

## Young and not so upwardly mobile

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IN 2015, the last time any study of its kind was published, the Finance Ministry looked at incomes of those born from 1978-1982 (aged 37-41 this year) and concluded that inter-generational income mobility in Singapore had remained high.

But even as these findings affirmed the national belief that everyone has a fair chance of success regardless of who their parents are, the study's authors could already see that upward mobility for new cohorts of Singaporeans wouldn't be as easily achieved. Anyone who came of age during the 1980s and 1990s, when Singapore's rapid transformation was accompanied by a significant expansion in education and jobs, would have enjoyed opportunities that their parents never got, the study noted.

Conditions have since changed, the study said: "As the pace of Singapore's development slows, it will be an increasing challenge to sustain such mobility in the future."

Mobility can be measured in both absolute and relative terms.

To people in most modern societies, mobility often consists of doing better than your parents did, in absolute terms.

For the 1978-1982 birth cohort, inter-generational mobility did increase in absolute terms - they generally earned more than their parents did, even after correcting for increases in cost of living, the study showed.

Absolute upward mobility also prevents meritocracy from becoming a zero-sum game. It is easier for people to accept that some will move ahead while others fall behind - what is known as relative mobility - if society as a whole is moving up.

Specifically, relative upward mobility describes whether children can move into a higher income percentile within their own cohort, higher than the one their parents belonged to.

Relative mobility for the 1978-1982 cohort was stable, similar to what those born a decade earlier had experienced.

Today, as Singapore's millennials (defined by the Pew Research Centre as those born between 1981 and 1996; aged 23-38 this year) have filed into the workforce to build their careers, the question of how inter-generational income mobility compares with older cohorts is an open question.

No public studies exist, but experts *The Business Times* spoke to believe that absolute mobility in Singapore has either fallen, or increased more slowly over time.

Institute of Policy Studies deputy director for research Gillian Koh puts it this way: "The process of Singapore transitioning from third world to first in a generation is unique and not ever to be repeated again."

"Everyone and the economy is already operating at a much higher base than in the 1960s and 1970s, so it is only natural for income mobility to improve only by smaller and smaller margins on an average basis."

As for relative mobility, it's harder to guess, says University of Michigan economist Joanne Tan: "In the US, absolute inter-generational mobility has declined, while relative mobility has not changed much."

What economists do know is that inequality in Singapore has risen. This has pushed the gaps between the socio-economic ranks further apart, which could explain why millennials may feel that they're relatively less mobile.

University of Michigan economist Linda Lim says: "The 'ladder' (of opportunity) itself is very unequal. The rungs are farther apart than they were before, especially between the top and the middle rungs. So even if statistically there is no change in relative inter-generational mobility, it will feel different."

In a poll by Blackbox Research last year, seven in 10 Singaporeans felt that income inequality in Singapore had worsened over the past five years, with youths and young working adults more likely to feel anxious about the unequal distribution of income.

Inequality bites

As Singapore's economy matured, growth slowed.

But slower growth may be less than half the problem - the structure of the economy changed too.

Well-paid semi-skilled jobs are no longer plentiful, and wages continue to reflect employers' university bias.

A college graduate's median starting salary is S\$3,500, while that of a fresh polytechnic graduate is S\$2,270, or S\$2,501 post-National Service, according to the 2018 Graduate Employment Survey. The pay gap widens over their working lives and is much bigger for an ITE graduate.

Prof Lim says: "The economy became much more unequal - the same as in other advanced countries. This is more important than slow growth."

In the US, a study by Raj Chetty and other co-authors has shown that slower growth accounts for only 29 per cent of the decline in absolute income mobility, and rising overall inequality for 71 per cent of it.

In other words, slower economic growth may not matter to the middle class as much as how broadly that growth is shared.

Other evidence across countries - including Singapore - has shown that nations with more inequality at one point in time also experience less earnings mobility across the generations.

