

The Singapore Economic Growth and Social Development Story: Miracle or Nightmare?

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Abstract

Singapore has arguably been the most admired and talked about economic growth miracle over the last 50 years or so. It has managed to create relentless employment growth at almost perpetual near full employment, over the 48 years of its nationhood, and transform a country rife with corruption to a top five ranking in Transparency International.

According to a recent International Monetary Fund (IMF) study, it was ranked as the richest country in the world.

Practically every other week, some head-of-state would pronounce that his or her country would like to emulate Singapore's success.

However, no country, province or city has been able to emulate Singapore with any significant measurable degree of success, despite droves of civil servants from all over the world coming to Singapore for training, including hundreds of mayors of cities from China, under the Singapore Cooperation Programme in collaboration with the World Bank.

Why is this so?

This presentation will discuss a balanced analysis of the pros and cons, the good, the bad and the ugly, of Singapore's economic and social development model. And more importantly, how it may be adapted to any city, province or country?

Introduction

The starting point of this paper is the startling fact that from a cashflow perspective – the Singapore government does not spend a single cent on healthcare, pensions or public housing. Singaporeans pay about \$10 billion of pension contributions and interest a year into Medisave (which is part of the national pension scheme called the Central Provident Fund (CPF)), and the government spends \$4.9 billion a year on healthcare – which in a sense, means that the government does not spend a single cent on healthcare. The CPF is entirely contributed by the citizens from their salaries – which means that the government does not spend a single cent on pensions. Public housing is sold at a profit – which means that the government does not spend a single cent on public housing as well.

Singapore is often cited as the growth miracle of the late 20th century, as she moved from a Third World to First World country, within a span of less than 50 years. The Wealth Report in 2012 had also ranked Singapore as the richest country in the world¹. Goh (2005)² had charted Singapore's industrialisation evolution from one of being labour-intensive in the 1960s to an export-orientation policy in the 1970s, which relied heavily on attracting Multinational Companies (MNCs) to invest in Singapore. The 1985 economic recession exposed Singapore's weakness in the over-reliance on foreign capital, investments and trade, and explained the shift towards encouraging local entrepreneurship in the 1990s.

¹ Knight Frank Research, The Wealth Report 2012 (Pureprint Group Limited, 2012), 11

² Andrew L. S. Goh. "Towards an Innovation-Driven Economy through Industrial Policy-Making: An Evolutionary Analysis of Singapore" The Innovation Journal: The Public Sector Innovation Journal, Volume 10(3), 2005, article 9: 9

Singapore's pursuit of labour-intensive industries and capital investment from MNCs allowed Singapore's GDP to grow at 8.5% every year in the early 1980s³. However, the shift towards a knowledge and innovation-driven economy seems to have been put on a backburner in recent years. Government officials have spoken up against the pursuit of higher education, which has been seen as the backbone for the development of a knowledge economy. Just last year, National Development Minister Khaw Boon Wan said, "If they cannot find jobs, what is the point? You own a degree, but so what? That you can't eat it. If that cannot give you a good life, a good job, it is meaningless."⁴ The government's support of entrepreneurship has also been put into question, as the Singapore economy suffers from a drain of local investments. The substitution with cheap foreign labour and a high prevalence of crony capitalism has led to an anti-competitive business environment, which has driven down wages and created a discontented populace, leading to the largest protests in Singapore over the past two years, since the country's independence.

Indeed, since the early 2000s, the government has pursued a "growth-at-all-costs" strategy, which reversed Singapore's economic evolution to one akin to the 1960s and 1970s. The "growth-at-all-costs" strategy relied on a GDP-growth-driven agenda, underpinned by three key pillars, of a cheap labour substitution and wage depression model, a high tax-based revenue and low government transfers model, and an internal debt-fuelled investment model.

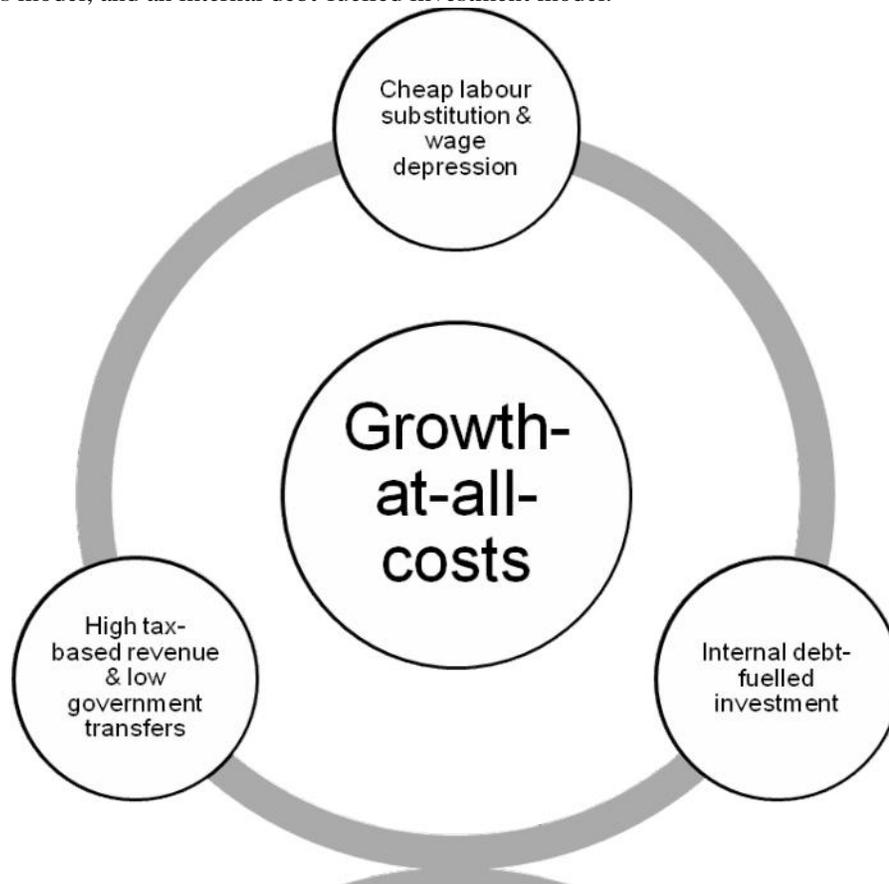


Chart 1: "Growth-at-all-costs" strategy

Cheap Labour Substitution and Wage Depression Model

³ Goh. "Towards an Innovation-Driven Economy through Industrial Policy-Making: An Evolutionary Analysis of Singapore," 10

⁴Toh Yong Chuan, "University degree 'not vital for success': Khaw Boon Wan," Asiaone, May 07, 2013

Since 2004, the spike in foreign worker numbers have increased unabated, leading to a depression of wages. In 2004, in a bid to increase the foreign worker workflow, Acting Minister for Manpower and Minister of State for Education Dr Ng Eng Hen had said, "What we want to do is disseminate some information to the workers before they come (here)." "There is no need for you to part with your money before coming to Singapore. You can come on your own. We will supply you with a work permit (when you come to Singapore). There is no fee for the work permit."⁵

