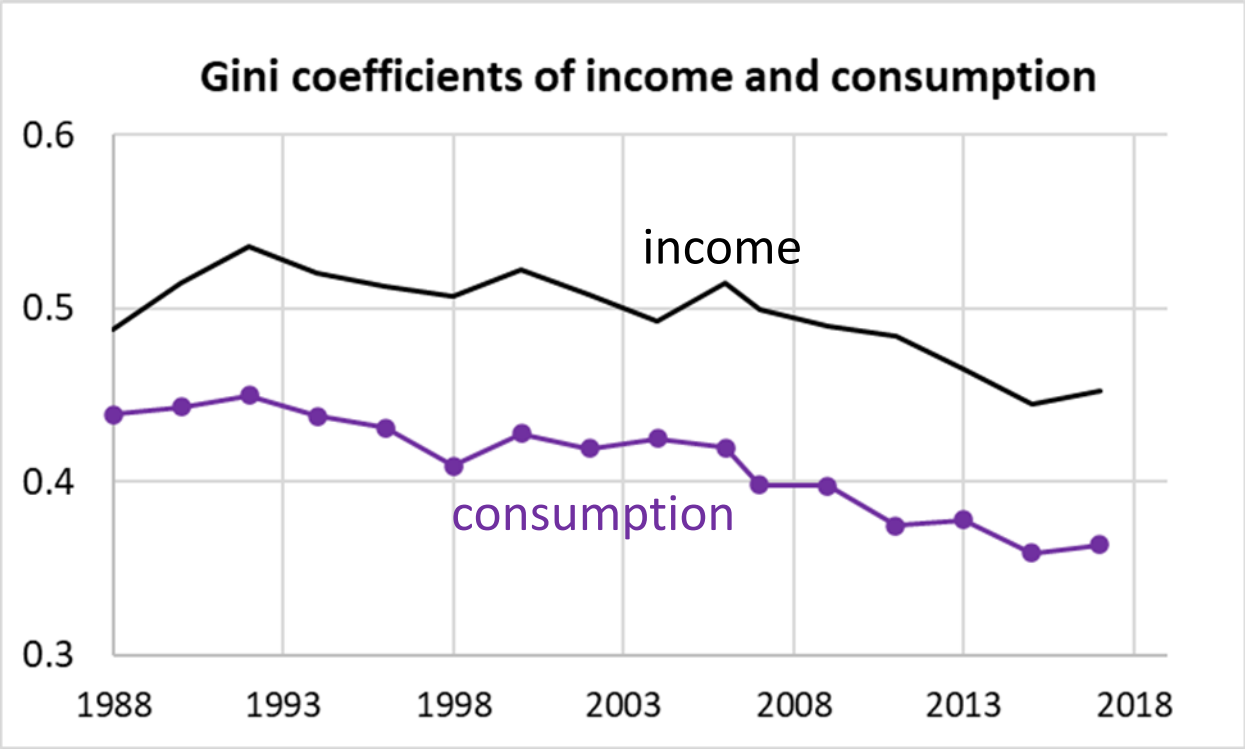
wealth generates more income

Intergeneration transmission



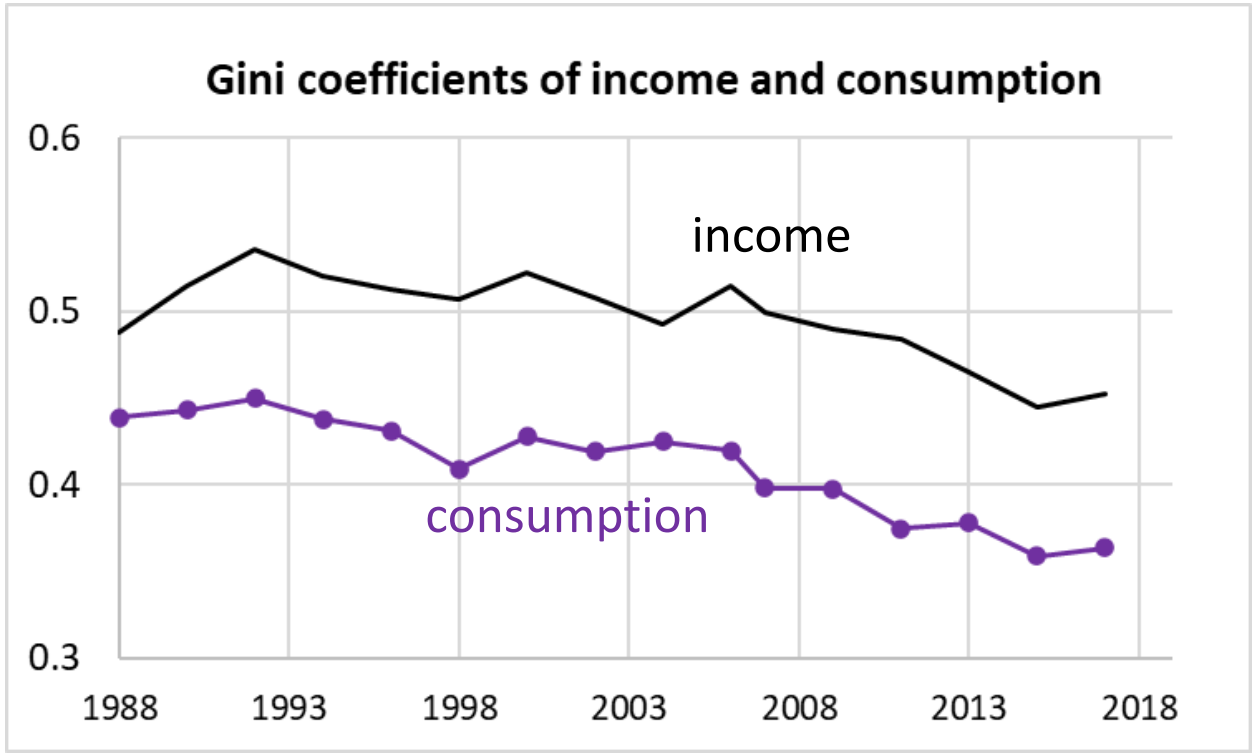
- ❑ **What drive the changes in income & consumption inequalities?**
- ❑ **Would the picture change post-Covid 19?**

Officially: income and consumption inequalities have declined



Source: NESDC calculated from Household Socio-Economic Survey (SES)

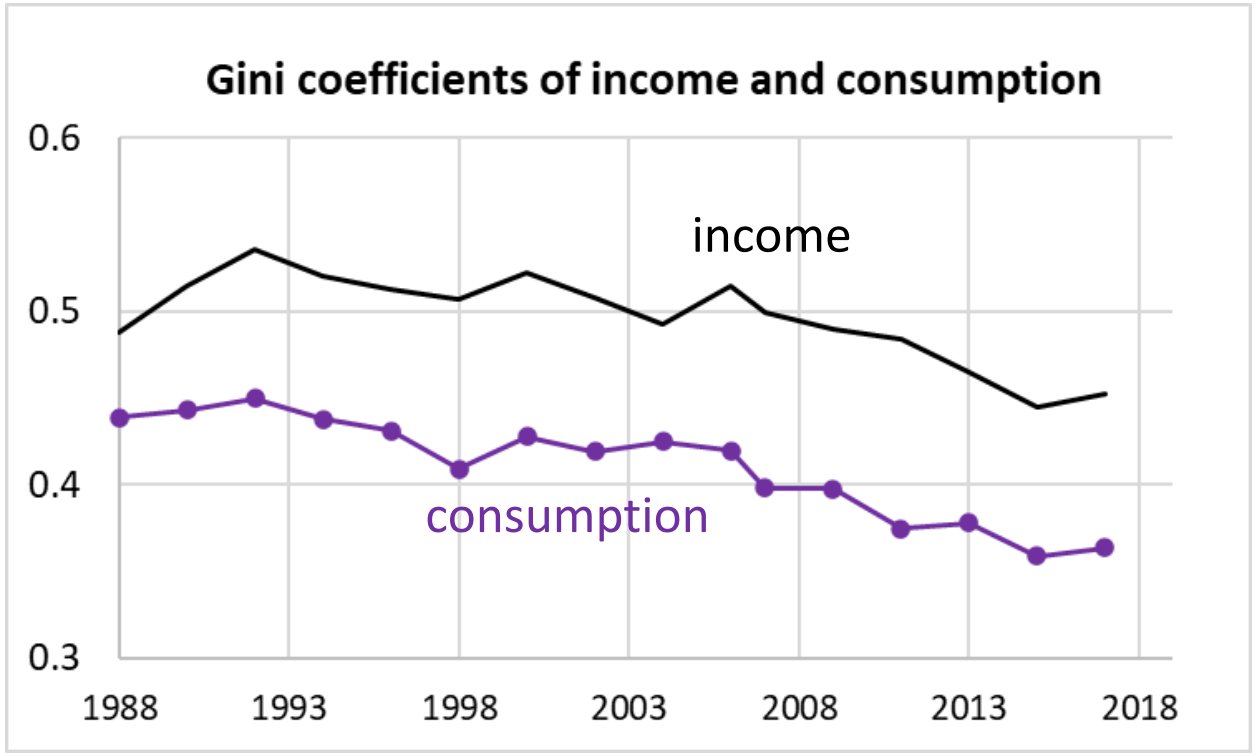
Officially: income and consumption inequalities have declined



Source: NESDC calculated from Household Socio-Economic Survey (SES)

- Household surveys under-sample top 1%.

Adding tax data does not reverse the trend



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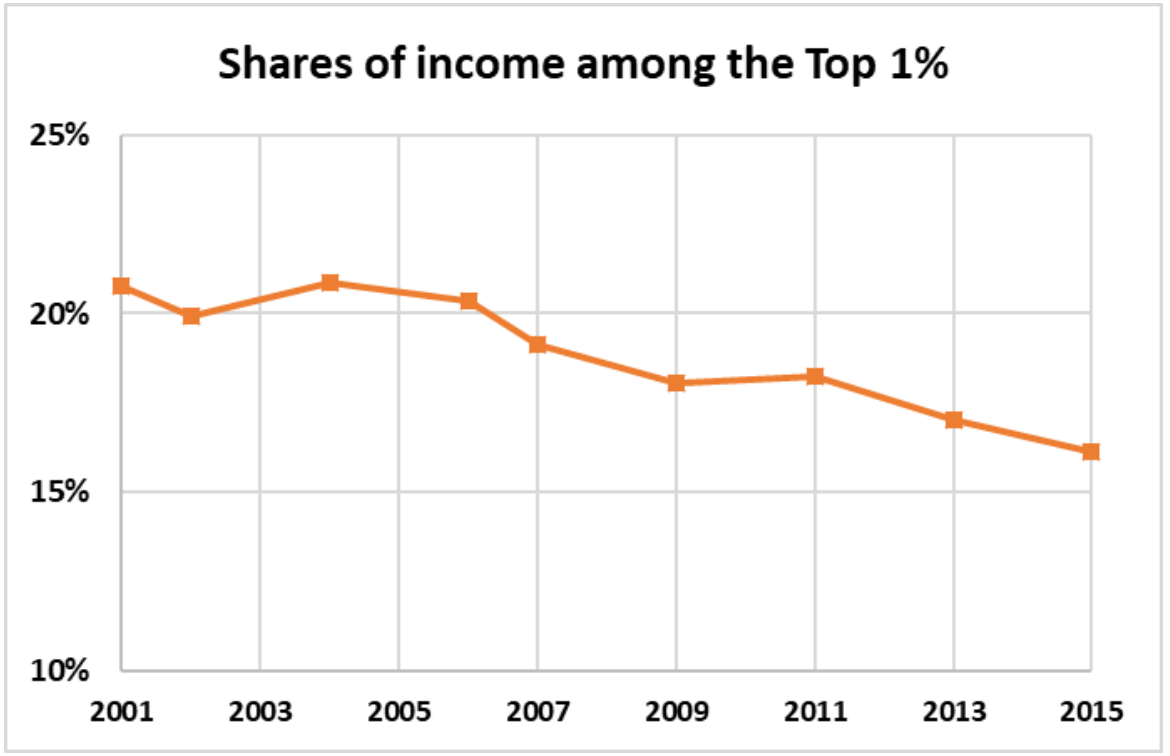
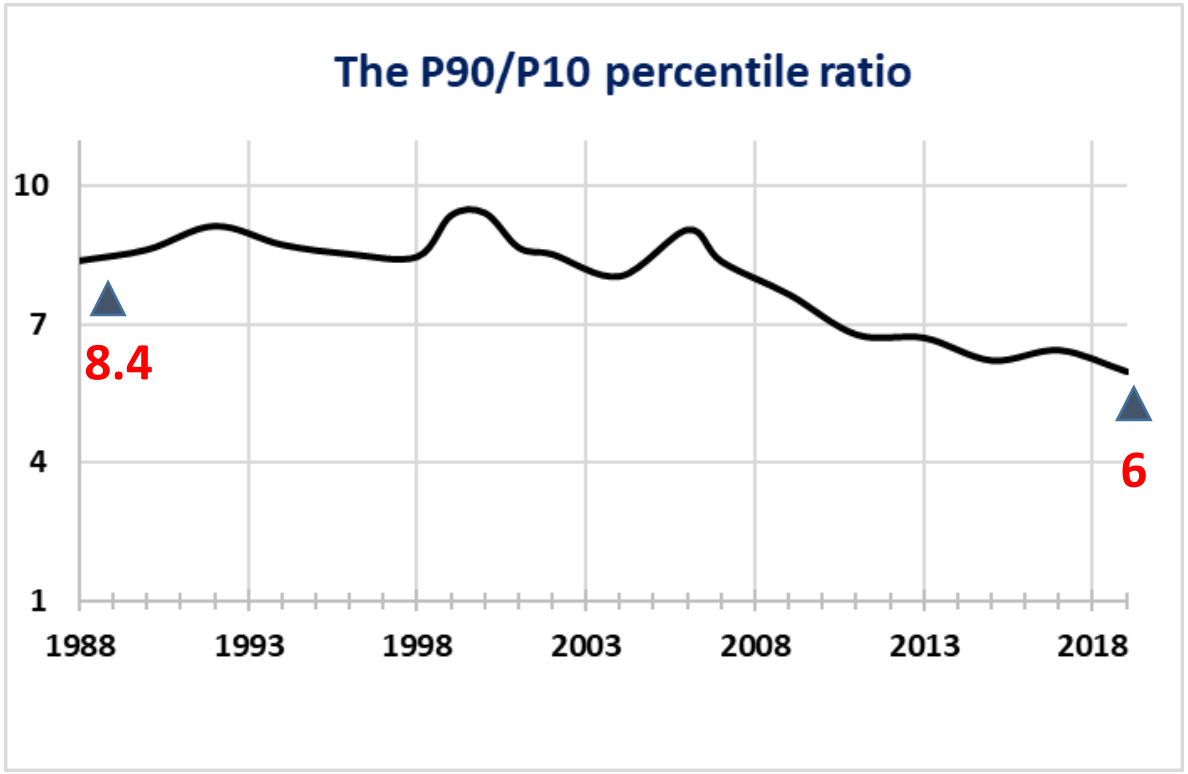


Source: Jenmana (2018) calculated from combining SES with tax data

Robustness of declining income inequality



Source: Authors calculated from SES

Drivers behind 'declining income inequality' are concerning and unsustainable.

