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Actual Economy

Local
Solutions for
Global challenges



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ACTUAL ECONOMY

LOCAL SOLUTIONS FOR GLOBAL CHALLENGES

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Human Capital Investment and Income Inequality

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Siriwan Saksiriruthai

Abstract

Education and Income inequality are like a two sides of the same coin, and for years this is a major area for research in different countries around the world regardless of sociological, demographic, and economic characters. Using a conceptual framework this study sheds light on ongoing problems of education and inequality in Thailand. This study also shows that the income inequality is prevalent in the country and better education is the major contributor for eliminating income inequality in the country. Moreover, the paper proceeds to analyze the substitution effect, income effect, and total effect. Education and income inequality have become a very large research area up to now, with evidence from many settings showing that education matters more for labor market outcomes than it did in the past. This research suggests that better education be the first step towards reducing income inequality in Thailand. Hence, government should put more effort in improving the education in the country as education is considered a life-long investment of human.

Key-words Education, Inequality, Income, Human Capital Investment

Introduction

Education is a basic objective of development and plays a key role in the ability of a developing country to absorb modern technology and to improve the capacity of self-sustaining growth and development. Even education is a long term investment, it provides valuable assets to recipients as a source generating higher income and higher quality of lives as well as creating spillovers to the economy. Moreover, human quality improvement helps improve productivity, protect the justice, human right, environment, and even financial crisis.

Fields(1980) pointed out that education may affect the distribution of income in a variety of ways: by raising the level of income; by changing, for better or worse, the dispersion of income; by opening up new opportunities for the children of the poor and thereby serving as a vehicle for social mobility and/or, by limiting participation to the children of the well-to-do, transmitting intergenerational inequality; by offering greater access to favored segments of the population (boys, city-dwellers, certain racial groups); by rewarding differently the education received by these groups; through public financing, by taxing some more heavily to subsidize the education of others; and by interacting with fertility, mortality, health, and other aspects of development.

Even theoretically, education raises income equality, empirical studies ambiguously state the relationship between these variables. Thus, the study of education and income inequality in this paper would be beneficial to policy implementation in education and economic development. Learning experiences of countries in changes in equality after supportive educational policy would help Thailand provide more appropriate educational policy to reduce income gap.

Objectives of this paper include to investigate the relationship between education and inequality in Thailand and other countries as well as to find factors determining inequality and how education influences to income redistribution.

Human Capital Investment for Inequality Reduction

Since the main asset of most poor people is human capital, investment in human capital of the poor is a powerful way to augment assets, redress asset inequality, and reduce poverty (Thomas *et al*, 2000). Blaug (1976) classifies human capital in six categories: formal schooling, on-the-job training, job search, information retrieval, migration, and improvement in health, based on types of human capital according to where and how it is accumulated.

Education or formal schooling is one way to improve human capital of those people. Now numerous countries target on education as one way of development. Sjöholm (2002) states that education is likely to play an increasingly important role in Southeast Asia the next decade. Therefore, those countries started to have educational reformation and some changes in education situation in the region are detected. However, not only redistribution of education, but also quality of education should be the factor seriously taken into consideration. Low-quality schooling disproportionately hurts the poor and limits future earning opportunities. High income households enjoy greater access to high-quality education (Behrman & Knowles, 1999). Structure of educational system is an important determinant to be concerned in inequality issue (Chen, 2005).

Most developing countries have made a great effort to eradicate illiteracy. As a result, the inequality in the distribution of education has been reduced by more than half from 1995 to 2010. However, inequality in the distribution of income has hardly changed.

Potential Benefits of Education

Education helps improve people's ability to shape lives, strengthening functioning in society and contributing to their welfare directly. Moreover, education can improve earning capacity, health, and lower mortality respectively. Education also increases ability of people to cope with changes in various environments. People can more easily change jobs and provide some economic protection against economic downturns and financial crises. Provided that education is well-distributed and targeted to the poor, this can facilitate social inclusion—people included in mainstream society, overcoming social obstacles and increasing productivity.

To protect environment, investing in human capital is a good way in the long run. More education, especially to women, reduces demographic pressure on natural resources and environment and better in managing natural resources.

Furthermore, human rights and social justices can be improved by distributing more education. Basic education enables the poor to learn about civil and political rights. That helps in building institutions, improving governance and fighting corruption.

