

Profile of Deputy Prime Minister and Minister for Finance, Tharman Shanmugaratnam



Mr Tharman Shanmugaratnam was appointed Deputy Prime Minister in the Singapore Cabinet in May 2011. He continues to serve as Minister for Finance, a responsibility he has performed since December 2007.

Mr Tharman was appointed Chairman of the International Monetary and Financial Committee, the policy steering committee of the International Monetary Fund, in March 2011. He was also admitted to the Group of Thirty, also known as “The Consultative Group on International Economic and Monetary Affairs”, in June 2008.

He spent much of his earlier professional life at the Monetary Authority of Singapore (MAS), Singapore’s central bank and integrated financial regulator, where he

was chief executive before entering politics in October 2001. Since then, he has served in economic and education appointments, including five years as Minister for Education. He is currently also the Chairman of the International Academic Advisory Panel that advises the government on strategies for the university sector, and Chairman of the MAS.

Mr Tharman did his undergraduate and masters education in Economics at the London School of Economics and Cambridge University. He later obtained a masters in Public Administration at Harvard University, where he received the Lucius N Littauer Fellow award for outstanding performance and leadership potential.

A Fair and Just Society: What Stays, What Changes?*

Tharman Shanmugaratnam

Introduction

I would like to thank the Academy of Medicine, Singapore for conferring on me Honorary Fellowship, and giving me the privilege of delivering the 21st Gordon Arthur Ransome oration.



Professor Ransome embodied the values that I am sure all of us here admire, and strive to uphold in our lives. He was an outstanding professional, dedicated to improving the well-being of every patient, rich or poor. He had a passion for training and grooming doctors, so that they too could do good for society. These values, this spirit of responsibility and empathy, are indeed at the core of what makes a fair and just society, which is the theme I will be speaking on this evening.

Our New Way Forward

In his recent National Day Rally, Prime Minister (PM) Lee Hsien Loong charted a new way forward in our approach to nation-building. We are shifting the balance between individual and collective responsibility: the community and Government must play a greater role to support individuals, especially lower income families and the elderly. PM outlined three important shifts in the role of Government so that we preserve a fair and just society. We will do more to level up low-income Singaporeans; to share the risks through a stronger social safety net, so that no one has to face life's uncertainties on his own; and keep



our society mobile, so that everyone can move up through their efforts regardless of their social backgrounds.

These are strategic shifts, and we have thought long and hard about them in Government. The OSC (our Singapore Conversation) process in the past year added impetus. It provided valuable views on where we should be headed and the type of Singapore we want to be.

Government's Role: How We Intervene Matters, Not Just How Much

These are **not sudden shifts** in our approach. We began tilting social policies actively in favour of the lower income group in 2007 through Workfare, and in recent years through stronger support programmes in education, housing and healthcare. We have also expanded support for the middle-income group in the last few years.

We will now go further. But we are doing so with our eyes open. In particular, we have learnt from our own experience and that of many other countries, that it is not just **how much** Government does, but **how and what it does**, that will determine if we succeed in fostering a better society, one that keeps alive the values that matter to Singaporeans.

The Government will play a more active role in redistribution. We will **preserve and build on a progressive system of taxes and benefits**. But the important question is **what form** redistribution should take, so that we keep

*This speech was delivered by Mr Tharman Shanmugaratnam, Deputy Prime Minister and Minister For Finance at the 21st Gordon Arthur Ransome Oration for the Academy of Medicine, Singapore.

ours a fair society without reducing its vim and energy. It is in every citizen's interests, and certainly that of our lower income and elderly, that we retain a vibrant economy, capable of supporting important social needs.

How do we then intervene in a way that preserves a sense of pride that comes from standing on one's own feet, the desire to improve and work hard for a better living? How does Government encourage, rather than stifle, the community initiatives and civic culture that makes us a stronger society? And critically, how we do ensure that what we do today to preserve fairness and equity can be sustained financially, so that it defines our children's Singapore? How do we avoid the inequities now growing in many advanced societies, where electoral politics and overburdened welfare systems are conspiring to narrow opportunities for the young, and where the pain of fiscal austerity is felt most by the poor and middle classes? Those who count themselves as socially progressive have to be deeply concerned about these questions, not just conservatives.

Understanding Income Inequality

The problem of inequality is at the heart of many current concerns about social and economic policies, all over the world. It is not a passing episode. We have to recognise inequality, find the best ways to mitigate its effects, and focus especially on giving children from disadvantaged homes the best leg up and confidence, early in their lives.

But let me start with a **few basic facts about inequality** in Singapore.