Data

I. On income & consumption inequalities

Annual SES: 1988-2019

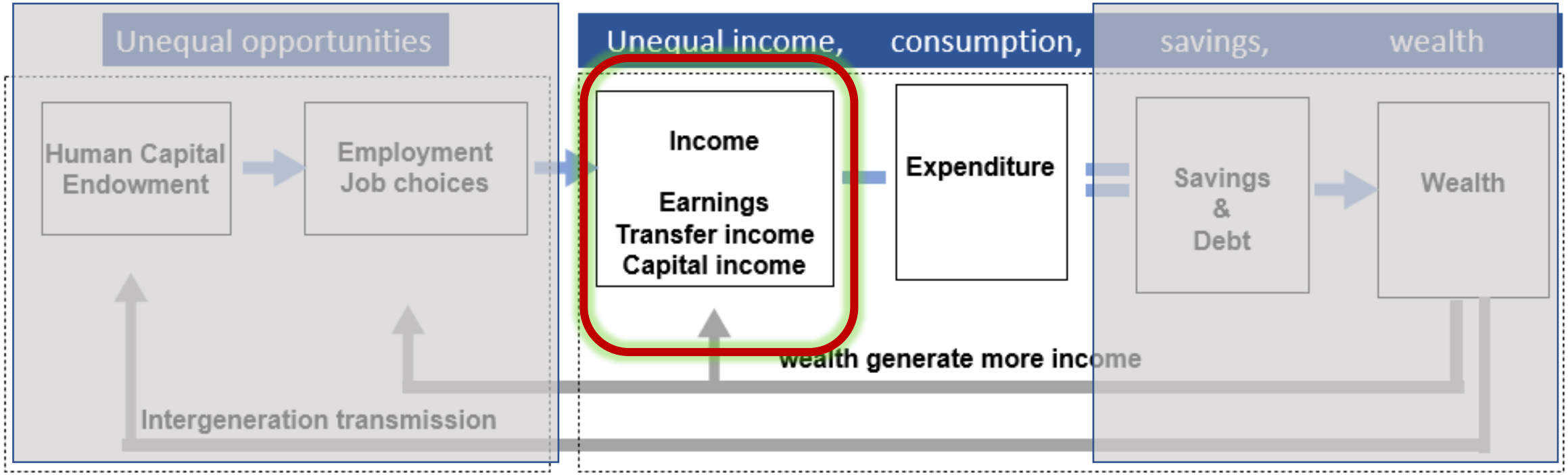
- Household level
- Unit : real value at 2000
  adjusted to per adult per month

II. On Covid-19 impact

Quarterly LFS: 2019-2020

- Individual-level

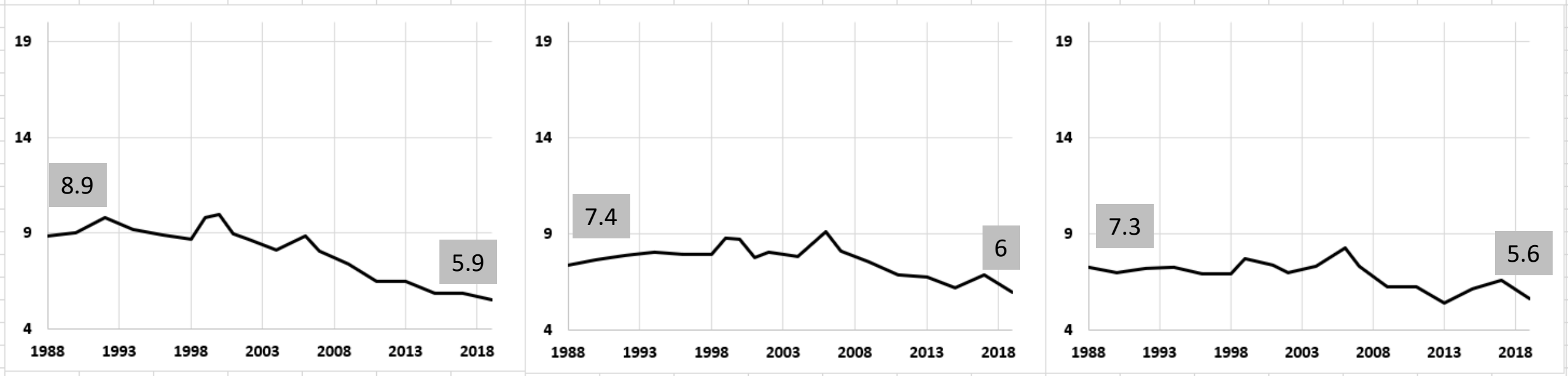
SES : Household Socio-Economic Survey LFS : Labor Force Survey



- **What drive the changes in income & consumption inequalities?**
- **Would the picture change post-Covid 19?**

Total income inequality declined for all ages

25-54 prime-age HHs	55-69 transitioning-age HHs	70+ senior HHs

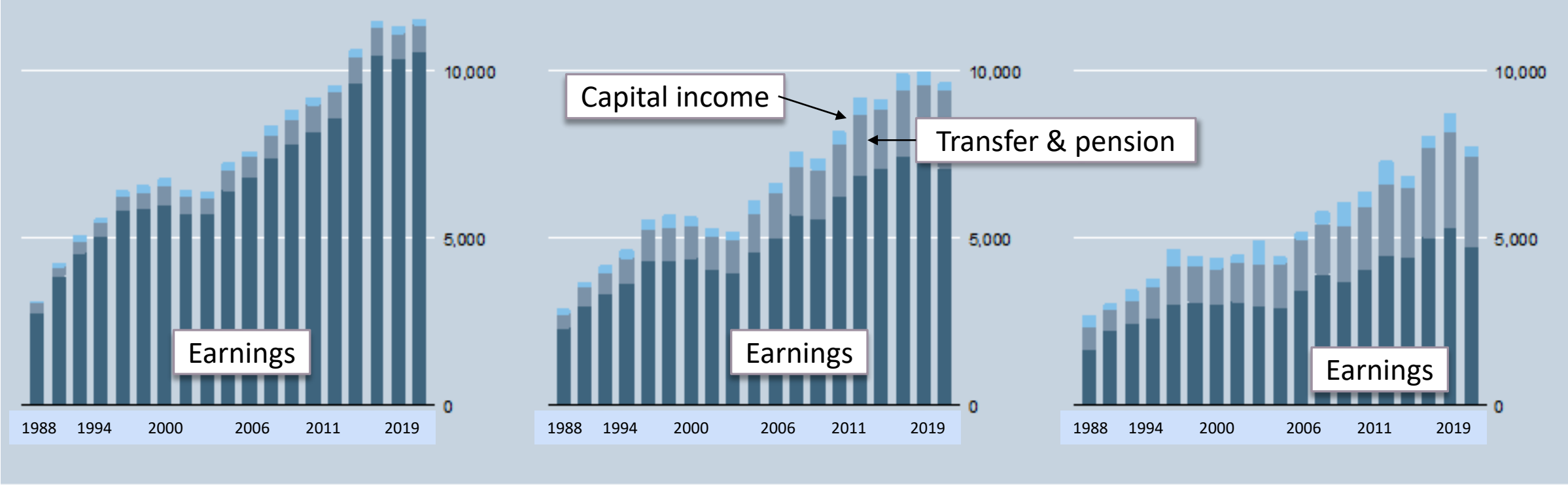


The P90/P10 percentile ratio of total income

Source : SES (household-level)

For each age group, income components differ

25-54 prime-age HHs	55-69 transitioning-age HHs	70+ senior HHs



Source : SES (household-level)

More public transfer policies
More households relying on transfers

Public transfer programs

- Elderly allowance
- Disability allowance

Shares of households by main sources of income

1988-1990

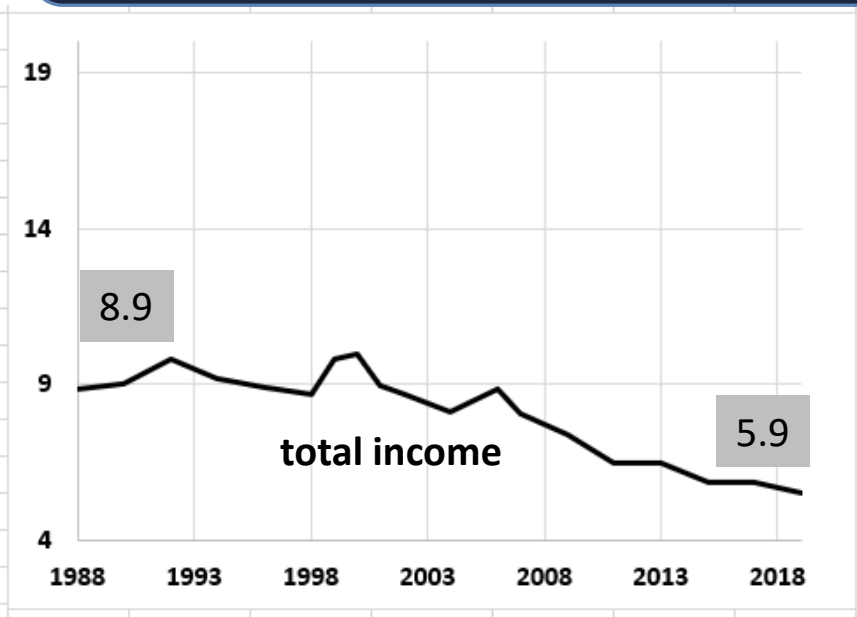
Main source of income	Earnings	Transfer & Pension
Age 55-59	92%	7%
Age 60-64	88%	10%
Age 65-69	84%	15%

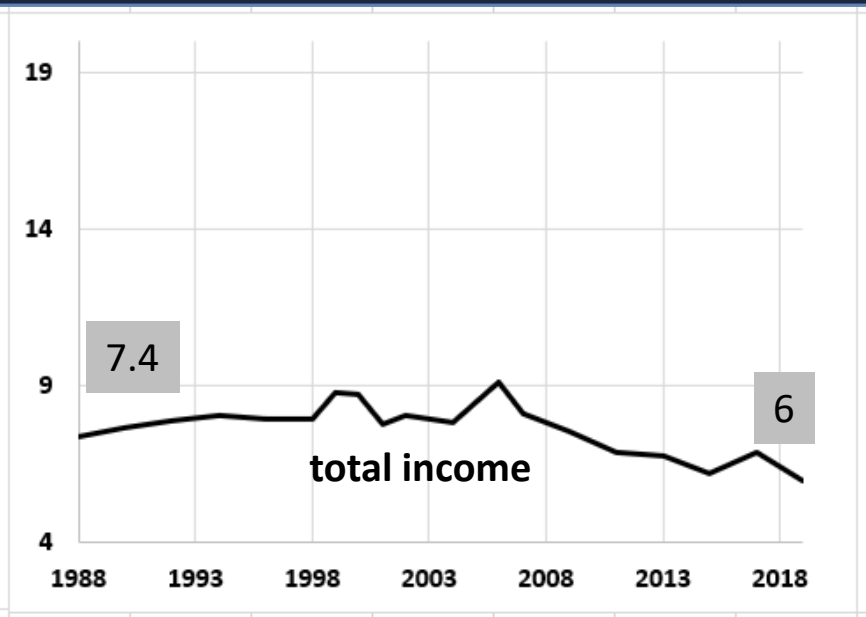
2017-2019

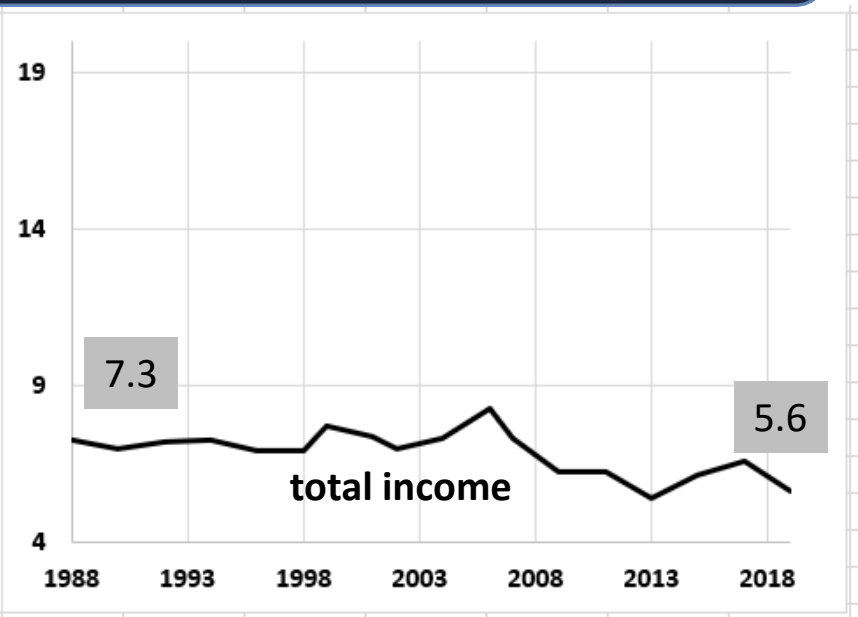
Main source of income	Earnings	Transfer & Pension
Age 55-59	87%	12%
Age 60-64	72%	27%
Age 65-69	61%	37%

Counterfactual experiments if transfer components were removed

25-54 prime-age HHs	55-69 transitioning-age HHs	70+ senior HHs





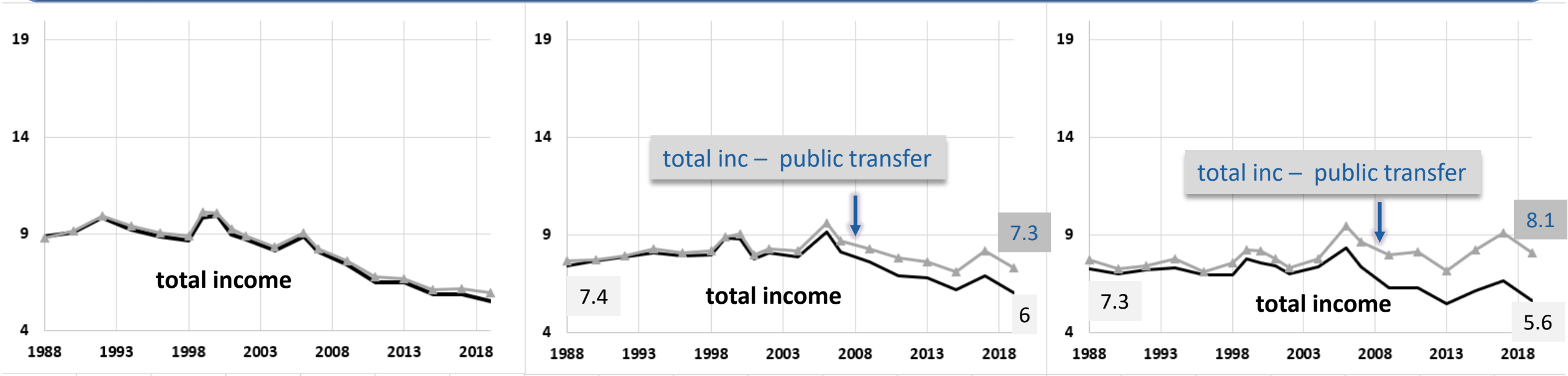


The P90/P10 percentile ratio

Source : SES (household-level)

