INEQUALITY

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OVERVIEW: DEMOCRACY AND INEQUALITY

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INTRODUCTION

A key challenge to democracies in Asia is persistent or rising inequality. The diversity of cases in Asia — characterized by varying levels of economic and political performance — indicates, at best, a complicated relationship between inequality and democracy. To help address this issue, four scholars examine inequality and democratic governance in the Philippines, Malaysia, Singapore, and South Korea and provide a set of policy prescriptions for policymakers, civil society, and the private sector. Although there is no one-size-fits-all solution, the case studies highlight several common challenges, such as the institutionalization of past unequal practices, and policy prescriptions, such as greater political decentralization. Taken collectively, the papers provide important insights and recommendations to combat inequality, with the aim of strengthening democracies in Asia.

BACKGROUND

The scholars were chiefly interested in economic inequality. However, in their assessments, they recognized other related dimensions of inequality, including limited or uneven access to education and government services, racial and ethnic inequality, and unequal access to the political process. Unsurprisingly, economic inequality is correlated with many others forms of inequality, which, in turn, limit democracy. For instance, the poor may not be able to exercise their right to vote to voice their concerns, whereas the rich may use their wealth and political connections to influence policy. Practitioners must therefore be mindful of how one form of inequality relates to other forms.

The scholars adopted a flexible understanding of democracy. However, there was greater emphasis on democratic governance given the wide variation in the quality of democracies in Asia. Procedural and normative conceptions of democracy were also considered to a lesser extent.

The Gini coefficients measuring inequality in the four countries ranged from 0.3 on the lower end to 0.5 on the higher end of the spectrum. Ordered from the highest to lowest degree of inequality are the Philippines (0.48), Malaysia (0.43), Singapore (0.40), and South Korea (0.31).[1] The Philippines and Malaysia are considered middle-income countries, and South Korea and Singapore are categorized as high-income countries. Even in a wealthy, highly democratic and low inequality society such as South Korea's, perceptions of inequality can still linger, as depicted in popular Korean dramas and movies such as "Squid Games," "Sky Castle," and "Parasite."

CHALLENGES AND RECOMMENDATIONS

Despite wide economic and political variation among the four countries, several common challenges and policy recommendations were identified.

- **Inequality is only loosely associated with weaker democracies.** A loose correlation between inequality and reduced political freedoms (as measured by Freedom House index scores) can be identified when comparing the four countries. However, the fact that some nondemocracies in Asia are characterized by lower economic inequality (in other words, countries with low Gini coefficients) but limited political freedom, such as Cambodia, Myanmar, and Pakistan, indicates that there is no direct, linear relationship between inequality and democracy. Targeting inequality alone will therefore not necessarily improve democratic quality, as other variables such as corruption or racism also correlate with inequality and democracy.

- **The problems of inequality and democratic decline are linked to deeper historical legacies and path dependent processes.** For example, the dominance of political family dynasties (as seen in the Philippines) contributes to political inequality and corruption. And deep-rooted economic policies favoring particular ethnicities (as seen in Malaysia), as well as programs that single out specific demographic groups (as found in Singapore), lead to the marginalization and social stigmatism of targeted groups, which further contributes to inequality. Policies, both in their design and implementation, should therefore aim to not only fight inequality, but also gradually change public attitudes toward social welfare policies. Principles of universalism that contribute to normalizing access to public services are thus welcome.

- **COVID-19 has exacerbated inequality in Asia, but it also provides a window of opportunity.** The pandemic may have widened the gap between the rich and poor in Asian countries. However, governments could use the crisis to shift policy in a direction that helps alleviate rising inequality. For instance, in South Korea, the government could use its surplus fiscal capacity to support those small-business owners hit hardest by the pandemic. In the Philippines, additional revenue from a "wealth tax" applied to those at the highest income bracket could help cover the large cost of tackling the COVID-19 pandemic.

- **Decentralization offers a means of addressing economic and political inequality.** Three of the four papers advocate devolving political and economic processes from the national level to the regional and local levels. The rationale for decentralization may differ in each country, but it commonly helps to redistribute wealth and resources, enhance local political participation, and empower marginalized regions and populations.

- **Improved data analysis and greater data transparency could help policymakers better understand and address problems of inequality and democracy.** For example, further disaggregation of Bumiputera groups in Malaysian government statistics reveals disparities between peninsula Malays and other ethnic groups. Data disaggregation can help "refine categories and targets so that policy benefits reach the especially vulnerable segments." The systemic collection of high-quality international data that can be easily compared, as well as increased data access for independent researchers, could help offer new insights and provide additional scrutiny of government policies. For instance, in Singapore, inequality indicators "should be calculated using all household income sources instead of work income only, as is current practice."

CASE STUDY SUMMARIES

Philippines

Raising the issue of inequality has been a major political challenge in the Philippines. Filipino politicians regularly mention poverty and corruption, but as Teresa S. Encarnacion Tadem notes, they rarely address class inequality and its effect on democracy, even though inequality in the country ranks among the highest in Asia. Tackling inequality would mean shedding an uncomfortable spotlight on political family dynasties and their dominance in Philippine political and economic life — a core factor perpetuating inequality and democratic weakness.

To address the interrelated issues of inequality, corruption, and democracy, Tadem points to national and local efforts at decentralization. In particular, she reflects on the 1991 Local Government Code (LGC), a major decentralization policy that "sought to address inequality and empower people to take part in the decision-making process of their respective local government units." In the spirit of the LGC, Tadem offers several remedies to address regional and class inequality. In the short term, the Philippine government could strengthen socioeconomic policies and nationwide social protection programs, such as the Universal Health Care Act and the Pantawid Pamilyang Pilipino Program (more popularly known as the conditional cash transfer program) and "push for national programs that encourage popular participation." In the longer term, Tadem advocates passing an anti-dynasty bill and levying higher taxes on the wealthy to help cover the large cost of addressing the COVID-19 pandemic.

Malaysia

In Malaysia, the relationship between inequality and democracy is also complicated and exacerbated by additional factors. As Meredith L. Weiss argues, "the tight interweaving of political stratification, racial identity, and economic interest in Malaysia" makes reducing inequality an "elusive target." More specifically, the special status accrued to ethnic Malays and other indigenous communities vis-à-vis other groups (in other words, ethnic Chinese) has "rendered Malay political rights issues inseparable from economic issues." And these issues have been made more acute by the COVID-19 pandemic.

Malaysia has made rapid economic progress in the past two decades. Its gross domestic product per capita nearly tripled during this period (excluding the 9% decline attributed to the pandemic), and its absolute poverty declined. Inequality has also steadily improved. However, other data point to more limited economic success. For instance, Weiss notes that "60% of the top 1% by income were Chinese and 33% were Bumiputera" in 2014. Although laws favoring the Bumiputera are unlikely to change, inequality can still be addressed by "prioritizing redistributive policies that benefit the many over the already-privileged few, and optimizing transparency and accountability in policy implementation and evaluation." As a quick and immediate step, "given sharp disparities between peninsular Malays and other Bumiputera," Weiss suggests disaggregating the Bumiputera in government statistics "to help refine categories and targets." This step will help ensure that policy benefits reach the most vulnerable populations. In the longer term, institutional decentralization and the devolution of policy authority and fiscal resources could give those in more peripheral areas a greater voice, thereby enhancing democratic inclusivity.

Singapore

Singapore remains an outlier. As Kok-Hoe Ng states, the country has an "enviable economic track record, high standards of social well-being, and a technically competent bureaucracy." The public's trust in government is also high. However, undemocratic practices persist, and Singapore's pro-market approach to economic growth has resulted in greater inequality. Ng notes that "the top 1% own 32% of the wealth in the economy, while the bottom 50% own just 4%." Although state intervention is generous in areas that encourage economic markets (for example, universal public education), welfare support for people toiling outside of these markets is minimal. Income (in)security and housing are two areas that highlight how neoliberal economics, existing political practices, and social policymaking hinder democratic growth in Singapore.