First, inequality is not new. It **has always been high in Singapore**—certainly since the 1980s. The Gini ratio, which is the most popular way of measuring inequality, was already 0.44 in 1980. Inequality has always been inherent in our being a city-state and hub economy, with a concentration of talent and enterprise. It is the same for Hong Kong, as well as emerging Asian cities such as Beijing and Shanghai, all of which are in fact estimated to have higher Gini ratios than Singapore. London and many American cities are likewise.

However, the fact that we are similar to other cities, does not give us comfort. They are cities in larger countries, whereas Singapore is **both a city and a nation**. In larger countries, if you do not like living with others in the city or if it gets too expensive, you move out to the suburbs. In Singapore, we are just Mass Rapid Transit (MRT) stops away from each other. We are therefore taking steps to temper inequality where possible.

The second fact is that **the rise in inequality did not happen recently**. The increase in inequality took place earlier, starting in the late 1990s. The Gini ratio rose significantly after 1998, reaching about 0.48 in 2007.¹ It

is now at about the same level that it was then.

Rising inequality has hence not been a result of economic growth strategies in recent years. In fact, the greatest setback for those at the lower end of the income ladder took place in the early part of the last decade, during and after the 2001 recession. They saw their incomes fall in real terms, only to recover fully a decade later.

A third fact is important. Inequality has been **accompanied by a significant increase in standards of living** for most of the population over the years. This was of course striking in the initial years of our economic development, but it has continued in the last two decades. The bottom 20 percent of households have seen incomes increase by about 60% in real terms over the period.² Living standards of the median household in fact doubled over the two decades. Inequality does not mean that economic policies are failing.

There are many parallels for this around the world. Among emerging nations, China has seen a much larger increase in inequality than India in the last two decades. But few doubt that the poor in China have seen greater upliftment in living standards than those in India, including better access to the basic amenities of modern life.

The anxiety over income disparities is nevertheless real, and reflects the new environment that we are in. Incomes are now growing more slowly than they used to, including for the middle class. With slower income growth, people feel less secure about their prospects, and it matters more when some people are doing better than others. It has happened in most of the advanced economies, and is happening in the Asian Newly Industrialising Economies (NIEs) too.

In the advanced economies like the United States (US), Germany and France, the median worker has seen either no growth or an actual decline in real incomes for at least a decade. Wealth too has declined. In the US, the median family's net worth fell by more than a quarter over the last decade.³

In the Asian NIEs, incomes have also begun to slow. Median household incomes in Taiwan have fallen in real terms over the last 10 years, and in Hong Kong have shown minimal growth. In Singapore, we have fortunately had a more significant increase, of about 25% in real terms.

But the experience of the advanced countries and these other Asian economies, which remain dynamic and competitive in their own way, tells us something about the realities of the global economy. Tough realities. We are all subject to the same global competition, and to the revolution in technology that is allowing machines to replace labour, increasingly for skilled tasks. The same forces of globalisation and technology have come together to provide exceptional rewards for those with certain niche talents and entrepreneurial skills.

In fact, the most stark expression of this change in the global economy has been in the Nordic countries. They are generally regarded as the most egalitarian of societies. But they are also small, open economies, and it is in Sweden, Denmark and Finland that we have seen some of the sharpest increases in inequality over the last 30 years. Today, Finland and Sweden's Gini ratios are on average about the same as Singapore's, before taking into account taxes and transfers.⁴ The workings of the market have resulted in the two countries having levels of inequality in earned income similar to a city state like Singapore.

The Education Story

However, besides globalisation, there is another factor that explains the rise in inequality in Singapore. It is the story of the remarkable transformation in educational standards that took place within a generation.

I'm in my mid-50s. In my time in primary school, barely 50% of students managed to progress on to secondary school. (Of my two best friends in primary school, one did not make it to secondary school, and the other found a place at one of our technical schools.) Some of those who failed went on to get training in simple skills at the old Industrial Training Board (ITB), but almost everyone eventually found jobs in a growing economy. They did whatever work they could—seamstresses, assembly work in our factories, manual work in the shipyards, ports and vehicle workshops, and jobs as peons and delivery workers. Some upgraded over time, and their incomes went up. But a large number of those who started with very low education and skills, have occupied lower-paying jobs throughout their lives.

How education has transformed our labour force has been the real drama of our first half century. If you look at those above 55 today, half of them have no more than primary education, but look at young people aged between 25 and 34 and the figure is only 2%. **From 50% to 2% in 30 years.** More than that, a vastly greater proportion of the younger generation has gone beyond school to get a tertiary education, which only a small number obtained 30 years ago.

What it means is that the older generation of workers, who had low skills and wages for most of their lives and who were part of the developing economy that Singapore was, now find themselves in a developed economy, where incomes of younger people are a world apart from what they grew up with. A disproportionate number of middle- and high-paying jobs are taken up by younger Singaporeans, while older Singaporeans (55 and above) make up half of those in the bottom 10% of our working population.