Removing public transfer, inequality would slightly increase

25-54 prime-age HHs	55-69 transitioning-age HHs	70+ senior HHs

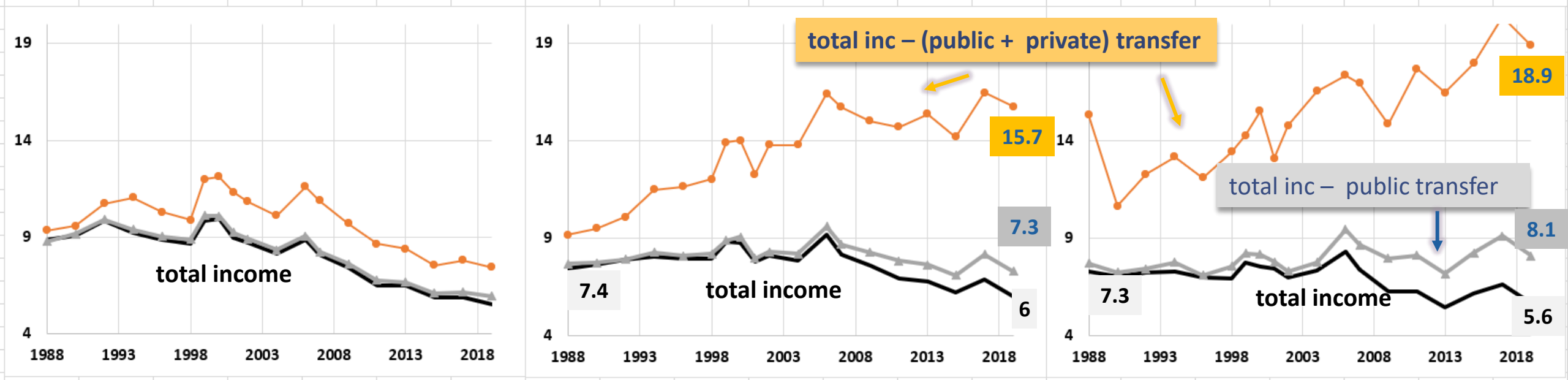


The P90/P10 percentile ratio

Source : SES (household-level)

Removing public & private transfer, inequality would largely increase

25-54 prime-age HHs	55-69 transitioning-age HHs	70+ senior HHs

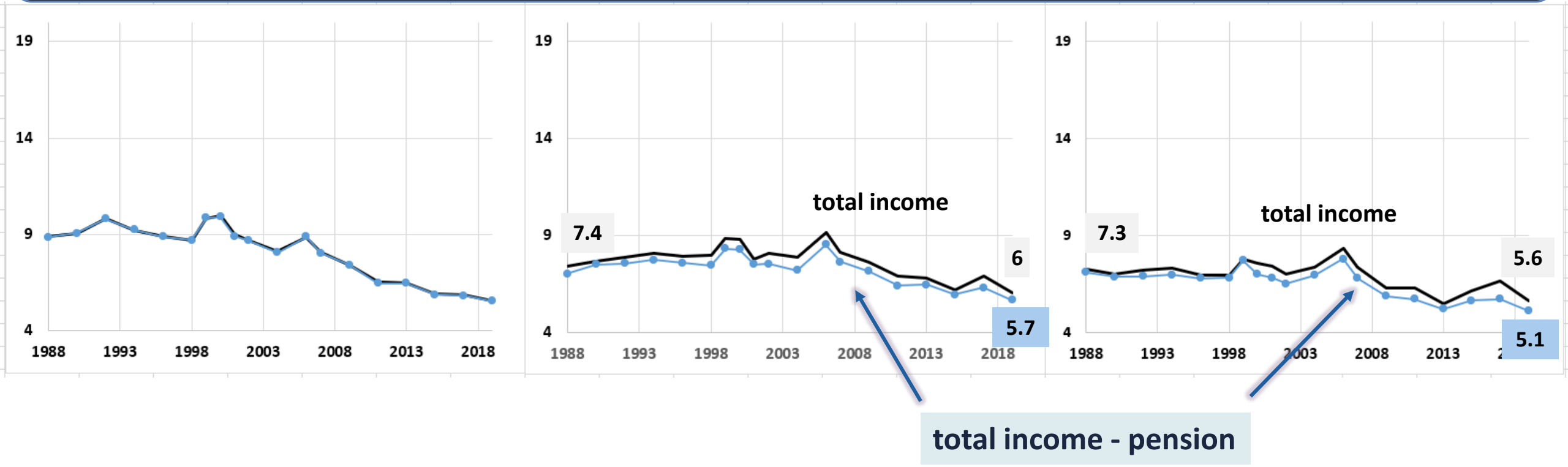


The P90/P10 percentile ratio

Source : SES (household-level)

Regressive role of current pension system

25-54 prime-age HHs	55-69 transitioning-age HHs	70+ senior HHs

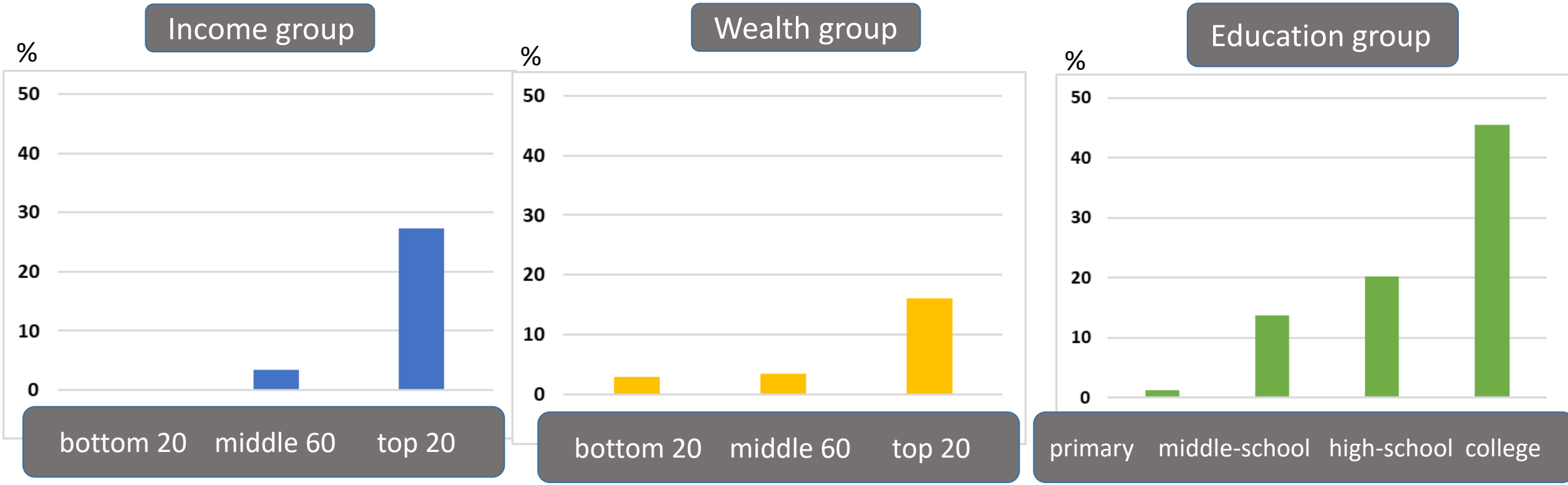


The P90/P10 percentile ratio

Source : SES (household-level)

Pension concentrated in rich households

Shares of households 55+ years old with pension



Source : SES (household-level) : 2017-2019

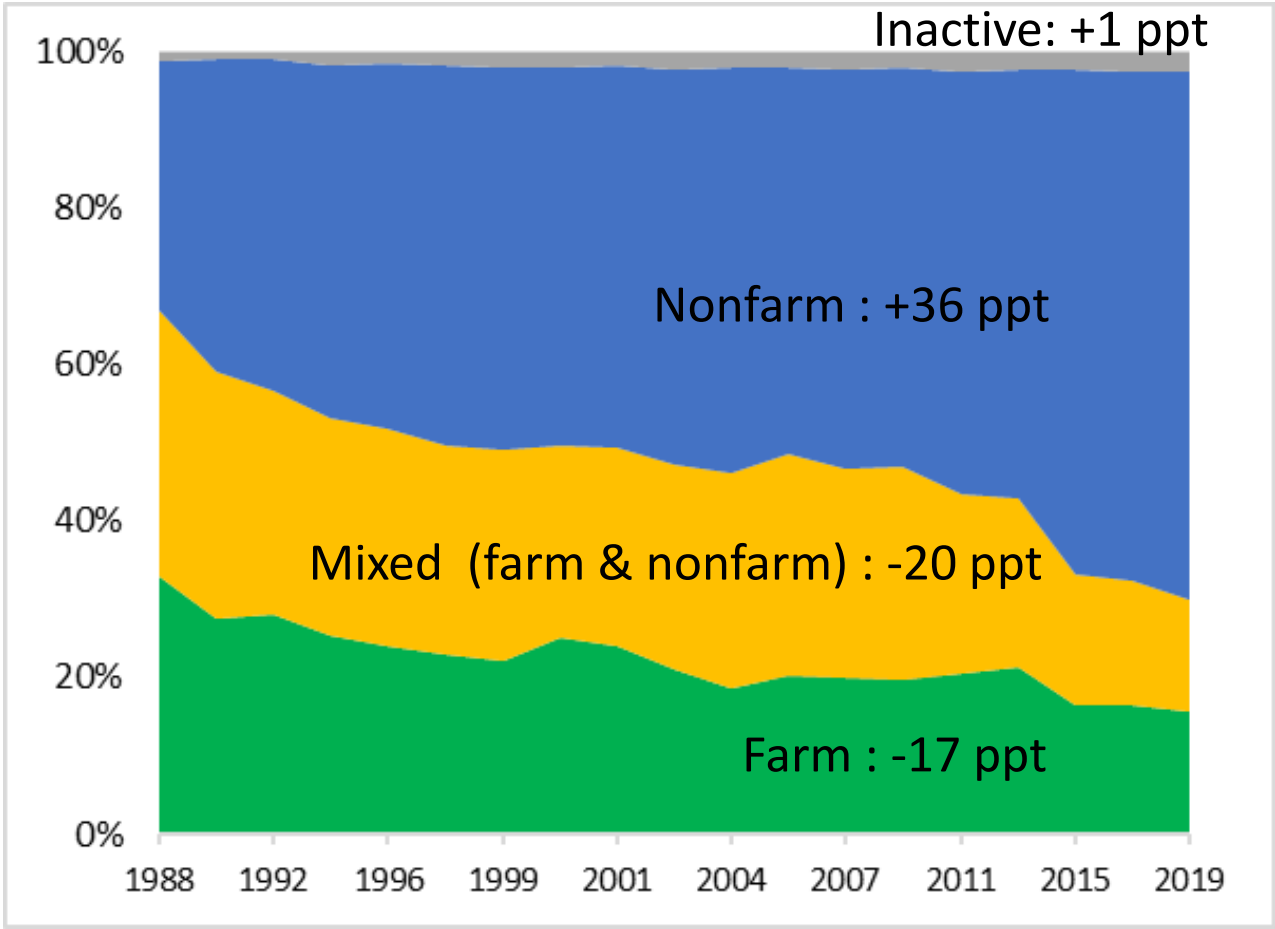
Fact #1 :

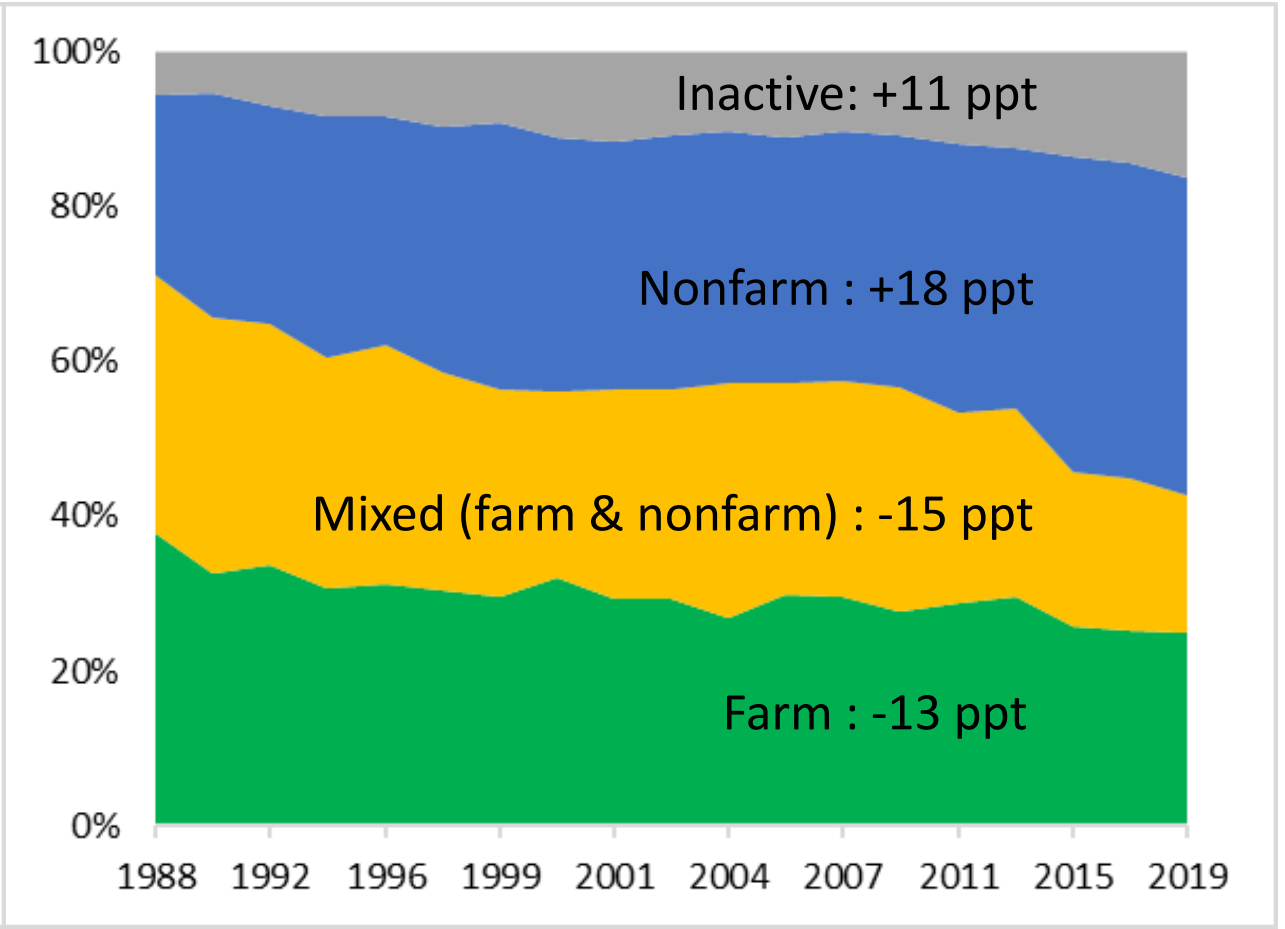
Transfer income keeps total income inequality stable for older households.

