

Creating Jobs and Enterprise in a New Singapore Economy - Ideas for Change

by Tan Jee Say

About the author

Tan Jee Say was with the Ministry of Trade and Industry from 1979 to 1985 where he headed economic and manpower planning and also served as secretary to the late Dr Albert Winsemius, the economic adviser to the Singapore Government. From 1985-1990, he was the principal private secretary to Mr Goh Chok Tong. In 1990, he went into investment banking and subsequently took up fund management. He is a Chartered Fellow of the Chartered Institute for Securities & Investment. He is a graduate of Oxford University where he read philosophy, politics and economics.

15 February 2011

"As the former Head of University College, Oxford University, where Tan Jee Say was a student, I am happy to commend his essay "Creating Jobs and Enterprise in a New Singapore Economy - Ideas for Change". I am not an expert on the Singapore economy but I was Private Secretary to Prime Minister Margaret Thatcher and Head of the British Civil Service in the 1980s and 1990s when the UK was making the painful transition from a predominantly manufacturing and mining economy to a knowledge-based one. Against that background, I find Jee Say's analysis and prescription persuasive. It seems to me a thorough and well-argued piece of work and as such it deserves the attention of policy-makers."

Lord Butler of Brockwell, KG, GCB, CVO, PC,
Cabinet Secretary and Head of British Civil Service (1988-1998),
Master, University College, Oxford University (1998-2008).

Summary Extract from paper "**Creating Jobs and Enterprise in a New Singapore Economy - Ideas for Change**" by Tan Jee Say

Part 1 : What's wrong with the current Singapore growth model?

Volatile

(1) The Singapore economy has become more volatile in recent years, with business cycle fluctuations becoming more pronounced, and Singapore experiencing three recessions (1998, 2001 and 2009) in the past 15 years, in contrast to only one recession (1985) in the 30 years between 1965 and 1995. The greater volatility led to more job losses that lasted for longer periods. Volatility has resulted in lower growth.

Low Productivity

(2) Singapore's low labour productivity growth in recent years is a statistical phenomenon and is the result, not the cause, of our poor economic performance. To focus on raising productivity as a key economic strategy, an old and discredited strategy adopted by the government since the early 1980's, is like putting the cart before the horse - can we expect it to succeed when it has failed to do so in the last 30 years with productivity continuing to be stuck in the lows to this very day in spite of all the high-sounding campaigns by high-level productivity councils? Rather we should focus our minds on economic policy because it is bad economic policy that has resulted in Singapore's heavy dependence on foreign unskilled and low-skilled workers that in turn pulls down labour productivity.

Unsustainability of Manufacturing

(3) A major contributor to the increased economic volatility was manufacturing which has been promoted by the government in the past 5 decades as a key pillar of its economic growth strategy. The strategy was successful in the first 2 decades but by the early 1980's, it was running into bottlenecks as Singapore's constraints manifested themselves. Singapore has little comparative or competitive advantage for manufacturing to flourish as land, labour and skills are in short supply. The manufacturing sector can only

remain viable in Singapore through more subsidized factory land and space, uninterrupted inflow of cheap foreign labour, and generous tax holidays and other giveaways. Such economic distortions in the last thirty years have delayed Singapore's economic restructuring. We cannot afford and should not tolerate further wastage, not even for another year. Two additional factors weigh against manufacturing - firstly, most top students are not opting to read engineering as their first choice in the local universities and polytechnics, a trend that does not augur well for the innovative potential of nor the prospect for 'complex manufacturing' , a niche that the ESC wants to promote; and secondly, Singaporeans are happier working in the services sector than in manufacturing industry. Without a happy and talented workforce, can complex manufacturing succeed in a sustainable way?

Which Services for the Future?