In light of these problems, Ng advocates changes in policy design, principles, and processes that could ultimately shift the mindset of Singapore's relatively "high tolerance" for inequality. As he states, "Minor adjustments to policy design can amount to a shift in the policy paradigm if they are based on a consistent set of principles. From an equality perspective, the most important principles are espousing universalism, prioritizing needs, and normalizing access to public services." Anti-welfare rhetoric could also be replaced with "policy rules and language that stress universal access and the importance of meeting needs." Increased transparency would also strengthen policy accountability and efficacy. Greater access to information and the collection of high-quality, internationally comparable social and economic data for independent research and analysis could place checks on policymaking, particularly in polities such as Singapore where electoral competition remains limited.

South Korea

South Korea seems to present an ideal case in which inequality is relatively low and democratic governance and political freedoms are generally high. Moreover, somewhat contrary to popular beliefs, Byunghwan Son finds that economic inequality has not increased in recent years, nor have public perceptions of "unfairness." However, although these and other data indicators suggest reason for optimism, a narrative of economic injustice seems to persist in popular media. If not managed carefully, Son warns of a potential democratic crisis created by perceptions of inequality, as evidenced by the importance of domestic economic issues in South Korea's highly polarized 2022 presidential election. Most notable is the shortage in housing in and around Seoul, which reflects a deeper structural problem related to a growing wealth gap between the rich and poor.

To avoid a crisis, Son suggests maintaining, if not further improving, levels of income distribution through fiscal expansion. In the short term, more aggressive social spending is warranted given South Korea's surplus fiscal capacity, as noted by the International Monetary Fund, and its below average spending compared to other member countries of the Organization for Economic Co-operation and Development. In particular, it would be prudent to further support those small-business owners hit hardest by the COVID-19 pandemic (and that comprise a significant portion of South Korea's real economy). Also, instituting supply-driven housing policies could help staunch the surge in housing prices and reduce the wealth gap. In the longer term, "decentralization of the national economy, which is heavily centered around Seoul, needs to be more aggressively pursued." Son argues that decentralization would help "ease up the asymmetric population pressure on the capital area and offer a structural solution to the wealth inequality problem."

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INEQUALITY AND DEMOCRACY IN SINGAPORE

KOK-HOE NG

DEFINING THE CHALLENGE

Singapore is a wealthy nation with an enviable economic track record, high standards of social well-being, and a technically competent bureaucracy. Its government enjoys a consistently high level of public trust. But, at the same time, Singapore has an unequal society where economically vulnerable groups have difficulty meeting basic needs. Undemocratic practices also detract from six decades of efficient, unbroken rule by the dominant political party. This paper addresses these contradictions by considering the relationship between inequality, politics, and social policy in the country. The first section presents the basic argument for democracy and equality, and highlights the linkages among Singapore's neoliberal economics, political practices, and social policymaking. The second section reviews the country's major social policies in this context and how they shape distributional outcomes. The closing section proposes recommendations for policy design, principles, and processes which, if successful, will help reform social welfare and strengthen democracy.

Equality is integral to democracy. At a basic level, formal democracies are distinguished by political equality in terms of fair elections, universal suffrage, accountability of the state, and freedom of expression. Advanced social democracies go further by also aiming for social and economic equality.[1] The distribution of social and economic resources is critical because advantages in these domains easily spill over into the political sphere. Wealth can be used to sponsor political campaigns and lobby governments, while small, privileged groups can use their social influence to shape public discourse. In political systems that fall short of even basic criteria for formal democracy, the impact of inequality on the prospects for democratization depends on the balance of power between classes, how far elite political advantages have been institutionalized, and the extent of ideological domination by the state.

Following neoliberal economic principles, Singapore has a pro-growth, pro-business policy stance and a high tolerance for inequality. As a result, it has become more unequal over time. The population's top 10% national income share (pre-tax) rose from about 35% in the 1970s to 46% in the 2010s, and the bottom 50% national income share fell from around 22% to 17%.[2] The disparity is even starker in terms of wealth. The top 1% owned 28% of the wealth in the economy in the 2010s, while the bottom 50% owned just 5%. Policy interest in social inequality is growing, partly spurred by the COVID-19 pandemic. The 2022 national budget pledged greater redistribution within a narrative of fairness and progressiveness. Even so, the Gini coefficient before taxes and transfers hovers stubbornly at around 0.44.[3]

Theoretically, neoliberalism stresses freedom from state intervention in favor of competition and enterprise in the free market. But in practice, neoliberal economies depend heavily on government policies to create conducive market conditions and suppress countervailing forces such as social mobilization against inequality. Advanced neoliberalism therefore tends to be associated with elite decision making and illiberal politics.[4] In a similar fashion, Singapore's neoliberal economics forms a tight nexus with political practices and social policymaking. The state's ideological dominance, often institutionalized through legislation, is key.[5] When sources of scrutiny — such as the media, academia, civil society, and political opposition — face constraints, the state can more freely direct public attention to economic achievements and reframe inequality as inevitable (for example, due to meritocracy or global forces). In return, the narrative of economic success vindicates technocratic policymaking and, alongside a discourse of national vulnerability, provides justification for limits on political freedom. The risk for such regimes is that hampering the flow of corrective feedback from society will dull the state's sensitivity and responsiveness to policy problems.

ASSESSING POLICIES AND PRACTICES

Singapore's welfare state is complementary to its economic model. It valorizes personal and familial responsibility and minimizes redistribution and other social policies that are seen to provide alternatives to market participation. State provision is generous and broad-based in social domains that are seen to aid economic production, such as education. But support for people outside the market is residual: eligibility criteria for assistance are strict, coverage is narrow, and amounts are inadequate. This dualistic approach is politically stable in the short run because it secures the support of the majority while containing any unhappiness within small constituencies. But it also creates sharp divisions in society by localizing hardship within marginalized groups. This approach to social welfare is most clearly illustrated by income security and housing policies.

Income security

The Central Provident Fund (CPF) is the primary instrument for income security in Singapore. It is a defined contribution public pension scheme that requires monthly contributions from workers and employers. These contributions are then deposited into individual accounts. After any pre-retirement withdrawals for housing, health care, and children's education, pensions are paid as annuities from 65 years old. Compared to defined benefit schemes, the CPF has a lighter fiscal footprint and is less vulnerable to the demographic risks of population aging as there is no redistribution across cohorts. It provides a majority of the population with basic income protection in old age and is a major factor behind broad access to homeownership and positive health outcomes.

However, because the CPF is almost entirely driven by earnings, income disadvantages during working age are carried over into retirement. Older women are particularly vulnerable, as their careers are more likely to be interrupted by childbirth and care needs in the family. Many low-wage workers delay their retirement due to insufficient savings. Despite the high contribution rates, older people are heavily dependent on intra-familial cash transfers from working-age children, which is an unsustainable arrangement in an aging population with shrinking family sizes.

Wage inequality has been a serious policy concern. To maintain cost competitiveness, Singapore depends on a huge migrant workforce that exerts downward wage pressure in the lower-skilled sectors of the economy. Having rejected calls for a universal minimum wage, policymakers introduced a system of wage ladders for selected job sectors in 2012. The Progressive Wage Model (PWM) sets out pay increments tied to skills and productivity, with a mandatory minimum as the starting point. It has the effect of a sectoral minimum wage. In 2021, it was announced that these protections would be extended to cover more sectors and occupations. This is a significant step with the potential to reshape wage distribution. Yet gaps remain. For lower-skilled migrant workers, their housing is separate from housing for local residents, their use of public spaces is policed, and they cannot migrate with their family or marry Singapore citizens.[6] They are also excluded from employment and wage protections such as the PWM, as well as national wage statistics. The minimum salaries for migrant domestic workers are less than half of the lowest mandatory minimum under the PWM for nationals.

