

## ACTUAL SPEECH

### WILL SINGAPORE BE ANOTHER SLOW-GROWING DEVELOPED NATION?

#### Speech and Question-and-Answer Session at Nanyang Technological University, Singapore (14 March 1996)

Better save it [the applause] for the end, you may change your mind. The talk tonight is on a topic which will concern you more than it will concern me because if we become another ordinary developed nation, then our growth rates will go down to about 1%, 2%—3% will be marvellous—per annum. Then your horizons will shrink. It will not be the same transformation that we have had. It is because we have been making 8, 9, 10, in some years, 12%, 13% but there is this tremendous transformation in Singapore which has changed the landscape and changed the expectations of the young; sometimes, even of the middle aged. By several quantitative measures, we are now classified as an advanced emerging country.

I am not going to follow my script. I want to tell the press [that] I have got about 36 pages of it. I do not intend to follow it, it will take too long and if you have attended lectures where the lecturer keeps to his script, then you will go back feeling perhaps he should have given you a copy, it saves your time. So, tonight, in order to get my points across, I will follow the arguments that I have in my script, but I will highlight them in a way that will make you see the relevance which you will not if I just followed my text. So, I will paraphrase myself.

But we have not celebrated as a government because we know what our limitations are. You may feel happy that you are amongst the per capita top ten countries in the world for we are not amongst the top ten in the basic fundamentals: your width and girth, your skills in manpower, your technological ability, the knowledge that you possess in your men and women in your research laboratories. We have just made use of other people's research. We have the Institute of Molecular and Cellular Biology, we have the Institute of Systems Science, we try and make little headway here and there, pushing the frontiers of knowledge, but by and large, we are making use of the sum-total of human knowledge which is already in use.

For a quarter-of-a-century after World War II, the world had a Golden Age. All the developed countries, or at that time, the ruined countries of Europe—they were industrial countries ruined by the war—even those who were not ruined like Britain were damaged. They recovered rapidly and everybody thought they had found the magic, a magic formula that could solve all the world's problems. All unemployment was gone from all the industrial countries and growth bounded along 5, 6, 7%; and tremendous self-confidence. I have given the figures. You can read it

tomorrow or perhaps [on] Sunday if they have no space tomorrow because I am competing with the Budget debate.

But then came the oil crisis. Many of you are too young, probably not born—1973. But at Yom Kippur in October 1973, the Arabs, Egypt and Syria attacked Israel to recapture lost land. Then the Arab countries imposed an oil boycott and the price of oil doubled and quadrupled and that cheap source of energy that had driven the economies of the developed world suddenly disappeared and growth rates went down. After that, it never quite recovered. The Japanese nearly recovered, of all the developed countries, and I will explain why later. And since then, they are faced with this problem of growing unemployment and slow growth.

I am going to simplify it to bring you the basics because it is the basics that we must concern ourselves with. The economies will have a dozen plus explanations. At the risk of oversimplifying, I would put it as the difference between the Japanese and the Europeans and the Americans as a difference in the syndrome. In the West, Europe and America, they became high spending, high welfare, low savings, low investments. With the Japanese, it was low spending, personal consumption low, they save a lot of money, low welfare, high savings, high investments. That is the basic difference in the driving forces of the two societies. So, every time, I see 'Spend now, fly later'; 'Use a golden card', I say, 'Do you want to follow that route?' Should we not stick where we are, the path that has brought us to where we are and will carry us to greater heights?

First, the Europeans. They started it, welfare on a big scale. They thought that this was the Golden Age forever and so they paid for unemployment benefits, first few months, three-quarters of your pay, then after that, two-thirds and so on and very generous. Disabilities, all kind of problems, the government is there to collect its taxes and give. There are many explanations for why these things happened, but the consequences of all these well-meaning policies have been disastrous because it made the individual no longer primarily responsible for himself. It is the system that is at fault if I am not doing well, so please give me.

The result was [that] welfare costs ballooned and democratically elected governments could not raise taxes as fast as welfare spending was increasing. So, they resorted to another device, what economists call 'cross-generation transfers'. It is not like the Visa Card, 'Spend now, pay later'. Here, spend now and the grandchildren or children and grandchildren will pay for it. It is called 'inter-generational transfers'. So, you incur debt, enormous debt.

You read the Australian general elections. Twenty million people owe nearly US\$200 billion and it has been increasing in the years that the Labour Government was in power. So, they had a chart to show how every Australian is now owing so much money. Just the interest, you just think

of it, US\$200 billion at treasury rates, say, 8, 9%, that is about US\$18 to 19 billion a year you have got to pay just in interest.

Now, in Italy, they have calculated that for the benefits of a man, each generation has to pay an average of about US\$65,000 in taxes over his lifetime. But the benefits that he is receiving will cost the next generation, future generations five times that amount. So, at some stage in the future, whether the children or grandchildren of the present group of Italian voters will pay five times that amount.

