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Lee Kuan Yew School of Public Policy
Working Paper Series

**Inequality in Singapore: Requirements for Enhancing the Quality of
Public Debate**

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October 17, 2014

Working Paper No.: LKYSPP 14-33

*This paper is prepared for: A panel on Inequality and Social Security Reform,
at the 10th Anniversary conference, LKYSPP, NUS, October 17, 2014*

The publication of Thomas Piketty's 2014 [book](#) "Capital in the Twenty First Century" has been a catalyst in bringing the issue of inequality to the forefront of public policy debates in many countries. This is remarkable, given the book's length (696 pages), intricacies of historical data series from many sources forming the statistical foundations of the book's main propositions; complexity of theoretical and empirical reasoning employed; and relatively narrow geographical focus (mainly US, U.K., and western Europe).

Mr. Piketty's data sources, statistical evidence, theoretical reasoning, and policy suggestions continue to receive searching scrutiny. This is likely to result in better understanding of the inequality issue around the world.

The issues of inequality, social mobility prospects, and of fairness and adequacy of social protection arrangements have recently been prominent in public policy debates in Singapore, and this is likely to continue. It may therefore be instructive to examine two implications of Piketty's book for enhancing the quality of public policy debate on these issues in Singapore.

The first implication concerns the exemplary research culture and norms exhibited by Mr. Piketty (and many but not all who have been critiquing his work). Thus Mr. Piketty bases his analysis of inequality on empirical evidence, much of it historical and derived from a diversity of sources. He is open to refinement of his data and analysis. His admirable inclination to be transparent about the data, and willingness to advance public debate by encouraging other researchers to examine and duplicate his results by making it available to them without cost and pre-conditions, sets the right example for researchers, academics, think tanks, and government agencies. Asymmetric information between those given responsibilities to collect data and the users is one of the significant sources of poor public policies around the world.

There is considerable scope in Singapore for progressing towards the research culture and norms exhibited by Mr. Piketty. There is considerable merit in considering a shift by concerned

stakeholders in Singapore from regarding socio-economic information as a strategic or a tactical resource to regarding it as a public good to be shared widely and without unduly restrictive conditions. For enhancing quality of social science research, including on inequality and social protection issues, routine publication of suitably modified raw data, and methodology used should become a norm in Singapore. Without such progress, Singapore will be severely constrained in using wider expertise to improve its policies and their outcomes; and in enhancing credibility and trust which have become vital as difficult public policy trade-offs are needed.

The second implication arises from the key relationship of rate of return on capital exceeding rate of economic growth, and important indicators used by Mr. Piketty. A key distinction is made in the book between shares of national income accruing to labor and to capital as factors of production. In analyzing household income, key indicator used is the share of income accruing to top ten percent of the households. Household income from all sources and all factors of production is included.

In Singapore, the estimates of rate of return to capital are not available, thus it is currently not feasible to ascertain whether the return on capital exceeds rate of economic growth. Publicly available data on share of labour and capital and on household income indicators have a restrictive scope that merits reconsideration.

As an illustration, while data on share of national income accruing to labor and to capital is published (with capital share at around 55 percent exceeding labor share at around 45 percent), it would be useful to provide a longer and consistent time series on the respective shares; and feasible disaggregation of each share. An expansion of the factor share trends to include labor and capital income accruing abroad, but not included currently, could also be useful as Singapore has large net external assets.

The household distribution of income includes only resident (citizens plus permanent residents) employed household, and their income from work, thus excluding unemployed and income from capital. The data for top 1 percent of households are not provided. Even then, the ratio of income of the households in the highest decile to those in the lowest decile has increased sharply from 11.5 in 2000 to 16.8 in 2013, suggesting rising inequality even for labor income, an issue which merits considered policy responses. The need for improving the consistency of the government data is illustrated by the fact that another official source, while not providing time series, reports the top 10 percent of households receiving 24.1 times the labour income of the bottom 10 percent in 2013. The difference between the two numbers is too large and needs explanation.

As the share of the retired aged increases and they withdraw from the labour force, this indicator will be increasingly less informative and relevant for policy purpose as an increasing proportion of the population will be receiving income outside of labor work. Disruptive technologies affecting jobs and requiring deeper and more frequent restructuring also will have similar impact.

The above trends raise legitimate concerns about Singapore's growth strategy requiring persistently and significantly higher capital shares. Excessively large income inequality makes it difficult to rebalance the economy towards greater reliance on domestic consumption. The forces of convergence which over time mitigate income inequalities (Emily Eakin, April 17, 2014, "Capital Man", The Chronicle of Higher Education: The Chronicle Review), primarily through wider education and career opportunities, have reached a point where their impact is weakening globally as well as in Singapore. But forces of divergence, particularly high capital income shares, wealth inequalities (there is a strong case for measuring and regularly making available data on wealth inequalities in Singapore), public policies which intentionally or unintentionally reward certain occupations disproportionately (finance sector recently, in some countries public service and access it provides to income and wealth opportunities), tendency toward "winner-take all" rewards in the labour market; and wide divergence in social

protection arrangements for different income and sometimes geographical groups, particularly as share of elderly population increases, appear to be getting stronger globally as well as in Singapore. This suggests that attributing rising income inequalities primarily to general forces of globalization is inappropriate.