Outside the labor market, working-age persons who need financial assistance (due to unemployment, for example) confront the harshest face of the social welfare system. The assistance regime is in the mould of "workfare" (as opposed to welfare), as found in places like the United States and the United Kingdom. The flagship program, ComCare Short-to-Medium-Term Assistance, is strictly means-tested, provides short-term and ungenerous cash support, and is conditional on applicants demonstrating their efforts to seek work. Such approaches have been criticized for keeping vulnerable people in the lower strata of the economy without addressing problems with work conditions and structural pathways that lead to poverty.[7]

Housing

Public housing built and sold by the state on 99-year leases accommodates around 80% of Singapore's population.[8] Between 1970 and 2020, the public housing stock grew from 118,000 to 852,000 units without straining public finances, as housing is paid for with CPF savings. This scale of state intervention to deliver owner-occupied housing instead of subsidized rentals (in other words, social housing) makes Singapore an international outlier. It is also the most tangible evidence of the state's bureaucratic capacity and urban planning skills. Public housing in Singapore is of a high physical standard, and residents' satisfaction ratings are generally positive. High rates of homeownership are also politically advantageous. Analysts argue that ownership discourages voting against the incumbent and promotes work participation and labour discipline (to meet mortgage obligations).

Once purchased from the state, public housing may subsequently be freely traded on the open market. However, there are inequalities associated with ownership. The public housing menu offers a wide range of options in terms of size, location, the number of years remaining on a lease, and price, with different potential for market appreciation. And, of course, people with greater means can purchase more valuable housing. The most glaring inequality is between sold housing and social housing. As part of the homeownership campaign, social housing rented directly by the housing authority to low-income persons has been cut back to around 6% of the public housing stock in the past few decades. Only small flat types are now available to rent in this residual housing sector, while larger flats are reserved for sale. Insufficient supply leads to long waits for housing and overcrowding is a problem for larger families.

A comprehensive public housing system offers policymakers a unique tool for social regulation. Ethnic quotas ensure that neighborhoods at least retain a numerical diversity that reflects the composition of Singapore society. However, the conservative vein in Singapore's welfare regime is also evident. Housing rules allow married heterosexual couples to purchase housing at a younger age and give them more generous subsidies compared to those given to widows, divorcees, and unmarried singles. Same-sex couples are not recognized and have no formal rights to public housing.

BEST PRACTICES AND POLICY RECOMMENDATIONS

Policy design

Direct levers to improve distributional outcomes may be found in specific aspects of policy design. For income security, reforms must temper market dependence and inequalities. First, there is scope to introduce a universal basic pension for all persons of retirement age. This will reinforce income security for the most economically precarious people and help address the reproduction of wage inequality in old age. Second, a state-financed carer's allowance could be deposited into the CPF accounts of people doing unpaid care work. This will help reduce gender inequality and strengthen the familial care that the state is keen to promote. It will address the vulnerability of persons, primarily women, who give up wages and retirement savings to care for family members.

Housing policy must put housing needs first. In practical terms, this means increasing the supply of social housing and providing larger flat types to cater for bigger households. An expanded social housing sector that offers better housing quality at slightly higher rents will also help to narrow the gap with sold housing and make the transition to ownership less forbidding. Raising supply to match the actual needs for affordable housing will reduce the temptation to use strict qualifying criteria to dampen demand and will allow a more rational eligibility regime. For instance, the qualifying income limit — last revised in 2003[9] — can be brought up to date.

Policy principles

Minor adjustments to policy design can amount to a shift in the policy paradigm if they are based on a consistent set of principles. From an equality perspective, the most important principles are promoting universalism, prioritizing needs, and normalizing access to public services.

Narrowly targeted services tend to attract social stigma because users are marked as outsiders. These services are also generally of poor quality, as the constituency is too small to demand change. Public service and program coverage should therefore be broadened. Where universalism is not possible, the standards of public services for vulnerable persons must be raised to reduce the quality gap between state and market provision.

Prioritizing according to needs is the fairest way to allocate public resources. A first, and urgent, step is to remove all forms of discrimination in policy rules that treat people differently based on arbitrary hierarchies of deservingness. Instead, the formal rules for allocating public services should be explicitly based on needs, for example, space needs when it comes to social housing.

Societies with limited notions of rights to public services tend to be more stratified and unequal. Replacing anti-welfare rhetoric with policy rules and language that stress universal access and the importance of meeting needs can help to rehabilitate perceptions of public services like social housing and financial assistance. People would more likely view the provision of these services as a collective responsibility rather than state charity.

Policy processes

Tackling inequality effectively requires standards. Clear benchmarks of what is "good enough," such as housing and income standards, can safeguard service quality and provide targets for measuring policy outcomes and social progress. Thresholds, such as a poverty line, can serve as warning indicators to alert policymakers to social problems. Both means-test limits (where means testing is necessary) and provision levels should be decided rationally, such as by indexing to economic measures like prices or incomes, adopting scientific measures of need, or taking guidance from independent and representative advisory bodies. Resorting to bureaucratic discretion to create wiggle room around unrealistic eligibility criteria must be avoided.

Greater transparency and openness to scrutiny are helpful for policy accountability and efficacy, and are especially critical where electoral competition is limited. Achieving these objectives requires the regular collection of high-quality, internationally comparable, social and economic data, as well as increased access to data to conduct independent research and analysis. Inequality indicators, for example, should be calculated using all household income sources instead of work income only, as is current practice. Datasets from major public surveys, such as on household incomes and expenditures, should be made accessible.

CONCLUSION

Even in competitive democracies, major policy shifts do not happen easily. They often require extraordinary pressures to overwhelm the advantages of incumbency and the forces of path dependency. Still, policy traditions rest on ideological settlements that always contain openings for contestation and reformulation. The current conditions in Singapore may have just created such an opening. As in many other places, the COVID-19 pandemic turned a spotlight on economically marginalized groups. The 2020 general election in Singapore produced one of the lowest vote shares in history for the ruling party and the largest parliamentary representation for the opposition, albeit just 10 seats out of 93.[10] During campaigning, social and economic inequality featured prominently. A year after the election, policymakers finally mustered the will to extend the PWM to more job sectors and occupations.[11] A full reform of social welfare to reverse the long-term trajectory of inequality in Singapore must consider what is attainable over different time periods, account for the possible consequences of reform, and set out not just what needs to happen but also how. The directions and priorities identified above provide a starting point.

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INCOME INEQUALITY:

A DISTANT BUT SIGNIFICANT THREAT TO SOUTH KOREA'S DEMOCRACY

BYUNGHWAN SON

INTRODUCTION

One of the buzzwords that defined the March 2022 presidential election in South Korea was "fairness."[1] Along with unfairness, domestic and foreign pundits invoked conspicuously ominous social problems, such as skyrocketing housing costs and plummeting marriage rates, and pointed to inequality as the fundamental root cause. Socioeconomic inequality seems to have become one of the most salient political issues in the country. Given the well-established social science research on the relationship between inequality and the public perception of democracy, the issue's prominence bodes ill for South Korea's democracy. In fact, commentators suggest that an inequality-driven democratic crisis is on the horizon, as populism, in their view, is rising.

This is a plausible concern, but not an entirely warranted one. Income inequality in the country has stagnated, if not declined, in the last decade. More importantly, survey data reveal that South Koreans' collective opinions about inequality and fairness have not changed much during this period. The doomsayers pointing to a pending democratic crisis, in other words, seem to have been overrepresented in the social discourse in South Korea.

However, the absence of red flags does not mean that inequality is not a problem or that South Korea's democracy is foolproof. The widening wealth gap, largely caused by increasing asset prices, is a potential threat. If and when the wealth gap (for example, differences in properties and investments) trickles down to create an income gap (for example, wage differentials), a democratic crisis may materialize.

