

# CHAPTER 2

Inequality: Why Does it Matter for Businesses?

## INEQUALITY: WHY DOES IT MATTER FOR BUSINESSES?

Singapore has made great economic strides since its independence. Singaporeans have experienced improvements in their lives, but some families have progressed faster than others. While the Government seeks to strengthen social cohesion, the business community can help to nurture an inclusive society by addressing the needs of the elderly, the less well-off and those who are vulnerable to job disruption.

Rising social unrest and political polarisation around the world have been largely fuelled by inequality. Such upheavals will worsen as the divide among communities widens. While Singapore has been spared so far, we cannot be complacent. We must act now before similar situations occur. This is why SBF has embarked on a long-term endeavour to rally the business community to play its part.

Businesses thrive in an environment with socio-political stability, high human capital and open markets. While competition incentivises innovation and investment – two key elements that drive the economy – there is a tipping point, beyond which inequality becomes a liability. There are no winners when the social compact breaks down and society descends into a downward spiral, as witnessed in a number of advanced and developing economies in recent years.

Businesses are an integral part of society and hold two important levers in addressing inequality: the first is the workforce, which depends on employers for good jobs, capability development, career progression and a sense of fulfilment; the second is the economic relationship with others in the ecosystem. Through purposeful action, companies can strengthen the very environment they need in order to thrive.

This report is a business-led effort that draws on the expertise and experience of over 60 business

leaders and stakeholders, as well as insights from close to 250 participants from among SBF members, the business community and its stakeholders through 16 focus group sessions. Through this “by business for business” initiative, SBF hopes to spark a conversation and inspire action from Singapore companies towards sustainable business success.

### The Story of Singapore's Growth

Since independence in 1965, the development of Singapore to its present modern state is an example how a successful nation is built on meritocracy, fostering a cohesive society as well as investments in education, housing and healthcare. By 1990, Singapore was a fast-rising “Asian Tiger” with a gross domestic product (GDP) per capita of close to US\$12,000 – higher than most of its regional neighbours but below the Organisation for Economic Cooperation and Development (OECD) average<sup>1</sup>.

During this period, Singapore underwent structural reforms to promote industrial upgrading and innovation, liberalised state-owned services and drew more foreign direct investments from advanced economies such as Japan, United States (US) and Europe. On the back of favourable global conditions and a strong economy, household income rose and the GINI coefficient – a measure of income inequality – dipped to a low of about 0.41 from around 0.44 a decade before<sup>2</sup>. Today, Singapore remains the most competitive economy in the world<sup>3</sup>. The GDP per capita stands at over US\$65,000, ahead of other advanced economies and the OECD average. The compact city-state has consistently played to its strengths. The can-do spirit of the Government, businesses and its people has led to the adoption of business- and investment-friendly policies to ensure that the economy grows, businesses succeed and the livelihood of employees improve through work.

However, Singapore's open and trade-dependent economy also makes it vulnerable to the threat of the US-China trade war and the global battle for technological supremacy. Other headwinds that the economy faces include the volatility arising from Brexit in Europe, geographical instability in the Middle East and fluctuating oil prices. Even as the city remains an attractive regional base for global new economy firms such as Alibaba, Grab and Facebook, further fragmentation of the global trade order will pose significant challenges especially to other parts of Singapore's economic structure. Economists have already predicted an economic slowdown.

Turbulent times could also lie ahead on the technology and innovation front. The Government has poured in significant resources to attract foreign direct investment in high-tech industries, support research and development (R&D) by enterprises and transform the country into a Smart Nation driven by digital innovation. The response of businesses to the impact of technology and digitalisation is mixed, with smaller companies being slower on the uptake. It is also unclear how well Singaporean employees are prepared for work in these emerging sectors. Despite Singapore's status as an innovation hub, the lack of an entrepreneurial culture threatens its success. An article in SMU Asian Management Insights cites unfavourable societal mindsets, risk-averse local consumers and investor conservatism as contributing factors<sup>4</sup>.