The creation of the employment passes also had the effect of dampening wages. The Work Permit, S Pass and Employment Pass are unofficially pegged to the secondary and below, polytechnic diploma and university degree educational levels, and salary bases are imposed with which companies are required to hire foreign workers on these salary bases at pass level. However, because the S Pass and Employment Pass base salaries were never changed at \$1,800 for the S Pass (from 2004 to 2011) and \$2,500 for the Employment Pass (for even longer for 11 years, from 2001 to 2011)⁶, this resulted in a wage stagnation for workers in Singapore, as companies had the choice to hire foreign workers at lower wages, and Singaporeans were unable to negotiate their wages upwards, as the base salaries at each pass level (and thus educational level) also acted as a de facto starting pay that Singaporeans have to adhere to. Also, before 2013, employers were only allowed to hire foreign workers if they pay full-time local workers \$850. This salary threshold was only increased to \$1,000 in 2013⁷, which means that prior to July 2013, low-income workers in Singapore were faced with a de-facto minimum wage of \$850, but where a household of four needs about S\$1,700 per month to cover the basic costs of living⁸, a single-earner family would not have been able to cover their daily expenses and a dual-earner family would be barely able to make ends meet. The depressed wages are further compounded by the fact that the CPF that employers have to pay to Singaporean workers made them more expensive than foreign workers, even as employers had to pay for the foreign worker levies⁹. As such, the employment passes had the effect of holding down wages for at least 8 years, even as prices grew at their fastest from 2004.

As such, in 1997, the real median monthly wage of the bottom 10th percentile workers was \$559. By 2009, it had actually fallen to \$520¹⁰. The effect of cheap labour substitution and wage depression thus caused Singapore to have the lowest wage share of 42.5% among the developed countries¹¹. However, prices soared tremendously, such that from being ranked the 97th most expensive city in the world in 2001¹², Singapore became the most expensive city to live in last year, according to The Economist¹³.

⁵ Raymond Andrew, "Govt to help foreign workers," Today, May 10, 2014

⁶ Roy Ngerng Yi Ling, "What Do You Think Of The New Fair Consideration Framework?," The Heart Truths Blog, September 24, 2013, <http://thehearttruths.com/2013/09/24/what-do-you-think-of-the-new-fair-consideration-framework/>.

⁷ The Minister of Manpower, "Increase in Salary Threshold for Foreign Worker Dependency Ratio Calculation," March 14, 2013.

⁸ Siew Kum Hong, "Working On The Rights Of Singapore's Working Poor," Lien Centre for Social Innovation Social Space, 2011, 82.

⁹ Leong Sze Hian, "Budget 2013: Real wages will increase? Disposable income drop for some?," LeongSzeHian.com Blog, February 23, 2013, <http://leongszehian.com/?p=3118>.

¹⁰ Hui Weng Tat, "Macroeconomic Trends and Labour Welfare: A Focus on Retirement Adequacy," in Singapore Perspectives 2012, ed. Kang Soon Hock and Leong Chan-Hoong (Singapore: Mainland Press, 2013), 46.

¹¹ Roy Ngerng Yi Ling, "Singaporeans Earn The LOWEST Wages Among The High-Income Countries," The Heart Truths Blog, November 1, 2013, <http://thehearttruths.com/2013/11/01/singaporeans-earn-the-lowest-wages-among-the-high-income-countries/>.

¹² Jason Chow and Shibani Mahtani, "Singapore Among World's Most Expensive Cities," The Wall Street Journal, February 14, 2012.

¹³ R.C., "Sing on a shoestring," The Economist, March 7, 2014.



Chart 2: Real median monthly wage of the bottom 20th percentile remained stagnant

Today, Singaporeans continue to earn one the lowest wages among the high-income countries¹⁴ and work the longest work hours in the world¹⁵. Often compared to Hong Kong, Singapore has seen a faster growth in GDP per capita, to become one of the richest in the world. However, household spending per capita at Purchasing Power Parity (PPP) in Singapore has grown at a much slower rate¹⁶. Personal consumption expenditure as a percentage of GDP has also dwindled from nearly 60% in 1977 to only 35% last year, or half that of Hong Kong's¹⁷. This has led to an anomaly where Singapore is today one of the richest and most expensive countries in the world, but with the lowest purchasing power among the developed countries¹⁸.

As such, the high income inequality – the highest among the developed countries¹⁹ – and the huge disparity has led Singaporeans to question the government's 'growth at all costs' strategy, which has led to a languishing standard of living. Similarly, the demands by Singaporeans to implement a minimum wage and to define a poverty line has been strongly resisted by the government. Minister for Social and Family Development Chan Chun Sing had remarked that defining a poverty line would lead to a "“cliff effect” where those below the line are guaranteed a whole range of help and those above receive none, regardless of actual needs.²⁰

In 2010, the government set up the Economic Strategies Committee, which recommended veering away from the “growth-at-all-costs” model to pursue a productivity-growth model, aimed at

¹⁴ Roy Ngerng Yi Ling, "Singaporeans Earn The LOWEST Wages Among The High-Income Countries", The Heart Truths Blog, November 1, 2013, <http://thehearttruths.com/2013/11/01/singaporeans-earn-the-lowest-wages-among-the-high-income-countries/>.

¹⁵ The Star/Asia News Network, "S'poreans work the longest hours in the world," Asiaone, October 19, 2013.

¹⁶ Tom Holland, "Immigration and reclamation won't raise living standards," South China Morning Post, February 18, 2014.

¹⁷ Jake van der Kamp, "Singaporeans not as wealthy as GDP figures suggest," South China Morning Post, February 4, 2014.

¹⁸ Roy Ngerng Yi Ling, "Singaporeans Have The Lowest Purchasing Power Among The Developed Countries," The Heart Truths Blog, April 27, 2014, <http://thehearttruths.com/2014/04/27/singaporeans-have-the-lowest-purchasing-power-among-the-developed-countries/>.

¹⁹ Roy Ngerng Yi Ling, "No, Lee Hsien Loong, You Be Kinder.," The Heart Truths Blog, March 17, 2014, <http://thehearttruths.com/2014/03/17/no-lee-hsien-loong-you-be-kinder/>.

²⁰ "Singapore's Stance on Official Poverty Line," last modified November 11, 2013, <http://app.msf.gov.sg/PressRoom/Sporesstanceonofficialpovertyline.aspx>.

also increasing wages in tandem with productivity²¹. However, the intended outcomes were not achieved.

Over the past few years, to mitigate the effect of wage depression and low productivity, the government introduced a slew of measures - however to little success and have arguably been counter-productive. The Wage Credit Scheme (WCS), introduced last year, where the government would “co-fund 40% of wage increases given to Singaporean employees earning a gross monthly wage of \$4,000 and below”²², was defeated in its purpose as it was reported that “most large firms are unlikely to hand the money directly to employees” but would instead “channel the funds towards training and skills upgrading for staff”²³. Similarly, the Progressive Wage Model (PWM), which the government claimed as being “better than introducing a national minimum wage”²⁴, sets an “entry-level wage” of \$1,000 for low-income workers (only for cleaners at this point) and a cleaner would be able to earn up to \$1,600 only if he/she is promoted²⁵. The \$1,000 de facto minimum wage would place Singapore as having the lowest minimum wage among the high-income countries, as a ratio to “median wage”.

In fact, Singapore is today one of only 10% of the countries which still do not have a minimum wage²⁶. In comparison to countries with a similar cost of living, Japan has a minimum wage of \$2,000²⁷, \$3,000 in Australia²⁸ and low-income workers earn a minimum of \$5,000 in Norway²⁹.

