

## ECONOMIC DEVELOPMENT POLICY AND INCOME DISTRIBUTION: THE EXPERIENCE IN EAST AND SOUTHEAST ASIA

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### I. INTRODUCTION

**T**wo major objectives of economic policy are (1) developing in such a way that average real income levels increase and (2) distributing wealth more equitably. Any economic policy that simultaneously fulfills these goals is worthy of the utmost praise and emulation. However, in most instances the two objectives conflict, the disadvantages of economic growth, due to poorly-distributed benefits of growth, outweighing the advantages.

Simon Kuznets's reverse-U hypothesis [G-4] is encouraging. Although his determination of the size-distribution of income has contributed much to later research, one of the hypotheses that he gave then is of paramount importance. In sum, the effects of economic development on the equity of size distribution of income differ in different stages of economic development. In the initial stages, distribution regresses as average income rises. When average income reaches a certain level, the degree of inequality stabilizes in spite of economic growth. But when income rises further, the distribution changes progressively.

Using this hypothesis and assigning income level to the horizontal axis of a graph and degree of income distribution inequality to the vertical axis, the two coordinates take on an inverted U-shape.

We must then (1) verify the hypothesis and, if it is valid, (2) find the origin of change. In attempting to verify the hypothesis, many authors have used empirical data, some country-to-country comparisons, other historical data. While they have reached no final conclusion, most suggest that Kuznets's inverted U-shape hypothesis is valid. This leads to question (2). If the changes, which the hypothesis indicates, arise automatically anywhere, the outlook for the distribution problem in the developing countries is optimistic. However, most economists disagree, saying that such a conclusion would be too simplistic.

Economic development in East and Southeast Asia has been faster than in other areas of the modern world. From 1900 on, Japan led the economic growth race, but after 1970, the "Four Dragons"—Taiwan, the Republic of Korea, Hong Kong, and Singapore—became the undisputed champions. Malaysia is rising to

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developed status and the Thai and Indonesian economies have safely taken off from the less-developed stage in hot pursuit of the leaders. The Philippines has had economic difficulties over the past two years, but the country can improve its situation if it overcomes its political problems. The economic situation in East and Southeast Asia supports an optimistic view of growth, so that studies into the economic policy role and the impact of economic growth on income distribution as a factor in maintaining equity may be beneficial.

Studies on income distribution face at least two difficulties. First, they must have data for long periods. Kuznets [G-4] says that ascertaining long-term changes in distribution inequality is important. To do this, we have to ignore the short-term changes that coincide with fluctuations in the business cycle. And, only for the post-Second World War period do we have income surveys derived through random sampling. What we do need is available for Japan from the 1950s on, for Taiwan and Korea from the 1960s on, and for most other countries since the 1970s. Second, degrees of inequality are closely related to survey type. Japan has various types of income distribution data for similar household populations, but the data differs on inequalities. That is a serious obstacle of *rigorous* comparisons between countries. However, the data's restrictions should not be a cause for pessimism. Japan's experience indicates that most data sets have similar patterns of overtime change in inequality even though the average level of inequality differs between sets. Further, Paukert suggests that differences in inequality between data are not large enough to prevent *broad* cross-country comparisons [G-2].

## II. PAST INCOME DISTRIBUTION STUDIES ON EAST AND SOUTHEAST ASIA

In the 1960s, studies on the distribution of income in East and Southeast Asia lagged far behind those for any other region including South America and South Asia. But the situation during the 1970s changed drastically; marked progress being made, at least on the basic research level, in evaluating data and measuring inequalities. Supported by the Japan Economic Research Center (JERC) and the Council for Asian Manpower Studies (CAMS), the first comprehensive seminar on income distribution was held in Tokyo in 1974. That seminar was followed by the CAMS-Hitotsubashi Seminar of 1977 and the Asian meeting of the International Association for Research on Income and Wealth (IARIW) in 1978 (see [G-1] [G-5] and [G-8]). Other groups have published excellent research on Taiwan and Malaysia. Combining all that work allows us to draw an outline of income distribution in Southeast and East Asia.