Tension lurks beneath the calm in the social sphere too. "A Study on Social Capital" by IPS released in 2017<sup>5</sup> identifies socio-economic class as the nation's most divisive fault line in its people's social networks. For instance, it found that people who study in elite schools tend to have weaker social ties to those in non-elite schools, and vice versa. Also, Singaporeans who live in public housing have weaker social ties compared to those who live in private housing.

These findings, together with an emotive documentary on the class divide by CNA in late 2018, sparked a national conversation on the issue. In line with its enduring intent to foster opportunities for all, the Government continues to refresh its policies to meet societal needs. Broad-based social transfers in the areas of housing, education, salary support as well as schemes for the Pioneer and Merdeka generations have been implemented in the past decade. In addition, the Government also recently introduced initiatives to lower childcare and tertiary education fees and provide larger grants for Housing and Development Board flats to tilt the playing field by supporting families that are less well-off.

The Government is increasingly mindful of the need to renew Singapore's social compact and address the challenges of widening inequality, intergenerational divide and political polarisation<sup>6</sup>. In fact, besides low-wage families, who are the main recipients of Government transfers, middle-wage households in Singapore also receive more benefits per dollar of taxes paid than households in countries such as the US, United Kingdom (UK) and Finland<sup>7</sup>.

The business community is tracking these trends and is conscious of its role in fostering an inclusive and cohesive society through the market and employment policies of businesses.

## What Could Lie Ahead for Businesses in 2040

Given the current global trends and considering how they might unfold from now till 2040, businesses and other thought leaders held a discussion in August 2019 and drew up two scenarios that Singapore could face: Globalism and Renaissance.

These scenarios recognise Singapore's unique characteristics – a city-state whose economic growth and place in the world order thus far are premised

on a liberal trade system, the strong rule of law and a stable, honest, pro-business and pro-labour government.

In a world that threatens to split into competing trading blocs, Singapore's relevance and continued success, while not assured, can be strengthened

through concerted action to deliver innovation-driven and inclusive growth.

Globalism and Renaissance describe two potential scenarios. These are not forecasts for the future, but rather explorations of plausible outcomes to stimulate action.

## GLOBALISM

In the Globalism world, big players grow even bigger. Innovation moves to large market economies as only top firms in these economies have the means to undertake expansive R&D activities. These top firms' access to resources through advances in technology results in pronounced income and wealth inequality, both within Singapore and globally. Small firms are frequently being squeezed out of competition, stifling entrepreneurship and hampering economic and social mobility.

Singapore maintains its ability to successfully navigate this hyper-competitive environment. Its businesses have expansive ties globally, especially with the top 50 cities that are economic and cultural powerhouses. It also remains relevant because its leadership is seen to be addressing world challenges like climate change, urbanisation and healthcare.

World economic power shifts towards Asia, but ASEAN flounders. A wealthy nation, Singapore remains attractive to foreign labour, skilled and unskilled. Its middle class is squeezed between the top earners and relatively cheap labour from emerging economies. Growth results in collateral damage in society and environment. Forces of digitalisation and globalisation drive a wedge between the "haves" and "have-nots", the young and the old.

In a scenario where the winner takes all, the powerful act to preserve the status quo. Populism takes on a xenophobic slant in many countries struggling with unequal societies. Singapore is spared so far but prolonged sluggish social mobility is beginning to sow resentment among the people towards globalisation, capitalism, immigration and the elite. The divide between the rich and the poor widens, and the latter think they are denied opportunities to improve their lives.

### Increased Competition

Singapore is the world's most competitive economy in 2019, and continues along this trajectory in 2040. It is home to a sizeable number of dominant firms that form the bedrock of the city's economy. Fierce competition drives significant productivity gains among the top 5% "frontier firms", resulting in a significant productivity gap of up to 40% between dominant firms and the rest of the private sector<sup>8</sup>. Powerful corporations grow in scale and influence, erecting barriers to entry. The average small and medium enterprise (SME) finds it a challenge to stay in the game, much less grow into a large enterprise.