(4) Singapore's future lies in services. We can thrive as a dedicated services hub for the region as we had done so in the past as a vibrant commercial metropolis even before Singapore went into manufacturing in a big way in the 1960's. The rest of the region has also progressed as we have. To continue to be relevant to them, we have to develop into a full-fledged integrated services hub with the best offerings available in the field. It should be knowledge-based that will capitalise on Singaporeans' high level of education and experience of the world's best practices. It must be the right kind of services that do not exploit or offend the sensitivities of the region. The two huge casinos are the wrong kind of services activities to have. Economic development is more than just about generating jobs and income growth. There is a moral purpose as well, otherwise we might as well turn Singapore into a prostitution hub or a distribution centre for drugs which will bring us untold riches. Economic development is about developing and using human capital to produce decent and worthwhile goods and services in a sustained way. On the other hand, casinos are a soft option that preys on human weakness to generate profits. They destroy the work ethic and lead to broken families and other social problems. The casinos should be closed down so that Singapore can part company with those who choose to prosper through vices such as gambling, prostitution or drugs; only then can Singaporeans once again walk tall and

proud on the high and honourable path to economic development and prosperity. To make up for the economic loss from closing down the casinos, we need to move aggressively to develop those services we are currently good at providing so as to yield quick returns such as services involving the port, transport connectivity, financial institutions, education and healthcare. While we can be proud of having good basic infrastructure, there are still serious gaps to be filled particularly in education and healthcare. Once these holes are plugged, Singapore will have a fully developed infrastructure that will enable it not only to uplift the well-being and standard of living of its own citizens but also have additional capacity to serve the needs of the region.

Part 2 : A \$60 Billion National Regeneration Plan

(5) It is proposed that a massive \$60 billion National Regeneration Plan be rolled out with 6 Regeneration Funds of \$10 billion each in the following sectors -

1. Industry Regeneration - to provide funds to assist existing manufacturing companies to shift out into services or to relocate their manufacturing operations to neighbouring countries particularly Malaysia and Indonesia so that they can be near home and family and use the services of Singapore-based firms in accounting, law and finance, thus contributing to the development of Singapore as a services hub. Existing manufacturing firms should not be forced out. They should be allowed to remain in Singapore if they can continue to survive and be profitable like any other business enterprises without depending on special favours from any state agency such as rent subsidy, tax incentives or special allocation of foreign worker quotas. Existing incentives already granted should be allowed to run their course but no new incentives should be given.

2. Enterprise Regeneration - targetted largely at young Singaporeans who want to start up their own business ventures particularly in the creative industries; concerned with the generation and exploitation of knowledge and information, creative industries are a key component of the knowledge-based economy. Individual creativity, skill and talent drive these activities which have great potential to create wealth and jobs by generating and exploiting

intellectual property. They are the industries of the twenty-first century in which our well-educated and well-travelled young Singaporeans can find traction, do well and excel. We should use our resources to support and propel them onto the world stage. By providing grants of up to \$1 million to each start-up, the \$10 billion fund will create 10,000 enterprises who will hire at least 20,000 to 30,000 Singaporean staff and generate business for hundreds if not thousands of firms providing services such as accounting, corporate secretarial, banking and finance, legal and public relations advice.

3. Schools Regeneration - the key to educating the young lies in giving personal attention to the child. No two children are the same. Each child is unique. Only personal attention can bring out the best in them. This requires smaller class size so that the teacher has fewer pupils to handle and thus can know his or her pupils intimately, identify their weaknesses and strengths correctly and help them accordingly. Unfortunately, the average class size in the schools has remained about the same as it was 30 to 40 years ago. We should reduce the class size by half, to 15 to 20 pupils per class with smaller class size for weaker pupils. This means doubling the existing resources, that is, training another 30,000 teachers and building another 300 or so schools.

