

Figures, facts and fallacies

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AS MOST of us are aware, one can play with figures. Facts speak for themselves, but figures can be misrepresented. The misrepresentation can be exacerbated when reputable institutions handle figures with insufficient qualifications, or worse use inaccurately defined figures. A policy analysis can be misplaced and policy outcomes denied due to a lack of robustness in research discipline. The recent UBS Prices And Earnings Report 2009 – A Global Purchasing Power Comparison is a case in point.

The report attempts to compare and rank the purchasing power of average wages and the relative cost of living across 73 global cities using New York as the benchmark. According to the UBS Wealth Management Research, its “Price and Earnings” reports – first published in 1971, and last updated in August 2010 – have generated “high level of interests”.

It is an ambitious undertaking. Unfortunately, UBS uses a number of simplifying assumptions and standardisations. Comparisons are made across cities – from New York to Manila, Nairobi to Singapore – regardless of their employment situation, occupational profiles and consumption structure.

We found that its various findings on Singapore, in particular – and we believe on many other cities too – are markedly different from those found in studies conducted by the Asia Competitiveness Institute at the Lee Kuan Yew School of Public Policy. We found, in particular, that some of the report’s assumptions inevitably result in a significant downward bias in the purchasing power of our wages.

■ First, the report understates wages in Singapore:

It uses a common occupational profile, based on global averages, to derive the average wage of each city. This occupation profile, however, severely understates the percentage of professionals, managers, executives and technicians (PMETs) in Singapore, thus resulting in an average wage that is much lower than the true average wage in Singapore.

The percentage of PMETs in Singapore’s resident workforce in 2009 was 54 per cent, way higher than the 9 per cent assumed by UBS – a figure that was not mentioned in the report but made available to us upon request. Such downward bias was more severe in Singapore’s case compared to that of other Asian economies which have relatively fewer PMETs in their workforce.

Singapore’s production, transportation operators and general labourers as well as clerical, sales and service workers constitute 21 per cent and 25 per cent, respectively, of its workforce – way lower than the 58 per cent and 33 per cent the UBS report assumes. This again results in an average wage much lower than the true average.

In addition, UBS appears to have excluded Central Provident Fund contributions from the calculation of net wages.



This article’s writers say that, in particular, some of the assumptions in the UBS report result in a significant downward bias in the purchasing power of wages in Singapore. ST FILE PHOTO

However, our CPF system is in fact a defined contribution system with individual accounts where the CPF contributions, apart from providing for retirement, are also extensively used for housing, medical and educational expenses. It is different from the typical Western social security system which involves transfers from one group to another. Therefore, CPF contributions should be included as part of wages and not be considered as tax payments.

■ Second, price levels constructed by UBS overstates the cost of living in Singapore:

The report uses a common European basket of goods and services to reflect costs of living across all cities. This would have caused an upward bias in the cost of living in Singapore, as Western consumption goods tend to be more expensive in Asian cities.

UBS also uses rents of private housing in the construction of rental prices. In Singapore’s case, however, the majority of our population lives in public housing and median rents for public housing are more than 30 per cent lower than the figure used in the UBS report.

These problems of methodology are accentuated by the small sample sizes of the data collected in the UBS study. The occupational wages and prices in the report cannot be safely viewed as representative, since only approximately three data points per item or occupation were collected for each city.

This leads to some oddities in price comparisons. For example, for home electronics and household appliances, the UBS report puts Singapore’s price level above that of Mumbai, which is counterintuitive since we know anecdotally that Indian tourists spend a great deal on elec-

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On restaurants, UBS puts Singapore’s price level slightly above that of many Western European cities, including Paris. The discrepancies may have resulted from the small number of data points for each city.

Estimating the purchasing power of wages in an economy requires reliable and internationally comparable information on costs of living and nominal wages. In this respect, the statistics provided by the World Bank International Comparisons Programme on costs of living and the International Labour Organisation and the US Bureau of Labour Statistics on nominal wages are our main sources.

According to data from the World Bank International Comparisons Programme, the overall price level of the consumption expenditure of the average household in Singapore is 88.6 per cent of the US level, compared to Hong Kong’s 93 per cent. Switzerland and Japan are significantly higher, at 150 per cent and 129.8 per cent, respectively.

Although South Korea’s and Taiwan’s overall price levels – at 86 per cent and

70.2 per cent, respectively – are lower than Singapore’s, the figure for both include many cheaper cities and towns other than Seoul and Taipei.

Significantly, costs in Singapore are notably low for education, health care and communications – just 31 per cent, 33 per cent and 55 per cent, respectively, of US levels. Costs for these categories are considerably higher in Hong Kong and South Korea.

Singapore, however, is significantly more expensive for two categories of consumption – alcoholic beverages and transportation, both public and private. Singapore’s price level for alcoholic beverages is 261 per cent of the US level, and for transport it is 120 per cent.

Wage levels

BASED on data from official sources in each city, we attempted a rough comparison of prices and earnings in a few cities – London, Tokyo, Taipei, Hong Kong, Singapore and the metropolitan area of New York-New Jersey. The data we used does

not suffer from the small sample size problem.

We also created a purchasing power index by adjusting wages for price differences using two methods – UBS’ price indices; and PPP (purchasing power parity) rates, that is, market exchange rates adjusted for price differences between countries.

The results we derived are similar. Even using UBS’ price indices, Singapore’s purchasing power-adjusted wages are far closer to those in cities like London and Tokyo than the UBS study suggests. They are also comparable if not higher than those of Taipei and Hong Kong.