The estimates for Gini coefficient, a widely used indicator of household income inequality, include only wage income in Singapore, excluding capital income which is usually much more unequally distributed. The unadjusted Gini coefficient is officially estimated at 0.47 (the coefficient ranges from 0 to 1, with higher value implying greater inequality), and just under 0.46 after transfers and taxes. If capital income were included, the coefficient is likely to be significantly higher. Addressing this gap in public debates will significantly enhance the quality of policy discourse in Singapore.

Research conducted by the European Central Bank and by the World Bank suggests that incomes of top 1 percent of the income group in the U.S (and most probably in other countries) is undercounted, implying that the current methods understate income inequality (Jeanna Smialek “ Undervalued Riches of Top 1% Point to Greater Global Inequality” Bloomberg, August 7, 2014). Singapore could also consider disaggregating income levels of super-high income individuals further by publishing shares of national income accruing to top 5 % and top 1% of the individuals and households.

The absence of social insurance methods in the pension and health care financing mechanism, and using absolute rather relative poverty as guide for public policies impacts on fairness and adequacy of the social protection arrangements in Singapore. Less robust provision for social protection for lower half as compared to upper half, particularly top 10 percent, of the population is one of the contributors to inequality globally. Singapore's relatively low labor share suggests that this factor would be even more significant contributor to inequality than is the case in countries with relatively high labor share in national income.

A significant contributor to rising longevity is the higher life expectancy experienced by successive cohorts in middle and later ages. This suggests that debates on inequality and social protection systems in Singapore needs to take successive cohorts, especially more recent ones, into account, rather taking aggregate mean or other indicators. An explanation by the policymakers concerning how this factor has been taken into account, including assumptions made, and simulations conducted, would be helpful in enhancing public policy discussions.

The authorities are strongly urged to consider publishing actual cash balances of all members of the Central Provident Fund (CPF), suitably classified such as by age, and sex; routinely publish actual nominal and real returns on CPF balances (which were SGD253 billion as at end 2013, equivalent of 68 percent of GDP) earned by Singapore as a country, as well as the return credited in the individual accounts of members; and publishing household consumption, and income-expenditure surveys on a regular and comprehensive basis. These would be consistent with the spirit of Mr. Picketty's book and the current global debate on inequality.

In Public Policy debates on inequality and on social security reforms, the policymakers have the tendency to say "trust us". The stakeholders increasingly lean towards "trust but verify" mind-set. Unless policymakers enable stakeholders to credibly verify official data and information, and unless there is consistency between words and deeds, virtuous circle cannot be sustained in the future.

Establishment of such a virtuous circle is essential as research suggests that the role of perceptions is also important in the inequality debate is consistent with the above argument. As an example, people in Germany perceive inequality to be worse than it actually is, while the reverse is the case for the U.S (Stefan Wagstyl, "Europe Pessimistic on income equality, but Americans still cling onto the dream", The Financial Times, August 18, 2014).

Let me end with a summary of some specific measures meriting consideration of the policymakers which could assist in better addressing the inequality issue in Singapore:

- i. Social (not commercial) insurance principles for CPF life, with benefits linked to relative income, and the difference between receipts and benefits filled through budgetary resources.
- ii. Social insurance principle for Medishield Insurance scheme. In (i) and (ii), this would mean that premiums or annuity costs will not differ between men and women, and will not be based on age. Future benefits will also be made more certain, and actuarial calculations, with all assumptions, published.
- iii. Introduction of social pension to all elderly beyond 65 years of age, but benefits made taxable.
- iv. Crediting CPF members with the returns actually obtained from CPF balances in a transparent and accountable manner, or provision of a rationale as to why that is not an appropriate policy.
- v. Selective increases in taxes on capital income (eg: slightly raising the corporate income tax; inclusion of certain interest, dividend, and capital gains income in income tax)
- vi. Broadening the scope and enhancing benefit levels of social welfare programs, linking them to a measure of inflation.
- vii. Fine tuning business location based strategy to narrow the gap in labor income between low and high wage earners; and arrangements to assist workers affected by disruptive technologies and other factor requiring deeper and more frequent restructuring.
- viii. Consider addressing the perception that there is a need to broaden the pool or the groups from which selection of persons with opportunities for upward mobility, and for access to high incomes and power.

Thank you.