Sources of household earnings have changed over time

25-54
prime-age HHs

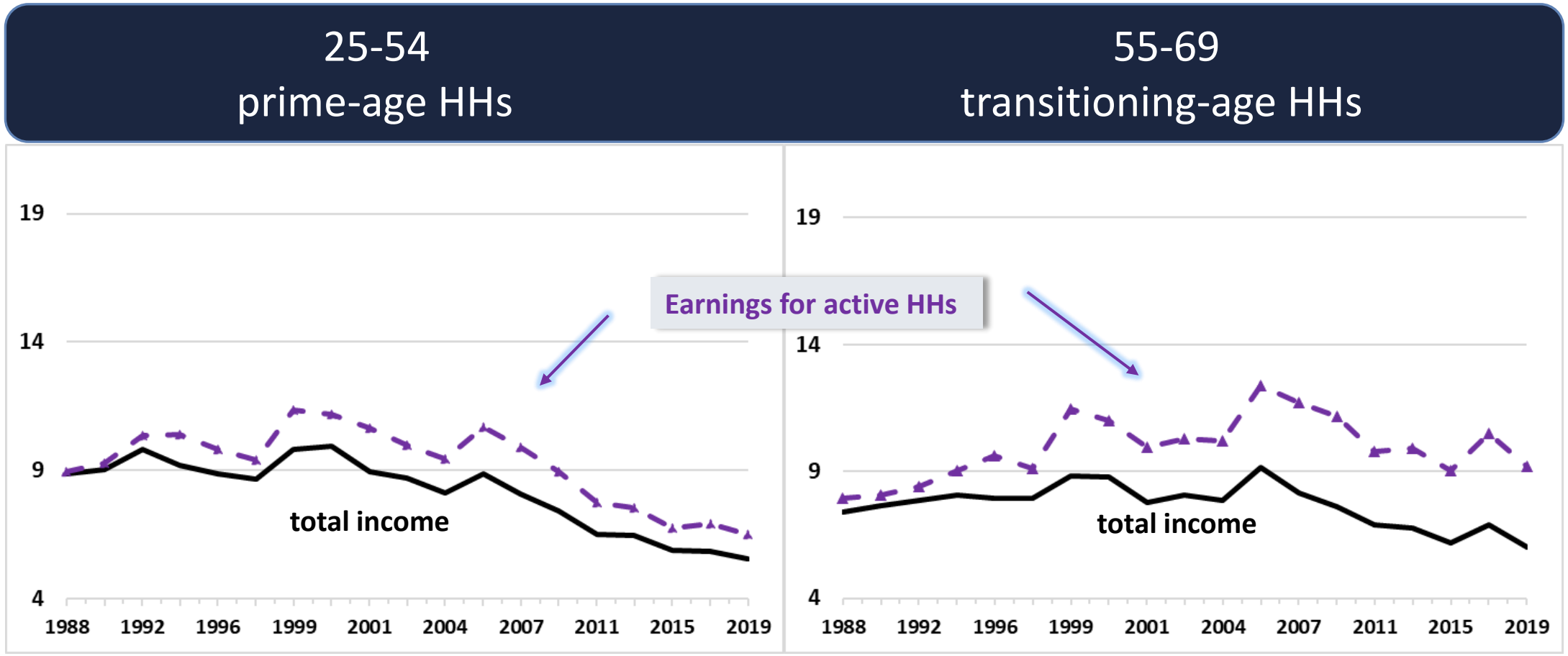
55-69
transitioning-age HHs





Source : SES (household-level)

Earnings inequality



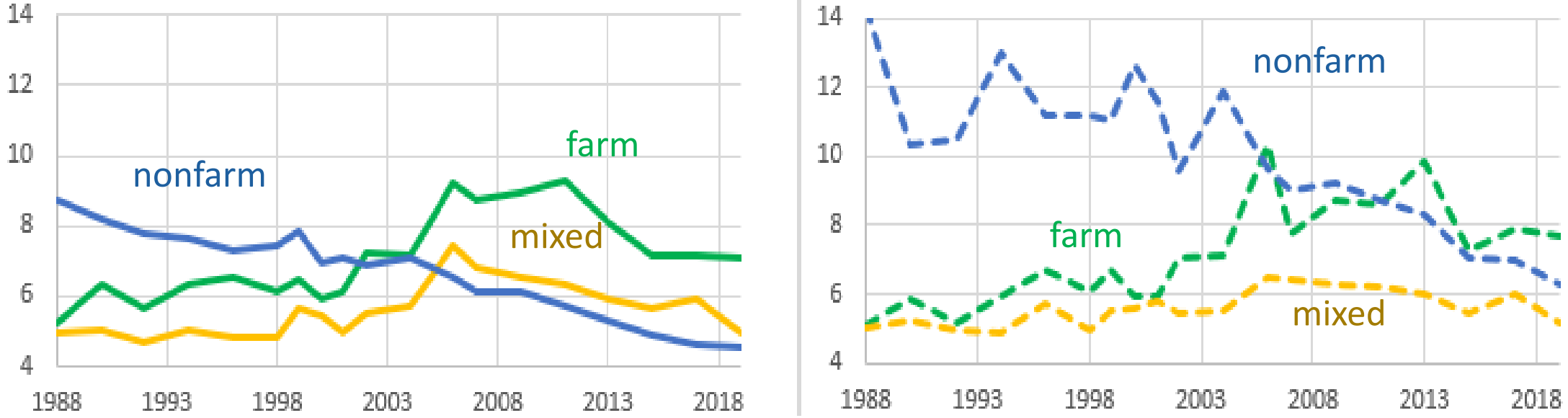
The P90/P10 percentile ratio

Source : SES (household-level)

Inequality increased among farming HHs, but declined among non-farming

25-54
prime-age HHs

55-69
transitioning-age HHs



The P90/P10 percentile ratio

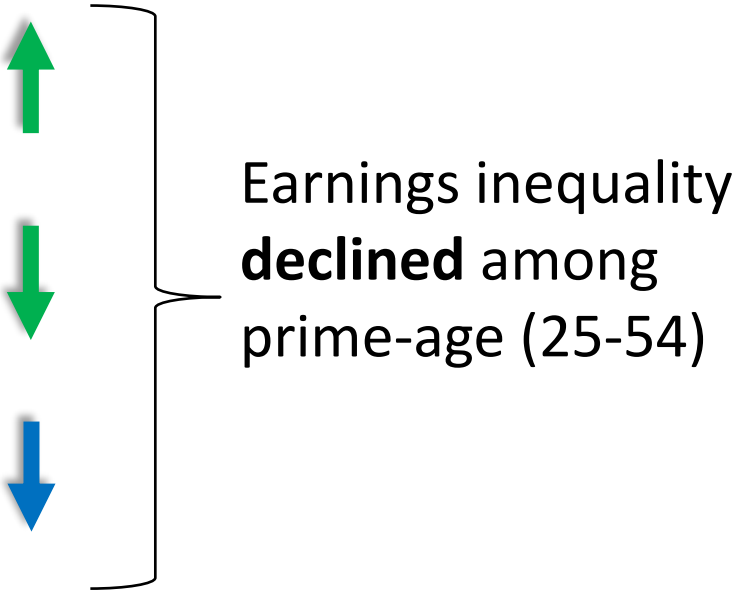
Source : SES (household-level)

Fact #2:

Earnings inequality among farming households:

Share of farming households:

Earnings inequality among non-farming households:

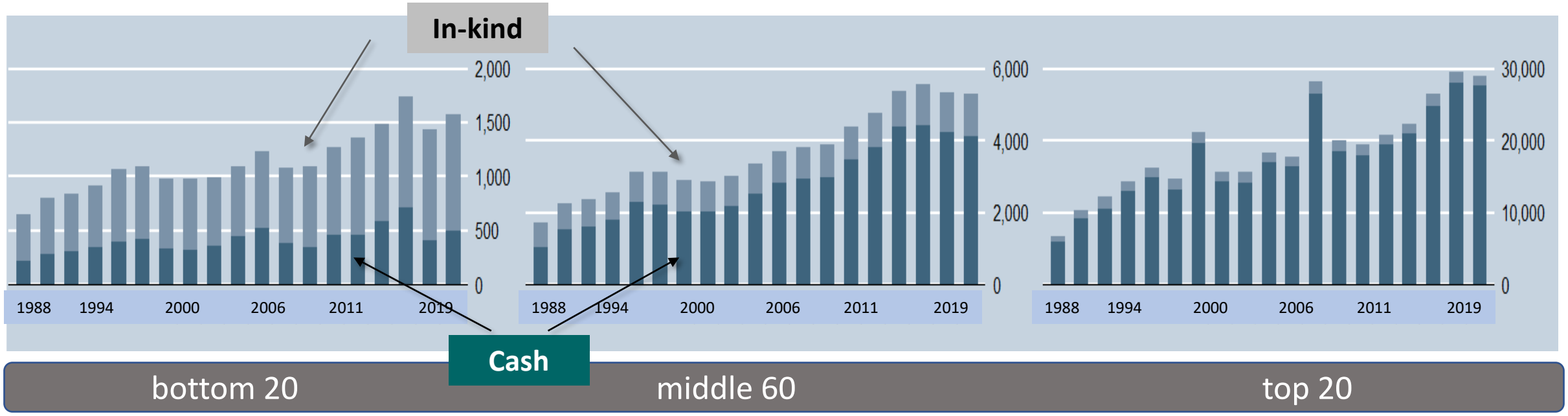


Hidden Fact 1:

Poor farming households :

large share of earnings is in-kind → less liquidity

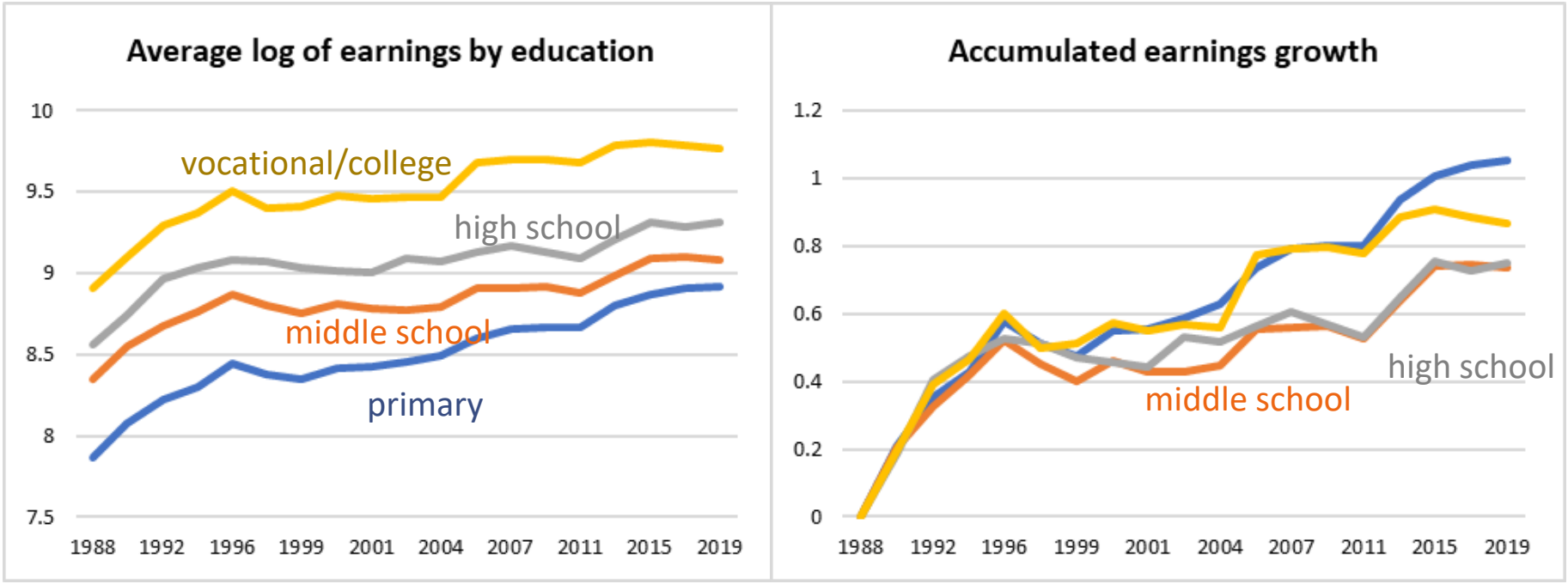
Earnings component of farming households



Source : SES (household-level)

Hidden Fact 2 : Earnings inequality among non-farming declined but slow growth of middle and high school earnings

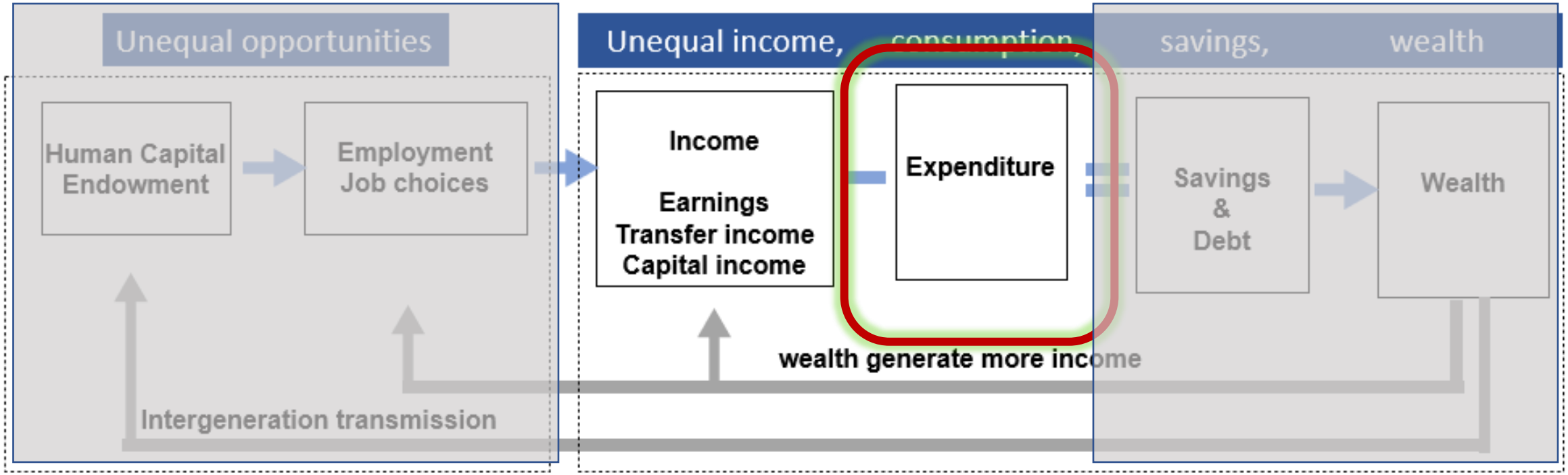
Non-farming households : age 25-54



change in shares

	1988	2019	Change
Primary	63%	33%	-30
Middle school	11%	17%	+6
High school	9%	28%	+19
Voc./ College	16%	20%	+4

Source : SES (household-level)