These potential threats could be kept at bay by employing (1) expansionary social spending schemes to hold income inequality at a low level, (2) supply-driven housing policies and further implementation of decentralization to mitigate the income effect of the wealth gap, and (3) improving transparency to secure the political momentum to pursue these two strategies.

THE SOCIOPOLITICAL CONTEXT OF INEQUALITY IN SOUTH KOREA

Researchers have established that economic inequality negatively affects democracy. In particular, recent political economy research shows that ordinary citizens are significant drivers of democratic decay. Perceived economic injustice, usually spurred by high levels of income inequality, makes citizens question the performance legitimacy of democratic governance.[2] People may ask, "if democracy does not bring about justice, what is it good for?" (see figure 1). Citizens eventually become disappointed about, and often disenchanted with, democracy. Mass disenchantment with democracy then undermines the public's confidence in political institutions and opens up opportunities for illiberal alternatives such as populism to gain attention.[3] It is ominous news for democracy when growing inequality leads to public disappointment with democracy.

FIGURE 1

Inequality, citizenry, and democracy

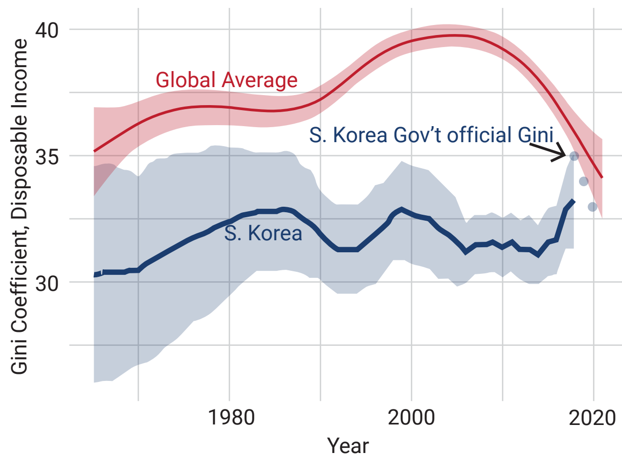
To see if inequality poses an existential threat to South Korea's democracy, two questions need to be answered: Is income inequality rapidly rising in South Korea? And is the public's perception of inequality having an effect on democracy?

Regarding the first question, analysis from scholars and pundits tend to affirm rising inequality. By the late 2000s, it was widely believed that the level of inequality in the country had increased dramatically following the 1997 Asian financial crisis and the host of economic liberalization measures that ensued.[4] Sociocultural signs of the supposedly rising inequality were repeatedly highlighted by the media in the past decade: for example, the strict stratification of the already-precarious labor market,[5] the "spoon theory" (life is pre-determined by hereditary wealth—'gold spoon' regardless of individual efforts)[6] and the "Hell Joseon" (hyper-competition in the Korean society leading to the low quality of life—as if one lived in hell) reference.[7]

But an examination of income inequality data reveals that such a characterization of South Korean society is not entirely warranted. Figure 2 depicts the distribution of disposable income over time in South Korea in a comparative perspective. With some mild ebb and flow, the level of income inequality in South Korea has remained relatively stable, at a level substantially below the global average. In fact, the South Korean government's official statistics reported to the Organization of Economic Cooperation and Development (OECD) indicate that in the last couple of years that the Standardized World Income Inequality Database does not cover, income inequality has declined. If income inequality were the sole concern, the South Korean democracy would be under no immediate threat.

FIGURE 2

Income inequality in South Korea, Gini coefficients (disposable income) and 95% confidence intervals



Source: Frederick Solt, "Measuring Income Inequality Across Countries and Over Time."[8]

Alluded to in the second question, however, is that even without objective income inequality being on the rise, a public's perceived level of inequality can still lead to anti-democratic sentiments.[9] Of particular interest here is a public's sense of fairness. High levels of perceived inequality can lead individuals to believe that democracy does not bring about the fairness it promised. If there is a sense of fairness, however, citizens could view even rampant inequality-driven income gaps as "legitimate" under certain circumstances, and democracy would remain unscathed.[10]

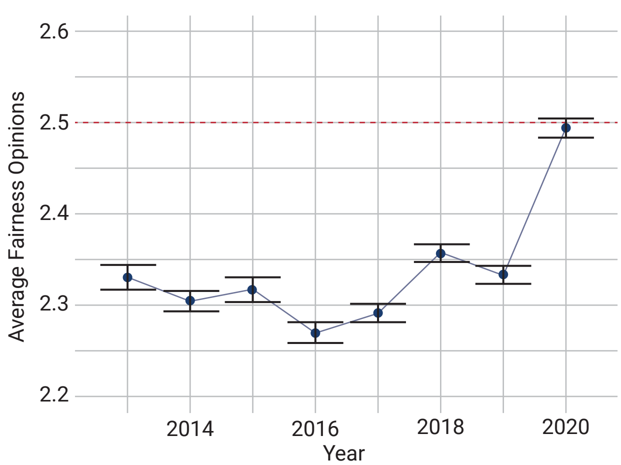
Identifying a sense of unfairness as one of the sources of potential democratic decline in South Korea is in line with the arguments of prominent social debates in the 2010s. In the 2012 presidential election, for example, economic democratization became a primary campaign promise of both conservative and liberal candidates.[11] Inequality and fairness also took center stage during the Candlelight Protest between 2016 and 2017, which led to the impeachment of former President Park Geun-hye.[12] When assessing prominent social discourse alone, the South Korean public's sense of unfairness seems to have definitely increased in recent years.

But, again, an examination of relevant data suggests otherwise. The Korea Social Integration Survey, conducted by the Korea Institute of Public Administration, has asked ordinary South Koreans (roughly 3,000) every year since 2010 about the level of fairness in 10 different political, social, or economic domains, such as taxation, gender, and employment. Figure 3 shows the yearly trend of their average fairness opinions, which are expressed as a mean of all 10 of these fairness indicators for each year.

For South Korea's democracy to be at risk due to income inequality, the fairness opinions should trend downward or at least stay at a dangerously low level. The trend, however, remains stable at a level only slightly below the hypothetical neutral point (2.5). If anything, the opinions have been trending more positive in the last three years, with a statistically significant difference from the pre-2018 levels (as the 95% confidence intervals indicate). And the aggregation does not lump together very different indicators. When broken down, all ten indicators still trend fairly similarly, though at different levels.

FIGURE 3

Public opinions on fairness



Notes: Average fairness perceptions, aggregated. 1 (very unfair) to 4 (very fair). The horizontal dashed line represents the neutral point, 2.5.

Source: "Korea Social Integration Survey," Korea Institute of Public Administration.[13]

In short, the surveys suggest that the public's sense of unfairness has not been simmering over time. Nor does income inequality seem to be rapidly widening or contributing to a rise in unfairness sentiments. Taken together, there is little, if any, indication that income inequality poses an immediate threat to South Korea's democracy. This does not imply, however, that inequality on the whole is not a cause for concern. Quite to the contrary, the notion of a possible democratic crisis, to some extent, rightly gained political significance in the presidential election in 2022.

THE THREAT OF WEALTH (HOUSING) INEQUALITY

Property prices in general and housing costs in particular have recently become major determinants of South Korean election outcomes.[14] The politics surrounding the issues of housing costs reflect a structural problem: The wealth gap between the poor and the rich in South Korea has been widening significantly in the past decade largely due to rising housing prices.

Data on inflation-adjusted, city-level housing prices indicate that between 2017 and 2020, prices in Seoul have been increasing at an above-average rate compared to those of other major cities in OECD countries.[15] Considering the global real estate boom, this price growth in Seoul is a notable one. Given the low home ownership rate in the country (<60%), a continued growth in housing prices may eventually translate into income inequality. Greater housing prices imply that more disposable household income would have to be drawn out to finance home-buying. A compounding factor is South Korea's—and particularly Seoul's—high household indebtedness, which has climbed up steadily in the past decade to the level of 200% of the gross disposable income.[16] The heavy debt burden will only accelerate the process of the wealth gap leading to an income gap. And if this occurs, public opinions on fairness might trend downward.

