

BOOK REVIEWS

Making Economies More Efficient and More Equitable: Factors Determining Income Distribution edited by Toshiyuki Mizoguchi, Tokyo, Kinokuniya Co., 1991, xxv+473 pp.

Making Economies More Efficient and More Equitable is a collection of essays which were originally presented at a symposium under the same title. This symposium was held in Tokyo from November 27 to 29, 1989.¹ As for the study on income distribution in Asia, this symposium picked up the baton from the research carried out by the Japan Economic Research Center and Council for Asian Manpower Studies, by Harry T. Oshima and Toshiyuki Mizoguchi, and by the Institute of Developing Economies.² This book is not limited to Asia and indeed it also covers the advanced nations and the socialist nations.

The book consists of five parts. Part 1 is concerned with income distribution in East Asia, part 2 with income distribution in Southeast and South Asia, part 3 with income distribution in the socialist countries, part 4 with income distribution in the advanced capitalist economies, and part 5 is devoted to general comments. I would like to center my comments mainly on parts 1 and 2, though I must first touch upon part 3, income distribution in socialist nations, because part 3 is one of the distinctive features of this book. Hitherto, economic statistics had been kept secret in socialist countries, especially in the ex-Soviet Union, and it has been only recently that, due to Mikhail Gorbachev's glasnost policy, such data have become available. Alexei Shevyakov's essay (chapter 11), which reflects this change in circumstances, is valuable in that it provides information on income distribution in the ex-Soviet Union. Shevyakov shows that as socialist nations adopt policies aimed at economic reform, income distribution has generally tended to become increasingly unequal. This is in itself an indication of how difficult it is to aim at two goals—namely, to make the economies “more efficient” and “more equitable” as indicated in the title—at the same time.

Kuznets's inverted U curve hypothesis has been a leading tenet in research on income distribution of the developing countries. According to this hypothesis, in the early stages of economic development, income distribution becomes more unequal, but once the economy develops to a certain stage, income distribution changes its course, and starts to shift toward equalization. The accumulation of research has clearly shown that the changes in the labor market and the role of economic policy are the factors that bring about this change in the course. I would like to comment on *Making Economies More Efficient and More Equitable*, mainly bearing these points in mind.

¹ The reviewer participated in this symposium as a discussant.

² See Japan Economic Research Center and Council for Asian Manpower Studies, *Income Distribution, Employment and Economic Development in Southeast and East Asia*, 2 vols. (Tokyo: JERC; Manila: CAMS, 1975); Harry T. Oshima and Toshiyuki Mizoguchi, eds., *Income Distribution by Sectors and Overtime in East and Southeast Asian Countries* (Quezon City: CAMS; Tokyo: IADRPNU, 1978); and *Developing Economies' Special Issue on “Income Distribution and the Role of Development Policies in Asia,”* Vol. 23, No. 4 (December 1985).

Next I would like to comment on part 1, income distribution in East Asia. Chapter 1 is an essay by Hakchung Choo on those countries in East Asia with an equal income distribution, that is, Japan, Korea, and Taiwan. Choo attributes this equal income distribution to two factors: the factor that the distribution of capital was an equal one, and that the relative price of labor and capital changed in a way that contributed to the equalization of income distribution. He introduces the second of these factors, which focuses on the change in the relative price of labor and capital, with a view to examining the equalization issue within a more general framework than the oft-cited hypothesis according to which income distribution equalizes after passing the Lewisian turning point. However, as Harry T. Oshima points out in his contribution (chapter 6), there is a limit to the interpretation of the phenomena of equalization of income distribution in countries other than the above three using change in the relative price. As Oshima reminds us, Kuznets used his inverted U curve hypothesis to describe the equalization phenomena that had occurred after the First World War in Western nations, which were largely associated with the technological innovations of the time.