4. Hospitals Regeneration - Singapore is lagging far behind other First World countries in key indicators of healthcare; we have only 32 hospital beds per 10,000 population, about half the average number of 58 beds in high income countries, 17 doctors per 10,000 population compared to an average of 28 doctors in other high income countries, and 53 nurses and mid-wives versus their 81. The \$10 billion fund will be used over the next 5 years to add another 8,500 beds in public hospitals and to double the number of healthcare personnel so as to achieve First World norms.

5. Community Regeneration - to rebuild every housing estate into a multiple-use community with new-generation business parks and offices that integrate with schools, hospitals, polyclinics, day-care centres for kids and the elderly, and other public agencies so as to bring jobs and services closer to the people. Under-employed housewives and healthy senior citizens can then avail themselves of the job opportunities including part-time work while still having

time for taking care of their children. This will help reduce the need for foreign workers. Travel time to workplaces will also be cut, saving transport costs and valuable time for the family. Local communities will be revitalised and rejuvenated, becoming hives of activity again.

6. Family Regeneration - to tackle the root cause of declining birth rate and shrinking family size by taking away the stress and a significant portion of the costs of bringing up children for families. Such costs are not confined to bringing up children in their early years but throughout their life as dependents right up to tertiary institutions. Measures shall include cash grants of \$100-300 per month, waiver of all school fees up to university level, free medical and health benefits for mother and children, improved maternity leave terms for working mothers, introduction of paternity leave and more day- care centres for children and the elderly in nearby precincts of housing estates.

(6) The 6 Regeneration Funds costing a total of \$60 billion over 5 years are well within the means of the Government which has accumulated huge surpluses from annual budgets. In the recent 5 years from 2005 to 2009, the surpluses totalled \$106 billion, well in excess of the size of the National Regeneration Plan, and there will be a healthy balance left to finance future needs if necessary. There is no need to increase taxes to fund the Regeneration Plan.

(7) Temasek Investment Holdings can also provide funds for the Regeneration as they would take up less than a third of Temasek's portfolio market value of \$186 billion. This can be done through outright sale of non-strategic investments and companies, or gradual sale of shares in publicly listed companies which are considered strategic investments. Government's withdrawal from the commercial sector will have positive effect on the development of an enterprise culture in Singapore. We will then move towards a level playing field for private companies as befitting a mature society. Only when competition is fair and robust can true talent emerge.

Concluding Remarks - Solid Base for a Sustainable Future

(8) It will take at least 5 to 10 years before Singapore can develop into a full-fledged integrated services hub for the region. To get there, Singapore has to invest heavily in expanding its physical infrastructure and human capital. The 6 Regeneration Funds and the resulting regional integrated services hub will ensure sustainable jobs and enterprise opportunities for Singaporeans in the next 5 years and well beyond.

Part 3 : Improving Singaporeans' Standard of Living

(9) Minimum Wage and Workfare - Our workers deserve a decent and dignified living that is made possible with a minimum wage. The alleged negative effects of a minimum wage are alarmist in nature and do not stand up to practical experience in countries that have implemented a regime of minimum wage; more than 90% of countries in the world have some form of a minimum wage. It will ensure that Singaporean workers are not short-changed and under-cut by foreign workers. A minimum wage is more superior than a levy in reducing the flow of foreign workers. A higher levy raises the cost to an employer of hiring a foreign worker but the increase in cost goes to government coffers not to the worker, so the employer ends up coughing out more money for the same quality of worker. On the other hand, a higher wage attracts a higher quality worker as it goes directly to him, so the employer benefits from a higher output, thus contributing to raising the overall productivity level. The Workfare Income Supplement (WIS) is a poor substitute of a minimum wage as it represents only a meagre amount (about \$83 a month) and is paid by Government using taxpayers' money and hence does not hurt the employer who can merrily continue to hire cheap foreign workers. Coming from the taxpayer rather than the employer, the transfer payment protects and enhances the profitability of employers and widens the gap between the rich and the poor. In the 10-year period from 1998-2008, the average incomes of the poorest 20 per cent of households fell by -2.7 per cent, from \$1,309 to \$1,274 whereas the richest 20 per cent of households saw their average incomes rose by 53 per cent, from \$12,091 to \$18,472.

