

**THE POLITICS OF SUSTAINING INCLUSIVE  
GROWTH AND SOCIAL INCLUSION**

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SOCIAL INCLUSION**

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**IPS Working Papers No.23****THE POLITICS OF SUSTAINING INCLUSIVE GROWTH AND  
SOCIAL INCLUSION****Abstract**

There has been a growing interest in social policies in Singapore over the past few years as a result of trends such as the fast-greying population, rising income inequality, concerns over the cost of living in a global city, the socioeconomic impact of an expanding foreign workforce, and greater economic volatility. Policymakers, academics and public intellectuals in Singapore are concerned about the implications of these trends for income and old age security, affordability and liveability, and social mobility. Many are attracted to the welfare system of the Nordic states which seems to have provided universal social support without eroding economic vibrancy, and are commonly described as egalitarian societies that seem to be fiscally sustainable.

In late-2013, a team from the Institute of Policy Studies visited Finland and Denmark to speak to academics, public intellectuals, union leaders and journalists to understand, in their own words, how the welfare system works in these two small countries and open economies.

This working paper records the findings of the project and discusses the key principles that underpin the Danish and Finnish welfare states. The paper

reflects on the critical issues that must be considered if Singapore were to adopt the welfare state model.

Three key points that emerge are first, that the welfare state in the countries studied are seen as legitimate and are broadly supported by the middle class. This is possible because it is designed around principles of universality, efficiency, and the assurance that benefits will not be abused. It is also founded on an inter-generational understanding that each generation will leave the system on as sure and firm a footing as it was received. Second, that the welfare state is a system where social inclusion, economic competitiveness and environmental sustainability are intimately interconnected and are held together by a system of participatory democracy. Piecemeal adoption of parts of the system will result in sub-optimal outcomes. Also, this political system provides the flexibility for reform based on a broad political consensus around the key values and social norms referred to in the first point. Third, the political system and the welfare state in these countries are grounded on a strong sense of social solidarity and a distinct political vision and narrative.

At the same time, the paper provides a discussion of how the two systems have responded to the challenges of immigration and ageing, and how these long-term trends have forced both systems to adapt. It reviews the reforms in retirement policy and analyses the reforms using four models of policy change.



The oft-heard predictions of the impending demise of the Nordic model due to its lack of fiscal or political sustainability are unfounded, based on the views gathered in this research project. What is also obvious however is the adaptation and political flexibility that exists, which allows the general system to be reformed in a highly engaged process of public discussion, debate and consensus-building.

The question is whether Singapore's political actors, its middle class and the public in general are, in a similar manner, bonded by high levels of social trust and solidarity, and the democratic practices of engagement and consensus-building that will allow the country to take that leap into a different model of collective responsibility here.

## THE POLITICS OF SUSTAINING INCLUSIVE GROWTH AND SOCIAL INCLUSION

“If we want things to stay as they are, things will have to change.”

Giuseppe di Lampedusa, *The Leopard*

“...we talk about never-ending reforms of the welfare state; because of the dynamic in the global economy, we can never stop our reforms...we always have to adapt.”

Ove Kaj Pedersen

Professor of Comparative Political Economy, Copenhagen Business School  
Interview on 27 September, 2013,

### 1. CHAPTER 1

#### 1.1 Introduction

There has been growing interest in social policies in Singapore over the past few years as a result of trends such as the fast-greying population, rising income inequality, concerns over the cost of living in a global city, the socio-economic impact of an expanding foreign workforce, and greater economic volatility. Policymakers, academics and public intellectuals are concerned about the implications of these trends for income and old age security, affordability and liveability, and social mobility. Different policy suggestions have been put across by academics, public intellectuals and opposition politicians to strengthen social support and social safety nets in the areas of healthcare, childcare and education, retirement funding and income support. Many are attracted to the ideal-type of the Nordic welfare state that is defined by universal social support systems that do not seem to have stymied the work ethic, undermined economic competitiveness or left state finances in a shambles. Those societies are widely recognised as egalitarian, competitive

and democratic and are therefore attractive models for Singapore's social policy to advocates of reform.<sup>1</sup>

In response, the broad consensus among policymakers so far is that Singapore needs to strengthen its social safety nets but that this should be done in a way that does not undermine Singapore's economic dynamism, erode individual incentive to work and is fiscally sustainable. This was what Deputy Prime Minister Tharman Shanmugaratnam said as far back as 2007 when he delivered his Budget Speech as Minister of Finance. More recently, in his National Day Rally Speech in 2013, Prime Minister Lee Hsien Loong discussed how the country needed to make a strategic shift so that the Government and the Community do more to strengthen social safety nets and ensure that the paths to success and upward social mobility are available to all Singaporeans. The concern is that government support is provided in a way that does not over-burden the current and future generations of working-age, tax-paying Singaporeans. The country cannot be 'kicking the can down the road'. Instead, the guiding philosophy has been that each generation has to take care of itself even if there are to be policies that bring about a greater redistribution of wealth and stronger social safety nets.

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<sup>1</sup> See for example the discussions within the government about the need to strengthen social safety nets through redistributive policies in *Ethos*, Issue 3, (Civil Service College, October 2007) and in a volume called *Rethinking Poverty and Social Mobility* (Civil Service College, 2010). See also essays by civic activists and public intellectuals like Ng, I. Y. H. (2013); Koh, T. (2013); Mathi, B and Mohamed, S, (2011); and Low, D and Yeoh, L.K. (2011); and Bhaskaran et al., (2012).

While many stakeholders agree on these principles, they differ on the type and extent of the social security reforms necessary. For example, with regard to income security, the Economic Society of Singapore (2010) has called for a wage loss insurance scheme that would help provide “great protection against the risks of involuntary unemployment and income volatility” (p.11). The Singapore Democratic Party (2013) has suggested introducing a single-payer universal healthcare system. The government has also made some moves towards this with the recently announced MediShield Life scheme, which will provide catastrophic health insurance cover to all Singaporeans for life.

This project aims to anticipate some of the political challenges that are associated with policy changes aimed at sustaining inclusive growth and social inclusion in Singapore. Inclusive growth can be thought of as economic growth which as many citizens as possible find they have the opportunity to participate in and benefit from. There should be as few hindrances as possible to economic participation. Both labour market policies and activist social policies are usually necessary to reach this goal of inclusive growth as markets that are left on their own do not have this goal or are unable to achieve this.

The idea of social inclusion involves designing public policy around the ideal that no citizen should be denied services which most people would regard as essential for a minimum standard of well-being – housing, healthcare and education, for instance. Or if a more demanding definition of social inclusion is used, then all hindrances to participation in the socio-economic life of a

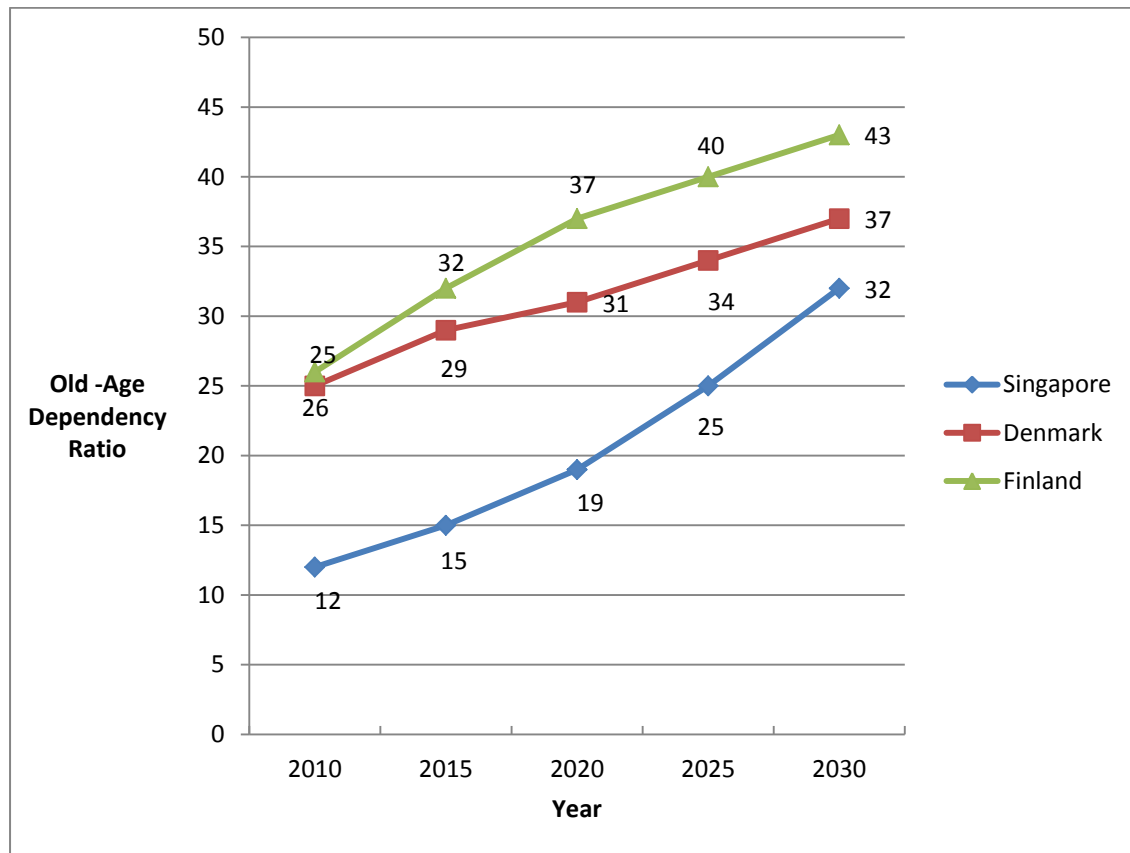
country should be removed. This principle ensures that the needy, the disadvantaged, and their families are sought out and aided so that opportunities for advancements are accessible to them.

There are various methods of achieving this, and the welfare states in developed countries have historically pursued different approaches. Esping-Andersen's 1990 typology of welfare states comprises three models – the Nordic model, the Continental model and the Anglo-Saxon model.

The Nordic model takes a universal approach that comprises relatively generous safety nets that are twinned with a higher rate of taxation. The Anglo-Saxon model of residual welfare seen in the United Kingdom and the United States adopts a more targeted approach financed by relatively lower tax rates. The Continental model's safety nets, by comparison, are built by using the contributions of the workers in the countries that practice it.

The political challenges faced by other countries as they pursue inclusive growth emerge from a variety of factors: changing demographics, fiscal constraints, socio-political demands, and increased political contestation and pluralism. The two countries studied in this project – Denmark and Finland – illustrate some of the future challenges Singapore will need to anticipate face as it expands its social safety nets or social support system more generally. They also show us how some of these challenges can be managed successfully.

