Senior Research

Wealth, Inequality and Rent-Seeking

Dynamics of Economic Growth and Governance in Thailand

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Abstract

Thailand's development experience has demonstrated over the years a manifestation of both inequality of income and inequality of power, and these persisting inequalities have only intensified in the recent past. Despite numerous constitutional reforms, issues of extreme wealth, income inequality, and rent-seeking still remain a matter of grave concern throughout the nation. Nonetheless, this research posits the view that by using the right policy frameworks, these sociopolitical issues, which have bearing on the socioeconomic landscape, can be substantially transformed towards a more equitable and sustainable society in the long term. By 'sustainable' here we refer to economic, political and environmental sustainability. Hence, the main objective of this research is to study the symbiotic relationship between extreme wealth, income inequality, and rent-seeking, as well as their economic impacts on Thailand and other Asian emerging economies.[1] Furthermore, this paper also aims to propose policy recommendations for Thailand to effectively curb its ongoing extreme wealth creation, manage its rent-seeking activities, and create a model for politically and economically sustainable development.

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[1] Other Asian emerging economies include China, India, Indonesia, Malaysia, the Philippines, and South Korea.

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1. Introduction

1.1 Motivation

> *"To put it baldly, there are two ways to become wealthy: to create wealth or to take wealth away from others. The former adds to society. The latter typically subtracts from it, for in the process of taking it away, wealth gets destroyed."*

> – Joseph E. Stiglitz (2012)

This quote from Stiglitz (2012)'s literature, "The Price of Inequality", reveals the interconnection between three of society's most deteriotaring forces – extreme wealth, income inequality, and rent-seeking. Today, these issues, especially corruption and to a lesser extent extreme wealth and income inequality, have become major sociopolitical concerns that are no longer confined within the realms of academic research. According to Oxfam's 2017 report, the eight richest people in the world own as much wealth as the lower half of the world's population (Oxfam, 2017). It is therefore evident that extreme wealth and income inequality have become a global phenomenon and Thailand is part of the trend. Since Thailand first transitioned from an absolute monarchy to a constitutional democracy in 1932, the country has witnessed both inequality of income and inequality of power, particularly in the form of corruption. Nonetheless, the existing literature on these issues has been rather limited. Thus, the main objective of this research is to provide both theoretical and empirical analyses on the impact of extreme wealth, income inequality, and rent-seeking on economic growth in Thailand and other Asian emerging economies, as well as to analyze the symbiotic relationship between these persisting sociopolitical concerns. Furthermore, regarding policy implementation, this paper also aims to provide policy frameworks for the Thai government to alleviate extreme wealth, reduce income inequality, and curb illegitimate rent-seeking activities. These policies, if successfully implemented, will essentially enhance Thailand's standing amongst other emerging economies in Asia.

1.2 Research Question

> *"Standard economics strains out the gnat of allocative inefficiency while swallowing the twin camels of unjust distribution and unsustainable scale. As distribution becomes more unjust big money buys political power and uses it to avoid any redistribution. A favorite political ploy for avoiding redistribution is to emphasize economic growth. Growth in sense (1) leads to an unsustainable scale and*

uneconomic growth in sense (2). But if growth is uneconomic then it makes us poorer, not richer. It is no longer the cure for poverty and cannot substitute for redistribution. Consequently, the possibility of uneconomic growth and unsustainable scale has to be incorporated in economic theory if it is to relevant to policy in a full world".

<div align="right">– Herman E. Daly (2003)</div>

According to Herman Daly (2003), there are three key principles of economics – allocation, scale and distribution. However, as the former World Bank economist has portrayed, modern economic literature in general has often ignored the importance of equitable distribution and scale, while focusing solely on markets and economic growth. In fact, as according to the quote, growth can sometimes be a tool for policiticans to cover their illegitimate creation of "big money" and their extreme wealth accumulation. Thus, a singular focus on growth could lead to an "unsustainable scale" and "uneconomic growth". This is because problems of scale could eventually lead to problems of distribution, given the rapid increase in wealth and income inequality within the society. As a result, when distribution is distorted, growth would then become unsustainable and in essence, "uneconomical".

Hereafter, this research believes that it would be worthwhile to analyze the impacts of inequitable distribution, extreme wealth creation, and illegitimate rent-seeking on Thailand's economic performance in order to examine whether this "uneconomic growth" has persisted within the nation. Furthermore, regarding the research question, there are two main sociopolitical questions that this paper hopes to answer. First, what are the impacts of extreme wealth, income inequality, and rent-seeking on economic growth in Thailand and other Asian emerging economies from 1995 to 2015? Second, what can Thailand do to effectively manage these persisting socioeconomic issues?

1.3 Existing Theories

The previous literature on income inequality, extreme wealth, and rent-seeking has dated back over a century ago. As economists from various eras have analyzed these issues in different aspects, many interesting theories and debates have arisen throughout the years. Regarding the literature on income inequality and extreme wealth, one of the first scholars who tackled these issues was Simon Kuznets (1955). The eminent economist provided an analysis of the long-term relationship between income inequality and economic development, namely the *Kuznets Hypothesis*. According to the theory, income inequality tends to increase during the early stages of economic development and decrease as countries become more developed, creating an inverted U-shaped

curve. After the Kuznets hypothesis was introduced, the theory became widely accepted by the public. However, during the 21st century, a few economists, including Stiglitz (1996) and Piketty (2014), have doubted whether this hypothesis still remains true in the modern world. In addition, an increasing number of scholars have also attempted to provide policy recommendations to tackle today's ongoing income inequality issues. One of the main proposals was that of Atkinson (2015), who believed that income inequality can be solved through active government policies, particularly progressive wealth taxation and standardized minimum wages.

Regarding the rent-seeking literature, the concept of "economic rent" has been recognized by society since the era of David Ricardo (1817). However, it was not until the 1960s that the issue of "rent-seeking" became a topic of academic debate. Since then, numerous economists, particularly Tullock (1967) and Krueger (1974), have come to analyze the impacts of rent-seeking on the economy and provided different conclusions. Likewise, Murphy, Shleifer, & Vishny (1993) also presented an innovative approach to the concept of modern rent-seeking. The authors introduced a very interesting model of "multiple equilibria", which portrays how rent-seeking can bring economies towards a bad equilibrium of low productivity and stagnant growth. In addition, apart from relating rent-seeking to economics, a few papers have also analyzed the relationship between rent-seeking and politics. According to The Corner House (2003), the total value of rent revenue equals to the sum of corruption tax and monopoly profits minus the costs of rent-seeking. Hence, from this simple formula, we now have a closer insight of how politicians design their policies to maximize personal revenue during their time in office.

Another major field of the political economic research relates rent-seeking to corruption. Since the 1990s, numerous economists have focused on the effects of corruption on the economy and found two key hypotheses. The mainstream "Sand the Wheels" hypothesis portrays rent-seeking and corruption as growth-deteriorating, while the alternative "Grease the Wheels" hypothesis portrays them as growth-enhancing (Quazi, 2014). The latter takes the *East Asian Miracle[2]* into consideration by arguing that it is possible for countries to achieve high economic growth despite high rent-seeking and corruption, as long as governments can legitimately regulate these rents for social efficiency.

Lastly, although the majority of the previous literature treated extreme wealth, income inequality, and rent-seeking as independent forces that affect growth, it is also worthwhile to examine the symbiotic relationship between these three factors. According to Braund & Ashcroft (2012), rent-seeking refers to the "business of earning money" by taking away from society's existing wealth without putting in efforts and resources that could generate real value for the nation.

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[2] The *East Asian Miracle* refers to the success of the East Asian economies to face with extraordinary growth rates despite high rent-seeking and corruption, particularly during the period from 1965 to 1990.

Also, it is often the case that individuals who succeed to rent-seek are those who are already powerful and wealthy. This suggests that the act of rent-seeking tends to worsen extreme wealth and income inequality over time by allowing the rich to accumulate larger sums of money at the expense of the poor. Furthermore, this illegitimate behavior also shifts scarce resoures from the real economy into the hands of the privileged few, causing economic inefficiency and long-term stagnation. Hence, in order for governments to secure a sustainable path for future economic development, it is essential for them to view these sociopolitical issues as interconnected and tackle them simulataneously.

1.4 Methodology

Regarding the scope of the study, this research will cover a panel dataset that incorporates seven Asian emerging economies, including China, India, Indonesia, Malaysia, the Philippines, and South Korea, from 1995 to 2015. The dataset will be obtained from three main sources, including the World Bank, Transparency International, and the Center of Systemic Peace. Regarding the empirical methodology, this research will follow the mainstream political economic literature by using the Ordinary Least Squares (OLS) regression analysis.

1.5 Hypotheses and Key Results

This research hypothesizes that the relationship between all of the three independent variables – extreme wealth, income inequality and rent-seeking – on economic growth would be negative. This is because these sociopolitical issues are seen to be deteriorative tools for long-term economic development. However, regarding the empirical results, although all of the main variables are statistically significant, only one out of the three hypotheses holds true, which is for extreme wealth. According to our OLS regressions, while the correlation between extreme wealth and economic growth was found to be negative[3], income inequality and rent-seeking provided slightly positive impacts to the economy, which contradicts to our initial hypotheses.

