Introduction – Additional Information

G. INCOME GAP AND WEALTH GAP

(1) What is the Income Gap?

Income is the flow of money that comes into a household in a particular year from employers, owning a business, state benefits, and so on. Relevant is the extent to which income is distributed in an uneven manner among a population, or income inequality. Income inequality is popularly measured by the GINI index. It is the cumulative proportions of the population against cumulative proportions of income that one particular group receives, ranging between 0 in the case of perfect equality and 100 for the case of perfect inequality.

A large income gap can inhibit growth and slow poverty reduction through unequal education opportunities for children from low-income families.[1] This means that some children will enter the workforce much better prepared than others, lowering the social mobility and skills development, thus make them less productive employees who receive low wages, having low purchasing power and lower overall participation in the economy. Through this mechanism, inequality hurts everyone regardless of economic status. Narrowing the inequality today is thus crucial to allow our children to reach their full potential, be productive in society, and help the economy grow.

(2) What is the Wealth Gap?

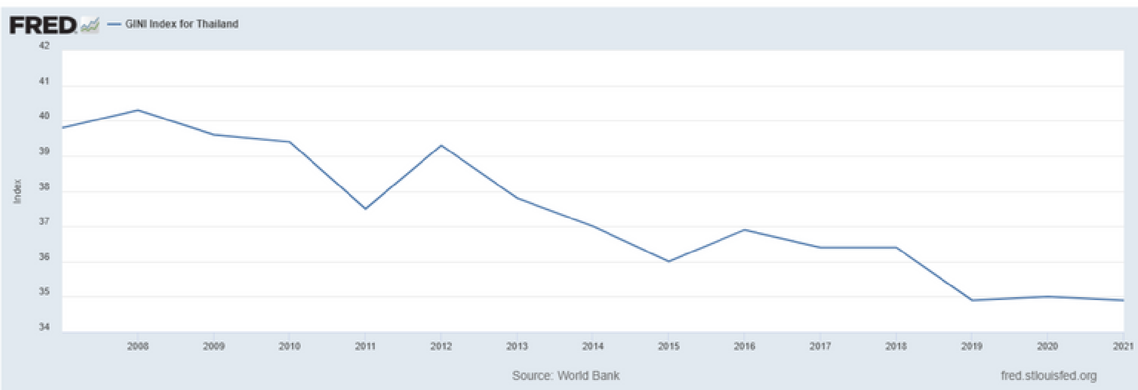
Wealth, unlike income, is the concept of net worth accumulated over time, or in other words, an individual's asset less of liabilities. Wealth inequality is therefore the unequal distribution of assets among individuals. Various indicators for wealth gap are such as mean net wealth per household, share of top 1 percent wealth as compared to the bottom.

High levels of wealth disparities can increase economic vulnerability, limit social mobility and lower equality of opportunity, for example through the role of inheritances. The initial condition of a person is constrained by the wealth of their parents, the likelihood of moving up or down in the income distribution, changes in position like educational attainment and occupational status are less likely. This will trap people in poverty across generations and may also reduce overall middle-class demand for consumer goods or even fuel debt crises.

Wealth and income inequality are also related. Income can be stored as wealth, so widening income gap also leads to different levels of accumulated wealth through the size of balance sheet of business. At the same time, as wealth is a source of investment, widen wealth gap implies larger differences between the rich and the poor in their ability to take advantage of investment opportunities, so those who don't have saving may not get income earned from invested capital, highlighting income inequality even further. People with few assets also find it harder to access the first small steps to larger opportunities, such as a loan to start a business or pay for an advanced degree.

(3) Thailand and Existing Gaps

The pandemic and economic disruption impacted Thailand and significantly affected income and wealth inequality. The issue is noted by the Governor of the Bank of Thailand.



Source: FRED[2]

[1] *Nancy Birdsall, "Why Inequality Matters: Some Economic Issues," Ethics & International Affairs, Cambridge University Press, https://www.cambridge.org/core/journals/ethics-and-international-affairs/article/abs/why-inequality-matters-some-economic-issues/6B4D6DC238306AF50F5003BADE816E64.*

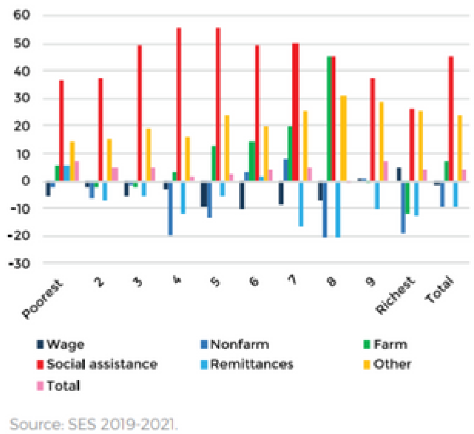
[2] *Federal Reserve Bank of St. Louis, Gini Index for Thailand, https://fred.stlouisfed.org/series/SIPOVGINITHA.*