### Wealth begets wealth

This relationship has been called the Great Gatsby Curve, and it describes how family resources and connections shape a child's earnings in adulthood.

Importantly, while a person's earning power is often used to approximate their standard of living, family wealth plays a big part as well.

For example, a young man in his early 20s with a trust fund that pays him S\$2,574 a month would earn as much as his peers do without holding a job, and his trust fund wouldn't even have to be huge - S\$1 million with annual dividends of 3.1 per cent would suffice.

In Singapore, where many baby boomers made a windfall from trading property, wealth inequality cannot be understated.

According to Credit Suisse's 2018 Global Wealth Report, Singapore's median wealth per adult was US\$91,656, which means half of Singapore's adults had more, and half had less than that amount.

The mean wealth per adult was US\$283,118, implying that a lot of wealth is concentrated in the hands of a few. Indeed, the richest 1 per cent of adults in Singapore had a 33 per cent share of total wealth, the report estimated.

Family can be a powerful mechanism by which the advantages of accumulated wealth get entrenched in society over time.

Fewer studies have been done on this subject due to a lack of data on assets and bequests, Ms Tan notes: "But given rising housing prices and no inheritance tax, inter-generational wealth mobility might be on a faster decline in Singapore than income mobility."

Negative perceptions about fairness breed mistrust and weaken the social contract.

Low mobility, real or perceived, can also lower a person's aspirations, hopes, and ambitions for the future, according to the World Bank's Fair Progress report.

If invested wealth begets wealth faster than any salaried employee can catch up to over time, wealth inequality will sharpen the division between workers and owners of capital and their children.

### New thinking required

DBS economist Irvin Seah tracks the quarterly labour market report with care, and he's worried that signs of the vulnerability of the millennial generation are starting to show.

In March, the unemployment rate for residents aged below 30 rose to 5.6 per cent, from 5.0 per cent three months ago.

Over the same period, the long-term unemployment rate for residents aged below 30 rose to 0.9 per cent from 0.5 per cent. This refers to those who were unemployed for at least 25 weeks.

The pick-up in both unemployment readings is significant, says Mr Seah. Usually, the changes from quarter to quarter are much smaller.

He says: "There's this thinking that the younger generation likes to drive Uber and prefers to take things easier. But this is complacency in understanding the problems faced by younger generations... Under-employment is a common problem in many economies

"The bigger problem confronting the younger generation is they feel there is a lack of opportunities."

This is partly inevitable as the growth cycle slows down, though some wonder if Singaporeans' tendency to pursue uniform ideas of success also sets them up for disappointment.

Dr Koh says: "The more that every middle-class family wants all its children to pursue the same markers of success, then ironically, the harder it is to achieve that, and then having achieved it, the less valuable it becomes.

"An example is this - if they all believe that there are only 20 kinds of degrees and 10 kinds of jobs that are worthy of doing and they all do it, then, the marginal value of these to each graduate is going to be lower with each cohort because there is a glut in supply of such graduates."

Compare this rat-race mindset to the culture of Silicon Valley, where, in the words of one Singaporean millennial who works there, an idea is not worth pursuing unless it's contrarian.

The key to continued social mobility is innovation and creative ways of pursuing success, Dr Koh believes.

Entrepreneurship is one pathway that Mr Seah advocates: "The failure rate is very high but for the younger generation, honestly, if you don't make the leap you could remain stagnant."

To be sure, being an entrepreneur today is probably harder than it was one or two generations ago, when there was less crowding out by large enterprises that entrepreneurs would have to compete with, says Prof Lim.

Which is why many Singaporeans still feel they have no choice but to become salaried employees, she added: "That's why 90 per cent of young Singaporeans want a university degree even though maybe just 30-40 per cent of jobs in any society require a degree."

## Redefining the Singapore dream

There is also the general tendency towards risk-aversion, which can be practically linked to the high cost of living in Singapore, a big part of which involves saving for a home or servicing a mortgage. Medical cost inflation is another major concern.