The Productivity and Innovation Credit (PIC), introduced in 2010 to boost productivity³⁰, was also met with failure, when productivity shrank by 2% and 2.6% in 2011 and 2012 respectively and was zero in 2013³¹.

²¹ “Report of the Economic Strategies Committee,” last modified February, 2010, <http://app.mof.gov.sg/data/cmsresource/ESC%20Report/ESC%20Full%20Report.pdf>.

²² “Wage Credit Scheme,” last modified 25 March, 2014, <http://www.iras.gov.sg/irashome/WCS.aspx>.

²³ Toh Yong Chuan and Chia Yan Min, “Singaporeans not as wealthy as GDP figures suggest,” *The Straits Times*, May 23, 2014.

²⁴ Amir Hussain, “Targeted wage model can better help vulnerable: Tharman,” *Today*, January 9, 2014.

²⁵ “Speech By Mr Tharman Shanmugaratnam, Deputy Prime Minister & Minister for Finance, At The e2i Best Sourcing Symposium,” last modified 8 January, 2014, http://app.mof.gov.sg/newsroom_details.aspx?type=speech&cmpar_year=2014&news_sid=20140108804521607215.

²⁶ International Labour Organization, *Global Wage Report 2008/09* (International Labour Office, 2008), 34.

²⁷ “The 23rd Survey of Investment Related Costs in Asia and Oceania (FY2012 survey),” last modified May 2013, http://www.jetro.go.jp/en/reports/survey/pdf/2013_05_01_biz.pdf.

²⁸ “National Minimum Wage Orders,” last modified 9 July 2014, <https://www.fwc.gov.au/awards-and-agreements/minimum-wages-conditions/national-minimum-wage-orders>.

²⁹ Roy Ngerng Yi Ling, “80% of Singaporeans Are Poorer Than A Cleaner In Norway,” *The Heart Truths Blog*, April 30, 2014, <http://thehearttruths.com/2014/04/30/80-of-singaporeans-are-poorer-than-a-cleaner-in-norway/>.

³⁰ “Productivity and Innovation Credit,” last modified 5 June 2014,

[http://www.iras.gov.sg/irashome/PIcredit.aspx%23About Productivity and Innovation Credit](http://www.iras.gov.sg/irashome/PIcredit.aspx%23About%20Productivity%20and%20Innovation%20Credit).

³¹ Leong Sze Hian, “Alternative news in 1 day? (part 66) – 0 productivity growth?,” *LeongSzeHian.com Blog*, February 21, 2014, <http://leongszehian.com/?p=7814>.

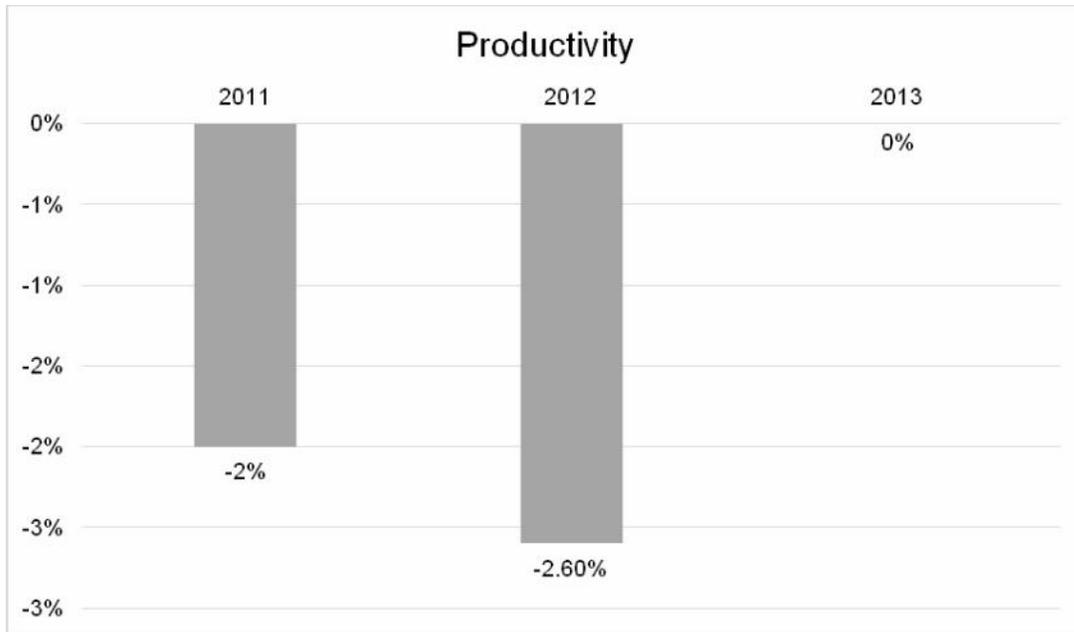


Chart 3: Singapore's productivity from 2011 to 2013

Even as wages were depressed, the income share that went to the richest 10% in Singapore actually rose from 30% in 1995 to 42% in 2011³². The government's self-imposed increment of their own salaries in 1994 and 2000³³ resulted in them seeing their salaries jump exponentially and with them being the highest paid politicians in the world. The widening income disparity then becomes questionable, when seen in light of how the ministerial salaries are also dependent on the real GDP growth rate³⁴. The "growth-at-all-costs" strategy might thus benefit the salaries of the government ministers but where wages of the rest of Singaporeans have been depressed, this strategy seems counterproductive³⁵.

³² Roy Ngerng Yi Ling, "Singapore's Tax System: Robbing The Poor To Feed The Rich," The Heart Truths Blog, February 18, 2014, <http://thehearttruths.com/2014/02/18/singapores-tax-system-robbing-the-poor-to-feed-the-rich/>.

³³ "Salaries for a Capable and Committed Government White Paper," last modified 3 April 2013, http://www.psd.gov.sg/content/psd/en/white_paper/white_paper.html.

³⁴ "Salaries for a Capable and Committed Government White Paper," last modified 3 April 2013, http://www.psd.gov.sg/content/psd/en/white_paper/white_paper.html.

³⁵ Roy Ngerng Yi Ling, " Truth Exposed: How The PAP Will Crash The Singapore Economy," The Heart Truths Blog, March 19, 2014, <http://thehearttruths.com/2014/03/19/truth-exposed-how-the-pap-will-crash-the-singapore-economy/>.