This too is why inequality has gone up over the years. Education was transformed, not over several generations

as in many countries, but over a single generation. **As a result, we have both low and highly educated cohorts of workers in the workforce at the same time.**

We are doing more to help these older workers. We are topping up their wages through Workfare, and providing their employers a subsidy for their wages through a Special Employment Credit. Together, what these two government schemes mean for the older low-wage worker is that we are paying about **40% on top** of what his employer is actually paying.

But we also want employers themselves to pay more for certain jobs at the bottom of the wage ladder. Many of our low-income older citizens do jobs in cleaning or security, or traditional work in the retail sector, where wages were stuck at low levels in the previous decade. We are already seeing results, through both the Inclusive Growth Programme that helps small medium enterprises (SMEs) upgrade, and the Progressive Wage Model that is being championed by the National Trade Union Congress (NTUC), which is working in concert with the employer associations and the Government. The Government's tightening of foreign manpower rules is also keeping the labour market tight, which motivates employers to pay more for these workers.

The Search for New Social Models

The problem of higher inequality and slowing or stagnating incomes for the majority is testing social systems all over the world. Established approaches to economic and social policy are being questioned, and new solutions being sought.

Socialism as a system of collective ownership and state control of the economy failed a few decades ago. However, at the other end of the spectrum, free market liberalism too has lost credibility in more recent years. The United States (US), which came closest to this liberal model among the advanced economies, has seen a loss of optimism amongst its broad middle class. Less than half of all American parents now think that their children will be better off than them.⁵ Social mobility too has fallen in the US, to even below levels in the UK, which has long had problems in getting upward mobility among the poor.

The major alternative to free market liberalism has been the European social-democratic model. They built the post-war welfare state, which in one variant or another is practiced across Western Europe. That model too has reached its limits and is in retreat. Its future is threatened by three major forces that were not envisaged by the founders of the welfare state.

Globalisation and the rapid entry of emerging economies like China into the global labour pool has taken away jobs. Second, the remarkable advances in life expectancy over

the last 5 decades have not been accompanied by reforms to make welfare systems sustainable. Most European welfare systems are now living on borrowed time, and risk putting a huge burden on the next generation. Put another way, while market liberalism has been unable to provide an acceptable degree of fairness and equity among today's generation, the welfare states are giving their children's generation an unfair deal.

The third factor threatening the welfare state has been equally fundamental. The continuous expansion of social entitlements has reshaped attitudes to work and society in ways never envisioned after the Second World War. Societies which had long been renowned for their industriousness, have seen a steady and damaging erosion of the work ethic, and increased dependence on state support as the alternative to work.

Again, the best way to illustrate this is not to look at the weakest economies such as those in the Eurozone periphery, but the **most successful** ones like Sweden. Despite many years of reforms to entitlement policies, the youth unemployment rate in the country is 24% today. Officially, the overall unemployment rate is 8%, but it is estimated to be much higher at 20% or higher, if we count those who go on disability benefits and retire early and those on sickness benefits.

These are still nations with considerable strengths, accumulated over long periods of time. Their leading companies are between 50 and 100 years old, and are world leaders in their fields. But both government and business leaders worry about the future of their workforces and societies, and are talking about the need for further, politically painful reforms to secure a good future.

A Fair and Just Society: For Future Generations Too

We should continue to watch and learn from the experiences of these and other societies as we embark on new directions in social policy in Singapore. There are lessons to be learnt, both positive and negative.

Our objectives are clear. We will do more to help those who start with less, starting from young, and ensure that every citizen has a fair share in Singapore's success. We will do more to give the elderly a sense of security, and provide special recognition to the Pioneer Generation of Singaporeans who worked with lower wages and built up the nation. And **even as we intervene boldly**, we will ensure that our policies **can be funded and sustained**, well into our children's generation.

We have a good starting point. While the more mature economies built up large debts during their rapid growth years and when their populations were young, we did the opposite. We built up savings. They will now have to take

significant sums from their budgets each year—at least 2% of GDP—to service these national debts. We are in the opposite position of being able to get 2% of GDP from the income on our reserves, to spend each year on our social and economic priorities.

Let's keep clearly in mind a few priorities as we go forward, so that we ensure that policies for a fair society are not just for two or three electoral terms, but for generations ahead.

First, we should continue to **target subsidies at those who need them the most**, instead of committing to benefits for all. Universal subsidies are not just wasteful, but inequitable. They are also hard to take away once given. Even in the UK today, despite severe fiscal pressures and with the Conservatives in government, they have found it too difficult to cut entitlements that benefit the upper middle class and rich elderly.