1.6 Roadmap

The paper is organized as follows. Section 2 is the literature review, which analyzes the existing research on income inequality, extreme wealth, and rent-seeking. Section 3 provides detailed explanations on the research methodology, which includes the conceptual framework, the data collection, the empirical approach, and the empirical issues that may arise. Section 4 presents both the theoretical and empirical results of the three main variables of interest. Lastly, Section 5 concludes the paper and proposes policy recommendations, which aim to tackle extreme wealth and income inequality issues in Thailand.

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[3] From the OLS regression analysis, it was found that a 1% increase in income share of the richest 10% of the population leads to a 0.27% reduction in annual GDP growth rates.

2. Literature Review

2.1 Extreme Wealth and Income Inequality

The existing literature on income inequality and extreme wealth has emerged since the 1950s. However, it was not until the beginning of the 21st century that the issue came to the center of the public eye. Most economists in the field aimed to find the relationship between income inequality and economic growth. Nonetheless, although various conclusions have been made, no concrete solution has been proposed to cure these sociopolitical issues. As a result, the path towards an equitable global society remains rather ambiguous. According to Braund & Ashcroft (2012), one of the most predominant reasons why extreme wealth and income inequality have continued to intensify in recent decades was because modern Capitalist economies often reward and cherish the wealthy, at the expense of the poor. As a result, the rich are becoming immensely richer and the poor much poorer. Currently, the ratio between the top and bottom earnings in large businesses is approximately 1000:1 – a proportion much higher than J.P. Morgan's 20:1 predicted optimum. Therefore, this suggests that CEOs in today's workforce are rewarded much more inequitably compared to employees in lower positions. Quoting the famous economist, Herman Daly (1991),

> *"When you are up in the range of five hundred to one inequality, the rich and the poor become almost different species, no longer members of the same community. Commonality of interest is lost and so it's difficult to form community and to have good, friendly relationships among class differences that are that large."*

> – Herman E. Daly (1991)

This suggests that income inequality and extreme wealth creation can be more destructive to society than what people tend to perceive. Not only do these issues weaken economic growth and development, but they also destroy the sense of belonging within society – a very harmful influence towards the path of global sustainability.

Anthony Atkinson, Thomas Piketty and Emmanuel Saez, who are amongst one of the most prominent contributors of the field of inequality and wealth, have also provided interesting conclusions on the relationship between income inequality and economic growth. According to their analyses, it was found that since the 1980s, top income shares have significantly risen in China, India, and many English speaking countries due to the increase in top wage incomes (Atkinson, Piketty, & Saez, 2011). Likewise, Torgler & Piatti (2013) contributed to the field by analyzing the relationship between income inequality, corruption, and globalization using *Forbes' Annual List of Billionaires* as a proxy of extraordinary wealth. According to the authors' analysis, both

globalization and corruption have encouraged extreme wealth creation, and in turn, increased income inequality (Torgler & Piatti, 2013). Furthermore, Chaudhry & Garner (2012) extended the existing literature by introducing the role of income comparisons and subjective sense of well-being. The authors found that domestic income comparison reduces growth, while cross-country comparison spurs growth (Chaudhry & Garner, 2012). Lastly, Bagchi & Svejnar (2015) recently introduced the role of poverty to the existing field by concluding that while extreme wealth was found to be growth-deteriorating, poverty and income inequality appeared to have no significant impacts on the economy (Bagchi & Svejnar, 2015).

From these contemporary literature, it is rather apparent that different researches have found different results. Hence, in order to truly understand the influence of wealth and income inequality on the economy, it is truly worthwhile to analyze the different theories that have emerged in the field.

2.1.1 The Kuznets Hypothesis

Simon Kuznets' hypothesis, namely the *Kuznets Hypothesis* or the *Kuznets Curve*, has been considered as one of the first theories that relate income inequality to the economy. Kuznets (1955) attempted to find the long-term path of income distribution and identify the relationship between income inequality and economic development. Despite problems of data inavailability, the well-known economist proposed a very interersting insight on how income inequality changes throughout the course of industrialization. According to this theory, income inequality tends to increase in the early stages of development and declines as the country moves closer to become a developed economy, creating an inverted U-shaped curve illustrated below.
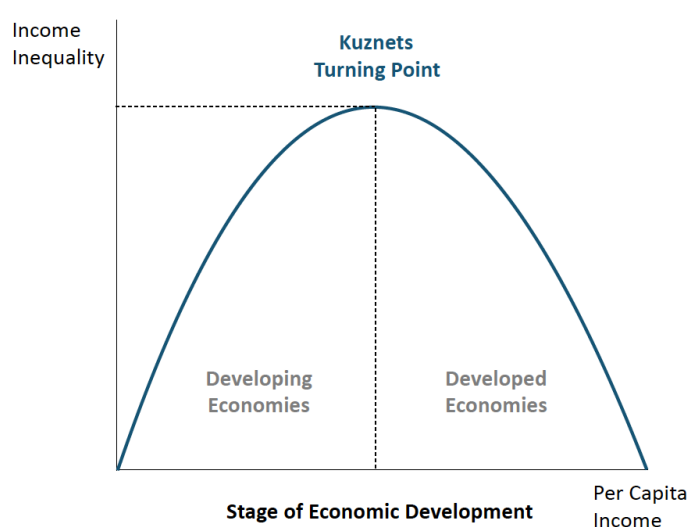
Source: Kuznets (1955)

Fig. 1: The Kuznets Curve

According to Kuznets (1955), there are two main reasons why income inequality tends to increase in developing or industrializing economies. The first reason is due to the increase in saving and investment opportunities that benefit owners of capital, particularly the upper income population. Thus, during the early stages of economic development, rich investors were able to rapidly accumulate their wealth, which creates a more unequal distribution of income within society. The second reason is due to the migration of inexpensive workers from the agricultural or rural sector to the industrial sector. This migration spurs income inquality as the increase in supply for workers lowers overall wages for the working class.

Furthermore, Kuznets (1955) also suggested three main factors why income inequality tends to decline as economies pass a certain level of income or the "Kuznets turning point". Firstly, as economies mature, there tends to be higher political and institutional interventions that aim to promote equitable societies and narrow down the income gap. These policy interventions may include progressive taxation and the implementation of the welfare state. Secondly, during the later stages of development, economies tend to become more democratic, creating higher political power for the poor. As a result, this redistribution of power leads to a more equitable redistribution of income and thus lowers inequality. Thirdly, as the demographic share of the poor is much larger than the rich and as the poorer population rises more rapidly over time, the "mulitiplier effects" of savings and investments of the rich tend to decrease as economies become industrialized (Kuznets, 1955).

2.1.2 The Kuznets Critique

In recent years, a few economists, including Stiglitz (1996) and Piketty (2014), have come to criticize the Kuznets hypothesis by arguing that the theory no longer applies to today's economies.

A Critique using Stiglitz's East Asian Miracle

One of the main critisms was based on the phenomenon of the *East Asian Miracle*, which occurred from 1965 to 1990. During the early stages of development, these East Asian economies not only faced surges in economic growth but also improvements in income inequality and poverty levels. This is because the higher growth rates created excess resources to enhance equality of income, which further stimulates long-term economic performance (Stiglitz, 1996). Hence, this phenomenon suggests how it is possible to distribute the benefits of economic growth amongst society during the process of industrialization, which opposes the Kuznets hypothesis.

According to Stiglitz (1996), the fall in income inequality experienced by the East Asian economies was not only due to the increase in resources but also the egalitarian policies that efficiently distributed those excess resources. First, the East Asian governments implemented active policies to promote standardized education, which enhanced macroeconomic and political stability.

Second, the governments strengthened the financial markets, including development banks, financial infrastructure, as well as bond and equity trading. Third, the countries implemented effective trade policies that aimed to ease international relations, promote technological transfers, and decrease capital costs. Last, the governments designed industrial policies to support research and development programs for potential industries, particularly those which could largely contribute to national productivity (Stiglitz, 1996).

A Critique using Piketty's Capital in the Twenty-First Century

Thomas Piketty (2014), a well-known egalitarian economist, also critiqued the Kuznets theory in his best-selling book " Capital in the Twenty-First Century" published in 2014. Piketty (2014) portrays the path of wealth and income inequality since the 18th century and analyzed the impact of Capitalism on inequality over time. Compared to Kuznets (1955), Piketty (2014) benefited from a much larger dataset over a longer period of time, which provides a more accurate analysis on the relationship between income inequality and economic growth. Unlike Kuznets (1955), Piketty (2014) believes that income inequality will continue to increase as long as the returns to capital are higher than the economic growth. This interesting theory can be explained by a simple equation, which is also known as the *Central Contradiction of Capitalism* or the *Force for Divergence*:

$$r > g$$

According to Piketty (2014), *r* refers to the rate of return on capital, which includes profits on investments, dividends, interests and rents, while *g* represents the annual growth rate of the economy, which can come in the form of income or output. By analyzing past data since the 18th century until the early 21st century, Piketty (2014) has found that the rate of return on capital generally exceeds the growth rate of the economy, which reaffirms the significance of his proposed equation. According to Piketty (2014)'s empirical analysis, throughout the past, the rate of return on capital (*r*) remained at a relatively high level of 4-5% despite political transformations and economic shocks. In contrary, the economic growth (*g*) lingered at less than 0.1% due to the stagnant growth in population and agricultural productivity.[4] This represents how wealth and income of the richest few – particularly the top 10% and the top 1% – has accumulated at a much rapid pace compared to output and wages through the course of history.