Hakchung Choo points out that compared with Japan and Taiwan, the wage and salary differentials in Korea are large. This theme is taken over by Won-Duck Lee (chapter 4). According to Lee, the distribution of labor income in Korea equalized to a great extent during two periods: the second half of the 1970s, and the second half of the 1980s. In the first period Korea passed through the Lewisian turning point, and in the second the law on minimum wages was enacted and the trade unions were active (p. 77). Lee's argument is almost the same as Choo's when Choo states in his essay that income distribution in Korea worsened during the early 1970s due to the policies aimed at developing heavy and chemical industries, but equalized during the second half of the 1970s (pp. 20–21). However, in contrast to Lee, Choo claims that Korea probably passed through the Lewisian turning point sometime during the early 1980s (p. 13). Although there is a slight difference in the timing of the turning point in the studies of the two scholars, they share the general view that, as the Korean economy switched to a labor-scarce economy toward the end of the 1970s, income distribution equalized. The second point that Lee makes about the equalization of labor income during the second half of the 1980s is an interesting one as it contributes to the clarification of the relationship between economic policy and income distribution. Nevertheless, for the thorough examination of this theme, we must wait until the degree of inequality of household income that corresponds to this period is made available.

Income distribution in Hong Kong has a peculiar character, due perhaps to Hong Kong being a city-state. The degree of inequality in Hong Kong is higher than that in other East Asian nations. This fact can be understood to a certain extent when one considers that the degree of inequality within urban areas is usually higher than that of the nation as a whole. With regard to the pattern Hong Kong shows in relation to the Kuznets's hypothesis, it is important to note that income distribution in Hong Kong equalized between 1966 and 1976. Terasaki attributes this situation to the fact that surplus labor was soaked up through the development of labor-intensive industries (chapter 5). This concept matches the explanation that uses the Lewisian turning point. The problem is that income distribution worsened slightly in 1981. Although Terasaki does not state it explicitly, migration from China may well have reversed the process of equalization that lasted until the mid-1970s.

Oshima's essay (chapter 6) covers Japan, Korea, Taiwan, Hong Kong, Singapore, Malaysia, Thailand, the Philippines, Sri Lanka, India, and Bangladesh. The interesting aspect about Oshima's contribution is that he separates the process of economic develop-

ment into two phases: the agro-industrial transition and the industrial-service transition. The first of these is seen as being a process of inequalization of income distribution, and the second as being a process of equalization. While the proponents who place emphasis on the Lewisian turning point focus their attention only on the labor market, Oshima instead takes into account the industrial structure. By doing so, he is not only able to cover in his model various factors, such as multiple-cropping, off-farm jobs, increases in real wages, growth of capital- and technology-intensive industries, and so on, but he also suggests a possible way of integrating income distribution into the theory of economic development. As Oshima points out, Kuznets's inverted U hypothesis does not simply draw an inverted U-curve, but is influenced by economic policies and business fluctuations. In this regard it is noteworthy that the extensive welfare policies implemented from the 1960s to the 1970s equalized income distribution in Sri Lanka. However, as was the case with socialist nations, Sri Lanka found it difficult to reconcile efficiency with equity, and as welfare policies were gradually phased out in the 1980s, income distribution subsequently worsened.

Chalongphob's contribution (chapter 7) deals with income distribution in Thailand. It might be said, not only of Chalongphob but also of other researchers on income distribution in Thailand in general, that there is a tendency to represent income distribution as being more unequal than it actually is. Chalongphob claims that income distribution worsened between 1975 and 1986. However, as I have elsewhere shown,³ the early 1970s was a period when income distribution equalized, and 1986, as is also pointed out in Oshima's essay, is a year when the degree of inequality in income distribution was exceptionally high (with income distribution equalizing again in 1988).⁴ To compare 1975, when the degree of inequality was low, with 1986, when it was exceptionally high, leads to the conclusion that a marked deterioration in income distribution had occurred. It seems to me that in this interpretation the degree of inequalization is exaggerated. However, if it is considered that so far few effective measures have been implemented by the Thai government in relation to income distribution, despite claims by the same government to the contrary, such bias is perhaps understandable. I would like to add, too, that this bias does not lessen the value of Chalongphob's analysis, especially the analysis of the effect of education on income distribution.

