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Bottom Fifth in Singapore

Jacqueline Loh

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Bottom Fifth in Singapore

Jacqueline Loh paints a numerical picture of the poor and cautions that without concerted interventions, many households could remain chronically poor.

In the run up to a watershed General Election earlier this year, concerns about Singapore's widening income divide was one of the dominating issues. Without concerted government effort, the structural conditions that have given rise to this disparity will only be further entrenched. Singapore has always adopted a firmly anti-welfare approach in its social and economic policy, however its minimalist approach to addressing the long term needs of the poor runs the danger of perpetuating a substantial population of chronically poor. Here I provide a brief overview of some of the salient data on the extent of inequality in Singapore as well as the underlying conditions that have given rise to this divide.

A Tale of Two Cities

Inarguably, over the last 46 years, Singapore has been a remarkable story of economic growth and is now one of the highest income, highest wealth countries in the world. In comparisons with the G10 countries which are among the world's most developed, Singapore ranks:

- 1st in GDP per capita on a purchasing power parity basis of US\$62,100, far exceeding the 2nd ranked US at US\$47,200¹
- 2nd in wealth per adult of US\$255,488², exceeded only by Switzerland
- 10th ahead of the UK and Italy in GNI per capita of US\$40,920³

In an unwelcome parallel to Singapore's exceptional economic performance however are also exceptional indicators of inequality in comparison with the G10:

- Highest Gini coefficient, indicating highest level of inequality, for income distribution of .478⁴
- Highest Gini coefficient for wealth distribution of .893⁵

- 2nd lowest median wealth per adult, which is a mere US\$30,092, in stark contrast to the high average wealth figure⁶

Sizing the Issue

While Singapore has no official poverty line, there are several different numbers commonly discussed that can provide a frame of reference. It has been estimated that a family of four would need \$1,700 to cover basic costs of living⁷, but \$2,500-3,000/month to meet a "social inclusion" level of income.⁸ A household income level of \$1,500 is the threshold level specified by the Ministry of Community, Youth and Sports (MCYS) that determines household eligibility for many of the support programmes funded through the Community Care Endowment Fund (ComCare Fund).

Based on the most recent 2007/2008 household expenditure survey, which measures monthly income for all households rather than only employed households, the average monthly income of the bottom 20% of households is only \$1,274.⁹ As the median is never more than the average, likely 12-14% of Singapore households live under the most conservative unofficial poverty line of \$1,500. With 1.09m¹⁰ Singapore households in 2008, that's more than 131,000 Singapore households living in deprived circumstances. As well, besides this large number living below the \$1,500 threshold, the full bottom fifth of households manage on substantially less than the social inclusion level of income.

From Gap to Chasm

The other characteristic of Singapore's income distribution across quintiles is how the recent decade has seen a marked worsening for the poorest households. Singapore's steadily increasing Gini coefficient belies that pattern as does the uneven income growth story across quintiles. Between 1997/98 and 2007/08, nominal monthly income for the bottom fifth actually declined at an annual



Jacqueline Loh is the centre director at the Lien Centre for Social Innovation. She began her career in the field of development economics research and worked at the London School of Economics, the Delhi School of Economics as well as consulted for the World Bank. She was a management consultant with the Boston Consulting Group (Kuala Lumpur) and worked in philanthropy and international development with the Ford Foundation (New York) as well as Canada's International Development Research Centre based in Singapore.

rate of -0.3%. In sharp contrast, annual monthly income growth for the other quintiles ranged from 2.5% to 4.8% for the highest income quintile.

In 1997, the average monthly household income of the top quintile was about 9 times that of the bottom quintile. By 2007, the highest earning quintile's income was 14 times that of the bottom quintile. Should these growth patterns continue, by 2017 the highest quintile's average monthly income will be about 23 times that of the lowest quintile group. This is a stark change over little more than 2 decades.

The Chronically Poor

Perhaps of greatest concern are the underlying market dynamics that shape future trajectories: Will the poor get poorer or are there functioning pathways out of poverty?

There is general agreement that the relative stagnation of incomes for the bottom fifth and the considerable growth in inequality has its roots in the change in Singapore's economic base from export-oriented light industry through the 1960s and 1970s, towards its current largely knowledge-based economy. While more skilled workers have been well-placed to participate in Singapore's rapid economic development, the less skilled have faced increased competition from unskilled and semi-skilled foreign workers.

One of the structural challenges for Singapore is the large block of older, less educated workers who have limited capacity to improve their skills. Of a 2010 workforce of 1.97 million, more than 27% earn less than \$1500/month and the majority, nearly 295,000 of them, are 45 years of age and older. This tallies with the over 346,000 workers of the same age group with no higher than lower secondary educational attainment.¹¹ Paired with this sizeable block of low income, less educated, older workers is recent evidence on Singapore's relatively low social mobility.

Some features of Singapore's education system would suggest the conditions for low social mobility. School entrance in Singapore is hotly contested with high demand for the limited spaces at the better regarded schools. Entry to these first choice schools is heavily influenced by the parents' connections to the school, the family's home address, and the parents' ability to volunteer to support school activities, all of which in turn are influenced by the family's level of income. Besides advantages in obtaining a place in the better schools, access to tuition services and extracurricular activities depend very much on the family's financial capacity.

These observations of conditions conducive to low intergenerational social mobility are borne out in a 2007 study by Professor Irene Ng of the National University of Singapore who found Singapore to have an intergenerational income elasticity of 0.58 indicating that 58% of the income advantage of parents tended to be passed down to their children.¹² This is high relative to other developed economies

where intergenerational income elasticities range from 0.2-0.3 for Canada and Sweden to about 0.5 for the US and UK.¹³

Only Modest Supports for the Poor

Against this backdrop, direct government support for low-income households is relatively modest. Singapore's social protection approach is anchored by 4 pillars – the Central Provident Fund (CPF) for retirement savings, the Housing Development Board (HDB) that oversees the development of public housing for the majority of the population, the "3Ms" medical insurance scheme (MediSave, MediShield and MediFund) and finally Workfare, an income/savings supplement scheme for low income workers.