Now, what is the difference with the Japanese? First, they are always conscious that they are a vulnerable society. So, you have Taiwan and the mainland having exercises, they are greatly disturbed because . . . I had a visitor who had come from Tokyo to Singapore yesterday. Usually, it is a six-hour flight. His plane was diverted, it took nine hours, and the ships are also diverted. You can imagine how many more days it may take. So, this sense of vulnerability keeps them on their toes. They do not have that welfare syndrome.

If you see the growth rates of these developed nations and compare the Europeans, Americans and Japanese, you will see the red hash lines, Japanese growth rates. From 1950 to 1973, they grew at about 9% or slightly above 9% per annum, nearly double the Organisation for Economic Co-operation and Development's (OECD) average. So, all the other countries were growing at four point something, they grew at nine. Now, after the oil crisis—the dividing point, the turning point of the oil crisis, 1973—everybody went down. You see this huge 'V'—that was the plunge with the oil crisis. Then they recovered, all kinds of energy-saving devices; they moved from the big and the heavy to the small and the energy-saving -type product. After that, the Japanese averaged 3.5% compared to the others, 2.5%, but they are still ahead.

Now, an interesting feature . . . I am not saying it is all just low spending, low welfare, high savings, high investments for the Japanese. There are also other factors, the ingeniousness of the people, their productivity. If you go to a Japanese company, you see the number of suggestions from the work force, the quality control circles, you will know that it is a highly active, highly intelligent, highly contributive workforce. They make suggestions that save the company millions and millions of dollars, which does not happen to the same extent in European and American companies.

The next chart I want is Chart II to show what economists call 'total factor productivity'; this means that increase in production which they cannot attribute to an increase in input. You increase production by increasing either land, labour, capital, whatever, but over and above these, there is this extra which they have called 'total factor productivity,' which some economists

have said has to do with accumulation of knowledge. And if you look at them, Japan, right at the top and even at the very end, their 'total factor productivity' is higher than the others. They start off at 4% average in the 1960s and 1970s and they have slowed down after the oil shock. They have recovered and they are now at 3% per annum.

Before I finish with the charts, I will ask for Table I. This shows how much they have invested. Can I have Table I? I hope you can see it. I will read from my script, from my table in front of me. If you look at the bottom line, you see Japan, for four periods: 1950s, 1960s, 1970s, 1980s. 1950s; the Japanese percentage of GDP and investments was lower than the Americans or Western Europe. Its GDP was 21.5%, compared to 25% and 24% for the Europeans. Then in the 1960s, they started going, the economy boomed, they saved more, they invested more, they went up to 36%. 1970s, they went up to nearly 40%. 1980s, they are at 36%. You look at the others, they have stayed put at 20%. The Americans have gone down by 1%, the Europeans have gone up by 1%. But if you look at the Japanese, they have doubled their investments from the low base in the 1960s.

**TABLE I Investment as a Percent of Output for Selected Countries (%)**

Countries	Time Period			
	1950-1959	1960-1969	1970-1979	1980-1989

North America	24.8	24.8	24.1	23.6
Western Europe	24.1	29.4	28.9	25.2
Japan	21.6	36.1	39.9	35.9

Source: IMF, 'World Economic Outlook', October 1994.

They have, as I have pointed out, a highly educated workforce with 48% with post-secondary or tertiary education. We have nowhere near those figures and last of all, of course, they were catching up from behind and their exposure to international forces through exports, their access to Western scientific knowledge and technology, through licensing arrangements gave them a quick mastery of new technology with a hands-on approach. That is the big difference again between them and us. We work with the multinationals, it is their specialists, their machinery, we just learn to operate it and later own, we become managing directors or whatever of their local branch and if you are very good, you are sent to America and then they post you elsewhere, either to China or somewhere where they are opening new branches. But the Japanese never do that. They buy their licence, they learn to make the equipment, and then they begin to improve on it and it is in here and in there, blueprints.

So, we are a long way from the stage of development and accumulation of knowledge and strength that they have. Now, they went into an oil shock, too, but they recovered faster. I am not going to go into the details, I am skipping that. I have laid down the reasons in my text but I am going to tell you how they did a U-turn on welfare. For two decades after the war, they had very little welfare. Then they decided they were making the grade and they went in for welfare. That grew gradually and again, before you were born, in 1972, they had a prime minister called Mr. Tanaka, a very dynamic person, and he had grandiose ideas and a grandiose welfare scheme which they started to implement. But fortunately for him and for the Japanese people, in 1973 came the oil crisis. So immediately, their revenues fell down, the welfare expenditure did not go down. In fact, it increased with a slowdown in the economy and they rapidly decided to U-turn. Amazing. They had the quickness of mind to know that this is not for them.