This analysis firmly supports Piketty (2014)'s argument on how the difference in capital returns and economic growth (*r – g*) often spurs higher income inequality, despite the country's stage of development, which could essentially lead to long-term income divergence. To prevent this

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[4] The rate of return on capital (*r*) and economic growth (*g*) levels presented by Piketty (2014) are based on the empirical results of Western countries.

phenomenon from occuring, the now famous author has proposed policy recommendations on implementing a global progressive wealth taxation. Without these taxes, Piketty (2014) believes that the world would soon fall into a vicious trap of long-term income inequality and unearned wealth accumulation.

2.1.3 Atkinson's Proposal to Solve Income Inequality

Another well-known economist in the field of income inequality is Anthony Atkinson (2015), who, according to the *The Economist*, is the "godfather of inequality research". In his book, "Inequality: What Can Be Done?" published a year later than Piketty's best-seller, Atkinson (2015) intoduced 15 interesting policy proposals for today's economies. These proposals are stemmed from Atkinson (2015)'s belief in the role of governments to shape the path of income inequality over time. Similar to Piketty (2014), Atkinson (2015) emphasizes the importance of progressive taxes as a crucial tool to decrease income inequality. Hence, one of Atkinson (2015)'s most important proposals was for governments to broaden their tax base, as well as implement a 65% income tax on top income earners. Atkinson (2015) believes that these radical tax adjustments would shift the tax burden from the poor to the rich, allowing a more equitable redistribution of national income. Another suggestion that Atkinson (2015) proposed is for countries to promote innovation and technological advancements amongst the working class in order to increase overall human capital capability. Lastly, Atkinson (2015) adviced governments to ensure standardized employment and reasonable minimum wages for the poor.

In my opinion, although Atkinson (2015)'s egalitarian policy frameworks were specifically designed for the United Kingdom, they are still worth studying. In fact, Asian emerging economies, particularly Thailand, could also follow and indeed benefit from a few of these policies. For instance, Thailand would largely benefit from active government policies that enhance human capital investments, especially investments in education and enhanced skill-building. With innovations in the education system, particularly ones that provoke critical thinking and social development, I strongly believe that the Thai economy would soon witness higher employment, lower income inequality, and more robust economic growth.

2.2 Rent-Seeking

2.2.1 Rent-Seeking Literature throughout History

In the early 19th century, David Ricardo, who is one of the founding fathers of the Classical economics school, first introduced the concept of "economic rent" to society. According to Ricardo (1817), economic rent refers to the value of the difference in productivity between the best and worst pieces of land or the surplus in agricultural production. Therefore, during the era of Classical economics, the term "rent" represented all sorts of payments that exceeded the factors of production and the opportunity costs. However, the issue of "rent-seeking" has been considered as a more modern phenomenon. In fact, the economic impacts of rent-seeking have not been theoretically and empirically analyzed until the 1960s during the era of Neoclassical economics. Unlike the Classical school, the Neoclassical rent-seeking literature analyzes rent-seeking from a political economy perspective. According to the new theory, governments are the main actors who create rents, which deplete society's scarce resources and generate economic inefficiency (Gramc, 2007).

One of the first Neoclassical economists who analyzed the relationship between rent-seeking and economic growth was Gordon Tullock (1967). During the time, Tullock (1967)'s literature, "The Welfare Costs of Tariffs, Monopolies, and Theft", was seen as an academic invention in the field of political economics. The paper provided many new insights on the social and economic costs of rent-seeking – an approach that had not yet been used before within the academia. According to Tullock (1967), the main reason why rent-seeking deteriorates economic performance is because it creates large social costs. These additional costs – most of which are in the form of inefficient government policies, including regulations, transfers, and monopolies – deplete scarce resources from the real economy into the hands of the privileged few. Oftentimes, these costs are larger than what societies tend to perceive, which reflects how rent-seeking should not be looked upon. In addition, Tullock (1967)'s literature also provided two main conceptions for rent-seeking: first, the "Missiles Seek Heat Hypothesis", and second, the "Invertability Hypothesis" (Aidt, 2016). The first hypothesis explains how contestable rent often leads to higher rent-seeking behaviors, which target to capture those rents. These behaviors thus lower productivity and lead to long-term inefficiency. The second hypothesis introduces the concept of "unobservability", which can be found in almost all rent-seeking activities. In reality, when rents are created within society, they are not documented by any government agency, nor are they exposed to the public eye. Thus, this makes it extremely difficult for governments to realize the extent of their social losses. However, Tullock (1967) believes that by employing the "contest-model", it is possible to use the size of society's accumulated rents as a proxy to measure these unobserved losses.

Seven years later, the former World Bank Chief Economist, Anne O. Krueger (1974), provided significant new contribution to the rent-seeking literature. Krueger (1974)'s work, "The
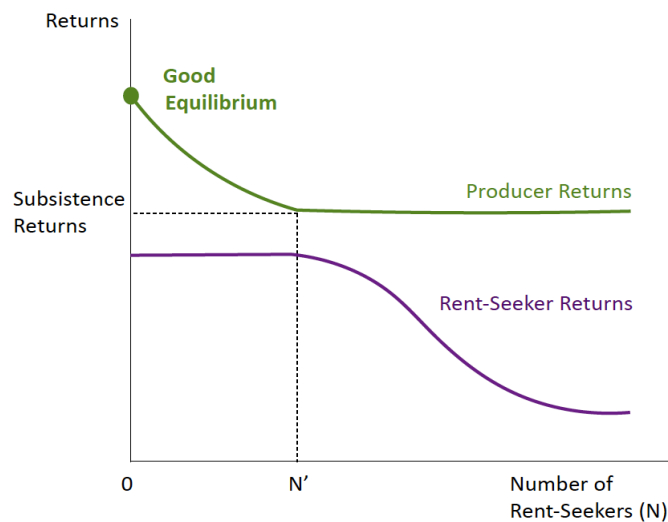
Political Economy of the Rent-Seeking Society", brought Tullock (1967)'s concepts to the center of public attention and paved the way for all modern rent-seeking literature that followed. After Krueger (1974)'s work was published, there was acknowledgement globally of the long-term costs of rent-seeking towards economic sustainability, particularly via the increase in deadweight losses. According to the author's simple model of competitive rent-seeking, it was found that trade interventions, particularly in terms of import licenses, led to welfare reductions of over 7% of GNP (Krueger, 1974). Following Krueger (1974)'s literature came numerous papers that both contributed to and extended the existing field. One interesting literature that extended Krueger (1974)'s concepts was "Why Is Rent-Seeking So Costly to Growth?" written by Murphy, Shleifer, & Vishny in 1993. According to the their analysis, rent-seeking refers to the act of increasing one's share of existing wealth without creating new wealth (Murphy, Shleifer, & Vishny, 1993). Hence, this suggests that the main reason why rent-seeking is deteriorative is because it depletes scarce resources from the real economy without adding additional values to society – an action that can be considered as economic theft (Braund & Ashcroft, 2012). According to Murphy, Shleifer, & Vishny (1993), this depletion often comes in two forms – first, through the creation of "bad" equilibria of resource misallocation and economic inefficiency, and second, through the deterioration of innovation – both of which discourage socioeconomic sustainability.

2.2.2 Rent-Seeking and Economic Growth: The Multiple Equilibria

Regarding the theory of rent-seeking and economic growth, Murphy, Shleifer, & Vishny (1993) have also introduced an intriguing model of rent-seeking to the existing field. This model explains how rent-seeking traps economies into a "bad equilibrium" of low productivity and stagnant growth. Hence, once an economy enters into a bad equilibrium, it would be extremely difficult to return to its initial position, creating long-term economic inefficiency. According to the model, the population must choose between three occupations – to be a cash-crop producer for the market, a subsistence producer for their own consumption, or a rent-seeker that steals from the market. Hence, this means that the higher the number of rent-seekers, the lower the cash-crop producers, and the less productivity within the economy. This mechanism can be explained using three main frameworks as follows:

Framework 1: Strong Property Rights

With the existence of strong property rights and legal regulations, returns to rent-seeking are much lower the than returns to producing cash-crops (Murphy, Shleifer, & Vishny, 1993). Hence, without an incentive to rent-seek, potential rent-seekers would shift to become efficient producers for the market. As a result, the economy remains at its "Good Equilibrium" with zero rent-seekers, maximum production, and high economic growth, as illustrated in Figure 2.

Fig. 2: Rent-Seeking and Production Returns with Strong Property Rights

Framework 2: Weak Property Rights

Nevertheless, if property rights and legal regulations are weakly protected, the returns to rent-seeking would rise above the returns to production (Murphy, Shleifer, & Vishny, 1993). Hence, with an incentive to rent-seek, the number of rent-seekers would tend to rise, pushing the economy into its "Bad Equilibrium", as shown in Figure 3. At the Bad Equilibrium, the returns to all activities are the same. As a result, the entire population shifts towards subsistence production, which lowers overall market productivity and damages economic growth.