Second, we should design spending and subsidies in ways that reinforce individual effort and responsibility for the family: values that keep our society strong. This is not about leaving things to self-reliance, or about leaving families to face uncertainties on their own. It is a strategy of government support for efforts by individuals to learn and strive to achieve their aspirations, to own a home by working and paying down a loan, and to save for their retirement needs. It may be a paradox, but this paradox of **active government support for self-reliance** has to run through all our social policies. It is how we help people to stand with pride and contribute to society.

Third, the Government must for the same reason find every way to **catalyse and support community initiative** for a fair and just society. One of the paradoxes of the welfare state has indeed been the way an active state has freed people from the social and moral bonds of family and local community. We must strengthen, not weaken, the values that drive us to be our brothers' keepers. Our tax incentives and grants must continue to support the community and civic sector, and aggressively so.

Fourth, we must **maintain a progressive system of taxes and benefits**. It is in fact more progressive than meets the eye. For instance, take our income taxes. Our top marginal rate of 20% is low when compared with many other countries. But in fact, our income tax schedule includes Workfare (WIS), or negative income taxes for lower-wage workers. If you are older and of lower income, you get a 20 – 30% credit from the government through Workfare. So our income tax schedule is actually 50 percentage points wide—**from 20% for the top income bracket all the way down to minus 30%**.

This progressivity in our system is even more so when we add in housing grants, which are the second pillar of our social strategies. The housing grants provide significant mortgage savings for lower income couples.

Taking Workfare together with these housing grants, we are effectively providing low-income couples at the 10th percentile of the income ladder with **benefits equal to about 30% of their lifetime incomes.** This is in fact a conservative estimate, as it does not take into account the appreciation in value of their homes and hence in the equity they get from the initial grant, which even with modest assumptions implies significantly greater lifetime benefits. It also does not account for other subsidies that they receive, which substantially outweigh the taxes they pay through the GST.

We will preserve and build on this progressive system of taxes and subsidies in future, even when eventually, in future terms of Government, we find it necessary to raise revenues to support our growing healthcare needs.

Finally, we cannot think about a fair and inclusive society purely in wage or income terms, or in terms of redistribution.

- It is also about people having access to a quality living in public spaces: for sports and arts, or just to relax in. We take public spaces seriously in Government, including providing green and blue spaces near our HDB estates.
- Or about opportunities to keep learning no matter how old you are, even if you are not learning for the purpose of work, but because there is something inherently satisfying about learning.
- It must involve developing a spirit of fellowship as our young grow up in schools.
- It has to include a workplace culture that treats all employees with respect, including our blue-collar workers.
- And it must include Singaporeans pursuing causes which they feel lead to a better society, and doing something to help their fellow citizens see a better life.

Conclusion

So let me conclude. We are in transition as a society. We are no longer a developing nation, but we are not yet truly an advanced nation because our level of productivity, our skills, and the wages of our ordinary workers are not there yet.

We face many challenges. Can we keep median incomes growing at a healthy pace and avoid what has happened elsewhere, not just in the developed economies but also in the Asian NIEs? Can we keep social mobility going, even as many among past generations of poor Singaporeans have already succeeded in moving up? There is no assurance that we will succeed, but that makes it all the more necessary that we put all we can into succeeding.

We are starting from a position of strength, not despair. We have one of the best education systems in the world, and we have the most successful public housing programme in the world. We have by international reckonings one of the better healthcare systems in the world. We also have the lowest rate of unemployment among developed societies, including Hong Kong, Taiwan, Korea.

But whether we do better at the end of the day will not just be a result of whether we've got the right policies and incentives, or taxes and subsidies, but whether we retain a culture of responsibility in our society, and the spirit of fellowship that I spoke about. We all play a part in keeping ours a fair and just society, and taking pride in making it so.

FOOTNOTES

1. The Gini ratio based on household income from work per member for resident employed households is about 0.48. If we factor in taxes and transfers, it is 0.46. Internationally, there is no consensus on the method for calculating Gini ratios. However, most other countries use methods that make use of equivalence scales, which account for household sizes. Using these scales, our Gini ratio is lower. For e.g. based on the Square Root scale, which OECD uses, our Gini ratio is 0.44 before accounting for taxes and transfers and 0.41 after.
2. Based on average monthly income from work per member among resident employed households (Source: DOS).
3. The median family net worth fell by 27% from 2001-2010. Source: Federal Reserve Board's Survey of Consumer Finances, June 2012.
4. OECD publishes Gini ratios for its member countries based on equivalised income using the square root scale. The latest Gini ratios for Finland and Sweden are 0.479 and 0.441 respectively. Using a similar methodology, Singapore's Gini is 0.435.
5. Pew Research Centre: The Lost Decade of the Middle Class.