After weak economic growth, they found themselves with high government debt; they cut back on their welfare and developed one Japanese-style welfare based on a self-help group of individuals, cooperation between families, and communities and company welfare. And they also introduced co-payment for medical services for the elderly. They reduced pension benefits, they increased contribution rates and they raised the qualifying age for pension from 60 to 65. All done quickly before the people got used to it and became dependent. They saved themselves great troubles. They are a cohesive people, so they were able to do this U-turn. I am not sure whether . . . If we went in for it, we can never take it back. I would tend to believe that we would be more like the Americans and the Europeans. Once given, you take it back, they are going to vote against you regardless of whether they can afford it or not. So, each government is thinking of some way to get out of this predicament. So, you saw the recent riots or you read of them and maybe saw it on television, in Paris, where the unions went on strike, the train drivers went on strike. Everybody was in an uproar. Why? Because they had to cut back.

But to win an election, nobody, no candidate mentioned anything about cutting down. Everybody said, 'We will solve the unemployment, we will do this, we will do that'. But to solve the unemployment, you have to reduce interest rates and general activity in the economy. To reduce interest rates, if you have low savings, you must cut expenditure. You cannot cut investments or you will be worse off but they could not cut expenditure. So, now the French president and his prime minister have the unenviable task of trying to solve unemployment, which is promised, without being able to reduce interest rates, without a collapse of the value of the franc, and the only way to prevent that is to cut expenditure. Then your budget is in balance and the franc will stay strong with low interest rates, but that cannot be done.

Now, many Singaporeans feel that, you know, we should have more welfare, more subsidies. We can afford it. People's Action Party (PAP) Members of Parliament (MPs) tell the ministers that. I

listen. They are young, they have not been through this. I have been through this, I have watched what happened. I am a grandfather. I have seen life in two cycles, my parent's life, my own and I am watching my grandchildren. There is a cycle that you cannot but travel and if you travel this route, that will be the end result. They say we got enormous reserves. Yes, we do. But, you know, a few years of recession, an economic setback and all that will suddenly be depleted. Our savings could be wiped out in about five, six years if you see a world recession like the last Great Depression in the 1930s.

Now, our problem is how best to improve our chances, how to invest because we have the capital, we have the savings? How to improve our human performance? The first thing you do is raise the quality of your people. By that, I mean we cannot change a person's brain or a person's physical build-up. I mean, that is predetermined. You never chose your father and mother, but they chose each other and you are there. But what we can do is to make sure that what you have is developed to its maximum potential and in this information age, it takes a lot of training, a lot of capital to raise a person to his full potential.

A World Bank economic review has attributed rapid growth and the low-income inequality in East Asia to their investments in basic education. Look at the number of graduates, especially engineers and scientists, the Japanese produce, the Koreans produce, the Taiwanese produce, Hong Kong produces and we, but not to the same extent. Again, we compare unfavourably. It is a long history why that happened, we had spent our time not solving the education problem but solving our political problem of whether we want to have a Chinese-language university and an English language university and if we did that, how do we train engineers in Chinese and engineers in English and they work together on a project? I mean, the educational answer was obvious, but the political solution was impossible to implement and I could not solve that problem, for all the years of experience that I had, until 1978 when I got Nanyang University to move into the University of Singapore campus and by 1981, everybody got the same degree and then we built up this campus as the Nanyang Technological Institute and now Nanyang Technological University (NTU). Now, you just see that, supposing we had started this in 1959 instead of 1981, just think of the lost generations of untrained engineers and poly-technicians. But the political impediments, the obstacles, the emotions involved, I could not overcome.

So, really, whether you are going to have high growth in spite of being a developed country or low growth or lower growth, now that we are reaching developed status, depends upon political factors. Let me explain. You look at the Liberal Democratic Party (LDP). They were doing marvellously. Then, because they did not adapt to changes: The world economy had changed and their own people felt that the cities were not getting enough attention. The MPs were being elected by looking after the countryside, building roads and tunnels to their constituencies and as

the people moved from the countryside to the towns, fewer and fewer Japanese farmers were voting for more and more Japanese MPs. Finally, the LDP itself broke, disagreement between how to adjust and change the system. When the LDP split, then corruption scandals and so on, it ran into difficulties, the country ran into difficulties, economic growth slowed down.

Well, I do not know if you read the newspapers or you are too busy with your work, but in 1992, the LDP broke and one of the strong men in the LDP, a potential leader of one of the biggest factions called Mr. Ozawa broke away [and] formed the Shinseito [Japan Renewal Party] and thereafter, it has not recovered. And my Japanese friends, who are well-conversant with these ex-ministers whom I meet, ex-prime ministers, they tell me two more elections before it will subside and a new pattern emerges because the first election will be on a new system, one constituency, one representative, not one constituency, five, six, seven representatives. So, the first election will not produce a stable government because it is new, so that everybody will then study the results and then rearrange themselves and by the second election, some definite pattern will emerge. That is quite some time that will be lost.