Fig. 3: Rent-Seeking and Production Returns with Weak Property Rights

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Framework 3: The Multiple Equilibria of Rent-Seeking

The third framework combines the two earlier frameworks into a model of "multiple equilibria". According to figure 4, when there are not many rent-seekers in the economy, the economy would remain in its Good Equilibrium and the first framework would hold. However, when the economy faces with a political shock or an economic crisis that drives the number of rent-seekers above the "Tipping Point" (T), the economy would abruptly move into its Bad Equilibrium of low productivity and declining growth (Murphy, Shleifer, & Vishny, 1993). According to the theory, once an economy enters into a Bad Equilibrium, it would be very difficult to return back to its initial position and thus requires strict regulations and active government policies.
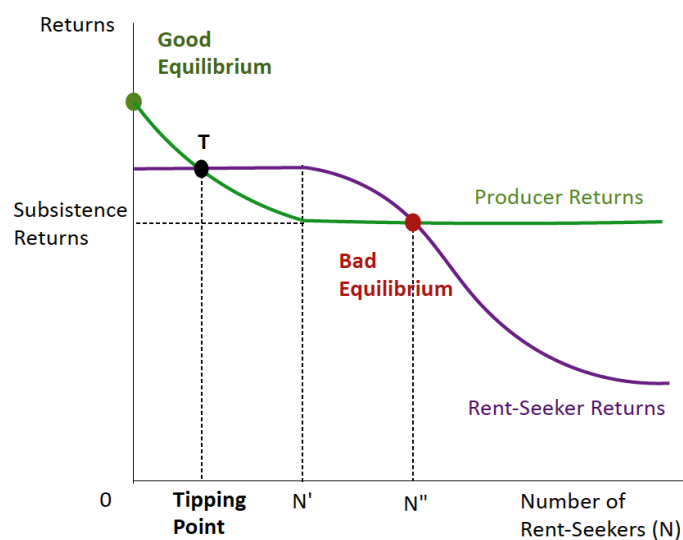
Source: Murphy, Shleifer, & Vishny (1993)

Fig. 4: Multiple Equilibria of Rent-Seeking and Production Returns

To conclude, Murphy, Shleifer, & Vishny (1993)'s rent-seeking theory has indeed provided many interesting aspects on the relationship between rent-seeking and productivity, as well as introduced the importance of property rights and legal regulations in controlling rent-seeking behaviors. In the modern world, the productive sector of the economy can be compared to the entrepreneurial, innovative, or information technology (IT) sector. Therefore, by following this theory, if rent-seeking activities increase in today's economies, those in the innovative sector would be incentivized to become ordinary producers, and even rent-seekers. Hence, this theory essentially reemphasizes the deteriorating impacts of rent-seeking on long-term productivity and economic development.

2.2.3 Rent-Seeking and Politics: The Rent-Seeking Formula

Another interesting theory on rent-seeking can be found in *The Corner House* (2003)'s Report on "Corruption, Governance and Globalization". This theory relates rent-seeking to politics and analyzes how politicians exercise their rent-seeking power by using a simple formula shown below:

$$V = A + B - K$$

According to The Corner House (2003), the total rent or total corruption revenue (*V*) equals to the sum two main sources of rent-seeking income (*A* and *B*) minus the costs of rent-seeking or corruption (*K*). The first source of rent-seeking revenue (*A*) represents corruption tax collected by bureaucarats and politicans, which is somewhat equivalent to normal theft. This corruption tax can come in various forms, including commission fees and illegitimate government expenses. The second source of rent-seeking revenue (*B*) refers to monopoly rents or monopoly profits that politicians receive from businesses in the private sector. Oftentimes, these profits are given in exchange for governmental regulations and influence. Lastly, the costs of rent-seeking or corruption (*K*) represents the undesirable outcomes that politicians could face after they have performed their rent-seeking activities. These costs can also come in two forms – first, the costs of getting fined or getting into prison, and second, the costs of losing face within society. Hence, from this simple equation, we can now analyze how politicians maximize their total rent-seeking revenue during their time in office. Firstly, these politicians would aim to maximixe the sum of their rent-seeking income (*A* and *B*) through government regulations and policy interventions. Secondly, they would also aim to minimize the rent-seeking costs (*K*) by controlling both the media and the judicial system (The Corner House, 2003).

2.3 The Symbiotic Relationship between Extreme Wealth, Income Inequality and Rent-Seeking

> *"To put it baldly, there are two ways to become wealthy: to create wealth or to take wealth away from others. The former adds to society. The latter typically subtracts from it, for in the process of taking it away, wealth gets destroyed."*

> *– Joseph E. Stiglitz (2012)*

This quote by the Nobel laureate Joseph Stiglitz (2012) can be seen as an accurate representation of the interconnection between extreme wealth, income inequality and rent-seeking. Although the majority of the existing literature has analyzed these political economic issues as separate forces, it is worthwhile to consider their symbiotic relationship, particularly in the context of today's economies. According to Braund & Ashcroft (2012), the main reason why rent-seeking, income inequality, and extreme wealth are closely intertwined is because illegitimate wealth could only be acquired through the process of rent-seeking. This detrimental process takes away society's existing wealth without adding real value to the nation at large. Hence, as the issue of rent-seeking accentuates over time, it tends to create a vicious cycle of ongoing income inequality and unearned wealth accumulation.

Furthermore, it is often the case that today's rent-seekers are the powerful and the wealthy (Braund & Ashcroft, 2012). This is because in most of today's Capitalist societies, the elites are often praised for their multibillion businesses and extreme earnings. Hence, by allowing the rich to accumulate larger sums of wealth at the expense of the poor, society's scarce resoures are shifted into the hands of the privileged few – skewing the market mechanism towards the upper quintile, the upper 10%, and most importantly, the upper 1%. This skewness intensifies income inequality and deteriorates the path for society's future wealth creation. Thereafter, this research believes that in order for governments to secure a sustainable course for global economic development, it is essential for them to acknowlege the symbiotic relationship between these sociopolitical issues in order to design effective policy frameworks that can tackle them simultaneously.

Another economist that has sophisticatedly portrayed the symbiotic relationship between extreme wealth, income inequality and rent-seeking is Herman E. Daly (2003) in his famous quote:

> *"Standard economics strains out the gnat of allocative inefficiency while swallowing the twin camels of unjust distribution and unsustainable scale. As distribution becomes more unjust big money buys political power and uses it to avoid any redistribution. A favorite political ploy for avoiding redistribution is to*

emphasize economic growth. Growth in sense (1) leads to an unsustainable scale and uneconomic growth in sense (2). But if growth is uneconomic then it makes us poorer, not richer. It is no longer the cure for poverty and cannot substitute for redistribution. Consequently, the possibility of uneconomic growth and unsustainable scale has to be incorporated in economic theory if it is to relevant to policy in a full world".

– Herman E. Daly (2003)

In general, the three fundamental principles of economics are allocation, distribution and scale. In teaching and in practice, though, 'scale' is often neglected and is rarely taught in most if not all faculties of economics, be it in the developed or developing world. This is because the market is generally considered to take care of allocation and distribution in a way that is supposed to happen automatically, although it often requires the intervention of the State. As a result, 'scale' is therefore rarely factored in today's economic decision-making. According to Daly (2003), it is apparent that the modern economic literature has often ignored the importance of equitable distribution and scale, while focusing solely on markets and economic growth. Additionally, as the quote portrays, growth can also act as a tool for policicitans to hide their illegitimate creation of wealth and their accumulation of "big money". Thus, by singularly focusing on growth, societies could ultimately move towards an equilibrium of "unsustainable scale" and "uneconomic growth". This is due to the fact the problems of scale generally leads to problems of distribution, given the rapid increase in wealth and income inequality within society. Thereafter, when distribution is distorted, growth tends to become unsustainable and in essence, "uneconomical" in the long run.

It is therefore important to note that Stiglitz (2012)'s concept of "wealth destruction" aforementioned generally follows Daly (2003)'s perception of "uneconomic growth". Although addressed nine years apart, both concepts similarly aim to point out how illegitimate income accumulation could lead to severe distortions in society's allocation and scale. A distorted allocation and an inequitable scale would hence accentuate the skewness of society's distribution of wealth. Furthermore, once wealth gets unequally distributed amongst the population, economies would face with an unsustainable path of growth and development. Here, the vicious cycle of income inequality and extreme wealth reemerges at the cost of society. To conclude, the symbiotic relationship between extreme wealth, income inequality and rent-seeking typically portays how economic growth can never be sustained alongsided the persistance of unearned wealth creation. In essence, in order to achieve long-term socioeconomic sustainability, it is truly crucial for governments to implement policies that can effectively alleviate these persisting extreme wealth issues.

2.4 The Debate on Corruption: Sand the Wheels versus Grease the Wheels

Oftentimes, the terms "rent-seeking" and "corruption" can be used interchangeably. Hence, both areas of literature should be seen as beneficial and interconnected to one another (Aidt, 2016). Regarding the corruption literature, two main hypotheses were present in the field – the mainstream "Sand the wheels" hypothesis, which portrays corruption as growth-deteriorating, and the alternative "Grease the wheels" hypothesis, which portrays it as growth-enhancing (Quazi, 2014).