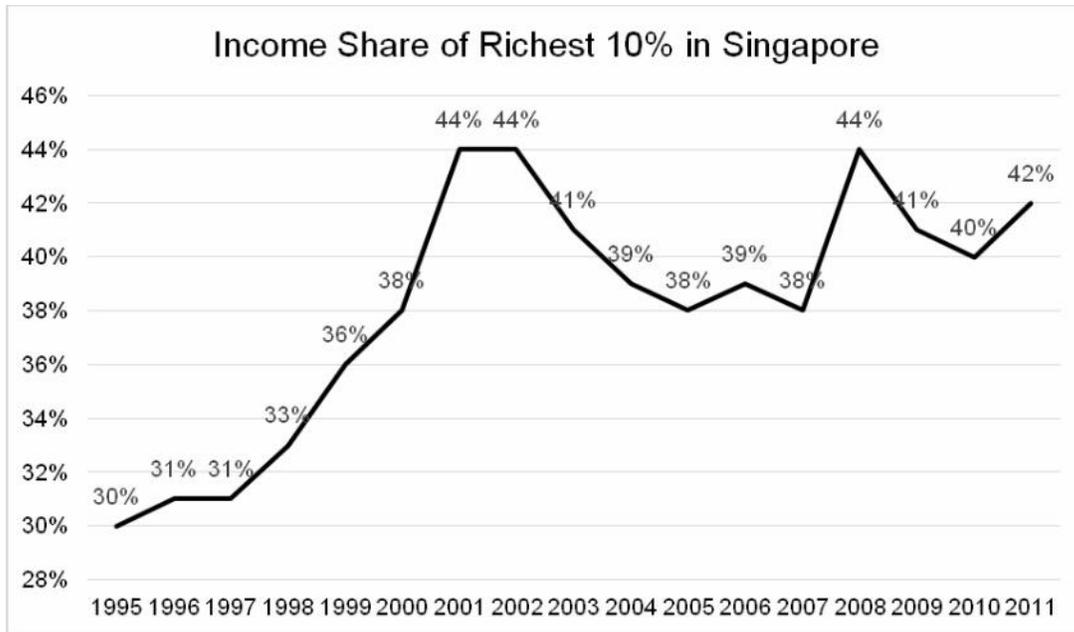


Chart 4: Income Share of the richest 10% in Singapore from 1995 to 2011

High Tax-Based Revenue and low Government Transfers Model

The second pillar of the “growth-at-all-costs” strategy rely on Singapore having the lowest overall public expenditure and the lowest government expenditure on social protection among the developed countries.

The Singapore government has strenuously resisted shifting into becoming a “welfare state” and has justified that for public spending to increase, taxes would need to be increased. However, Singaporeans already pay more than 2 times into indirect taxes and more than 4 times into social security (Central Provident Fund (CPF) contribution³⁶, as compared to personal income tax and Singapore has accumulated vast Budget surpluses.

³⁶ Roy Ngerng Yi Ling, “Budget 2014: The Government Still Doesn’t Spend A Single Cent (Part 2),” The Heart Truths Blog, February 24, 2014, <http://thehearttruths.com/2014/02/24/budget-2014-the-government-still-doesnt-spend-a-single-cent-part-2/>.

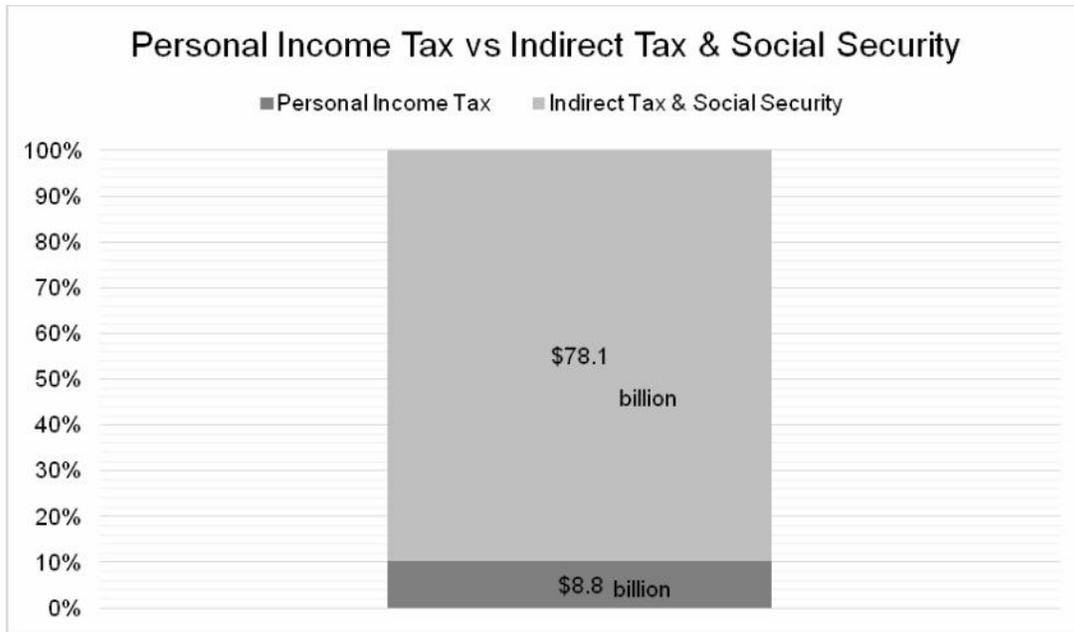


Chart 5: Singapore's personal income tax revenue vs indirect tax revenue vs social security contributions

In 2012, the government reported a surplus of \$36.1 billion using International Monetary Fund (IMF) fiscal reporting guidelines against a \$3.9 billion surplus in the government's budget statement³⁷. The current social protection expenditure seems greatly inadequate, in light of the massive accumulated surpluses which are estimated to be about \$950 billion in the country's Reserves³⁸. It would seem that the Singapore government is in a position to increase social protection expenditure for Singaporeans, without even needing to increase taxes.

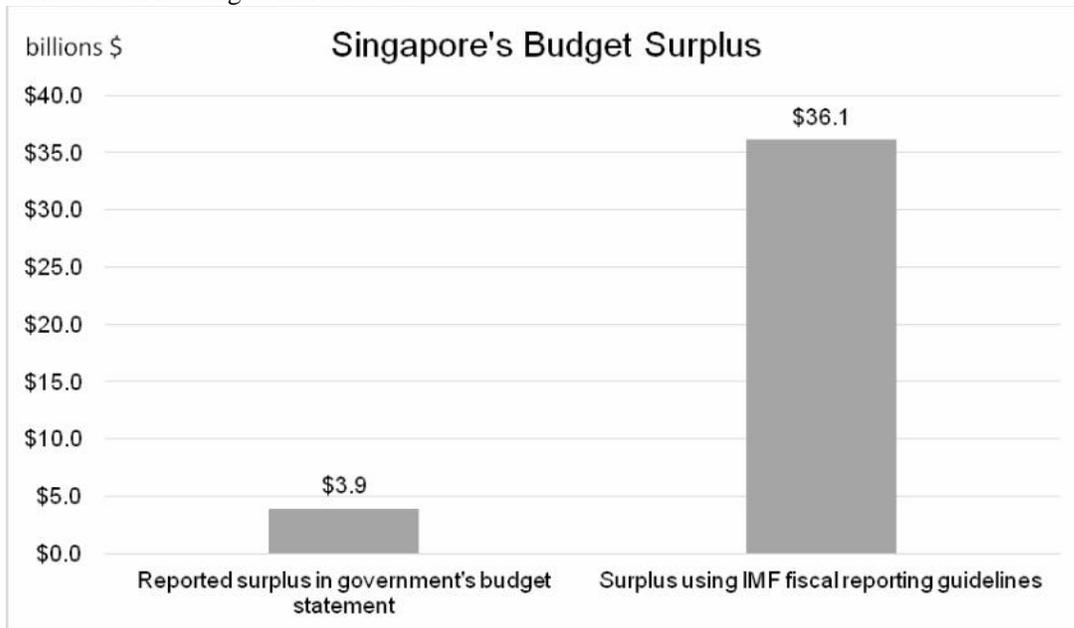


Chart 6: Singapore's budget surplus

³⁷ Leong Sze Hian, "Budget surplus: \$3.9b or \$36b?," LeongSzeHian.com Blog, March 24, 2013, <http://leongszehian.com/?p=3821>.