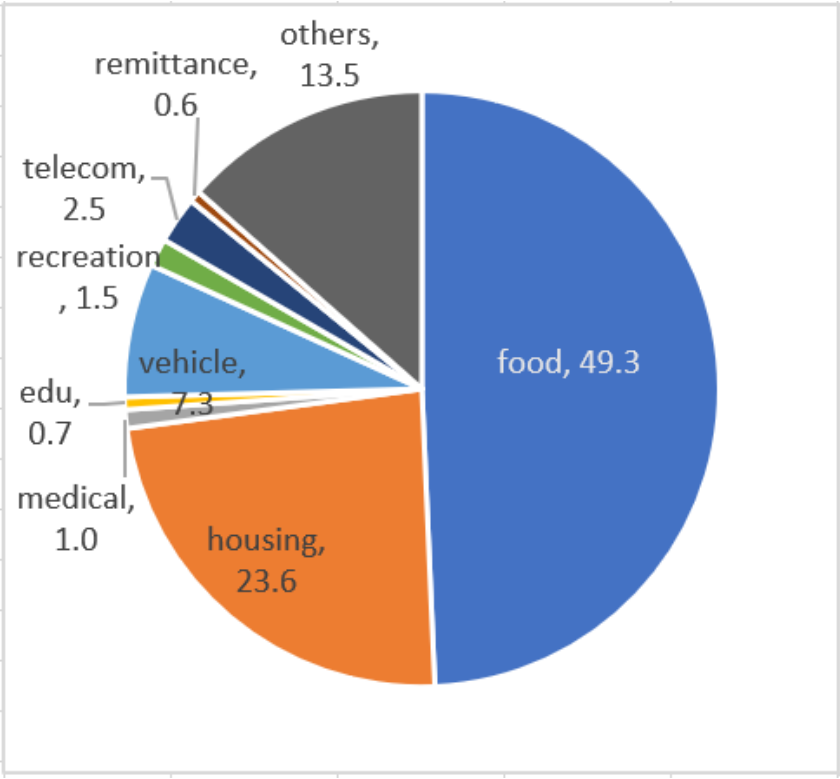


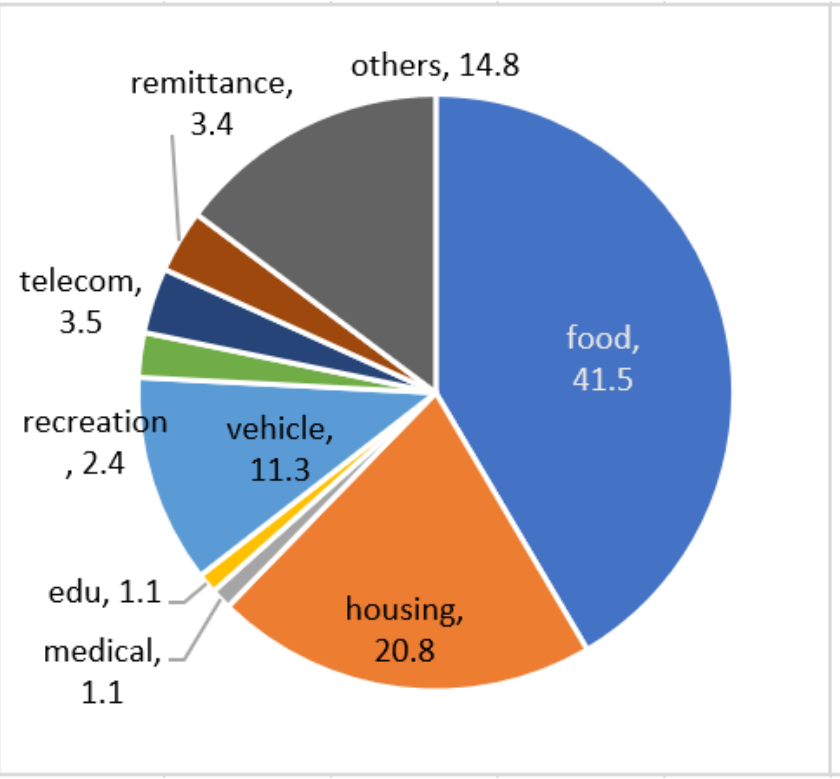
- **What drive the changes in income & consumption inequalities?**
- **Would the picture change post-Covid 19?**

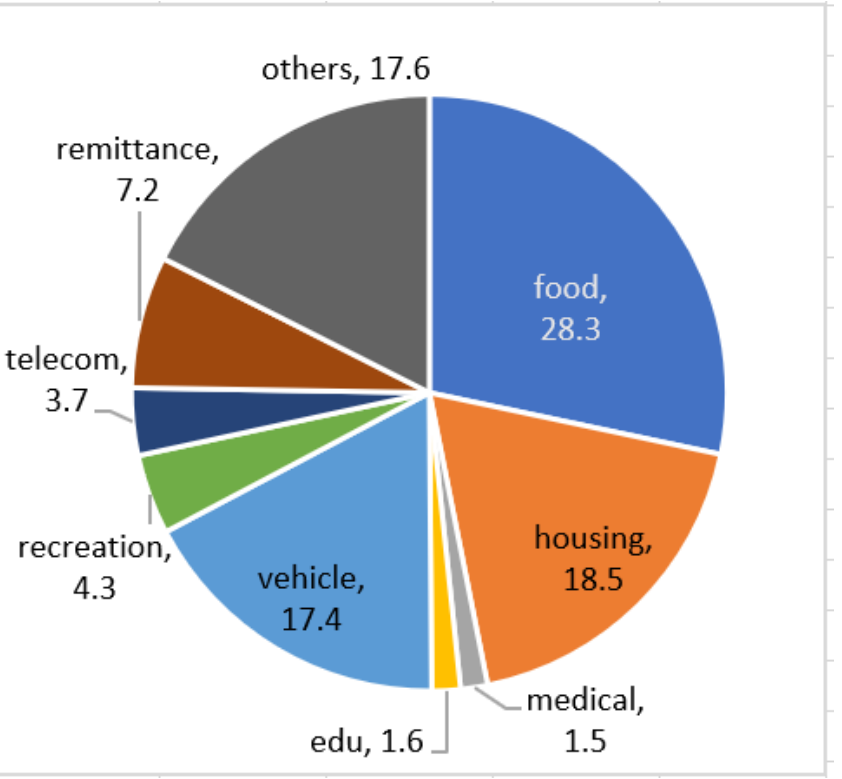
Expenditure components (2017-2019)

Income group

bottom 20	middle 60	top 20







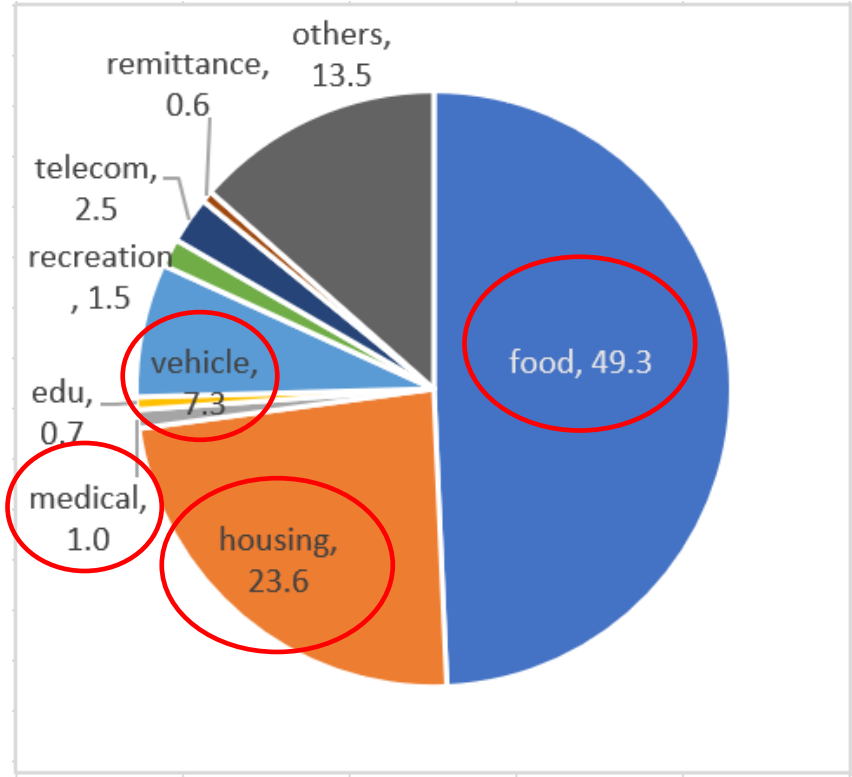
Source : SES (household-level)

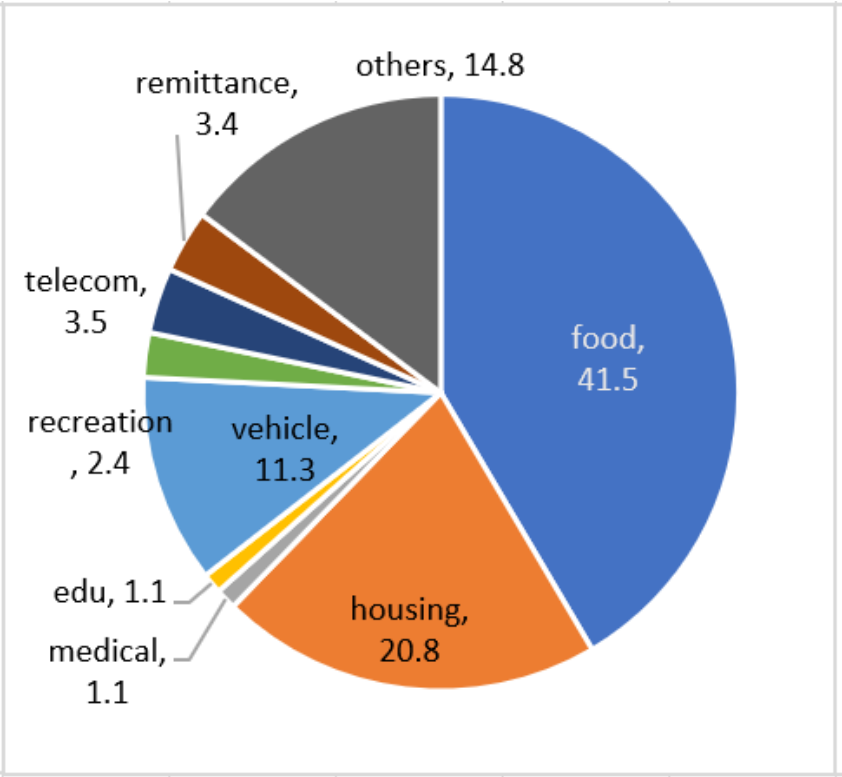
Fact 3: the poor less able to absorb shocks

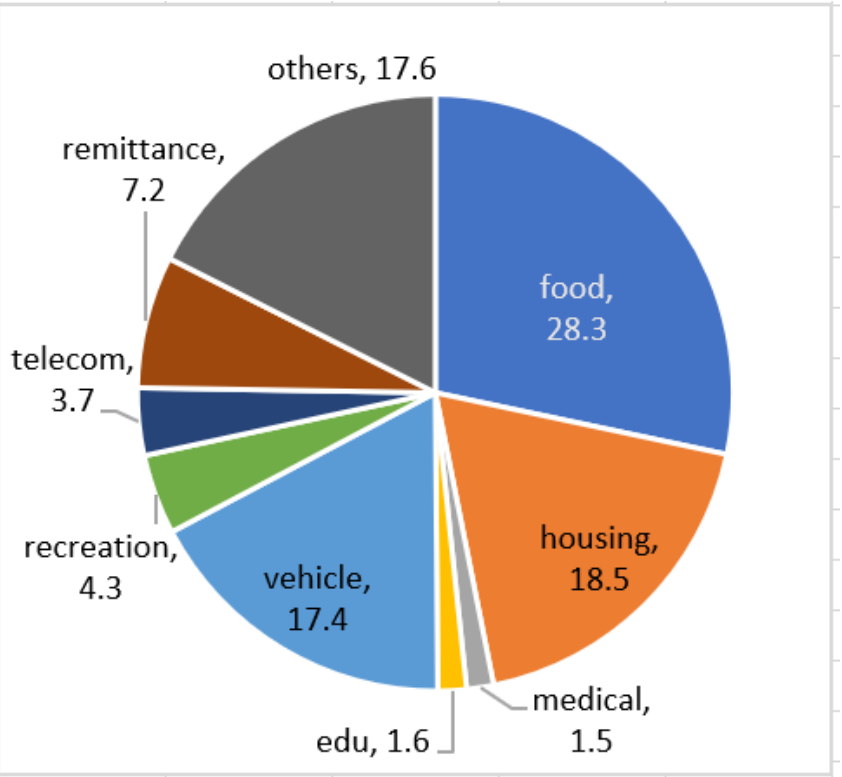
Expenditure components (2017-2019)

Income group

bottom 20 | middle 60 | top 20







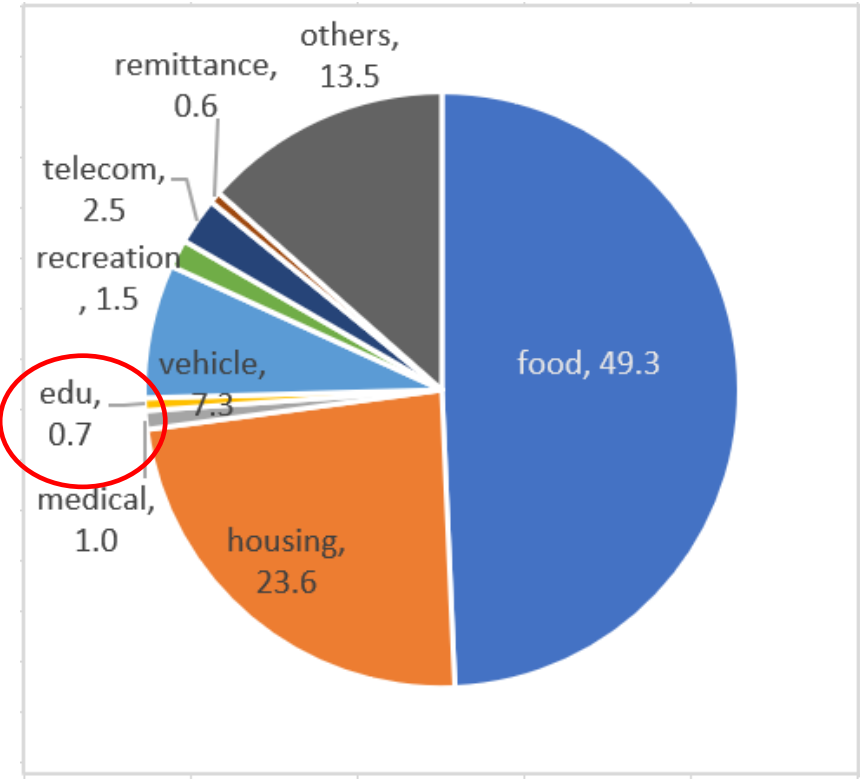
	Bottom 20	Middle 60	Top 20
% essential spending	81%	75%	66%