The competition for talent among dominant firms gives rise to a stark two-tier labour market. A small cohort of highly qualified employees enjoy

career mobility and exponential financial gains as they are headhunted within and outside of Singapore. Highly-skilled gig workers contribute to the talent pool in Singapore, taking advantage of the relatively flexible employment regulations for talented foreigners. On the other end of the spectrum, struggling SMEs increasingly tighten their manpower needs, resulting in fewer job openings. This reduces the bargaining power of labour in the lower tier, leading to job-lock mechanisms and downward pressure on wages.

## Innovation Capital

Innovation capital is in the hands of the dominant few and Singapore continues to lead in innovation and R&D in the region. Despite government efforts to support SME innovation, concentrated market power, slow diffusion of technology and information, as well as a shortage of internal financial assets and competent personnel put the brakes on SME innovation<sup>9</sup>. Local start-up and entrepreneurship activity is low as the cost of failure is high, and promising Singaporeans favour the super-scale career path offered by the dominant firms.

Singapore's position as an innovation hub is gradually overtaken by countries with robust SME bases. Successful SMEs add to a country's innovation capital and can be more cost-efficient, given their capacity for rapid ideation and shorter decision chains<sup>10</sup>.

## Old But Not Gold

In a two-tier labour market, the bulk of the senior workforce that lack the relevant skills gravitate towards the bottom tier in an intense competition for jobs. Their average monthly Central Provident Fund (CPF) payout may not be sufficient to meet basic living standards.

Personal and corporate taxation will be a key source of government revenue that is used to fund support

for the elderly and the poor. Tax rates inch up but are insufficient to fund social transfers. Tax revenues thus have to be supplemented by higher Goods and Services Tax (GST) and other forms of asset taxes, potentially stifling the growth of the middle-income group. The Government has to spend more of its returns from its reserves to meet operating expenditure.

## The Social Fabric

Life in the Globalism world is fast-paced and dynamic. The winner-takes-all mechanism is rewarding for some but stressful for others. The top 10% own 70% of the country's wealth<sup>11</sup>, making it even more important to engineer entry into this bracket from a young age. For the rest, gig jobs are preferred. Overall, the younger generation becomes increasingly dissatisfied with the status quo and wonders if there is more to life than competition, money and status. The poor find it increasingly challenging to break out of the poverty trap.

Social polarisation develops along three main fault lines. First, the rich-poor divide widens due to the two-tier labour market. Advantage creates advantage, and the rich monopolise resources such as geographical enclaves, elite schools and medical advancements to stay ahead. Second, the young-old tension grows as both groups compete for jobs and public funds. Lastly, fault lines emerge along citizenship type, and Singapore's power to draw top-level expatriates wanes.

## RENAISSANCE

In the Renaissance world, innovation and agility trump all else. More innovation and entrepreneurship offer diverse businesses increased access to resources and ideas to scale and stay competitive. Policy makers recognise that income inequality and political problems are linked, so they work with the private and non-profit sectors to develop policies that help level the playing field for businesses and individuals.

World economic power shifts towards Asia. A wealthy nation, Singapore knows its success is dependent on the pioneering spirit of its population. This spirit is carefully nurtured through a system that values diversity and views failures as lessons for success.

Growth results in collateral damage in society and environment but is tempered with desired societal outcomes. Inequality is not eradicated but forces of innovation and globalisation offer opportunities for all – individuals and businesses are actively engaged in a vibrant economy. The Singapore workforce is transformed and success in life is redefined – a flexible workforce, portable careers and increased appreciation of culture and the arts are the new benchmarks.

### Many Paths to Success

There are many pathways to success. Singapore is recognised as the global capital for entrepreneurship, while social enterprises operating alongside agile start-ups, solopreneurs, Multi-National Corporations (MNCs) and Government-Linked Companies (GLCs) flourish under the nation's Industry Transformation and Smart Nation efforts.

