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Information Division, Ministry of Communications & Information, City Hall, Singapore 0617 · Tel. 3307269 / 3307270 / 3307271

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SPEECH BY DR RICHARD HU TSU TAU, MINISTER FOR FINANCE AND MINISTER FOR HEALTH, AT THE TENTH FEDERATION OF ASEAN ECONOMIC ASSOCIATIONS CONFERENCE, (NOVEMBER 5-7, 1985), AT THE HYATT REGENCY HOTEL, ON TUESDAY, 5 NOVEMBER 1985 AT 9.15 AM

I am very pleased to welcome all of you to Singapore for the 10th Annual Conference of the Federation of ASEAN Economic Associations. The FAEA meetings are a good example of ASEAN cooperation and the benefits we can obtain by sharing our expertise and experience.

A cynic once remarked that if all the economists in the world were laid end-to-end they would never reach a conclusion. Whether you would reach conclusions in this conference is premature to predict, although for certain, a wide variety of topical issues will be discussed and all will benefit from the deliberations.

The theme you have chosen for this conference - the Social Security Systems of the ASEAN Countries - is of vital interest and importance to all the citizens in this region. I would like to make a few remarks about social security systems in general, and then review our experience and approach in Singapore to illustrate a few points.

As you would be well aware, the art of designing a social security system involves balancing the trade-offs between a host of social and economic goals. But I would like to suggest two principles to be absolutely fundamental to all other considerations.

Firstly, financial resilience. A social security system must be able to meet future financial claims against it, and be able to weather unexpected periods of high inflation or high unemployment.

Secondly, the system should serve to complement the key social and economic priorities that are held to in each society. In market economies such as ours, it should promote social cohesion without at the same time dampening private initiative and enterprise. It should not, for example, erode the traditional support system of the family, or reduce work incentives. And as an instrument of macro-economic policy, it should serve to promote non-inflationary growth.

With these broad principles in mind, let me now turn to some specific issues. Perhaps the greatest controversy revolves around the problem of adequacy. Should the State aim for the 'cradle-to grave' security blankets of some of the Western economies? For one thing, developing countries often cannot afford such systems because of their enormous direct costs. The more important question, however, concerns the basic economic philosophy that should dictate policy-making. Many of us believe that it is ultimately growth, not redistribution, that can provide for a sustained increase in standards of living all round. And that the most efficient way to achieve growth is to support private initiative and the functioning of private markets. In practice, far from implying a pure laissez-faire system (where there would be no need for state social security in the first place), this often requires governments to provide incentives that actively foster a growth ethic and promote dynamic adjustment to competitive realities. I have little reservation in saying that in the long run, a state social security system can only be run successfully in a framework that encourages self-reliance and induces workers and firms to adjust rapidly to market realities. The sluggish economic performance of the European Welfare States, and the growing trend there and elsewhere towards a greater emphasis on market decision-making are quite instructive in this respect.

The financing of the system is another major issue. The major choices are the pay-as-you-go system and the fully-funded system. As you know, in the fully-funded system, the benefits that an individual receives are directly related to the contributions he has made, while in the pay-as-you-go system this nexus is broken: payments to retired individuals may be made out of contributions from those still employed.

Without wishing to prejudge the issue, let me mention a few advantages of fully-funded systems for developing economies. In pay-as-you-go systems, since expenditures must be balanced by current receipts, no net savings are generated and therefore no additional funds made available for investment. In fact, as the experience of some of the more developed countries shows, social security expenditures may even lead to a reduction in savings available for investment, by draining general tax revenues and increasing the need for government borrowings. Fully-funded systems, on the other hand, do generate additional savings and can serve as an important source of capital formation. Since benefits are tied to contributions, these systems also have the added advantage of increasing the work-incentive. Finally, fully-funded systems would be more resilient than pay-as-you-go schemes in the increasingly uncertain external environment we all face. During economic downturns, falling contributions would under the latter schemes lead to either reduced benefits, higher taxes or growing budget deficits.

Let me now review some aspects of the social security system in Singapore. The central institution in our system is the Central Provident Fund, which is a compulsory savings scheme. It is fully-funded and members receive benefits from the CPF in direct proportion to what they contribute. Further, the CPF has enlarged its domain beyond that of post-retirement security to include other aspects of social policy such as housing and health. Through its various home ownership schemes, which over half a million CPF contributors have participated in to date, the CPF indirectly helps working citizens to obtain a concrete stake in the country. By allowing contributors to withdraw from their accounts to meet the hospitalization expenses of their immediate family members, the CPF indirectly also serves to promote the practice of intra-family self-help. A number of other proposals have been made for additional uses of members' CPF balances. Some have already been announced and others are currently under consideration.

Another feature of our system worth mentioning is that almost all the CPF funds are invested in Government securities. It should be emphasised, however, that the CPF balances borrowed by the Government are not entirely used to finance Government expenditure. The public sector has generally enjoyed healthy surpluses on its current account, which have provided a source of finance for public sector development projects. A significant proportion of the funds borrowed from the CPF has thus been invested overseas. Whether placed overseas or in productive domestic investments, however, the key condition has been to ensure that the risks are sufficiently diversified and that the government can, at the very least, repay its CPF liabilities in full. We are nevertheless looking into ways to further liberalise the flow of CPF funds that would place greater responsibility on the individual and enhance the role of private financial intermediaries.

Before concluding, let me mention a rather longer-term aspect of savings in Singapore. One of the reasons why we have had a much higher rate of national savings in Singapore than in the advanced countries has been that we have had a relatively favourable demographic structure; a high proportion of our citizens have been within the active, income-earning age-group. By the year 2020, however, we would be considered to be what the UN defines as a 'mature aging society' in its population statistics - that is, where one out of every seven people is aged over 65. By comparison, most of the West European countries became mature aging societies by the late 1970s, while Japan is expected to reach this state by the turn of the century.

If we were operating a pay-as-you-go social security system, like most of the advanced countries, the dependency burden would thus increase substantially and the strain on it would become very heavy. Fortunately, our fully-funded CPF system would not be affected by such problems of solvency. For countries which do not operate a fully-funded social security system, the economic implications of an aging population will have to be faced sooner or later.

I gather that the Japanese are trying to maintain their high savings rate as their population grows older, in order to ensure a soft-landing into the era of a fully-fledged aged society. They will be relying increasingly on technological innovation to offset the negative effects on economic growth of the levelling off in the growth of the productive population. The Japanese are perhaps better positioned than most to deal with the economic strains of an aging society, because their aged people have so far shown a much stronger propensity to work. The labour force participation rate of Japanese males over 65 is a strikingly high 38 per cent, compared to an otherwise respectable 28 per cent in Singapore, and well above the 18 per cent recorded in the US and 7-9 per cent in the West European countries. This is a much larger social issue, of course, and not one for which answers can be easily prescribed.

To conclude, I can only emphasize that there is room for improvement in any policy scheme, especially in the light of changing circumstances. I have no doubt that the present conference, in which all our country experiences are to be critically analyzed and compared, will prove illuminating for all of us. May I wish you every success in your deliberations. May I also take this opportunity to wish you a very pleasant stay in Singapore. It now gives me great pleasure to declare the conference open.

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