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Understanding and Addressing Inequality

By Amanda Huan

Synopsis

Worsening inequality is one of the world's most pressing problems. It is not merely an economic issue, but a political and moral one as well. In the West, the rise of populist parties is an indicator of the dissatisfaction among populaces with rising inequality. In Southeast Asia, however, its impact is unclear. How severe is it and what solutions are available?

Commentary

INEQUALITY, OR the widening ratio between the 'haves' and the 'have-nots', is fast becoming an issue with dire political and moral considerations. Both the 2016 'Brexit' referendum and the election of Donald Trump was made possible by disgruntled voters who were fed up with the growing gap between the rich and the poor.

In Asia, inequality is likewise quickly becoming a political issue. China was one of the most equal societies in the 1980s but is now one of the least so. Chinese leaders have attempted to redistribute wealth more equally but many still feel unjust. Although China does not have free elections, fears remain among the Communist Party of a rising anti-elite sentiment. In Southeast Asia, the economic success of ASEAN nations has overshadowed the resulting inequalities. Thailand, Singapore, and Malaysia have one of the highest GINI coefficients (a higher coefficient indicates less equitable income distribution) in the developed world. The region, however, has stayed largely free, save for the Philippines, from similar manifestations of dissatisfaction towards inequality so far.

Roots of Inequality: How Severe the Problem?

Inequality is driven by globalisation and technological change. In 1997, economist Dani Rodrik warned that the social costs for countries opening up to trade had been underestimated. Countries made their goods more competitive by lowering costs, in particular wages. Consequently, unions were abolished, and labour became cheaper. Wages entered freefall and unemployment figures increased.

Rodrik's warnings were drowned out by the staggering GDP numbers reported by emerging economies such as China. Globalisation was lauded in the mass media and the social costs ignored. But the passage of time has allowed inequality to 'accumulate' and worsen. Two decades after his warning, global inequality has reached immoral levels.

According to Oxfam International, 82 percent of the wealth generated in 2017 went to the richest one percent of the global population while 3.7 billion people who make up the poorest half of the world saw no increase in their wealth. Oxfam attributes rising inequality to wage restraint, tax dodging, and the squeezing of suppliers by profit-hungry companies.

Who are the "Losers"?

There are two main groups: the world's poorest 5% and the middle and lower-middle classes in advanced countries and in some emerging countries. Much of contemporary discussion revolves around the middle and lower-middle classes. Collectively, this group represents the 75th to 90th percentile of global income distribution.

Although they are not necessarily poor, their real income gains are essentially zero owing to uneven income distribution. They have been locked out of economic growth since the 1980s. The perception that market gains have gone disproportionately to the top one percent has bred discontent among this group.

Multiple factors explain why this group has been left behind. Skills-biased technological change is one main source. Workers have also received a declining share of income in the last 30 years as business-owners profit from productivity gains. The reduced role of unions has also suppressed wages. Demographic processes (for example, an aging society) also contribute to greater inequality.

The Costs of Inequality & Tackling It

Rising inequality entails large social costs. Countries with wider income gaps tend to have worse health and social problems. Their citizens tend to have worse physical and mental health, and homicide rates are higher. At a macro level, inequality is a source of social conflict within a country and dampens a country's overall growth. It has resulted in dissatisfied populations who want greater political accountability.

There is great pressure to address inequality. In 2018, an Oxfam-commissioned global study surveyed 700,000 people across 10 countries and found that nearly two-thirds of all respondents thought that the gap between the rich and the poor needed to be urgently addressed.

Inequality is best tackled at multiple levels. At the national level, ensuring that the wealthy pay fair taxes is key. Governments could also look at increasing spending on public services such as healthcare and education and making them more widely available. The main idea is to compensate those who have been hurt by inequality.

To this end, ASEAN countries have addressed the issue in a number of ways. In Singapore, income inequality remains high despite past government efforts to mitigate the issue. The Singapore government recently announced that it would tackle inequality early during a child's pre-school years to level the playing field and allow those who would have been left behind to close the inequality gap.

In Malaysia, the government has addressed inequality through several initiatives including raising minimum wage, and narrowing the gender pay gap. While these have helped, concerns remain over savings inequality and an uneven tax system. In Thailand, both state and national governments have launched programmes that feature innovative methods tackling economic inequality. These methods include e-commerce coaching, micro-loan provisions, and vocational training.

Inequality: An Urgent Challenge for ASEAN

At the global level, inequality is a top concern. This is reflected by its inclusion as the 10th Sustainable Development Goal by the United Nations. International organisations (IOs) such as the United Nations, the World Trade Organisation, the International Monetary Fund, and the World Bank have huge roles to play in closing the North-South divide. This support could be in terms of financial assistance, differential treatment in trade, and capacity building initiatives.

IOs and other civil society actors have also proposed or implemented policies that would help assuage the divide. For example, Christine Largarde, Managing Director of IMF, has called for better wealth distribution and for countries to embrace inclusive growth. This entails greater emphasis on retraining and vocational training, preparation for technological advances, and stronger fiscal policies. Separately, Oxfam's recommendations for businesses include limiting returns to shareholders and management and ensuring that workers receive a minimum 'living' wage.

The overall effectiveness of these IOs, however, has varied. In the Friedrich Ebert Stiftung 2017 Financial Impact Report that assessed the impact of IOs in fighting inequality, they found that IOs had made some progress in monitoring and analysing inequality and providing some policy advice; there was actual impact, albeit not at a level that has reduced global inequality significantly.

In sum, inequality is an issue that needs to be urgently addressed lest policymakers be held accountable by discontented citizens. Having borne witness to what has happened in the West (e.g. Trump, Brexit), policymakers in ASEAN countries should take heed and address inequality adequately through domestic policies and leveraging multilateral initiatives.

Amanda Huan is a Senior Analyst with the Centre for Multilateralism Studies at the S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University (NTU), Singapore.

Nanyang Technological University
Block S4, Level B3, 50 Nanyang Avenue, Singapore 639798
Tel: +65 6790 6982 | Fax: +65 6794 0617 | www.rsis.edu.sg