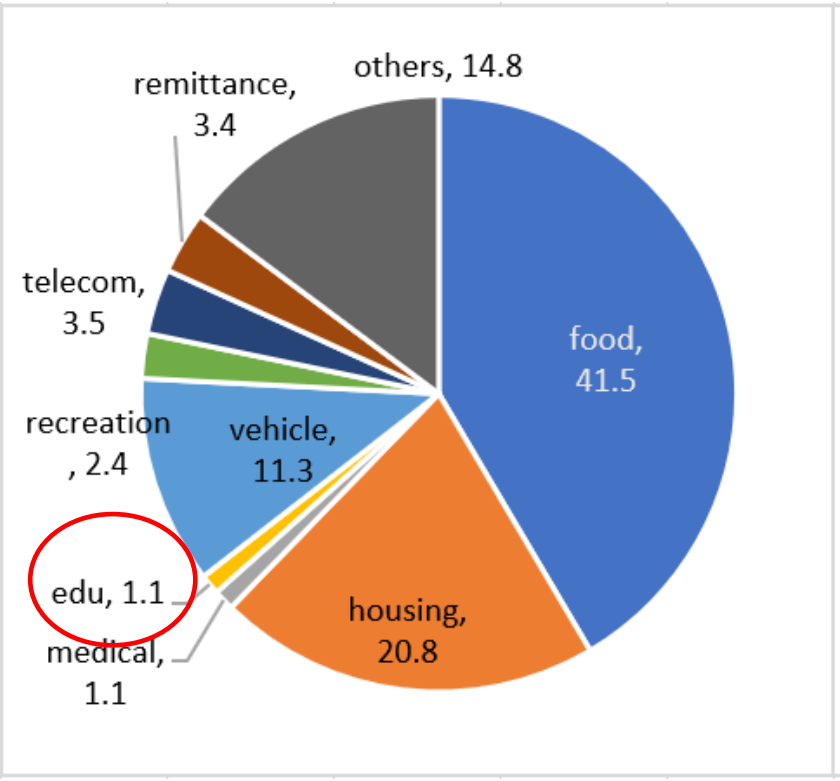
Low income has low education investment

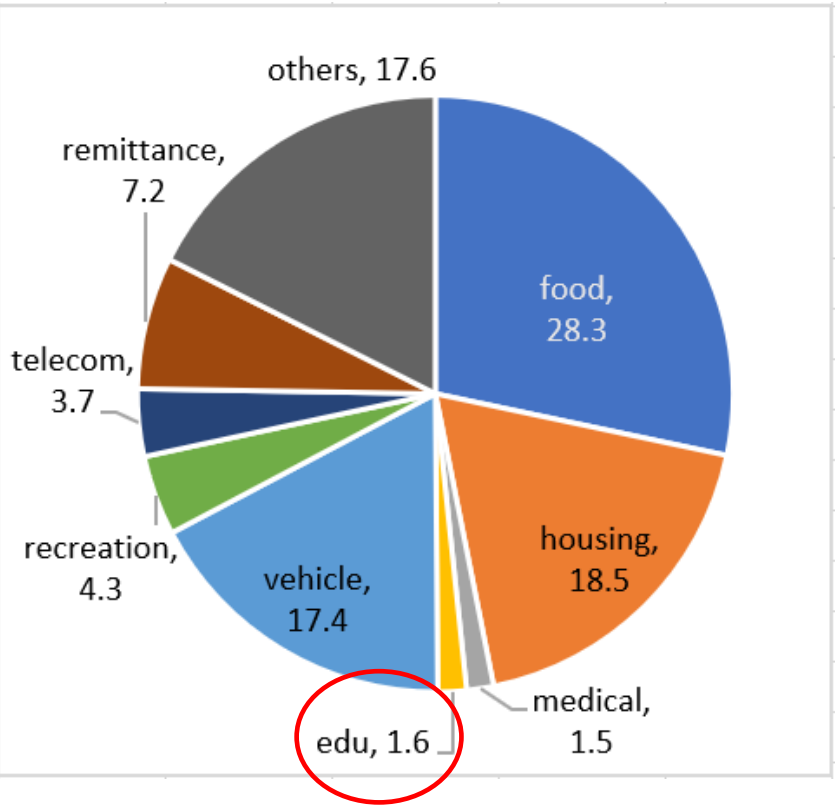
Expenditure components (2017-2019)

Income group

bottom 20 | middle 60 | top 20



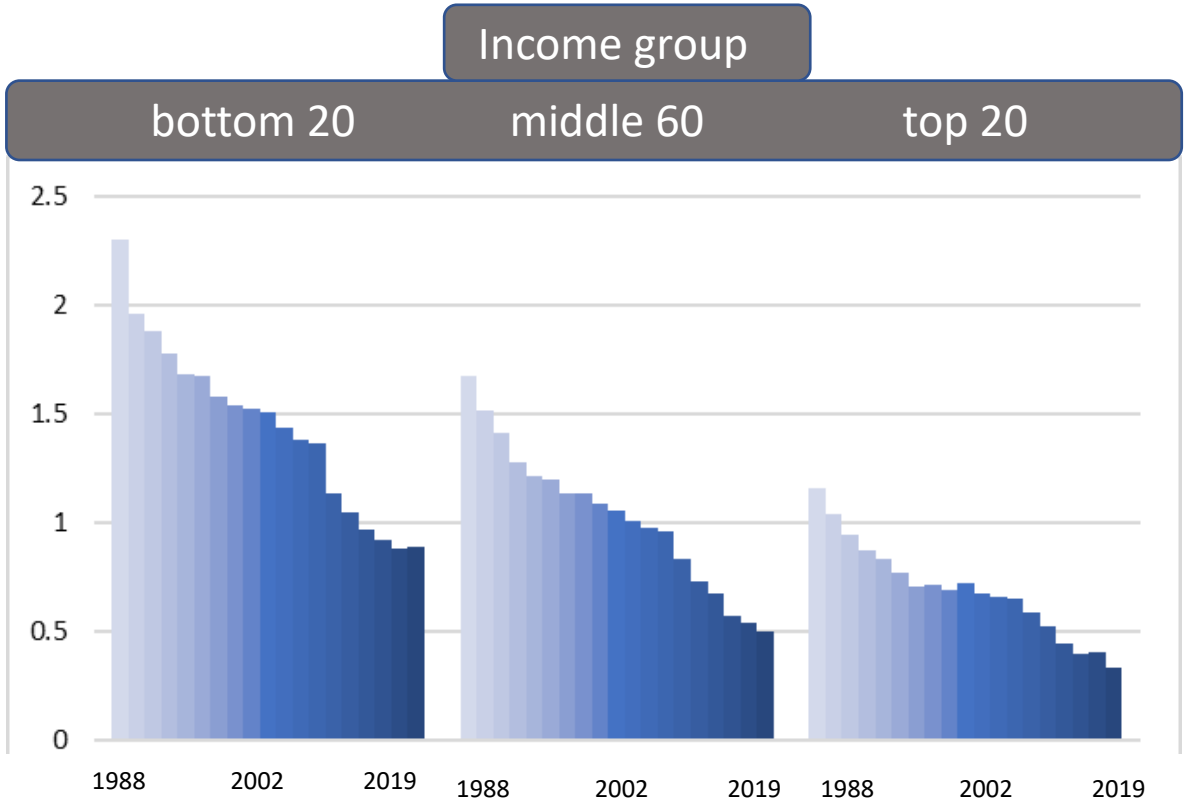




	Bottom 20	Middle 60	Top 20
% education	0.7%	1.1%	1.6%

Poor households have more children, yet spend less

Average number of children age (0-14) per household



Source : SES (household-level) : head age 25-54 years old

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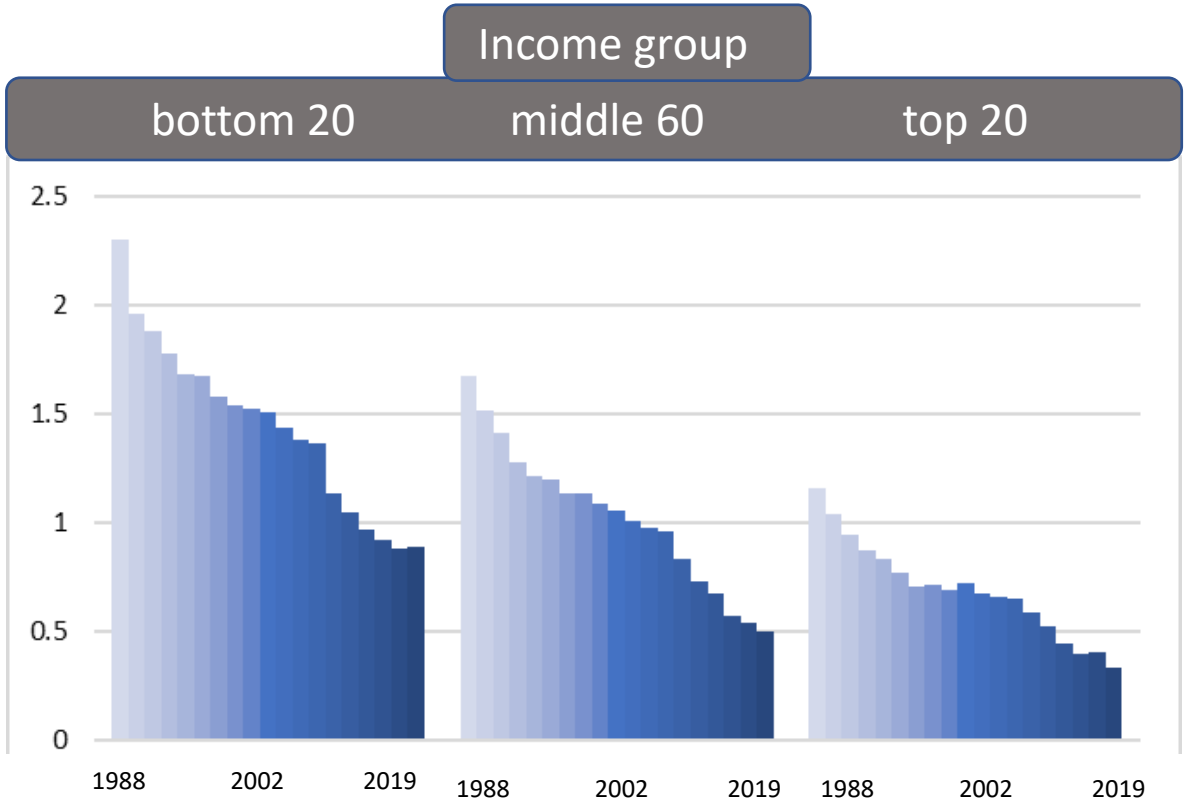
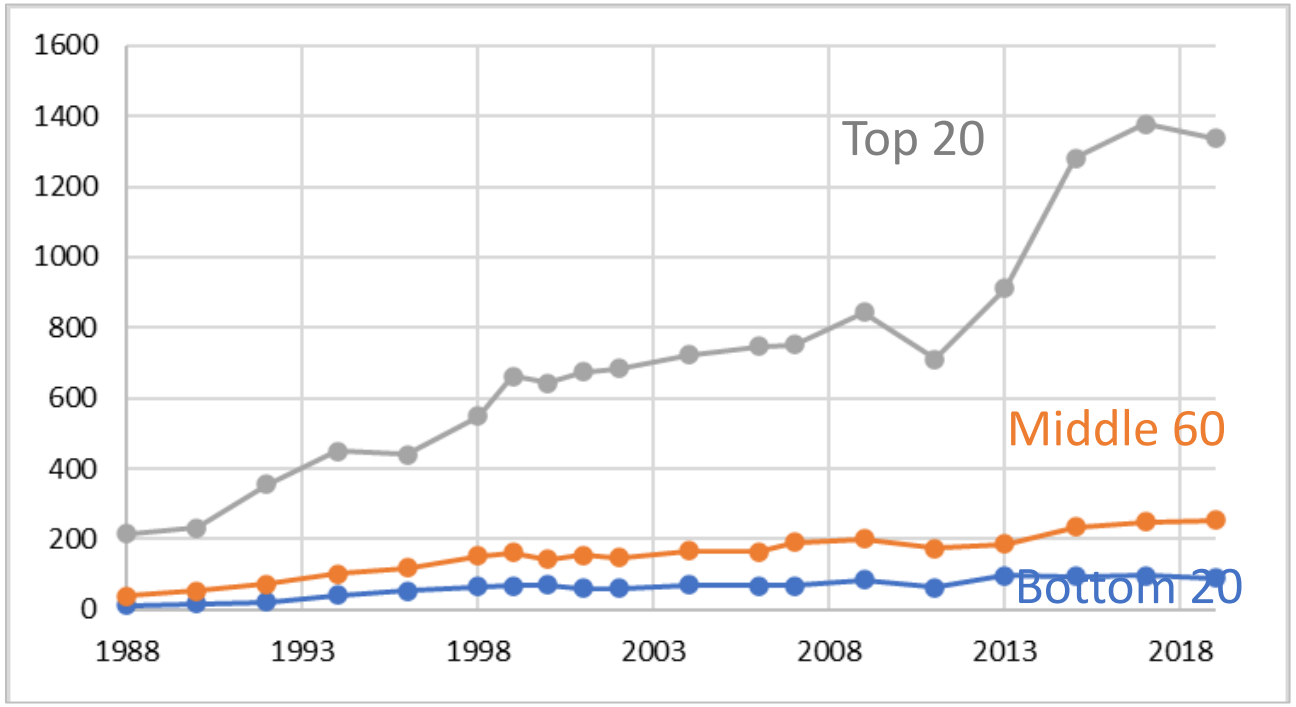


Median education spending per child



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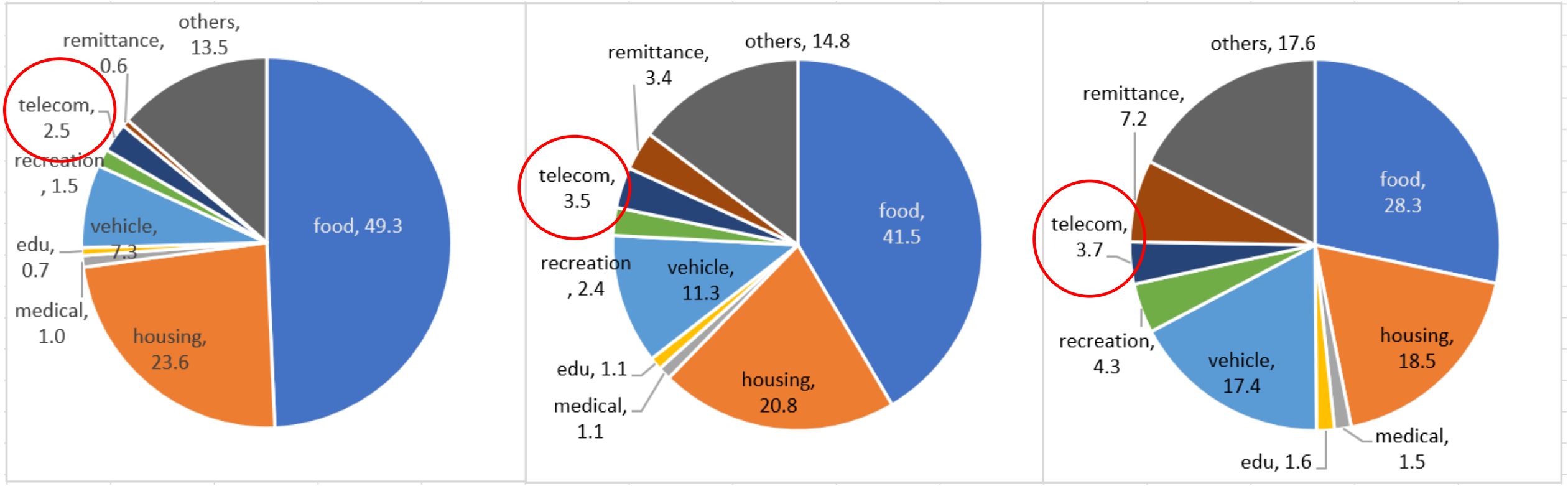
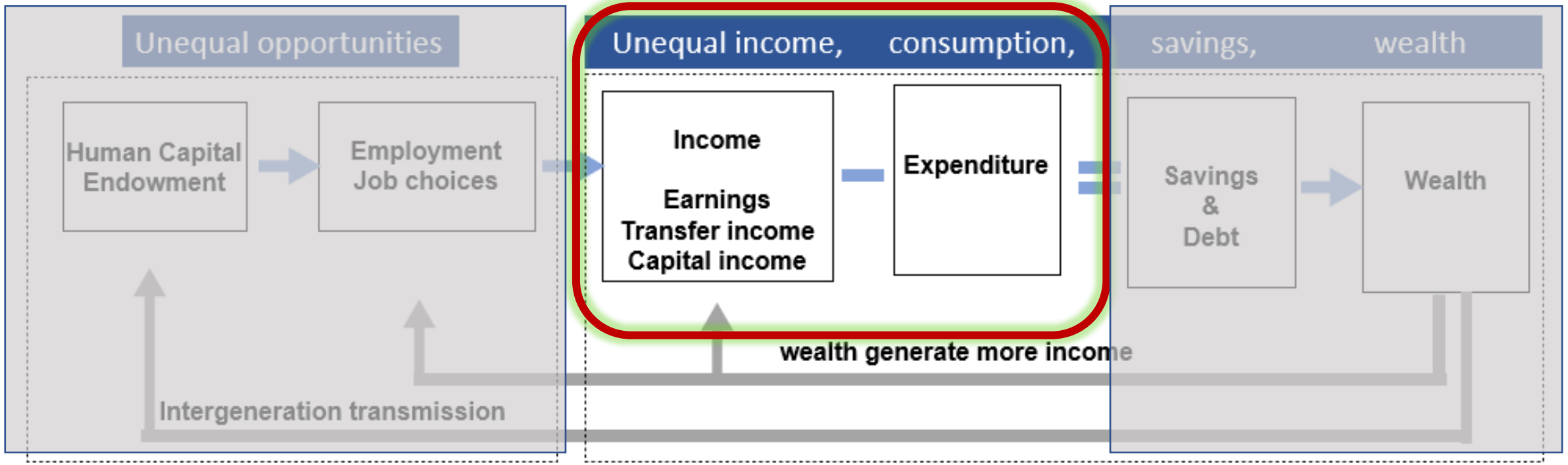
Low income more exposed to covid-19 shocks?

