

## 17<sup>th</sup> Anniversary Podcast Series

(Tackling the Grand Challenge in Individual and Social well-being)

**Episode 1:** How we lost social cohesion through careless economics, and how we can get it back

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**Leong Ching:** Welcome to the Lee Kuan Yew School of Public Policy's 17th Anniversary Podcast Series. To celebrate our anniversary we are speaking with some of the School's experts on the overall theme of, "Tackling the Grand Challenge in Individual and Social Wellbeing." I'm Leong Ching I'm the Vice Provost of Student Life at the National University of Singapore.

And with me today, Professor Danny Quah, Dean and Li Ka Shing Professor in Economics, Lee Kuan Yew School of Public Policy, and we'll be discussing this interesting question of how we lost social cohesion through careless economics and how we can get it back.

Well, Danny, this is not the first time that, you know, the weight of the world is on the shoulders of the economists.

This precious thing, social cohesion, how did you lose it? And how can we get it back? But first Danny, given that it's the School's 17th anniversary, can I ask you to cast your mind back to 17 years ago? Do you think the world has gotten better in terms of social cohesion and all sort of inequality in the 17 years, do you think it's gotten better or worse?

And to what extent do you think this is due to careless economics?

**Danny Quah:** Hello Ching. It's great to be here talking to you. I know we're going to be talking about quite stressful tense things, but it's a great pleasure to be in conversation with you on these matters. The questions that you've posed. I am so tempted just to give a yes or no, thumbs up or thumbs down answer to that, but I don't think it would do quite justice to the magnitude of what, what you've just asked.

So let me be maybe a little bit qualified, I think on many fronts especially on social cohesion and inequality the world today is in a worse place than when our school began. This is not to say that the world has not improved in many important dimensions, even in social cohesion and inequality.

And this is not to say that all of this is real as our conversation a little while we'll get into some of this is a perception challenge, but any perception in a discussion of social cohesion and inequality is subjectively real and therefore requires serious discussion. But there are other challenges that are more concrete.

I think that from a perspective of public policy, which is what our school is about, we need to take on both of these challenges, the perception one as well as the concrete one. Now on your question itself, 17 years ago, so if my arithmetic is right, that was 2004, the world was a very different place.

It had some dark spots and some bright spots. So those dark spots included a serious breakdown of global trust and a sense of community, something that we're going to come back to when we try and unpack social cohesion a little bit more detail, but where did that trust of community go?

Remember 2004 was three years after 9/11. And it was one year after the Americans and the British invaded Iraq on a charge we remember of Iraq supporting terrorist groups and having weapons of mass destruction. After this event, the world realised that turned out to have no weapons of mass destruction and the Saddam Hussein regime had the most tenuous of collaborative, personal operational relationship with Al-Qaida.

So on both of those fronts, the world - America and Britain - invaded Iraq on charges that subsequently turned out to be false. And if ever the world needed a recalibration of trust and a sense of community, there

was a huge event that got us all thinking, you know, was America the leader of the world for legitimate reasons?

Most Western powers did not go in with Britain and the United States on this invasion of Iraq. Public reaction to this was negative across Europe and arguably only mixed across all of the world, not overwhelmingly positive. So there was a dark spot. And from then on a global level, we began to question trust and community, two critical ingredients of social cohesion, both across nations and within nations.

But Ching, to be fair, to answer your question, the world also had bright spots because in 2004, the world, the global economy was still mostly coalesced around a narrative of globalisation then in its heyday. Remember at that time it was about how anything that anyone made anywhere on the planet would be made available to everyone everywhere. What a magnificent vision to take forwards, in a description of what economics had brought about.

So the world was in a good place then we had not yet seen the global financial crisis we had not yet seen the collapse of the housing bubble in the United States, we did not yet have Pope Francis tweeting, "inequality is the root of social evil," which he did 10 years after that. And we didn't have Barack Obama calling out inequality and social mobility for their undermining social cohesion in the United States.

