

# 30<sup>th</sup> Anniversary: Diversities New and Old Conference

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# Inequality: Three Questions and Some Answers

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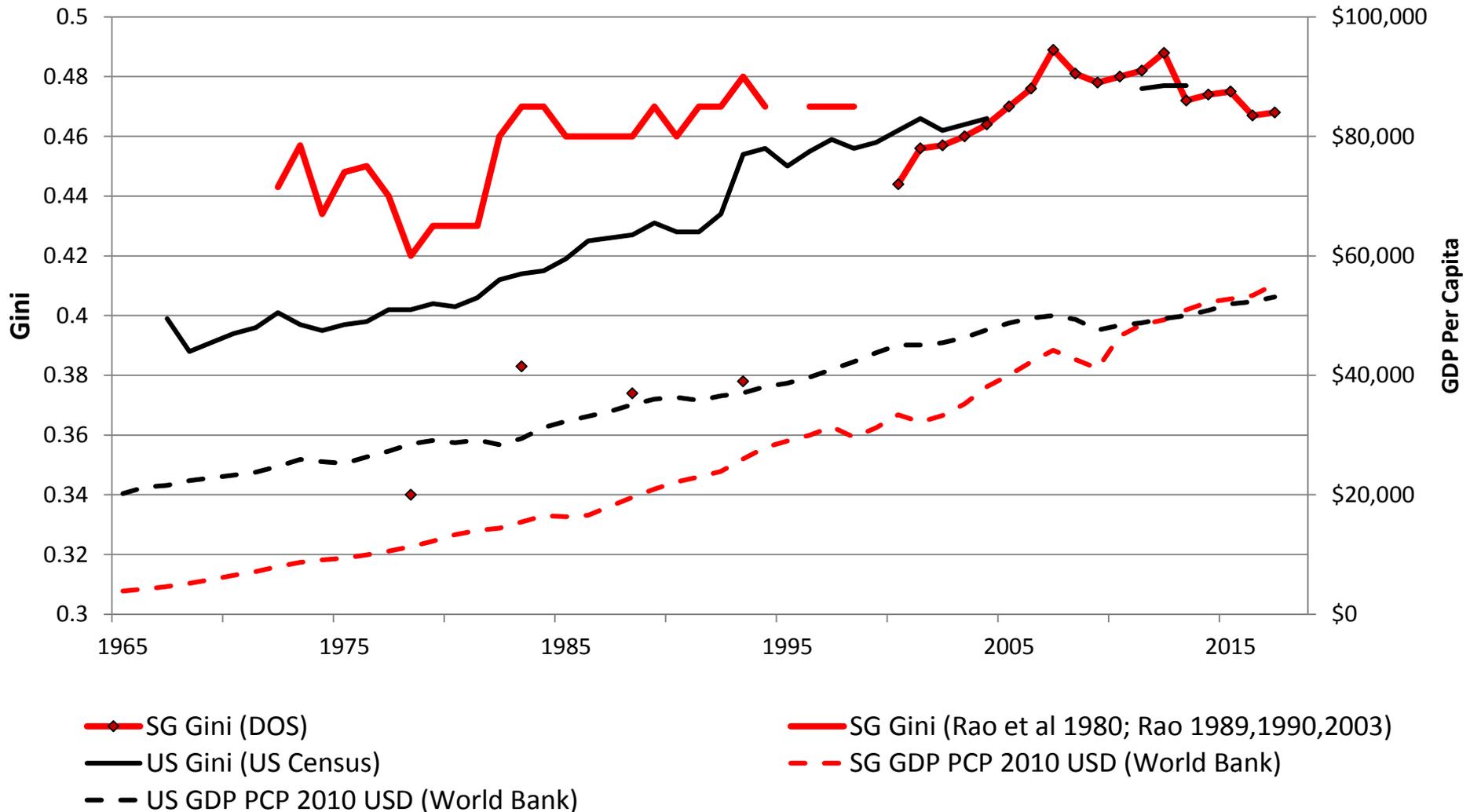
# Three questions and (hopefully) some answers

- What is the economic context of Singaporean inequality?
- Why is inequality today different?
- What can be done about it?