Now, you just imagine the PAP Government split, gone confused, gone soft, gone corrupt. I think, however, other things are in our favour, that one factor alone will just bring you down into the slow-growing range. The civil service, however competent notwithstanding, it is the direction which the prime minister and his key ministers set that decides whether you take the high road or you take the low road. And once we get caught in that morass, we will become like the Western countries. I do not think we will be like Japan. Japan, there is homogeneity, they are one people, one culture and even when they quarrel . . . it is like when they go on strike, they just wear armbands, make a big noise, photographers gone, they take off the armband and they go back to work because they do not want to lose production. They know that at the end of the day, less bonus for them.

## National Archives of Singapore

I do not think we have got that kind of a culture because I remember the rows we used to have—endless, bitter and violent. How many times I have been to this campus and been booed, reviled, abused and threatened. But that is our society. How do we escape that? It is a question of one making sure that that leadership never gets fossilised. In other words, recruiting fresh minds, fresh talent all the time so that fresh ideas, whatever they are, wherever they have originated [from], get infused, and get absorbed into the system and the system adjusts itself. Once we start playing the margin . . . You know, like Australia, a 5, 6% change in the vote and a government from a huge from a comfortable majority becomes a minority. Just 5, 6% change.

So, the result is prime ministers and presidents in America and in France spend all their time reading polls, not just do you support or do you oppose the government, what is the position with

this particular issue? Then you adjust your policy accordingly. In other words, the media, contending for public opinion or pushing a particular line, settles a point of view and unless you are strong enough, like Reagan thought he was, he appealed over the heads of the media, personally on television, and tried to change the trend. If you cannot do that, you are not good at television, then you just follow. So, you are being governed by the media and the pollsters and when you start changing governments every few years on the basis of 5% swinging one way or the other, you will never develop the kind of competence, the kind of in-depth knowledge, the kind of touch that the PAP has developed.

Why do you think we are tackling problems not connected with tomorrow or the day after tomorrow or next year? We are tackling problems that will crop up in five years, in ten years because the problems that are going to crop up tomorrow, we have tackled five to ten years ago. That is the measure of a mature government but the danger is, like the LDP, it becomes fossilised. It refuses to change because life was too comfortable with the rural constituencies backing them and then the more radical, the more forward looking amongst them decided, no, this was bound to fail and they broke and now, it is a big problem putting Humpty Dumpty together again.

I could give you a long list of items which we do right: our Central Provident Fund (CPF), our healthcare, Certificates of Entitlement (COEs), however unpopular, ministerial salaries, which come under criticism from time to time and will be an election issue. But to govern, you must have that ability to look at the problem squarely in the face and say, can we solve this? I want to pause on ministerial salaries because I urged the prime minister to do this. I told him that in his circumstance, he cannot do what I did because I grew up in an age where expectations were low and we adopted European or British standards, you know, ministerial salaries were tokens and the permanent secretary was paid more, three, four times more than a British minister, still is, and you see the malfunction that is happening in Britain. But because British ministers' salaries are low, the judges are paid low and all the officials. So, they cannot get good judges. Top lawyers are declining to be judges or those who have become judges have resigned and become arbitrators where they are paid by the day. So, you have got to face up to this.

A young man comes out or a young woman comes out from the university, he has got a choice of careers. The country is peaceful, secure. All is well. Why does he want to be a minister? Everybody says it is a great honour. You cannot eat that honour. Occasionally, the policeman will salute you, or you get a VIP quick-through customs and immigration when you return to Singapore. If I were a young man of 30 to 35 years, I would say, 'You keep that. I will hire my secretary; he will see me through the customs'. What for? I do not need the policeman to salute me. Who am I impressing?



Meanwhile, in this new environment, people want to live their own quiet lives. They do not want the press to come and bother them and it is a problem. If you are an MP you already lose part of your privacy. You are a parliamentary secretary, you lose more. You are a minister of state, you lose more still. You are a minister, you lose much more. You are the prime minister, you have no privacy.

But I am not sure that equating it to the private sector has solved it, but at least you have one less obstacle. So actively, the prime minister has to go out, together with his colleagues, headhunting. I used to have this argument with my colleagues way back in the 1970s. We grew up like mushrooms after rain. Nobody made me a politician. The Japanese did. They came here, they brutalised us. My generation, we asked ourselves, 'Why is this happening?' The British came back and we said, 'What right have they to govern us? They could not even defend us. We better look after ourselves'. So, you have that post-War generation of freedom-fighters. Many of them, unfortunately, could not also build a nation. They could just fight and get rid of the colonial power and then they got soft and they enjoyed life at the top and the country went down. But fortunately for us, circumstances forced us to build up Singapore. We have got turfed out of Malaysia.

Supposing we are a big country with oil and gas, all the natural resources. I might have become a completely different person, might have decided why not enjoy life, yes, let us buy a jet. To this day, we run one of the biggest fleets, but I have any suggestion that we buy a small jet for ministerial travel, it is immediately shot down because it is a stupid thing to do. You create in the minds of all your civil servants and everybody else, 'Boy, we have arrived'. And since the jet is doing nothing, why not go off for a weekend somewhere? So because of our circumstances, we became the kind of people we were and we still are because it has become a habit.