The above groups provided two types of papers. One examined the origins of inequality through cross-sectional analyses, the other studied changes in inequality overtime. The latter is more important in this context, because it pertains to the role of economic policy. The references list major overtime studies as well as some cross-sectional studies. Table I compares Gini coefficients overtime and between countries. As noted previously, use caution when referring

to this table because some differences between countries are attributable to the nature of the surveys. Still, the table has points of interest. For instance, the figures for postwar Japan, Taiwan, and Korea are systematically lower than the figures for other countries. On that basis, it may be useful here to review for further discussion.<sup>1</sup>

*Japan.* Before the end of the Second World War, Japan collected no data based on random sample surveys, so we must use other data to calculate inequalities in income distribution for that period. The first trial data is that on income level data obtained from national tax information. To this, we apply the Pareto line. We hypothesize that Pareto's law fits the data well to allow easy conversation of Pareto coefficients to Gini coefficients. Calculations by Ono and Watanabe [J-6] provide the results in Table I. One problem here is that before 1945, the upper-limit of income tax exemption was so high that only 1 per cent of households paid taxes. The second trial seeks to overcome these difficulties by using low-income data, obtained through special surveys, and average household income from national account statistics [J-7]. If we draw a Pareto line between the two averages, we may also infer Gini coefficients. Since Pareto's law does not necessarily fit low-income groups well, the figures derived may overestimate the degree of inequality. The third trial uses local tax data which covers nearly all households. But data of this kind is available only for some urban areas. Table I gives data Minami et al. estimated for the city of Yokosuka [J-3].

A relatively good survey for Japan after 1962 in the Survey of People's Living Conditions (Kokumin seikatsu jittai chōsa). For the 1950s, we must rely either on surveys which cover only some households or estimates based on the Employment Status Survey. Table I uses Wada's estimates, considered to be the best of their type [J-9].

Table I shows that in Japan: (1) Though the degree of inequality in the prewar period was as high as the developing countries in Paukert's estimates, it declined sharply after the war. (2) There were regressive changes in both the prewar and the 1950s periods. (3) The trend after 1962, when the Japanese economy shifted from labor surplus to labor shortage, is progressive.

*Taiwan.* Taiwan's Survey of Family Income and Expenditure contains good data on family budgets after 1962. The survey was made by two different agencies, Taipei City and Taiwan Provincial Government, and when using the materials the reports from those two bodies should be read together. (Keep this point in mind when using studies based on these surveys. Several have neglected to do so.) Fei, Ranis, and Kuo carefully studied those surveys to calculate degrees of inequality [Tw-4]. To know the state of distribution prior to 1961, we must rely on the survey by K. Chang [Tw-3], but reservations apply here too because his samples are small.

Data for after 1968 shows a clear progressive change, but the degree of

<sup>1</sup> Only major results pertinent to policy evaluation are discussed here. A detailed review of these papers will be provided elsewhere. For a general review, see the example in [G-5].

TABLE  
A GENERAL COMPARISON OF GINI

Data <sup>b</sup> Source <sup>c</sup>	Japan					Taiwan		Korea	
	OD	TD	TD	SD	SD	SD	FIES	FIES	FIES
	J-7	J-6	J-3	J-9	J-5	Tw-3	Tw-4	K-4	K-8
1890	0.311								
1900	0.417								
1910	0.420	0.357							
1920	0.463	0.417							
1930	0.451	0.431							
1940	0.641	0.467	0.521						
-----									
1955						0.558			
1956				0.313					
1957									
1958									
1959				0.357		0.440			
1960									
-----									
1961						0.440			
1962				0.382	0.372				
1963					0.357				
1964					0.358		0.360		
1965					0.348			0.344	0.278
1966							0.358		0.301
1967					0.351				0.331
1968					0.349		0.362		0.417
1969					0.357				0.313
1970					0.355		0.321	0.332	0.297
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1971					0.369				0.287
1972					0.334		0.318		0.265
1973					0.325				0.356
1974					0.336		0.319		0.269
1975					0.344				0.274
1976					0.339		0.307	0.381	0.281
1977					0.337				0.258
1978					0.329		0.306		0.260
1979					0.339				
1980					0.334		0.303		
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1981					0.343			0.389	
1982					0.348				

<sup>a</sup> A revised estimate for Hong Kong is found in [H-4].

<sup>b</sup> Abbreviations in the data column are: TD, tax data; FIES, family budget data; SD, other survey data; C, census; and OD, other data.

inequality remains relatively stable from 1964 to 1968. One problem is determining trends before 1961. Although Fei, Ranis, and Kuo use Chang's conclusions and consider changes in the 1950s significant, many scholars disagree.