2.4.1 Sand the Wheels Hypothesis

Mauro (1995), who is the founding father of the "Sand the wheels" hypothesis, introduced the negative correlation between corruption and economic growth to the academic field. From his OLS regressions, it was found that a one standard deviation increase in the corruption index led to a 0.8% decrease in the annual GDP per capita growth rate (Mauro, 1995). Likewise, Méon & Sekkat (2005) also found similar results. The authors stated that corruption is negatively correlated to both economic growth and investment, and concluded that these impacts largely depend on quality of governance. In other words, when quality of governance worsens, the deteriorating impacts on the economy tend to become more extreme (Méon & Sekkat, 2005). Mo (2001) also contributed to the field by concluding that a 1% increase in corruption level led to a 0.72% reduction in economic growth. Furthermore, the author introduced the role of transmission channels, particularly in the form of political instability, to the existing literature (Mo, 2001). Drury, Krieckhaus, & Lusztig (2006) provided another interesting view by introducing the role of democracy to the correlation. According to their empirical results, although the mainstream "Sand the wheels" hypothesis remains true for non-democracies, corruption has no significant effect on growth in democratic nations (Drury, Krieckhaus, & Lusztig, 2006). Lastly, the final literature supporting the mainstream hypothesis was that of Ugur & Dasgupta (2011). This research differentiates itself from the existing literature by conducting a meta-analysis of 72 empirical studies. According to their analysis, it was found that corruption is detrimental to GDP growth; however, that detrimental impact appears to be more extreme in mixed economies than in low-income economies (Ugur & Dasgupta, 2011).

2.4.2 Grease the Wheels Hypothesis

As aforementioned, not all political economic papers have witnessed negative correlations between corruption and economic growth. Huang (2016)'s literature is one of the most recent publications that came to support the "Grease the wheels" school. According to his empirical analysis, a positive causality between corruption and economic growth was present in South Korea and China, but no other significant correlations were found in the remaining Asia-Pacific countries (Huang, 2016). As a result, regarding policy implementation, Huang (2016) suggested that policy makers in the Asia-Pacific should thus revise their current anti-corruption policies in order to

improve the region's long-term economic development. Similarly, Egger & Winner (2005) also witnessed a positive correlation between corruption and economic growth, particularly through higher inward foreign direct investments (FDI). From their empirical study of 73 economies from 1995 to 1999, it was apparent that corruption has acted as a driver for higher FDI inflows (Egger & Winner, 2005).

2.5 The East Asian Miracle

The *East Asian Miracle* refers to the success of the East Asian economies to face with extraordinary growth rates despite high rent-seeking and corruption, particularly during the period from 1965 to 1990. This phenomenon follows the "Grease the Wheels" hypothesis by stating that it is possible for corruption to coexist with economic prosperity. Hence, the East Asian Miracle raised questions for many scholars who once supported the mainstream "Sand the Wheels" school. Amongst the first economists[5] who analyzed the East Asian Miracle was the Nobel laureate Joseph E. Stiglitz (1996). The famous scholar published many related writings, including "Some Lessons from the East Asian Miracle" in 1996 and "Financial Markets, Public Policy, and the East Asian Miracle" during that same year. According to the author, the main reason behind the success of East Asia was due to the fact that East Asian governments used rents as "tools" to boost growth, rather than as instruments of rent-seeking. Thus, instead of facing an economic slowdown, it became possible for these East Asian economies to witness higher growth rates and economic prosperity. Furthermore, the other main reason why these economies were able to witness a period of long-term growth was due to the their effective government interventions. During the era of the East Asian Miracle, East Asian governments implemented policies to strengthen their financial systems, promote high savings, as well as ensure efficient allocations of credit (Stiglitz & Uy, 1996).

Likewise, another literature that examined the East Asian Miracle was that of Campos, Lien, & Pradhan (1999). The authors found that corruption and growth are positively correlated and that the impact of corruption on economic growth depends on the "nature" of corruption. Hence, the main reason why East Asian economies managed to receive a generous amount of investments and growth despite persisting corruption was because their regimes were well-organized and highly predictable (Campos, Lien, & Pradhan, 1999). In addition, Rock and Bonnett (2004) also contributed to the field. The authors performed cross-country comparisons between six distinct country groupings – *SINGHKMAL* (Singapore, Hong Kong and Malaysia), *LEANICS* (China, Indonesia, Korea, Thailand and Japan), *SASIAP* (South Asia and the Philippines), *MENA* (Middle East and North Africa), *LAC* (Latin America and the Caribbean) and *SSA* (Sub-Saharan Africa) – and

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[5] Including the former World Bank Chief Economist, Anne O. Krueger (1974).

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concluded that the correlation between corruption and growth depends on the country's stage of development. Henceforth, while corruption reduces growth in small developing economies, it enhances growth in large newly industrialized nations (Rock & Bonnett, 2004).

2.6 Conclusion and Contribution

In conclusion, it is obvious that issues of extreme wealth, income inequality, and rent-seeking have long been at the center of academic interest. However, different papers have found different results, and not many have specifically focused on the Thai economy. Hence, this research aims to add to the existing literature by using Thailand as a case study, as well as analyze the country's standpoint amongst other emerging economies in Asia. Additionally, this research also differentiates itself from the previous literature by incorporating the impacts of rent-seeking, income inequality and extreme wealth into one single framework – an approach that has never been used before in the academia. Thus, by simultaneously analyzing the economic impacts of income inequality, extreme wealth, and rent-seeking along-sided one another, this research will be able to provide a broader perspective of Thailand and emerging Asia's political economic stances. Finally, this paper also aims to propose policy recommendations for the Thai government to reduce income inequality, eliminate rent-seeking, and essentially achieve sustainable economic development.

3. Research Methodology
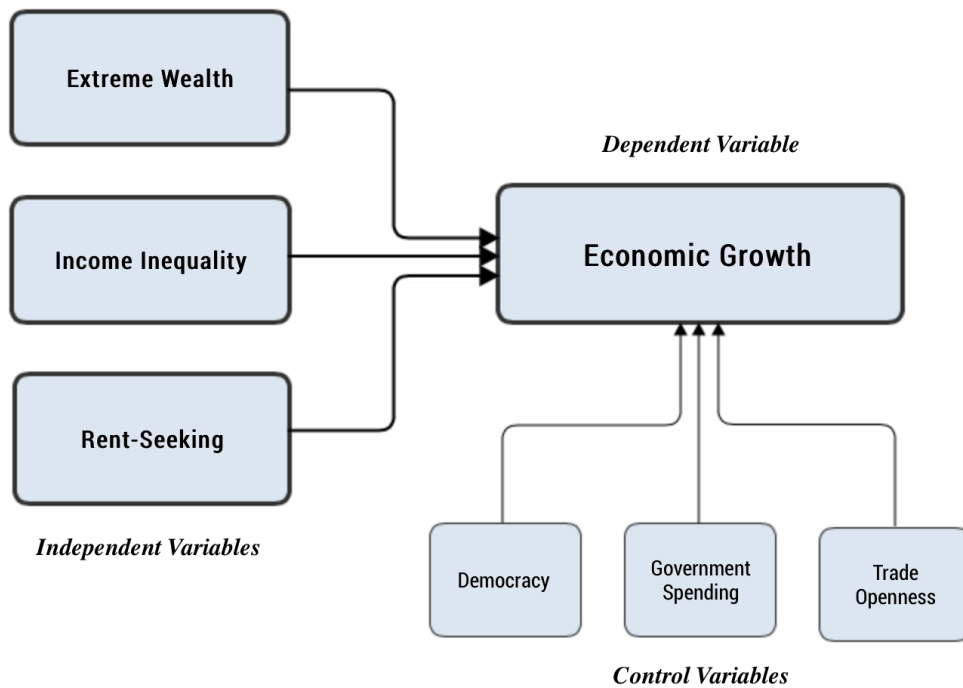
3.1 Conceptual Framework

Fig. 5: The Conceptual Framework

The conceptual framework in Figure 5 relates extreme wealth, income inequality, and rent-seeking to economic growth. Extreme wealth, income inequality, and rent-seeking are treated as the independent variables and economic growth as the dependent variable. Looking back through the existing literature, previous political economic papers have presented contrasting results to the relationship between these independent variables and economic growth, depending on the country of interest and the author's perspectives. Regarding to the income inequality literature, according to Kuznets (1955), income inequality tends to be high in developing economies and low in developed economies. However, according to Stiglitz (1996), this relationship does not seem to hold true, especially for countries that have witnessed the *East Asian Miracle*. Likewise, similar to the income inequality literature, the existing rent-seeking research has also shown opposing conclusions. While the mainstream school believes that rent-seeking and corruption are detrimental factors that reduce economic growth (Mauro, 1995; Mo, 2001), the opposite school sees them as beneficial tools which stimulate growth (Huang, 2016).