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Using more representative data from the World Bank and government statistical agencies, we have shown that purchasing power of wages in Singapore is better than the UBS report suggests.

The report not only compares apples and oranges, it treats a highly valuable jewel as a stone.

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Was Citibank caught napping?



BY JOHN MCBETH
SENIOR WRITER

IT IS a good question to ponder: If a bank employee has her breasts enhanced to spectacular proportions, wears expensive and flamboyant clothing, takes up with a male model half her age and develops a taste for high society, should she become the object of suspicion?

Difficult to say, really. After all, Citibank’s high-flying wealth manager Inong Malinda – or Malinda Dee as she is called after her cup size – was very good at schmoozing with her Citigold clients, many of them believed to be government officials with nest eggs that defied their salaries.

Presumably, if the bank’s internal supervisors had known the 47-year-old Malinda had two Ferraris, a Mercedes E-350 and a Hummer H3 sports utility parked in her garage, a luxury Jakarta apartment and real estate in Australia and Britain, they would have paid closer attention.

But that did not happen until one of her stable, reportedly a wealthy woman, complained in January this year that her deposits had evaporated. Subsequent investigations determined that as much as 90 billion rupiah (\$12.9 million) was missing from the accounts of hundreds of her customers. It may well be much more.

The public revelation of Ms Malinda’s deeds, which came soon after the death of a Citibank client in late March, took Jakarta by storm. The client had died in mysterious circumstances after he went to the bank complaining about the size of a credit card debt that had ballooned to 100 million rupiah over the past four years.

Early reports suggest the victim, the secretary-general of a small political party, suffered a heart attack in a room where he had been closeted with two contract debt collectors, but it is still not clear whether threats and violence were involved.

Witnesses recall raised voices and desk-pounding, but what media reports referred to as an “interrogation room” had a clear glass panel and was located next to a well-patronised automatic teller machine. Five debt collectors have been detained in connection with the death.

To the chagrin of Citibank, the two cases have already been the focus of consecutive hearings by the parliamentary financial and budgetary commission in Jakarta, whose grandstanding members are now likely to demand much closer supervision of foreign banks and their procedures.

With former United States treasury secretary and Citibank counsellor Robert Rubin working the phones, Citibank flew in a team of executives from its regional headquarters in Hong Kong to help manage the crisis.

They also hired high-powered business consultant Karen Brooks, an Indonesian-speaking former National Security Council official, who in turn brought in



Police escorting alleged bank embezzler Malinda Dee (centre), a former Citibank relationship manager who dealt with wealthy customers, after a news conference at a police office in Jakarta last month. PHOTO: REUTERS

Indonesian financial adviser Lin Chei Wei.

Calling herself an “author, columnist, journalist, corporate and educational speaker and social commentator”, Ms Brooks played a key role in ExxonMobil’s difficult Cepu oilfield negotiations five years ago.

Only eight of Ms Malinda’s faceless account-holders have so far laid formal complaints against her, leaving the Financial Transaction Reports and Analysis Centre to investigate at least 50 other clients that it suspects of money-laundering.

“Citibank is probably going to get whacked on this, but it says as much about the ills of Indonesian society as it does about the bank,” says one senior bank executive. “People evade taxes and receive illegal payments and when they get robbed, they can’t do anything.”

People familiar with local bank culture say businessmen of Chinese heritage spend as little time as possible with their transactions. But many ethnic Indonesians, and self-important officials in particular, like to sit around and be pampered in comfortable surroundings.

Ms Malinda, a divorced mother of three children, who had worked at the American bank for 22 years and enjoyed a salary of US\$8,000 (\$9,800) a month and an annual US\$28,000 bonus, was very good at keeping her clients happy – even if she had been stealing them blind for what is believed to be the past five years.

One of her customers in the early 1990s recalls her to be an attractive and engaging young woman who, a few years later, would feature in Citibank advertising as a poster girl for its personalised services.

Her method was disarmingly simple

and relied on the fact that in an age of automation, banks are usually trusted to the point where only the most diligent customers take the time to go through their monthly statements item-by-item looking for discrepancies.

Still, people in the industry find it astonishing that all Ms Malinda had to do was persuade clients to pre-sign blank transfer forms and then channel the money into one of the 12 accounts she maintained around town.

Sources familiar with normal Citibank procedures say the transfers would have had to be cleared by “makers and checkers”, an indication that other staff members had to be involved in the conspiracy. As one put it: “She could not have done this by herself.”

In earlier days at least, Indonesia’s state-owned banks kept such a close watch on their employees that if someone had a Mercedes or other signs of unusual wealth, they were actually followed home to see if their lifestyle fitted their salary.

Citibank does have a so-called whistle-blower programme, but insiders say the fact that Ms Malinda’s estranged husband was wealthy and dealt in luxury cars may have been enough to allay any suspicions about her living the high life.

With Bank Indonesia regulators expected to focus on whether it conformed with regulations governing the movement of funds offshore, sources close to Citibank say there is now a clear realisation that it will have to “tighten up”.

One obvious place to start is to ensure that relationship officers are regularly rotated, something that apparently did not happen in Ms Malinda’s case. Another precautionary move would be to ensure that they also take a fortnight’s “compliance leave”.

Already temporarily barred from taking on new elite clients, Citibank can look forward to the central bank – annoyed at getting some of the blame for the scandal – downgrading its soundness rating. That is not good for the bank that never sleeps.

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