Singapore's Fiscal Response to the Great Recession:
Radical Innovation or Incremental Change?

> *[T]here is no such thing as an immaculate perception. Purely novel actions and ideas cannot register because no established logics exist to describe them … Without invoking existing understandings, innovations may never be understood and adopted in the first place. Yet by hewing closely to the existing institutions, innovators risk losing the valued details, representing the innovation's true novelty, that ultimately change those institutions. Success, then, requires entrepreneurs to locate their ideas within the set of understandings and patterns of action that constitute the institutional environment in order to gain initial acceptance, yet somehow retain the inherent differences in the new technology that ultimately will be needed to change those institutions.*
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> \- Andrew B. Hargadon and Yellowlees Douglas [1]

Singapore's Budget for the financial year (FY) 2009 was delivered in the context of what was then generally viewed as the worst economic crisis since the Great Depression. Worldwide, central banks were slashing interest rates and flooding their markets with liquidity. Parliaments were passing Bills that, among others, cut taxes and increased spending.

In the immediate aftermath of Singapore's Budget Statement in early 2009, commentators were full of praise for its extraordinariness and the radical policy measures that it contained. The *Straits Times'* commentary published a day after the Budget was delivered described it as "set[ting] many precedents – of a fiscal and policy nature".[2] The *Business Times*' editorial described it as an "extraordinary" and "remarkable" Budget with the Jobs Credit, which subsidised 12 per cent of the first $2,500[3] of the monthly wages of all employed Singaporeans, being the "most eye-popping, even audacious measure."[4]

Indeed, Budget 2009 was unprecedented in at least three ways. First, the size of the stimulus and the fiscal deficit was unprecedented. The Government's $20.5 billion Resilience Package was the largest the

[1] Andrew B. Hargadon and Yellowlees Douglas, "When Innovations Meet Institutions: Edison and the Design of the Electric Light," *Administrative Science Quarterly* 46 (September 2001): 476-501.
[2] Chua Mui Hoong, "Budget scores on superlatives," *Straits Times*, January 23, 2009.
[3] $2,500 was the median wage at that time.
[4] Business Times, "Remarkable Budget, but will banks oblige?" *Business Times*, January 23, 2009.

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Government had ever mustered in response to a recession. The projected Basic Deficit[5] at $14.9 billion, or 6 per cent of GDP, was also the largest in Singapore's post-Independence history. Second, the two "extraordinary measures" in the Budget, the Jobs Credit and the Special Risk-Sharing Initiative, were broad-based and generous, and conceived by a ministry that was better known for highly targeted assistance and fiscal conservatism. In fact, by subsidising the wages of *both existing and new* employees, the Jobs Credit was a bolder, more generous variation of the new jobs creation tax credit which was offered by a number of American states to businesses creating *new* jobs.[6] Third, Budget 2009 marked the first time that the Singapore government drew on past reserves – surpluses accumulated in previous terms of government – to finance its deficit. Significantly, the drawdown occurred even though the government had sufficient surpluses accumulated in its term in office (known as current reserves) to finance the Resilience Package announced in the Budget.

In spite of these significant firsts, a closer examination of the government's fiscal policy stance in the years since the 1997-1998 Asian Financial Crisis, and a deeper understanding of the evolution in thinking among the decision-makers in the Ministry of Finance (MOF), suggests that claims about the extraordinariness of Budget 2009 may have been overstated. As a staffer from MOF explained, though the Jobs Credit and the Special Risk-Sharing Initiative were "extraordinary measures", they were based on the "fundamental principles that reflect the Ministry of Finance (MOF)'s countercyclical economic strategy".[7] In other words, these "extraordinary measures" emerged out of already established, and not radically different, policy understandings and orientations in MOF. Likewise, the mode of financing these measures – a drawdown on past reserves – though unprecedented was consistent with the familiar understanding of the role of reserves in weathering the proverbial rainy day.

The perspective gained from situating Budget 2009 in the context of MOF's established fiscal policy orientations is that of path dependence, continuity and incremental change. Though policymakers were articulating what appeared to be novel policies, these were, in fact, highly embedded in established policy understandings, orientations and bureaucratic capabilities. Analysing Budget 2009 against the backdrop of the earlier policy innovations of MOF allows one to appreciate how cumulative, incremental policy decisions contributed to significant shifts in the Singapore government's response to a major recession.

The Operating Context in the 2000s

The 2008-2009 Great Recession came on the back of several systemic shifts that had occurred to the Singapore economy and the government's fiscal stance.