**Table 1: Estimated increase in Old-Age Dependency Ratio between 2010 and 2030**



Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, *World Population Prospects: The 2012 Revision*, <http://esa.un.org/unpd/wpp/index.htm>

Denmark and Finland were chosen in this research project as they are examples of small, open economies with social democratic welfare states. They have population sizes similar to that of Singapore. Both are also grappling with ageing populations. In Denmark, the proportion of the population aged 65 and over to the working-age population (the old-age dependency ratio<sup>2</sup>) is expected to rise from 24% in 2004 to 40% in 2035; age-related public spending already accounts for almost 30% of GDP'. In Finland,

<sup>2</sup> The Old-Age Dependency Ratio is the ratio of the population aged 65 years of age and over to the population aged from 15 to 64 years of age.

the old-age dependency ratio is expected to rise from 26% in 2009 to 45% in 2030, one of the highest ratios among OECD countries. This is similar to Singapore, whose citizen old-age support ratio will decline from 6.3 in 2011 to 2.1 in 2030 (the old-age support ratio is the obverse of the old-age dependency ratio and measures the proportion of the working-age population to the population aged 65 and above.) Figure 1 provides the picture in demographic projections calculated on the same basis from United Nations sources.

A qualitative study based on interviews with key informants was undertaken in October to November 2013. The study team met 21 people knowledgeable about the welfare state in their respective countries – eight in Denmark and 13 in Finland (See Annex 1). The lists of potential interviewees were drawn from a wide range of sectors: university academics, think tank researchers, civil servants, journalists, and trade unionists. We are grateful to the 21 individuals who eventually agreed to speak to us. Their views have informed the writing to this paper and they are also quoted with permission.

Chapter 2 of this report will review the different sources of pressure for policy change and the various explanations for how policy changes happen based on a review of academic literature in relation to welfare states. The reforms in retirement policy that have taken place in Denmark and Finland over the past decade are discussed as examples of reform in social policy in Chapter 3, along with findings from the semi-structured interviews. This area of

retirement policy was specifically selected as it is an area of public policy that is being reviewed in Singapore currently.

Our broad conclusion is that the support of key stakeholders in the welfare state – the electorate, unions, businesses and any special interest groups – and the perception that the welfare state is legitimate are critical to its political and financial sustainability. And this support is sustained through a social and political consensus around some key tenets of the social compact among these groups. This is presented in Chapter 3, which also discusses who has borne the burden of reforms to retirement policy, the increased emphasis on the responsibilities that come along with the rights of citizens in the welfare state, and how the balance between universalism and fiscal sustainability has been struck in response to the challenges of an ageing population and rising immigration.

In general, we found that support for the welfare state remains high in both countries; it enjoys broad-based support across the political spectrum. This is mainly because the welfare state has managed to adapt to challenges without abandoning the basic and most critical principle of universalism. Interviewees described how the universal nature of the welfare state gives it the support of the majority of the population and most critically, the middle class. Also, the universal coverage of the welfare state's programmes and the efficient manner they are delivered go a long way in legitimising the welfare state in Denmark and Finland.



While reforms have taken place over the past decade, these have been driven more by the need to contain costs in certain areas for the long-term fiscal sustainability of the system rather than an ideological desire to retrench or shrink the welfare state. These reforms do not represent a fundamental shift away from the basic idea of universalism and are instead part of an adaptive process in welfare states where policies are continually reformed in response to changing needs and emerging challenges.

The strength of the welfare state in Finland and Denmark comes from more than just public support. It is part of a unique ecosystem comprising an interconnected triangle of competitive economic policies, sustainable environmental policies, and inclusive welfare policies, with participatory democratic politics at its heart.<sup>3</sup> This welfare state structure is built on a set of values that have become part of the country and citizens' identities over time. Within this structure, social norms both influence and are influenced by this ecosystem. An interviewee described the role of history and the reciprocal relationship between public opinion and the welfare state: where the former affects the type of welfare policies introduced. The experience of living in a welfare state in turn affects public's attitudes towards the welfare state and social norms related to the welfare state.

If Denmark and Finland demonstrate that welfare states are able to adapt constantly to new challenges once the policies, institutions, and social norms

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<sup>3</sup> These three points came up several times as both the supporting pillars and the goals of the welfare state, as described by this working paper's interviewees.

surrounding the welfare state have been established, what does this mean for Singapore? The last section of this report considers the specific context of Singapore and whether a different model of collective responsibility for inclusive growth and social inclusion can be introduced effectively here.

## 2. CHAPTER 2

### 2.1 The Nordic Welfare Regime

Denmark, Finland, Norway and Sweden are generally classified in Esping-Andersen's 1990 typology as belonging to the Nordic (or social democratic) welfare regime. This regime aims to "protect and increase the freedom of *each and every individual* member of society (emphasis in original)". It is characterised by comprehensive, universal or near-universal services that are provided by a large public sector. These benefits are not tightly restricted and are available to most of the population based on citizenship status. The benefits provided by the state are also relatively generous when compared to other welfare state regimes in the Esping-Andersen typology such as the Continental and Anglo-Saxon regimes described below, and when compared to average income levels. The level of vertical redistribution – between the rich and the poor – is also very high; the Nordic welfare regimes reduce inequality (as measured by the Gini coefficient) by the largest margin among all OECD countries.

However, the high level of spending is supported by the equal emphasis placed on the importance of work. Kvist et al. (2012) write that work is seen as "both a goal and a means", whereby "having a job is understood as being the key to achieving autonomy and emancipation" (p. 6) and where it is also important for maintaining the sustainability of the model. They highlight that the Nordic model is not "a paradise for the work-shy" (p. 7) as there are a myriad of policies that aim at full employment – "education, active labour market policies, childcare, taxation, social assistance, healthcare and various

forms of social care all have the aim of enabling participation in the labour force, and more generally, in society at large” (p. 7). As a result, Nordic welfare states have high levels of labour participation by both men and women alongside high welfare benefits, and replacement rates<sup>4</sup>.

The Nordic welfare regime stands in contrast to the Continental (or conservative) and Anglo-Saxon (or liberal) welfare state regimes in Esping-Andersen’s 1990 typology. In the Continental regimes, the aim is to preserve and reflect existing inequalities in society – one’s eligibility for most social security programmes such as unemployment insurance and retirement benefits is tied to one’s occupation. This leads to cleavages between ‘insiders’ who are in the workforce and ‘outsiders’ who have weak links to the workforce. Here, redistribution is mostly structured horizontally – where “people of working age both *pay back*, through tax and social security contributions, what they have received, and *pay towards* their retirement (emphasis in original)” (p. 8). Austria, Belgium, France, Germany and the Netherlands are countries that have Continental type welfare state regimes.

In further contrast, the role of the state is even more limited in the Anglo-Saxon welfare state regime – it is to provide targeted and low levels of benefits to those who cannot provide for themselves. Outside this limited state assistance, social security is provided by the market to the bulk of the population. Here, the levels of vertical and horizontal redistribution are both

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<sup>4</sup> The replacement rate is the ratio of the welfare benefits individuals receive to the wages received previously.

low. Australia, Canada, Ireland, New Zealand, the United Kingdom and the United States are examples of Anglo-Saxon type welfare state regimes.

## **2.2 Electoral Politics - Sources of Pressure for Welfare State Reforms**

The pressure to reform the welfare state comes from individuals and groups such as unions, businesses, and special interest groups. This section discusses the attitudes and subsequent behaviour of these actors with regard to the welfare state.

### **2.2.1 Voters**

In democracies, the most direct way for public opinion to shape policy change is through elections. The median voter theorem provides an explanation for the behaviour of political parties in a majoritarian political system: if all voters were lined up according to their preferences on a one-dimensional spectrum, political parties on either side of this spectrum (for example, from left-wing to right-wing) would design their campaign to win the votes of those in the electorate up till and including the median voter. This predicts that the median voter will have an outsized influence on electoral politics.

Much has been written about the difficulties of welfare state reform as a result of self-interested electorates who have a stake in maintaining the benefits they receive (Kangas, 1997; Pierson, 2002). Pierson (2002) argues that the welfare state has an extensive reach – “many voters who do not currently receive social benefits expect that they will at some point in their lives. Or they

may be in the same household with someone who receives benefits from, or is employed by, the welfare state” (p. 371).

However, Forma (1997) has argued that this understanding of individual self-interest is too simplistic – that people are also concerned about the benefits or costs that policy changes might have on their family (including future generations) and relatives, friends, and fellow citizens.

While economic self-interest clearly influences some part of voters’ decision-making, there are also many other factors at play. Such factors include ideological and religious values; cultural and national identities; social values and norms of the societies. The welfare state in most Nordic countries goes beyond merely providing benefits to citizens and concerns about the system are more than about the corresponding financial costs of taxation. It is built on a set of values – a brand of liberty, social equality, justice, and universalism. These form part of the country’s and citizens’ identity over time. As a result, while financial self-interest may influence voting decisions, other factors may be just as significant.

Esping-Andersen (1990) also argues that there is a feedback mechanism in welfare states where the type of policies introduced in turn can affect the level of support for the welfare state. According to this view, support for the welfare state is hence expected to be highest in the Nordic welfare regime and lowest in the Anglo-Saxon welfare regime. These policies are built on, and help to reinforce, the social norms and institutions that legitimise the welfare state.

Support for the welfare state is likely to have several dimensions, and a voter can support some of those dimensions but not others. Sihvo and Uusitalo (1995) argue that support for the welfare state is complex and comprises several main attitudes – who should be responsible for providing welfare; who should finance the welfare state; “perceptions of the over- and underuse of welfare state benefits”; how adequate the welfare state is perceived to be; whether the welfare state has been successful in “equalizing the distribution of incomes and living conditions” and if receiving welfare benefits makes recipients passive (p. 216).

In their study of a representative sample of 2034 adult Finns, Sihvo and Uusitalo found two clusters of attitudes. The first cluster is supportive of the welfare state and is based on the belief that ‘income transfers are not sufficient’ and that the amount and quality of public services provided are insufficient. Those in this cluster also have a “favourable attitude towards public financing” and “a bias towards public responsibility” (p. 222). Those in the cluster that is critical of the welfare state believe that benefits are being misused and that the welfare state makes people passive. They also have a “negative attitude towards public financing” and “a favourable attitude towards private responsibility” (p. 222)<sup>5</sup> .

In a later study, Muuri et al. (2012) analysed data from a 2009 sample of 1824 adult Finns and found that their responses suggested that “support for [the]

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<sup>5</sup> It was not indicated in the study which cluster was more prominent.

Finnish welfare state among Finnish residents is strong and stable: there are few signs of decreasing public support for welfare policies”. There is also support for maintaining “the most important features of the Nordic welfare state, such as the pivotal role of the public sector in the production and funding of services” (p. 68-69). However, there were some nuances in support across demographic groups – younger respondents were less likely to have universalistic attitudes than those who were older and those who were in temporary employment and affected by the recession at the time were more likely to have universalistic attitudes.

Jæger (2013) found that there are two main dimensions of support for the welfare state in a study of 12 developed countries including Denmark and Finland. The first dimension is support for redistribution – “people’s beliefs about the overall desirability of the welfare state and thus their attitudes towards fundamental welfare state principles” (Kvist et al., 2012, p. 48). The second dimension is the opinion about who should receive welfare benefits and services – the size of those considered to be deserving of support.

