



There is a real cost to having an unequal society, both because of the social tensions that develop with increasing stratification, as well as in harms to basic psychological functioning when those at the bottom find themselves overwhelmed by the problems of daily living, says the writer. ST PHOTO: CHONG JUN LIANG

# Can Singapore reduce the frictions of seeking help?

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For The Straits Times

Inequality in Singapore is not a new phenomenon.

Data collated by the United Nations University – World Institute for Development Economics Research, shows that the post-independence Gini coefficient in Singapore ranged from 0.42 to 0.46. It has remained close to that range since. Thus, inequality in Singapore has been consistently high, relative to advanced economies in the OECD.

But inequality itself is an inadequate measure to capture the impact of a country's policies on well-being. On a wide range of welfare indicators, ranging from life expectancy and education, to income, the low-income Singaporean is far better off today than in 1965, despite little change in aggregate inequality. These achievements in human well-being are captured in the World Bank's Human Capital Index this year, which ranks Singapore first out of 157 countries, and highlights the inadequacy of considering only input inequality as a measure of well-being – a problem with the Oxfam Commitment to Reducing Inequality Index this year.

So why is inequality in Singapore different today? The problem is that economic growth is likely to be slower in Singapore, as an advanced developed country, than it has been in the past. As Deputy Prime Minister Tharman Shanmugaratnam recently put it, social mobility – or the lack of it – will come into sharper focus if the “escalator” of economic progress stops moving.

Social mobility depends on whether families are able to provide the next generation with the skills and abilities to thrive in the future economy. Research on human capital development shows that cognitive and non-cognitive skills development occurs from infancy. Basic life skills such as

language, socialisation and self-control, which parents impart informally from birth, facilitate the subsequent development of higher skills through formal education. Parents influence children both through inherited traits and through investments of time and money that shape how those traits are transformed into abilities. How families are formed, and raise children, is therefore crucial for social mobility.

One emerging challenge for social mobility in Singapore is assortative marriage, when like marries like. The proportion of young married couples perfectly matched on educational qualifications rose from 41.9 per cent in 2000 to 51.5 per cent in 2010. In fact, among university graduates, marrying another degree-holder is now the norm. Close to 80 per cent of young married graduates have a graduate spouse.

Assortative marriages have practical consequences for social mobility. Singaporean students with at least one graduate parent performed better in the Programme for International Student Assessment, an internationally standardised test of student achievement, and reported higher academic ambitions, compared to students with no graduate parents. Assortative marriages also directly increase inequality because married couples have similar earnings capacity. Therefore, income inequality may literally reproduce itself.

At this point, discussion often turns to how the disadvantaged also have a personal responsibility to create social mobility – through their decisions to work, study and invest in themselves. Numerous Cabinet ministers, leading executives and professionals, have risen from very disadvantaged backgrounds. But many of their neighbours have struggled to achieve material success.

The main difference between the rich and the poor is that the poor have very little, and scarcity itself harms psychological functioning and decision-making in the poor.

Many among the low-income have little or no savings, and may have to miss a meal, defer an essential bill payment or ask for emergency assistance, if they made a small financial mistake. Living your life in fear of making everyday mistakes that have real consequences for your family is mentally exhausting. But if living in poverty is mentally taxing, it means that decision-making and mental capabilities can be improved when the stresses of poverty are materially addressed.

To understand this, together with Associate Professor Irene Ng and Dr Ong Qiyen from the National University of Singapore, we studied the effects of a debt relief programme on nearly 200 low-income families here. As part of the SG50 celebrations, Methodist Welfare Services launched the Getting Out Of Debt programme, which paid up to \$5,000 in chronic debts per family, for over 600 beneficiaries. These chronic debts were largely for utilities, housing payments and other essential services – the costs of daily living, rather than “lifestyle” debts.

We found that psychological functioning and decision-making greatly improved after debt relief. Using a standardised cognitive test, we found that the same participants, several months after having their debts relieved, made fewer errors on the test, and completed the test more quickly. These improvements are equivalent to the participants reversing several decades' worth of ageing, as performance typically declines with age on cognitive tests.

In addition, anxiety also fell sharply, and participants reported more willingness to take measured risks and displayed less impatience over financial rewards. The greatest improvements in cognitive functioning were linked to paying off entire debt accounts, suggesting that the mental costs of managing multiple debt accounts are substantial.

The key point is that the poor and the rich alike are susceptible to flawed decision-making and

impaired functioning. The difference is that the rich are buffered by wealth from many problems of daily life. The poor are not. These insights have important implications for policy.

There is a real cost to having an unequal society, both because of the social tensions that develop with increasing stratification, as well as in harms to basic psychological functioning when those at the bottom find themselves overwhelmed by the problems of daily living.

If we have no ideological opposition to increasing welfare, we must ask whether restructuring welfare to reduce the frictions of seeking help, and to provide longer-term, reliable benefits, will make a practical difference to the efforts of families to escape poverty. This is a difficult question with trade-offs.

Increasing the generosity of benefits involves costs. Worse still, if dependence results, it is ultimately self-defeating, because few democratic societies have been willing to indefinitely support generous benefits without meaningful progress.

While Singapore has been rightly concerned with the perils of excessive redistribution, it should also recognise that a society that fails to ask for more from those with the most, may also fail from within.

Perhaps we can be bolder in asking for more from the best. And we can invest those resources into continuing to build a society that the best are proud to call home, rather than one enjoyed for tax purposes.

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• This article is adapted from remarks made at the Institute of Policy Studies conference on diversities on Oct 26.