

Commentary: Can education fix inequality in Singapore? If not, what can?

As a mature, high-income and slow-growing economy, Singapore cannot expect rapid growth to mask the economic effects and social challenges of rising inequality, says Linda Lim and Pang Eng Fong.



A family walking in Singapore. (Photo: Gaya Chandramohan)

SINGAPORE: Combating inequality has been declared a “national priority” in Singapore.

This makes sense, given the pernicious effects that persistently high inequality can have on economic growth, political stability, social cohesion, quality of life, and even national security.

The 2016 Brexit and Trump votes occurred in the two major developed countries with the greatest income inequality — the UK and US respectively. Studies suggest that socio-cultural as well as economic divides resulting from inequality contributed to these electoral results, which have since led to populist and protectionist policy proposals that will slow growth in the long run.

Inequality itself also directly lowers economic growth through under-realisation of scarce talent, and weaker consumption demand — both are of particular concern to Singapore given our small labour force and market size.

As an already mature, high-income and thus slow-growing economy, we can also no longer expect rapid growth to mask the economic effects and social challenges of rising inequality, as it did in previous decades.

Instead we need to boldly confront the root causes of inequality, which lie in how our economic and social institutions actually work. Focusing on education policy as the main solution can actually worsen inequality.

HOW DOES EDUCATION CONTRIBUTE TO INEQUALITY?

In developed economies like the UK, US and Singapore, income inequality increases with average incomes because growth increasingly derives from the application of capital and skills, rather than labour, to production, as comparative advantage and technology shift in a capital- and skills-biased direction.

This raises the returns to capital (profits and rents) and skills (PMET salaries) more than it does the returns to labour (wages). Education, especially university education, contributes to the widening skills premium (excess of skilled over unskilled labour income), and parents and students naturally clamour for more of it.

Publication: Channel News Asia Online

Date: 02 June 2018

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This is where education and inequality are mutually reinforcing. Higher-income families invest more in private tuition for academic subjects, extracurricular enrichment activities, and parental attention.

This enhances their children's school performance and chances of getting into "good" (elite, brand-name) schools and universities, thus achieving credentials that employers value and reward with "good jobs" and high salaries.

Employers are known to use educational certification and school reputation as "screening devices" that differentiate between job candidates, and as proxies for behavioral characteristics and social networks they believe enhance employees' contribution to the enterprise.

Expansion of higher education has been accompanied by a widening "college premium" — or gap between graduate and non-graduate incomes — even as the supply of graduates increases.

Recent studies in the US and UK suggest that this is due to losses to non-graduates, as well as gains to graduates, as employers start requiring degrees for work that did not need it 30 years ago.

And as university degrees become more common, institutional reputation becomes more important, intensifying competition for places at the most selective institutions, and widening their graduates' salary premium over graduates of less selective institutions.



A university student graduation. (Photo: REUTERS/Brian Snyder)

CAN EDUCATION REFORMS REDUCE INEQUALITY?

Policy-makers in developed countries have focused on reforms in education to reduce inequality. In some countries, particularly the US, unequal resource allocation between "rich" and "poor" school districts is a major factor contributing to unequal educational, employment and income outcomes.

This is less of a problem in Singapore, given the Ministry of Education's worthy efforts to equalise the allocation of resources — including the "best" teachers and administrators — between "neighbourhood" and "elite" schools. But it is hard to improve already high-performing, well-resourced schools.

More importantly, as we noted in the *New Nation* in 1976: "The effect of any school variable which can be manipulated by decision-makers is small relative to other determinants of student performance ... Family background is a very important variable affecting educational performance and earnings of individuals ... changes within the school system itself will not necessarily bring about more equal performance of students in school or greater income equality among them when they are employed."

Recent, separate research by NTU associate professor of sociology Teo You Yenn, and NUS associate professor of social work Irene Ng, confirms the dominant impact of family circumstances on student performance in Singapore today.

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The PISA test which we regularly top shows that 15-year-old students in Singapore on average perform better than those in OECD countries, but here the gap between the top and bottom scorers is wider and the dependence on parents' socio-economic status higher.

Another popular policy is to increase lower-income students' access to more selective schools, including through priority admissions, as Singapore plans to do in Primary One and post-PSLE student assignments to elite schools.

But at best this can cater to only a small subset of low-income students, probably those already best qualified. This could widen the student performance gap between elite and neighbourhood schools, and subject more families to "exam stress".



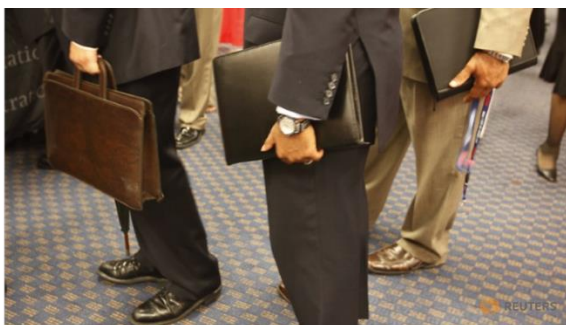
Students awaiting their exam results. (File photo: TODAY)

Since school performance is heavily dependent on family resources, lower-income children could underperform relative to higher-income classmates in elite schools, reinforcing stigmatisation from priority admission, and lowering self-esteem which research shows is a major determinant of individual performance.

Priority admission for lower-income children would also intensify competition among higher-income students for "fewer" elite school places, thus worsening the "education arms race".

In the US, such competition has worsened inequality and increased social stratification by increasing home values (hence family wealth) in residential neighbourhoods in the top public school districts. Tweaking Singapore's education system will not reduce inequality because it does not change the underlying unequal socio-economic structure to whose incentives families of all income levels rationally respond.