Three types of welfare state supporters were identified from these two dimensions – those who supported an unconditional welfare state model; those who supported a conditional welfare state model; and welfare state sceptics. Those who supported an unconditional welfare state model were highly likely to agree that the “government should be responsible for redistributing income, providing jobs for everyone, providing a decent standard of living for those who are unemployed and older people, and



providing healthcare for those with ill health” (Kvist et al., 2012, p. 54). Supporters of a conditional welfare state were less likely than supporters of an unconditional welfare state to agree with the statements above, but they believed that “the government should be responsible for providing for older people and those with ill health” (Kvist et al., 2012, p. 55). Welfare state sceptics were least likely to agree with the statements above.

Jæger (2013) looked at the distribution of people belonging to the welfare state support types mentioned above, across countries. In 2006 in Finland, almost 70% of the population supported an unconditional welfare state and about 30% supported a conditional welfare state. In 2006 in Denmark, almost 60% of the population supported an unconditional welfare state while just over 40% supported a conditional welfare state. Welfare state sceptics made up less than 5% of the population in both Finland and Denmark.

There have been arguments that the level of support for the universal welfare state may have diminished in recent years as a result of increased immigration to Scandinavian countries. Issues such as whether migrants should be eligible for the same welfare state benefits as citizens of these countries, and the effect that providing these benefits would have on the fiscal sustainability of the welfare state have been discussed frequently.

For Denmark and Finland, both part of the European Union (EU), the challenge to the welfare state comes from both EU immigrants and third-country (non-EU) immigrants. EU migrant workers in Denmark and Finland

are entitled to claim certain benefits like unemployment benefits in the case of Denmark. Also, in Denmark, there is a distinction between third-country immigrants from the West (generally, other Scandinavian countries and North America) and those from non-Western countries (generally, from Asia, Africa, South America and the Caribbean). A 2011 study by the former Danish Integration Ministry found that immigrants from non-Western countries cost the state €2.3 billion each year, while immigrants from the West made a net contribution of €295 million to public finances.

Larsen (2011) studied perceptions of non-Western immigrants in Denmark, and found that there were indications of negative stereotypes such as of non-Western immigrants being “lazy”. These perceptions did affect attitudes towards social spending on the poor and towards redistribution between high-income earners and low-income earners. However, he argues that the more likely result of these changes in attitudes is not a residual welfare state, but rather a dual welfare system, where “benefits and services are maintained and expanded for the in-group and retrenched for the out-group of non-Western immigrants” (p. 352).

The legitimacy of the welfare state, which includes perceptions about whether the welfare state is run efficiently without abuse, can be affected by the ability of immigrants to integrate. For example, a high unemployment rate among immigrants, which reflects unsuccessful integration into the labour market, could affect support for redistribution. When looking at how the ethnic heterogeneity affects support for left-leaning political parties, Finseraas (2013)

found that while it does not constitute a “direct threat to the legitimacy of the Nordic welfare state, nor directly undermines support for Left political parties”, (p. 39), immigrants’ labour force participation affects support for these Left parties. A high unemployment rate among immigrants may lead some to support right-wing political parties that are more critical of immigration and redistribution.

The scope of the benefits a state provides is also likely to affect the level of public support for it. Wilson (1987) argued that benefits or services that are targeted specifically at and restricted to the poor will *not* enjoy the broad political support that is necessary for their longevity. Moene and Wallerstein (2001) have also argued that in a situation where there is very narrow targeting of benefits and if the assumption of self-interested voting is used, the majority would prefer to eliminate benefits altogether as there is only a low probability that they will get to enjoy these benefits. In contrast, a situation where benefits are distributed more broadly among the electorate would give self-interested voters more reason to support those policies. If the assumption that voters are purely self-interested is relaxed, the impact of targeted benefit programmes on public support “diminishes but does not disappear” (p. 33).

Another effect of targeting benefits can be to create the idea of ‘the deviant poor’, potentially leading to less support for poverty reduction programs. Larsen and Dejgaard (2013) argued that there is a causal relationship between the type of welfare regime, the portrayals of the poor in stories and pictures in the mass media, and public opinion towards those who receive

benefits from the welfare state. They looked at the portrayals of the poor and those receiving welfare in a sample of newspapers in Britain, Denmark and Sweden between 2004 and 2009, and found that these disadvantaged persons were depicted more negatively in Britain, a liberal welfare regime, than they were in the two social democratic regimes of Denmark and Sweden.

A middle path for balancing the tension between rewarding and incentivising effort on the one hand and providing a universal social safety net on the other was suggested by Korpi and Palme (1998). They argued that a universal benefit system that incorporates both earnings-related benefits and non-means tested benefits would provide the welfare state with legitimacy and be the most effective system of reducing poverty and inequality. An example of such a system is a universal pension system that comprises an earnings-related component which provides an incentive to work and rewards individual effort on the one hand, and a basic component that ensures that all recipients enjoy a minimum standard of living on the other. In addition, universal benefits could also make up for the taxes necessary to sustain a system like this: “if citizens find that they get significant benefits in return for their taxes, their take-home pay is no longer the only basis for work incentives. If tax payments are seen as providing individual benefits and the free-rider problem can be overcome, the effects of tax wedges (in reducing work effort) will tend to decrease” (p. 682-683).

One final implication of the argument that elections shape policy is the role of the media. There are often high costs (for example, in time and effort) that

need to be expended to understand the different policy positions of political parties and candidates to make an informed decision when voting. This is contrasted against the extremely low probability that an individual's vote will change the result of the election. Voters often try to simplify this information gathering process by turning to media sources they trust to guide them in their decision-making. The content and framing of media coverage on an issue is then something that could make reforms easier or more difficult. More broadly, this will be affected by the type of media outlets – whether they are partisan or relatively neutral – and the regulatory structure they operate within.

### **2.2.2 Unions**

Trade unions have historically played a significant role in Nordic countries. The trade union density in Denmark (2010) and Finland (2011) remains high at around 70%, and tripartite agreements in both countries have played a role in securing improvements in pay and work arrangements. However, there have been some signs of a slight decrease in the influence and role of unions in recent years.

Corporatism began in Denmark with the September Compromise in 1899 between trade unions and the Confederation of Danish Employers that laid out the rules guiding the negotiation of changes in pay and working conditions. There are three main trade union confederations – the LO, which represents both manual and non-manual workers; the FTF, which represents a large number of public sector workers; and the AC, which represents graduate level employees.

Corporatism began in the 1960s in Finland, much later than in Denmark. There are three main trade union confederations – the SAK, which represents blue-collar workers; the STTK, which represents white-collar workers; and AKAVA, which represents academics and managers. The SAK and the STTK have a close relationship with the Social Democratic Party and AKAVA has a close relationship with the National Coalition Party and the Centre Party.

The influence of unions is contingent on their membership base, whether their involvement in the policy process is institutionalised, and the balance between capital and labour. The Ghent system in Denmark and Finland, where unemployment benefits are paid through unions, is important for maintaining the high union membership rates.

Klitgaard and Nørgaard (2013) argued that the right-wing governments in Denmark in the 2000s were able to successfully attack the institutional position of unions by decentralising the responsibility for providing activation and labour market services from the unions to the local level.

Bergholm and Bieler (2013) argued that globalisation and the increasing trans-nationalisation of the Finnish economy has strengthened the position of employers vis-à-vis unions, as seen in the shift from conducting wage bargaining at the central level to the sectoral level – wage bargaining at the sectoral level gives employers more flexibility in determining salaries. However, they also added that employer organisations are not powerful enough to unilaterally impose changes to social and economic policies – the

trade unions are still very much involved in key decision-making, especially including high-level tripartite working groups.

They also describe how the sector level unions in Finland have been split in recent years over the decline of central level tripartite agreements. For example, some unions representing blue-collar and service workers in domestic sectors supported the end of multi-sector collective bargaining as new sector level arrangements would allow them to raise the lagging wages of their members. They argue that these divisions could “undermine union resistance to future attacks by Finnish capital, and also to incremental restructuring driven by broad-based coalition governments” (Bergholm & Bieler, 2013, p. 67).

Unions are key institutions in the welfare state. They have had a central position in countering the power of businesses and ensuring that workers are given a fair deal. Support for the welfare state is maintained by ensuring that workers’ concerns are addressed through the corporatist system.

### **2.2.3 Businesses**

The relationship between businesses and unions has traditionally been seen as a contentious, class-based one, where powerful labour confederations force capital owners and businesses to accede to demands regarding pay and working conditions. However, others have gone beyond this to argue that under certain conditions, businesses may have an incentive to support the introduction of or expansion to welfare state policies.

Mares (2001) suggested that firms which find it difficult to protect their skilled workers against high risks will support the introduction of a universal welfare policy in that area. This is because universal policies pool risk over a larger number of people. Industries where human capital is a significant input may also support the welfare state policies such as universal education that build up the population's level of human capital.

#### **2.2.4 *Special interest groups***

Political pressure for or against reforms to the welfare state can also come from special interest groups. Lobby groups can be formed to represent the interests of large segments of the population, such as the elderly.

Wilson (1984) described how costs and benefits can be either concentrated or diffused – the strongest impetus for a special interest group to be formed and maintained is in a situation where any costs of a change are diffused, or spread over a larger number of people or society as a whole, and where the potential benefits reaped from successful lobbying is narrowly concentrated, enjoyed mainly by members of the special interest group.

Other interest organisations such as consumer protection associations and associations that advocate for minorities could also give a much stronger voice to these groups than they may otherwise have without them.

An interviewee in Finland described how there was pressure from certain sectors of society to reduce the size of the welfare state to make Finland more



competitive. However, this position was not one that was generally supported by Finnish society.

### **2.3 Models of Policy Change in Welfare State Reforms**

Besides electoral politics, the literature provides three main explanations of how policies change over time. In the punctuated equilibrium model (Baumgartner and Jones, 1991, 2005), policies are stable over long periods of time, and changes are precipitated by shocks. However, others (Hacker, 2004; Thelen and Streeck, 2005) have argued that incremental or ‘creeping’ changes that build up and change the direction of policy over time are a better explanation. Both the punctuated equilibrium and the incremental change models utilise the concept of path dependence – very broadly, the idea that past events and the existing structure of institutions affect the direction that future policies can take. However, path dependence does not mean that policies proceed along a fixed and immovable trajectory. Rather, it is “bounded change”, “it is not a story of inevitability in which the past neatly predicts the future” (North, 1990; as quoted in Pierson, 2002, p. 373).

The third explanation for policy change over time points to the role of policy ideas, and how they are able to drive change by drawing attention to the need for reforms and by shaping the intellectual landscape where these reforms are advocated and carried out (Campbell, 1998; Cox, 2001; Pfau-Effinger, 2005; Kuivalainen and Niemelä, 2010).

Pierson (2002) argues that dramatic change of the type expected in the punctuated equilibrium model is not expected due to the electoral pressures and institutional stickiness found in welfare states, where there are “*both* intense pressures for austerity and enduring popularity [of the welfare state] (emphasis added)”. The binary descriptions of welfare state retrenchment and enlargement do not reflect the current circumstances that welfare states operate in - “in most affluent democracies, the politics of social policy centres on the renegotiation, restructuring, and modernization of the terms of the post-war social contract rather than its dismantling” (p. 370). Weaver (1998, 2003, 2004) has also argued that pension reform in most industrial countries has been achieved through gradual changes, as opposed to rapidly abolishing old systems and quickly introducing new ones.