*Korea.* Korea has two family budget surveys, both having been used for basic data in research on income distribution. One is the Family Income and Expendi-

I  
COEFFICIENTS FOR ASIAN COUNTRIES

Hong Kong <sup>a</sup>	Philippines			Thailand	Malaysia		Singapore		Indonesia		
	C	FIES	SD	FIES	FIES	SD	FIES	OD	FIES	SD	
	H-1	P-7	A <sup>d</sup>	P-4	Th-4	M-1	M-2	S-1	S-3	I-5	I-3
	0.48					0.414	0.449				
	0.49				0.414						
0.487	0.49							0.457	0.491		0.389
							0.498				
						0.506	0.505				0.346
0.439	0.48		0.49	0.433							
							0.498	0.436			
0.435		0.55		0.37					0.498		
										0.346	0.49
			0.52							0.38	0.50
			0.53	0.48	0.55	0.493					
										0.34	
0.481											

<sup>c</sup> If two or more sources are used, the major source is shown in the source column.

<sup>d</sup> A in the source column indicate estimates by F. Montes.

ture Survey (FIES) which clarifies the income distribution for employee households. The other, the comprehensive Farm Household Economic Survey (FHES), gives incomes for households classified according to the amount of land they farm. Some difficulties arise, however, in picturing nationwide income distribution. First, the distribution for nonagricultural self-employed households must be

estimated. Second, it is preferable to obtain household income class data by reclassifying the FHES. Third, to get representative figures on employee households, the FIES excludes samples where income exceeds ceilings decided before the survey.

Two scholars have independently grappled with this problem. H. Choo [K-4] attempts to solve problems one and two using original FIES tapes and National Tax Information. D. H. Kim [K-8] examines national tax and other data in detail to obtain a reliable distribution for the nonagricultural self-employed. Both papers are supplemental rather than substitutional and must be examined together. Degrees of inequality in Korea have been surprisingly low and although some fluctuations are present, there is no significant trend toward inequality during the 1960s. Interestingly, Choo suggests a rise in inequality in the early 1970s when the Korean economy began to grow rapidly. From Kim, we can infer progressive change in the late 1970s, although we need more information to draw a firm conclusion.

*Hong Kong.* Hong Kong is a rare case where the population census contains data on income class. The 1966 census first included questions on income class, with answers being voluntary. In 1971, those questions became a regular part of the census. Chau [H-1] says that income distribution trends changed progressively from 1966 to 1976 and reversed from 1976 to 1981. Since detailed information on the 1981 census has just been published, it will have to be examined before we know the reasons for the reverse.

Hong Kong's degrees of inequality are higher than those in postwar Japan, Taiwan, and Korea. Lacking an agricultural sector, as does Singapore, other sectors must be searched to find the origins of higher inequality in Hong Kong. Chau points to large degrees of inequality in the service sector. Interestingly, the situation for Taiwan's commercial sector was similar during the 1960s. This particular point has to be examined in greater detail because Hong Kong's service sector may have disguised unemployment as do agricultural sectors in other countries.

*The Philippines.* The Family Income and Expenditure Survey consists of four good surveys on Philippine family budgets from 1956 to 1971. Degrees of inequality remained relatively stable despite the economic growth of the 1960s. But, according to Paukert's standards, the average level of inequality is as high as any developing country. It is interesting that inequality in the rural sector increased in 1956-71 but that progressive changes in urban areas have cancelled out that increase.

A paucity of data has lessened the number of studies on income distribution for the 1970s. In 1975, family budgets were surveyed on a large scale and parts of those results were published. But critics have pointed out defects in the surveys and the need to adjust the data for reliability. F. Montes of the University of the Philippines adjusted data tapes himself and calculated inequalities for some regions. He found the inequalities much higher than what the partial publication indicates. Thus, if we are going to rely on FIES data alone, we must wait for the 1979 FIES to be published.

To supplement the information, H. T. Oshima [P-4] used the Integrated Survey of Households (ISH). Since the ISH report is published quarterly and income class data is tabulated on a quarterly basis, some interpolation is necessary to compare these figures with those for annual income. While Oshima's findings are only preliminary, they do show the inequalities of the late 1970s to be as great as those of the 1960s.