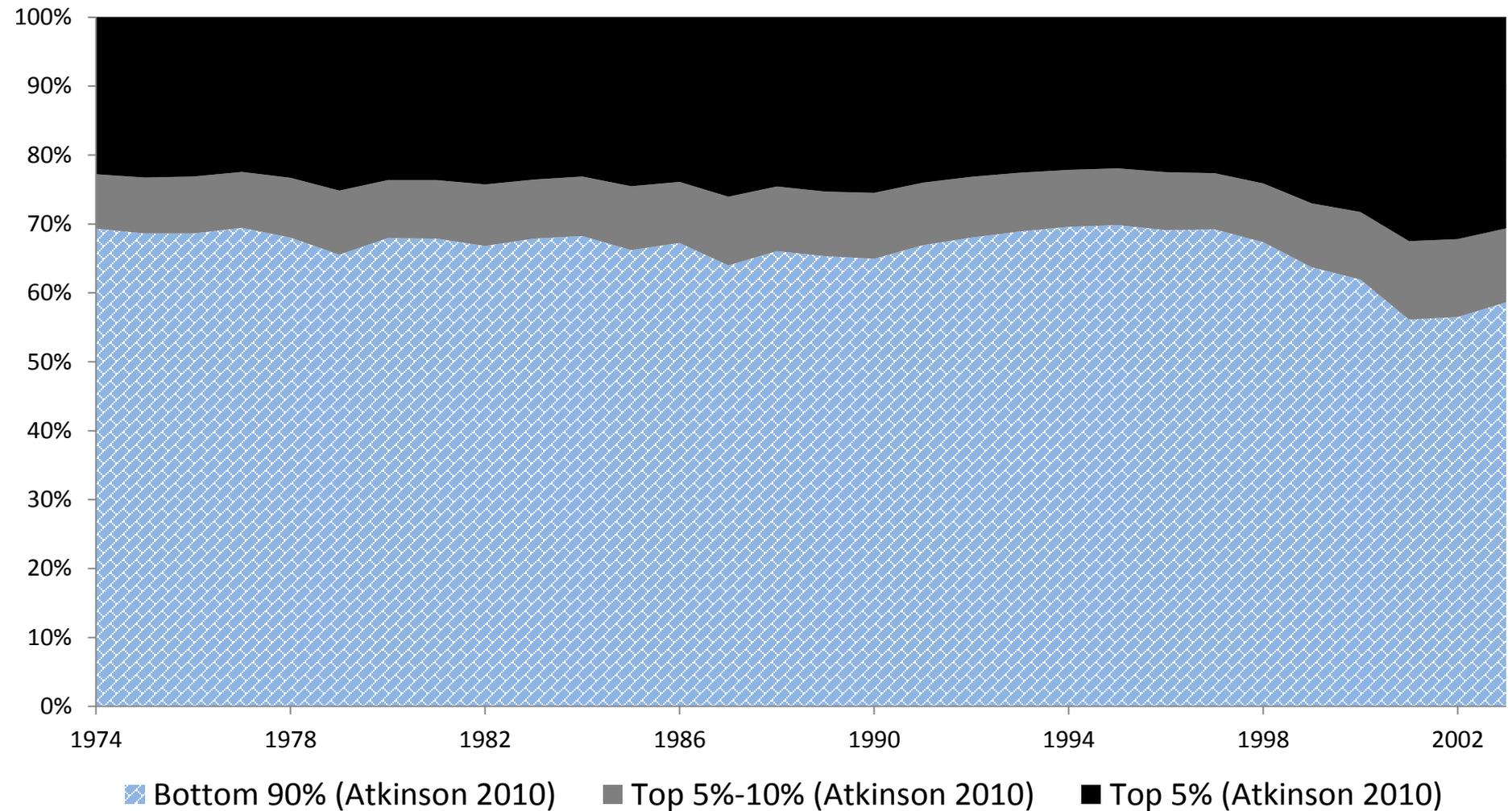
# Inequality

Has it always been with us?

