



This is not to say that there is no room for improvement, nor that Singapore can afford to be complacent about inequality.

Providing equal opportunity to people of different socio-economic classes remains a work in progress, and work should continue in that respect. Managing healthcare costs is another big challenge, especially as the population ages and inflationary pressures on healthcare costs build up.

However, in discussing inequality, it is vital to look at indices that are relevant and useful for Singapore, not those that can paint a misleading picture that could lead to incorrect conclusions and policies.

Focusing on the wealth of the top 10 per cent would suggest a Robin Hood type of solution, increasing taxes on the rich. This was precisely what Prof Lim suggested in a follow-up article to her first ("How to reduce inequality: Curb foreign worker numbers, support SMEs, tax high-earners more"; July 28).

But, in 2014, 40.4 per cent of taxes were paid by the top decile (10 per cent) of income earners in Singapore. The bottom half of the population, in terms of income earned collectively, paid 21.6 per cent, or half the amount paid by the top 10 per cent.

Reducing income inequality should be about pulling up the poor and not bringing down the rich, through higher taxation or otherwise.

A World Bank report published in 2016 made the following comment about strategies for reducing inequality: "Taking on inequality involves human capital accumulation, income generating opportunities, consumption smoothing, and redistribution."

Consumption smoothing is about encouraging consumption by the lower strata, possibly through transfers such as food stamps to reduce the impact of poverty.

Much of the focus of the popular debate ignores the first three ways to tackle income inequality and focuses on redistribution (especially punitive taxation) which is a blunt – if populist – tool to tackle inequality.

Punitive taxation has many other toxic side effects as well. Most importantly, it blunts dynamism, innovation and entrepreneurship, without which Singapore could easily become more equal – and uniformly worse-off.

The French philosopher Voltaire once famously said: "Each player must accept the cards life deals him or her; but once they are in hand, he or she alone must decide how to play the cards in order to win the game."

Extending Voltaire's logic, the "cards" that Singapore has been dealt (small land mass, no natural resources and high population density) are very different from the cards that countries such as Norway, Finland and Canada (small populations, large landmasses and significant natural resources) have been dealt, and it would be disastrous for Singapore to follow the model followed by others in terms of income redistribution or otherwise.

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Focus on right measures of income inequality

Zeroing in on income of the top 10 per cent will yield suggestions of Robin Hood taxes on the rich. But, in fact, inequality has remained stable here, and the poor are making progress

Nitin Pangarkar

For The Straits Times

I read with interest Professor Linda Lim's article about income inequality and its debilitating effects on Singapore's growth ("How inequality and low wages can stall growth"; July 21). While I agree with several of her points, especially that too much inequality can have adverse consequences, I disagree with her on many others.

While Prof Lim alludes to the Gini coefficient, a fair bit of the data she cited – including from the World Inequality Report 2018 by a group of researchers, including French economist Thomas Piketty – is about the income garnered by the top 10 per cent of the population. The income garnered by this group is a flawed measure of income inequality and has very little bearing on how the average person is faring.

The Gini coefficient – which measures income distribution across a population as a whole – is a much more appropriate and widely

accepted measure. A society of perfect equality where everyone earns the same income would have a Gini coefficient of 0; one where one person earns everything would have a Gini coefficient of 1. If 1 per cent of the population owned 50 per cent of a country's wealth, it would have a Gini coefficient of 0.49 or higher, depending on the distribution of wealth across the remaining 99 per cent.

To derive insights and policy implications from the Gini coefficient, one should also look at the trend over time and in combination with growth in income levels. Many analysts make the error of looking at the Gini coefficient in isolation and without considering time-based trends.

For example, income inequality may be high now but declining over time, which would be a sign of progress. This might happen when average incomes are growing, making the average person better off today than yesterday, which should reduce – though not eliminate – concerns about income inequality. If incomes are growing and the Gini coefficient is falling, it

would mean that a country is making good progress and concerns about inequality should become less over time.

Looking at Singapore, I found data on the Gini coefficient between 1981 and 2014, published by the Government, using two alternative ways of calculation. The data shows that using the more stringent method – which gives higher values of the coefficient – there was an increase from 0.46 to 0.48 between 1981 and 2014.

The values based on the other definition of the Gini coefficient – used by the Organisation for Economic Cooperation and Development group of developed nations – are lower, ranging from 0.40 to 0.43. Admittedly, the coefficient did go down until 1990, after which its rise was faster, to a peak of about 0.48, before 2008.

If we look at the aggregate picture, the rise in the Gini coefficient has been hardly alarming, rising by 0.02 in 33 years. The above values do not take into account the effect of taxes and transfers, which should further soften the impact of a high Gini coefficient.

POOR NOT GETTING POORER

Thus, it seems that for the past three decades or so, Singapore was in a situation of rising per capita income levels with somewhat high Gini coefficient values before taxes and transfers. This is hardly a

situation of the poor getting poorer. The rich may be getting richer, but the poor are also making progress.

Being a globalised city state means that Singapore's Gini coefficient is likely to be higher in value than for larger countries.

The presence of numerous small businesses in a globalised city state (where the businesses are exposed to international competition) could bump up the Gini coefficient when either of the extreme outcomes (complete failure or significant success) occurs.

Rapidly rising property prices – against which the Singapore Government has built a hedge in the form of Housing Board public housing – will also push up the Gini coefficient because higher-income groups who have access to capital for the down payment on properties are more likely to benefit from rising property prices.

Lacking capital, the lower-income strata, on the other hand, are unlikely to benefit to the same extent from rising property prices.

The Government provides its citizens with a number of "transfers", most of which benefit the poor disproportionately. Schooling for instance, is almost free, and housing is subsidised for the majority. Even tertiary education, after government subsidies, is comparable in costs to countries such as Japan and Canada and much cheaper than in the United States.

While healthcare costs have been going up and are higher than those of regional neighbours, they are much lower than those in other developed countries such as the US. Public transport, which lower-income groups tend to use more of, is much more extensive and cheaper than in most other countries.

Access to these transfers, coupled with low tax rates (much lower than those of countries such as Japan and Canada), should alleviate some concerns about Gini coefficient values, because many of these transfers benefit the lower-income groups more than the higher-income ones.

In fact, the same source (data provided by the Government) shows that though the poor in Singapore lagged behind the other groups in absolute growth in incomes between 2004 and 2014, they were tops when it came to growth in incomes after taxes and transfers.

According to a 2017 report, the average annual government transfers per household member amounted to \$10,245 for those residing in HDB one- and two-room flats versus \$3,312 for those in landed properties. In fact, the drop-off is dramatic after the poorest category: The above figure for those residing in three-room HDB flats is only \$4,408, 57 per cent lower than for HDB one- and two-room flat residents.