*Thailand.* Thai surveys on family budget should be used with caution. First, the surveys use a regional rotation system, i.e., data for the entire country can be obtained by combining regional surveys made at different times in two- or three-year periods. If prices inflate or harvest conditions vary during those years, the data must be adjusted to obtain compatible data for the entire country. Second, when comparing data overtime, the definition of income in kind should be examined.

Even though Thailand has four sets of survey data, the problems cited above prevent any rigorous comparison of surveys overtime. The process of adjustment produces different results. Table I shows the most recent results, but it should be noted that the calculations indicate higher degrees of inequality for 1975. However, these figures seem to show that degrees of inequality in Thailand are lower than in the Philippines or Malaysia. Judging the overall trend is difficult, but we can infer that changes in inequality are regressive rather than progressive.

*Malaysia.* Data on income distribution for Peninsular Malaysia is good, with detailed cross-sectional data analyses available, but almost nothing can be found for the rest of the country. (See, for example, Anand [M-1].) However, each survey uses a different method which causes difficulties in comparing changes overtime.

Figures in Table I indicate that degrees of inequality in Malaysia are high compared to other Asian countries. They also indicate regressive changes during the period under survey. With Malaysia, the inequalities between ethnic groups and differences in urban-rural income affect both cross-sectional studies and overtime comparisons. Further, the existence of a plantation agriculture must be considered when examining changes in equity. However, this review is too short to discuss problems of such complexity.

*Singapore.* P. E. Fong [S-1] compares data in Singapore's two family budget surveys, one for 1966, the other for 1975. The degrees of inequality are as high as Hong Kong's and changes during the period have been progressive. The best source for more recent data is Rao and Ramakrishnan's study [S-2] on the Labor Force Survey. This survey defines income to be individual income so that direct comparisons of inequality with data from the family budget are not possible. Rao and Ramakrishnan use the original tapes to compare the two surveys and convert income from the family budget surveys into income on an individual basis.

*Indonesia.* Information on income distribution in Indonesia is very scarce. While the author has tried to obtain such information from relevant sources, the response has been sparse. The following description is taken from studies by H. T. Oshima [I-1] and H. Sigit [I-4].

Indonesia uses two kinds of data to study income distribution. First is data

from the National Socio Economic Survey, started in 1964-65, that includes data on consumption class. Calculations from this data show a degree of inequality as low as in Taiwan. The second data source is the Labor Force Survey begun in 1976. Income distribution as determined from this data shows high levels of inequality. These two sets of data need to be reexamined before we can meaningfully discuss inequalities in Indonesia.

### III. THE ROLE OF ECONOMIC POLICY

Based on this quantitative data, we can now look at how economic policy affects the equity problem. Since the amount of information for Japan is much greater than for other countries of Asia, I will first look at that data.

#### A. *Land Reform and Radical Social Change*

As mentioned above, Japan's degrees of inequality dropped sharply in the late 1940s. No doubt this is related to the Supreme Command Allied Powers (SCAP)'s economic and social reforms that sought to democratize Japan. The impact of these occupation reforms can be inferred from Table II, which indicates changes overtime in the relative income of households that are classified according to the head of household's occupation. In a comparison of figures for 1938 and 1953, two distinctions appear. First, the relative average income of agricultural households rises from 48.2 to 99.7. This is partially attributable to changes in the terms of trade between the agricultural and nonagricultural sectors caused by scarce food supply. But more importantly, it is a result of land reform. In 1948, SCAP ordered that almost every tenant farmer could buy the land he worked from his landlord at low price [G-3]. This not only removed rent costs from farmer earnings, it provided high incentives to accelerate production, thus leading to increased income for former tenants.

Land reform also greatly affected income distribution in Taiwan and Korea ([Tw-7] [Tw-12] [K-3]). While some have criticized the way in which land reform was conducted in these countries, it was a success by international standards. However, it should be noted that the reforms were carried out during the confusion after the Second World War. It was also easy for government in these countries to transfer land because it had belonged to Japanese colonists or their collaborators.