POLICY RECOMMENDATIONS

Three broad policy recommendations could help prevent or slow the effects of wealth inequality on income inequality: (1) maintain, or reduce, the historically stable level of income equality through fiscal expansion; (2) address the wealth gap through supply-driven housing policies and economic decentralization; and (3) improve transparency in governance.

First, as the International Monetary Fund pointed out, the South Korean government should take advantage of the country's "ample fiscal space."[17] Its surplus fiscal capacity could be used toward social programs, a domain in which spending has been grossly lagging behind the OECD average.[18]

The comprehensive polices put in place over the past five years in wage, tax, welfare, and other related areas have proven effective in addressing inequality to a certain degree. The annual pace of poverty reduction accelerated recently, mostly due to expansive social spending policies.[19] Indeed, despite some reasonable criticisms on the sluggish performance of investment and innovation strategies, the income-led growth strategy eventually resulted in raising the incomes of the bottom echelons and promoted upward mobility. [20]

With necessary modifications in response to negative externalities, more aggressive fiscal policy toolkits could be utilized. For instance, given the disproportionate damage the COVID-19 pandemic inflicted on small-business owners (who make up a large share of the real economy in the country), nontraditional, large-scale social programs targeting them are not only necessary but perhaps inevitable. Based on recent campaign promises, the government seems to be poised to pursue this policy route to a certain extent, although there are already signs of setbacks in areas such as pension systems.

Second, innovative, supply-driven housing policies need to be implemented to curb the growing wealth gap. While low borrowing costs were the primary reason for skyrocketing housing prices in many countries around the world, it is also undeniable that the South Korean government's regulation-focused approach was ineffective in containing the price surge and increasing housing availability.[21]

Fortunately, there has been a slowdown in the asset price growth in recent months, which experts attribute to the increased housing supply. The government can continue to improve the supply side of the housing market, but not only by resorting to traditional measures focused on easing taxes and regulations. The government could consider more innovative, unconventional policies. For example, expanding high-speed rail networks around the Seoul metropolitan area could address supply issues, with a limited risk of contributing to inflationary pressures.[22] On a more fundamental level, decentralization of the national economy, which is heavily centered around Seoul, needs to be more aggressively pursued and implemented. While some policy innovations relating to economic decentralization are already in process such as the 'Administrative Capital Sejong,' significant enhancements such as further relocation of government agents and public enterprises will ease up the asymmetric population pressure on the capital area and offer a structural solution to the wealth inequality problem.

Finally, improving transparency in governance could help muster the political momentum necessary for implementing the two policy recommendations discussed above. The historically low presidential approval ratings, as well as a series of controversies surrounding Cabinet appointments, point to a political landscape not very favorable to the government. This contextual challenge principally stems from secrecy and incoherent messaging that compounds the already-dwindling level of public trust in the government. The low trust will make it difficult to pursue the recommendations, as housing and expansionary fiscal policies are highly combustible agendas in South Korean politics. While not a sufficient measure on its own, improving transparency in governance would be a good first step toward restoring public trust.

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ADDRESSING INEQUALITY IN MALAYSIA

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As of this writing, general elections are imminent in Malaysia. Amid the COVID-19 pandemic and unprecedented political upheaval, these elections offer especially stark choices among normative frameworks and public policies. Malaysia was similarly poised in May 2018, when the political coalition Pakatan Harapan (Alliance for Hope) defeated the coalition that had been in power since independence, the communally (in other words, racially) structured Barisan Nasional (National Front). But the new government collapsed in February 2020, and two successor administrations have sustained only some of Pakatan Harapan's initiatives — leaving some reforms unimplemented and the root issues behind the coalition's rise largely unaddressed, especially corruption and fraught socioeconomic and political cleavages.

To an extraordinary extent, since the 1970s, Malaysian policymaking has centered on addressing the inter-ethnic inequality entrenched in colonial-era development. By its own reckoning, Malaysia has made substantial headway, notwithstanding the financial crises in 1997–1998 and 2008–2009 and now the COVID-19 crisis. Yet such focused policies have to some extent exacerbated both inter- and intra-ethnic disparities in complex ways. Neither ethnic nor concomitant spatial inequality will fade easily, given the allure of exclusivist agendas and patronage networks. Indeed, Malaysia's experience is a cautionary tale against the zero-sum framing of organizing politically around ethnic identity. Concrete measures could help reorient targets and facilitate a more democratic sociopolitical order. In particular, enhancing data transparency, embracing need-based metrics, devolving decision-making, and reducing space for rent-seeking could further such progress.

To grasp both the challenges entailed and possible solutions, this paper first discusses the roots of contemporary inequalities and where progress to address them lags. Next, it examines Malaysia's policies thus far: The country has worked assiduously to combat inequality, yet it has not always done so in the most effective way and these efforts have sometimes resulted in undesired sociopolitical externalities, such as ethnically skewed patterns of "brain-drain." Finally, the paper offers specific short- and longer-term adjustments both to refine economic strategies and to facilitate more democratic politics.

DEFINING THE CHALLENGE

The tight interweaving of political stratification, racial identity, and economic interest in Malaysia makes inequality an elusive target. A racially segmented economy predates the end of British colonialism in 1957. Malays were then about half the population; they are now over two-thirds, but grouped in official statistics together with smaller indigenous communities as "Bumiputera," or "sons of the soil." Initially upon independence, Malays remained largely rural and agrarian; rural areas remain largely Malay, though three-fourths of Malaysians overall now are urban.[1] Malaysia's constitution enshrines the *kedudukan istimewa*, or "special position," of Bumiputera, embodied in reservations in education, public employment, and more. Nonetheless, wealth remains concentrated among foreigners and non-Malays, especially ethnic Chinese, the next-largest group.

Malay economic aggravation fueled anti-Chinese riots after an electoral upset, when the Malay-led incumbent Alliance coalition fared worse than anticipated, in May 1969.[2] The Alliance regrouped, restructured as the Barisan Nasional, and introduced the New Economic Policy (NEP) the following year to combat poverty and inter-ethnic economic inequality. Successor policies — the 10-year National Development Policy, National Vision Policy, New Economic Model, and Shared Prosperity Vision 2030, which are overlapped by five-year Malaysia Plans (currently on the 12th plan) and the 30-year Vision 2020, launched in 1991, which articulated economic, political, and social targets for full development — have stayed the course for over 50 years.

Malaysian governments' political legitimacy rests significantly on economic performance, which pre-election surveys perennially show to be voters' top priority. Yet far-reaching, preferential policies have rendered Malay political rights issues inseparable from economic issues. Redistribution efforts in the context of sustained rapid growth have mitigated the costs of policies that favor one ethnic community, or the most privileged group within it, over other citizens. Particularly as Malaysia struggles to regain its economic footing amid the pandemic and global recessionary trends, these costs will be more apparent. Economic inequality impedes democratic governance: As in other countries, class structures in Malaysia have an impact on citizens' access to decision-making processes, and policies to remedy inequality sometimes spur rent-seeking, degrading governance.