So 17 years, 17 years. Right. And it's actually a very fitting one to begin our conversation about social cohesion, inequality, and social mobility.

**Leong Ching:** Danny if I may, I'm just going to pick up on the dark spots and the bright spots, the dark spots actually had nothing to do with economics and the bright spots that you talked about really does, right? I mean, we sort of see that as the pride of sort of the markets, you know, the rational decision making the capital flows and allocations of resources to where they were best used.

However, and you've talked about 10 years on, the dark spots now from that time 2004 to now the dark spots today are a function of economics.

**Danny Quah:** You're spot on, right. The dark spots have to do with, well, a fear in America surrounding the attack on it. There are those who argue that the invasion of Iraq was economically motivated and I'm sure that's a part of it, but exactly as you say. it was economics that brought

out the best of globalisation, the part of the optimism that the whole world shared 17 years ago.

And again, it's globalisation and economics that is potentially the driver of pessimism now, because since then the world has shown a decline in social cohesion, and there's arisen a greater awareness of the challenges presented by inequality. So somewhere in the midst of all that economics did give rise to a very optimistic picture that the whole world bought into.

And somewhere along the way, something broke, whether it was a carelessness in the way we thought about how economics operated the carelessness in the way we approached how different nations had to deal with globalisation, something broke and something has brought us to the world today where social cohesion is far less pronounced and the challenges due to inequality, far more prominent.

**Leong Ching:** Danny, If I may, if you just look at inequality, COVID of course has made it worse, right? So the recent survey of 37 countries, you know, three or four say they feel they are in a worse position now. Whereas of course the richest have sort of taken great advantage. You've only got to buy any tech stock on the NASDAQ and you're probably very far ahead, deep in the money.

So I wonder how much of economics is responsible for the state of affairs and how much of it is really technology, right? Like the lowest social cohesion, is if you look at it as inequality then, maybe the answer is more economics, but if you look at it as rising distrust of each other, rising polarisation rising sort of lack of collective purpose within nations, as well as across nations. Maybe there's something else at work. And so beyond the realm of economics, do you think?

**Danny Quah:** Well, what perhaps so. Pandemics in history have, of course always incubated social unrest Whether they've done that in tandem with inequality or with just, you know, social deprivation, generally, that's something that one might want to unpack, but the black death of the 14th century, cholera outbreak in Paris, the great flu epidemic of a century ago, all of those led to , quite a bit of social disruption. All of that led to a societies re-examining the cohesion within which they operate.

But what you've described of where nations feel discouraged, I mean, those nations who are not doing well now are the nations that don't have vaccines, that don't have access to vaccines.

Over a year ago, the playing field, as far as vaccines was arguably more level, nobody had vaccines and the most powerful richest economies in the world, the United States for one, were not doing hugely better than the rest of the world. In fact, quite the opposite. America was a divided society. The fact that it was richer than all the other nations in the world, that it had the strongest military, that it had excellent hospitals, did not keep it from becoming that nation with the largest number of infections and the greatest number of deaths even today, cumulatively, even after the onset of, of vaccines.

Asia in contrast was not seemingly as well positioned: did not have powerful military, did not even, for most of Asia, have excellent hospitals. But arguably social cohesion is greater, there was less divisiveness in many of our societies, and we managed to pull together and we managed COVID.

There was one point when across Asia that were perhaps a dozen deaths per million population in Singapore and in China, three to five deaths per million population, from COVID. America, the world's most powerful economy, the one from which we have the greatest disparity, 1600 deaths per million.

So inequality by itself is not the most reliable indicator of how nations or communities do. Some unpacking needs to be done. I hope that we get to that, we will, I'm sure get to that in our conversation.

But if I might sneak in an idea that's come out from this part of our conversation. Inequality is a poster child to take the blame of many of the things we see wrong in our societies.