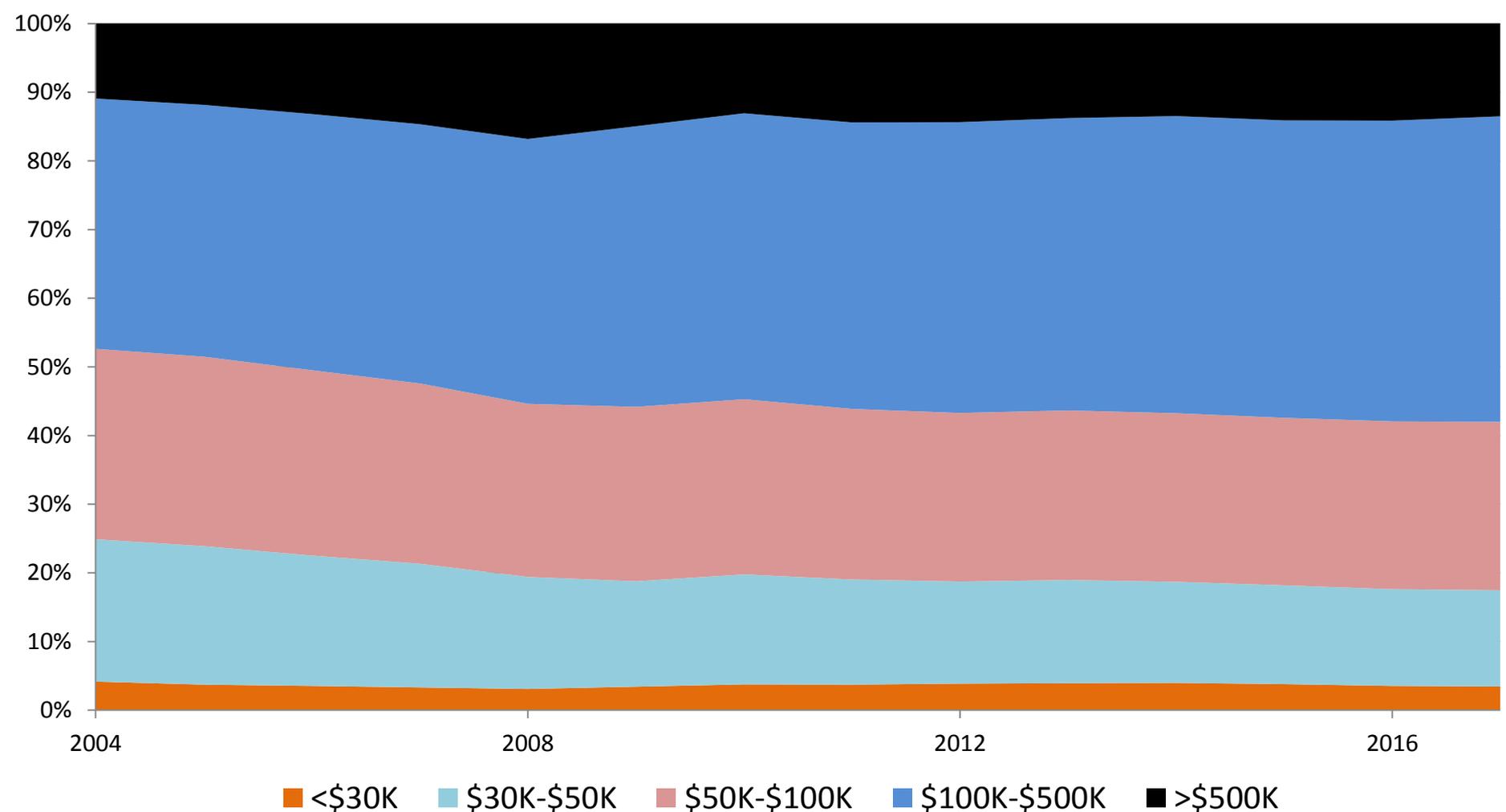
Inequality in modern Singapore has been remarkably persistent – and high by global developed country standards. While economic development has greatly increased living standards, it has not reduced inequality appreciably.



In part, this is because inequality in growth results in the very top having faster rising incomes than the rest.  
In 1974, the top 10% of taxpayers earned \$0.31 / \$1;  
by 2004, the top 10% earned \$0.37 / \$1.