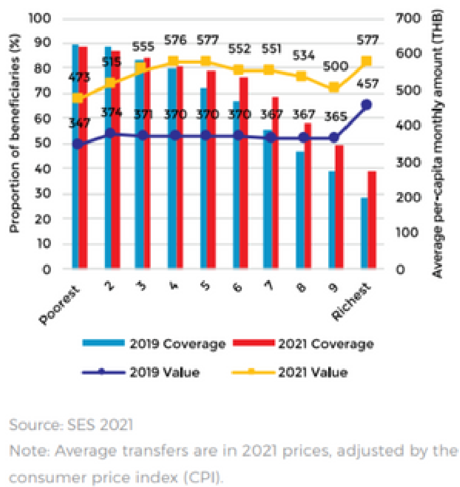
While the GINI Index for Thailand, which measures income inequality within the country, showed a declining trend leading up to 2019, the pandemic may have amplified challenges for lower-income groups, as many were disproportionately impacted by job losses, reduced income opportunities, and limited access to social protections.

Thailand's reliance on sectors like tourism and informal employment, both of which were severely affected by pandemic-related restrictions, likely exacerbated existing disparities. Although the GINI index for 2020 and beyond shows slight stabilisation, it does not fully capture the immediate economic hardships faced by the most vulnerable.

Source: WID[3]

During the pandemic, Thailand saw a 2% decline in wage income, with nonfarm business income and remittances dropping over 10%. To counter this, government social assistance dramatically increased, rising from 0.8% of GDP in 2019 to over 3% in 2020, benefiting around 30 million people. Social assistance helped mitigate income losses, with household support rising by 46% from 2019 to 2021. By 2021, 71% of the population received some form of social assistance, though poorer groups received smaller amounts in absolute terms compared to wealthier ones. The average monthly transfer was THB 540 per capita, about 20% of the national poverty line, with wealthier groups receiving higher transfers, highlighting the disparity in benefit distribution.





Source: World Bank[4]

(4) Wealth Gap and Intergenerational Inequality

In 2021, the share of net personal income earned by the richest 10% in Thailand reached 48.8%, the highest among countries with available data. When measured in terms of net personal wealth, this figure soars to 74.2%, reflecting high concentration of wealth among the few at the top. Thus, a perception of low mobility prevails, coupled with the perception that inequality is unfair, and meritocracy is low.

[3] *World Inequality Database, Thailand, https://wid.world/country/thailand/.*

[4] *World Bank, Bridging the Gap: Inequality and Jobs in Thailand, https://documents1.worldbank.org/curated/en/099112823133018003/pdf/P17759905901d70ed0a968052455d5252f0.pdf.*

In terms of consumption inequality, Thailand performs better globally, ranking 45th most unequal out of 72 countries with available consumption Gini coefficients. In the East Asia and the Pacific (EAP) region, it ranks 5th out of 10 countries—with lower consumption inequality than Lao PDR, the Philippines, and Vietnam but higher than China, Indonesia, and Mongolia.

(5) Possible Solution to Solve Wealth Gap and Income Gap

As income and wealth disparities in Thailand would dampen Thailand's long-term economic growth while increasing its economic vulnerability, a policy aimed to tackle both income and wealth inequality is needed. There is no one simple solution but these measures are possible. At this stage EABC is not advocating any specific solution or measure but does advocate recognising the issue and putting in place measures to deal with it.

(a) Tax and transfer systems

Taxes on wealth could be emphasised not only on stock of wealth like land, but also on return from capital income as well. The government could increase inheritance tax to a relatively high level like other countries. A clear and transparent system is needed to ensure that holdings of offshore wealth are effectively taxed. Indirect taxes like VAT that charges 7 % for all should be exempted for basic commodities to benefit lower-income earners as consumption-related taxes are relatively high for them.

(b) Well-designed labor market policies and institutions [5]

The minimum wage could be set to a relatively high level to narrow the distribution of labor income. Raising workers' productivity and translating into higher-quality service offered by businesses are sound objectives. Productivity gains with any wage increase are important. Job protection has to be reformed to make permanent and temporary contracts better recognised and supported with shortages of labor in some occupation[6] and the aging population, the labor market needs special training for reskilling labor to get the right supply of skills, filling the shortages of talents and unleashing their potential. Special institutions could come into a role to provide vocational training, assistance in the job search process, and support micro-entrepreneurs or independent workers. Childcare support has to be provided to increase female labor participation.