It is natural that we think of it as a cause of the breakdown of social cohesion. But there are examples after examples where that dynamic is overturned. The one that we just described by the world's response to COVID is one such instance. So I come away thinking that actually rather than inequality being that poster child, we should remind ourselves inequality is not a sufficient statistic for understanding the ills of the world. In many cases, it's quite a misleading statistic.

In thinking of social cohesion, it is quite important that we do begin with that idea and that we unpack it.

So over to you, I think you might have some reactions to what I just said and I want to push further on this line of reasoning.

**Leong Ching:** So actually, I agree Danny, that we shouldn't think of it as sort of "the bad thing," right, that is necessarily at tension. But in what way do you think they are though, if you think of social cohesion and sort of economic development, in what way do you think they sort of go together and what would it do you think they sort of diverge? Do you think that's a useful way to think about things?

**Danny Quah:** It is very useful, but you know, if I may, we need to drill down a bit more on what we understand to be social cohesion. I think it might be unobjectionable to think about social cohesion this way. Let me set down what it is, and then we'll try and think our way around it, you and me about how the economics of this impacts that, that definition?

So here's one possibility. What social cohesion is, is an enduring sense of trust and community. So that the individuals within this group do not undermine or cheat one another, but instead cooperate and help each other. This seems to be a fine way to think about first the breakdown of global trust and community, when the United States and Britain did what they did 17 years ago. And it's a fine way to try and think about the difference in performance between some parts of the world and our own neighbourhood here in Asia. It's this trust in community that we have that we don't undermine each other, we don't cheat each other. We instead try and help one another.

I think key in that is what individuals do, how they behave, that they don't undermine or cheat, but instead cooperate and help.

And in thinking about this, I think that trust and community is one fine way to get this, but trust in community are not sufficient to deliver this. We can be trustful of one another, but there's no reason that we would help each other. Because we might feel I can free-ride, or what I do, if I try and undermine someone else, it's so insignificant, no one will notice, and I gain something from it anyway.

So trust and community don't by themselves do this, but it's hugely important to have a strong sense of social cohesion, whatever the

source of it. It is important that societies continue to build it, to sustain it. But I argue and, and Ching you might find this objectionable because I'm speaking as an economist, I don't think trust and community, or even just relying on the better angels of our human nature to foster social cohesion sufficient by themselves. We need to do more.

And what that more is, is something that I feel economics has a lot to say about. If we forge a society that trusts each other, that's the right thing already. Now, whatever we do with the economics, that's not going to really seriously impact that. But if there isn't, if trust and community or social cohesion is already fragile, then other things enter the picture, and these other things include inequality.

When there's inequality when someone sees someone else with so much more than they have, it is natural for not just trust and a sense of community, but for cooperation and, and helping each other to decline. And indeed once that begins, we're on a slippery slope to ever greater unrest.

And I suspect that, it's because the world was already put in a fragile position some years back, that inequality now sees greater significance, greater consequentiality. And when I've tried to look at the numbers on this, peaceful social unrest, so not the kind of unrest that makes me so angry, I want to go out there and kill someone, but just social unrest that makes me want to voice my dissatisfaction. Indicators of that show that they are in this past decade, four times, what they used to be 30 years ago.

Something has broken 30 years ago, 17 years ago. Something very important changed. I've tried to do textual analysis of large newspaper data sources, the same ratio what's happened in the last five, 10 years in terms of newspaper articles citing social unrest. The breakdown, of social cohesion, about four times what it used to be 30 years ago.

And there's this tumbling along a slippery slope of a breakdown in social cohesion. It was something very fragile or something we kept together, something that's arguably strengthens when we face an external threat like COVID. But it is still a very fragile thing.

And inequality is a natural way in which the fabric of social cohesion can be torn apart. But I suspect that inequality by itself would not have done

this inequality by itself would not have fractured social cohesion in this way.