Hacker’s (2004) classification of the types of incremental change that are possible provides some examples of the shape that policy reforms may take in welfare states. He argues that an outright and formal revision of current policies is only one out of several other more discreet methods of policy change. Formal policy revision is likely to occur only if the coalitions supporting a policy are weak, the government has a high level of discretion in implementing the policy, and there are few veto players (political actors at different points of the policy process who are able to oppose changes).

Besides formal policy revisions, there are other types of changes that could be carried out quietly. These include failing to “update them [public social policies] to changing social risks” (Hacker, 2004, p. 256) – for example by not

indexing assistance programs to inflation (drift), shifting “ground-level operation...in directions at odds with...initial goals” (conversion), and introducing “new policies that subvert or threaten” existing policies (layering) (p. 256).

**Table 2: Four models of policy change, adapted from Hacker (2004)**

		Barriers to internal policy conversion	
		High (Low levels of policy discretion, strong policy support coalitions)	Low (High levels of discretion, weak support coalitions)
Barriers to authoritative policy change	High (Many veto players)	Drift  (Transformation of stable policy due to changing circumstances)	Conversion  (Internal adaptation of existing policy)
	Low (Few veto players)	Layering  (Creation of new policy without elimination of old)	Revision  (Formal reform, replacement, or elimination of existing policy)

Source: Hacker, J. S. (2004). *Privatizing risk without privatizing the welfare state: The hidden politics of social policy retrenchment in the United States*. *American Political Science Review*, 98(02), 243-260.

### **3. CHAPTER 3**

#### **3.1 Political Sustainability of the Welfare State in Denmark and Finland**

This section discusses the reforms that have taken place in retirement policy in Denmark and Finland and presents the results of a qualitative study with key informants that was undertaken in late-2013. Interviews were conducted with 21 subjects knowledgeable about the welfare states in their respective countries – eight in Denmark and 13 in Finland. As much as possible, interviewees were drawn from a range of sectors – university academics, researchers at both pro-market and union associated think tanks, civil servants, journalists, and trade unionists.

As mentioned earlier, Denmark and Finland were chosen as they are examples of small, open economies with social democratic welfare states. They each have a population size similar to that of Singapore; both are also grappling with ageing populations. However, there are significant differences between the Nordic countries and Singapore – Singapore has a much higher immigrant and non-resident population as a share of the total population, a more culturally diverse population, and is situated in quite a different geopolitical context. According to the 2010 Singapore Census, citizens constituted 63.6% while the rest were permanent residents and other foreigners. Finland, while less diverse than Singapore, is somewhat ethnically, religiously and linguistically diverse. For example, Finnish is the one of the two official languages and is spoken by 90% of the population. Swedish is the second national language and is spoken by 6% of the

population, with some speakers in rural areas being monolingual. In addition, Sámi is a third language that has legal status in Finland and 4.2% of the population has a mother tongue that is not Finnish, Swedish, or Sámi. The Åland Islands in the southwest have an autonomous provincial government whose authority extends to “cultural and educational affairs, health care, law enforcement, postal service, and economic development, under its own annual budget” (Raento & Husso, 2010, p 152). Finland has numerous ethnic, religious and linguistic minorities, but these form a comparatively smaller proportion of its population than in Singapore.

Denmark on the other hand, is relatively ethnically, religiously and linguistically homogeneous, with Danish being spoken by the main part of the population. However, there are Danes that maintain strong second language capabilities, often being conversant in English or German. The Faroe Islands and Greenland have their own Parliaments and are largely autonomous in domestic affairs, with the Danish Federal Government responsible for foreign affairs, defence and policing in the two islands. These two islands are also one of the sources of Danish ethnic and linguistic diversity, with Inuit (Greenlandic) and Faroe languages. Immigration is another source of diversity, with immigrants making up just over 10% of the population, with significant numbers from countries like Turkey and Iraq, presumably bringing their own languages to the mix. Danes are primarily protestant Christians; with the official number that follows this religion being 90% of the population.

The area of retirement policy was chosen as a way to discuss the reform process in the two countries in this paper, as it is expected to be an area of significant public expenditure in developed countries with ageing populations such as Denmark and Finland. It is also a policy area where there can be strong resistance to reform – the median voter theorem predicts that as the population ages, the median voter will become older, giving more electoral influence to the older segment of the population.

Some of the difficulties faced by Denmark and Finland in making reforms to retirement policy are relevant to Singapore. For example, discussions about the reforms to raise the retirement age and the age at which individuals can receive their pensions carried out in Denmark and Finland are similar to discussions in Singapore over the years about raising the retirement age and the Central Provident Fund (CPF) withdrawal age. Singapore is facing an ageing population, and may need to make changes to either of these policies, or increase the CPF Minimum Sum to ensure retirement adequacy and sufficient labour supply in the future.

Many of the reforms to various areas of the welfare state in Denmark and Finland have been driven by a need to contain costs and ensure the fiscal and political sustainability of the welfare state. However these reforms do not imply that support for the universal welfare state has diminished in these countries. While universalism in certain policy areas may have been tempered by new obligations and restrictions, it remains a strong principle when the welfare state policies are considered as a whole. Rather, the tone of the

debate and the direction of the changes have centred on making the welfare state sustainable well into the future. This is part of the constant process of adaptation that is taking place in these countries in response to changing circumstances facing them.

### **3.2 Retirement Policy in Singapore**

Singapore's retirement policy centres on the Central Provident Fund (CPF), a defined contribution scheme for Singapore citizens and permanent residents. Both employees and employers pay stipulated contributions to the fund. In 2013, the contribution rate for workers under 50 was 20% of the gross wage, with employers providing an additional 16%. The contribution rates decline after the age of 50, falling gradually to about 11% in total from employers and employees by the time the worker is 65 years old.

Contributions to the CPF are split directed into three accounts for each member of the system. First, there is the Ordinary Account, which can be used for financing home purchases, investments, education, and insurance; second, there is the Medisave Account which can be used to finance healthcare costs and purchase health insurance; and third, the Special Account, which provides funds for an individual's retirement.

The structure of an individual's CPF accounts changes significantly when he or she turns 55 years old - a Retirement Account is set up with monies from the three accounts mentioned above. This money is then used to provide a lifelong annuity from the age of 65 onwards under the CPF LIFE scheme.

There is another scheme where the government incentivises people to save into their CPF accounts by giving tax relief on those savings under the Supplementary Retirement Scheme. This allows for the discretionary top-up of CPF accounts by members of up to \$12, 750 a year.

### **3.3 Reforms to Retirement Policy in Singapore**

In Singapore, there have been a number of reforms aimed at keeping more workers at the tail end of their careers, workers aged between 55 and 64, in the labour force. One of these was the replacement of the Retirement Age Act with the Retirement and Re-employment Act (RRA) in 2012, which requires employers to offer re-employment to workers turning 62, depending on their medical ability to continue working, their job performance and the availability of a suitable post in the organisation, up till the age of 65. Workers should be offered some post in their existing organisations even if they are not the same job they were performing before they turned 62 years old, or be compensated if that is not possible.

Another tweak comes in the form of reduction of contribution rates as a policy of macroeconomic stability in times of recession. In 2001, in the midst of a period of economic upheaval, CPF contribution rates were cut from 40%, 20% each from employer and employee, to 32%, 16% each. The cuts were to make it easier for companies to continue employing these workers. In so doing the trade-off was made between current employment and long term retirement savings. The priority was to save jobs where possible. Since then, restoring these contribution rates have been slow due to a belief that such a



significant increase to companies would dissuade them from hiring more workers. Nevertheless, contribution rates have been raised gradually and most notably in the 2014 Budget Statement, the government announced that there would be a 1% increase in contributions from employers for all workers starting in January 2015. This 1% increase is to be sent directly to a worker's Medisave account to help members of the system deal with future medical costs.

In addition, the 2014 Budget Statement also announced that workers between the ages of 50 and 55 would see an additional 1.5% increase from current rates, 1% from their employer and 0.5% from their own salary, to their CPF contribution rates. Workers from 55 to 65 would see a 0.5% increase, taken from their employers. These contributions would be set-off in part by a subsidy from the government under the Special Employment Credit scheme that pays employers a percentage of the wages of older workers, and more generally by a Wage Credit Scheme where the government would co-fund up to 40% of the increases in gross wages for the period of 2013 to 2015. These schemes help to reduce the total wage bill that employers face.

Coupled with these increased contribution rates for the CPF, other programs have been introduced to help Singaporeans cope with medical cost. A universal healthcare insurance scheme called MediShield Life that will cover all Singaporeans regardless of age or pre-existing conditions would be paid for through CPF Medisave accounts. These provide cover for hospitalization costs of up to B2 ward stays. MediShield Life is to be coupled with the

Pioneer Generation Package (PGP), which was also formally announced in the 2014 Budget. The PGP is designed to give those who are 65 or older in 2014 more subsidies for healthcare and top-ups to their Medisave accounts so that their payment for the Medishield Life premiums will be nominal.

The PGP is available for all citizens who are above the age 65, and who became citizens before 1987. The package is not targeted only at poorer citizens in that age bracket but is a scheme for all Singaporeans who meet the age and citizenship criteria.

The government has succeeded in raising the labour force participation of older workers which keeps the flow of earned income and CPF contributions over a longer period of time and enlarges the retirement funds that Singaporeans seniors can count on. The participation rate for workers aged 55 to 64 has increased from 56% in 2006 to 67% in 2013. There are other policies in which seniors can fund their retirement which includes monetising their housing asset especially if it is public housing flat.

### **3.4 Reforms to Retirement Policy in Denmark**

Reforms to retirement policy in Denmark have focused on increasing labour supply and maintaining the fiscal sustainability of the system. This has been done by making it more attractive for Danish seniors to stay employed, and by shortening the period in which one could receive early retirement benefits.

### **3.4.1 Voluntary Early Retirement Pay - *Efterløn***

The Voluntary Early Retirement Pay (*efterløn* in Danish) was introduced in 1978 and sought to reduce unemployment levels and allow older employees to exit the labour force so that those entering the labour market could find work. Previously, under certain conditions, it allowed members of unemployment insurance funds<sup>6</sup> to receive a benefit – *efterløn* – when they were 60 years of age, without any obligation to go through an activation programme which would place them in a new job.

Amilon and Nielsen (2010) describe how when *efterløn* was introduced, “35,000 people were expected to use (the program)”, (p. 191) but by 2006, 200,000 workers were receiving this benefit - far more than was anticipated. In fact, 54% of those born between 1937 - 1941 were on *efterløn* in the year before they reached the official retirement age, while another 23% of this group received disability pension benefits.

### **3.4.2 Pensions**

The Danish pension system comprises three pillars – defined contribution labour market pensions, private pensions, and public pensions. Labour market pensions and private pensions represent ways of saving for old age while the ‘pay-as-you-go’ funded public pension is the basic safety net that provides the elderly with a minimum standard of living in their retirement.

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<sup>6</sup> Unemployment insurance funds provide workers who make contributions from their salary to the fund for a minimum period with unemployment insurance benefits in the event they are unemployed. These unemployment insurance benefits are provided for a maximum period of time, and come with the obligation to go through activation programmes.