Another comment should be made about land reform in Japan, Taiwan, and Korea, where the major crop was rice. Before the reforms, tenant farmers cultivated paddy land. Thus, the reforms did nothing to alter the production system. That is quite different than what would ensue after reform in a country where the primary mode of farming is plantation agriculture. In those areas, there is a high probability that reform would reduce the size of land parcels and consequently reduce productivity.<sup>2</sup> Land reform in the Philippines concentrated on

<sup>2</sup> This was the general contention of Caribbean participants in the seminar on the Asian Development Model and the Caribbean Initiative held in Washington, D.C. on September 25-29, 1984.



TABLE II  
HOUSEHOLD SHARE AND RELATIVE INCOME IN JAPAN

	Household Share (%)					Relative Income (Total Average=100)					
	1924	1938	1953	1960	1974	1924	1938	1953	1960	1974	
Agriculture	L <sup>a</sup>	13.3	10.8	32.7	25.6	17.4	78.6	60.2	99.7	84.6	100.4
	PL	17.5	14.8	0.0	0.0	0.0	62.3	48.1	—	—	—
	T	11.8	9.1	0.0	0.0	0.0	47.7	34.4	—	—	—
Fishery		2.3	2.2	2.0	3.6	1.3	112.3	83.9	103.1	101.5	96.1
Construction	SE	2.0	1.4	1.9	2.8	6.5	144.4	138.5	90.6	87.9	90.5
	E	1.7	2.4	3.3	4.0	4.7	93.9	81.4	88.0	77.3	83.4
Mining		1.6	2.1	2.3	1.9	...	126.9	86.7	116.9	112.3	...
Manufacturing	SE	6.7	6.2	5.0	4.4	5.6	133.5	138.5	127.7	106.3	95.2
	E	8.0	13.5	10.9	14.6	14.1	87.6	91.7	100.9	102.1	94.2
Commerce & finance	SE	9.1	7.9	7.2	7.3	5.6	135.8	169.9	89.8	103.1	97.6
	E	6.8	7.5	4.8	5.7	14.7	92.3	96.8	93.5	119.7	97.9
Transportation & communication	SE	1.3	0.8	0.9	0.4	0.4	99.1	134.4	127.7	96.9	93.9
	E	3.2	4.5	6.2	8.0	6.8	75.5	86.3	115.4	114.6	97.3
Services		7.9	8.8	9.4	12.5	16.0	130.2	124.8	111.9	105.2	100.8
No occupation		4.8	6.0	11.4	7.2	5.0	76.0	71.5	62.6	61.7	65.1
High income groups <sup>c</sup>		2.0	2.0	2.0	2.0	2.0	584.4	691.0	186.1	296.5	340.4

Source: [J-4].

<sup>a</sup> L is landed farmers; PL is partially landed farmers; T is tenants; SE is self-employed; and E is employees.

<sup>b</sup> Included in manufacturing sector because numbers are too small.

<sup>c</sup> Defined as the top 2 per cent of households.

the rice-producing areas (see [P-7]). Krongkaew points out that regressive changes in income distribution were found in the Thai land reform [Th-3].

Japan and Korea's postwar equity in income distribution has additional origins in the decline of inequality in the urban sector. Owing to war's destruction and the violent inflation of 1945-48, the rich in Japan lost their economic basis. The Special Fortune Tax placed a heavy burden on holders of real assets. As Table II shows, the high income group declined and urban income distribution equalized significantly. We should also note the postwar decline in relative income of self-employed, nonagricultural households. Trade unions established in the later 1940s, with SCAP support, also played a part in preventing capital from taking a larger hunk of the economic recovery pie.

Korea's experience was similar. The property of Japanese colonists and collaborators was redistributed during the 1945 Emancipation. Although the Korean War (1950-53) heavily damaged the national economy, it also, as Choo suggests [K-3], led to an equalized distribution of Korean income similar to what the Second World War did to Japan. In regard to Taiwan, the discussion will change in the degree to which we accept the conclusions of high inequality drawn by K. Chang [Tw-3]. Although we have no other data for Taiwan in the 1950s than that K. Chang gives, it would probably be best to rely on the work of H. Chang [Tw-2], who suggests that the income distribution then was much lower.

The suggestion thus far is that the Second World War, its aftermath and the reforms made after the war, were greatly responsible for the low levels of inequality in Japan, Korea, and Taiwan. Although degrees of equity subsequently changed, a basically low degree of inequality has been retained. As far as I know, there are no examples in any of the other Asian countries of such sweeping social reforms at the national level. Those factors could explain the differences shown in Table I.