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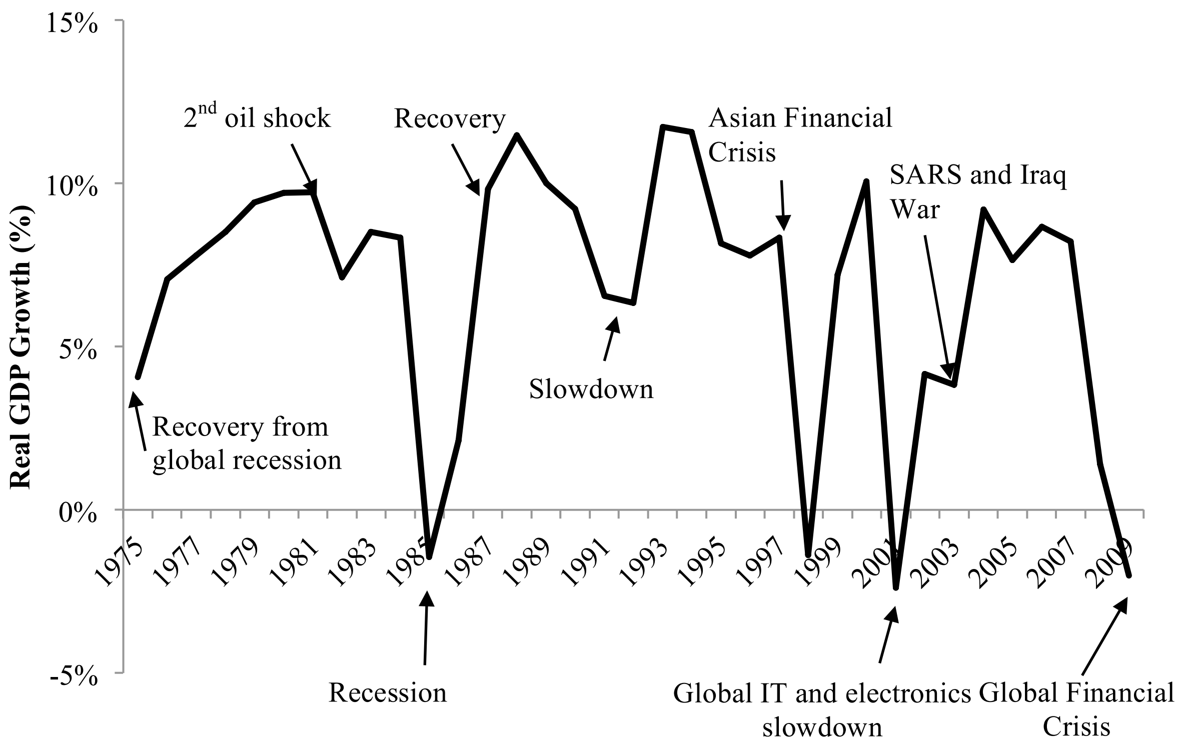
[5] The Basic Deficit is the deficit before subtracting top-ups to Endowment and Trust Funds and adding the net investment income.
[6] Ibid.
[7] Jonathan Pflug, "Extraordinary Times, Fundamental Principles: The 2009 Budget and the Ministry of Finance's Approach to Countercyclical Economic Strategy," updated 11 July 2012, https://www.cscollege.gov.sg/Knowledge/Ethos/Issue%206%20Jul%202009/Pages/Extraordinary-Times.aspx (cited on 27 November 2013).

The 1990s was a period of strong economic growth for Singapore, enabling the government to run budget surpluses in all the years, even those marred by the Asian Financial Crisis.[8] The financial crisis was a harbinger of a new macroeconomic context. Since then, business cycles in Singaporean have shortened, and with it economic volatility and uncertainty have increased (see **Exhibit 1**). By the third year of the new millennium, Singapore had already experienced two bouts of economic slowdowns: in 2001, due to the falling global demand for electronics and the September 11 terrorist attacks, and in 2003 due to the Iraq War and the outbreak of Severe Acute Respiratory Syndrome (SARS).

Exhibit 1. Singapore's Real GDP Growth, 1975-2009



As a result of the openness of the Singapore economy and the design of the tax and transfer system, the Singapore government has relatively few levers for stabilising the business cycle in the short term. Keynesian-style counter-cyclical measures are unable to stimulate domestic demand by a significant margin. Depreciating the Singapore dollar to boost export competitiveness comes with the risk of increasing imported inflation, thereby reducing the cost competitiveness of exports with high import content. Increasing disposable income by cutting taxes or through discretionary cash transfers may not significantly boost aggregate demand. This is because a significant portion of the increase in disposable income would be leaked out as import spending. In addition, cutting taxes would only raise the disposable income of the top-third of income earners – the group that pays personal income tax, and one that has a lower marginal propensity to consume than the lower income groups that do not pay income taxes.

[8] Economic growth fluctuated between 6.5 and 11.5 per cent between 1991 and 1997. See also Parliament of Singapore, "Impact of Returns from GIC and Temasek Holdings on Singapore's Fiscal Policy," Vol 89 (9 July 2012).

Automatic stabilisers[9] are also unable to boost domestic demand significantly during a recession. The Singapore government's spending as a share of national income, at 15-17 per cent, is very low by international standards (the OECD average for 2009 was 46 per cent).[10] This means that any automatic stabilising effect starts from a small base. Singapore also has few automatic stabilisers. On the transfer side, it lacks comprehensive social safety nets such as broad-based unemployment benefits and other entitlement programmes which in a severe and protracted downturn would automatically boost public spending. On the tax side, Singapore taxes income earned in the previous year rather than in the current year. In a fast deteriorating economy, taxpayers might see their incomes fall or lose their jobs but would still be paying taxes on their higher incomes earned in the previous year.

Given the limited effectiveness of demand-side measures and automatic stabilisers, MOF's policy makers preferred measures that tackled the supply-side of the economy. As Deputy Prime Minister Lee Hsien Loong said when announcing the second package to deal with the 2001 recession, "We recognise the limitations of stimulating the economy through pump priming. However, it is still worthwhile to bring forward, selectively, the building of economic and social infrastructure. This way, we will take advantage of lower prices, help the economy, create some jobs, and enhance our long-term capabilities."[11] This supply-side approach has resulted in recession measures that reduce business costs in the short and medium-term. A favoured but politically unpopular policy measure has been to reduce employers' contributions to the Central Provident Fund (CPF) accounts (or retirement accounts) of their employees.