Individuals who have lived in Denmark for at least 40 years between the ages of 15 and 60 are entitled to the public pension, which has two components – a basic pension and a pension supplement. The amount of basic pension and pension supplement received reduces when moving from less well-off to more well-off pensioners, with very high earners receiving only the pension supplement.

### **3.4.3 Main reforms, 2003-2013**

There were three main strands of reforms – reducing the costs to the state of early retirement and retirement programmes, introducing incentives to make it more attractive for seniors to work, and linking the retirement to life expectancy.

The retirement age was lowered from 67 to 65 years in 2004. While this would allow workers to retire and receive their pensions earlier, it also meant that those receiving *efterløn* would spend fewer years on it as they would be eligible for their pensions sooner. This was expected to result in cost savings as the full *efterløn* benefit cost more each year than the full public pension. This decrease in the retirement age was accompanied by tax incentives that encouraged older workers to continue working and defer their public pension payments in return for higher future payments.

While these reforms reduced the length of time people received *efterløn*, the structure of the tax incentives meant that those who deferred their pension were more likely to be “male, married, highly educated, in a top leader[ship]

position and with a substantially higher income than the average: it is mainly people in advantageous positions that choose to defer their pensions” (Amilon & Nielsen, 2010, p. 208).

The 2006 Welfare Agreement raised the early retirement and retirement (public-pension) age, and indexed the retirement age to life-expectancy. The 2011 retirement reform brought forward the implementation of elements from the 2006 Welfare Agreement. These included *increasing* the early retirement age by six months every year between 2014 and 2017 (as opposed to starting from 2019 under the 2006 Welfare Agreement), and increasing the retirement age by six months every year between 2019 and 2022 (as compared to starting from 2024). The *efterløn* scheme remained, but would be shortened gradually from five years to three years between 2018 and 2023. Changes to the *efterløn* benefit schedule were also made to target benefits at those with smaller private pensions. An early retirement scheme for disabled seniors was also introduced.

The need for reforms to retirement policy seems to have been recognised by Danish society in general – the 2006 Welfare Agreement was supported by a large majority of Danish political parties – but the debate revolved around how this should be done.

After 2005, the Social Democrats framed the reform as necessary to ensure the sustainability of the system in the face of demographic changes. The reforms were opposed by blue collar trade unions, who argued that their

workers often needed the option of taking early retirement as they had done physical work all or most of their lives.

An interviewee, Jan Birkemose, Editor-in-Chief of Ugbrevet A4, a news and commentary website, described this argument: “they know they [those who do physically taxing jobs] will get worn out after some decades and they need an early retirement. And also it’s been a debate about “is it welfare to have the possibility of retiring before you are actually totally demolished? Do you have the right to have a good ten, twenty, thirty years (of retirement)? Or do you have to work until you are almost dead?” And of course the people who defend the early retirement system have used this argument saying that ‘our members have worked since they were teenagers and they deserve to get an *otium* [the retirement stage of life].”

Another issue that came up was the tension between balancing a decrease in labour supply with the need to help those at the bottom, as described by interviewee, Jens Reiermann, a journalist at the independent think-tank Mandag Morgen:

“Most of the discussions about all those systems have been discussions about labour supply. Supply is diminishing due to demography and the birth rate is not high enough...If you talk about inequality in Denmark, you know that there is not that much inequality in economic terms. But if you talk about inequality in life expectancy or in health...if you are unskilled, you may have a shorter life, you have a life with more bad years due to tougher working conditions, or you are

not in the same good shape to find out how to live well. These are the same persons who actually use our different systems of benefits mostly. So when you cut here, you cut the possibilities to live for persons who actually do not have good possibilities in life. And that's the debate. That you are, so to speak, hurting people on the bottom of the ladder...mostly they actually have had a tough working life compared to you and me.”

### **3.5 Reforms to Retirement Policy in Finland**

#### **3.5.1 Pensions**

The Finnish pension system comprises three pillars. First, a defined benefit pension that varies with the income each individual has earned and is built up from employer and employee contributions. Second, a residence-based national pension financed from tax revenues; and third, a guaranteed pension as a basic safety net. Pensions for those who are self-employed are also financed by the state. After reforms to the pension system in 2005, only certain cohorts are eligible for an unemployment pension, paid to those who are long-term unemployed but are below the minimum retirement age. A disability pension is also in place for those who are incapacitated and unable to continue working. There is also the option to work part-time while receiving the part-time pension.

#### **3.5.2 Main reforms, 2003-2013**

The most significant reforms happened in 2005. The main goal of these reforms was to reduce the number of people retiring early (through various

schemes such as the unemployment pension, part-time pensions, and individual early retirement pension), and to reduce the expected long-term increase in pension expenditure.

In 2005, the unemployment pension and the individual early retirement pensions were abolished. The individual early retirement (IER) pension was a form of disability pension that was paid to older workers who were in ill health and unable to continue working. However, the medical criteria needed to receive this pension were more lenient than that required to receive the disability pension. In 2005, the IER pension was abolished, forcing older workers who were incapacitated to apply for disability benefits instead, subjecting them to stricter eligibility criteria.

Automatic measures to ensure fiscal sustainability were also introduced in 2005. A life expectancy coefficient was introduced which accounts for changes in life expectancy and adjusts the pension benefits received. Benefits would also be based on lifetime earnings.

Incentives were introduced to encourage workers to retire later. A flexible retirement age between 63 and 68 was introduced, and the rates at which pensions were accrued were shifted in favour of those continuing to work. These accrual rates became 1.5%, 1.9% and 4.5% of earnings for those aged between 19 - 52, 53 - 62, and above 63 respectively. In addition, workers who took early old age retirement would receive a reduction in their pensions of



0.6% per month from the age of 62, while those who deferred retirement would receive an increment of 0.4% a month from the age of 68.

Kannisto (2012) estimated that the expected effective retirement age rose by two years between 2000 and 2011. The effective retirement age in the earnings-related pension scheme was 60.9 in 2012, up 0.4 years from 2011.

### **3.6 The Sustainability of the Welfare State in Denmark and Finland**

This section presents some of the main takeaways with regard to the sustainability of the welfare state from the interviews conducted.

***First, public support for the welfare state hinges on its legitimacy and scope.*** A legitimate welfare state is one that is fiscally sustainable, not widely abused, administered efficiently, and is in line with current social norms – for example, those norms around the importance of work. Universal benefits ensure that the middle class supports the welfare state, hence contributes to its political sustainability.

***Second, consensus in the reform process and flexibility in the policy process allow the welfare state to adapt to changes.*** A consensus-driven reform process ensures that the views of various constituencies and parties are taken into consideration. This ensures that all parties – political or otherwise – have a stake in the success of the policy reform, and goes some way in preventing large swings in policies between successive governments. Flexibility in the reformed policies can be in the form of mandated periodic

reviews, or in introducing automatic adjustments – for example, by mandating that the retirement age will change in line with any changes in life expectancy.

***Third, solidarity among the population goes beyond ethnic differences.***

While immigrants' ability to integrate can affect the citizen population's perceptions of them, solidarity may not always be based on ethnicity.

***Fourth, the welfare state is dynamic.*** Institutional structures can shape social norms and opinions over time in the same way as social norms can shape institutional structures. An example of the former would be that of young people, who grow up within the welfare state and support it, as it is such an embedded part of their lives. An example of how social norms can shape institutional structures through reform is the social norm of spending responsibly that exists in Denmark and Finland. This social norm drives the constant effort to make the welfare state sustainable.

Also, the majority of interviewees in both countries described the tension between ensuring the fiscal sustainability and economic competitiveness of the system on the one hand, and the principles of universalism and ensuring that those who need help are able to get it on the other.

**3.6.1 *Maintaining public support for the welfare state through reforms to increase its sustainability - How has the burden of these reforms been distributed?***

Retirement policies account for a large part of the welfare state's expenditure in Denmark and Finland, both of which have ageing populations. In this situation, the median voter theorem predicts that as the age of the median voter increases, spending on the elderly will increase. It implies that the high political cost to political actors of cutting spending on the elderly will deter them from doing so. However, these reforms have taken place despite the high predicted political cost, indicating that the electorate may be willing to look beyond their economic self-interest in certain situations.

The process of reforming retirement policies in Denmark and Finland has not been an easy one, and has taken several years. However, this difficulty is not a unique one – Singapore has faced difficulties reforming the CPF system, for example with then Minister for Health Howe Yoon Chong's 1984 proposal to raise the age at which CPF funds could be withdrawn.

There are three main ways to reform pensions to put them on a more sustainable footing. The first is to increase the contributions paid by the current working population, especially in a pay-as-you-go defined benefit system; the second is to reduce the level of pension benefits; the third is to raise the retirement age in line with increasing longevity. Reforms in Denmark and Finland have focused on the second and third approach – ensuring that

the bulk of the burden of adapting to an ageing population has *not* been passed on to the young.

Interviewees in both societies raised the idea of a 'generational contract', where the current working generation is willing to support the older generation and where there is a sense of responsibility of all concerned but especially the seniors, to keep the welfare state in good working order. Professor Ove Kaj Pedersen of the Copenhagen Business School, described the generational contract in Denmark as a responsibility to leave future generations with a functioning welfare state that offers the same living standards that the current generation has enjoyed:

“My generation, the biggest ever born in Denmark, the baby boom[er] generation after the Second World War, we by our majority in parliamentary voting can ‘eat the whole field’, we can destroy the possibility for our kids to have a proper life. But we do have a generational contract saying ‘my generation has to leave the same living standards and income possibilities to the kids and their grandkids as we received when we grew up’. So that’s why we run, at the moment, what we call 2020 plans. The next year we will have a 2025 plan. We started in the 1990s with a 2005 plan, and then we had a 2010 plan. It’s always 15 years ahead. And that kind of planning puts a framework around the yearly budgets, both at the level of the state and at the level of the lower authorities. And these frames are guaranteeing that the next generation will have the possibilities that our generation had.”

Professor Bent Greve from Roskilde University described the generational contract in Denmark as an implicit understanding that each generation supports the present generation of elderly in return for support in future, and that the economy will be left in better shape:

“Most would argue that the main reason people are willing to pay for the welfare state is that there is this kind of generational contract. It’s not written down but it’s the understanding that if I pay for the present generation (of retirees), the next generation will pay for me. So there is a high expectation of security, so the willingness to pay also reflects that you know that this would be, you can get some service if you need it. One generation pays for the other now [and] expects the next to pay for them. But overall they will leave the economy in a better shape. And if you look back in the Danish economic development, although we have only had a slight increase in GDP since 2009, over a long time span each generation has been able to afford more than the previous generation. So far this implicit generation contract has been fulfilled...”

Marja Vaarama, Assistant Director-General, National Institute for Health and Welfare in Finland, described how the debate around the welfare state in Finland has been framed in terms of economic sustainability, with the idea that ‘we shouldn’t eat from the plate of future generations. This is not to say that the population will readily accept reforms that reduce the level of benefits they enjoy. Björn Sundell, from think tank Magma, described the process of negotiation that goes into each policy change, saying:

“No I don’t think we have this readiness...to give up something just because of the greater good. It’s a political process, some political parties will work for savings and other political parties will work for (the) status quo, not reducing benefits. And you will have this continuous process of negotiation, what can be reduced and what cannot be reduced. Whose benefits will be lowered and whose will not...So I think although there [has] to be visions when creating a welfare state, and I believe in the welfare society, you have to be very realistic that people don’t give [up], not voluntarily, their resources or benefits.”