³⁸ Leong Sze Hian, "The returns on our Reserves is ... ?," LeongSzeHian.com Blog, April 17, 2014, <http://leongszehian.com/?p=8584>.

In fact, Singapore’s tax system is rated as one of the most regressive among the developed countries³⁹. After including the CPF contribution of 37% of salaries, which is the highest social security rate in the world and the taxes that Singaporeans have to pay⁴⁰, total citizens’ “cash outflows” is amongst the highest “taxed” countries in the world.

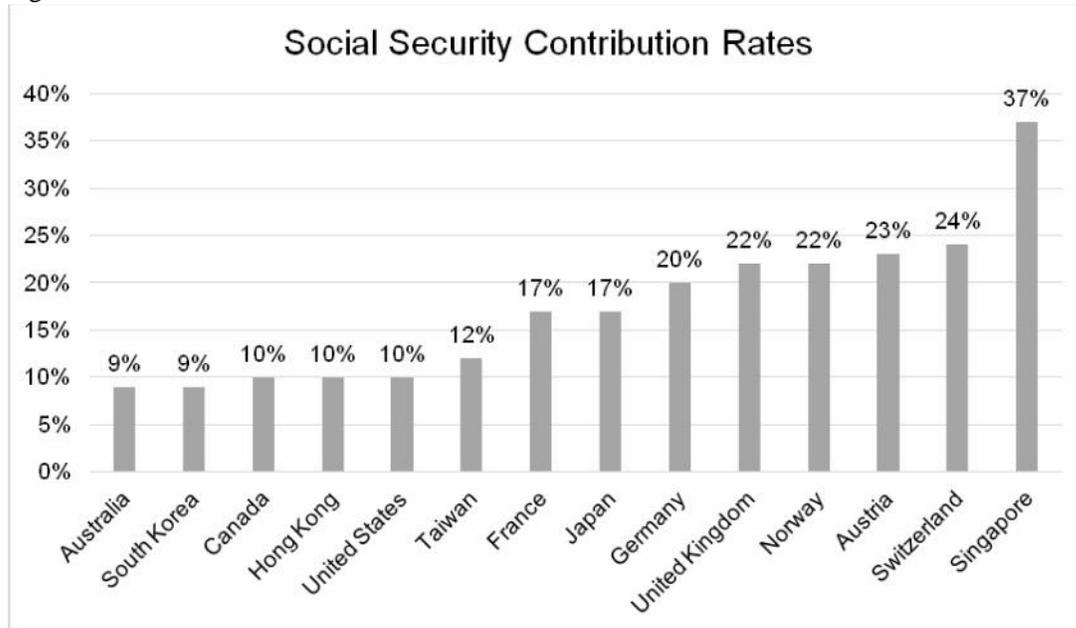


Chart 7: Social security rates in the world

The International Monetary Fund has this year recommended more progressive taxes and more redistributive policies to reduce income inequality⁴¹. However, the Singapore government’s response has perhaps been somewhat perplexing. In the respective 2008, 2010 and 2013 reports, the income inequality in Singapore over a span of a decade, as measured by the Gini coefficient, was “pushed lower” over each new subsequent report, seemingly portraying a more equal Singapore⁴². However, the lack of transparency to the computation and the sudden adjustment downwards bring to question the accuracy of the reporting, and honesty of the statistics.

³⁹ Oishi S, Schimmack U and Diener E., “Progressive taxation and the subjective well-being of nations,” *Psychological Science* (2012): 86-92.

⁴⁰ Roy Ngerng Yi Ling, “When The PAP Started Turning Against Singaporeans Traced,” *The Heart Truths Blog*, April 17, 2014, <http://thehearttruths.com/2014/04/17/when-the-pap-started-turning-against-singaporeans-traced/>.

⁴¹ “IMF Policy Paper: Fiscal Policy and Income Inequality,” last modified January 23, 2014, <http://www.imf.org/external/np/pp/eng/2014/012314.pdf>.

⁴² Roy Ngerng Yi Ling, “The Singapore Government Caught Pretending!,” *The Heart Truths Blog*, February 19, 2014, <http://thehearttruths.com/2014/02/19/the-singapore-government-caught-pretending/>.

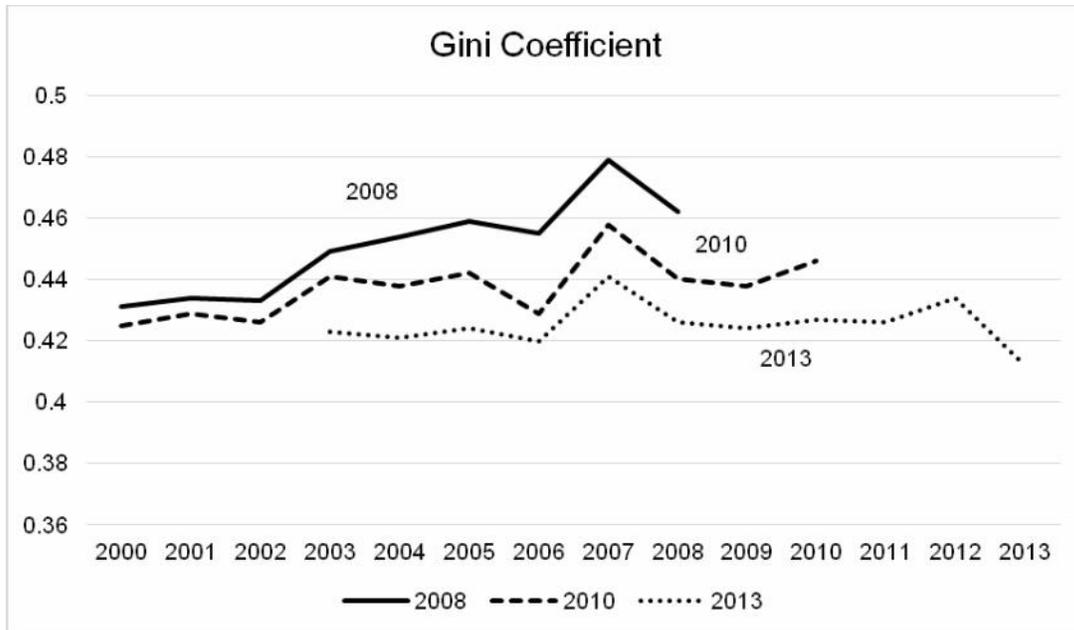


Chart 8: The Singapore government changed Singapore's Gini coefficient over subsequent reports

When seen in light of the exact cash flow patterns in specific sectors, the inadequacy of the government's expenditure in social protection becomes more glaring. Singapore is only one of two countries where the farebox recovery ratio is more than 100%⁴³. Where transport fares are sufficient to cover the operational costs for the transport operators, this calls into question why Singaporeans still have to pay taxes to subsidise public transport. As also highlighted in the opening, Singaporeans pay about \$10 billion into Medisave a year (for the public health insurance scheme via the national pension scheme, CPF), however where the government spends only \$4.9 billion a year on healthcare⁴⁴, not only does the government thus not fork out a single cent, this also means that Singaporeans are paying additional in taxes for healthcare which isn't returned. Not only that, public housing is sold at a profit by the government, and subsidised by Singaporeans through a number of mechanisms, which thus does not cost the government any money to build these flats, since the burden is shouldered by Singaporeans. And also, in education, where the public universities have accumulated more than \$400 million in surpluses last year⁴⁵ while Singaporean students have to pay about \$400 million in university tuition fees⁴⁶ and where the government would spend \$400 million for foreign students to study in Singapore⁴⁷, not only are Singaporeans short-changed in the taxes that are not being redistributed back to Singaporeans, this heavily exposes the government's misplaced priorities on its citizens, or lack thereof.