Income group

bottom 20 | middle 60 | top 20



	Bottom 20	Middle 60	Top 20
% telecom	2.5%	3.5%	3.7%



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- **Would the picture change post-Covid 19?**

Employment impact

	2019q1	2019q2	2020q1	2020q2
In labor force:	37,795,296	37,891,141	37,559,172	37,548,286
Employment No.	37,444,158	37,514,203	37,165,400	36,803,120
	99.07%	99.01%	98.95%	98.02%
Employed with zero hours	551,543	428,066	649,137	2,509,266
	1.47%	1.14%	1.75%	6.82%
Average weekly hours (>0)	41.5	43.2	41.1	40.6

- Mild decline in labor force size and employment rate
- **Big jump** in employed with zero hours
- Average weekly hours **dropped**

Source : LFS (individual-level) : age 15-74 years old

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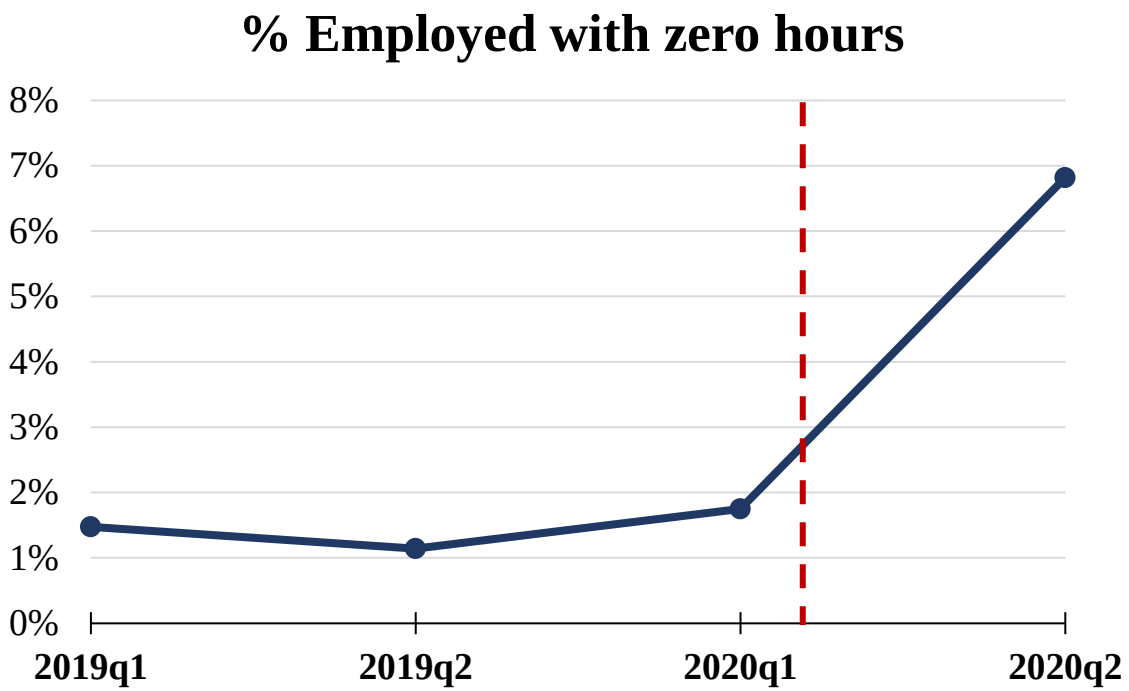
Measuring the pandemic effect by Difference in Difference (DID)



<-----pre-pandemic--------> <-post-pandemic ->

1. Control for seasonal

$$\left(Y_{2020,Q2} - Y_{2019,Q2}\right)$$

2. Remove macro time trend

$$\left(Y_{2020,Q1} - Y_{2019,Q1}\right)$$

$$\text{Pandemic effect} = \left(Y_{2020,Q2} - Y_{2019,Q2}\right) - \left(Y_{2020,Q1} - Y_{2019,Q1}\right)$$

Pandemic effect

	2019q1	2019q2	2020q1	2020q2	DID
In labor force:	37,795,296	37,891,141	37,559,172	37,548,286	-106,731
Employment No.	37,444,158	37,514,203	37,165,400	36,803,120	-432,325
	99.07%	99.01%	98.95%	98.02%	-0.87%
Employed with zero hours	551,543	428,066	649,137	2,509,266	1,983,606
	1.47%	1.14%	1.75%	6.82%	5.40%
Average weekly hours (>0)	41.5	43.2	41.1	40.6	-2.1

Source : LFS (individual-level) : age 15-74 years old

Who are the additional 5.4% employed with zero hours?

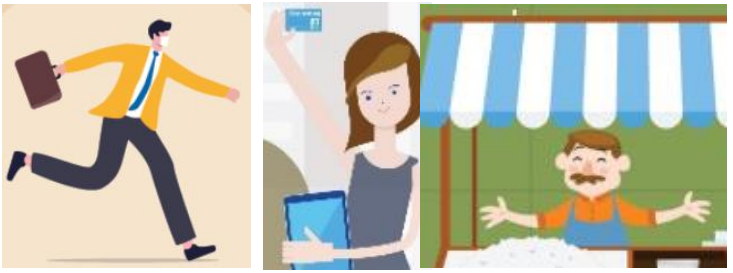
Pre-pandemic

- Over 70% in agriculture
- 70% self-employed
- 50% in Northeast

Seasonal workers

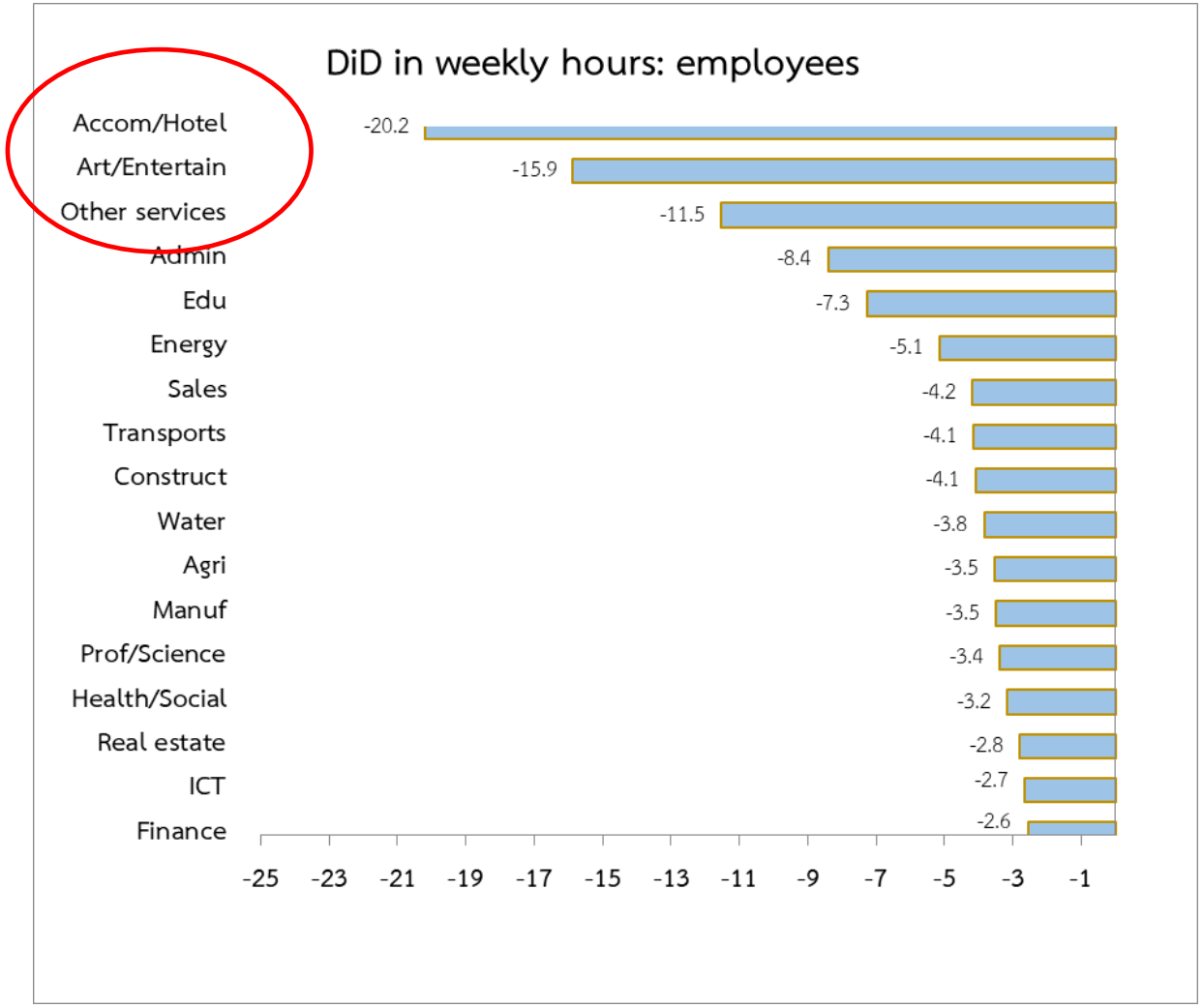
Mid-pandemic

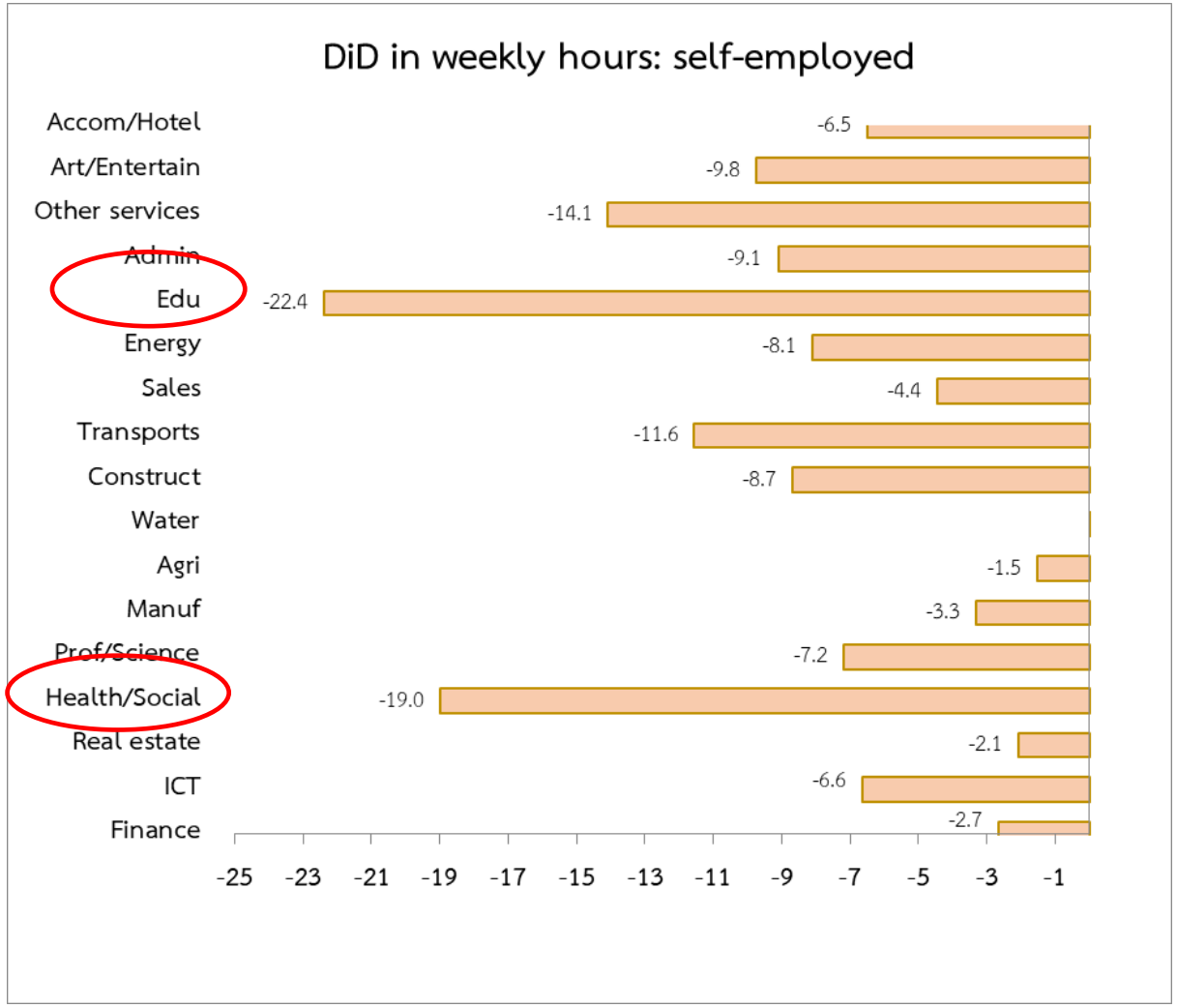
- 30% in sales/services
- 46% are employees
- More in BKK and Phuket



Lockdown workers

Overall weekly hour by industry and work status





Controls: region, occupation, age, education

Overall weekly hour effects by education

	Employee (18.38 mil)	Self-employed (18.37 mil)
Primary	-4.98	-2.92
Middle	-6.25	-4.34
Highschool	-4.60	-4.84
VC/college	-4.16	-5.55

Controls: region, occupation, industry, age

- Similar effects (3-6 hours).
- Most negative effect: middle school employees.