Perhaps this is where the consensus-driven style of decision making in Denmark and Finland is integral to the system. The proportional representation type of electoral systems in these countries, where parties win seats in Parliament in proportion to their share of the vote, generally results in coalition governments. This has the disadvantage of potentially allowing small, fringe parties to wield outsized influence, distorting the democratic process. However, the consensus-driven style of government might also make it less politically costly to introduce reforms in an environment where all parties recognise that change (that comes with a high political cost) is needed. If a governing coalition of several parties agrees to introduce and be associated with political reform, the political cost imposed on each may be lower than in a single-party government. This also ensures that changes are well considered, robustly debated, and that they are less likely to represent extreme swings from one policy position to another.

Pauli Kettunen from the University of Helsinki described the atmosphere that negotiations take place in, saying “the issues are disputed, there are controversies and at the same time...the idea that winner takes all is unacceptable”.

### **3.6.2 *Financing of the welfare state***

Changes have also been made to tax levels in Denmark and Finland to maintain the sustainability of the welfare state. For example, corporate tax levels have fallen or are due to fall in both countries. Jens Reiermann describes the competition among EU countries to attract companies, saying while that there has been a downward trend since the middle of the 1980s where corporate tax stood at about 50% in Denmark, this is now 22%. The base for corporate tax has widened to cover more companies and other indirect taxes have been introduced, all to sustain tax revenues. In Finland, Björn Sundell argues that Value Added Tax (VAT) is becoming a more significant funding source, as the government has already made a commitment to reduce corporate taxes, and there is limited scope for increasing income taxes further:

“VAT is getting more and more important because that’s the thing that can be raised. We have income tax which is, of course, very important income for the state, then we have the municipal tax which is a flat rate...and then you have a flat rate of VAT which is different for foodstuffs [and] consumer goods...And that’s (VAT’s) getting more important because you can’t raise income tax very much more, but it’s easier to raise the VAT.”

### **3.6.3 Responsibilities along with rights**

There has been an ongoing debate about the welfare state in Denmark and Finland. However, this does not mean that there is a decrease in public support for the welfare state. Interviewees we spoke to all argued that there was still strong support for it in broad principle, but it is the interpretation of the welfare state that may be changing, and examples of the latter are questions like: What are the responsibilities that should be associated with rights guaranteed by the welfare state? How should these services be provided?

For example, reforms to Denmark's labour market policy over the past decade have imposed greater obligations on the unemployed, and moved away from the previous idea of a universal right to unemployment benefits. Eligibility criteria to qualify for and remain on unemployment benefits have become stricter. There are also stricter requirements for those who are receiving unemployment benefits to go through activation programmes.

These changes that place more emphasis on responsibilities that come with the rights provided in the welfare state was explained by Professor Pedersen this way:

“If I was an academic, I was only supposed to accept an academic job from the job centre. I was not required to brush the streets or clean the hospitals and so on. But today, you are forced to take any job you are offered. And you're forced to take it even if it is a very long way from your home. You are, so to speak, obligated to take every job within four



hours...So we are moving more and more towards restrictions and obligations; away from rights”.

Another interviewee, Jan Birkemose, talked about the change in attitude towards people who refuse to work and then live off the welfare state:

“But sure, there are some people [who refuse to work] who are flying below the radar. But it’s not many. And I think that before, when I was very young, it was very accepted that people didn’t work and they could say ‘I don’t want to work, I’m too big, too clever for this labour market, and I deserve better’. That was very accepted. That, today, is totally unacceptable.”

However, other important elements of the Danish welfare state have remained universal – pensions, education and healthcare. It is not moving away from the principle of universalism towards a model of residual welfare where the state targets benefits at the poor. Rather, it is adapting the idea of universalism in response to changing circumstances such as demographic change and economic and fiscal pressures.

Professor Pedersen describes how the welfare state is continuously being reformed, and yet, how the system remains largely universal despite some changes in certain areas:

“Yes, universalism is slowly transforming. We talk about moving the benefits system from having universal rights towards obligations and restrictions and so on. You can also see that in social policies; but you

cannot see that in health, you cannot see that in education, and you cannot see that in pensions for example. You still have universal rights to free health, to free education, to free pensions. But there are more and more differentiated systems out there. So we stick to universalism but we put restrictions on it and there is more and more emphasis on means-testing... So the traditional welfare state is upheld, but still reformed all the time. We have had, since the mid-1980s, I think we have had 35, up to 40, main reforms of the welfare state... and the government is talking about new reforms coming and then opposition tells us more reforms will come if they take over power, and these will go on forever because this is a small, open economy.”

With regard to other areas of change, interviewees in Denmark described debates about increasing the user charges for certain treatments in the healthcare sector, while in Finland, there has been a discussion about introducing private providers and an element of choice into the healthcare sector.

Klaus Petersen, Professor and Head of Centre at the Centre for Welfare State Research at the University of Southern Denmark described the debate around using private providers in some areas, saying “there has been a huge political debate, criticising public solutions...as uniform, not being able to deal with the differences in different groups and so on, not being cost-effective, being too paternalistic...” Ilkka Haavisto, Research Manager at the Finnish Business and Policy Forum, described how The National Institute for Health and

Welfare has suggested that the private providers should be given a role in the public healthcare sector, and that there should be some sort of 'voucher' system where citizens are allowed to choose whether to go to a private or public provider.

#### **3.6.4 *Dealing with the challenges of immigration***

There are notions that increased immigration could erode public support for the welfare state if immigrants are perceived as not contributing to its financing. There have also been arguments that the Nordic countries have been able to build their welfare states because they have homogenous populations – it is perhaps easier for voters and taxpayers to accept redistribution to others who are similar to themselves and they can identify with. Interviewees generally felt that increased immigration, especially from within the EU, could be a threat to the sustainability of the welfare state. The effect of immigration on the welfare state would also depend on the migrants' ability to integrate.

Interviewees were divided over the importance of homogeneity, with some saying that it was an important explanation for the success of the welfare state. Tarmo Valkonen, Research Director at the think tank ETLA in Finland, argued that

“one dominating language, religion and culture have influenced a lot. One big question will be how the future immigrants will adapt [to] our values or whether pluralism will increase. [The] Current Swedish

example shows that a welfare state can manage quite high immigration”.

Several interviewees in Finland also felt that equality or a sense of solidarity was as important a base on which to build the welfare state as notions of ethnic or racial homogeneity. Ilkka Kaukoranta, Economist at The Central Organisation of Finnish Trade Unions, argued that:

“For this sort of system to be feasible it’s important there is a strong sense of solidarity between people or a sense that social welfare policies benefit more or less everyone. That’s something that Finland has had – either solidarity or just these low barriers between social classes and large social mobility that has ensured that even well-off people, they know [someone] or their family or relatives [who] are from a different social class. They have some kind of connection to people who are more dependent on the welfare state. If there were a larger divide in society then welfare state policies would definitely be seen in a different way. But I don’t think racial mix is the defining thing. It might affect the sense of solidarity in some situations, but a sense of solidarity is not dependent on the mix of colours of skin.”

### **3.6.5 Support for the welfare state**

Professor Pedersen describes the high level of support for the welfare state in Denmark both among the population and across all political parties, most of which were involved in the creation of the welfare state:

“To be honest, there are no political possibilities for a majority in the population to ask for that kind of a development [to dismantle the welfare state]. There have always been people criticising it. There have always been a few people on the left or on the right criticising the welfare state as such, but in the centre, and that is a huge majority of the Danish population, everybody is for it. And there is no real possibility at the moment... that there will be a growing group of people being against taxation or raising their voice against taxation...The Danish welfare state was built in coalition, across the aisle, between Socialists, Social Democrats, Liberals, Conservatives and others. This is compared to the Swedish welfare state, which was built by the Social Democrats against the will of the Conservatives and the Liberals in Sweden. So every existing party today in Denmark is part of the building and reform, they have a stake in the welfare state. So when a new government, even a right wing government, steps in, they do have a stake in the welfare state and they could never come up with the idea of dismantling or demobilising, or demolishing the welfare state. Never, never. Because that would be against their tradition at the voting booth.”

The electorate strongly supports the welfare state, and whether or not a party is expected to defend the welfare state features strongly in their decision to vote for it, as expressed by Jan Birkemose:

“There’s a strong consensus about the welfare state by the leading politicians. The former government was a right wing government.

Before they came to power they explained to voters that ‘we will also defend the welfare state, we are not going to demolish it’. And at that moment, when they managed to explain that, all the voters came running to them and they won the election in the 1990s

Professor Pauli Kettunen describes the broad support the welfare state in Finland receives, and how debate has centred mainly on different interpretations of the welfare state, as opposed to an effort to get rid of it:

“In general, this welfare state is very popular in Finland in that [sic] sense that there are no remarkable political parties or interest groups that would try to get support by opposing the welfare state. So in that sense the welfare state has very strong legitimacy. At the same time the interpretations of ‘what does the welfare state actually mean?’ and also, what does it mean when all parties actually say that ‘we are trying to rescue the welfare state or welfare society’? ...In the right wing, centre right parties there is much more acceptance towards private solutions, market-based solutions, pointing out individual choice. Whereas centre-left and left parties are more articulate in defending public services, public services in healthcare, education, with childcare and so on.”

Interviewees from both countries generally felt that there remained high levels of support for the welfare state among the youth, and that the fundamentals of the welfare state are generally well accepted.

Professor Bent Greve described the situation in Denmark:

“Opinion polls...indicate that older people above the age of 40, 45 are more inclined to support the welfare state than the young people, because they know about day-care, primary education, they have parents in need of eldercare, etc...my expectation would be they (young people) will support the welfare state because a lot of young people are, for example, leaving universities. For the time being, it's something like 25% and 30% who are still unemployed three to four months after graduating. And that has been, for some of them, eye-opening in the sense that they know if there was no welfare state, they would have no income support, they would not be able to do anything and therefore they are dependent more on the welfare state than they used to be and I think that is, for some of them, a clear indication of that despite what they perhaps thought, they are not able to cope with everything themselves.”

Ilkka Kaukoranta highlighted two opposing ideas that a relatively small proportion of youth in Finland supported, but added that this must be placed in context – support for the welfare state remains high:

“There's some, I don't know how large it is, but there is this very right wing thinking where the social welfare system should be more or less abolished, that government should be as small as possible. That sort of thinking seems to be more or less confined to young people. There is a segment that wants to cut everything. And at the same time, part of the young people support introducing a universal payment that is paid to

everyone, a basic income... But in general, I think there is very strong support for the system more or less the way it is now. The debates in practice are over, in the grand scheme of things, very small details; talking about the length of unemployment benefits... So for the most part, the foundations of the system aren't questioned very much."