Since 2002, the government has vigorously pursued policies to boost Singapore's productive capacity and improve Singapore's economic competitiveness. One resultant shift in fiscal policy during this period was the change in the government's revenue sources: the Finance Minister reduced personal and corporate income tax rates, and raised the Goods and Services Tax (GST), an indirect tax, from 3 per cent to 5 per cent and, subsequently, to 7 per cent to make up for the shortfall in revenue from cutting direct taxes. In other words, the country's tax system has become more regressive since 2002.

As Singapore became increasingly embedded in the global economy, the government acknowledged that the pace of change would be unsettling for some and that income disparities would increase.[12] Relying only on supply-side measures would not have provided direct relief to individuals and their families facing economic dislocation. Anticipating the shifts in fiscal policy, Prime Minister Goh Chok Tong had in 2001 outlined his government's approach to social spending. First, the government will continue to subsidise basic services like public housing, healthcare and education heavily. Second, in boom years, the government would share part of its surplus with Singaporeans. Third, benefits would be targeted

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[9] In a downturn, tax receipts decline and government expenditures increase – providing an injection into the economy even without the Government doing anything different.

[10] OECD iLibrary, "Government at a Glance 2011," updated n.d., http://www.oecd-ilibrary.org/sites/gov_glance-2011-en/03/04/index.html?itemId=/content/chapter/gov_glance-2011-10-en (cited on 25 November 2013).

[11] Parliament of Singapore, "Tackling the Economic Downturn (Statement by the Deputy Prime Minister)," Vol 73 (12 October 2001), col. 2277.

[12] National Archives of Singapore, "Prime Minister Goh Chok Tong's National Day Rally 2001 Speech at the University Cultural Centre, National University of Singapore on Sunday, 19 August 2001 at 8.00PM," updated n.d, http://archivesonline.nas.sg/speeches/view-html?filename=2001081903.htm (cited on 24 November 2013).

primarily at lower-income Singaporean, which departed from the earlier model where the government's one-off transfers were usually distributed quite equally.[13]

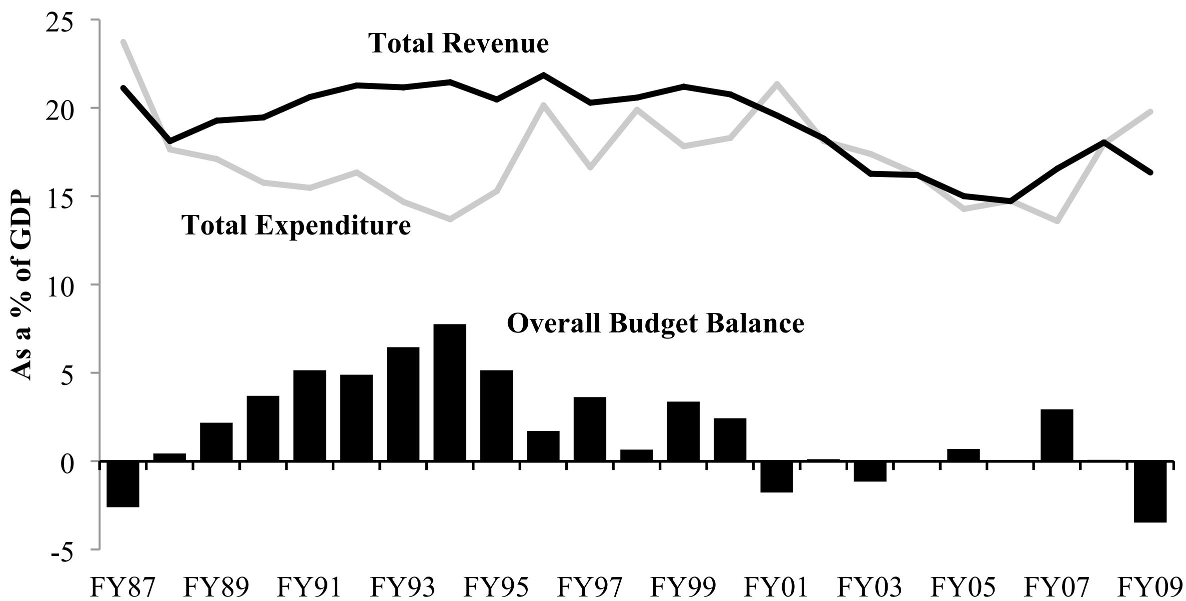
A Changing Fiscal Approach

To give effect to this new approach to social spending, MOF began shifting its stance on a number of policy fronts, laying the groundwork for the measures announced in Budget 2009.

1. Balancing the budget over the business cycle

As noted, the 1990s was a period of strong economic growth in Singapore. The government could not only balance its budget over each financial year but could – and did – chalk up sizeable budget surpluses (see **Exhibit 2**).

Exhibit 2. Singapore Government's budget balances, FY1987-2009



In 1998, when the government had projected a sharp economic contraction as a result of the Asian Financial Crisis, MOF persisted with a conservative fiscal stance and targeted a budget surplus, albeit one smaller than in previous years. The Finance Minister announced in his Budget Statement that the government would be keeping a tight lid on its operating expenditures but would increase infrastructure spending to improve Singapore's medium to long-term competitiveness.[14]

The fiscal stance in the 1998 Budget was notable because it was stricter than even the conservative economic orthodoxy of that period. While conservative economists and governments maintained that

[13] Ibid.
[14] Parliament of Singapore, "Annual Budget Statement," Vol. 68 (27 February 1998), col. 532.

proper role of fiscal policy was not the short-term stabilisation of the business cycle, they also advocated the balancing of budgets *over the business cycle*. By choosing to target a surplus even after having projected a sharp economic contraction, MOF signalled that its strategy was really that of balancing the budget (indeed, of running a surplus) over the financial year instead of over the business cycle.