### B. *Agricultural Pricing Policies*

Except for urban nations like Hong Kong and Singapore, a country's agricultural policies are very important determinants of change in income distribution. A major policy is pricing in agriculture. Farm products are the basic staple of a country and to maintain stability in production, governments have intervened directly or indirectly in the pricing system. In the early stages of economic development, government wants to keep farm prices low to keep nonagricultural sector consumer prices down. Japan had such a policy before 1955, Korea before the mid-1960s, and some of the Southeast Asian countries have retained their price stabilization policies until recently. These policies effectively prevent rises in nominal wages and contribute to the growth of the nonagricultural sector. If the policies are continued for too long, however, the incentive for farm production declines and the aggregate growth rate tends to decline.

Since the late 1930s, the Japanese government has monopolized rice distribution and intervened in rice pricing. The government adopted this policy to hold prices down during wartime, but continued it during the economic turmoil of the latter 1940s and the 1950s. In the early 1960s, the government changed the policy to one that would pull the price of rice up and encourage rice pro-

TABLE III  
RELATIVE CHANGES OF PRICES IN JAPAN

	Rice Prices	Agricultural Prices	Wholesale Prices*
1960	100.0	100.0	100.0
1965	155.0	149.3	102.9
1970	196.9	195.2	115.0
1975	369.0	353.7	182.1
1980	436.7	432.9	245.0

Source: Prime Minister's Office, Statistical Bureau, *Japan Statistical Yearbook*, various issue.

\* Wholesale prices contain prices for Japan's nonagricultural production.

duction. Since the rise in the price of rice positively affected other agricultural prices (Table III), the terms of agricultural trade improved significantly. However, these policies produce a range of problems. For one thing, the price of rice in Japan is about five times the international level. For another, the government's cap keeps prices from fluctuating and stimulates production of rice in place of other agricultural products. And for yet another, the government rice stocks continue to grow as rice consumption declines.

Korea has had similar experiences. Although agricultural prices were relatively low until the mid-1960s, the terms of trade for farm households improved after the late 1960s. With 1975 as the base 100, the agricultural price index rose to 355 in 1982 while the wholesale price index rose from 100 to 284 during the same years. No doubt, this gives incentive to increase agriculture production and to prevent, to an extent, a widening in the urban-rural income differential as the economy grows rapidly. The Korean rice price, too, is now much higher than the international standard.

Taiwan's pricing policies differ greatly from those in Japan and Korea. Terms of trade improved to some extent with a rise in wholesale prices of 17.5 per cent and in farm prices of 28.9 per cent from 1961 to 1972. Taiwanese government policy in no way resembles that of Japan or Korea. Taiwan has tried to shift from monoculture to multi-crop farming. Keeping the real price for rice relatively low, it has stabilized prices for other farm products such as sugarcane, vegetables, and fruit. This decreased the portion of rice in total agricultural production from 50.2 per cent in 1952 to 29.1 per cent in 1971 [Tw-7]. The shifts have benefited agricultural households by reducing differences in rural and urban income.

Most Southeast Asian countries are now beginning to change agricultural pricing policies. One thing to consider when making such changes is the difference between Japan or Korea and Taiwan. The policies Korea and Japan adopted effectively solved the differences in urban and rural income during periods of very rapid growth. But if such policies are retained for too long, the same difficulties Japan has recently experienced will probably occur.

### C. *Agricultural Development Policy*

Most Asian countries have tried agricultural development policies other than pricing. Through direct investment or subsidy, governments support irrigation,

mechanization, multi-cropping, and the introduction of new grain varieties. In the process of industrialization, the agricultural sector grows at a lower rate than the nonagricultural sector. Thus, by decreasing differences in urban and rural incomes, agricultural development policies effectively prevent increases in inequality to a certain extent.

However, these policies tend to make income distribution between agricultural households unequal. Mizoguchi and Takayama [J-5] state that government subsidies for agricultural production in Japan have gone primarily to households farming large acreage. The Semaul movement has stimulated the development of Korean agriculture, but as a rule, government supports go to model agricultural households with higher than average incomes. In the Philippines new varieties of grain and new farming techniques were accepted in relatively well developed areas as Oshima suggests [G-7] but they are just too expensive for the poorer farmers. In Malaysia, government supports to improve rubber tree varieties exaggerate differences in rural household income between ethnic groups [M-6].

