Hard Choices: Challenging the Singapore Consensus

1 The Four Myths of Inequality in Singapore

Sudhir Thomas Donald and Vadaketh Low

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Chapter

In lieu of an abstract, here is a brief excerpt of the content:

1 1 THE FOUR THE FOUR MYTHS OF MYTHS OF INEQUALITY IN INEQUALITY IN SINGAPORE SINGAPORE Donald Low Whether measured by the Gini coefficient, or by the ratio of incomes between the top and bottom quintiles, the evidence points to an incontrovertible fact: income inequality in Singapore has risen significantly in the last ten years or so. While this fact is beyond dispute, there is little agreement in the government on whether it represents a problem that merits serious policy action.1 The Singapore government's approach to inequality is grounded in a number of implicit, but strongly-held, assumptions about the objectives of economic policy and the relationship between economic growth and social equity. These assumptions have attained an almost mythical status in Singapore, both among policy circles and among Singaporeans at large. They are reflexively applied in any debate on inequality, and form a common point of reference—an internally consistent paradigm—against which alternative ideas for organising the social security system are evaluated. The purpose of this essay is to articulate these mythical assumptions and subject them to a closer examination. Like all myths, they contain an element of truth. But it behooves the policymaker to question and assess the validity of these myths in light of economic theory and evidence. Only then can they approach the problem of inequality in a pragmatic way devoid of dogma and ideology. Myth #1: Inequality is a necessary counterpart of economic dynamism and competitiveness What the Myth Says The first myth is the belief that rising inequality is an inevitable consequence of rapid economic growth, or put more strongly, a necessary condition for economic competitiveness. Since unequal rewards spur individual effort and enterprise, it has been argued that policies that reduce inequality invariably reduce incentives for people to work and strive. Governments that try to mitigate the unequal consequences of globalisation—through more progressive taxation, more redistributive spending, and a stronger social safety net—will raise costs for

businesses and capital owners, who are now far more mobile than before. In doing so, they kill the goose that lays the golden eggs. They sacrifice economic dynamism. There is an inescapable trade-off between economic growth and social equity. This is the "Golden Straightjacket" that Thomas Friedman famously expounds in The Lexus and the Olive Tree (1999): when countries join the globalisation system, they find that their economy grows and their politics shrinks.2 If they want their economies to grow, governments have no choice but to slash income taxes, cut spending on social protection programmes, and roll back state provision. Prime Minister Lee Hsien Loong also alluded to this trade-off between economic performance and social equity in his speech at the ComCare appreciation lunch in 2010: 18 THE FOUR MYTHS OF INEQUALITY IN SINGAPORE [27.125.149.31] Project MUSE (2024-09-30 15:12 GMT) "If you look at America and Europe, they have different models. In America, somewhat less welfare and greater emphasis on selfreliance . In many countries in Western Europe, a very comprehensive welfare state. You can see the result of these different approaches and the way the two societies and two economies feel. America has a more dynamic and competitive economy with fiercer competition. Europe has more generous benefits, more solidarity, not so strong competitiveness but the Europeans believe that they have made a rational choice, a rational trade-off. In return for less growth, they enjoy more welfare, more solidarity and they felt that they were the happier for their circumstances . But it was not entirely as happy as that. In fact, Europe was living beyond its means. It took some time for the problems to show up but I think Judgment Day has been brought forward by the financial crisis. After the huge hole in their budgets because of the rescue of the banks over the last couple of years, the Western Europeans have woken up to a very serious problem and they have been forced to make very tough choices."3 What the Evidence Says At first glance, this myth seems consistent with international evidence and economic theory. Income inequality in almost all the rich countries has risen in the last 20 to 30 years. The reasons for this are fairly well-known though they remain subjects of academic debate. Rapid technological advances have pushed up the wages of highly educated, highly skilled workers (paying them what economists call the "skill-biased premium"), while globalisation and the entry of large numbers of...

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