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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.

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For The Straits Times

Homeless people on the streets of Los Angeles, California, earlier this month. Between 2000 and 2010, the poor in America became, in absolute terms, even poorer, the writer says. PHOTO: AGENCE FRANCE-PRESSE

During the coronavirus pandemic, a poignant global narrative on inequality has been told. Rich families have had a good pandemic. They found it easy to navigate circuit breakers and lockdowns as they could afford the space and technology for parents 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 falls in already meagre incomes. Disadvantaged children from low-income households were photographed studying on borrowed laptops set on cardboard boxes. This unfortunate "us versus them" narrative breeds class envy and is distracting. It is a narrative that diverts us 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 inequality per se as the inadequate resources those groups have been able to command to control their own destiny and environment.

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

Of course, we can alleviate the plight of the poor by redistributing resources from the rich. But simply imposing equality – however that might be achieved – will not deliver a cohesive society, not least if that society is egalitarian because everyone in it is equally poor. Tensions can be rife in poor egalitarian societies for many reasons, among them people needing to skip meals to pay bills or fretting over having just enough to survive.

This is not to say inequality is inconsequential. Excessive income disparity can give rise to political conflict as feelings of discontent among the poor will be sharpened by the knowledge that others have more than them.

For the rich, the reward to suppressing change, too, rises with ever higher inequality. An angry, divided society is no good for anyone.

But when will the inequality problem be 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 discontent?

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. In reality, however, especially during the pandemic and its aftermath, resources 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 should do two things simultaneously: First, raise average incomes, so that the game can be positive-sum; second, build pathways so that those at the bottom of the income distribution see 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 society. 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 it upward mobility when the bottom 50 per cent see average incomes rise; the rate of increase then also provides an index of upward mobility. The higher this index is, 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 85 per cent. However, the bottom half of Singapore's population also had average incomes rise by 55 per cent.

These last 20 years, therefore, saw upward mobility of 2.3 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, by 2019 the average income of Singapore's bottom half had increased to more than three times its earlier level, even as inequality increased to nearly 580 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 among its poor, 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 an astonishing nineteenfold between 1980 and 2019, but its bottom 50 per cent also saw their incomes increase a remarkable sixfold.

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

What we have seen of 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 33 per cent; between 2000 and 2019, just 10 per cent.

These correspond to dismal upward mobility indexes of only 0.7 per cent and 0.5 per cent, respectively.

In contrast to the marked improvement in economic well-being of China and Singapore's bottom 50 per cent, America's underclasses have seen their circumstances hardly budge.

Indeed, between 2000 and 2010, in inflation-adjusted terms, the average incomes of America's bottom 50 per cent fell. In that terrible decade, the poor in America became, in absolute terms, even poorer.

To further calibrate how well Singapore's and China's bottom halves have fared, between 2000 and 2019, the US' top 10 per cent had their average incomes rise at 1.4 per cent a year.

Compare this with Singapore's and China's upward mobility indexes over this same time period of 2.3 per cent and 6.4 per cent, respectively.

LESSONS FROM SINGAPORE, CHINA AND THE U.S.

Over these last two decades, Singapore's and China's poor have seen average incomes rise faster than those of America's rich, at rates from 1.5 times to 5.5 times the average incomes of America's wealthy.

The US these last two decades saw inequality rise 32 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 have not fared nearly 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 grown poorer. How much of the world is more like Singapore and China than like the US?

My research documents how, in reality, most economies in the world have seen their poor rise, even as inequality increased.

In other words, Singapore's and China's inequality and upward mobility experiences are also the world's – America's, not so.

The data shows that however income 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 shed 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 that go beyond the inadequate-resource challenge that upward mobility addresses.

Policy conversations often surface issues, not about economic resources, but instead about human dignity and social cohesion. These are obviously greatly consequential. However, from the lens of the pandemic, where the inadequate-resource challenge is paramount, such problems are also separate, and should not be conflated with Covid-19's effects on the weak and vulnerable in society.

Human dignity and social cohesion – or generally a broader line of concern over inequality – are often said to be about more than economics.

Certainly, these challenges need to be carefully addressed. Just as all nations report national income numbers, policymakers around the world might consider providing a dashboard to track improvement or deterioration over time of these imprecise but important variables.

But given that these problems are non-economic, we should be clear that they will not be dealt with effectively by a purely economic solution. Reducing income inequality through, say, a minimum wage, will not solve challenges of human dignity and social cohesion.

If the problem is not about economics, then economics cannot be the solution, and policymakers should not dissipate society's finite resources to alter economic outcomes, to try and counter broader social discontent.

Inequality might well be one such distraction from real social problems. For sure, however, inequality is no sufficient statistic.

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