But as 1998 progressed, Singapore's export demand shrank and retrenchments soared. A new strategy was in order. The Government responded by implementing two rounds of off-Budget measures worth a total of $12.5 billion, more than 8.5 per cent of 1998's GDP. The measures were focused mainly on lowering business costs so that businesses could tide over the recession by making as few retrenchments as possible. MOF also targeted a primary deficit[15] of $5.1 billion, or 3.5 per cent of GDP, for FY99. In his 1999 Budget Statement, Finance Minister Richard Hu articulated what appeared to be a new approach to fiscal policy: "Our fiscal policy is to live within our means and aim for a balanced budget in normal years, accumulating surpluses in good years of strong economic growth and drawing against reserves in years of economic downturn".[16] This approach was reiterated by the Hu's successor, Lee Hsien Loong, on several occasions during the recession years of the early 2000s. Apart from FY1999, MOF also projected (and ran) significant deficits in FY2001 and FY2003.

2. Drawing on past reserves

Singapore's MOF did not just balance budgets over the business cycle. A more binding constraint was to balance the budget over the government's term in office. This was a consequence of two factors. The first was the Singapore Constitution, which stipulated that the Parliament and the President must approve government budgets[17] that will draw down on past reserves.[18] This two-key mechanism was intended to protect the past reserves from profligate governments. On its own, this did not prevent any government from drawing on past reserves during its term of office. The second factor was the ruling People's Action Party (PAP)'s strong stance on living within its means and to only draw on the past reserves in times of grave crises. During the 2001 recession, for instance, Prime Minister Goh Chok Tong said, "we must guard [the past reserves] zealously for use only in a severe and prolonged crisis."[19] Together, these two factors contributed to the policy balancing the government's budget over its term in office so that no draw down on past reserves would occur except under inordinately dire circumstances. MOF thus aimed to balance the government's budget over the business cycle *and* over the government's term of office.

Some, like former PAP Member of Parliament (MP) Wang Kai Yuen, have pointed out the inherent contradictions of such a strategy. He argued during the 2003 slowdown that because the business and

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[15] A primary deficit is operating revenue less operating and development expenditure.

[16] Parliament of Singapore, "Tackling the Economic Downturn (Statement by the Deputy Prime Minister)," Vol 73 (12 October 2001), col. 2277.

[17] Government budgets refer the Supply Bill and the Supplementary Supply Bill.

[18] Under Article 148A of the Constitution The President may, acting in his discretion, withhold his assent to any Supply Bill, Supplementary Supply Bill or Final Supply Bill for any financial year if, in his opinion, the estimates of revenue and expenditure for that year, the supplementary estimates or the statement of excess, as the case may be, are likely to lead to a drawing on the reserves which were not accumulated by the Government during its current term of office, except that if the President assents to any such Bill notwithstanding his opinion that the estimates, supplementary estimates or statement of excess are likely to lead to a drawing on those reserves, the President shall state his opinion in writing addressed to the Speaker and shall cause his opinion to be published in the *Gazette*.

[19] National Archives of Singapore, "Prime Minister Goh Chok Tong's National Day Rally 2001 Speech at the University Cultural Centre, National University of Singapore on Sunday, 19 August 2001 at 8.00PM," updated n.d, http://archivesonline.nas.sg/speeches/view-html?filename=2001081903.htm (cited on 24 November 20130.

electoral cycles do not coincide "what we put away in boom times, we cannot use in lean times" if a changeover in government occurs in the interim. Wang noted, "[T]his Government is known to loathe using the second key, unless the situation is truly desperate. I would like to ask the question: is it possible that we have forsaken some policy options that could help in this recession because of this budgetary constraint?"[20] Wang was not the only MP who was sceptical about the Government's willingness to spend past reserves to stimulate a weak economy. During the 2001 recession, Opposition MP Low Thia Kiang had also asked Finance Minister Hu if it was the Government's intention to never spend the past reserves. If that was not the case, Low wanted to know the circumstances under which the government would draw down on past reserves.[21]

At the level of official rhetoric at least, it became clear in the 2000s that the government deemed it legitimate to draw down on past reserves during a severe economic crisis. Both in 2001 and 2003, the Finance Minister explained that the government might draw on past reserves in a recession.[22] Whether the reserves should be a financial asset of last resort, not to be drawn on unless the government had spent all of its current reserves, was not an issue in early 2000s. There was no reason for it to be since the government had weathered both the 2001 and 2003 recessions by spending from current reserves. Thus, the policy position on pre-emptively drawing from past reserves was not debated until Budget 2009.