Tarmo Valkonen agreed that "the support of a rather large welfare state is wide among different age groups". However, he added, "there has been some discussion that the young (future tax payers) are under-represented in the decision process related to [the] welfare state". Ilkka Haavisto, pointed to research done by his organisation, the Finnish Business and Policy Forum, saying "there is a very strong consensus that the Finnish welfare state is a good thing. People say that they are generally satisfied with it. If it didn't exist it would have to be created. In our research, eight out of ten say that it's worth every penny."

### **3.6.6 *Moving forward***

Tapio Bergholm, a Researcher at The Central Organisation of Finnish Trade Unions, described the welfare state as a "living beast", one that was constantly evolving. People understand it as a system that must be adapted over time for changing circumstances. Björn Sundell expressed a similar sentiment, saying:

"If you asked the question "is the welfare system sustainable for 25 years" the answer is "no, it's not". And the government knows it, and I think most people know it and most people know that there will be



changes... And there are changes all the time and that's perhaps something that any country has to think of when it thinks of creating a welfare system; that it has to be continuously monitored and tuned. You can't create a welfare system that is sustainable at a certain level for 25 years, because there are such big changes, such as financial crisis... Another important thing to think of when creating a welfare system is "is there a risk of people getting too dependent of welfare benefits?" And that the system must accommodate for some kind of changes, if you recognise now that benefits are getting too big for some groups in society, you have to make some reductions or alterations in order to make people work again or take care of their own future... You have to regularly make amendments and they are difficult because they always create political opposition from those who are losing something. But that's not the reason not to create a welfare system, you just have to be aware of the risk from the beginning and see to it that you don't create such fixed systems that can't be mended or repaired or fine-tuned later on."

## CHAPTER 4

### 4.1 Lessons for Singapore

Looking at the models of policy change described in Chapter 2, changes in Singapore's social welfare model seem to be mainly incremental, with the effect of each change on other areas of Singapore's economic and social landscape carefully considered.

A consensus-driven approach is also seen in the introduction of labour policies such as the progressive wage model<sup>7</sup>, where a wage and career ladder is set up for selected vocations associated with low-skilled work in Singapore to ensure that workers see how improved skills and expanded job scope can be achieved and are associated with higher wages. These changes were negotiated by the National Trades Union Congress, employers, and the Government in the midst of public debate about whether Singapore should adopt a minimum wage policy to ensure that low-skilled low-waged workers can overcome wage stagnation and that the sectors can attract more Singaporeans into such sectors as access to foreign workers is tightened.

Another significant example of this tripartite-based consensus-driven approach to important labour policies is the recent implementation of the Fair Consideration Framework and the establishment of the National Jobs Bank for filling job vacancies. Introduced in August 2014, the Framework requires

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<sup>7</sup> The Progressive Wage Model is used in Singapore as an alternative to a Minimum Wage in setting not only the starting pay for jobs associated with low-wage work but also a career path and wage ladder stating how skilling and job scope is associated with prospects for promotion and pay increments.

that jobs that pay up to \$12,000 a month be advertised in the Jobs Bank for 14 days and that the attempt to search for suitable candidates among Singapore residents has been made, proven to be futile, before the search can be extended to non-Singaporeans. Passes for entry of foreign workers into the country to take up employment will only be given to companies when they have demonstrated that their attempts to hire Singapore residents were unsuccessful. The government made it known that such a move resulted from extensive discussions with the public and representatives of the corporate sector (MOM, 2014).

Policy change may also be incremental in some areas because of the diversity of views across various stakeholders in Singapore – citizens, businesses, unions, and the community, among others. While Singapore does not have a system of proportional representation as the countries in this study do, there has been a strong corporatist<sup>8</sup> tradition in its governance system. This institutionalises the representation of relevant stakeholders, but it is done differently for different areas of public policy.

However, there may be an increasing role for ideational policy change in the future, especially as Singapore's political scene has become more closely contested. Greater attention in public discourse has focused on income inequality in Singapore and ensuring social mobility. An idea that has taken

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<sup>8</sup> The Corporatist model and Continental model refer to the same thing. Where Corporatist refers to its workings, Continental refers to where most of its adherents reside geographically, that is to say, continental Europe.

root among some advocacy groups and public intellectuals is that of introducing a “poverty line” (Koh, 2014).

Some of the lessons for Singapore that have emerged from the interviews conducted over the course of this study are as follows.

First, welfare policies need to be seen as legitimate and supported by the middle class. A legitimate welfare state is one that is fiscally sustainable, not widely abused, administered efficiently, universal so that most believe they and their families can access and benefit from the support, and more generally, that it is in line with existing social norms. In the case of Singapore currently, there are few universal social programmes, much less those labelled as being part of a ‘welfare state’ programme. A number of hurdles exist – the general public must feel that any initiative is something that all citizens may need and that it is not easy to ‘abuse’ or take unfair advantage of the benefits. With a large foreign population and permanent residents, a heavily differentiated strategy of social inclusion will have to be designed with regard to these groups. In this study, it was found that the principle of universality was adapted to the idea of what is fair responsibility and also to differentiated programmes when it comes to whether they are accessible to foreigners. These tweaks were needed to keep the sense that the social support system was fair and legitimate.

Second, the welfare state comprises an interconnected triangle of competitive economic policies, sustainable environmental policies, and inclusive social

welfare policies, with participatory democratic politics at its heart. It is undergirded by a system of values and norms that both influence and are influenced by the welfare state. The welfare state involves the support of many actors and takes time to build. The interconnected structure of the welfare state also makes it difficult to graft specific Danish or Finnish social welfare policies onto Singapore's social and economic policies. Also deeply implicit in the models is a certain political culture and an inter-generational understanding of each cohorts' obligation to the next, over generations of people.

Third, the implication is that each country will need to find its own narrative to legitimise its own welfare state: This narrative will depend on the social compact citizens have with their government and even more critically, with one another. In Singapore, the social compact has historically been one of individual responsibility and self-reliance, and one in which the Government provides a helping hand to those who are willing to put in effort to help themselves.

Of late, the principle of targeted assistance has been strengthened and this means that the most needy and disadvantaged as established by means-testing are provided with more social support. This is also aimed at 'levelling up' their families and children in particular so that an 'underclass' where two or three generations of a family find that they are unable to improve their socio-economic standing will not develop. Building the sense of social solidarity across racial, religious, linguistic, class and cultural lines, as well as

overcoming the entrenched ethos of individual responsibility and self-reliance will require a very powerful political vision and movement. Of course, the growing concerns about social inequalities and stratification suggest that there is also an underlying sense of egalitarianism in some quarters that can be tapped to achieve that ideational policy change.

#### ***4.1.1 Political sustainability and the legitimacy of welfare policies***

The support of the middle class and a broad swathe of the electorate for the welfare state, and their willingness to pay the taxes that finance the welfare state, are the critical determinant of the long-term viability and sustainability of the welfare state. As discussed in the interview findings presented in Chapter 3, to attract middle class voters, the welfare state has to be perceived as being universal. If, for example, benefits are highly targeted, these policies may not receive as much support from middle class voters, who may not expect to benefit much from these targeted policies.

An efficient welfare state is one that is not widely abused, where public services are of a high quality, where the public sector is not seen as being over-staffed or excessively paid and where there is no perceptible free rider problem. This gives the welfare state its legitimacy and helps it retain the political support and the taxes of the middle class.

Another factor that bolsters support for the welfare state in Finland and Denmark is the high degree of social mobility in both countries. As a result of this, citizens are likely to have friends and family who have been helped

through the welfare state, or who they believe, will be able to benefit from the welfare state.

In Singapore's context, fostering the legitimacy of a welfare state might mean having tighter requirements on recipients such as those placed on unemployment insurance benefits in Denmark and Finland. These could include the responsibilities to go through activation programmes, to contribute in some way to these benefits (i.e. the contributory principle), to have been previously employed for a certain length of time before they are eligible for benefits. While there is a semblance of this in Singapore's Workfare Training Support Scheme or ComCare Employment Assistance Fund and ComCare Urgent Financial Assistance Scheme – they demand that recipients engage in skill-training or job search as they receive social assistance - these schemes and others like them will have to be more properly institutionalised and stepped-up if something like unemployment insurance were to be adopted.

The *universality* of the welfare state's benefits is also important in retaining the support of the middle class. In the Nordic experience, the most salient middle class benefits of the welfare state are universal healthcare, highly subsidised early childhood development, education and pensions. However, these benefits should also be accompanied by earnings-related benefit programmes such that individuals are still amply rewarded for work and success.

The broad-based political support that the welfare state in Denmark and Finland – across almost all the political parties in both countries – also suggests that the common perception in Singapore that universal welfare states are not sustainable in the long-term may be misplaced. While there is growing apprehension about rising immigration in the Nordic countries, the response to this has *not* been to cut back on welfare provision. Rather, it has been to curb the number of unskilled and low-skilled immigrants allowed to enter from developing countries so as to maintain the support of the middle class for the welfare state.

The Danish welfare state in particular has been very conscious of the fiscal burden that an ageing population will place on its pension system. It has taken innovative reforms to raise the retirement age, abolish the early retirement pension, encourage people to work longer, and perhaps most remarkably, to link pension age automatically to increasing longevity. Indeed, the burden of adjustment in response to population ageing has been mostly borne by the current and future generations of retirees, i.e. the baby boomers themselves. The prediction that the welfare state places an unbearable burden on future generations of workers does not appear to be supported by evidence in this study.

Furthermore, compared to the policy changes that the Singapore government has made to retirement security (e.g. CPF LIFE) or to encourage labour force participation by older workers in recent decades, Denmark has also been bolder in its reforms to address the challenges of ageing. That the CPF



withdrawal age in Singapore is still 55 (even if the Minimum Sum has been increasing) speaks volumes about the relative lack of bold reforms to bolster the retirement security of Singaporeans. There will certainly be need for a protracted and involved political process before bold ideational policy change can be expected.

#### **4.1.2 *The welfare state comprises many interconnected policies***

Our study also suggests that the welfare state is a complex adaptive system. It is a complex system in that it comprises many highly interconnected parts (or sub-systems), e.g. healthcare, unemployment protection, active labour market policies, childcare and early childhood development, education, retirement pensions, and other forms of income support.

In studying and analysing such a system, we have to look not simply at the component parts but also at the system as a whole and understand how the different parts relate to one another. This, as mentioned above, makes it difficult for Singapore to copy from the Nordic model in a piecemeal fashion, or to graft some parts of its system (say its pro-natal benefits) onto the current model of social support. The *internal logic* of the system and the political vision have to be appreciated in their entirety; otherwise, piecemeal adoption is likely to produce sub-optimal and unintended outcomes. This is not to suggest that we cannot or should not learn from the Nordic welfare states. It is only to urge our policymakers to pay special heed to their *system* features such as the key ideas of universalism, egalitarianism, solidarity, and the contributory principle. These also explain how the usual worries about

adopting such a system in Singapore – erosion of work ethic, moral hazard – are dealt with. The social compact that is based on those values in Denmark and Finland ensure that the work ethic remains strong and that the sense of responsibility to fellow citizens and future generations curbs the problem of moral hazard.