I am not sure that you can transmit that kind of experience. That is very personal to that generation. I can talk to my younger colleagues, they can understand logically, but I do not think they feel intuitively. So, often my value to the government is to say, 'Hold it. If you do this, your long and sometimes, not so long-term, consequence will be this'. So, long before we had troubles with cars clogging up the roads . . . Once the roads are clogged you cannot them unclogged. It is not that the British or the Europeans do not know how to solve the problem. It is a political problem. I have already got this car, you are going to deprive me of it, I will vote against you. So, they say, 'We will build underground tunnels underground garages'. In Mrs. Thatcher's case, she said, 'Okay, we will stop building on. We will have private roads and if you want to travel in those roads, you pay a toll'. But the people did not want it, so she was never able to implement her plan.

We saw it and I said, 'Right. Additional registration fee, 100%, 150%'. But we could see that the incomes were rising faster than we could up the taxes. So, we had a committee and somebody came up with a good idea and said, 'We decide each year how many percent more cars we can have and let everybody bid for it'. So, the roads are clear, but every time, there is a boom, the COEs go up, everybody wrings their hands and says, 'Please, not now. Wait till I have bought my car, then you can go up and I can get a good resale value'. But it is the ability to foresee problems that has enabled us to stay where we are.

But in the nature of things, however well we do, we are going to have opposition. Now, we have developed out of the British Westminster system, made amendments to suit ourselves. It is not ideal, but it has worked and we will require further amendments to make it work as the situation changes. But one great asset we now have: We are one of the few countries in the world where there is no money politics. It is a polite way of saying 'corruption', corruption both during elections and in between elections because if you have to spend at election time, somebody has to finance you and having financed you, he has to be repaid and he has [to be] repaid by licences, by favours and so, it breeds and grows to gargantuan proportions. It must never be allowed to happen in Singapore or we will just go down like the others. That is the surest and quickest way to go back to slow-growth societies and maybe even negative growth.

How do we keep it that way? By getting the system right. Pay them an honest salary that they can live on, nearly what they can earn outside, 60 to 70% and adjust each year. Every year, we know that lawyers, doctors, accountants, the whole lot, the income tax returns are there, and they do not declare the perks so faithfully but you can see last year and this year has gone up by 7, 7.5, 8%.

We have also developed other useful institutions like the National Trades Union Congress (NTUC). It is not a glamour section, so young men want to join Singapore Airlines (SIA) or Monetary Authority of Singapore, Government of Singapore Investment Corporation Pte Ltd or the banks. You tell them, when I get a young man, I say, 'Why not you spend a term at the NTUC and learn about how workers live, what their problems are, then you understand life on the ground?' Not very popular because it is hard work. They want to look for you when it is a holiday, a weekend and it is troublesome.

We have other things also going right. I have listed them all. If you have the time you read them, if you do not, maybe it will come up in one of the questions and I will give the answers, but you have to decide in the end, the kind of government you want and the kind of life you want. If you believe the West, we must be a thoroughly unhappy place, if you believe the Western media. We

are over-governed, we are overruled. There are too many laws and regulations we are conscribed but we are doing all right, thank you very much. Look at the wonderful things that should have come if your policies worked. They changed governments in Australia. You heard what the union said to the new Prime Minister, 'If you do any of these things, we will go on strike'. I had that kind of a situation in the 1950s and 1960s and I was with the unions and the communists took over and we parted company and they were making life a misery and ruining the economy. Now, if we had continued that, we would never have got off the ground and I think that is a very serious institutional problem.

How to solve it? By changing governments? No. The system has already got itself into a bind, it cannot correct itself. It has lost its ability to self-correct. You read the American press. You read what is happening. So, they say, dramatic change, new Speaker of the House Newt Gingrich and his group of radical reformers. We are going to cut out the budget deficit, reduce the trade deficit and get America going but the moment they suggested cutting out welfare, President Clinton came out on a white horse as the defender of the poor and the underprivileged and the infirm and the lame. Now, his stocks are up and the speaker and all his radicals, their stocks are down. So, they voted for him and they voted for that programme because they were disappointed with Clinton. But when the time came to implement the programme, they decided, better vote for the white knight on the white horse so it will take many, many such ding-dongs before it is finally put right. Maybe eventually, it will be put right, but this deficit has been growing since before President Reagan and they say it is going to be closed in seven years. I pray that it will be so.

The final decision whether we stay as we are—lean, keen, competitive, able to meet our problems, a self-reliant people with tight family ties, compassion but not to weaken the incentive to work and the will to do well, which will happen if you overtax the people—really depends upon the kind of society, the kind of people you and your friends will be. If you expect there to be some magic formula, that the minister has got a black box, out of which he keep on pulling out goodies for you, then you deserve to perish. But if you understand that this has been put together very laboriously and painstakingly over the years, learnt, empirically tested, worked, implemented, tested, did not work, discarded, and that if this combination is not doing too badly for you, then you will stay on high growth. You will still be on the high road.