3. Expansion in the scope of discretionary transfers

The government could have cushioned Singaporeans from rising economic uncertainty and volatility by implementing permanent entitlement programmes, such as unemployment benefits, or by relying on targeted and temporary assistance, or both. In the early 2000s, the preference was for targeted and temporary assistance. This grew out of the government's belief that permanent entitlement programmes were not only expensive but also could erode incentives to work and engender an entitlement mentality. This sentiment was clearly expressed in 2001 by then Deputy Prime Minister Lee Hsien Loong when he announced a scheme to help retrenched Singaporeans who had fallen on hard times. He said, "We should take a targeted approach at helping unemployed and retrenched Singaporeans. This is far more discriminating and sensitive than across-the-board unemployment dole or welfare, which not only is a heavy burden on the state, but can easily discourage people from seeking new jobs, thus worsening the unemployment problem it hopes to alleviate."[23]

One of the most significant policy innovations that arose from decision to provide targeted and temporary assistance was the New Singapore Shares (NSS). Announced in 2001, and at the cost of $2.7 billion NSS was, at that time, the largest social transfer programme ever implemented. Its objective was to help especially the lower income Singaporeans tide over the 2001 recession. NSS was designed to mimic savings bonds. The scheme gave all eligible recipients between 200 and 1,700 shares, each worth $1. The allotment of shares depended on their income in August 2001[24], housing type, age and National Service (NS) status (see **Annex A** for the allotment schedule). The shares earned annual dividends at a rate of at least 3 per cent between 2002 and 2007. Unlike the CPF top-ups of the past, which subsidised future

[20] Parliament of Singapore, "Retuning of CPF," Vol 76 (29 August 2003), col. 2796.
[21] Parliament of Singapore, "Government Reserves (Target for optimum amount)," Vol 73 (25 September 2001), col. 2068-9.
[22] Ibid; Parliament of Singapore, "Retuning of CPF," Vol 76 (29 August 2003), col. 2796.
[23] Parliament of Singapore, "Tackling the Economic Downturn (Statement by the Deputy Prime Minister)," Vol 73 (12 October 2001), col. 2287.
[24] August 2001 was chosen because the Prime Minister announced NSS during his National Day Rally on 19 August 2001.

consumption (retirement or healthcare spending), NSS subsidised both present and future consumption: citizens were able to cash half of their NSS in during the first year of the scheme and were subsequently free to choose when and how much of their shares they wished to redeem. The shares matured in 2007 and were automatically exchanged for cash at $1 per share.[25]

The NSS also revealed a few changes in the mindset of policy makers. First, they were willing to experiment with a broader range of discretionary measures and were no longer constrained by the discretionary transfers of the past, which usually took the form of top-ups to CPF and Edusave accounts, and rebates for utilities, service and conservancy charges (S&CC) and rent. Second, MOF's policy makers were willing to supplement the in-kind transfers of the past with outright cash transfers. Though NSS encouraged saving – those who saved cashed out more in 2007 when the shares matured – it did so on a shorter timescale; by design, all shares were eventually monetised in 2007. Third, NSS paid significantly more benefits to the lower-income group, and showed that policy makers were, more than before, tipping benefits in favour of lower-income Singaporeans. In fact, NSS was so progressive that it drew complaints from some middle-income Singaporeans. Beyond the NSS, policy makers in MOF also began to weigh the benefits of other social transfers – utility and service and conservancy charges rebates – in favour of lower income groups.

4. Honing bureaucratic capabilities

As noted, in the 1990s, most surplus distribution exercise took the form of top-ups to the CPF accounts of Singaporeans – a task that was relatively easy to implement and which posed little political risk. The shift towards more targeted transfers required policy makers to develop new capabilities to differentiate between more and less deserving recipients in administratively efficient and non-intrusive ways – a task that entailed more political risks.

A number criticisms of the NSS appeared to have led policymakers to tinker with the design of the programmes that succeeded the NSS, such as the 2002 Economic Restructuring Shares (ERS), the 2006 Growth Dividends and the 2007 GST Credit. One such criticism originated from middle-income Singaporeans who felt that the allotment of NSS was too progressive. In their view, there was a large disparity in the benefits received by them and by lower income Singaporeans. This prompted Senior Minister Lee Kuan Yew to assure middle-income Singaporeans that the government had not forgotten them, and that the NSS was a "special allotment" skewed in favour of the lower-income groups only because the country was facing economic hardship. He assured the middle-income group that as the economy recovered, more shares would be given out and that they would be distributed more equally.[26]

This was indeed the approach that was adopted with the Economic Restructuring Shares (ERS) implemented in 2002 to help Singaporeans cope with the increase in the Goods and Services Tax (GST) from 3 per cent to 5 per cent. The ERS was similar to the NSS except that the former was "more evenly distributed among all Singaporeans, since economic restructuring affect[ed] everyone".[27] Singaporeans in

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[25] Ministry of Finance, "New Singapore Shares," updated 2008, http://www.mof.gov.sg/ers/index.htm (cited on 23 November 2013).

[26] Straits Times, "Middle-class may get more shares in future," *Straits Times*, October 21, 2001; Straits Times, "New S'pore Shares every few years," *Straits Times*, November 1, 2001.

[27] Unlike the NSS, the ERS was paid out in three annual tranches spanning 2003 to 2005. See Parliament of Singapore, "Annual Budget Statement," Vol 74 (3 May 2002), col. 707-8.

ninety per cent of households qualified for the maximum ERS amount of $1,200 (paid out over three years), with the rest receiving $600 (see **Annex B** for allotment schedule).[28] In later cash transfers such as the 2006 Growth Dividends and the 2007 GST Credits, the government adopted the approach of using the median wage as one of the criteria to distinguish the most deserving group from the rest.

Another source of public unhappiness was the parameters that were used to determine the allotment of NSS: income earned in August 2001 and housing type. Some of the appeals for larger allotments of NSS were made on the basis that the appellants' incomes in August 2001 were unusually high as compared to the other months of 2001. Another common complaint was that using housing type to determine the allotment of shares was unfair as it failed to consider that some private properties were of the same value as larger HDB flats, and so the occupants of the former should receive the same benefits as the latter group.