Many studies show positive relationship between years of education per person and output growth. However, misallocated government expenditure on education might contribute little to poverty reduction and instead increase inequality.

A strong academic background is not always sufficient to allow students to overcome financial barriers. This does, however, significantly improve postsecondary opportunities. Within income groups, students with high levels of achievement are significantly more likely to go to college than others, as are those whose parents have high levels of educational attainment (Baum & Payea, 2005).

Education and Inequality in Thailand and Developing Countries

De Gregorio & Lee (2002) investigated why inequality differs so much across countries and between regions, and how some countries have been able to reduce . They find that income distribution in the countries in Africa and Latin America has been systematically less equal than in those of OECD and Asia. The result corresponds to some other empirical evidences. Venezuela has favored on higher education, not primary. This therefore worsens allocation of income and induced inequality. Thomas *et al* (2000) shows evidence of inequality increase through Gini coefficient. Only increasing in public spending on education may not achieve in inequality reduction. This also depends on how to spend the budget, which affects education attainment.

Thailand is the country considered as one of the most successful in generating growth and development in the past 40 years (Krongkaew, 2004). This has induced higher average income of the country and brought down the incidence of poverty. Empirical researches show that people in rural area earning low income and leading to poverty have just primary education (World Bank, 1996 and 1997). Higher education policy causes strong in equalizing effects of education to Thailand. The World Bank (1997) states that educational attainment is an attribute that differed significantly between the poor and non-poor. While about 85 percent of household heads in 1992 had a primary education or less, almost all the poor were in this category. Occupational status of the household head also differed between the poor and non-poor: almost three-quarters of the heads of poor households in 1992 were involved in agriculture, compared to half those in the overall population.

One of the reason explaining why the outcome of educational policy of Thailand is different from that of other countries with more successful in developing equality among people in the countries is that proportionally lower enrolment of secondary school. Thailand has realized the severe problem of educational policy to inequality. With a lot of effort put on increasing higher education enrolment, Thailand began to succeed in achieving to approximately 70% of enrolment to secondary school and 40% for high school in 1990s. However, this is still lower in term of international standard. Broader access to education is a good way to reduce education disparity, a determinant of income inequality on the assumption that more education leads to more income. Education also contributes in improving productivity and skills. Hence, government plays an important role in improving equality through reducing education disparity. Public policy on education becomes critical factor on improving equality in Thailand.

Education is the best way to develop skill which is very important to country's economic growth and social-wellbeing.

Conclusion

Based on human capital theory, higher education leads to higher returns; education becomes one of the solutions for reducing poverty as well as improving growth of many countries. Thailand is also one of those countries trying to promote education to generate more growth and succeeds in economic developing, but from empirical evidences, education is worsening. According to empirical studies, even education improves human capital; this is ambiguous to income equality change. It has been found that the key explaining why Thailand had negative relationship between education and income redistribution is that enrolment of secondary education of the Thai is low. Therefore, educational inequality between people in urban and rural area occurred, inducing income inequality because of lower productivity and skills for less educated people.

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Factors Influencing Business, Management, and Economics Career: A Case Study of High School Students in Bangkok, Thailand

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Abstract

The aims of this research were to examine the factors that affected high school students to be interested in choosing their career in the areas of business, management, and economics, to study the opinions of high school students in Bangkok about their level of interest to select their careers. A simple random sampling was utilized to obtain 400 samples. Half the sample group came from private high schools, whereas the other half came from public high schools. A questionnaire was designed and used to collect the data and in-depth interviews were also conducted to obtain their opinions about their level of interest in business, management, and economics career. The findings revealed that the majority of respondents had a high level of interest in the business, management, and economics careers. High school students who majored in Math-English were more interested in business, management, and economics careers than that of high school students who majored in Science-Math with a 0.05 level of significance. The career was rated as a very interesting career with a chance to have high salary. The factors that influenced the students to choose this career could be ranked as follows: high salary, job security, professional development, occupation growth, peer pressure, high authority and responsibility. The findings from the in-depth interviews revealed that the major obstacles that prevented high school students from choosing business, management, and economics as a career were their ability in mathematics and English.

Key-words Business, Management, Economics, Career, Students