Thirty years ago, when I came up to Nanyang—Nantah as it then was—I travelled a long-winding Jurong Road and I had a dilapidated auditorium and boisterous crowds arguing about Chinese language, culture and the importance of giving equal opportunities. There was no way we could give an equal opportunity to a Chinese-language graduate and an English-language graduate. The market was deciding otherwise. So, in order to keep Nanyang [University] alive because all the bright students were going to the University of Singapore, they lowered the standards and

they were producing students, graduates who should never have been admitted in the first place. So, a political problem was growing. Because we were able to solve it, now we have this high-tech, well, not very high-tech because soon it will be outmoded, but at least it is with all the accoutrements which a modern society should have and that is because we took rational, calculated decisions based on our long-term interests and when you vote, you look for leaders with that touch, with that capability to run the system and it is more and more complex than it ever was when I first came into office in 1959.

So, if you ask me, 'Will we become another slow-growing developing country?' My answer is, 'It depends upon you'. I know that there is a group in the government that can make sure provided they are able to get your support for the long-term policies they are pursuing to keep you on that high growth. But if pressures grow on the ground for immediate results and giveaways, then you go down like all the other graphs you have seen. As I said at the opening, I will not be here to enjoy it, but you will be here to receive what you will decide to do. My generation has done its share, put in place a system that is clean, effective and efficient, basically honest. I have also put in place men of ability and integrity. I cannot make you vote for them. They have to do it and you have got to know why you ought to vote for them. Thank you.

## QUESTION-AND-ANSWER SESSION

**Question:** Good evening, Sir. My name is Lee Choon Hoe. I am from NTU, first year engineering. Sir, for years, you have been encouraging Singaporeans to go overseas and get involved in business venture, notably, China, so as to spread our second wing. Personally, Sir, it is my desire to do business in China in the future. However, considering the fact that the economic culture and climate in China is so very different and that corruption is almost ubiquitous around there, it is almost inevitable that we, the foreign investor, will definitely be victimised. So, will the Singapore Government set up a certain agency or a helping body to assist us while we are there? And Sir, one more thing, I would like to express the sentiments of all NTU students. We wish you all the best for your surgical procedure tomorrow. Thank you very much.

**Senior Minister** Well, thank you for your good wishes, but really, better wish my doctors are good tomorrow because it is not in my hands. What can the government do to help you if you do business in China? Well, we cannot run the Chinese system because it is their system, not ours, but we can help pilot you through and if you do business in an industrial park like Suzhou where we have spent effort to get the people trained on Singapore lines, then you will face less trouble. But that is on the production side. You get your building going, you get your machinery in, you

get your power and your water without breakdowns, but when you sell, you move out of the industrial park and you are back into the Chinese milieu.

So, you have got to find your way around but take comfort in the fact that some 50,000 to 60,000 enterprises have gone into China from Hong Kong, Taiwan and other parts of Southeast Asia and they are doing well, most of them; otherwise the investment flow would have stopped. So, they must have found a way around it or they must have found a way to get somebody who knows the way who took them around. I am not here as a business consultant. I am sure there will be any number of business consultants who will help shepherd you through these difficulties and if it were not worthwhile, as I have said, the investments would have ceased.

**Question:** Hi, I am Choon Wei. I am a final year electrical engineering student from NTU. My question tonight for you, Sir, is this: The Government has actually cut corporate tax because of a very healthy budget that we have. So, assuming that continues to have a very robust budget surplus, will the government consider reducing personal tax and perhaps granting a little subsidy? Thank you.

**Senior Minister:** But I thought the Finance Minister has already reduced income tax again. Have you not read the papers? He reduced corporate tax from 27 to 26%. I think personal income tax, we are giving back next year, after the tax changes, some \$350 million and for this year, he is giving you a straight rebate of 10%. So, I think it is an extremely generous handout. I think you really have not read the details because there is such a plethora of information, you may miss it, but he has cut income tax, but it will come into operation next year and for this year, he is giving 10% one-all.

I do not know how much you expect to earn when you finish your electronic and electrical engineering. Is it a four-year course? By the time you graduate, if you are lucky, the economy has gone up a little further, you might start off with about \$2,000 a month. I do not think you are going to pay much income tax on that especially if you get married after two or three years.

**Question:** Good evening, sir. My name is Daniel Chew from NTU, accountancy, final year. I have a question here. I would say that I will agree with you totally that the sense of vulnerability and the kind of circumstances had imposed this sense of what we call 'siege mentality' on Singaporeans in the past and it has been an important factor towards the success of this nation-building. I was just wondering, after so many years or these years of comfort and peace, will this siege mentality and its reinforcement continue to work and be an effective tool to push Singapore towards its next greater height and enable it to shine in the international arena? Thank you.

