

CHAPTER I

INTRODUCTION



1.1 Background and Importance

Development means not only economic growth, but also growth with better changes, such as better environment, higher quality of life, and lower income inequality. Because income represents the ability to access and use social resources, income inequality can indicate the success or failure of development.

Under economic and social development plan, governments could achieve only three goals composed of economic growth, economic stability, and economic liberty. However, they failed to attain another crucial goal, that is, income equality. Despite of economic expansion, the inequality of income tended to increase its intensity during the developing period. Regarding Kuznets hypothesis, it mentioned that income inequality tended to increase in the early stage of economic development, but after economy reached some level income inequality will be lower. If the relationship between income inequality and economic growth follows Kuznets hypothesis, no one has to be worried about income inequality problem. Thus, there is a need to test such hypothesis so that policy makers will know whether they should take an action to solve this problem or just wait because income finally will be more equal automatically.

Inequality of income distribution has an adverse impact on the quality of life of the poor. This problem itself can be a cause of other problems, such as a lack of residences in cities, a health problem, crime, etc. Therefore, a decrease in income inequality is a real key to economic and social development. Since societal inequality

is undesirable and income inequality may exert negative influences upon the economic environments, it is important to better understand how to reduce income inequality.

Meesook (1978) used a sample of Thailand from 1968-1969 to identify some of the major sources of income inequality. The analysis identified education and age as the most significant contributions to income inequality in the nonagricultural sector. However, education is of no significant in explaining the inequality in agricultural incomes. Psacharopolous et al. (1992) using Latin America data found that education was the variable with the strongest impact on income inequality. Of particular interest here is an understanding on the extent to which education contributes to a change in income inequality.

A commonly expressed question is how education can play an important role in reducing income inequality. The impact of education on income distribution depends on two factors: the average level of education and inequality in education. The hypothesis is that the higher educational level, the lower inequality of income. In contrast, the more dispersion of education raises income inequality.

There are some researches studied such relationship. Some of them examined the relation between educational level and income inequality, some looked at the relationship between educational inequality and income inequality, and some studied both educational attainment and educational inequality, but none of them paid attention to quality of education. High quality of education raises productivity of low educational workers, increases their wages, and reduces inequality of income. Due to a neglect of quality of education, researchers might achieve incorrect relationship between educational attainment, educational inequality, and income inequality. This research, therefore, will study the role of education, not only educational expansion and educational inequality, but also quality of education on income inequality. Therefore, this paper will be more comprehensive than any other researches.

1.2 Objective of the Research

The objective of this research is to study the role of educational attainment, educational inequality, and quality of education on income inequality. Besides, it also tests Kuznets hypothesis.

1.3 Scope of the Research

This research use provincial data to study the relationship between education and within-countries inequality of Thailand in 1996, 1998, 2000, and 2002 since educational data by provinces are available only during 1996-2003 and Gini coefficient is computed every two year.

1.4 Definition in this Research

Income inequality is the difference between incomes of the rich and the poor, typically measured by a Gini coefficient-a statistical construct that ranges between 0 and 1, with lower values indicating greater equality.

Educational attainment is measured by the average years of schooling of labor force.

Educational inequality or dispersion of education is the difference in educational opportunities in access to educational services and infrastructure. It is typically measured by standard deviation of the educational attainment.

1.5 Expected Benefits

With an insight in the role of education on income distribution, policy makers can reform the educational policy to reduce the inequality of income.

1.6 Structure of the Paper

This research is divided into six chapters. Following this introductory chapter, chapter two indicates income distribution and educational system in Thailand. Chapter three presents theoretical framework and related literature review. Methodology of the study is explained in chapter four. Based on the data, chapter five reports the empirical result and chapter six summarizes the main findings. The final chapter also makes suggestion for policy implementation and future studies.