Singapore policy options get an airing

Forum wades in on issues from property prices and Sing dollar to immigration

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(SINGAPORE) Talk of reform and review following the recent watershed election set the tone for the latest Singapore Economic Roundtable (SER), where participants debated policy options and trade-offs facing Singapore's newly elected government.

Policies discussed by the larger than usual turnout of over 40 private and public sector economists, academics and businessmen ranged from hot-button election issues such as immigration, housing and transport to economic growth and productivity, as well as monetary policy.

The 15th round of this twice-yearly forum on Monday, held by the Institute of Policy Studies under Chatham House Rules (participants and affiliations can be only named with their consent to encourage freer sharing of views), also saw a heavier dose of political economy.

Speaker Credit Suisse economist Wu Kun Lung said Singapore's rapid gross domestic product growth in 2009 and 2010 was more than a cyclical rebound. That growth, he says, was made possible by Singapore's openness to trade, foreign direct investment and especially people. Its population grew an average annual clip of more than 3.5 per cent over the 2005 to 2009 period - significantly above the 0.5 to 2 per cent population growth rate witnessed by other Asian economies, he said.

Unhappiness over how the growth in immigrants has put pressure on public infrastructure and prices has been a key cost of rapid growth, along with high inequality and inflation, Mr Wu said. But tightening inflows - by imposing lower quotas and higher foreign worker levies - has its costs too. He thinks slower growth is on the cards, and says the old-age dependency ratio could rise more quickly with fewer working-age people entering an ageing Singapore.

The current national drive to boost productivity is not necessarily a 'cure-all' either. Last year's labour productivity jump was largely cyclical, and longer-term means of boosting labour productivity growth have trade-offs. For instance, importing more skilled labour may widen the income gap and push the cost of living up further, but boosting the skills of local workers is slower.

In the discussion that followed, one participant said that to address the issues of growing inequality and retirement support, 'direct and targeted subsidies could be more efficient than relying on appreciating HDB flat prices, which could generate a nationwide bubble'.

Several voices weighed in on the immigration policy from the business sector too. One said SME owners see these measures, meant to boost productivity, as 'forcing them to jump out of the boat, but they don't know where to jump to'.

But the impact on larger multinationals has been more limited, said Phillip Overmyer, Singapore International Chamber of Commerce chief executive. 'MNCs largely hire foreigners in two capacities - ones who are here for a short period to learn and ones with specialised skills we don't have in Singapore,' he said, adding that for these, it is non-wage costs increases which have been more dramatic in recent months.

Other factors are at play in the tight labour market too. 'There is still a mentality of 'I don't serve people' which hinders many local workers from taking up service jobs,' Mr Overmyer said. Could this cultural aversion to service jobs be due to the widespread employment of foreign domestic maids, another participant asked.

Looking at the broader challenges to macro policymaking, one participant urged against a conflation of monetary and immigration policies and their respective objectives of keeping prices stable and drive long-run economic growth.

Yet another voiced the need to 'move away from the straitjacket of one instrument, one target' policymaking.

The use of the exchange rate regime as Singapore's monetary tool of choice was questioned too. 'With the Prime Minister now talking about no policies being sacrosanct, one question we might ask is: Does that include the Sing dollar policy?' asked Joseph Tan, Credit Suisse Private Banking economist. 'We've been steepening the slope but with limited effect on inflation, perhaps it is time to ask whether that policy may be due for review.'

Raising the matter from a different angle, OCBC economist Selena Ling asked if pressure to tighten immigration policy could mean a 'structurally higher inflation rate for Singapore in the future', and if so what this could mean for the use of the exchange rate to manage inflation.

Still others cautioned that as the economy exits from an unusually difficult crisis, there is a need to be 'more circumspect' about interpreting events to argue that 'fundamental changes need to be made'.

One participant noted that while inflation dynamics this year are complex, inflation has not shown worrying signs of persistence yet.

Also invited to speak at Monday's roundtable was University of Cambridge economist Ha-Joon Chang, known for his work in development and capitalism. He said that the debate should no longer be over whether industrial policy is right or wrong, but how to wield it well.

While hesitant to 'teach Singapore how to run its economy', one suggestion he did float was that more could be done to commercialise research and development efforts here.