**Senior Minister:** We are never going to quite reduce or abolish this vulnerability. It is in the nature of our geography and that decides the nature of our economy. Our small size but at a strategic geographic position for commercial and military purposes is at once a danger and an opportunity. It is a danger because whoever can control this point increases his leverage on the traffic lanes in the region. It is also an opportunity because this particular junction gives us a premium.

Now, if you took Singapore and towed it away to the South Pacific, say, next to Tahiti, I doubt whether we have three million people bustling away. You might have better coral and you have got beautiful white sands and we might import some Balinese women for the tourists to photograph and lucky we can support, say, 300,000 people. I doubt whether we can. I think Tahiti . . . It cannot be better than Tahiti because Tahiti is dependent on France. Metropolitan France is paying Tahiti a huge subsidy in order to have modern medical and other health standards.

So, we can buffer ourselves against a sudden recession, against too much of being hustled or pushed because we can develop some weights. I mean, we develop some capabilities. We have got savings, we can invest, we can make friends. If you do not want to be friends with me, then I will take my investments elsewhere. That is a pretty persuasive and non-threatening argument. I am not saying you have to receive me, but if you do not want to welcome me, I go elsewhere, either as a tourist or as an investor. So, I think we should always remain in that happier position. Otherwise, we are completely without any cards to play.

We also have what we did not have when we started in 1965, a Singapore Armed Forces, which, not to boast about, but people have to take note that we cannot just be threatened and they expect us to bow deeply three times. We are going to see what the rule of law says, the International fora, and so on. And we have also developed capabilities in the United Nations, World Trade Organization, a standing in Asia-Pacific Economic Co-operation, a standing in the Association of Southeast Asian Nations (ASEAN).

These are all shock-absorbers but your basic data has not changed: your 600-odd square kilometres, you do not have enough rainfall to feed your population, to get your population to drink, wash and run its factories. You can desalinate at a cost and, indeed, if it came to it, we would be able to do it. I mean, the fact that we can do it if it comes to it increases our bargaining position. From there, we talk. Do you really want me to desalinate when it costs you nothing? Think again. Supposing we cannot desalinate, then they will say, 'Well, you have got to join me then'. Well, that was what we did the last time, but it did not work out. So, I suggest we keep where we are and build up as many shock absorbers as we can.

**Question:** Good evening, Sir. My name is Michael Yap. I am from accountancy, year two, NTU. I notice in your speech, you have focused on factors that are internal, that to keep us on track, we have got to do very good housekeeping but I would also like you to share with us your knowledge on external events on which we have no control and on which our destiny very much depends: the Taiwanese and China tussle. Do you think there is any opportunity at all when Hong Kong reverts back to China next year, their experience would serve to any extent to change or to reverse sentiments in Taiwan and also, the way developments are going across the Taiwan Strait? What are the implications for our existing economic and security arrangements in the region? Thank you.

**Senior Minister:** I do not think there is a direct nexus between what is happening between Taiwan and China and our security because, first, it is strictly speaking, a continuation of a civil war which started in the 1930s and did not end in 1949 when the Communist Party of China took over the mainland and declared the People's Republic of China and the old Nationalist Government continued in Taipei and declared itself the Republic of China, and I think any resumption of conflict will be within that context.

The Americans, of course, are deeply interested because of the ties that have been built between the Americans and the Nationalist Government, well, since before 1949. The Americans were helping China, the Nationalist Government, with arms and economic aid all those years. They were fighting the Japanese and the communists at the same time.

ASEAN, it is not the same problem as if the Spratlys were the subject of the dispute. Then it is really an international dispute. This, so far as it is difficult to refute that, this is a Chinese-Chinese issue.

How will this affect Hong Kong? I mean, it is giving the people in Hong Kong considerable concern. You see that the Taipei stock market drops, the Hong Kong stock market drops in sympathy because it is pretty close, it is just one hour away by air and there is a kind of sympathetic response but I do not think whatever happens between Taiwan and the mainland is in the same category or in the same syndrome as Hong Kong-China because the mainland needs Hong Kong for its economic growth and for its transactions with the outside world until such time as in 15, 20, 30 years, it has developed Shanghai as a banking centre. So, I do not expect whatever happens between Taiwan and the mainland will radically alter the position, the role that Hong Kong has for the mainland. Of course, it is going to affect people's thinking. They will be fearful if things turn sour.

How do international events affect us? I think profoundly. The smaller you are, the more vulnerable you are to external forces. Even without force, just the sheer deterioration in the international environment in banking, in finance, in trade will affect us. We have three times, three-and-a-quarter to three-and-a-third times, our volume of international trade as our GDP. There is no other country with that kind of multiple. So, if you have a slow down. . . I mean, you can take a big trading nation like Japan. Its external trade is only 20% of its GDP. Ours is 320%, 325%. So, any hiccup means we are hit 20 times more than, say, the Japanese.