Apart from these main variables, this research also incorporates three additional control variables into the model, including democracy, government spending, and trade openness. These control variables are added to the analysis in order to control for alternative conclusions that may

arise. The first control variable, which is the level of democracy, can be seen as one of the most prominent political factors that impact economic growth (Drury, Krieckhaus, & Lusztig, 2006). Similarly, the other two control variables – government spending and in particular, trade openness – have also been proven to have strong influences on the economy (Azid & Tahir, 2015; Yanikkaya, 2003). It is hence important to point out the significance of the "trade openness" variable in our research. The principal reason why trade openness is incorporated into our model was generally to fit the conceptual framework to the context of the Thai economy. Throughout the past, Thailand has long been a country that heavily relied on international trade, particularly in the form of exports. Therefore, by being an export-driven economy, it is crucial for the country to take into account its sphere of international trade when making important public policy decisions.

3.2 Data Description

The dataset used in this research incorporates seven Asian emerging economies – China, India, Indonesia, Malaysia, the Philippines, South Korea, and Thailand – over a period of 21 years, from 1995 to 2015. This dataset can be obtained from three main sources, including the World Bank, Transparency International, and the Center of Systemic Peace. The World Bank provides data for five variables – economic growth (proxied by annual percentage GDP growth), extreme wealth (proxied by income share held by the highest 10%), income inequality (proxied by the Gini index), government spending (proxied by general government consumption expenditure), and trade openness (proxied by trade as a percentage of GDP). The Transparency International provides data for rent-seeking (proxied by the Corruption Perceptions Index or CPI), and the Center of Systemic Peace provides data for democracy (proxied by the Polity IV Score).

3.2.1 Dependent Variable

The dependent variable in this research is economic growth, which is measured by the World Bank's *annual percentage GDP growth*. The annual GDP growth is one of the most widely used proxies for economic growth in the existing political economic field. Previous scholars who also incorporated this proxy into their empirical models include Mauro (1995), Barro (2000), Mo (2001), Brahmasrene & Jirayakul (2007), Shin (2012), and Bagchi & Svejnar (2015). Figure 6 illustrates the trend in economic growth for our seven Asian economies of interest from 1995 to 2015.
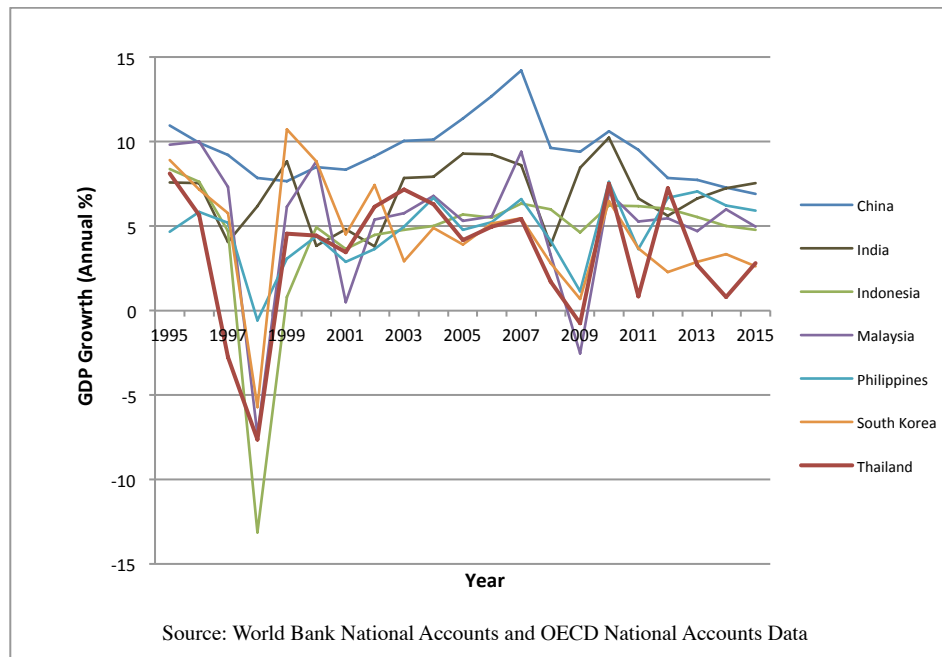
Fig. 6: Economic Growth (GDP Growth) of the Seven Asian Emerging Economies (1995 – 2015)

According to Figure 6, Thailand's economic growth has largely fluctuated over time, and since 2007, the country has had the lowest GDP growth rates relative to other Asian emerging economies. Hereafter, one of the main objectives of this research is to examine the root cause of this economic decline in order to provide the right set of policy frameworks for the country to boost its long-term economic performance.

3.2.2 Independent Variables

The first independent variable is extreme wealth, which is measured by *income share held the highest 10%*, a proxy that has been used by many economists, including Persson & Tabellini (1994) and Voitchovsky (2005). According to the World Bank, this data represents the percentage share of income or consumption of the uppermost 10% of the population. Hence, the main reason why our research incorporates this variable into the model was to specifically analyze the impacts of billionaire wealth on economic growth over time.

The second independent variable in our research is income inequality, which is measured by the *Gini index*. The Gini index is one of the most convenient and widely used proxies for income inequality. Numerous economists, including Barro (2000) and Voitchovsky (2005), have also employed the Gini index in their analyses of income inequality and economic growth. According to the World Bank, the Gini index measures the area between the hypothetical line of perfect equality and the Lorenz curve – a curve that is often used in the field of developmental and political economics to represent income distribution. The Gini index ranges from 0 to 100, where 0 represents perfect equality and 100 represents perfect inequality.

For the third independent variable, which is rent seeking, various different proxies were present in the existing field, for instance, bureaucratic structure (Spinesi, 2009), lobbying (Rama, 1993), public sector employment (Brumm, 1999), number of lawyers (Murphy, Shleifer, & Vishny, 1991), government size (Durden, 1990), and the Worldwide Governance Indicators' Control of Corruption (Iqbal & Daly, 2014). Nonetheless, this research will follow Mohtadi & Roe (2003) and Spinesi (2009)'s approach by using "corruption level" or the corruption index as a proxy for rent seeking. Furthermore, although there exist many corruption indices in the field of political economics, this research will employ Transparency International's *Corruption Perceptions Index (CPI),* which captures level of corruption ranging from 0 (very corrupt) to 100 (very clean). According to Méon & Sekkat (2005), the CPI is one of the best measures for corruption as it is a composite index that reduces biases and provides data for wider samples of countries compared to other basic indicators, including the *Business International Indices of Corruption and Institutional Efficiency (BI)* used by Mauro (1995), and the *World Economic Forum's Global Competitiveness Index* used by Wei (2000).

3.2.3 Control Variables

Apart from the dependent and independent variables, several other factors have also been added to the model as controls. The first control variable is democracy, which has long been seen as an important political determinant for economic growth. To measure level of democracy, this research will follow Martin & Plumper (2003) and Drury, Krieckhaus, & Lusztig (2006) in using the *Polity IV Score* gathered by the Center of Systemic Peace. The Polity IV Score, which is a widely used proxy in the field of political economics, captures level of democracy ranging from -10 to +10, where -10 represents full autocracy and +10 represents full democracy.

The second control variable is government spending, which is measured by the World Bank's *general government final consumption expenditure as a percentage of GDP*. According to the World Bank, the general government final consumption expenditure represents all current government expenditures for the purchases of goods and services, including employee compensation and national defense and security spending. This proxy is also found in many political economic papers, including that of Brahmasrene & Jirayakul (2007) and Aydin, Akinci & Yilmaz (2016).

The third control variable is trade openness, which is proxied by the World Bank's *trade as a percentage of GDP*. According to the World Bank, trade represents the sum of exports and imports of goods and services calculated as a share of GDP. This proxy can be considered as one of the most mainstream measures for trade as it exists in many previous writings, including that of Barro (2000), Yanikkaya (2003), and Azid & Tahir (2015). For better clarification, the overall explanations of the variables are stated in Table 1 and the summary statistics are shown in Table 2.

Table 1: Variable Explanation

Variable Type	Variable	Variable Explanation	Data Source	Measurement
Dependent	Economic Growth (ECON)	GDP growth (annual %)	World Bank	Number
Independent	Extreme Wealth (WLTH)	Income share held by highest 10%	World Bank	Number
Independent	Income Inequality (INEQ)	Gini Index (World Bank estimate)	World Bank	Number
Independent	Rent Seeking (RENT)	Corruption Perceptions Index (CPI) captures level of corruption ranging from 0 (highly corrupt) to 100 (very clean)	Transparency International	Number
Control	Democracy (DEMOC)	The Polity IV Score captures level of democracy ranging from -10 (full autocracy) to +10 (full democracy)	Center for Systemic Peace	Number
Control	Government Spending (GOVT)	General government final consumption expenditure (% of GDP)	World Bank	Number
Control	Trade Openness (OPEN)	Trade (% of GDP)	World Bank	Number

Table 2: Summary Statistics

Variables	Observations	Mean	SD	Min.	Max.
ECON	147	5.54	3.68	-13.13	14.23
WLTH	147	33.41	3.17	29.23	44.38
INEQ	147	40.08	5.12	30.00	49.15
RENT	147	35.82	10.04	17.00	56.00
DEMOC	147	4.62	5.77	-7.00	9.00
GOVT	147	11.94	2.39	5.69	17.25
OPEN	147	86.89	49.65	21.55	220.41

3.3 Data Limitations

Although this research follows the mainstream literature in terms of data collection and proxy selection, certain limitations on the data measurement process still remain. The main proxies that faced with these limitations include the Gini coefficient and the Polity IV Score. Regarding the Gini coefficient, there exist two main limitations as stated by the World Bank. Firstly, the Gini coefficient is not a unique measure for income inequality and hence, it is plausible for two different Lorenz curves to obtain the same Gini coefficient values. Secondly, the Gini index does not take into account changes in poverty rates as it measures relative income and not absolute income. Therefore, it is often possible to see countries with higher absolute poverty obtain improvements in their Gini coefficients. Nonetheless, in order to follow the majority of the existing literature and as no other proxy is available to cover the scope of income inequality in general, the Gini coefficient tends to be the best attainable proxy for this research.