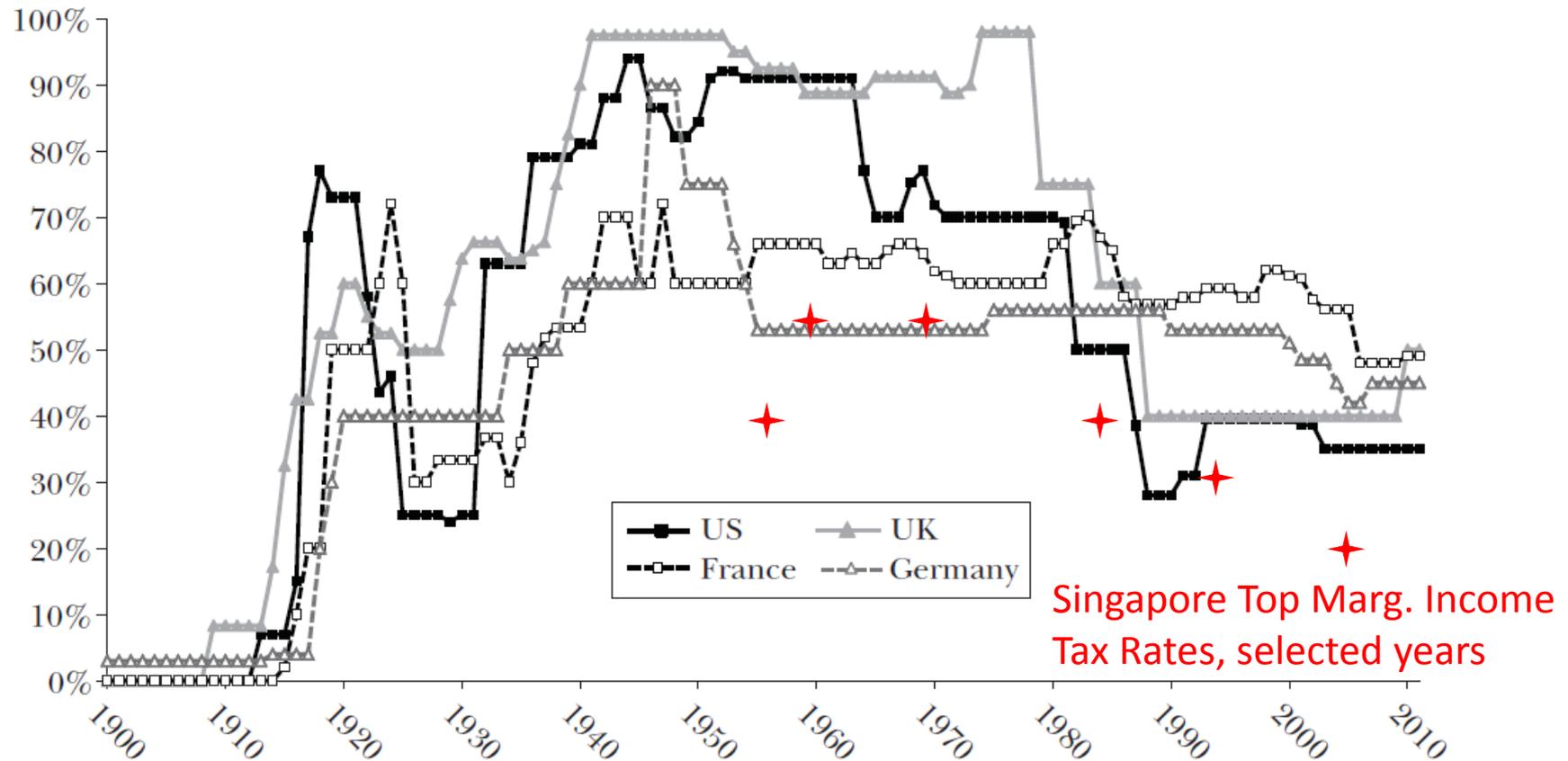
While incomes have risen for all Singaporeans, the expansion in the share of income held by top-income earners has continued. By 2017, those earning more than \$100,000/year earned 58% of all income, up from 47% in 2004.



Has policy contributed? In line with global trends, top marginal tax rates in Singapore have fallen steadily from a high of 55% in 1961, to 20% in the mid-2000s. These policy decisions reflect the restructuring of the economy towards a broader tax base (GST in 1994), together with prioritizing absolute growth.

### Top Marginal Income Tax Rates, 1900–2011

(Source: Alvaredo et al 2013)



# Reflection

- Prioritizing absolute growth can hardly be said to be bad policy.
- On a wide range of human indicators – health and life expectancy, education, income – even the vulnerable Singaporean is better off than in the majority of countries ‘ranked better on inequality’ (Oxfam 2018).
- So why are we so concerned now? Is this a first world problem, e.g. elite guilt? Or are there structural reasons for concern?

# Social Mobility

Is your escalator moving, or do you  
have to take the stairs?

## Social mobility is a story of human potential. But how is human potential developed over the life cycle?

- Cognitive and non-cognitive skill development occurs virtually from birth, with basic life skills learnt early (language, motor control, self-control) contributing to other skills later. (Cunha and Heckman 2007)
- What influences the development of skills/abilities? Behavioural genetics suggests that the nature vs. nurture debate is obsolete. Rather, genetic variation is expressed (skills/ability) when combined with environmental influences as children grow up.
- This means genetics isn't destiny: Children with the same genes can express very different levels of skill. (Plomin and von Stumm 2018)
- So parents have a double influence. What are the implications?