In contrast, wealth is the ability to take risks.

In the US, individuals who are born into wealth are more willing to take on above-average risk to get above average returns than the rest of the population, a survey by the Federal Reserve found.

The probability of having started a successful business was also four times larger for those who are born into wealth. Implicit insurance from wealth could amplify risk-taking, the researchers wrote.

Having access to deep pockets also helps the born-rich keep their businesses open in downturns, while access to family loans or family-owned collateral reduces their cost of capital, they suggested.

The good news for Singapore is that the government has been calling for more entrepreneurship since 2003. In recent years, it's also become more generous in funding local enterprises, Mr Seah says: "It's a good time (to be an entrepreneur) ... all you need is a good idea."

Make no mistake, minding the balance between the generations and the fair distribution of wealth and power is not just about government intervention.

Corporate citizens can enhance the likelihood of inter-generational income mobility through honest and equitable hiring, firing and payroll practices.

A mindset change is also needed in the marketplace, where the instinct is to squeeze those with the least bargaining power to keep costs down.

Evidence from randomised field experiments suggest that wages, when fairly distributed, raise morale and productivity - which the Singapore economy desperately needs to sustain wage growth.

Finally, younger Singaporeans need to decide for themselves if their parents' playbook for the Singapore dream is already obsolete, and chart their own pathways to success, looking beyond Singapore for opportunities and ideas.

Dr Koh says: "Otherwise, we are setting ourselves up for unattainable goals, short of a revolutionary change in Singapore's political economy."

"And, by the way, that sort of revolutionary change has been tried elsewhere and not worked. It has in the end proven to be a way to mask elitism or rather an even more acutely unequal apparatchik social system with seductive ideology."

Home ownership: Trade-off between affordability and asset appreciation

PROPERTY gains have always played a big part in generating wealth and well-being in Singapore.

The HDB resale price index rose between 1990 and 2018 at a compound annual growth rate of 6.2 per cent, faster than the median real income from work, which grew 3.6 per cent.

Until 2013, a massive run-up in property values resulted in a leap of wealth for many baby boomers.

But the rise of a generation of "housing millionaires" is premised on an inter-generational transfer of wealth that may not be equitable, says Nominated MP Walter Theseira.

He adds: "It's based on the willingness of their children (or other people's children) to pay them much more than the original purchase price for their HDB flat. That is an implicit inter-generational transfer that contributes to wealth inequality."

Originally, the Housing Development Board was set up in 1960 to provide Singaporeans with affordable and basic housing.

In the 1990s, the HDB expanded its scope to enabling homeowners to upgrade to larger and better-quality flats. "Asset enhancement in terms of rising housing wealth was promised to and expected by an earlier generation," says University of Michigan economist Linda Lim.

Liberal immigration policies also fanned the steep rise in private residential prices from the mid-2000s.

In 2010, when resale flats were trading like private property, The Straits Times observed: "The Singapore Dream is not found in the HDB flat, but in how fast you can move out of it ...

"It is a dream encapsulated in the notion of upward mobility, and oiled in the past by the largely steady rise in HDB flat values as well as the HDB's former policy of giving second subsidised loans only to flat owners trading in their home for a bigger one."

Starting from 2010, the government sought to moderate housing inflation by increasing HDB and private housing supply, and introducing property cooling measures to discourage property speculation.

Guided by the policy that private property prices must move in line with economic fundamentals, not ahead of income growth, the government has signalled that intervention can be expected if prices rise faster than incomes.

But a problem remains, when Singaporeans use their CPF funds, originally intended for retirement income, to "over-invest" in housing on the expectation of "ever-appreciating" housing asset values, says Prof Lim.

Such expectations come with an implicit trade-off - reduced affordability for young families and first-time home-buyers, and ever-increasing housing costs for each successive generation after that, she says.