For the Polity IV Score, one of the main limitations that were present in the measurement process was the issue of redundancy. This is because the Polity IV Score only takes into account one single aspect of democracy, which is the degree of competitiveness and regulation of governments (Munck & Verkuilen, 2002). Hence, for some economists, the Polity IV Score tends to be a rather "abstract" measure for democracy rates. However, despite these drawbacks, the Polity Score is still an index that has been widely accepted by the mainstream political economic literature, particularly due to its reliable measurement systems and detailed coding processes, as opposed to the *Freedom House* ratings[6]. According to Munck & Verkuilen (2002), the *Freedom House* – an alternative measure of democracy in the political economics field – is often faced with various measurement problems despite its wide scope of empirical observations.

3.4 Empirical Analysis

Despite the fact that other regression methods, such as the Generalized Method of Moments (GMM) and the meta-analysis, were present in the field, the majority of the existing research used the OLS regression to analyze the correlation between rent-seeking, income inequality and growth (Mo, 2001). Therefore, this research will follow the mainstream literature by performing OLS regressions on the panel data collected. The equation below illustrates this research's main regression model, which incorporates seven numerical variables – *ECON, WLTH, INEQ, RENT, DEMOC, GOVT,* and *OPEN*.

$$ECON = \beta_0 + \beta_1 WLTH + \beta_2 INEQ + \beta_3 RENT + \beta_4 DEMOC + \beta_5 GOVT + \beta_6 OPEN + \epsilon$$

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[6] The *Freedom House* ratings measure the degrees of political rights and civil liberties with scores ranging from 1 to 7, where 1 represents highest freedom and 7 represents lowest freedom (Freedom House, 2017).

The dependent variable is *ECON*, which represents economic growth. The three independent variables are *WLTH*, which stands for extreme wealth; *INEQ*, which stands for income inequality; and *RENT*, which stands for rent-seeking. Lastly, the three control variables are *DEMOC*, which represents democracy; *GOVT*, which represents government spending; and *OPEN*, which stands for trade openness.

3.4.1 Assumptions for Causality

In order to interpret the regression results as causal, two assumptions need to be made:

1. *Extreme wealth, income inequality, and rent-seeking affect economic growth, but not vice versa*

2. *No other exogenous variables can affect economic growth*

Nonetheless, it is important to note that the assumptions above can be violated. Firstly, it can be difficult to prove how our three independent variables are not, in any aspect, affected by economic growth. Hence, if the first assumption gets violated, the problem of *reverse causality* could arise. Secondly, since many of our explanatory variables are endogenous, we also have to take into account additional statistical issues, such as the *heterogeneity problem*, the *identification problem*, and the *omitted variable bias problem*. To tackle these empirical concerns, this research will perform a *robustness analysis* and a *revised robustness test* – both of which will be portrayed in the next section.

3.5 Hypotheses

Although the previous literature has witnessed opposing results on the impacts of extreme wealth, income inequality, and rent-seeking on economic growth, this research still believes that these sociopolitical concerns are detrimental to the economy. Hence, this research hypothesizes that the correlations between all of the three independent variables – extreme wealth, income inequality, and rent-seeking – and economic growth would appear to be negative. Henceforth, our three main hypotheses are as follows:

H1: An increase in extreme wealth would lead to a fall in economic growth ($\beta_1 < 0$)

H2: An increase in income inequality would lead to a fall in economic growth ($\beta_2 < 0$)

H3: An increase in rent-seeking would lead to a fall in economic growth ($\beta_3 < 0$)

4. Results

4.1 Empirical Findings

Table 3: OLS Regression Results

Variables	Model 1 Standard OLS	Model 2 Robust OLS	Model 3 Revised Robust OLS
WLTH	-0.238** (0.117)	-0.238*** (0.0814)	**-0.267***** (0.077)
INEQ	0.260*** (0.0821)	0.260** (0.122)	**0.311***** (0.0764)
RENT	0.175*** (0.0491)	0.175*** (0.0579)	**0.193***** (0.0508)
DEMOC	-0.0734 (0.0572)	-0.0734 (0.100)	
GOVT	-0.0192 (0.139)	-0.0192 (0.220)	
OPEN	-0.0459*** (0.00971)	-0.0459*** (0.014)	**-0.0505***** (0.010)
Intercept	1.357 (5.099)	1.357 (7.227)	-0.506 (4.511)
R²	0.241	0.241	0.232

Coefficient standard errors are presented in brackets
*p <.05; **p <.01; ***p <.001

4.1.1 Standard OLS Regression

The first model represents the regression results of our main panel dataset using the standard OLS regression. As shown in Table 3, all of the independent variables are statistically significant – at 1% level for extreme wealth (WLTH) and at 0.1% level for income inequality (INEQ) and rent-seeking (RENT). Furthermore, according to our standard OLS regression results, only one out of the three hypotheses appears to be true, which is for extreme wealth. That is, although extreme wealth has been proven to have a negative impact on economic growth (β_1 = -0.238), income inequality and rent-seeking appeared to provide positive effects to the economy, with β_2 = 0.260 and β_3 = 0.175 respectively. Hence, one key point that we need to take into account from this regression is the fact how our extreme wealth and income inequality variables have opposing relationships with economic growth. According to our analyses, the main reason behind this phenomenon might be due to fact

that "extreme wealth" solely focuses on the percentage income share of the top 10% of the population, which only reflects the extraordinary income and unearned wealth accumulation of billionaires. In the contrary, "income inequality" looks at the "distribution" of the entire population at large. Hence, although extreme wealth and income inequality are symbiotically interconnected, it might be the case that the sole driver of emerging Asia's economic decline is the accumulation of extreme wealth, rather than the distribution of income amongst the population or the act of rent-seeking. Furthermore, regarding to the results of our control variables, only trade openness (OPEN) appeared to be statistically significant – with a negative beta value of -0.0459. By contrasts, the other two control variables, including democracy (DEMOC) and government spending (GOVT), turned out to have no statistical significance on economic growth in our regression model.

4.1.2 Robustness Checks

Although all of the main independent variables in our standard OLS regression were proven to be statistically significant, certain statistical issues – including problems of heterogeneity, reverse causality and omitted variable bias – may still remain. Hence, in order to tackle these concerns, a *robustness analysis* has been performed, and the results are portrayed in Table 3. From the regression results of our Robust OLS model (Model 2), the value of all the coefficients remained exactly the same as our original model and the two control variables – DEMOC and GOVT – are still insignificant. However, it is important to point out that the standard errors of all the variables in the robust model have deviated from the standard OLS model. This shows that the robust model has provided a statistical improvement to our original regression by effectively solving problems of heterogeneity and other empirical concerns stated earlier.

4.1.3 Revised Robust Regression

With an attempt to further increase the statistical significance of our regression model, this research has decided to revise the robust model (Model 2) by omitting the two control variables that were initially proven to be insignificant in our previous regressions, namely democracy (DEMOC) and government spending (GOVT). As a result, the revised regression is shown below:

$$ECON = \beta_0 + \beta_1 WLTH + \beta_2 INEQ + \beta_3 RENT + \beta_4 OPEN + \epsilon$$

According to the regression results in Table 3, it is apparent that the Revised Robust Model (Model 3) provides more statistically significant results compared to the other two models, with p-values of less than 0.1% for all of the remaining variables. Therefore, it is reasonable to base the main results conclusion on the revised regression model (Model 3) in order to provide better empirical support and more valid arguments.

4.2 Results Conclusion

Initially, this research hypothesized that all of the three independent variables – extreme wealth, income inequality, and rent-seeking – would be negatively correlated with economic growth. However, according to the results of our revised robust model in Table 3, it can be concluded that only one out of the three hypotheses holds true, which is for extreme wealth (WLTH), with a negative beta value of -0.267. This means that a 1% rise in extreme wealth, or a 1% increase in the income share of the richest 10% of the population, would lead to a 0.267% reduction in the annual GDP growth rate.

In stark contrasts, the other two independent variables – income inequality (INEQ) and rent-seeking (RENT) – turned out to have positive relationships with economic growth, with beta values of 0.311 and 0.193 respectively. This implies that a one-unit increase in income inequality, or a one-unit reduction in the Gini coefficient, would lead to a 0.311% increase in economic growth. Similarly, a one-unit increase in rent-seeking, or a one-unit reduction in the Corruption Perceptions Index (CPI), would result in a 0.193% rise in economic growth. These results seem contradictory to both the mainstream literature and the modern political economic reality in general. According to Anthony Atkinson (2015) and Angus Deaton (2003), income inequality has been both theoretically and empirically proven to have a negative impact on economic growth and development. Hence, in order to achieve long-term socioeconomic sustainability, societies essentially need less income inequality, and not more of it.