Of these four pillars, the main programmes with a specific focus to provide financial support to the poorest are (i) Workfare, which provides an income supplement to low-income workers in the form a direct transfer as well as a programme for training support, (ii) Medifund, which covers hospitalisation costs for the low income, and (iii) various programmes administered through the ComCare Fund that support childcare, kindergarten and after-school care costs, work support to help the unemployed find employment, assistance for those temporarily unemployed, and public assistance for those with no other means of subsistence and no family that can render assistance.¹⁴

Estimating the magnitude of this support through available expenditure and/or budget allocation figures, the average benefit per household is about \$2,670 per household in recent years. If Special transfers (including CPF top-ups, GST credits, U-save vouchers and Growth Dividend payouts) are included, this adds another \$1,000 or so per year.¹⁵

Thus despite a growing concern for the plight of the poor and particularly the government's substantial commitment to Workfare as an attempt to help address growing inequalities, the extent of direct government support remains modest. For an average household in the bottom 20% earning a monthly income of just under \$1300, this support does bring average household incomes of the bottom fifth above the threshold of \$1,500, however this is still a very long way from approaching a social inclusion level of income.

Conclusion

In general, Singapore's strong self-help and anti-welfare approach to public policy has resulted in policies supporting economic growth and workforce development which have dominated social protection approaches. With the exception of Workfare, the government's targeted relief and security programmes are typically modest in scale and largely designed to be temporary in nature, assisting to tide individuals and households over a particular crisis after which, they are expected to resume looking after themselves.

With the relatively recent introduction of Workfare in 2007 and the decision to make it a permanent feature of social policy,

the government has already recognised the need to provide longer term structural support to low-income households. Other recent policy initiatives also reinforce this approach, including recently introduced increases to foreign worker levies over 2010-12 that will raise levies in manufacturing and services by about \$100/month as well as efforts to develop better labour market infrastructure for those at the bottom of the scale. The other key policy option that is the subject of much debate is the possible implementation of a legislated minimum wage.

While supports for the working poor have received more attention in recent years, Singapore's social safety net still leaves largely unaddressed the plight of the unemployed. There are services provided to help them find new

employment, but there is no unemployment insurance and little available in the form of temporary income support. For those whose work prospects are severely constrained by either mental or physical disabilities, support is limited.

With minimally 12% of households living below an unofficial poverty line and at least 20% of households living below a social inclusion level of income, there is the risk that a chronically disadvantaged underclass is developing. In these high numbers, the prevalence of the poor is a systemic issue that needs a systemic solution. With disparities increasing rather than narrowing, and measures of social mobility pointing to continuing rather than declining inequities over time, the need for proactive intervention has been never more apparent.



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 2. Credit Suisse, "Global Wealth Databook," October 2010. This estimate appears consistent with the "Household Sector Balance Sheet 2008: Trends and Statistics" report by the Department of Statistics Singapore, that pegs Singapore household net wealth at S\$952B in 2008, which implies net wealth of S\$274,059 per adult in 2008.
 3. World Bank, World Development Indicators database, <http://siteresources.worldbank.org/DATASTATISTICS/Resources/GNIPC.pdf>.
 4. CIA WorldFactbook, <https://www.cia.gov/library/publications/the-world-factbook/index.html>.
 5. Credit Suisse, "Global Wealth Databook," October 2010.
 6. Ibid.
 7. Kishore Mahbubani, "Why Singaporean Leaders Believe in Government Action," *The Straits Times*, 1 Dec 2010.
 8. Li Xueying and Zakir Hussein, "Widening Wage Gap. Does it Matter?" *The Straits Times*, 11 Dec 2010.
 9. Department of Statistics Singapore, "Key Indicators of the Household Expenditure Survey, 1997/98-2007/08,". In contrast, the average income from employment of the bottom 20% of employed households in 2008 was \$1894.
 10. Population and household data from Population Trends 2010, Singstat.
 11. Ministry of Manpower, "Report on Labour Force, 2010," January 2011.
 12. Irene Ng, "Intergenerational Income Mobility in Singapore," *The B.E. Journal of Economic Analysis & Policy*: Vol. 7: Iss. 2, Article 3, 2007, <http://www.bepress.com/bejeap/vol7/iss2/art3>.
 13. Orsetta Causa and Asa Johansson, "Intergenerational Social Mobility in OECD Countries", *OECD Journal: Economic Studies*, 2010.
 14. HDB also specific services it targets towards the low income group but these are not in the form of a direct transfer and thus are excluded here.
 15. This estimate assumes every household in the bottom 20% has one employed member able to benefit from Workfare and comprises the following: Workfare Income Supplement, \$386m (2008), \$1200/yr/hh; Workfare Special Bonus, \$224 (2011 estimated), \$690/yr/worker; Workfare Training Support, \$190m, \$200/yr/wrker in direct financial support; Medifund, \$64m (2009), \$280/yr/household; ComCare Fund, \$72.2m, \$300/yr/household; Special Transfers, \$650m (over 2007-2009), \$1000/yr/household for 3 years. Note that actual benefits to particular households will vary considerably based on their particular circumstances, and the lower income households within the bottom 20% will tend to receive considerably more support than those at the higher end of the quintile. Data from "What is Being Done for Workers at the Bottom", *Straits Times*, 13 January 2011, as well as various government websites.