Social mobility in Singapore is moderately high by developed-country standards. 14% of children born in the bottom income quintile in the late 1970s reached the top income quintile by the 2010s (twice the rate of the United States). But can we expect mobility to be high for children born today?

**Table 4: International comparison of correlation coefficients for income mobility**

	<i>Correlation coefficient</i>	<i>Child's age when measured</i>	<i>Child's year of measurement</i>
US	0.34	29-32	2011-2012
Japan	0.34	30-59	2005
UK	0.33	34	2004
Denmark*	0.27	19-51	2009-2011
Canada	0.20	29-32	1995
<b>Singapore (1978-1982 cohort)</b>	<b>0.19</b>	<b>26-34</b>	<b>2008-2012</b>

\* Data for Denmark is based on overall wealth instead of income.

Sources:

Blanden & Machin, 2008; Boserup, Kopczuk & Kreiner, 2013; Chetty, Hendren, Kline & Saez, 2014; Corak & Heisz, 1998; Lefranc, Fumiaki & Takashi, 2013; MOF-estimates using the latest available administrative data

**(Source: MOF 2015; Yip 2012)**

While in 2000, 41.9% of young married couples were matched on education, by 2010, 51.5% of young married couples matched on education, with 77%-78% of University graduates marrying graduates.



# Implications of assortative marriages for social mobility

- Assortative marriages may reduce mobility if parental influences shape human capital development
  - Students with at least one tertiary-educated parent perform better on PISA and report greater academic ambition (Seah 2018)
- Assortative marriages also raise income inequality directly; the US Gini coefficient would be 0.09 lower without like marrying like (Greenwood et al 2014).
- Therefore, income inequality may literally reproduce itself; variation in human potential – and mobility – might suffer as a result.

# Structural Inequality and Persistent Poverty

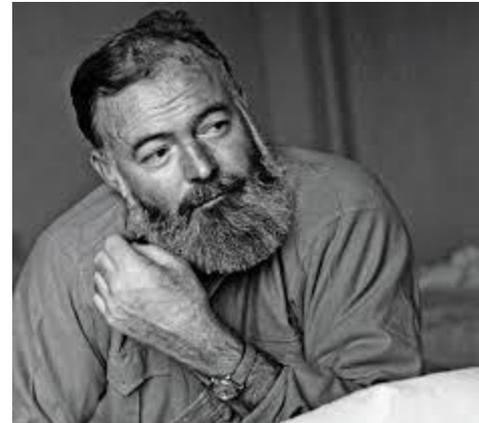
If we can't stop the inbreeding and investments of the rich, can we still help people escape poverty?

# Apocrypha

“The rich are very different from you and me.”  
F. Scott Fitzgerald, author of the Great Gatsby



“Yes, they have more money”  
Ernest Hemingway



# Are the rich (poor) like everyone else?

- This debate has a long and contentious history, but it's obvious that behaviours differ systematically and powerfully between rich and poor, or indeed, many social groups.
- The real question is the meaning of behaviours expressed by the poor. (Teo 2018) has powerfully criticised the implicit assumption that *“the lower-income’s ways are inferior, their life pathways ‘deviant,’ their ‘choices’ bad, their ‘cultures’ problematic, and that the appropriate intervention is to get ‘them’ to behave more like ‘us.’”*
- Setting aside value judgments, choices can make it more difficult to escape poverty. If we assume the poor want to escape poverty on the same terms as the rich do – by acquiring ‘market merits’ – the question is: why do they appear bad at following through with those plans?

# The conditions of poverty and decision making capacity

- Consider a simple thought experiment – suppose you drove here today, got a free parking coupon, but forgot to use it when you leave.
- Would this lapse of judgment cause great stress? For us, no. The \$20-\$30 parking charge here is annoying, but not life changing.
- But if you're earning \$1,060 / month as a cleaner, this kind of simple mistake will wipe out half your daily wage. You might have to take one less meal that day, or defer paying your utility bill until your next payday.
- So the problem is that the poor simply have little capacity to absorb the everyday mistakes we all make. The poor face multiple conditions of scarcity – financial, social, time – all at once.
- This creates a mental bandwidth tax that affects the quality of decision-making by the poor (Mani et al 2013).