Nevertheless, although this literature provides an opposite empirical conclusion to the mainstream hypothesis, I still believe that with deeper research and better data collection, further moderations could be made to our current regression results, particularly for income inequality. Hence, if these empirical moderations are made, we would be able to support the views of many well-known egalitarian economists, including Atkinson (2015) and Deaton (2003), as well as contribute to the mainstream income inequality research that has prevailed.

Additionally, for our control variable, which is trade openness (OPEN), the empirical results have proven that this variable has a slightly adverse effect on economic growth, with a negative beta value of -0.0505. This means that a one-percent rise in trade openness, or a one-percent increase in trade as a percentage of GDP, would lead to a 0.0505% decrease in the annual GDP growth rate. However, similar to income inequality and rent-seeking, the regression results for trade openness also seem to contradict to Thailand's present circumstance. As aforementioned, Thailand is an export-oriented economy that largely relies on international trade. Hence, by taking this fact into consideration, it seems unlikely for trade openness to have a negative impact on the Thai economy. Nonetheless, further in-depth analysis is needed to prove this point.

5. Conclusion

5.1 Conclusive Summary

In conclusion, as opposed to our initial perspectives of how Thailand's economic growth from 1995 to 2015 had been negatively affected by various sociopolitical factors, including income inequality, extreme wealth, and rent-seeking, the only factor that had a detrimental impact on the economy was **extreme wealth**. From our theoretical and empirical analyses, it has been found that extreme wealth is the sole factor that deteriorates Thailand's long-term economic growth and development, by allowing the rich to accumulate illegitimate money and unearned income at the expense of the poor. When wealth is unethically created, society's distribution becomes distorted, the economy becomes unsustainable, and the population at large suffers. Hence, when extreme wealth increases, the economy eventually falls into a vicious cycle of sociopolitical instability and "uneconomic growth" in the long run. Nonetheless, as there exists a strong symbiotic relationship between extreme wealth and income inequality in the modern political economic arena, an increase in extreme wealth would also tend to trigger "extreme income inequality". Thereafter, in order to create a sustainable path for the country's long-term economic development, the Thai government crucially needs to take into account the degree to which income inequality is allowed within the society, in order to implement policies that can effectively curb these enduring issues.

5.2 Policy Recommendations

Following our conclusions, this research believes that in order for Thailand to enhance its economic sustainability, the government must focus on curbing the country's unearned wealth accumulation. This means that the Thai government must aim to work for the 99% of the population, and not the 1%. In addition, the public sector must also be accountable, responsive, and effective when it comes to egalitarian policy decisions, in order to serve the collective needs of the entire population and not the privileged few. From this regard, this paper would like to suggest a few main policy frameworks that the Thai government should take into account –

1. **Increase Progressive Wealth Taxation**

Progressive wealth taxation can be considered as the government's main tool to eliminate extreme wealth. This is because these taxes can ensure that the rich and the multi-billion corporations pay a fair share of their accumulated wealth, which essentially leads to a more equitable society. This policy framework follows Thomas Piketty (2014)'s proposal in his best-selling book, "Capital in the Twenty-First Century". According to Piketty (2014), the implementation of a global wealth tax by the government could promote equality and political stability in the long run.

Furthermore, this policy tool has been proven by Oxfam (2016) to provide positive benefits to society. Regarding to Oxfam (2016)'s report, a 1.5% tax on wealth exceeding US$1 billion would increase global government revenue by US$70 billion a year if all billionaires paid. Nonetheless, apart from the collection of these taxes, the Thai government also needs to ensure that the tax revenue collected become efficiently allocated and spent on basic public services, particularly education and healthcare, in order to ensure that the society at large fully benefits from this policy implementation.

2. Promote Sustainable and Equitable Businesses

Other than implementing a progressive wealth tax on the rich, the Thai government could also promote new and sustainable businesses throughout the nation. These sustainable businesses are the ones that aim to benefit the entire population and not just the firms themselves. Hence, as the private sector has globally increased its dominance in recent years, the government significantly needs to encourage both new and existing companies within the nation to value sustainability, and to have a responsible mindset when it comes to marketing and investments. Thereafter, if this policy succeeds, the country would indeed benefit from two main improvements. Firstly, from an increase in economic growth, which results from the rise in productivity and profitability of sustainable private firms. Secondly, from a more equitable society, with the help of the private sector's power in influencing the media and raising public awareness under the context of equity.

3. Improve Nationwide Standard of Education

Education can be considered as one the most important drivers of long-term economic development for all countries around the world, particularly developing nations. Thus, an improvement in standardized education would be very useful for Thailand, as the country still lacks an academic system that provides equitable access and opportunities for children, particularly those in rural areas. Currently, there also lies a large quality distinction between Thailand's public and private schools, where the latter are equipped with better teachers, wider range of opportunities, and more innovative learning environments. As a result, this distinction could soon lead to larger distortions in the country's workforce, as well as provoke higher income and wealth inequality within in the near future. Hence, an improvement in nationwide educational standards would greatly strengthen Thailand's future working population and enhance a sustainable future for the country at large.

4. Enhance Technology for All

Lastly, in order for Thailand to fully catch up with other nations in emerging Asia, the country must take advantage of today's technological advancements by using these technologies as a tool for equity. With improved access to technology, the poor would be able to enhance their scope of learning, as well as their general knowledge and skills at work. These improvements are truly essential for Thailand's economic growth as it could bring people out of poverty and reduce the country's unemployment rate. Furthermore, apart from promoting technological access amongst the poorer population, it is also important for the government to prevent the elites from using these technologies for their personal benefits, at the costs of others. This is to ensure that technology equally benefits the entire population and is not used as a tool for extreme wealth creation.

5.3 Limitations and Extensions for Further Research

Due to certain limitations on the process of data collection and the duration of time available, there remain possible improvements and extensions for further research. First, this paper would benefit from a larger panel dataset with a higher number of observations. This can be done through three main methods. The first method is to use a longer timeframe, for instance, starting from 1950 or 1960. However, certain data sources, such as the Corruption Perceptions Index (CPI) and Transparency International's Polity IV Score, are only available from 1995 onwards. The second method is to increase the number of countries in the panel dataset. This option is viable in practice. Nonetheless, by including more countries into the regression, our results would not be specific to only emerging Asia, and hence, we would need a different set of conclusions for our analysis. The third method is to use more frequent data, such as daily or monthly data, in order to increase the number of observations for the regression. With more frequent data and more observations, we would be able to compare the short-run and long-run relationships between our variables, as well as analyze whether the relationship between extreme wealth and economic growth has accentuated over time. In addition, we would also be able to eliminate the problem of *over-fitting*, which is one of the main statistical issues that may arise. However, although this extension tends to provide numerous benefits to our future research, the availability of short-term macroeconomic and political data still remains a potential concern within the academia as these variables are normally reported on a quarterly or yearly basis.

Second, the other main limitation for the scope and the depth of this research is the short duration within which the work had to be completed. As this research is a requirement of Chulalongkorn University's Bachelor of Arts Degree in Economics, there is a fixed amount of time allowed for senior undergraduate students to finalize their reports, which is approximately four

months. Third, regarding the regression analysis, it would be interesting if we could regress Thailand individually and compare the results with that of other countries. This would allow us to provide a deeper analysis and insight on Thailand's standpoint amongst other nations in emerging Asia. However, by relying on annual data, the results may still lack statistical significance, due to the insufficient number of observations in the regression. Fourth, regarding the extreme wealth data, it would be worthwhile to substitute the data on *income share of the top 10%* with *income share of the top 1%*, and even *the top 0.1%*. This is because a more concentrated measure of income share tends to be a better proxy for Thailand's concentration of extreme wealth. Additionally, this extension would also allow us to directly compare our empirical results with Piketty (2014)'s in his well-known "Capital in the Twenty-First Century" literature.[7] Nonetheless, no such data is available for Thailand and other emerging economies in Asia.

Fifth, another possible extension is to incorporate additional control variables into our conceptual framework and regression model. These variables may include the *openness to financial flows* or the *level of political instability* – both of which tend to fit into the context of Thailand's political economy. Henceforth, if it is possible to extend this research and provide in-depth empirical analyses, it would indeed be beneficial to include more relevant control variables into the model, particularly ones that have large impacts on Thailand's economic standing. Lastly, regarding the measurement of our rent-seeking variable, it would have perhaps provided more interesting and valuable results if there exists a more concrete measure for rent-seeking, which we can use instead of the CPI. This would therefore allow us to provide a more well-rounded reflection of Thailand's overall rent-seeking behaviors, rather than solely focusing on certain aspects of rent-seeking, such as corruption.

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[7] In Piketty (2014)'s "Capital in the Twenty-First Century" literature, the well-known economist used data on *income share of the top 1% of the population* as a proxy for extreme wealth in the United States and Europe.

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