Parents naturally seek for their children entry into secure, well-paid employment in large corporate and government bureaucracies, and cartelised high-earning professions, which still use traditional academic credentials to screen candidates and remunerate employees.



Attendees at a job fair line up for an interview carrying their resumes in leather bags. (Photo: REUTERS/Jason Reed)

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OUR ECONOMIC MODEL GENERATES HIGH INEQUALITY

Despite Singapore's rapid growth in economic output and average incomes, income inequality as measured by the Gini coefficient has increased since the late 1970s, and is high relative to other developed countries, before taxes and transfers.

The Gini also counts only income from work, which in Singapore is under half of national income, a very low ratio by international standards. It does not consider wealth or property, which everywhere is more unequally distributed than income, especially in expensive dense cities.

High inequality reflects several features of our economic development over the decades.

Most significantly, increased output has come mainly from factor accumulation, the employment of more capital and labour, rather than from productivity growth, which has been relatively low, and is necessary for labour incomes to rise. The long and heavy reliance by business on cheap foreign labour, facilitated by government policy, has depressed wages of the low-skilled.

The rapid increase in population necessary to propel this input-intensive growth model has also raised returns to owners of the scarcest factor in Singapore, land, thereby increasing the inequality that derives from residential home values and monopoly rents.

Compared to other high-income countries, Singapore also has a relatively weak social safety net, lacking public provision for unemployment insurance and guaranteed social security (retirement income) that is almost universally provided elsewhere.



A cleaner pushes his trolley in a shopping centre in Singapore. (File photo: AFP/Roslan RAHMAN)

THE IMPACT OF MERITOCRACY

The Singaporean ideology that we are a “meritocracy” where economic success based on hard work and the right academic credentials justifies unequal returns, poses two problems.

First, it entrenches hierarchy, and hence a systemic inequality to which social mobility can at best contribute slightly more diverse members at each level of the pyramid. Overall inequality does not decline, and at worst, those who fail to “make it” up the ladder are considered to “deserve” their inferior position on the social as well as income scale.

Beginning with the competitive “streaming” of students by exam results at an early age, such stratification has stigmatising and demotivating effects which limit educational attainment and reduce intergenerational mobility.

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Second, in the post-industrial society to which Singapore is inevitably transitioning, a laddered meritocracy and the social divide it subtends impede further economic progress.

Innovation, and response to the disruption it causes, increasingly hinge on entrepreneurship rather than bureaucracy, risk-taking rather than risk-avoidance, diversity rather than similarity, collaboration rather than competition, imagination rather than instruction, contestation rather than conformity, and bottom-up rather than top-down initiative.

In short, meritocracy as currently construed in Singapore, and served by the educational system, is arguably the problem, not the solution, for both economic development and inequality, as it is in other highly unequal rich societies.



Singapore's skyline. (File photo: AFP/Roslan Rahman)

A UK study shows that students from higher-income families are more likely to go to university, and to more selective universities. They also earn more than students from lower-income families who graduate from the same institutions in the same subjects, and with similar other characteristics.

In the US, Yale Law School professor Daniel Markovits has said

American meritocracy has become ... a mechanism for the dynastic transmission of wealth and privilege across generations. Meritocracy now constitutes a modern-day aristocracy.

REDUCING INEQUALITY THROUGH REDISTRIBUTION NEED NOT HARM GROWTH

We need to look outside the education system for policies that do work to reduce income and wealth disparities. They include higher tax rates on high income earners, levies on capital gains, estates and inheritance, and a stronger social safety net — all of which Singapore has eschewed, believing these would reduce the incentive to work hard, save and invest, and thus harm economic growth.

But high-income Scandinavian countries, Switzerland and Germany, have reduced inequality over decades through progressive universal tax-and-transfer systems that included labour market policies, spending on healthcare and social protection while growing at respectable rates and ranking high on productivity and innovation indices — some even while maintaining budget surpluses and strong currencies.

Some high earners may resent high tax rates, but all citizens benefit from subsidised public services, including health and education, and receive unemployment insurance and retirement pensions.

Besides reducing economic and social divides, these policies may also encourage savings for growth-enhancing investments in business enterprises (rather than housing consumption, as in Singapore).

Recent improvement in Singapore's still-high Gini coefficient also results not from educational policy, but from increased social transfers to vulnerable groups — subsidies for low-wage workers, the elderly and elderly poor.

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But these have been insufficient to narrow the cumulative wide income and wealth gaps created by past policies and market forces. Our post-tax-and-transfers Gini still ranks with the highest among developed countries (lower than the US but similar to the UK), is much higher than those of other small high-income economies (in Scandinavia), and is unlikely to be fiscally sustainable.

However, we have run large budget and current account surpluses for decades, piling up huge foreign exchange reserves that have been well-invested by our sovereign wealth funds. More of these could be converted into social spending that could both increase productivity and reduce inequality.

Reforming the education system — by equalising resources, eliminating streaming, increasing curricular flexibility and minimising social segregation — can reduce inequality and social stratification, and foster the innovation and entrepreneurship required for post-industrial economic growth, only if the deep-seated institutional roots of inequality are addressed.

The political will to do this is what matters in the struggle for a more just and equal society that will benefit all of us.

Linda Lim is Professor Emerita of Corporate Strategy and International Business, Stephen M Ross School of Business, University of Michigan. Pang Eng Fong is Professor of Strategic Management (Practice) at Singapore Management University.

Source: CNA/sl