Should we consider regressive effects a necessary evil as Terasaki [P-7] [P-8] suggests? Even if we do, we must still neutralize them as much as possible. The agricultural pricing policies mentioned above may act as neutralizers because they affect agricultural households overall. This could be applied to Japan's experience in the 1970s.

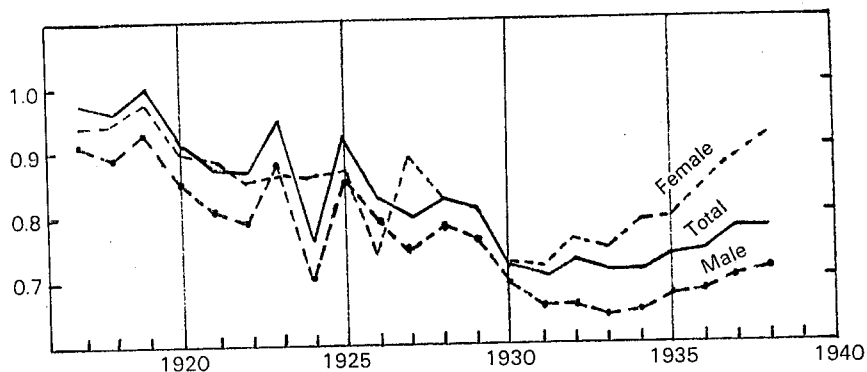
However, necessary evil vanishes when industrial development reaches a certain stage. After they absorbed disguised unemployment in urban areas, industry began to move into outlying cities to take advantage of part-time labor from agricultural households. In Japan of the late 1950s, members of small-farm families began taking full-time nonagricultural jobs and working on their farms, using mechanized methods, over the weekend. This trend worked to equalize farm *household* income although the differential in *agricultural* income remained. The same tendencies were first observed in agricultural households in Taiwan after 1970 and in Korea in more recent years.

#### D. *The Segmented Labor Market and Unbalanced Growth in the Nonagricultural Sector*

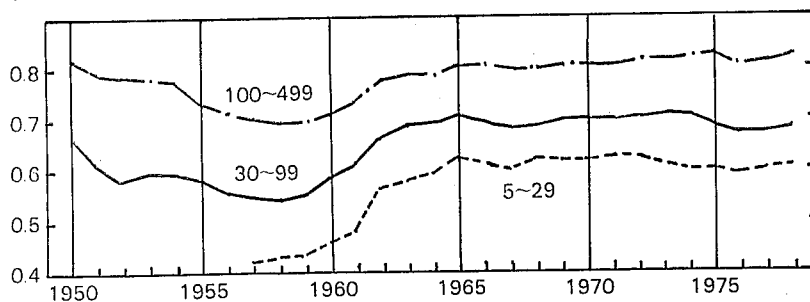
Economic growth causes differences in growth rate between nonagricultural industries. And these differences often regressively affect nonagricultural household income distribution. In Japan of the prewar period and the 1950s, many criticized the economy's "dual structure" saying it was the economy's Achilles heel. This division in the economy originates in the scarcity of skilled workers and the abundance of unskilled workers supplied by the rural sector. When capital-intensive manufacturing began to develop in the 1900s, few well-trained technicians and laborers were available to keep it going. Firms had to train their own employees. After spending time and money on this training they wanted to make sure the employees did not quit. It was this need for long-term employment of trained employees that brought on the lifetime employment system and kept wages in capital-intensive manufacturing higher than in other industries. The labor market consequently segmented between modern and traditional industries.

Fig. 1. Wage Differences by Numbers Employed

A. Ratio of Average Wage in Companies with Less than Ten Employees to Companies with Ten or More Employees: Tokyo



B. Ratio of Average Wage in Small Companies to Large Companies of 500 or More Employees: National



Source: [J-3].

Figure 1 shows this quantitatively. Since modern industries have large factories, that size cancels wage differences. In Japan, the wage gap grew tremendously during the prewar period and the 1950s but stabilized around 1960.