And let me say why. What makes people behave a certain way? It's what they see around them. It's what their sense of what's happening in society is around them. And if society is highly unequal, but people don't see it as inequality, that inequality by itself is not a magical characteristic. That then conditions the way I behave. The way I behave, whether I can attempt to undermine or cheat my neighbour, when I don't cooperate or help my neighbour, is because I feel they have something that is undeserving. There's something that's unfair. And it's the sense of unfairness rather than inequality, per se, that I think will reduce social cohesion.

And I have to say this sense of unfairness rather than the reality itself, is not helped by media, either social media or traditional media. Social media of course brings to our, to our desks, you know, right in front of our eyes, every single moment, things that are happening elsewhere, including things that are happening in very rich parts of society, they are now much more real than they used to be.

And traditional media constantly bangs on about how the poor watch from society's side-lines, that I see others go ahead to have a greater prosperity, emphasising more and more to us somehow that if we are not advancing someone else is to blame. And in the midst of this, this, deluge of media, both traditional and social, it is quite natural that inequality becomes this poster child for why we are unhappy.

Whereas I think is much more important issues like social immobility or poverty. Social immobility takes away hope from us in a very real way. Deprivation makes us insecure. And uncomfortable in a very real way. The distance between me and the very richest people don't enter this calculation.

So I suspect at the end of it all, that inequality, yes, it adds to the fragility of the social fabric. That fragility is rendered even worse, even more fragile, by the way in which we tell ourselves, our societies tell ourselves narratives, about what's happening in society. And we ignore the fact that actually something else very concrete, social immobility deprivation, are much more to blame for the sorry state that the world is in rather than just inequality per se.



**Leong Ching:** Yeah, thanks very much, Danny. That there was such a strong rendering of how we ought to go beyond a single variable, you're right. And this is some of some of the questions from our audience on that as well. How do you measure such a thing as social cohesion and you've rightly pointed out.

But I'm, I'm must say, I mean, this is the original economics, right? The economics is not just, you know, markets and so on, but really a theory of moral sentiments, right? What is fair? And what is unfair? What is due to you and what is not due to you? And today, maybe that is also the realm of public policy because this aggressive redistribution that is needed it's not something that markets are set up to do. They are some something that governments are set up to do, and maybe the loop needs to be that way to include not just markets, but also the role of the state.

**Danny Quah:** Yeah, Ching, I think if I might jump in on your very important line of thinking, you began by saying this was the original economic concern. And indeed, when economics began, it was about distribution. It was about how the things that we produce of value in society are distributed across the population. And one of the ways in which I think economics became careless for many decades, is that it lost sight of that.

It became about other things than just distribution. And I think we're seeing perhaps something, however, of an overreaction against that. That we've now seized on distribution and inequality as being what we should all be concerned about. Part of what I, I wanted to say, Ching, is also that we think that social immobility, how well off will my offspring and their offspring be in generations to come? Is there space for them in society? So that if they're, if they among the more disadvantaged group now they might not continue to be so disadvantaged in the future, or, you know, giving the weak and vulnerable in society enough resources so they can control their own destiny.

These are not questions of redistribution, in my view. These are questions of giving people adequate resources and allowing people to see hope, to see mobility pathways ahead. And they do not, the two of them, necessarily touch on inequality alone. If we believe that the world was static, zero sum, and the only way my children and their children can get ahead in life is by clambering on top of other people. The only way that when I do not have no resources, I can control my own destiny

is by taking resources from those rich around me. If the world was zero-sum, then redistribution is the right answer.

But in a world that continues to grow, to continue to have aspirations of ever increasing prosperity in a world where technology gives us ever finer control of our destiny, the world, it should not be viewed as zero-sum. It should be viewed as dynamic. We should be looking at the real challenges of immobility and deprivation. Not focused on inequality.

**Leong Ching:** Right. Thanks very much, Danny, if I may sort of pose you a question now that we have received from Rian, from Indonesia, whom I think I taught. So let, let me read you his question. Is there any relation between social cohesion and job seeking difficulty, meaning difficulty in getting jobs? Is there a labour market issue? This kind of, obstacle inefficiency and what can governments do? I sort of want to marry this with another question by Jack Sim also about jobs. But this time about good jobs, right, and automation and productivity. In our drive towards automation, AI and productivity. Do we need to balance this with something else, with training a competent workforce that's curious and learning as a culture? So I guess this pair of questions is really about good jobs. How do we ensure good jobs, you know, even while encouraging globalisation and technology and so on?