(10) Income Inequality - when growth stops trickling down - The problem of income inequality has become much worse in recent years. Singapore's Gini

coefficient (a measure of income inequality from 0 to 1.0 with 0 representing complete equality) has risen from 0.428 in 2002 to 0.471 in 2007 even after accounting for government benefits and taxes [26]. These numbers put Singapore "in league" with poor developing countries of the Third World such as " the Philippines (0.461) and Guatemala (0.483) and worse than China (0.447). Other wealthy Asian nations such as Japan, Korea and Taiwan have more European-style Gini's of 0.249, 0.316 and 0.326." [28] Hasn't Singapore "graduated" from Third World to First World a long while ago and if so, shouldn't Singapore be "in league" with other rich First World societies rather than with poor developing countries?

The conventional wisdom of development economists is that economic growth will "trickle down" and benefit the poor. This was true in the earlier stages of Singapore's economic development but has not been so in recent years as more and more Singaporeans particularly the older ones lost their jobs while those with jobs experienced falls in their real earnings. Yes the GDP has grown and it has trickled down but it flowed through Singaporean workers and bypassed them to benefit cheaper foreign workers at even lower levels. It is hardly surprising that more than half, perhaps more than two thirds of the 112,500 new jobs created in 2010, had gone to and benefitted foreigners. A minimum wage will stem the trickle of jobs downwards to cheaper foreign workers. As for foreigners on "S" and "E" passes which do not require employers to make CPF payment on their behalf (although a small levy is imposed on the "S" passes), an equalisation charge should be imposed on their employers in order to level the field for equivalent Singaporean professionals.

(11) Cost of living and Government budget surpluses - The ultimate objective of all economic activity is to raise one's standard of living. A minimum wage will help. But cost of living has been creeping up and eating into real earnings ; as import prices have been declining, the increase in consumer prices have been caused principally by domestic factors where Government policies on labour, land, housing, transport, public utilities charges for electricity and water, GST (goods and services tax), education and a host of others, have a dominating effect. These policies have boosted Government coffers and the ordinary citizen has been made to contribute to it in a hefty

way that offset the beneficial effect of lower import prices that he can rightfully expect from living in an open economy. This need to be put right.

We can begin by examining the Government's basic philosophy and practice of using the price mechanism to regulate the supply and demand of public services. When the demand for any public service goes up, the instinctive response of Government is to raise its price in order to dampen demand. Using the price mechanism is a no brainer and is often a guise for revenue raising that has contributed to the huge Government budgetary surpluses year after year. The Electronic Road Pricing (ERP) scheme is an example of the use of pricing mechanism that has gone wild with ERP gantries popping up here, popping up there and popping up everywhere, faster than jack-in-the-box. While we could understand and accept why a profit-oriented private enterprise uses the pricing mechanism, we expect a higher moral purpose from Government which should devise and implement administrative measures to satisfy public demand without opting for the easy way out of raising price in the first instance. Higher prices should be considered only as a last resort after all possible non-price options have been explored and exhausted.

A comprehensive review of all Government fees and charges should be undertaken immediately to see if the pricing mechanism has been abused often for revenue purposes and if so, corrective action taken without delay. We can start with the GST by waiving it for basic food items and reducing it for all the rest, and eventually doing away with it altogether. This will help arrest the decline in the real earnings of citizens particularly those in the lower income group and eventually raise their living standards. Isn't this what economic development is all about? The huge Government budget surpluses that have accumulated in past years, provide sufficient buffer for Government to reduce or remove unnecessary taxes, fees and charges without the fear that it would result in budget deficits. In fact, the persistently huge budget surpluses recorded year after year imply that the Government has over-taxed the people by raising revenue from them far in excess of what it needs to provide and keep public services going.