

## Rising property prices a key driver in wealth inequality, ills of 'hereditary meritocracy' exist: Ravi Menon

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**TODAY**, 7<sup>th</sup> July 2021

SINGAPORE — A key driver in worsening wealth inequality in many parts of the world is the rising price of property and it is a worrying trend, the head of Singapore's central bank said.

Mr Ravi Menon, managing director of the Monetary Authority of Singapore (MAS), was speaking on Wednesday (July 7) at a lecture series organised by the Institute of Policy Studies, a think tank under the National University of Singapore (NUS).

He said: "Market processes are allocating an increasing share of national income to income from property and other financial assets and a reducing share to income from work.

"This is a development that we should be deeply concerned about."

Wealth inequality, too, can undermine meritocracy, a social system where people gain success or are rewarded based on their abilities, hard work or talent.

"Because the accumulation of wealth can far exceed the differences in income from differences in abilities and performance, because of the way prices of financial assets and real estate moves, with little effort, one becomes extraordinarily rich... And so, wealth inequality creates a sense of unfairness," Mr Menon added during a question-and-answer session after the lecture.

Wealth is far more unequally distributed than income in almost all societies as rising land prices drive up property values, he noted.

As people's income rises, they tend to apportion an increasing percentage of their disposable income to buy property in prime locations.

This tends to produce rising housing prices relative to income, which in turn stimulates investment demand for housing, he explained.

"Globally, property has become an investment asset class. Getting on the housing escalator to get rich has become a trend across the major urban centres of the world."

This includes Singapore.

## **HEREDITARY MERITOCRACY**

Mr Menon also warned about the risk of hereditary meritocracy, which is when society's elites reproduce themselves and parents naturally pass on their privileges — be it in education, income or wealth — to their children.

An example he raised was how society may not have issues with a brain surgeon being paid handsomely for his skills but people will begrudge the surgeon's children inheriting his huge wealth and living “a high lifestyle without giving back to society and (acting) as an elite”.

Hereditary meritocracy may be an “extreme way” of describing how society may end up at that point, but Mr Menon cautioned that Singapore must avoid reaching that stage.

Referencing philosopher Karl Marx's assessment that capitalism is a system that “sows within itself the seeds of its own destruction”, Mr Menon said that the same thing is happening to meritocracy to some extent.

“It is ideal. It is what most people will regard as fair. But there is something about its workings, just like capitalism, that creates dysfunctionalities, that creates its own undermining.”

Those who inherit advantages from their parents run counter to meritocracy, he pointed out.

“Because it is not your merit, but it's the advantage you've acquired that allowed you to have an edge in acquiring merit.”

Having said that, meritocracy remains quite critical for a free market economy to succeed and must be “one of the bedrocks”, especially for a small country like Singapore, he added.

What is needed is to retool meritocracy, instead of discarding it, so that fairness and equality of opportunity is “roughly maintained”.

The good thing so far is that Singapore's experience with median wages “has not been bad”.

Real median wages have increased by 2.6 per cent on average a year between 2011 and 2020, higher than the 1.2 per cent in the decade before that.

## **THE 'FOUR HORSEMEN' OF TODAY**

Rising inequality, which Mr Menon dubbed one of the four horsemen of the apocalypse, is part of the fundamental changes sweeping across the globe, including Singapore.

The “four horsemen” is a reference to four biblical figures that appear in the Book of Revelation and simplistically interpreted, they symbolise the spirits of death, war, plague and famine that highlight issues of the day.

Likening these horsemen to represent fundamental changes in today’s society, Mr Menon also spoke about the other three “horsemen”: Ageing demographics, technological disruption and climate change.

He said that the ability of countries to live with an endemic Covid-19 pandemic is a possible fifth horsemen.

Elaborating on inequality, Mr Menon said that it was inevitable and even desirable in a market economy to the extent that it spurs people to work hard and innovate by differentiating rewards.

It becomes unacceptable and economically inefficient when it leads to increased poverty, a stagnating middle class, a growing wealth gap and reduced social mobility.

Policies aimed at improving education and skills training, access to healthcare, among others, could play a key role in mitigating the adverse effects of income inequality, he added.

These fundamental shifts were addressed in the first of four lectures. Mr Menon is the ninth SR Nathan Fellow for the SR Nathan Fellowship for the Study of Singapore in the 2021 academic year.

The fellowship, launched in late 2012, was to advance research on public policy and governance issues and SR Nathan Fellows serve concurrently as a visiting scholar at the Lee Kuan Yew School of Public Policy in NUS to contribute to the research and analysis of public policy, among other tasks.