**Danny Quah:** Thank you, Ching and Rian and Jack for your, for your very interesting questions. I think you're spot on, right that there are important issues of social cohesion tied in with jobs with having good jobs. But I might not emphasise so much that there's a potential antagonism between the way markets operate and the functioning of good jobs and the functioning of markets that, that surface good jobs.

And let me say what I mean. I think that there's an idea out there that somehow the market is ferociously incessantly determinedly trying to get people out of jobs because getting people off jobs then increases the pie for corporate profits and corporate profits is what economic stands behind. And so the way economics operates is on the side of corporations and businesses rewarding capital, and in doing that, of course, and depriving people of good jobs outsourcing and offshoring and whatever, then of course worsen social cohesion by putting people in exactly the situation, Ching, that you and I were talking about a minute ago, reducing their control over their own destiny and removing hope for their moving upwards in the social strata.

Good jobs seems to be an important part of that equation and the way capitalist economics, or economics alone, operates seems to take that away. I want to hold this off for going down that route because I think that's not the right way to go. Look, you know, it was a while back that we agreed that it's not just jobs that societies want, it's good jobs.

And I want to suggest that at this point in time, we need to take a further step. Instead of thinking about good jobs or bad jobs or just jobs, let's say, what we want is opportunities, opportunities so that people can feel fulfilled in their accomplishments and feel secure in their livelihoods. Two things: fulfilled in the accomplishments, secure in their livelihoods. I think this is general enough that both Rian and Jack would agree. This is a good way forwards. It's fully in line with what Jack says, we want our people to be creative and it's fully in line with what a good job would be. I feel a sense of accomplishment having done a good job, and it pays me enough that I'm secure in my livelihood.

So two things. Now, sometimes you get there with good jobs. But given the state of human progress, we might want to peek a little bit ahead and ask, do these two things come only with good jobs? In other words, should we concentrate on protecting the worker and people rather than the job? Good or bad. What we want is opportunities for workers and people, not the artifact of having a good job delivers satisfaction and likelihood.

So I think we should look further ahead. What can economics - an enlightened, careful economics - think ahead to what the next step should be? What are the opportunities we should be creating?

**Leong Ching:** The distinction that you made so elegantly, so between protecting jobs and sort of nurturing and protecting people, but in real terms, though we often see protecting jobs as merely a means to an end, right. You sort of get people good jobs so that they themselves can determine what they want to do with their wages, right? How they want to spend it, they want to spend it in different sorts of leisures, or they want to spend it in different kinds of investments. But your way is a fundamentally different, which it requires a public expenditure on sort of some form of social insurance, some spending sort of on persons to make them more valuable as persons.

And that's kind of an extremely difficult undertaking surely.

**Danny Quah:** Yes, you're absolutely right. but I want to make sure, I'm not proposing a social expenditures scheme, I'm not. I don't have completely fleshed out how we do this, but we have to realise that, you know, the world that we were in, where we wanted workers to have the kind of ethos, so they go in everyday and work things, make things, that was a world where we were worried about scarcity and hunger. And we still worry, 10% of the world still remain undernourished, and we've got to do things to take care of them.

But there are many societies where, you know, our technologies have advanced to a point; productivity is high. When productivity is high, you need fewer workers filling jobs to produce the same amount of output. If this amount of output is sufficient for all society to be comfortable, there is no point creating make-do work just to keep people feeling accomplished and secure, which is simply acknowledged that in certain societies, as technology continues to advance, we may be at the brink of sufficient post-scarcity in the right dimensions. We can relax a bit. We're no longer out hunting woolly mammoths to bring to the fires at home, because if we don't, then we're going to starve.

