

Fiscal Management of Reserves in Singapore: An Intergenerational Equity Perspective

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Executive Summary

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“What is the deepest obligation of any government? It is not to the present, and certainly not the past, but to the future.”

The above was stated by founding Prime Minister of Singapore and then-Senior Minister Lee Kuan Yew in 2001, during a parliamentary hearing to a Bill moved by then-Finance Minister Richard Hu, to allow the government to use part of the returns of investment from Singapore’s reserves. But is there broad-based agreement amongst Singaporeans with this statement today?

Reviewing the discourse from the turn of the century to the present day, it is evident that concerns of intergenerational equity – of being *fair* to each generation; of our obligations to each generation – very much dominate our discourse regarding the fiscal management of Singapore’s reserves.

However, what is less discussed is what we mean by achieving intergenerational equity; what we mean by *fairness* between generations; and what standards do we apply to determine if there is indeed *fairness* between generations. Certainly, founding Prime Minister Lee Kuan Yew set his stall out by arguing that each generation has a greater obligation to the next rather than the present. But that is unlikely to be a universal opinion.

Reviewing the theories of intergenerational equity, this paper distils four principles of intergenerational equity that would be applicable to the fiscal management of Singapore’s reserves:

- (1) maintaining a minimum threshold for each generation,
- (2) achieving, or at least moving towards, an egalitarian society within each generation,
- (3) each generation passes on what they had received from the previous generation, and
- (4) each generation paying for what they benefit from.

These principles provide some answers as to what fairness between generations could mean, and what kind of standards of fairness we could apply.

They also allow us to make sense of the discourse in Singapore regarding the fiscal management of its reserves and concerns of intergenerational equity. This paper analyses the discourse with respect to the principles of intergenerational equity and yields four insights:

Firstly, the rhetoric of practicing prudence now in order to build up the reserves to adequately stave off investment risk can be read as reflecting concerns of needing to maintain a minimum threshold of resources for future generations.

Secondly, some in Singapore also argue for the need for reciprocity in the fiscal management of the reserves. But the notion of reciprocity embedded in the discourse in Singapore goes beyond merely passing on the resources each generation has received from the previous generation – it entails reciprocating the spirit of saving up and building for the future. This goes beyond the notion of reciprocity expressed in the theories of intergenerational equity.

Thirdly, arguments for utilising more of the returns from investing the reserves in order to alleviate inequality in present and future generations coheres well with the principle of intergenerational equity predicated on moving towards an egalitarian society.

And last but not least, although some assert that certain generations are particularly deserving or undeserving of benefiting from the reserves by applying the logic of each generation having to pay for what they benefit from, such an argument likely needs to be relooked given the major role demographic dividends had in building up Singapore's reserves. Because demographic dividends are both a one-off phenomenon and are accompanied by a "reverse dividend", it is unclear if it possible to clearly identify particular generations as having "paid" for the reserves. It may be more useful to think of all generations as having implicitly "paid" for the reserves, and hence also be privy to benefit from it.

Such an understanding of the discourse can provide a foundation to drive future debate on the appropriate policies to achieve intergenerational equity regarding the fiscal management of Singapore's reserves.