

IPS Seminar

Social mobility, lifting median wages key, says Tharman Effort to tackle problem of income inequality goes back several years

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DEPUTY Prime Minister Tharman Shanmugaratnam yesterday outlined three ways the Government is addressing the challenge of inequality and preserving an inclusive society in Singapore.

The Government wants to continue creating opportunities for social mobility, prevent incomes in the lower and middle income brackets from stagnating, and achieve a progressive policy of income redistribution to help the poor, he said.

But this must be supported by a social compact where the better-off have a sense of obligation to help the less fortunate, and it must be done without eroding the sense of value of working hard and looking after one's family.

Mr Tharman was the guest of honour at Singapore Perspectives, the annual forum organised by the Institute of Policy Studies, held at the Suntec City Convention Centre yesterday, where panellists spent the day discussing the issue of rising inequality in Singapore.

Mr Tharman, who is also Finance Minister and Manpower Minister, said that the effort to tackle the problem of inequality and inclusiveness was not a recent shift that came about after the general election last year.

'This is something we've been thinking about very hard for several years now. We made a major shift in 2007 when we embarked on Workfare, not just as a technicality, but a shift in a way we want to preserve an inclusive society.'

The rise of China and India has depressed wages at the low end and has taken away jobs and skills in the middle income bracket all over the world through globalisation, he said.

'We have to try to avoid that outcome in Singapore, we have to try to avoid the stagnation of median wages, which has afflicted most of the developed world over the past decade,' he said.

But Singapore, as a small and open economy, will inevitably have a higher 'Gini coefficient' - a common measure of income inequality - than most large countries.

'That's our fate in life. We are small, we can only survive and do well by staying open, but it brings inequality,' he said.

'So Gini coefficients and other indices that we look at will tend to be higher than most large societies but not very different from Hong Kong, London and key American cities, or even the key Chinese and Indian cities, Beijing or Shanghai, all of which have higher Gini coefficients than Singapore.'

'That's not a source of comfort for us but it is a fact of life as a global city, somewhat higher degree of inequality.'

He said the basic factors to address inequality remain: social mobility and lifting wages of low and middle-income earners.

But this must be complemented with the progressive redistribution of income through taxes and transfers and without overburdening the middle-income group.

'How can we maintain a progressive slant - where the bulk of the benefits are delivered to those at the low end of the social ladder and the bulk of the taxes are paid by those at the upper end?' he said.

'While ensuring that we remain a society where at the core, people do have a sense of responsibility for their families, they do want to work hard to improve themselves, and do take pride in being part of a society where everyone moves up that way?'

So far the Government has managed this by intervening in the right areas - education, the workplace, housing and health care - while keeping taxes low, he said.

'That has to remain a distinct feature of our fiscal system - to try to avoid increasing the burden on the middle class.'

Doing all this requires an activist state, and he said the Government has shown it is far from being 'market fundamentalist' or one that believes only in letting market forces go to work.

'We are willing to intervene aggressively when we feel it is right to keep social mobility going and to redistribute in a way that ensures the ethic remains in place.'

These social interventions include early help for the young from broken families, trying to keep them in school and away from drug problems, and supporting the elderly struggling with a rapid rise in living costs.

And he added that 'no policies are sacrosanct'.

'We keep refining them every few years, make some significant shift in what we think is the right direction, always instructed by empirical evidence, always look for what's actually working now, encourage what's working out well, do away with what doesn't work out. Keep that empirical bias in our social and economic policies.'

He urged critics to put Singapore's income inequality challenge in perspective, noting that the Republic's median income growth has been faster than Britain, Hong Kong, Taiwan and South Korea, and that the nation also has a strong fiscal position to tackle problems.

'Very important is we have a fiscally sustainable set of solutions. Unlike countries that used their youthful years and rapid growth years to build up spending in excess of revenues and now find themselves trapped with high debts,' he said.

'We have to keep this position of strength as we can address the challenge of helping the elderly and the challenge of keeping social mobility going.'