# Inequality Is No Sufficient Statistic

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**Abstract**

The 2020 coronavirus pandemic has often been said to reveal the deep inequalities in society. Certainly, under the pandemic the poor will likely grow even poorer. But this immiserisation of those already poor is independent of the existence of the rich. What hobbles someone's fight against the coronavirus is that person's resource-inadequacy, not the fact that someone else in society happens to have more than they do. It is low absolute income that matters, not low relative income. Empirical evidence shows that, in Singapore, even as inequality has risen, so too have the material circumstances of the poor improved.

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Over the course of this coronavirus pandemic, with lockdown across many economic activities, a poignant picture on inequality has been told and retold. Rich families have had a good pandemic. They found it easy to navigate shutdown as they could afford the space and technology for parents to work from home. Rich families had fast Internet, spare time, and learning resources to allow their children to do home-learning well. In contrast, low-paid physical laborers could not work when they were told to stay home. The poor therefore suffered further falls in already meagre incomes. Disadvantaged children from low-income households were photographed studying on borrowed laptops set on cardboard boxes. Even that makeshift learning arrangement, however, would soon no longer be possible as, even with lockdown ongoing, loaned-out computer equipment was already being recalled.

The highlighted inequality between rich and poor experience boosts the narrative power of these news stories. Tugging at heart strings is a much-used and effective tool of media and social influence. The unfortunate result, however, ends up concealing the genuine social problem. What should be constructive public sentiment to help the weak and vulnerable has been misdirected into "us vs them" class resentment.

What has happened in the pandemic to poor families would have happened, independent of whether their societies contained any rich families. Whether rich families exist doesn't affect how physical human proximity transmits the coronavirus. Whether rich families exist doesn't change how lockdown safeguards lives. When the poor have only slow, low-quality Internet connection, it is because they cannot access high-speed broadband, not because there is a rich family somewhere across town enjoying superfast WiFi.

The coronavirus pandemic has wrought terrible suffering on the poor, the low-paid, and the disadvantaged. But the fault for this lies not with inequality. Instead, it rests with the inadequate resources those groups have been able to command to control their own destiny and environment.

Call the collection of policy problems driven by such effects the **Inadequate Resource** challenge.

When the poor suffer from inadequate resources, inequality neither worsens nor solves the problem. To blame inequality for the plight of the poor simply takes attention away for the real challenge, namely that the resources the poor control are insufficient for their needs.

## Where Inequality Matters

This differs of course from noting, correctly, that we can alleviate the plight of the poor by redistributing towards them resources from the rich. But be careful: That last statement is not an indictment of inequality. Instead, it is a proposition about what is possible when society contains both rich and poor. Equivalently, it is a reflection of what would be impossible when society is perfectly egalitarian.

From a perspective not of well-being but of political conflict, inequality can of course have damaging effects. With excessive income disparity, those at the lower rungs of the income distribution will see ever greater gain to expropriating resources from the rich. Indeed their feelings of discontent will be sharpened by the knowledge that others have more than them. By the same token, for the rich the reward to suppressing change too rises with ever higher inequality. This economic calculation—not only moral reasoning—tells us that an angry divided society is no good for anyone, and that anger and division increase with inequality.

But simply imposing equality—however that might be achieved—will also not deliver a cohesive society, not least if that society is egalitarian because everyone in it is equally poor. Tensions can be rife in poor egalitarian societies for many different reasons, among them people needing to skip meals to pay bills or fretting over just having enough to survive.

A final complication comes from admitting the possibility that envy can affect a population's overall well-being. For this discussion the effect is the same as when people care about relative well-being, instead of the absolute levels of their own. The consequence is that inequality is a problem as long any heterogeneity exists at all across a society's members. In such circumstances, citizens might seek to reduce prosperity overall because greater prosperity could lead to a few elites having more than others. How should public policy deal with those situations where a populace subscribes to "cut off your nose to spite your face" reasoning? When will the inequality problem be taken as solved, when envy might arise over all kinds of characteristics, not just income disparities? Longer-term, should policy seek to shift people away from falling easily to such resentment-based discontent?

Call the circle of policy problems emerging from this collection of inequality-driven effects the **Disparity** challenge.

In general Disparity-challenge effects can matter importantly. But, simply as a matter of logic, they cannot feature directly in the coronavirus pandemic. The coronavirus kills the unprotected who cannot safeguard themselves by virtue of their being inadequately resourced. The coronavirus pays no attention to the envy arising from disparities in societies.

## Ways Forwards

With this division of inequality problems into **Inadequate Resource** and **Disparity** challenges, which of these should public policy address?

If policymakers had unbounded resources, the answer of course is to take on both problems. In reality, however, especially during the coronavirus pandemic and its aftermath, resources are severely limited. The focus, I suggest, should be on the **Inadequate Resource** challenge, i.e., on lifting the weak and disadvantaged in society. It is this that will save lives.

In a zero-sum game, pure redistribution to attack the Inadequate-Resource challenge is politically impractical. A reliable solution, therefore, should do two things simultaneously: first, raise average incomes, so that the game can be positive-sum; second, build pathways so that those at the bottom of the income distribution see prospects for continual improvement.

Are these steps possible? We can learn this only by looking at data on historical experiences.