This is a social arrangement, but so is the way in which we today carry out nine-to-five jobs. It is a social arrangement that came out of the industrial revolution. I'm suggesting that we think big. I know Jack is someone who thinks big, Rian in Indonesia as well. We can continue to sort of nibble around the edges, adjusting what good jobs are, or we can take a breather afforded us this terrible pandemic and say, what is it that we want societies to achieve? Might not be tomorrow, might not be in five years, but where are we headed? I think that's a fine goal for all of us who have, where are we headed?

**Leong Ching:** Right, I agree. And maybe it's not a public goal. Maybe it requires an individual goal, right? For, for all of us as individuals to decide that maybe I don't need this or that or the other. And, and this is sort of Nirvana for me and that's sufficient.

I wonder if we have time I'll squeeze in one last question. From Thanult whom, I think is also my student, from Thailand. And he's, he talks about the middle-class. If I may quickly reword his questions, I think he's asking, where should we be focusing on social mobility for social cohesion is a squeezed middle class where the problem now lies?

**Danny Quah:** Really interesting, really interesting perspective Thanult. Thank you very much. Thanks Ching, for rewording this so relentlessly zeroing in on the critical thing, because we, you know, the, the sandwich class or the squeezed middle-class is something that's entered political conversations. People have worried about how, you know, if government's going around taking care of the weak and vulnerable at the bottom of the income distribution. And we end up, you know, taxing the rich or allowing the rich to go their own way. Who's taking care of the middle class? Are the middle-class now squeezed in this sandwich way?

So, let me first say, in times when social cohesion deteriorates, I think no one is happy. Everyone feels set upon. Those who are receiving aid to try and raise themselves, they're worried. They're insecure. How did I end up in this position? One day, I'm a proud farmer, tilling my land, producing enough for my family. The next day, I'm a wage worker and I'm not making enough. And I'm worrying about unemployment. So how did I come to this?

And the rich are thinking, oh, gosh, deteriorated social cohesion, now I'm going to have all the governments looking to tax me and I'm going to be running. And I'm all going to be in trouble. Who is taking care of the middle-class? Everyone feels set upon.

Why is the middle-class feeling squeezed? Is it that they feel they can't rise further? If we build channels for social mobility, as long as there's hope to continue to improve the situation for yourself, your children, their children, you're rising. You might feel squeezed now, but as long as you have channel for social mobility, you're going to be okay.

In fact, channels for social mobility are what we should be using to help those below you anyway, the lower classes. So let's grip channels of social mobility. Are the middle-classes feeling squeezed because they feel the low classes rising from below them? I'm afraid If that's the case, I don't have any sympathy with the squeezed middle class.

If it's the case that they feel squeezed because the bottom is rising and they can't get far, far, far enough away from the lower classes, deal with it. I mean, everybody is rising, you're rising, we've got open channels of social mobility. Do what you have historically done.

That societies are successfully lifting the poor is a good thing, not a bad thing. middle class remains middle class, the poor are improving their

situation, then the middle class are also being lifted. No one is falling below. As long as we have channels of social mobility open, there should be no one feeling squeezed. They might perceive they're feeling squeezed, we need to explain better what's happening.

We should no longer be careless. We should no longer say economics will take care of it, no need to explain, you go your own way. We've got to explain what it is that's happening in the world.

**Leong Ching:** Thank you very much, Danny. And I think you've done a marvellous job of explaining as well as describing the world as it is and the world that could be. Thank you very much.

And thank you everybody for joining us. Please see our website if you want to hear more of our 17th Anniversary Podcast Series. The next episode will feature Dr. Mathew Mathews, Principal Research Fellow and Head of Social Lab, Institute of Policy Studies at the Lee Kuan Yew School of Public Policy, he will be discussing diversity and inclusion in light of our rising awareness of the difficulties and disadvantages face by minorities. Thank you.

**Danny Quah:** Thank you, Ching, thank you audience.

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