As S'pore grows at 2 speeds, economists want help for slow lane

Lee Ching Wern
Today, 12 January 2007

WHILE globalisation has integrated the world into one huge playground, Singapore seems to have split itself into two different economies. One is zipping ahead, the other is just inching forward. And this is squeezing those stuck in the slower economy.

Businesses catering to global markets have taken wing, but companies serving the domestic markets are lagging behind as private consumption is growing at only 3 per cent — or less than half the GDP expansion of 8 per cent — said economists at an Institute of Policy Studies forum yesterday.

In 2003, locally-controlled companies had business returns of 9.3 per cent while foreign-controlled ones netted 14.5 per cent.

"Local businesses, who employ many of our workers, have consistently underperformed in terms of return on liquidity. Why? Is there something about the policy environment that makes it difficult for them to grow?" said Mr Manu Bhaskaran, economist and IPS' adjunct research fellow. Against this backdrop, he said that Singaporeans in the lower- and middle-income group had seen a drop in their real wages over the past few years.

Citing numbers from the Department of Statistics, Citigroup economist Chua Hak Bin pointed out from 2000 to 2005, incomes for poorest 30 per cent actually dropped.

Even the so-called lower middle-class households, those in the 30th to 50th percentile, barely saw their wages grow. So once the average inflation rate of 1 to 2 per cent is factored in, it means that the incomes of almost half the population have either fallen or not grown since 2000.

"If wages (for the lower to middle income group) continue to decline over the next seven years, Singapore will begin to have a real underclass, which will result in social instability ... Which group can sustain seven to ten years of poor growth?" said Mr Yeoh Lam Keong, vice-president of the Economic Society of Singapore.

To be fair, the Government has recognised the problem and has decided to arm itself with a large war chest, funded partly by the expected 2 percentage point increase in GST, precisely to address the problems of those who risk getting left behind. It has identified workfare as a key plank to help those in need.

The gap is growing and the richest 10 per cent of households — with an average monthly income of $16,480 — saw their wages increase at a healthy clip of 2.8 per cent annually between 2000 and 2005. During the same period, the Gini coefficient — which measures income disparity — has grown from 0.49 to 0.522. The larger the Gini coefficient, the more unequal the income distribution.

In fact, World Bank figures show that the wage gap in Singapore is higher than that in the United States, IPS chairman Professor Tommy Koh pointed out. But that is a problem that many countries are grappling with.

What made things more difficult for some segments in Singapore was CPF restructuring, which was aimed at lowering business costs and making older workers more employable. Employer contributions towards their accounts were reduced — and this obviously hit them.

"I think there's probably some justification to look back and think that the restructuring was a bit too aggressive on the CPF side and it has contributed to a very sandwiched middle class," said Dr Chua.

He applauded the latest move to partially restore CPF cuts and economists also supported the larger social safety nets being put in place.

Economists also wondered if Singapore needed to review its foreign labour policies. While they reduced costs, the influx of foreign labour in some sectors had reduced the incentive for employers to increase productivity and also kept wages down.

"Does this dampen our real wages as we grow? They are sacred cows but we should step back and think about them," said Mr Yeoh.