The Danish and Finnish welfare states are also adaptive systems in that both governments are constantly tinkering with their welfare systems, allowing them to evolve and adapt to an ageing future and other social trends. Again, the best example of this lies in pension policy where the state's recognition of the impending fiscal challenges of ageing led to reforms in pension policy, the most radical of which was probably the policy to link the pension age automatically to life expectancy.

#### ***4.1.3 Building a narrative around Singapore's own welfare policies***

The past few years have seen a greater call for a strengthening of social support and ensuring that there is healthy social mobility. This push has come from various parts of society – from advocacy groups such as AWARE, public intellectuals such as Laurence Lien, Yeoh Lam Keong and Chua Hak Bin, and from the various political parties in Singapore. For example, Lien (2009) has argued that globalisation and Singapore's open economy have adversely affected low-skilled individuals, and that the Government redistribution is needed to support these individuals, complemented by private giving and volunteerism. Chua (2007) has argued that globalisation and the pro-growth

policies pursued in the mid-2000s have resulted in widening income gaps, and have hit the middle class hard.

Both the Workers' Party and the Singapore Democratic Party have also pushed for greater help with healthcare costs for citizens, called for a stronger system of social safety nets, and identified some of the more vulnerable groups of Singaporeans that require attention (WPSG, 2011. SPD, 2013). We have also mentioned some of the many ways in which the Government has sought to strengthen social support especially for the disadvantaged and the low-waged workers.

The prevailing attitude towards social assistance for the most disadvantaged among Singaporeans is the “many helping hands” approach, where the family provides the first line of assistance, followed by the community and then the Government. Some of the other principles guiding prevailing attitudes in this area include that of fiscal sustainability, market competitiveness, self-reliance among citizens and a lean, efficient government. These have been important guiding governance principles for Singapore. However, there are now rising expectations and perhaps also a greater need for social support as the journey of socio-economic development and globalisation have proceeded over the past four or almost five decades. The increasing social diversity and the great fluxes in the global economy require some modifications to these guiding principles to suit the changed socio-economic landscape. This was acknowledged in Prime Minister Lee Hsien Loong's 2013 National Day Rally speech in which he discussed the need to “shift the balance” between the

individual, community, and the Government in providing greater social support to Singaporeans.

As we discuss possible changes to the social support system in Singapore, it is useful to take a look at the comparative data that is available on social spending in the three countries.

**Table 3: Social Expenditure and Government Spending as % of GDP (2009)**

	Social expenditure as a % of GDP	Social expenditure as a % of Government Spending	Government spending as a % of GDP
Denmark	30.2%	51.7%	58.4%
Finland	29.4%	52.3%	56.3%
Singapore	6.6%	40.1%	16.2%

Sources: Organisation of Economic Co-operation and Development. (2012). *Government at a Glance 2011*.

Sharma, S.K. (2013). *Republic of Singapore: Updating and Improving the Social Protection Index*. Asian Development Bank.

Table 3 provides a comparison of spending on social expenditures in Denmark, Finland and Singapore for the year 2009 – data we were able to find in the public domain. Keeping in mind the limitation of the data as these do not reflect changes of the most recent past, Table 3 shows a number of things. Firstly it highlights the marked difference in government spending between Singapore and the other two countries on the basis of that 2009 data. As a proportion of Gross Domestic Product (GDP), government expenditure in Singapore was less than a third of either country. In addition, spending on social expenditure was less than a tenth based on these 2009

figures. When that spending is considered as a part of government expenditure, the proportions were less stark - 40% in Singapore as compared to just over 50% for Denmark and Finland.

**Table 4: Breakdown of Total Social Expenditure spending by sector as % of GDP (2009)**

	Families & Children	Unemployment	Illness	Old Age, disability & Surviving Relatives	Housing Benefits	Other Social Benefits	Total
Denmark	13%	6.40%	23.00%	51.00%	2.20%	2.60%	98%
Finland	11.00%	7.90%	24.80%	49.40%	1.60%	2.40%	97%
Singapore	1.40%	1.20%	17.20%	36.30%	42.90%	0.90%	100%

Sources: *The Nordic Social Statistical Committee. (2013). Social Protection in the Nordic Countries 2013: Scope, Expenditure and Financing.*  
*Sharma, S.K. (2013). Republic of Singapore: Updating and Improving the Social Protection Index. Asian Development Bank.*

Table 4 shows how each government had distributed its social protection spending, or spending meant to reduce 'poverty and vulnerability' (as defined by the Asian Development Bank (ADB)) in 2009, and gives an indication of how the thinking on government social support should be distributed has been very different, with Singapore focusing on housing as a key plank in its approach. Of course, all three give an important amount of attention to old age disability.

**Table 5: Education Spending and GDP (2009)**

	Government education spending, as a % of GDP	Government education spending, as a % of Government spending
Denmark	8.7%	15.1%
Finland	6.8%	12.1%
Singapore	3.1%	21.2%

Source: *The World Bank. (2013).*

Table 5 shows how much each nation spent on education, firstly as percentage of GDP, then of government spending. While as a percentage of GDP, Singapore's education spending seemed low, taken as a part of government spending, it was higher than that of Denmark and Finland, indicating its level of priority to the Singapore government.

All these demonstrate that there has been significant variation in social spending in Singapore, Denmark and Finland in terms of the proportions and quantities. They are, in turn, a reflection of the difference in orientation or balance between government spending, social responsibility and individual reliance and resilience.

The lesson of the study is that if the social support is to be more broad-based and reformed to be akin to the Nordic welfare system here in Singapore and yet made sustainable, such reform has to be undergirded by a common social norms relating to what the role of work should be, what responsibilities and obligations should be levelled on citizens to achieve certain social benefits, and how inclusive these benefits should be. Equally important is the

understanding that the welfare state is a tool to enable the success of this generation and the ones that come after, and not an unlimited resource to draw on. The sustainability of the welfare state depends on the ability of political parties (including even those that are not in power), civic activists and the public in general to achieve a workable political consensus on the attending issues. This is greatly helped if there is a fairly high level of trust between the public and the political party or parties enacting the reforms.

For example, the Social Democrat Party in Denmark, traditionally a left-wing party, was responsible for enacting reforms to reduce early retirement. These reforms were supported by the centre-right government that had been in Government previously. The Social Democrat Party also cut the length of time unemployment benefits could be received from four years to two years, and cut corporate taxes from 25% to 23%. While these reforms initially led to support for the Social Democrat Party falling dramatically, this support had begun to increase again in the latter part of 2013.

The attitudes of the youth are also critical to the sustainability of the welfare state – whether they are willing to shoulder the tax burden that is needed to fund the welfare state, and whether they are willing to spend responsibly in the future. Interviewees described support among the youth for their respective system as being generally high, albeit sometimes more for policies that would benefit them immediately such as student allowances. This is not wrong in itself – many other constituencies can support policies that benefit them whilst also supporting the welfare state as a whole. Interviewees

described how the welfare state is the only system that most of these youth have known, and how they may find it difficult to imagine a different system. This also speaks to how deeply the welfare state is embedded in Denmark and Finland's culture, identity and norms.

The attitudes of the youth towards the welfare state may also change over time. Another interviewee described how youths do become more appreciative of the welfare state as they go out to work and realise that they too, might need help. There is a life cycle effect to political support.

As discussed, another key constituency whose support is needed for the sustainability of the welfare state is the middle class. This support will depend on the universality of welfare state benefits, and perhaps in Singapore – the conditionality of these benefits. It will be useful to study the conditions under which middle and upper income Singaporeans would accept higher taxes, whether direct or indirect, in order to support deeper reforms to strengthen the social safety nets here. Chapter 2 described how supporters of the welfare state could be further divided into supporters of an unconditional welfare state and supporters of a conditional welfare state. The questions of who is deserving, under what circumstances they are deserving, and whether any conditions should be tied to their receipt of benefits are likely to be highly salient in Singapore, given existing social norms. The views gathered would shape the narrative for social welfare policies in Singapore; a narrative which would need to be built on our own culture, identity, and norms.



One other political argument has been made in Singapore – that greater use could be made of state reserves in order to finance the strengthening of social safety nets here. The sustainability of the use of reserves or the long-term investment returns to these reserves cannot be established except through rigorous actuarial as well as financial projections both on the demand and supply sides of the equation. Discrete, one-off expenditures or monies set aside for endowment funds that provide resources for social programmes are certainly a far more predictable way in which to manage the situation. However, can this be the basis on which long-term on-going programmes are decided? The tables demonstrate the significant and systemic change that will be required to move in the direction of Denmark and Finland.

Having decided to take that route a long time back, both Denmark and Finland have found ways of financing their welfare states quite sustainably, and mobilised broad public and electoral support for them – support that spans the political spectrum, even when reforms are needed. The oft-heard predictions of the impending demise of the Nordic model due to their lack of fiscal or political sustainability are unfounded, based on the views gathered in this research project. What is also obvious however is the high level of adaptation and political flexibility that allows the general system to be tweaked or trimmed here and there, in a highly engaged process of public discussion and consensus-building. The question is whether the Singaporean public and political actors are, in a similar manner, bonded by the same sense of trust, social solidarity, and the practices of engagement and consensus-building to take that leap into a different model of collective responsibility.

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## ANNEX 1: Interview Participants

### Participants: Denmark

First Name	Last Name	Designation, organisation
Jan	Birkemose	Editor-in-Chief, Ugebrevet A4
Bent	Greve	Professor in Welfare State Analysis, Department of Society and Globalization, Roskilde University
Ove Kaj	Pedersen	Professor of Comparative Political Economy, Copenhagen Business School
Klaus	Petersen	Professor, Head of Centre, Centre for Welfare State Research, University of Southern Denmark
Lisbeth	Petersen	Head of Department, Employment and Integration, The Danish National Centre for Social Research
Jens	Reiermann	Journalist, Mandag Morgen
Peter	Stanners	Journalist, The Copenhagen Post

**Participants: Finland**

<b>First Name</b>	<b>Last Name</b>	<b>Designation</b>
Tapio	Bergholm	Researcher, Central Organisation of Finnish Trade Unions (SAK)
Ilkka	Haavisto	Research Manager, Finnish Business and Policy Forum (EVA)
Helena	Helve	Professor Emerita, School of Social Sciences and Humanities, University of Tampere
Heikki	Jokinen	Freelance Journalist
Ilkka	Kaukoranta	Economist, The Central Organisation of Finnish Trade Unions (SAK)
Pauli	Kettunen	Professor of Political History, Department of Political and Economic Studies, University of Helsinki
Yrjö	Mattila	Senior Researcher, The Social Insurance Institution of Finland (Kela)
Miko	Niemelä	Adjunct Professor, Senior Researcher, Research Department, The Social Insurance Institution of Finland (Kela)
Matti	Niemi	Special Advisor, Ministry of Finance (Permission given to say that he is a political appointee)
Ralf	Sund	Chief Economist, Finnish Confederation of Professionals (STTK)
Björn	Sundell	Head of Research, Magma
Marja	Vaarama	Assistant Director-General, National Institute for Health and Welfare
Tarmo	Valkonen	Research Director, Public Finance and Economic Policy Research, the Research Institute of the Finnish Economy (ETLA)

**Note:** Excluded from the preceding lists is a participant who wished to remain anonymous.

These interviews took place between October and November 2013.



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