Though the Finance Ministry continued to use both income and housing to target its social transfers, it adopted different measures of both. Since 2006, it has used the taxable income earned over a calendar year, or Assessable Income (AI), to measure income. This overcame the distortions that arose from using a month's worth of salary. Since 2002, Annual Value, or the value used to compute property tax, has replaced housing-type. The rationale for this switch was that unlike housing type, AV ensured that Singaporeans living in private property and in public housing of equivalent value qualified for the same level of benefits.[29]

Path Dependence and Incremental Change in Budget 2009

By situating Budget 2009 within the context of the policy orientations, understanding and bureaucratic capabilities of MOF in the 2000s, it appears as less of a departure from the norm than many commentators had assumed. While it was true that the size of the budget deficit was unprecedented, it was also the case that the speed, scale and perceived severity of the Great Recession far exceeded previous recessions. Without the MOF's earlier acknowledgement of the need for government to adopt a counter-cyclical stance – to run deficits in a downturn – the response to the Great Recession may have been identical to the response to the Asian Financial Crisis. The government may have recognised the severity of the Great Recession but may have persisted in adopting a conservative fiscal stance instead of running an unusually large deficit.

Drawing on past reserves to finance part of that deficit appears less extraordinary in light of the pronouncements made by previous Finance Ministers about the possibility of drawing down on past reserves during an economic recession. In the early days of 2009, there was widespread perception that the Great Recession would be as severe as the Great Depression. As then Nominated MP Siew Kum Hong said, "If the worst economic crisis the world has seen in six decades does not merit the use of the reserves, then nothing ever will".[30]

[28] Ibid.
[29] Ministry of Finance, "Frequently Asked Questions," updated 2008, http://www.mof.gov.sg/ers/ers_faq.htm#AnnualValue (cited on 25 November 2013).
[30] Parliament of Singapore, "Debate on the Annual Budget Statement," Vol 85 (3 February 2009), col. 1511.

This is not to deny that by making an actual draw on past reserves, the government had to provide a clearer policy position on the use of the reserves, and thereby build upon the pronouncements of the previous Finance Ministers. The first clarification was that it was acceptable to pre-emptively draw down on past reserves. It suggested that the government did not view the past reserves as financial resource of last resort, to be used only when current reserves are completely or close to exhausted. The second clarification was that the government would only draw on the reserves to fund extraordinary and temporary measures, like the Jobs Credit and the Special Risk Sharing Initiative, and not to finance "regular budgetary interventions made during a typical downturn".[31] To be sure, it will not always be clear what counts as an extraordinary measure or as a regular budgetary intervention. After all, both the Jobs Credit and the Special Risk-Sharing Initiative had their own policy antecedents.

The Jobs Credit, for example, mimicked the old practice of reducing the employers' CPF contribution rates in times of crisis to cut business costs. In fact, the Finance Minister and other PAP MPs promoted understanding of the Jobs Credit by explaining that it was equivalent to a 9 per cent cut in the employers' CPF contribution rate. As it did with the Growth Dividends and the GST Credits, MOF tied the income cut-off for the Jobs Credit to the median wage, enabling it to position the scheme as one that was skewed in favour of lower and middle-income Singaporean workers.

The measures to ensure the availability of credit for businesses under the Risk-Sharing Initiative had their roots in the Local Enterprise Finance Scheme (LEFS), which was designed to help local small and medium enterprises (SMEs) get financing for working capital with the government sharing default risk with banks. The New Bridging Loan Programme was, in fact, identical to the LEFS but it extended loans of up to $5 million to *all* companies, with the Government bearing 80 per cent of the default risk. The measures to help companies secure trade financing (Loan Insurance Scheme – Plus and Trade Credit Insurance Programme) mimicked the structure of the LEFS.

More generally, the basic aim of the Jobs Credit and the Special Risk Sharing Initiatives was to reduce the risk of retrenchment faced by employed workers by reducing the cost of hiring them. This was an echo of the aims of previous recession packages to address "typical downturns" that not only linked government's assistance to work but also provided help to workers by using their employers as conduits.

It cannot be denied, however, that both the Jobs Credit and the Special Risk-Sharing Initiative made significant incremental changes to the schemes they were based on. Under the Jobs Credit, it was the Government that shouldered the responsibility of subsidising business costs. By contrast, with a cut in the employers' CPF contribution rate, employees would have been the ones shouldering this burden. The willingness to share the burden on a national-scale was novel. It also enabled the Government to make a much more significant dent in business costs than it would have been able to achieve had it relied on cuts in the CPF contributions rates alone. Drastic cuts in the contribution rates may well have been politically disastrous, and might have also undermined other policy objectives such as retirement adequacy and ensuring that Singaporeans had enough in monthly CPF contribution to service their mortgages. The novelty of the Risk-Sharing Initiative was that it marked the first time that the Government shared trade

[31] Ministry of Finance, "Budget Debate Round-Up Speech 2009," updated 22 January 2009, http://www.mof.gov.sg/budget_2009/speech_toc/downloads/FY2009_Budget_Debate_Round_Up_Speech.pdf (cited on 27 November 2013).

financing risks with banks. In 2011, these schemes were institutionalised as permanent schemes but on less generous terms.