Researchers on income distribution in the Philippines show an opposite tendency to that of their Thai counterparts. They tend to indicate that income distribution is more equal than it really is (this is interesting in that it seems to correspond to forecasts of economic growth, where Thailand is rated lower and the Philippines higher than is warranted). Panfila Ching's estimate of the Philippines' Gini coefficient is lower than that of previous researchers (chapter 8). The coefficient that Ching indicates is 0.390, which is lower than that of the other Southeast Asian nations, and gives the impression that the Philippines enjoys a standard of equality on par with that of the East Asian nations. However, one should refrain from drawing a hasty conclusion from Ching's results that either income distribution has been equalized or that income distribution

³ Yukio Ikemoto, *Income Distribution in Thailand: Its Changes, Causes, and Structure* (Tokyo: Institute of Developing Economies, 1991).

⁴ Oshima mentioned at the end of his paper that income inequality decreased from 1986 to 1988. But this result depends on what income concept is adopted. If it is measured by per capita household income, income inequality increased, while it decreased on the contrary if it is measured by household income. See Yukio Ikemoto, "Income Inequality in Thailand in the 1980s," *Southeast Asian Studies* (Kyoto), forthcoming.

in the Philippines is as equal as that of the East Asian nations, because what contributed most to Ching's lower estimate results is her use of "distribution of families by per capita income decile" in calculating the coefficient. If the calculation is based on the "distribution of families by family income" as has been the case in previous studies, the Gini coefficient increases to 0.4460. It is true that Ching's index does allow for the elimination, to some extent, of the statistical hazard caused by the family size, which is a positive point, but unfortunately does not enable a comparison with previous studies, thus preventing us from analyzing changes over time in the degree of inequality. Oshima's essay does, on the other hand, give us a time series of the Gini coefficient, indicating little change over a period of thirty years, which is, as Oshima states, puzzling. In this regard, Hayami and Kikuchi's contribution (chapter 9) shows that despite the introduction of the green revolution to a farming village in the Philippines, some factors negated the benefits, which resulted in minimal changes in income distribution in this particular village. Though village-level arguments are not necessarily compatible with nation-level arguments, this is an interesting point.

I believe that it is regrettable that a chapter was not devoted to such Southeast Asian nations as Malaysia, Singapore, and Indonesia. However, as, in this book, the subjects of analysis encompassed advanced nations and socialist nations, this was probably unavoidable. Nevertheless, there are cases, such as Malaysia, where income distribution equalized in the 1980s, which I believe is more worthy of attention than the Philippines, a case where the changes have been less appreciable. As a researcher of income distribution in Southeast Asia, this point is regrettable. In conclusion, I believe that the original information contained in the book *Making Economies More Efficient and More Equitable* points to the direction of further research into income distribution, both theoretically and positively.

(Yukio Ikemoto)

Direct Foreign Investment in Asia's Developing Economies and Structural Change in the Asia-Pacific Region edited by Eric D. Ramstetter, Boulder, Colo., Westview Press, 1991, xii+310 pp.

If you plot the recent record of Japan's imports of electronics items such as color TV, videotape recorder, microwave oven, you may well be impressed by the nearly vertical pole-shaped figures appeared on the drawings denoting an abrupt surge of imports of these commodities to Japan from Asian countries since around 1987. Up until this period, Japan seemed to enjoy the position of the leading, often sole supplier of these products in the Asia-Pacific market. Apparently, however, the situation has been changing. Moreover, since these products are sold with well-known Japanese brand names, most Japanese consumers do not realize that these commodities are made by the affiliates of Japanese multinationals unless they happen to look into the rear panel. Actually, in the past decade or so, there have been a number of significant changes taking place in the international division of labor, in which the multinationals appear to have played a significant role. However, there has been little research that quantifies the effects of the multinationals activities or direct foreign investment (DFI) on industrial structures in either the host (recipient) or home (investing) economies. Readers of this book will find that a serious effort has been made, under the generally stern constraints of data, by prominent economists of the region.