Inequality: A tale of three countries

In Singapore and China, though inequality rose, upward mobility has been strong — but in the US, while inequality did not rise as fast, the lot of the poor got worse. This holds a lesson for policymakers.

Danny Quah
For The Straits Times

During the coronavirus pandemic, a poignant global narrative on inequality has been told. Families have had to grapple with a new reality: Many people have had to navigate new barriers and lockdowns as they could afford the space and food to work from home. In contrast, low-paid physical labourers could not work when they were told to stay home.

The poor therefore suffered further in already or newly unequal incomes. Disadvantaged children from low-income households were photographed studying on cardboard boxes. This unfortunate “us versus them” narrative breeds class envy and is distracting. It is a narrative that derives from a genuine social problem.

The INADEQUATE RESOURCE CHALLENGE

While it is true that the pandemic has wrought terrible suffering on the poor, the low paid and the disadvantaged, the problem here lies not so much with the inadequate resources those groups have been able to command to control their own destiny and increase their chances of success.

To put it differently, the many fighting poor families face in coping with the failure of the pandemic would exist even in the absence of the well-off.

Of course, we can allocate the plight of the poor to redistributing resources from the rich. But simply improving equality — however that might be achieved — would not deliver a cohesive society. Not least if that society stagnates because everyone is in equally poor tenures can be in poor egalitarian societies for many reasons, among which people need to sell land to pay bills or feeding over having just enough to eat.

This is not to say inequality is inexorable. Excessive income disparity can give rise to political conflict in a feeling of disrespect among the poor that will be sharpened by the knowledge that others have more than them.

For rich, the reward to suppressing change, too, is less with higher inequality. An angry, divided society is a good start for anyone.

But when the inequality problem is taken as solved, when envy might arise over all kinds of characteristics, not just income disparity?

In the longer term, should policy seek to shift people away from falling easily to envy-based discourse?

Call the group of policy problems emerging from this collection of inequality-driven effects the “disparity challenge.”

SOLUTIONS FOR POLICYMAKERS

Between the inadequate resource and disparity challenges, which of these should public policy address?

If policymakers had unlimited resources, the answer, of course, is to tackle both problems: income disparity, however, especially during the pandemic, and its aftermath, are severely limited. The focus should be on the inadequate resource challenge — on lifting the weak and disadvantaged in society. In a zero-sum game, pure redistribution to address the inadequate resource challenge is politically impractical.

A better solution is to do things simultaneously. First, raise average incomes, so that the game can be positive-sum. Second, build pathways so that at the bottom of the income distribution box prospects for continual improvement.

Are these steps possible? I examine alternative solutions, using the World Inequality Database and measuring incomes in local currencies deflated by inflation.

Call inequality the money amount separating the average incomes of the top 10 per cent and bottom 50 per cent in a country. This measure of inequality directly addresses the disparity challenge.

Use the average income of the bottom 50 per cent as a measure of the resources available to the weak and disadvantaged.

Call upward mobility when the bottom 50 per cent see average incomes rise; the rate of increase then provides an index of upward mobility. The higher this index, the more successfully the inadequate-resource challenge of the poor is being addressed.

My calculations show that in Singapore, in the two decades between 2000 and 2019, inequality increased by 6.5 per cent. However, the bottom half of Singapore’s population also saw average incomes increase by 55 per cent.

These last 20 years, therefore, saw upward mobility of 2.1 per cent a year. In other words, even as disparity increased, Singapore’s weak and vulnerable steadily gained ever greater control over real resources.

Taking the longer time horizon that began in 1980, the average income of Singapore’s bottom half had increased by more than three times in its earlier level, even as inequality increased to nearly 500 per cent of what it used to be.

Upward mobility in Singapore over these last four decades occurred at 3.1 per cent a year. Therefore, in this account, yes, Singapore’s inequality rose. But all segments of Singapore society have seen their economic well-being improve, along with consistent and significant upward mobility among the bottom 50 per cent.

These past four decades therefore saw Singapore successfully address the inadequate-resource challenge of the poor, even at the same time that inequality increased.

The rise in inequality was no barrier to improving the well-being of the poor.

A cross-country perspective is useful for comparison. China saw inequality increase at an astonishing rate from 1980 and 2019, but its bottom 50 per cent also saw their incomes increase at a remarkable rate.

Inequality rose, but China’s poor became much better off at the same time, with an upward mobility index of 4.6 per cent.

What we have seen in China and Singapore, however, is far from automatic or universal. Consider the United States.

Between 1980 and 2019, America’s bottom 50 per cent saw their average incomes rise 3.1 per cent, between 2000 and 2019, just to 10 per cent.

These correspond to dismal upward mobility indexes of only 0.5 per cent and 0.2 per cent, respectively. In contrast to the marked improvement in economic well-being of China and Singapore, America’s undertones have seen their circumstances hardly budge. Indeed, between 2000 and 2010, in inflation-adjusted terms, the average income of America’s bottom 50 per cent fell. In that terrible decade, the poor in America became, in absolute terms, even poorer.

To further calm how well China’s and America’s bottom halves have fared, between 2000 and 2019, the US top 10 per cent had their average income rise by 4.4 per cent a year.

Compare this with Singapore’s and China’s upward mobility indexes over this same time period of 3.1 per cent and 4.6 per cent, respectively.

LESSONS FROM SINGAPORE, CHINA AND THE U.S.

While these last two decades, Singapore’s and China’s poor have seen average incomes increase faster than those of America’s, at rates from 1.5 times to 2.5 times the average incomes of America’s weakly.

The U.S. these last two decades saw inequality rise 3.1 per cent — a rate lower than Singapore’s and China’s, but America’s lower increase in inequality did not benefit its poor. Instead, the opposite: America’s bottom 50 per cent income has not increased at all as well as Singapore’s or China’s.

Upward mobility of the poor in Singapore and China has been strong, despite the increases in inequality in both societies.

In sharp contrast, America’s poor have stagnated, and indeed, over significant time periods have actually seen their incomes fall below the level of the world, more like Singapore and China than the U.S.

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The data shows that however inequality evolves, a broad spectrum of possibilities is possible for the well-being of society’s weak and vulnerable.

The conclusion is that inequality simply does not shield light on the inadequate-resource challenge and therefore does not reveal what happens to the weak and vulnerable in society.

In popular thinking, inequality carries associations to go beyond the inadequate-resource challenge that upward mobility resolves.

Policy conversations often present inequality as an economic resource, but not about human dignity and social cohesion.

These are obviously problems that run deeper, from the lens of the pandemic, with the inadequate resource challenge paramount, such problems are also separate, and therefore cannot be tied to the global Covid-19 effects on the weak and vulnerable.

Human dignity and social cohesion is generally a broader line of concern over inequality — as research has shown, in some cases, numbers, policymakers around the world have only started providing a dashboard to track inequality, with little indication or discussion over time of these improvements or reductions.

For given that these problems are related, it must be clear that they will not be dealt with effectively by a purely economic solution. Reducing income inequality, though, a minimum wage, will not solve challenges of human dignity and social cohesion.

One lesson from Singapore is not about economics, then economies cannot be the solution, and policymakers should not dissuade themselves from thinking that economic outcomes are the only or primary solution. Inequality might well be one of the more obvious social problems. For sure, however, inequality is no sufficient statistic.

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