

## Investing in an inclusive society

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*This is an edited excerpt of remarks made by Mr Tharman Shanmugaratnam, Deputy Prime Minister and Minister for Finance and Manpower at the Institute of Policy Studies' Singapore Perspectives 2012 conference this week.*

BUILDING a fair and inclusive society is at the heart of our role as Government.

It is about both social and economic strategies, as they are bound inextricably together. The first question we must always ask ourselves is: how do we make our living in the world? How does Singapore move up in manufacturing, how do we gain appeal as a global city, in services, and how can we ensure that those who do well are not just those in the top 20 per cent but also average Singaporeans and those in the bottom 20 per cent of incomes?

The story of how China and other emerging countries have depressed wages for low-skilled jobs all over the world is well-known. But the next chapter has also begun. Pressure is shifting to the middle of the workforce, as more white-collar jobs are replaced by technology or cheaper competition. The result has been stagnant middle class incomes in most developed economies, in some cases a real decline over more than a decade.

An inclusive society therefore starts with economic strategies - competing in the global economy in a way that everyone gets pulled up. We are putting great effort and resources into this - raising the quality of every job, the skills and expertise of every worker, and giving them the confidence that they will be able to stay in demand.

Second, we need social strategies to deal with the challenge of inequality. We have a higher Gini coefficient in Singapore compared to most larger countries, because we are a global city. Hong Kong, London, the key American cities, and the leading Chinese and Indian cities in fact have somewhat higher inequality than Singapore.

But we cannot resign ourselves to widening inequality. Unlike these other cities, we are a country. We have to try to contain inequality, and ameliorate its effects on our society.

The most important way must be to spread out opportunities from young, and preserve social mobility. And just as important, we must preserve a sense of compact among Singaporeans, a sense of obligation on the part of those who are doing well to help others in their own society. We cannot build an inclusive society without that spirit of inclusiveness. It is not just a matter of getting the right government policies.

We still have reasonable mobility in our schools. Look at the PSLE (Primary School Leaving Examination). Among students from the bottom third of socio-economic backgrounds, half do well enough to end up in the top two-thirds of the PSLE cohort. And one out of every six from the bottom third ends up in the top third. Not many school systems see that among 12-year-olds. And if we look at children who live in one- to three-room HDB flats, almost half of them eventually make it into university or polytechnic. This is an unchanged proportion compared to a decade ago.

We know that it will get more difficult over time to sustain mobility. That's why we have to do more, and especially to do more upstream. We have to try new ways to help kids from

disadvantaged families gain confidence in their early years, and find their strengths as they go through the school system.

Let's also intervene actively to help them in their teens, when some inevitably find themselves at a loose end. Get them engaged in CCAs, give them responsibilities, and not just to keep them in school for the day but so they can enjoy school. Much better that we intervene upstream than wait for problems to surface later.

We are also tackling some worrying, more complex trends among families - those that go through early divorces, or where one or sometimes two members are incarcerated, and the children lack the normal sense of a family. These are still micro trends, but we must prevent them growing, and prevent a permanent underclass forming over time. We have to address these problems early, and especially help the kids stay on track.

Thirdly, we have to redistribute. Our fiscal policies must be progressive, which means most of the benefits being received by lower income citizens and most tax revenues being paid by those at the upper end.

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The key question is how we do this. How do we maintain and strengthen our progressive slant, do more to support those at the lower end, while ensuring that we remain a society where at the core, people do have a deep sense of responsibility for their families, do want to work hard to improve themselves, and take pride in being part of a society where everyone moves up together that way? Progressive-minded people have to be deeply concerned about this, not just social conservatives.

It means intervening boldly to help lower income families, but focusing on the right areas. We're doing more to support them in education; to make jobs pay better for them through Workfare and training; to enhance housing grants so lower income couples can own their own homes; and to ensure they can afford good quality health care through targeted subsidies as well as Medifund.

Adding it up, we have made this a more progressive fiscal system over the last 10 years. It may seem counter-intuitive, because we lowered income taxes and raised the goods and services tax (GST), which taken on their own would have been regressive moves. But a fiscal system can only be evaluated by looking at both taxes and benefits received by the population, not either one by itself. Lower income Singaporeans now receive more benefits, even after deducting the extra GST they pay. Through education, work, housing and health care, we have tilted the system further in their favour.

We must also keep the tax burden on the middle class low. That's an essential feature of our system, and we are quite different from most developed countries in this regard. Some of them have highly progressive systems - with large benefits for the poor and certain other groups, but the quiet fact is a high tax burden on the middle class (even after netting off the benefits they receive in return). The reality of the matter is that it is not just the rich who pay

for their welfare systems. In Britain, for example, despite very high top rates of income tax, the top 10 per cent pays a lower share of total taxes than in Singapore.

There is more that we want to do. This includes how we help older Singaporeans meet their needs - help them if they wish to stay employed, and help ease their fears over medical costs. They may be short of savings too, but have value in their homes which can be unlocked. It does involve some change in attitudes, a willingness to downsize, but look at what's happening with studio apartments. They are a real hit with the elderly - not just nicely designed, but small units with 30-year leases, so they get significant savings by downsizing from their existing flats.

Our policies are not sacrosanct. But let's keep a sense of perspective as we discuss how we should evolve and improve them. We have a system that has preserved low unemployment. Our median incomes have continued to grow over the last decade and especially over the last five years - more than in countries at the same level of advancement. The average citizen's income is one of the highest in Asia and higher than in several developed countries. Our median income level is about 20 per cent higher than in Hong Kong, 30 per cent higher than in Korea and Taiwan, and similar to the UK - all adjusted for PPP (purchasing power parity) using the World Bank's estimates, so this measures real standards of living. Even if we allow for possible imprecision in estimates, the conclusions are clear. Our strategies are not doing badly for average Singaporeans.

A last point, but an important one. As we take further steps to build an inclusive society, we must be able to sustain what we do financially and not store up problems for the future. Short political horizons are never helpful. It is how most of the developed countries built up public spending in excess of revenues even during their youthful and rapid growth years, and now find themselves with unsustainable debts just as their societies age. Japan, the US and many European countries will have to spend a significant part of their government budgets each year - 3-4 per cent of GDP - just to service their debts. They will need painful cuts in spending to bring down these debt burdens, but it will take time. We are in the reverse position. We used our rapid growth years to accumulate savings, and are now in the unusual position of being able to add over 2 per cent of GDP into our budget each year, by drawing on income from our reserves.

We have to preserve a system of sustainable finances, so that we keep this position of strength as we address our challenges of helping the elderly live well, and keeping social mobility alive. It will allow us to invest in an inclusive society not just for two or three terms of Government, but for our children's generation.