Earnings are observed only for employees

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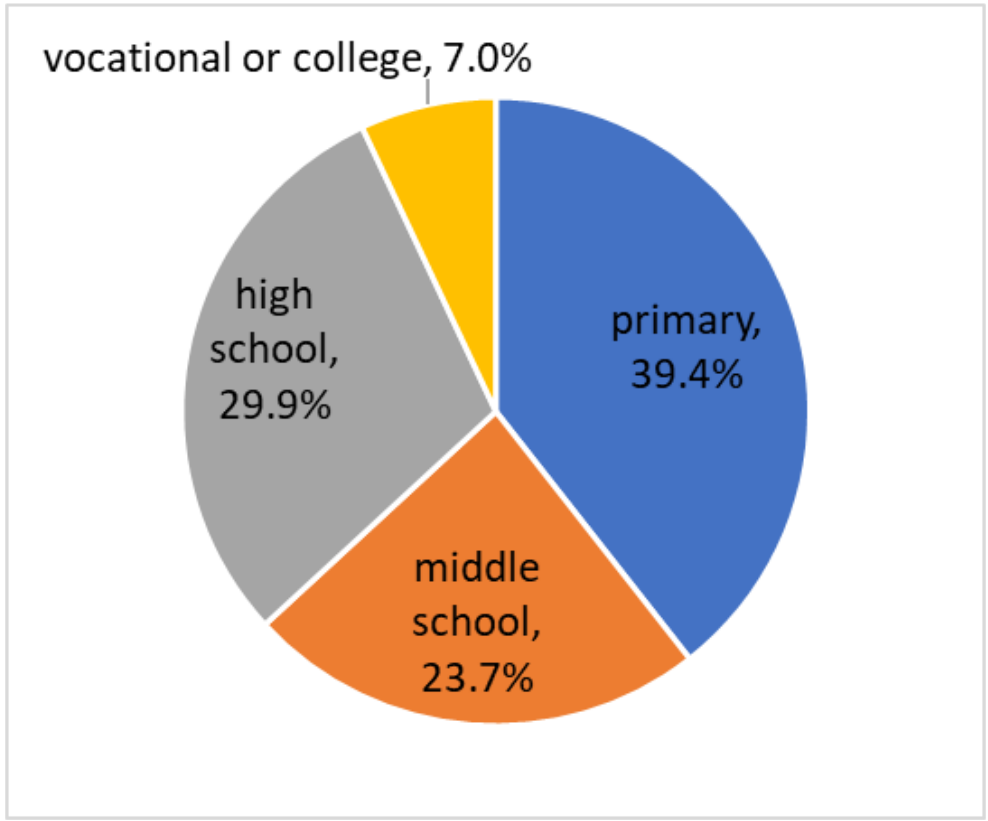
Earnings are observed only for employees

- Hours reduced but most workers still reported positive earnings.
- Among lockdown workers: 46,000 had zero earnings.



Earnings effects of employees by education

	Monthly (12.3 mil)		Hourly/daily (5.9 mil)	
	Positive hour	Zero hour	Positive hour	Zero hour
Primary	-0.7%	-6.8%	-6.0%	-8.9%
Middle	-0.5%	-6.7%	-0.8%	-3.7%
Highschool	0.0%	-6.1%	-2.3%	-5.1%
VC/college	0.1%	-6.1%	1.2%	-1.6%

- Lockdown workers are more affected
- Particularly the case for primary educated with non-monthly pay

Source : LFS (individual-level) : age 15-54 years old

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- High paid workers not affected
- Earnings inequality among employees slightly increased in the short-run
- U shape or L shape?

Source : LFS (individual-level) : age 15-54 years old

Conclusions & Policy implications

Facts on income & consumption inequalities in Thailand

#1 Transfer keeps Inequality stable among older households

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- the left behind poor farmers
- stagnant earnings of high school graduates

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#3 Poor are vulnerable to shock
- unable to adjust consumption
- higher risk of employment loss

Which restructuring do we need?

#1 Transfer keeps Inequality stable among older households

Transfer is uncertain: living longer & fewer children

affected by children's earnings loss

Restructure the system for households to be more self-reliant at old age

- More work opportunities for older workers
- Retirement income policy (sufficient, inclusive, fiscal sustainable)

Which restructuring do we need?

#2 Aggregate earnings inequality masks hidden problems
- left behind poor farmers
- stagnant earnings of high school graduates

Productivity problem

Re-investigate lessons from the past & start experimental mind-set

- Village fund (Kabowski & Townsend, 2011)
- Farmers & technology (Chantarat et al., 2019)
- Education system (Kilenthong, 2017)

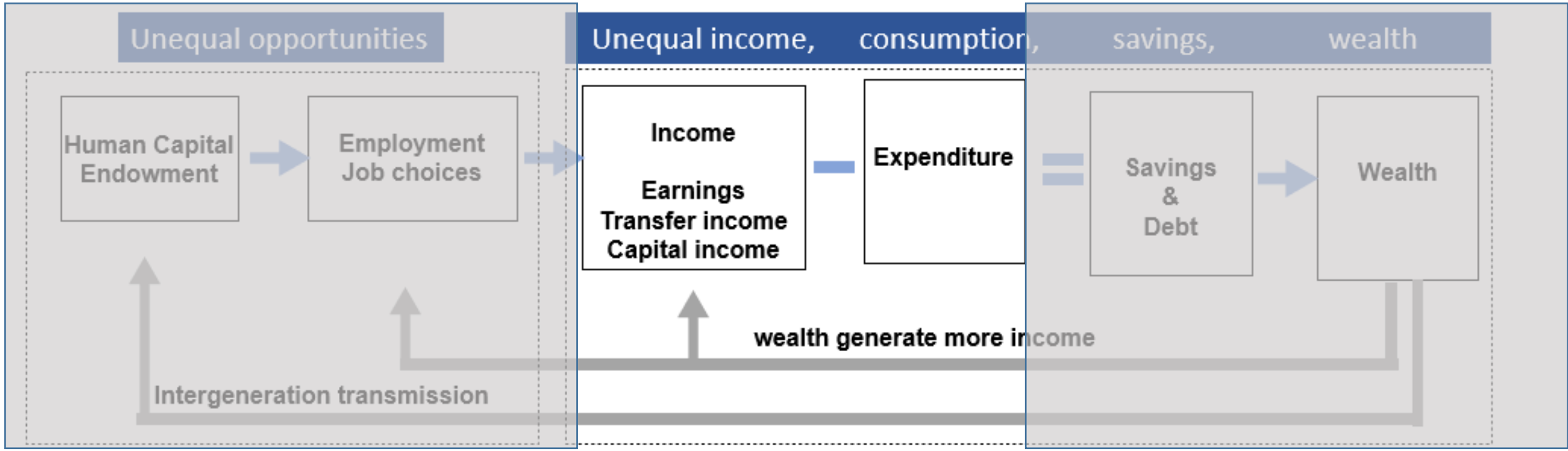
Which restructuring do we need?

#3 Poor are vulnerable to shock
- unable to adjust consumption
- higher risk of employment loss

Data revolution (safety net for all requires all in the system)

- Normal time : welfare & taxes ; updated information
- Crisis time : timely response, accurate, no exclusion error

Focusing on reducing income & consumption inequalities alone is insufficient



Work opportunities for all ages

Public transfer

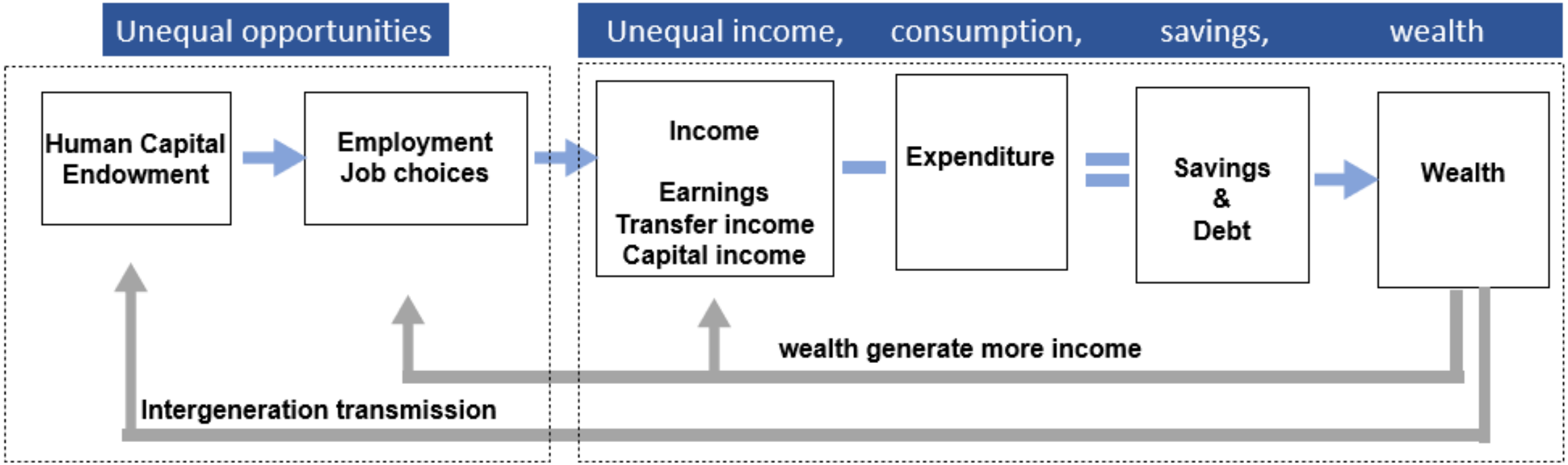
Matched savings

Improve productivity via technology

Safety net

Pension reform

Focusing on reducing income & consumption inequalities alone is insufficient



Work opportunities for all ages

Public transfer

Matched savings

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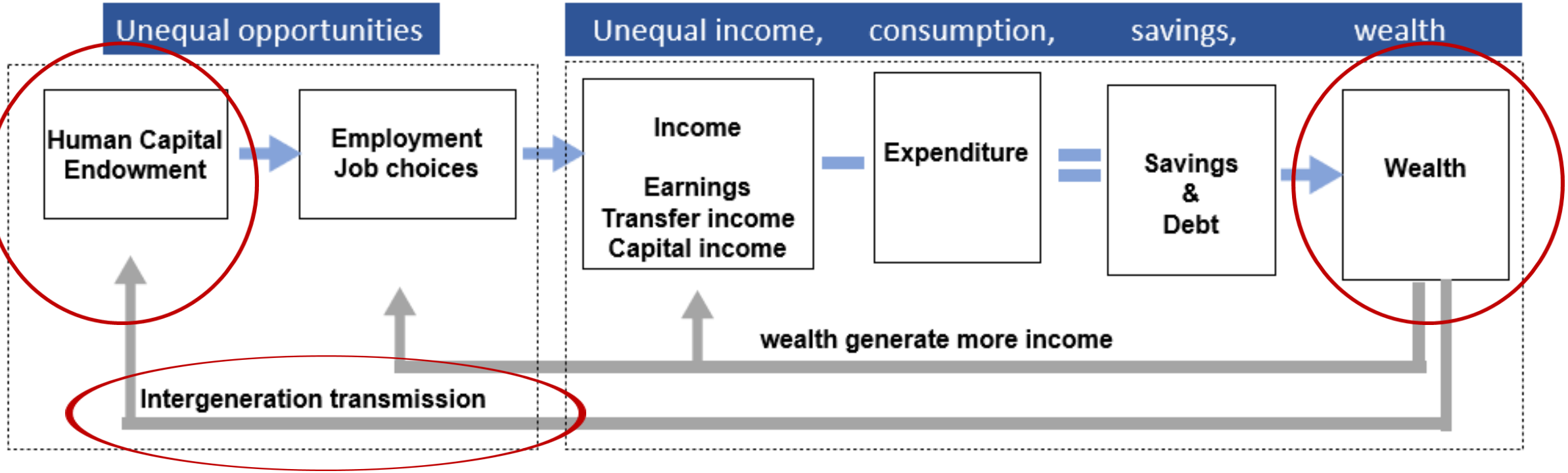
Pension reform

To reduce intergeneration transmission, more interventions are needed.



Quality education

Work opportunities for all ages

Public transfer

Matched savings

Wealth tax

Quality healthcare

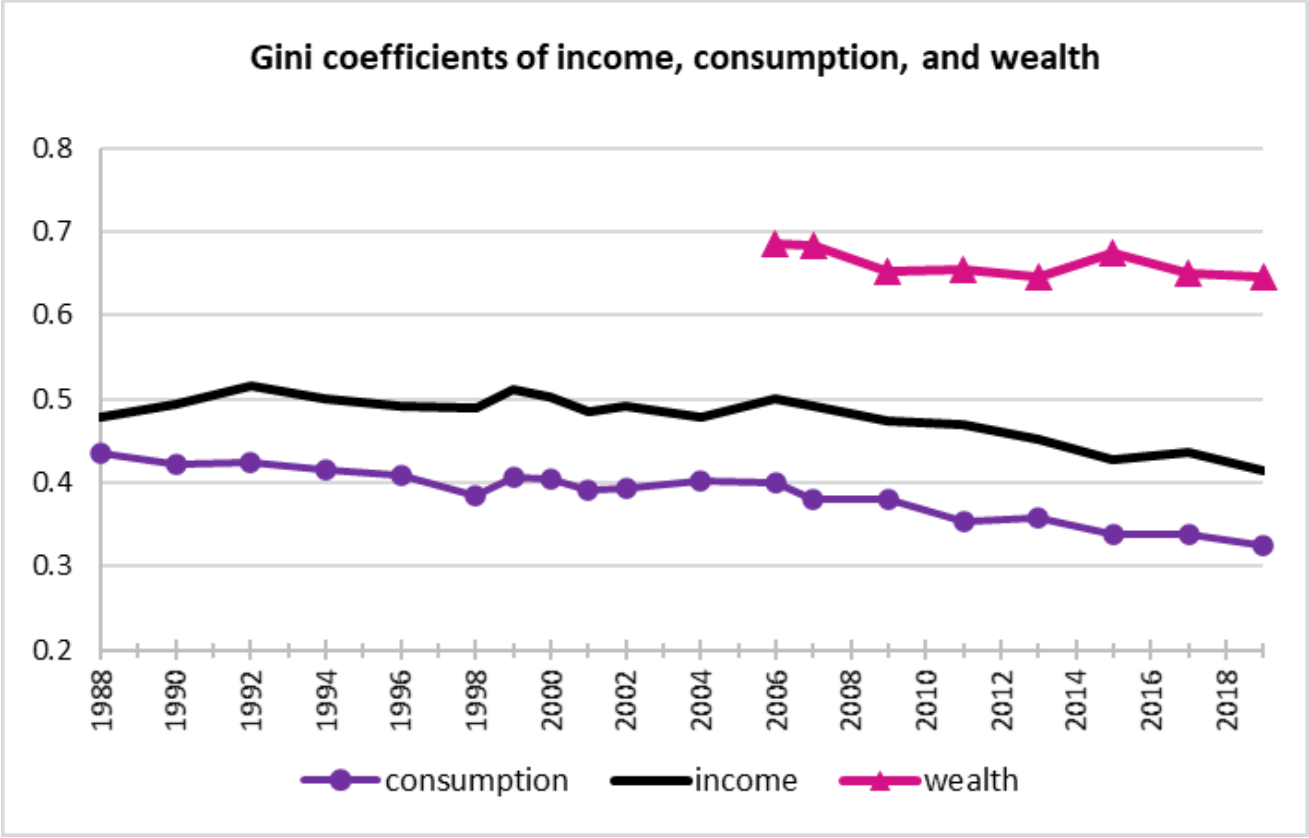
Improve productivity via technology

Safety net

Pension reform

Inheritance tax

Thailand's wealth inequality is starkly larger than income inequality (even among the bottom 99%)



Wealth

Income

Consumption

Tackling inequalities is never easy.
The longer we wait, the more we pay.