Malaysia has made credible progress toward meeting its economic targets. The gross domestic product (GDP) per capita nearly tripled from 2000 to 2019 (before a 9% pandemic dip in 2020). Absolute poverty declined from 16.5% in 1989 to 5.6% in 2019 (before a jump to 8.4% in 2020).[3] The country's multidimensional poverty index scores (inclusive of income, education, health, and standard of living) improved through 2019 as well. While by the mid-1990s, the World Bank rated Malaysia's income inequality the worst in Southeast Asia — and the country's Gini scores remain among the highest in the region[4] — the Gini index has declined, if inconsistently, from 0.513 in 1970 (peaking at 0.557 in 1976) to 0.407 in 2019 (dipping as low as 0.399 in 2016).[5]

Importantly, growth has been strikingly inclusive overall: From 2002 to 2014, growth for the bottom half of the population was 84%, versus 55% overall,[6] with the rate declining with income (the reverse of the pattern found in the U.S. or China). By 2019, Bumiputera median household income was 73% that of Chinese, up from 58% in 1989.[7] Moreover, urban Bumiputera household income was 81% that of urban Chinese and slightly exceeded that of urban Indian households.

Yet other indicators suggest the limited success of economic restructuring thus far:

- In 2014, 60% of the top 1% by income were Chinese and 33% were Bumiputera; a stable three-fourths of the bottom half by income were Bumiputera.[8]
- The share of total household income of the top 20% *increased* marginally from 46.2% in 2016 to 46.8% in 2019, while that of the bottom 40% *decreased* from 16.4% to 16.0%.[9]
- Average rural household income declined from 63% to 58% of that of urban household income from 1989 to 2019.[10]
- As of 2015, 82.8% of Bumiputera-owned small-and-medium enterprises remained low value-added and micro-scale.[11]
- As of 2009, none of the top-10 publicly listed companies or top-20 industrial firms was Bumiputera-owned.[12]
- Bumiputera participation in skilled occupations now exceeds 60%, yet corporate equity ownership lags at 16.9% (well short of the over-30% target).[13]
- Those with by far the highest growth rate in real income from 2002 to 2014 were Bumiputera in the top 1%; the next highest rate was among Bumiputera both in the top 10% and bottom 50%.[14]
- Corporate equity ownership by foreign investors remained around 45% in 2018.[15]

Spatial inequality has likewise increased; disproportionate benefits from preferential policies flow to those in urban areas and especially prosperous rural regions. The income and development gaps among states have widened in recent years, too.[16] Most notably, non-Malay Bumiputera (Orang Asli and Orang Asal) areas in peninsular Malaysia and East Malaysia (Sabah and Sarawak states) lag in infrastructure and public services. These communities confront far worse opportunities in education and labor than Malays — disparities that overall data for Bumiputera obscure. Nine of Malaysia's 10 poorest districts are in Sabah (eight) and Sarawak (one); the tenth is in the peninsular east coast state of Kelantan (long governed by a party that was until recently in the federal opposition).[17]

The "special position" of Bumiputra is beyond the pale of political debate, but there remains ample scope to address inequality across economic, political, and spatial axes and between and within communities. Favoring "democratic" outcomes — prioritizing redistributive policies that benefit the many over the already-privileged few, and optimizing transparency and accountability in policy implementation and evaluation — will not only help to improve outcomes but also mitigate the electoral liability of real or perceived social immobility or imbalance.

ASSESSING POLICIES AND PRACTICES

The NEP (inclusive of follow-ons) has been central to Malaysia's effort to combat inter-ethnic economic inequality. Its core foci are to eradicate poverty and "eliminate the identification of race with economic function."[18] Parts of the NEP, especially poverty mitigation, have been highly effective; other parts have been less successful or have generated negative externalities, such as the inequities noted above. Regardless, these policy provisions, initially intended to be temporary, have become entrenched.

One major focus of Malaysia's preferential policies has been to expand Bumiputera access to higher education and managerial/professional careers, including via a Bumiputera-specific network of secondary and tertiary institutions, scholarships, and loans under the government agency, Majlis Amanah Rakyat (MARA), or the Council of Trust for the People. But while enrollments have surged as a result, the quality and performance of public education have not kept pace. Bumiputera graduates of local institutions have struggled to find employment, especially in the private sector. Moreover, by the mid-1980s, only a small minority of government scholarship holders were from poor families.[19]

A second major focus has been to deepen and widen Bumiputera participation in business. Initially, public enterprises acquired foreign-owned assets on behalf of Bumiputera. But the strategy shifted in the 1980s to nurturing Bumiputera capitalists via preferential access to loans and government contracts and the privatization of public assets. As a result, the intra-ethnic and urban–rural income and wealth gaps widened. In the late 1990s, the Asian Financial Crisis led to a renationalization, via government-linked companies (GLCs) helmed by increasingly oligopolistic, overlapping political and business elites. Fading Malay popular support prompted greater focus on Bumiputera small-and-medium enterprises in the 2000s, as well as government promises to push back against politically connected Malay business elites. But the vested interests of ruling-party "warlords" ensured that neither effort thrived. Investment in equity shares, subsidies, and contracts for well-placed Bumiputera capitalists has fostered rent-seeking, economic inefficiency, and dependence rather than entrepreneurialism.[20]

Despite targets for better spatial distribution, lopsided investment and industrialization persist, sustaining regional underdevelopment and high levels of internal and external labor migration. By withholding oil royalties, the federal government also financially punishes opposition-held states on the less-developed (but heavily Bumiputera) east coast and in East Malaysia.[21] This practice deepens maldistribution and disaffection, including among Bumiputera; recent elections have seen increasing calls for regional autonomy or even secession, especially in East Malaysia.

A third major focus has been to tie access to housing, higher education, and other services to ethnic identity rather than need, leading to the suboptimal allocation of resources and the continued unequal distribution of political voice and power. Meanwhile, the wealthy continue to have access to private health care and education, even as public institutions decline, aggravating class inequality. That the already-bloated civil service absorbs disproportionately many Bumiputera (and rarely others) feeds both administrative inefficiency and other communities' sense of unfair treatment. The mix of policies deployed has exacerbated class-based inequality, increased brain-drain, and further lowered the quality of public institutions.

It should be said that Malaysia *has* partly attempted to shift to need-based support (and to a lesser extent, merit-based selection). Starting with the 10th Malaysia Plan (2011–2015), policymakers tentatively adopted the noncommunal language of "B20" and "B40" for the lowest economic quintiles. Race-blind quotas and incentives, including at least limited access to MARA institutions, have targeted B40 students since the 2000s. But the shift has done little to change partisan discourse or the risks politicians take by questioning Malays' right to special accommodations, even to facilitate investment and growth.[22] The demotivating effects of these policies are reflected in high and racially skewed emigration rates, as well as in perennial demands for political patronage.

Through it all, government spending on social protection has lagged, hovering around 2.5% from the mid-1990s through 2015 — among the lowest level in the Asia-Pacific region.[23] Taxes and transfers have minimal effect on Gini coefficients, indicating paltry redistribution: Fewer than 10% of those over 15 years old pay personal income taxes.[24] The social safety net is inadequate, amounting to 8% of total welfare for households in the B20, versus a regional average of 9% and an average for Malaysia's income group of 23%.[25] Responses to the pandemic and natural disasters have made clear the extent to which Malaysians rely instead upon aid from civil society in times of strife.

BEST PRACTICES AND POLICY RECOMMENDATIONS

The coming general election in Malaysia and the demonstrated critical importance of reliable, adequate social protections (particularly due to the pandemic) offer a window of opportunity to recalibrate efforts to mitigate socioeconomic inequality and improve political buy-in.

Short-to-medium term measures

- **Disaggregate the Bumiputera population in government statistics.** This would be a small but important step, given the sharp disparities between peninsular Malays and other Bumiputera. Taking the step will help to refine categories and targets so that policy benefits reach the especially vulnerable segments.
- Further shift toward reframing need-based support in terms of B20 and B40, moving away from racial criteria. Bumiputera, who constitute the majority in these two categories, would still benefit, but so would other citizens who are equally entitled to support. The unconditional cash-transfer program, Bantuan Rakyat 1Malaysia, pioneered this approach in 2012, determining eligibility by income alone for the first time in Malaysia; programs to come should continue that approach, better-targeting more substantial payments.
- Base access to public programs (for example, public tertiary education) on need rather than race, and reinvest in public institutions. This will be especially important to ensure that wider economic restructuring benefits reach the B20 and B40, to build capacity, and to increase social mobility. Such a perspective is in line with government pronouncements, including Vision 2020's sweeping objectives, prior initiatives such as "1Malaysia," and the (current) 12th Malaysia Plan's focus on socioeconomic "inclusivity." Policies would thus acknowledge the salience of implications for democratic governance and citizenship, beyond those related narrowly to economic standing and opportunities.