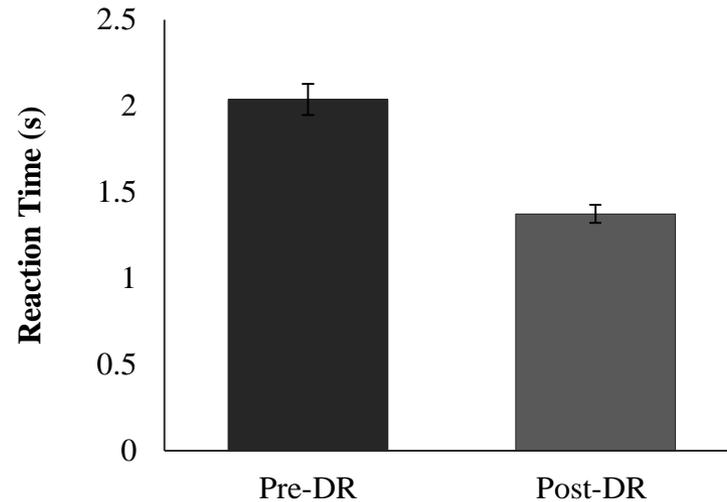
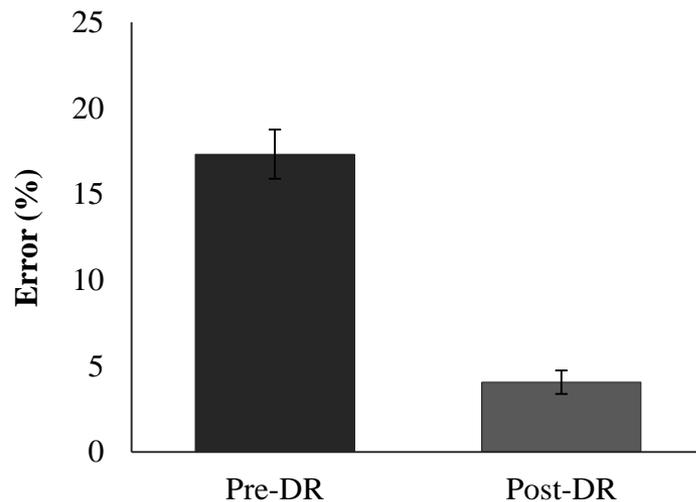
# Can decision making capacity be improved?

- In 2015, we studied the Getting-Out-Of-Debt (GOOD) programme by Methodist Welfare Services, which helped low-income, highly indebted Singaporean families with up to \$5000 of relief for chronic debts.
- Beneficiaries were very disadvantaged; per-capita income was \$356; debts owed \$6257, spread over 3.27 accounts.
- Debts are those of everyday living – utilities, housing, phone bills. These are not ‘lifestyle’ problems, but problems of daily life.

Low income, highly indebted Singaporeans made fewer errors, and responded faster, on cognitive tests after receiving debt relief. This is an equivalent improvement to reversing several decades' worth of aging. (Ong, Ng, Theseira 2018)

Anxiety fell significantly, as did risk aversion and present bias.

Improvements were strongly linked to debt account clearance, suggesting managing multiple creditors causes significant mental cost.



# The poor are like everyone else, but they have less money

- So the poor are like, and yet unlike, the rich.
- The same (highly fallible) human decision processes operate in both, except the mind is more stressed and overloaded by everyday events when you are poor.
- The good news is interventions that remove sources of cognitive load could potentially improve decision making capacity.

# Thoughts Forward: Input vs. Output Inequality?

- Input inequality – the pre-tax structure of income and wealth – matters because it can shape output inequality:
  - By concentrating power in the rich
  - By ratcheting up, over time, wealth as a marker of social value
- A completely redistributive society will fail. So will a society that fails to ask for more from the very best.
- So the practical problem is weighing the trade-offs. We are rightly concerned about stunting personal incentives, but there is a cost of having an unequal society and not all fixes are possible ex-post.
- Perhaps we can be more bold with asking for more from the best. And we can invest those resources into continuing to build a society that the best are proud to call home, rather than one enjoyed for tax purposes.

# Thoughts Forward: Restructuring Welfare?

- The structure of inequality itself hinders decision making in the poor.
- We have to understand how daily life impacts the poor, not just as a basic act of empathy, but because it has practical consequences for escaping poverty.
- If we have no ideological opposition to welfare – if we judge it truly on practical grounds – then the question is: Does greater welfare help, or hinder, disadvantaged families in their path to escape persistent poverty?
- It is again a difficult question with trade-offs. I invite you to help us think about the answer.