SMEs strengthen their base in Singapore, with productivity gains translating to inclusive growth through higher-value job opportunities and wage

increases<sup>12</sup>. A picture of an “enlightened” economy emerges with diverse actors collaborating on shared interests for responsible long-term gains. Companies recognise that competitiveness and creativity, more so than ever, are crucial to generate growth – albeit not at previous levels. Diverse and niche skills, including craftsmanship, are supported, and non-white collar workers are treated with dignity and respect. The gig economy grows as individuals leverage digital platforms to develop and market their unique skillsets.

In this world, how people perceive a successful career evolves. By 2040, Singaporeans will have a plethora of options to make a living – full/part-time employment, sabbatical for self-development, own-account employment, etc. The dual forces of globalisation and technology enable jobs to be scalable – individuals with creativity and talents can prosper in a more even playing field. Singaporeans will have options for multiple career breaks throughout their life journeys to pursue their own interests, fulfil family duties or refresh ideas.

### Social and Cultural Capital

Social capital, defined by the OECD as “networks together with shared norms, values and understandings that facilitate cooperation within or among groups”<sup>13</sup>, is democratised. Deliberate efforts by the Government, such as introducing mixed-ability classes and moving top schools into the heartlands, pay off as social mixing takes place in schools, neighbourhoods, communities, as well as online and offline informal networks, blurring socio-economic class divides.

Cultural capital, once the badge of the elite, is similarly dispersed. There is a vibrant arts scene as people from all walks of life have opportunities to pursue their creative interests and forge alternative routes to success and self-fulfilment.

## Old is Gold

By 2040, about one in four Singaporeans will be aged 65 and above<sup>14</sup>. The proportion of seniors continues to rise as life expectancy increases by up to almost three years, pushing 90 years old, on the back of factors such as improved healthcare, a reduction in workplace stress and improved quality of living<sup>15</sup>.

The elderly population ages actively and is a valued contributor of society. Those who remain in employment find meaningful jobs. Those who choose to retire can opt for flexible self-employment that values their experience, leaving time for family commitments and personal interests. Enlightened companies take action, successfully tailoring jobs to the strengths of the mature employee. Young entrepreneurs and SMEs seek the expertise of mature employees, creating a vibrant network of innovators and seasoned knowledge workers.

## The Social Fabric

A culture of trust prevails in this scenario. Despite the rising old age dependency ratio, intergenerational

gaps are bridged. The young embrace government efforts, while the private sector and community join hands to help the seniors age with dignity.

Other conventional fault lines around education, income, wealth and related class disparities blur over time as social and cultural capital is democratised, offering new and diverse paths to success. Overt displays of privilege and elitist attitudes become unacceptable.

In a way, the nation experiences a rebirth, reviving the pioneering and cooperative spirit of the early days of independence after wrestling with the ramifications of increased inequality and polarisation during its economic heyday in the 2020s. As a result, societal values are rooted in the notion that all citizens ought to do the best for themselves and those around them, especially in a small and vulnerable country – a mindset similar to the Finnish concept of *sisu* or “stoic determination, tenacity of purpose and resilience”<sup>16</sup>.

## Not a Prediction but a Call to Action

These scenarios are not predictions of the future. Instead, they describe just two of many potential trajectories for Singapore as it faces the year 2040. Globalism and Renaissance are extreme scenarios meant to provoke thought and conversation about strategies for the future, and to encourage collective action to address inequality. The recommendations developed in this report build on possible ways in which the key driving forces underpinning the two scenarios could eventually pan out in Singapore. Some of these driving forces include market structure in the digital age, technology and its impact on jobs and modes of employment, aspirations of the mature population, and societal values and expectations.

Specifically, by taking this long view, it is hoped that public and private actors will seek shared interests in preparing for the future and developing profitable businesses and sustainable employment for Singaporeans before less desirable options are foisted upon all by circumstances. Globalism and Renaissance should therefore be seen through this lens.