Due to the Singapore government's severe underspending on basic essential services, Singaporeans thus spend the highest out-of-pocket health expenditure, nominally and as a proportion

⁴³ Roy Ngerng Yi Ling, "Why Are Singaporeans Double-Paying On Fares and Taxes For The Profits Of Transport Operators?," The Heart Truths Blog, January 20, 2014, <http://thehearttruths.com/2014/01/20/why-are-singaporeans-double-paying-on-fares-and-taxes-for-the-profits-of-transport-operators/>.

⁴⁴ Leong Sze Hian, "Alternative news in 1 day? (part 94) – 1% success rate to downgrade to subsidised ward?," LeongSzeHian.com Blog, March 26, 2014, <http://leongszehian.com/?cat=12&paged=3>.

⁴⁵ Leong Sze Hian, "2 public universities' surplus for 1 year is 3 times Budget's increase in education spending?," LeongSzeHian.com Blog, February 24, 2014, <http://leongszehian.com/?p=7910>.

⁴⁶ Roy Ngerng Yi Ling, "Singapore Government Spends \$400 Million To Invite International Students To Study In Singapore?," The Heart Truths Blog, January 22, 2014, <http://thehearttruths.com/2014/01/22/singapore-government-spends-400-million-to-invite-international-students-to-study-in-singapore/>.

⁴⁷ Roy Ngerng Yi Ling, "Budget 2014: The Government Still Doesn't Spend A Single Cent (Part 1)," The Heart Truths Blog, February 23, 2014, <http://thehearttruths.com/2014/02/23/budget-2014-the-government-still-doesnt-spend-a-single-cent-part-1/>.

of total health expenditure⁴⁸, so much so that some Singaporeans have to choose to die than seek medical treatment⁴⁹. Singaporeans also pay one of the highest university tuition fees in the world⁵⁰. Finally, for Singaporeans' retirement funds, they pay the highest contribution of their wages into the CPF in the world but receive one of the least adequate retirement funds in the world⁵¹. Such a disjoint can be explained by the lack of the transparent accounting processes and use of the CPF. Effectively, Singaporeans are not only paying tax, but also paying into subsidiary schemes for essential services, with the effect of double-paying or even triple-paying into these services. The government's creation of these duplicated revenue collection measures, the lack of transparent accounting and the lack of complementary transfers back to Singaporeans thus results in consistent budget surpluses for the government, but declining purchasing powers for Singaporeans.

In 2013, Singaporeans contributed \$29 billion into the CPF but were only able to withdraw \$15 billion⁵² – annual contributions exceed withdrawals by a ratio of 1.9. In total, the CPF had accumulated \$253 billion in balance but Singaporeans were only able to withdraw less than 6%⁵³. In sum, the CPF which is entirely contributed by Singaporeans means that the government also doesn't fork out any money for Singaporeans' retirement.

The CPF is borrowed for investments in two of the government's investment firms, the Government Investment Corporation (GIC) and Temasek Holdings⁵⁴. While GIC and Temasek Holdings earn 5.0% (annualised 20-year return in SGD terms)⁵⁵ and 16% (annualised 39-year return in SGD terms) respectively⁵⁶, the CPF only earns 2.5% to 4% (interest paid per annum)⁵⁷. According to the Asian Development Bank Institute, the interest that is not returned to Singaporeans is akin to an implicit tax on CPF wealth, which is fairly large and regressive⁵⁸. Clearly, the excessive intake of taxes by the government with a corresponding low level of returns via subsidies and payouts, and the resulting profit earned aids in fuelling the "growth-at-all-costs" strategy but only further entrench the income inequality among Singaporeans.

⁴⁸ Roy Ngerng Yi Ling, "It's Time The Government Spends (A Lot) More For Singaporeans' Health," The Heart Truths Blog, October 31, 2013, <http://thehearttruths.com/2013/10/31/its-time-the-government-spends-a-lot-more-for-singaporeans-health/>.

⁴⁹ Salma Kahlik, "Some kidney patients refuse treatment and choose to die," The Straits Times, March 8, 2014.

⁵⁰ Roy Ngerng Yi Ling, "Singaporeans Pay The Most Expensive University Tuition Fees In The High-Income Countries," The Heart Truths Blog, November 23, 2014, <http://thehearttruths.com/2013/11/25/singaporeans-pay-the-most-expensive-university-tuition-fees-in-the-rich-countries/>.

⁵¹ Roy Ngerng Yi Ling, "Truth Exposed: How The PAP Will Crash The Singapore Economy," The Heart Truths Blog, March 19, 2014, <http://thehearttruths.com/2014/03/19/truth-exposed-how-the-pap-will-crash-the-singapore-economy/>.

⁵² "CPF Statistics," last modified May 23, 2014, http://mycpf.cpf.gov.sg/CPF/About-Us/CPF-Stats/CPF_Stats.htm.

⁵³ "CPF Statistics," last modified May 23, 2014, http://mycpf.cpf.gov.sg/CPF/About-Us/CPF-Stats/CPF_Stats.htm.

⁵⁴ Roy Ngerng Yi Ling, "10 Things Singaporeans Have To Worry About How The Government Uses Our CPF," The Heart Truths Blog, July 8, 2014, <http://thehearttruths.com/2014/07/08/10-things-singaporeans-have-to-worry-about-how-the-government-uses-our-cpf/>.

⁵⁵ "DPM Tharman Shanmugaratnam's Reply to Parliamentary Questions on CPF Interest Rates and Investment of CPF Funds," last modified July 8, 2014, http://app.mof.gov.sg/newsroom_details.aspx?type=parliamentary&cmpar_year=2014&news_sid=20140708472434506681.

⁵⁶ "Section I: What comprises the reserves and who manages them?," last modified May 22, 2014, http://app.mof.gov.sg/reserves_sectionone.aspx.

⁵⁷ "Interest Rates," last modified June 30, 2014, <http://mycpf.cpf.gov.sg/Members/Gen-Info/Int-Rates>.

⁵⁸ Mukul G. Asher, *The Role of the Global Economy in Financing Old Age: The Case of Singapore*, (Japan: ADBI Publishing, 2002), 12.