## Empirical Evidence

Using the World Inequality Database, it is possible to obtain empirical calibration on alternative solutions to the inadequate-resource and disparity challenges. (In what follows, I measure incomes in local currencies deflated by inflation.)

Call **inequality** the money amount separating the average incomes of the top 10% and bottom 50% in society. This measure of inequality directly addresses the disparity challenge. Use **the average income of the bottom 50%** as a measure of the resources available to the weak and disadvantaged. Call it **upward mobility** when the bottom 50% see average incomes rise; the rate of increase then also provides an index of upward mobility. The higher is this index, the more successfully is being addressed the inadequate-resource challenge of the poor.

My calculations show that in Singapore in the two decades between 2000 and 2019, yes, inequality increased by 85%. However, the bottom half of Singapore's population also had average incomes rise by 55%. These last twenty years, therefore, saw upward mobility of 2.3% a year. In other words, even as disparity increased, Singapore's weak and vulnerable steadily gained ever greater control over real resources over these last two decades. Taking the longer time horizon that began in 1980, by 2019 the average income of Singapore's bottom half had increased to more than three times its earlier level, even as inequality increased to nearly 580% of what it used to be. Upward mobility in Singapore over these last four decades occurred at 3.1% per year. Therefore, in this account, yes, Singapore's inequality rose. But all segments of Singapore society have seen their economic well-being improve, together with consistent and significant upward mobility among the bottom 50%.

These last four decades therefore saw Singapore successfully address the inadequate-resource challenge among its poor, at the same time that inequality increased. The rise in inequality was no barrier to improving the well-being of the poor.

A cross-country perspective is useful for comparison. Between 1980 and 2019 China saw inequality increase an astonishing 19-fold. But over the same time period, China's bottom 50% saw their incomes increase a remarkable 6-fold, consistent with but also expanding on the well-known fact of China's lifting over 600mn people out of extreme poverty. In China inequality rose, but China's poor became much, much better off at the same time, with an upward mobility index of 4.6%.

What we have seen of China and Singapore, however, is far from automatic or universal. Consider the US. Between 1980 and 2019, America's bottom 50% saw their average incomes rise by 33%; between 2000 and 2019, 10%. These correspond to upward mobility indexes of only 0.7% and 0.5% respectively. Such dismal improvement rates are not in essence different from zero. Thus, in contrast to the marked improvement in economic well-being of China and Singapore's bottom 50%, America's underclasses have seen their circumstances hardly budge. Indeed, between 2000 and 2010, in inflation-adjusted terms the average income of America's bottom 50% *fell.* In that terrible decade the poor in America became in absolute terms even poorer.

To further calibrate how well Singapore's and China's bottom halves have fared, I calculate from the data that between 2000 and 2019 the US's top 10% had their average incomes rise at 1.4% per year. Compare this with Singapore's and China's upward mobility indexes over this same time period of 2.3% and 6.4%, respectively. Over these last two decades Singapore's and China's poor have seen average incomes rise faster than those of America's **rich**, at rates from one and a half to five and a half times the average incomes of America's wealthy. The US these last two decades saw inequality rise 32%, and therefore at a rate lower than Singapore and China. But America's lower increase in inequality did not benefit its poor. Instead, the opposite: America's bottom 50% have not fared nearly as well as Singapore's or China's.

Summarising, upward mobility of the poor in Singapore and China have been strong, despite the increases in inequality in both societies. In sharp contrast, America's poor have stagnated; and indeed over significant time periods have actually grown poorer. How much of the world is more like Singapore and China than like the US? My research, reported elsewhere, documents how, in reality, most economies in the world have seen their poor rise, even as inequality increased. In other words, Singapore's and China's inequality and upward mobility experiences are also the world's; America's, not so.

## Conclusion

The data show that however income inequality evolves, a broad spectrum of possibilities is possible for the well-being of society's weak and vulnerable. In a lot of the world, as in Singapore and China, the poor have risen, regardless of whether inequality has increased or decreased. In America, the opposite. The conclusion is that inequality simply does not shed light on the inadequate-resource challenge and therefore does not reveal what happens to the weak and vulnerable in society.

Of course in popular thinking inequality carries associations that go beyond the inadequate-resource challenge that upward mobility addresses. Policy conversations in this area often surface issues, not about economic resources but instead about human dignity and social cohesion. These last are obviously greatly consequential for different societies around the world. However, from the lens of the coronavirus pandemic and similar circumstances, where the inadequate-resource challenge is paramount, such problems are also separate, and should not be conflated with the pandemic's effects on the weak and vulnerable in society.

Human dignity and social cohesion—or generally a broader line of concern over inequality—are often said to be about other than economics. Certainly, these challenges need to be ever more carefully addressed. Just as all economies report national income numbers, policymakers around the world might consider providing a dashboard to track improvement or deterioration over time on these imprecise but important variables.

But given that these problems are non-economic, there will be sharp limits to what economic policy can do to solve them. However helpful it might be for addressing yet other problems, reducing income inequality through something like a minimum wage, say, will not be the best way to solve the challenges of a deficiency in human dignity and social cohesion. If the problem is not economic, then economics cannot be the solution. Thus, policy-makers should not dissipate society's resources to alter economic outcomes to try and counter social discontent. Inequality could well be just a distraction away from real social problems. For sure, however, inequality is no sufficient statistic.