- Enhance and sustain the design, implementation, and assessment of programs through nonpartisan, transparent, and accountable public agencies. This approach would diminish the moral hazard that targeted state interventions may foster. Malaysian politicians see electoral advantages to being communal champions, and they therefore have an incentive to sustain underdevelopment, or the perception of it, that maintains constituents' dependency on them for help. Indeed, simple assessments of progress toward NEP targets have proved controversial: Declaring success would obviate further intervention.[26]

Medium-to-long-term measures

- **Devolve policy authority and fiscal resources.** Malaysia is an extraordinarily, and increasingly, centralized federation, in terms of both authority and resources. The 12th Malaysia Plan addresses both standards of living and economic "potential" to mitigate urban–rural and cross-state development gaps, yet stark regional disparities persist. Devolution would allow geographically and/or socially peripheral areas greater say in their own development and signal democratic inclusivity — and thereby combat spatial inequality.

- **Expand participatory budgeting at the local level.** Already piloted in a few constituencies, this process would enhance the effects of decentralization, helping to ensure appropriate priorities and metrics and to increase empowerment.

- **Ensure that GLCs are independent of politicians and parties and that expropriation is rule-bound and rare.** Proliferating GLCs and inconsistent nationalization and privatization expand politician and board member rents, raise conflicts of interest, and deter domestic investment. GLCs overlap, too, with a complex world of party-linked businesses and holding companies; this pattern further concentrates wealth among a narrow stratum of party-linked, and increasingly dynastic, elites. The outcomes are inflated project costs to accommodate side payments, privileged political access for developers and industrialists, and factionalized parties and disillusioned voters. Systematic reform of the state sector, including shrinking it by deemphasizing NEP-legacy policies that target a Bumiputera capitalist class, would help. More broadly, emphasizing programs that build capacity and competitiveness rather than wealth ownership per se would ensure greater investment in helping those not already well-off.

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DEMOCRACY AND EQUALITY IN THE PHILIPPINES:

CONFRONTING THE CHALLENGES OF CLASS AND REGIONAL DIVIDE

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DEFINING THE CHALLENGE

Among Asian countries, the Philippines has the highest level of income inequality, measured at 42.3 on the World Bank's Gini index.[1]

TABLE 1

Asian Inequality based on Gini Index[2]

COUNTRY	GINI	YEAR
Philippines	42.3*	2018
Iran	42.0	2018
Papua N.G.	41.9	2009
Malaysia	41.1	2015
Turkmenistan	40.8	1998
Singapore	39.8	2018
Sri Lanka	39.3	2016
Lao PDR	38.8	2018
China	38.5	2016
Indonesia	38.2	2019
Bhutan	37.4	2017
Cambodia	36.6	2018
India	35.7	2018
Vietnam	35.7	2011

COUNTRY	GINI	YEAR
15. Uzbekistan	35.3	2003
16. Thailand	34.9	2019
17. Tajikistan	34.0	2015
18. Japan	32.9	2013
19. Nepal	32.8	2010
20. Mongolia	32.7	2018
21. Bangladesh	32.4	2016
22. Pakistan	31.6	2018
23. Korea, Rep.	31.4	2016
24. Myanmar	30.7	2018
25. Kyrgyzstan	29.7	2019
26. Timor Leste	28.7	2014
27. Kazakhstan	27.8	2018

Sources: The World Bank Group: "World Development Indicators" 25 Jan 2022. For Singapore, "World Data Atlas."

*The PSA FIES for 2018 cites a higher PH Gini index of 42.67

The combined net worth of the 50 richest Filipinos was $128 billion (7.2 trillion Philippine pesos) in 2020, amounting to a staggering 37% of the country's gross domestic product (GDP).[3] Furthermore, despite the COVID-19 pandemic, the wealth of the richest 15 Filipinos increased by 49% from $29.1 billion in 2020 to $43.4 billion in 2021 (144 trillion to 2.15 trillion Philippine pesos)[4].

Yet the issues of democracy and class inequality are hardly raised during Philippine elections. A major reason why they have not generated campaign slogans actually hits at the very core of the source of the problem: the political and economic dominance of family dynasties that have ruled the country since the American colonial period (1898-1946). The May 2022 national elections have further cemented this reality, with the overwhelming victory of presidential candidate Ferdinand R. Marcos Jr., son of the dictator who was ousted in the 1986 People Power Revolution.

A window for addressing class inequality, however, remains open in the clamor to address regional inequality — the latter of which was part of outgoing President Rodrigo Duterte's 2016 campaign. Duterte blamed the country's unequal development on "imperial Manila," which steadily impoverished peripheral areas, especially the regions of Mindanao and the Visayas, by siphoning off their resources. This development created what is called the "Metro Manila" area, or officially, the National Capital Region (NCR). Table 1 illustrates the status of regional inequality by comparing poverty rates in the NCR and in its peripheral regions. It clearly shows that the poverty rate is significantly lower in the NCR and that the rate increases as distance from the NCR increases.[5] It is therefore not surprising that Duterte's campaign slogan appealed to all classes in non-Metro Manila provinces.

A crucial reason to address class and regional inequality — beyond the poverty rate and other economic-related reasons — is that they adversely impact the democratization process, which, in turn, negatively impacts both the equality of opportunity, which is "everyone has the same starting-point or equal life chances," and the equality of outcome, which is "the equal distribution of income, wealth and other social goods."[6]

The first section of this paper therefore examines the decentralization experience in the Philippines and how the country sought to address inequality and to push for the democratization process. Of particular focus is the 1991 Local Government Code (herein referred to as the 1991 LGC), as it sought to address inequality and empower people to take part in the decision-making process of their respective local government units (LGUs).

The paper then provides recommendations to help overcome obstacles to decentralization efforts that could reduce inequality. The recommendations include both short-term and long-term responses at the local and national levels to address class and regional inequalities as well as contribute to the democratization process.

TABLE 2

Poverty rates in the NCR and nearby peripheral regions

	NCR	REST OF LUZON	VISAYAS	MINDANAO
2016	32%	40%	55%	51%
2017	31%	43%	58%	52%
2018	32%	43%	62%	54%
2019	31%	39%	59%	52%
2020	45%	42%	60%	54%
2021	35%	41%	60%	53%

Source: Social Weather Stations, as cited in de la Pena 2022

ASSESSING DECENTRALIZATION POLICIES AND PROGRAMS

Despite shortcomings in the implementation of the 1991 LGC during the past 30 years, decentralization is still viewed as a panacea for the country's regional inequality and as a means to strengthen democracy.[7]

This is understandably the case, as inroads have certainly been made through devolving more funds at the local level to more efficiently deliver social services to communities as well as through implementing development projects at the local level.

Progress in implementing the 1991 LGC

The following are notable 1991 LGC efforts, which political leaders could build on:

Fiscal empowerment, equality, and democratization. The 1991 LGC seeks to bring about financial decentralization by shifting decision-making powers and financial resources away from the NCR. And it has made some progress by increasing the capacity of LGUs to raise their own revenues and increasing the internal revenue allotment (IRA) for LGUs from 11% to 40% of the national internal revenue taxes[8].