(c) Comprehensive welfare systems

Populations that are vulnerable must be better identified with swifter action, risk management, and alternative productive activities when the economy changes. A comprehensive welfare system is needed to empower low-income groups. In Thailand, employees are required by the Social Security Act to make contributions 5% of their[7] salary to the Social Security Fund on a monthly basis. The minimum salary to be calculated is THB 1,650 and the maximum is THB 15,000. Although social protection programmes are comprehensive, most workers tend to stay out of the system, as their employers or those who are self-employed avoid taxes and other government regulations to minimise short-term business costs.

Therefore, addressing informality would give people more access to social protection programs.

The proportion of social assistance beneficiaries in 2020 almost double compared to 2019. Over 80% of households benefitted from the Government emergency assistance programs introduced in 2020, with proportions approximating 90% among low-income households and those who experienced income shocks.[8]

(d) Role of infrastructure in economic development

There are two types of infrastructure. Soft infrastructure is all the services which are required to maintain the economic, health, and cultural and social standards of a population such as rule and regulation, as opposed to the hard infrastructure, which is the physical infrastructure of roads, bridges, transportation etc. Because of lack of sufficient public transportation systems in Thailand, urban transport heavily relies on passenger cars, resulting in massive congestion and air pollution. This brings about longer commuting time and worsening air quality, thus hampering business activity and people's health and well-being.

[5] *OECD, Productivity and Long-Term Growth, https://www.oecd.org/en/topics/productivity-and-long-term-growth.html.*

[6] *OECD, Economic Assessment of Thailand: Overview 2020, https://web-archive.oecd.org/2020-10-04/565649-Economic-assessment-thailand-overview-2020.pdf.*

[7] *Acclime Thailand, Social Security in Thailand Explained, https://thailand.acclime.com/guides/social-security-explained/.*

[8] *Thailand Development Research Institute (TDRI), Thai Inequality 2020: What We Should Do, https://tdri.or.th/en/2020/02/thai-inequality-2020-what-we-should-do/.*

Government budget could be allocated heavily to infrastructure expansion. Not only to improve productivity, but also the prosperity of labour and business itself. The government could also reduce its role in economic production especially by state enterprises to public-private partnerships, giving a more pivotal role to the private sector. Even including public-private partnerships (PPPs), the share of infrastructure investment in Thailand's GDP is currently lower than that of regional peers.[9] By getting rid of unnecessary regulations, we could also set aside more of the state budget for social and welfare spending and less for other purposes.

Massive investment would allow efficient financial circulation for society overall, especially for SMEs and tourism. Foremost to Thai investment is funding. As of the third quarter of 2021, the government has borrowed 1.5 trillion baht for handling the Covid-19 crisis. It needs additional loans to finance investments, and the government should seek a legal adjustment to expand the public debt ceiling to more than 60% of GDP.

(e) Education reform

According to Sustainable Development Goals, goal 4 is to ensure inclusive and equitable quality education and promote lifelong learning opportunities for all. Thailand has achieved SDG goal 4 as indicated by net primary enrollment rate of 98.08 %, with literacy rate 98.14 %. Although Thailand is on track in achieving the goal, some significant challenges remain as lower secondary education completion rate is quite low at 80.02 % in 2018.

Education and skills are key policies to ensure that every person enjoys access to high-quality opportunities to learn. This could be done by providing universal access to education, providing scholarships, narrowing quality gaps in education at all levels. Thai education must be reformed. The learning system can include community school: a place and a set of partnerships between the school and other community resources. The system should allow students to have critical thinking, excellent soft skills, and facilitate know-how transfer.

(f) Price support for agricultural products

Price support for agricultural products: By increasing the price of agricultural products, farmers, a vast group of people will become more able to support themselves.

(g) Data as a basis of action

World Bank's TEM also learns from the COVID-19 crisis by setting up a virtual or federated social registry to facilitate targeting and accountability on spending including harness available administrative data through greater interoperability, where the quality of data in some program and administrative databases may also need to be improved, and ensure to protect personal data and privacy and have a strong leadership from government in setting up this social registry. This is important for avoiding a slide into poverty. The World Bank's TEM noted Thailand's efforts to support lower income earners.

(h) Policies to attract investors

Policies to attract investors and stimulate business generally should result in 'trickle down' benefits to some degree. Whether trickle down works will depend on other reforms. Economic stimulation may be seen as a pre-condition.

[9] *Organisation for Economic Co-operation and Development (OECD), Economic Assessment of Thailand: Overview 2020, https://web-archive.oecd.org/2020-10-04/565649-Economic-assessment-thailand-overview-2020.pdf.*