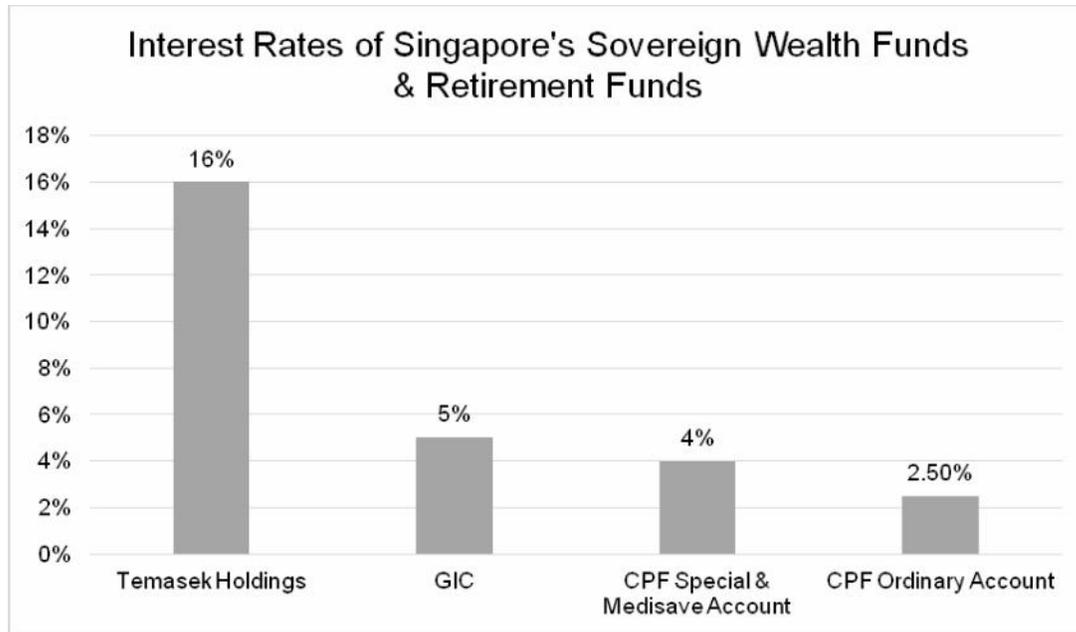


Chart 9: Singapore's CPF and sovereign wealth funds returns

It is evident that the inequality in Singapore has resulted in significant social problems. With Singapore having the highest inequality among the developed countries, the second highest prisoner rate, one of the lowest social mobility, highest self-enhancement rate and the second lowest trust levels⁵⁹ – the 'growth at all costs' strategy is eating into the social fabric of Singapore.

Internal Debt-Fuelled Investment Model

Underpinning the 'growth at all costs' strategy is an investment-fuelled strategy based upon Singaporeans' pension funds as the financial bedrock of the government's key source of funds. Singapore is renowned in not having any external national debt. The national debt is very high - about 105% of GDP is almost entirely domestic debt, with the national pension funds borrowed by the government at very low interest rates of between 2.5 to 4% forming the bulk of the national debt. The Singapore government borrows Singaporeans' pension funds, or the CPF, for their investments via the GIC, and previously with Temasek Holdings. The implication is that the government borrows from Singaporeans' CPF but the "cost" of this borrowing is also shouldered by Singaporeans, by way of receiving the lowest real rate of return historically of all national pension funds in the world. In this regard, since inflation for the last decade, from 2003 to 2013 was about 2.7% per annum - we estimate the real return on CPF to be less than one per cent per annum. Consequently, Singaporeans are in a sense, put into continuous work to generate sustained funding via the CPF for the government's investments.

Several policies changes were devised to entrench this model. In 1984, the government introduced the Medisave, to apportion part of the CPF to pay for healthcare. At that time, ex-minister Toh Chin Chye had questioned the need for the government to create a parallel welfare scheme⁶⁰, where Singaporeans would pay into tax and Medisave for healthcare, when the payment of tax alone would suffice. Two years after the introduction of Medisave, government subsidies on healthcare were reduced while the

⁵⁹ Roy Ngerng Yi Ling, "The Singapore Government Caught Pretending!," The Heart Truths Blog, February 19, 2014, <http://thehearttruths.com/2014/02/19/the-singapore-government-caught-pretending/>.

⁶⁰ Roy Ngerng Yi Ling, "Revealed: How The Pap Uses The Wage-CPF/HDB-Debt Cycle To Stab Singaporeans In The Back," The Heart Truths Blog, April 16, 2014, <http://thehearttruths.com/2014/04/16/revealed-how-the-pap-uses-the-wage-cpfhdb-debt-cycle-to-stab-singaporeans-in-the-back/>.

usage of Medisave increased⁶¹. Today, there is a total of \$66 billion in Medisave, of which only 6% was used last year⁶².

Following that, in 1986, the government introduced the CPF Minimum Sum, to put in place a minimum amount that Singaporeans should keep inside the CPF before they are allowed to withdraw it at retirement. The CPF Minimum Sum was to have grown with inflation. However, from 1996 onwards, the CPF Minimum Sum grew by more than 7% annually, even as inflation only grew by 2.5%. As wages only grew by slightly above 2.5% and the CPF itself, by between 2.5% to 4%, this meant that most Singaporeans would face the near impossible feat of being able to save enough in their CPF to reach the CPF Minimum Sum.

The CPF was also 'liberalised' to be used for housing and education. In Parliament in July 2014, Minister for National Development also admitted that, "Firstly, we control the construction programmes. Secondly, we set the price (for the public housing flats)." Where the government controls public housing in Singapore and 85% of Singaporeans live in public housing - the key change in 1994 which allowed Singaporeans to use their CPF to pay for resale public housing allowed prices of older public flats to be speculated upwards, which in turn gave the opportunity for prices of new flats to be also adjusted upwards. It is estimated that today, construction costs for new flats only account for 40% of the flat price with land costs at about 60%, whereas in the past, flat prices were pegged in greater proportion (relative to land costs) to construction costs. Singapore's public housing are thus the most expensive in the world when measured on the basis of the ratio of price to wages. Indeed, while incomes grew by only an average of only 5.3% every year from 2008 to last year, prices of HDB resale flats actually grew by a much higher 9.1%⁶³. On top of that, land costs have grown by 18.2% but where Singaporeans do not own their flats, since the government has also admitted in January this year that the public flats are leased from the Housing Development Board (HDB) and not owned by Singaporeans, will have zero value at the end of their leases and will be returned to the HDB at the end of their leases⁶⁴, it is illogical that Singaporeans have to pay for land costs to lease the public housing flats. In addition, with Singaporeans also pay one of the highest university tuition fees in the world, and coupled with dramatically increasing housing and education costs and the availability for Singaporeans to use the CPF to fund these purchases, this has led to an even more rapid depletion of Singaporeans' pension funds.

Today, we face a momentous period in Singapore's history, where Singaporeans are now demanding for the transparency and accountability of the government's management of their CPF. Where the government had at one time resisted acknowledgement of their use of Singaporeans' CPF for investment in the GIC and Temasek Holdings, they were arguably forced to admit so this year when evidence of the investment trail was traced. Significantly, several cabinet ministers are on the board (including the chairman) of the GIC, but the GIC had claimed last year that it is not made "explicit" to them how they are using the CPF for investment, and that the government does not "interfere" in their operations⁶⁵. This was followed by an about turn in June this year where the government and the GIC both admitted for the first time that Singaporeans' CPF is invested in the GIC. Similarly, Temasek

⁶¹ Roy Ngerng Yi Ling, "Revealed: How The Pap Uses The Wage-CPF/HDB-Debt Cycle To Stab Singaporeans In The Back," The Heart Truths Blog, April 16, 2014, <http://thehearttruths.com/2014/04/16/revealed-how-the-pap-uses-the-wage-cpfhdb-debt-cycle-to-stab-singaporeans-in-the-back/>.

⁶² Roy Ngerng Yi Ling, "When The PAP Started Turning Against Singaporeans Traced," The Heart Truths Blog, April 17, 2014, <http://thehearttruths.com/2014/04/17/when-the-pap-started-turning-against-singaporeans-traced/>.

⁶³ Fiona Chan, "Land costs 'outpaced rise in home prices'," The Straits Times, September 10, 2013.