The IRA was to be one of the main sources of funds to finance the delivery of public services and the provision of infrastructure for urban development. Moreover, as of 2022, the IRA, now referred to as the national tax allotment (NTA), has been increased by more than 200 billion Philippine pesos. This is a result of the Supreme Court ruling in the Mandanas case, which stipulated that the just share must be from both national internal revenue taxes collected by the Bureau of Internal Revenue and customs duties collected by the Bureau of Customs.[9]

Popular empowerment, equality, and democratization. The 1991 LGC also seeks to break up the concentration of political power over countryside development projects, shifting it from bureaucrats and congressmen to mayors and governors. The latter are viewed as more accountable to their constituents.

The 1991 LGC furthermore gives impetus to the formation of people's organizations (POs) and nongovernmental organizations (NGOs) and their participation in local government processes, local development councils, and local special bodies as a counterbalance to entrenched political dynasties.[10] It encourages popular participation in the efficient delivery of social services and in development efforts by linking LGUs with NGOs, POs, and the private sector. This effort is viewed as a means to thwart the prevalence of pork barrel politics.

Problems in implementing the 1991 LGC

Although the 1991 LGC has brought forth greater democratization and development outside the NCR, political leaders need to address the following issues that greatly hinder efforts such as the ones described above:

Inadequate financing. The IRA shares from the national government are still inadequate for most of the LGUs to efficiently and effectively fund social services delivery and development projects. This is especially so for the less-endowed LGUs that cannot collect enough local revenues for these purposes.

Political dynasties and patronage politics as obstacles to popular participation. Decentralization efforts continue to be stymied by the dominance of political dynasties, which have bred patronage politics and corruption at the national and local levels. Just like wealth inequality, political dynasties create obstacles to the meaningful and participative devolution of political power. Reportedly, 70 percent to 85 percent of members in the Philippine Congress belong to long-standing political dynasties. These dynasties also have a significant presence in all of the country's 82 provinces. This explains why efforts to enact an anti-dynasty law have been rendered futile and why IRAs have been used as a source of patronage.

National economic policies that breed inequality. Despite the noted decentralization efforts, there has been a persistent centralization of finances, human resources, and technical capacity. Furthermore, the domains of national development planning and budgeting continue to be mainly housed with national agencies. LGUs, therefore, have no choice but to go along with the development thrust set forth by the national government. The development agenda continues to have a neoliberal development framework that emphasizes the market, liberalization, and privatization — a framework concerned mainly with growth, not equity.

BEST PRACTICES AND RECOMMENDATIONS

The Philippines' decentralization experience has opened the door to addressing regional inequality and inevitably class inequality given that the solutions to the former may also be viewed as a panacea to the latter. Although the majority of best practices and recommendations below have been outlined before, they are even more important now due to the COVID-19 crisis, which has heightened poverty and socioeconomic inequalities in the Philippine society.

Short-term responses in addressing regional inequalities at the local level

1. Conduct capacity-building training for elected local officials and appointees to increase substantively the competent and qualified personnel for LGU social services delivery and local development projects;

2. Provide adequate resources to Local Development Councils (LDCs) and Regional Development Councils (RDCs) as well as autonomy from the national government, so that these councils can forge effective development plans (and integrate the LDC plans into the RDC plans) as mandated. Increase coordination between and among national agencies, their regional offices, and local governments to improve public service delivery and performance.[11]

3. Concerning the financial constraints of LGUs:

   a. "Amend the distribution formula of the shares in national revenues to ensure that provinces and municipalities, particularly poorer LGUs, can receive more share than cities and other more economically developed local governments."[12]

   b. Enable LGUs to tap other sources of funds in addition to generating their own, so that they do not rely only on the NTA.

   c. Encourage further metropolitan arrangements whereby LGUs may pull their resources together in order to cooperate and/or collaborate with regards to social services delivery and development efforts.

   d. Merge the smallest administrative units of LGUs (called barangay), as they are not financially viable separately and cannot achieve economies of scale.[13]

Short-term responses in addressing regional/class inequalities at the national level

These short-term responses are not new, but there is a need to link the listed national economic policies to local decentralization efforts to address inequality.

1. Strengthen or introduce new socioeconomic policies and social protection programs at the national level to address regional and/or class inequalities:

   a. Republic Act 11223: Universal Health Care Act, which aims to provide equitable access to high-quality and affordable health care goods and services to all Filipinos.

   b. Pantawid Pamilyang Pilipino Program, (4Ps) more popularly known as the conditional cash transfer program.

   c. Kapit-Bisig Laban sa Kahirapan — Comprehensive Integrated Delivery of Social Services or KALAHI-CIDDS program and livelihood program; this latter program seeks to empower communities in targeted poor municipalities to achieve improved access to sustainable basic public services and to participate in more inclusive LGU planning and budgeting.[14]

2. Continue to push for national programs that encourage popular participation — for example, the Bottom-up Budgeting program, which involves citizens at all stages of the budget process in LGUs.

LONG-TERM RESPONSES IN ADDRESSING REGIONAL/ CLASS INEQUALITIES

With the exception of pressuring the incoming Philippine Congress to enact an anti-dynasty law, these long-term responses are relatively new in regards to decentralization efforts to address regional and/or class inequalities.

1. In further pursuing decentralization, create an enabling environment for popular organizing by removing obstacles to participatory democracy:
   - **a.** Widely disseminate information on the basic laws of the country to make the citizens aware of their rights and responsibilities vis-à-vis their local and national officials.[15]
   - **b.** Uphold human rights by strengthening the independence of institutions such as the Commission on Human Rights and the Supreme Court.
   - **c.** Hold the National Task Force to End Local Communist Armed Conflict (NTF-ELCAC) accountable for "red-tagging" community organizers[16] and students[17] which makes them susceptible to police military harassment.
   - **d.** Amend or repeal the Republic Act. No. 10168: The Terrorism Financing Prevention and Suppression Act of 2012, more popularly known as the anti-terror law. This law has been blamed for the arbitrary and illegal arrests of community organizers, which inclu professionals such as medical doctors and lawyers. They have been accused, with no evidence, of being "communists and/or communist sympathizers."[18]
2. Impose a wealth tax that will levy higher taxes on the rich in order to help pay for the enormous cost of tackling the COVID-19 pandemic.
   - **a.** Support efforts by the Philippine Congress to enact a wealth tax, which will generate revenue to help pay for medical assistance and education, employment, social protection, and housing for poor families.
   - **b.** Examine international organizations' templates for a wealth tax, (for example, the International Monetary Fund and the Asian Development Bank).
3. Reexamine the following national economic policies that have fostered inequality:
   - **a.** Liberalization policies that adversely impact marginalized sectors and the efforts to "establish mechanisms that would prioritize the welfare of local producers and build their capacities to compete with foreign exporters."[19]
   - **b.** Legislation that unfavorably exposes micro, small, and medium enterprises to lopsided foreign competition.[20]
   - **c.** Privatization policies that have escalated prices and have removed socialized pricing structures, which provide subsidies for the poor.
   - **d.** Privatization that has locked out any form of democratic community participation between LGUs and NGOs and civil society organizations (CSOs) — which goes against the very spirit of decentralization.

There is a need to examine best practices in the Philippines. Examples of collaboration between public sector agencies and NGOs and CSOs include public-public partnerships, where public sector agencies collaborate to prevent privatization of water utilities. This is done through an arrangement between the public sector agency and one or more civil society or community-based organizations (CBO). Another example is public/non-profit partnerships (PuNPP) or co-privatization, where importance is placed on the key role which civil society and/or communities play in the delivery of water services. This is done through an arrangement between the public sector agency and one or more civil society or community-based organizations (CBO)

and single nonprofit agencies. This highlights the role of NGOs in developing non-commercialized water systems.[21]

Incremental changes that reduce regional and class inequality are possible when decentralization efforts on the ground level are supported by national laws that (1) help address elite domination and (2) facilitate an enabling environment for popular participation and the implementation of social governance reforms.

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