Policy Innovation as a Search for the Adjacent Possible

> **"**The adjacent possible is a kind of shadow future, hovering over the edges of the present state of things, a map of all the ways in which the present can reinvent itself. Yet it is not an infinite space, or a totally open playing field…What the adjacent possible tells us is that at any moment the world is capable of extraordinary change, but only *certain* changes can happen."
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> - Steven Johnson, *Where Good Ideas Come From: The seven patterns of innovation*[32]

Policy makers are often asked to think outside the box, slaughter sacred cows, or to look at policy problems with fresh eyes. They are praised when observers perceive their policies as radical, and criticised when these policies are identified as yet another instance of "policy as usual". These injunctions are useful for they remind policymakers not to be overly constrained by existing orientations and practices. Yet, they also understate the importance of path dependence and incremental change in policy making. Importantly, they understate the key roles played by capabilities, resources and processes (or the lack thereof) in enabling (or hindering) change. Though trite, observers often forget that policy making requires a whole range of skills starting from problem identification and ending with post-implementation evaluations of the effectiveness of schemes.

The actions of MOF's policymakers demonstrate that a gradual and relentless search of the adjacent possible can also give rise to significantly altered institutions. Steven Johnson offers a powerful imagery for understanding the concept of the adjacent possible, path dependence, and incremental changes that build up eventually to significant, radical ones: think of "a house that magically expands with each door that you open. You begin in a room with four doors, each leading to a new room that you haven't visited yet. Those four rooms are the adjacent possible. But once you open one of those doors and stroll into that room, three new doors appear, each leading to a brand new room that you couldn't have reached from your original starting point. Keep opening new doors and eventually you'll have built a palace."[33]

It is too early yet to tell how the measures announced in Budget 2009 will reshape the fiscal policy landscape in Singapore. Hence, it is not possible to use Budget 2009 to illustrate how policy innovation is often a process in searching for the adjacent possible. However, the dozen years that have passed since the implementation of the NSS makes it a suitable candidate for such a demonstration.

To begin with, NSS was not a radical idea plucked from thin air. Rather, it was a refinement of the Special Discounted Shares Scheme (Scheme) implemented in 1993 – a boom year.[34] The scheme aimed to make Singapore a share-owning society and to give Singaporeans a greater stake in the country. In a similar vein, NSS aimed to give Singaporean a stake in a New Singapore, which was the theme of Prime Minister Goh Chok Tong's 2001 National Day Rally where he articulated his government's intention of

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[32] Steven Johnson, *Where Good Ideas Come From: The seven patterns of innovations*, (London: Penguin Books, 2010): 31.
[33] Ibid.
[34] Straits Times, "New Singapore Shares idea was thought up 10 years ago," *Straits Times*, October 30, 2001.

building a New Singapore that was more deeply embedded in the global economy. Under the Scheme, Singaporeans could use their CPF savings to buy discounted SingTel shares in 1993 and in 1996. Citizens who held onto their shares qualified for loyalty shares, which were paid out on the first, second, fourth and sixth anniversaries of both SingTel Share offers. The loyalty shares were similar to the dividends of at least 3 per cent that were paid to Singaporeans who held onto their NSS. While the proceeds from the sale of the SingTel shares had to be saved in the shareholders' CPF Ordinary Accounts for retirement, Singaporeans were allowed to cash in their NSS to subsidise current consumption. This difference was a consequence of the change in the economic context: 2001 was a recession year.

The responsibility of administering the NSS fell on the CPF Board. This was, perhaps, to be expected since the CPF Board had all along been the agency giving effect to the CPF top-ups preferred by policy makers throughout the 1990s. It also administered the Scheme. But apart from historical coincidence, the CPF Board also had the capabilities to implement a scheme as massive as the NSS that MOF did not. An indicator of the magnitude of the scheme was the number of appeals the CPF Board received: 8,000 within the first 13 days of implementation.[35] CPF Board had significantly more operational staff than the lean MOF to deal with, among other things, large numbers of appeals. In addition, CPF Board was the only statutory board that had established processes for managing millions of accounts, of paying these accounts an annual interest, and of disbursing payments. These were processes that the CPF Board had refined and perfected in the course of executing its core function of administering the CPF system.

As noted, the rule used for allotting the NSS drew criticisms. Nonetheless, the Government persisted with using income and housing as the key parameters for targeting its cash transfers. It had, however, incrementally refined its method for measuring income and housing value. These refinements spanned three schemes – the NSS, the ERS and the 2006 Growth Dividends – and only stabilised in 2006. Whereas for NSS the income earned on a single month – August 2001 – was used, the income criterion was abandoned for the allotment of ERS, and, later, modified to taxable income earned over a calendar year (Assessable Income, or AI) for the disbursement of the Growth Dividends[36] in 2006 and all cash transfers since.

The shift from using a month's worth of income (NSS) to not using income at all (ERS), and then to using AI (Growth Dividends) was curious. This strangeness is compounded by MOF's claim that it would have been more equitable to allot ERS based on income, but that income was not used because an allocation based on income would have been "intrusive, costly and complicated".[37] But if disbursing ERS based on income was indeed more equitable, why didn't MOF use the AI criterion to target ERS as it did with the 2006 Growth Dividends? What happened between 2002 and 2006 that made it less intrusive, costly and complicated to use income to target cash transfers?

The answers to these questions are unclear. But a plausible reason might be the significant legal and time constraints that MOF faced when designing and implementing ERS compared with the Growth Dividends. In order for CPF Board to allot ERS by AI, it would have required data from the Inland Revenue

[35] Sim Chi Yin, "8,000 appeal to CPF for more shares," *Straits Times*, November 13, 2001.
[36] The Growth Dividends was a surplus-sharing scheme.
[37] Ministry of Finance, "Frequently Asked Questions," updated 2008, http://www.mof.gov.sg/ers/ers_faq.htm#AnnualValue (cited on 25 November 2013).