⁶⁴ "Value of HDB Flats on 99-Year Leases and Flats Undergoing Redevelopment under the SERS Programme," last modified January 20, 2014, http://sprs.parl.gov.sg/search/topic.jsp?currentTopicID=00005421-WA¤tPubID=00005404-WA&topicKey=00005404-WA.00005421-WA_1%2BhansardContent43a675dd-5000-42da-9fd5-40978d79310f%2B2

⁶⁵ Roy Ngerng Yi Ling, "10 Things Singaporeans Have To Worry About How The Government Uses Our CPF," The Heart Truths Blog, July 8, 2014, <http://thehearttruths.com/2014/07/08/10-things-singaporeans-have-to-worry-about-how-the-government-uses-our-cpf/>.

Holdings announced this year that they do not use the CPF for investments when it has been mentioned that since the 1970s, the CPF was “co-mingled” with the government’s funds⁶⁶.

Before (Pre-June 2014):

4. Does GIC invest CPF monies?

The short answer is that GIC manages the Government’s reserves, but as to how the funds from CPF monies flow into reserves which could then be managed by either MAS, GIC or Temasek, this is not made explicit to us. What we do know from public sources: Singaporeans’ CPF funds are invested in bonds called Special Singapore Government Securities (SSGS) which are fully guaranteed by the Government. These

After (June 2014):

4. Does GIC invest CPF monies?

GIC, along with MAS, manages the proceeds from the Special Singapore Government Securities (SSGS) that are issued and guaranteed by the government which CPF board has invested in with the CPF monies. So while the CPF monies are not directly transferred to GIC for management, one of the sources of funds that goes into the Government’s assets managed by GIC is the proceeds from SSGS.

Chart 10: Admission of the government and the GIC to the use of Singaporeans’ CPF in the GIC

Clearly, the government’s use of Singaporeans’ CPF to prop up an investment-fuelled strategy to sustain growth is called into question when the lack of transparency and accountability, and inconsistencies may indicate flaws in the management of the CPF.

Conclusion

For some time now, Singaporeans were agreeable to receiving low wages in return for the “promise” of economic growth. However, the glaring disparity in income and the inability to afford purchases for the majority of Singaporeans – the bottom 30% households spend 105% to 151% of their incomes⁶⁷ while two-thirds of the middle-income are able to afford what they need but not what they want⁶⁸ – has led Singaporeans to question the excesses in surpluses and the government’s high remuneration of their own salaries. The narrowing middle class and growing poverty class is beginning to put a heavy strain on Singapore’s social balance.

The Economist’s ranking of Singapore as 5th on the crony capitalism index⁶⁹ further reinforced the explicable link between the government and its role in business. The government’s involvement in business, as evident from its ownership of Temasek Holdings and the latter’s major investments in the real estate, telecommunications, transportation and public utilities⁷⁰ – the functions of basic necessities – further evidenced itself in the anti-competitive results of the government’s direct intervention. The companies owned by the government are some of the largest companies in Singapore⁷¹ and it is a reasonable question to ask if the government’s involvement in these businesses is also what drives its ‘growth at all costs’ strategy.

Indeed, the reversal of Singapore’s industrialisation backwards into the methods of the 1960s and 1970s, through the use of cheap foreign labour substitution and attraction of foreign investment is now putting in danger Singapore’s economic growth. Since 2004, the spike in immigration and cheap foreign labour substitution model has resulted in a depression of wages to sustain the growth model. The lack of investment in growing Small and Medium-sized Enterprises (SMEs), coupled with the government’s interest in profit accumulation, also means that this direct competition from the

⁶⁶ Roy Ngerng Yi Ling, “10 Things Singaporeans Have To Worry About How The Government Uses Our CPF,” The Heart Truths Blog, July 8, 2014, <http://thehearttruths.com/2014/07/08/10-things-singaporeans-have-to-worry-about-how-the-government-uses-our-cpf/>.

⁶⁷ Leong Sze Hian, “Alternative news in 1 day? (part 83): 30% of households spend more than earnings?,” LeongSzeHian.com Blog, March 13, 2014, <http://leongszehian.com/?p=8226>.

⁶⁸ Andrea Ong, “Middle-income Singaporeans feel the squeeze, survey finds,” The Straits Times, November 29, 2012.

⁶⁹ “Our crony-capitalism index: Planet Plutocrat,” The Economist, March 15, 2014.

⁷⁰ “Portfolio Highlights,” last modified 2014, http://www.temasek.com.sg/portfolio/portfolio_highlights.

⁷¹ “Singapore,” <http://www.gfmag.com/global-data/country-data/singapore-gdp-country-report#ixzz2fgH5yBb5>.

government has resulted in high costs, and especially high rental costs, which have been highlighted as the number one concern for businesses and a major impediment to their workflow⁷².

The philosophical question then has to be asked – is the government’s role to regulate the business environment for the protection of its citizens or is the government’s role one of direct involvement in business, which in Singapore’s case, has created a landscape of high profits for businesses and high prices, but low wages and low purchasing power for the citizens. Such a model is clearly unsustainable, as evident by the crippling of Singapore’s social compact – a distrust in the government’s operandi modus in that Singaporeans are demanding the return of the “excess returns kept by the government” on their CPF monies. Arguably, the level of distrust towards the government and its economic model, is growing.

The “growth-at-all-costs” strategy, fuelled by the government’s involvement and direct anti-competitive interests in major businesses in Singapore and the pegging of the ministerial salaries to GDP growth has the effect of gearing Singapore’s economy to perform for a GDP-enhancement approach, but such an approach which requires a profit-centred government mindset, thus aimed at depressing wages and government spending on social protection, whilst devising methods to get citizens to double-pay on basic necessities, so as to also earn profit, is unsustainable, as this has increased the government’s coffers, at the expense of reducing the purchasing powers of Singaporeans over the long term. The low and decreasing productivity and consumer spending is only a symptom of the cracks in the economy that is brewing. Finally, the borrowing of Singaporeans’ pension funds as a cheap source of funding for the government allows the government to accumulate profit and growth, at the citizen’s expense, and only further entrap the citizens into a long-term debt-downward spiral. The government’s approach towards a GDP-focused growth-at-all-costs is detrimental to the Singapore society and Singapore’s long term growth and is clearly unsustainable.

For Singapore, the solution is simple but perhaps a difficult one – to “go back to the basics”. The government’s past solutions to problems is to create additional layers of fixes which only create further backlogs and obstacles. The solution for Singapore is thus to address the imbalance in the system by allowing equilibrium to be achieved via market forces and the reduction of the over-intervention by the government. The entrenched behaviour of cronyism has to be rooted out in order for wages and prices to be adjusted towards equilibrium, for the economy to enliven once again and for the trust in the government and the system to be restored. Only with the revival of a transparent system with accountable checks and balances, not hindered by cronyism, will the investment in Singaporeans’ education and innovation flourish once again, to rebuild the lost SMEs which were planned to have grown from the period of the 1990s of enterprise development. If the economic pathway from the 1990s is restarted, to catch up for the two lost decades, Singapore might have a chance at a recovery and a reversion back to what would now be known as the golden age of Singapore’s economic prosperity in the 1990s.

⁷² Roy Ngerng Yi Ling, “Are High Rents Stifling Businesses In Singapore?,” The Heart Truths Blog, September 20, 2013, <http://thehearttruths.com/2013/09/20/are-high-rents-stifling-businesses-in-singapore/>.

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