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## **The widening gap between the haves and have-nots: An analysis from ground zero**

The widening gap between the rich and the poor has been extensively discussed in the media and highlighted by many politicians. It is happening almost everywhere, in Singapore, the US, Europe, and even China, India and Russia.

My opinion on this issue is shaped very much by my subjective experience while practising as a financial planner. By speaking to numerous individuals of different economic backgrounds, I have observed some important social trends that need to be addressed.

But first, let me set the context for this discussion by recalling a minister's comment some years ago that we cannot afford to slow down for the weaker ones. He said that instead, we need to continue to charge ahead and challenge or help the weaker ones to catch up. I thought it made a lot of sense to me at that time. Yet, I have begun to realise over the years that the lag effect can be quite painful for many and moreover, it is real people and real life issues that we are dealing with here.

In my analysis below, I will attempt to explore both the generic factors that are contributing to the wealth gap globally, as well as some of the local conditions that are contributing to the phenomenon here.

Firstly, in recent years, various economies including Singapore have been competing to lower personal income tax rates, as well as corporate tax rates in an effort to attract foreign business investment and boost business competitiveness. Under an incremental tax rate regime, income tax is a key tool to redistribute wealth as the richer pay a higher tax in proportion to their income. But because of the lowering of these tax rates, the government now has to turn to consumption tax like the GST to make up for the lost revenue.

Unfortunately, this has exacerbated the wealth divide as the rich usually spend a lower proportion of their income. I personally know of many individuals in the top 10 per cent income bracket who spend less than 50 per cent of their income. In contrast, wage earners in the bottom 30 per cent income bracket probably spend close to 80 to 90 per cent of their income for their daily expenses.

Over in the US, the tax rates of the wealthiest Americans average nearly 15 per cent, while those of their salaried employees just outside their offices are nearly twice as much. It is also interesting to note that over there, 5 per cent of national income has gone to the top 0.01 per cent of American families.

Is it any surprise then that the rich are now richer when they accumulate savings from lower income taxes, while the poor are now poorer as they contribute more in consumption taxes?

Meanwhile, in Singapore, it is apparent that government policies on foreign labour and economic issues have worsened the income gap in Singapore and exacerbated the wealth divide as a result.

First, the government has allowed foreign workers to perform many manual jobs in Singapore. These positions used to be filled by less educated Singaporeans. As a direct result of the plentiful supply of lower cost labour to perform the manual tasks, many less educated Singaporeans are not paid what they would otherwise have received if foreign workers had not been allowed in.

In contrast, this problem does not exist in countries like Australia. This is because many of the manual jobs like there, like construction workers are performed by the natives. As such, construction workers there are well-respected and better paid. Now, I can appreciate that having foreign workers to fill many of our blue-collar positions has kept inflation low in Singapore while we continue to enjoy good economic progress. However, we should not forget the many local blue-collar workers are suffering as we reap the benefits of a stronger economy and standard of living.

Second, there has been a huge influx of tertiary-educated workers from countries like Malaysia, the Philippines, China and India for jobs from engineers, office administrators to telemarketers, giving local diploma- and degree-holders keen competition for their positions. Companies have the luxury of choosing between local and foreign workers. This again serves to keep wage inflation down in Singapore and maintain our business competitiveness.

But all is not lost for the locals as they still have a linguistic edge, since they are fluent in English as a result of the bilingual education policy. In contrast, many Chinese from mainland China who completed their engineering studies in local universities like NTU and NUS still have a hard time communicating in English effectively both at work and socially, as compared to local engineers. And, of course, we have to thank MM Lee for giving us the English first language advantage.

Third, the income of the average local worker is not only constrained directly by competition from foreign workers in Singapore, but also impacted indirectly by the wages commanded by the workforce in countries like China and India. If it ever gets too expensive to operate in Singapore, companies can easily shift their operations elsewhere. This tendency will be much more distinct during a global economic downturn when companies are more concerned about cutting cost than driving profits. As a result, local university graduates, especially those with general degrees and mediocre results, are finding it difficult to raise their income.

Despite the stiff competition from migrant workers and overseas, the cream of the local cohort is still rising to the top both in the civil service and the private sector. This is not hard to understand as our good tertiary education system has given many outstanding Singaporean graduates a good head start both in terms of linguistic competency, as well as technical skills. More importantly, they have benefited from the network that one needs to tap as one climbs the corporate ladder. The adage, "It is not what you know, but who you know that matters", still stands the test of time.

So, I have observed an interesting phenomenon where the brightest local talents in Singapore have continued to earn more while many average wage earners are treading water.

On the whole, I believe that the income gap situation in Singapore is likely to get worse before it gets better. It is not because government policies are wrong. On the

contrary, I believe that most of them are highly effective and have made Singapore richer and more competitive as a nation. However, the gap between the rich and the poor has indeed widened as a result.

It is therefore incumbent on the government to rectify today's imbalances. The Singapore government, I believe, is monitoring the wealth divide very closely and doing what it can to ensure that things do not get out of hand. To quote Warren Buffett on this issue, "Society should place an initial emphasis on abundance but then should continuously strive to redistribute the abundance more equitably."

Many of the political measures introduced in recent years have been part of the government's way of sharing the success of the country with the average Singaporean and narrowing the wealth gap. An example would be the recent policy change in the CPF interest rates.

It is important to note that a widening wealth gap has the potential to cause social unrest. The possibility of it happening now is quite remote as Singapore is currently enjoying good economic growth. However, if or when the economy faces another crisis or a prolonged recession, the wealth gap issues may return to haunt Singapore with a vengeance.