Authority of Singapore (IRAS) or from individual taxpayers. There were no legal provisions authorising the former in 2002,[38] and it was too onerous to implement the latter. MOF could have, of course, amended the Tax Act (which it did in 2004) to authorise IRAS to share information about the AI with CPF Board, but time might have been a limiting factor. Six months separated the 3 November 2001 General Elections from the announcement of the ERS during the FY2002 Budget on 3 May 2002. Given that MOF had also planned two off-Budget measures in 2001, with the second announced barely a month before the November General Elections, MOF could not have had more than half a year to design the ERS. Hence, it was little wonder that the ERS so closely resembled the NSS announced in August 2001. In short, MOF might not have had the time to use the first-best parameter and, therefore, had to settle for the next best, Annual Value.

Apart from arriving at a more stable targeting rule, the government also arrived at a new design for future cash transfers in 2006. The Government's experience with the NSS and the ERS led it to abandon the savings bond structure in favour of outright cash transfers deposited directly into the recipients' bank accounts. This approach was taken because many Singaporeans chose to cash in their NSS and ERS early instead of waiting for the dividends, despite the attractive interest rates offered.[39] Indeed, by 31 December 2012, slightly more than a year after NSS was implemented, over 70 per cent of Singaporeans had redeemed at least 75 per cent of their allotments.[40]

Discussion Questions

1. Why did the Singapore MOF have to pursue more counter-cyclical policies from 2001 onwards? How had the policy environment changed, and what capabilities did these changes require of MOF?

2. How did the measures announced in Budget 2009 mirror, and build on, earlier measures? What differences were there? What accounted for the differences?

3. How would you describe the process of policy innovation? How does the concept of the adjacent possible challenge popular notions of innovation? What does this characterisation of innovation mean for organisational capabilities and culture?

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[38] In 2002, however, there were no provisions under the Income Tax Act that allowed IRAS to share secret tax information with the CPF Board.
[39] Ministry of Finance, "Frequently Asked Questions," updated 2006, http://www.mof.gov.sg/progress/gd_faq.htm#purpose (cited on 25 November 2013).
[40] Pamela Qiu and Tan Li San, "Discretionary Transfers: Providing Fiscal Support in a Behaviourally Compatible Way," in *Behavioural Economics and Policy Design: Examples from Singapore,* ed. Donald Low (Word Scientific: 2011).

Annex A

Allotment of New Singapore Shares (NSS)

Employed Singaporeans (As at August 2001)

Monthly Income	Active NSmen	Inactive NSmen		Non-NSmen	
		Age < 62	Age >= 62	Age < 62	Age >= 62
Less than $1200	$1600	$1500	$1700	$1400	$1600
$1200 - $1999	$1200	$1100	$1300	$1000	$1200
$2000 - $2999	$800	$700	$900	$600	$800
$3000 - $3999	$600	$500	$700	$400	$600
$4000 or more	$400	$300	$500	$200	$400

Self-Employed Singaporeans (As at August 2001)

Monthly Income	Housing Type	Active NSmen	Inactive NSmen		Non-NSmen	
			Age < 62	Age >= 62	Age < 62	Age >= 62
Less than $1200	1-3 Room HDB Flats	$1600	$1500	$1700	$1400	$1600
	4 Room HDB Flats	$1200	$1100	$1300	$1000	$1200
	5 Room HDB Flats Executive HDB Flats	$800	$700	$900	$600	$800
	Multi-tier HDB Flats	$600	$500	$700	$400	$600
	Others	$400	$300	$500	$200	$400
$1200 - $1999	1-4 Room HDB Flats	$1200	$1100	$1300	$1000	$1200
	5 Room HDB Flats Executive HDB Flats	$800	$700	$900	$600	$800
	Multi-tier HDB Flats	$600	$500	$700	$400	$600
	Others	$400	$300	$500	$200	$400
$2000 - $2999	1-5 Room HDB Flats	$800	$700	$900	$600	$800
	Executive HDB Flats Multi-tier HDB Flats	$600	$500	$700	$400	$600
	Others	$400	$300	$500	$200	$400
$3000 - $3999	1-5 Room HDB Flats Executive HDB Flats Multi-tier HDB Flats	$600	$500	$700	$400	$600
	Others	$400	$300	$500	$200	$400
$4000 or more	-	$400	$300	$500	$200	$400

Non-Employed Singaporeans (As at August 2001)

Housing Type	Active NSmen	Inactive NSmen		Non-NSmen	
		Age < 62	Age >= 62	Age < 62	Age >= 62
1-3 Room HDB Flats	$1600	$1500	$1700	$1400	$1600
4 Room HDB Flats	$1200	$1100	$1300	$1000	$1200
5 Room HDB Flats	$800	$700	$900	$600	$800
Executive HDB Flats Multi-tier HDB Flats	$600	$500	$700	$400	$600
Others	$400	$300	$500	$200	$400

Source: Ministry of Finance, "Allotment of NSS," updated 2008, http://www.mof.gov.sg/ers/nss_faq.htm#q2 (cited on 27 November 2013).

Annex B

Allotment of Economic Restructuring Shares

ERS per Person

Year	Annual Value of Your Home	
	Up to $10,000 (This includes almost all HDB flats)	Above $10,000
2003	$400	$200
2004	$400	$200
2005	$400	$200
Total	$1,200	$600

Source: Ministry of Finance, "Allotment of Shares," updated 2008, http://www.mof.gov.sg/ers/ers_faq.htm#AllotmentofShares (cited on 27 November 2013).