The Korean situation is similar. In the 1960s, wages for unskilled labor rose significantly. This is explained as a process in which rapid growth absorbed disguised unemployment in the urban sector but the labor supply from rural areas lagged behind the rise in demand. The Korean people's enthusiasm over their children's education, made it my contention that the supply of skilled labor was relatively abundant during the 1960s. Several Korean scholars disagreed with that conclusion. However, changes in the 1970s seem to support my argument. When the Korean economy shifted rapidly from light to heavy industry in the 1970s, it created scarcity in the supply of skilled workers, which in turn increased relative wages. The labor market began to split into one part for in modern industry and another for traditional industry. If we accept H. Choo's argument [K-4] that nonagricultural income distribution rose significantly in the 1970s, then the Korean economy's pattern is similar to the Japanese.

The Taiwanese experience differs a little from the Japanese and the Korea. Industrialization started with labor-intensive industry, such as textiles, and only in the past couple of years has heavy industry begun to take off. Such factors prevent increased inequalities between nonagricultural households. Hong Kong's development is more on the Taiwanese model while Singapore's lies somewhere between the Taiwanese and the Japanese-Korean model. Industrialization in other Asian countries over the past several years has been based on labor-intensive industry. A country thus has two options when selecting heavy industry in the early stage of industrialization. As far as distribution is concerned, the Taiwanese model poses few problems. Even following the Korean-Japanese model, however, problems can be solved when the economy reaches the stage of labor shortage.

#### E. *Trade Policy*

In the process of economic development, governments have intervened in foreign trade to protect domestic production or promote exports. The merits and demerits of these approaches in growth policy have been widely discussed. However, few scholars have considered the effects of these policies on income distribution. In that respect, three papers in this issue should be noted. Terasaki points out that in the Philippines, export promotion policies gave advantage to commercial crops and induced inequalities in income distribution. Krongkaew shows that in Thailand rice taxation policies were damaging to small farmers and caused regressive income distribution. Yoneda looks into the relation between foreign trade policy and income distribution.

#### F. *Labor Mobility and Local Development Policy*

Standard economy analysis assumes a smooth movement of labor. But, in the real world that assumption is rendered invalid and the lack of smooth labor mobility is a factor in income inequality. First, consider regional income differentials. In less-developed economies, various markets are segmented locally and there are large differences in income. This was true of nineteenth century Japan and is true of some contemporary Asian countries. When industrialization started in the large cities, surplus labor shifted from rural to urban areas and regional differences in income declined *gradually*. But if a government wants to reduce inequality in a short time, local development policy is required. The Japanese government spent a large amount of money in this way. Its expenditures included not only supports to increase agricultural production but also to shift manufacturing to outlying cities and increase opportunities for nonagricultural employment.

Many Asian countries have used local development policy. Taiwan has developed manufacturing in the southeast. Korea has developed its southern regions where income levels were lower than in Seoul. The Philippine government supports development in Eastern Visayas. Thailand has improved the infrastructure of the northeast. Indonesia is trying to move population from Java to other, less populated, islands.

Generally speaking, local development policy reduces income differences over the long run, but quite commonly it regressively affects income distribution over

the short run. Thus, political as well as economic considerations must be brought to bear on development policy decisions.

The second problem has to do with ethnic, religious, or other social attributes that prevent labor mobility. Fortunately, this is of relatively little import in Japan, Taiwan, and Korea, at least for the economy, although many sociological problems exist. These problems seriously affect income distribution in some Asian countries. Typical examples are seen in Malaysia. While Malaysian income levels have already reached those of the developed countries, degrees of inequality remain. This is particularly important because government efforts to increase relative Malaysian income have done little to decrease inequality between ethnic groups. Problems of ethnic income inequality are more difficult to directly ascertain in the Philippines and Indonesia because it is hard to separate them from regional differences in income distribution. But those problems cannot be ignored when examining regional differences in income.

The third problem has to do with training. Educational levels differ widely during various stages of industrialization, but during that industrialization, companies demand trained workers. When demand for trained workers exceeds supply, income inequalities tend to rise. Studies of the educational system are an integral part of studies into the problems of income distribution.

### CONCLUDING REMARKS

This paper is intended to be a basis for discussion on the impact of economic policy on income distribution in Asian countries. Various topics remain to be examined. Redistribution policies are especially important as Takayama [J-8] and T. B. Lin [H-4] suggest. Further studies should be made of wealth distribution although Mizoguchi and Takayama [J-5] have made a start in this direction. Adelman [K-1] and D. H. Kim [K-8] seek to link the income distribution problem to a macro model. More studies of this kind are necessary.

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