But the Japanese, too, are vulnerable compared to, say, China or India because whatever happens, their international trade is about 10% of their total GDP. They can live off what they are doing. We cannot. Every grain of rice. I mean, you can go to any restaurant, order any cuisine you like, Japanese, French, Italian. It is quite fashionable—any number of Italian restaurants. We can choose Sichuan cuisine, Cantonese cuisine, Teochew cuisine, but remember, it is an intricate web. Every day, fresh wasabi is flown from Japan with the best Kobe beef. Every day, champignon comes with Air France from Paris. It is like a just-in-time production of a factory. So, once you have a disruption of that, if you go to restaurants, they would say, 'Sorry Sir, we have run out'.

That is not too bad, but when they say, 'We have run out of critical medical supplies because the ships have been sunk', then we are really in trouble and I have lived through three-and-a-half years of Japanese occupation where medical supplies became non-existent and if you had diabetes, you would die because they did not have insulin. That was how vulnerable we were and how vulnerable we can be in a disturbed and disorganised world. So, we have a vested interest in international law and order.

**Question:** My name is Lim Tiet. I am a final year law student from the National University of Singapore (NUS). What I have to say is both a comment and a question at the same time. Now, Senior Minister, you were interviewed by *New Perspective's Quarterly* and your interview was captured in a book, *At Century's End*. You were quoted as saying that when a country has reached a certain stage of development, in order for it to continue to progress, the people have got to become both self-governed as well as self-motivated. Now, it has been said, and perhaps rightly so, that our education system tends to produce people who are both myopic and apathetic. Now, I think, by definition, a person who is myopic and apathetic can hardly be called self-governed and self-motivated. As such, how can one actually assume that we will continue to progress and not be just another developed nation with a slow growth rate? Your comments, please.



**Senior Minister:** Well, first, if we were . . . What did you say, the students come out as? Myopic and . . .?

**Question:** Apathetic.

**Senior Minister:** And you are a law student, fourth year, third year?

**Question:** Final year.

**Senior Minister:** Final year. Well, if I were the judge in a moot, I would fault your logic. First, if our graduates and our students generally were myopic and apathetic, we would not be here, would we? Would we have produced all this? They have got very clear-sighted vision of what is in their interests and they are pursuing it vigorously with skill, with vigour and determination. That is why we are here. So, I disagree profoundly with your conclusion because I think you have created two labels which do not fit.

But let me meet your basic question, which the West has made, that we are absorbers of knowledge and regurgitators, not original thinkers. I have listened to this argument many a time. If that is all we were able to do, also, we would not have got here because everybody got the same blueprint from the British, same constitution, same civil service, same system and you start off on your own. And we amended, we changed, we bud grafted, we chopped off, and that is why we are here and that required a little grey matter which we exercise, often, not in the way decisions . . . We made decisions which they did not approve of, but we knew what we needed and it has worked. So, I disagree profoundly with the view that we are just copycats and imitators. Even to imitate, because of our different circumstances, we have to adapt.

As I told the Chinese when they wanted us to help them in Suzhou, I can tell you how it works here, but you will have to decide how you are going to work it into your system because you are absorbing it into a completely different whole. We have Jurong Town Council supported by a government that ensures through its Public Utilities Board, water and power. We have, through the labour ministry and a set of laws and arbitration courts, a system that ensures that the workers get their rights and the employers have their right to manage. We cannot reproduce that in China. But they have got to abstract from our system what can be bud-grafted onto the Chinese system. We cannot do that for them. I told them that clearly at the beginning. They understood it and when it succeeds, it is as much their genius as our knowledge because they have to plant that genius in their soil and make it grow, and that is not easy.

And the fact that we have adapted and adjusted the British parliamentary system [and] that it works for us now better than it is working in Britain . . . When I was a student there, that parliament was held in high esteem by its people because it was producing results. But they could not make basic changes. Unlike the French, they never had a revolution. The French had one in 1958. They threw out the old Constitution, de Gaulle came back, really unconstitutionally—he was never elected—but the system broke down, he came back, he changed it and it became the Fifth Republic.

Today, you watch the British Parliament, they are shouting at each other and at any one time, six, seven rowdy speakers heckling each other. I would not have believed it because when I went there as a law student, watching the proceedings, learning how they worked, I admired the wit, the polish but that was the superficialities. At the ground, they were unable to resolve basic problems. Today, enormous problems have cropped up on the economy—social breakdown, slums, urban decay, drugs, you name it, they have got it. But they have also got very great institutions with great scholars. So, they can recover if they can get the voters to choose the right people and the right policies. That is the big problem. It is not that Tony Blair or John Major does not know what the solution is. They know what the problem is. How to sell it in a way that you will win the right number of seats, and having won it, to inflict the pain quickly and hope that you produce results before four-and-a-half years are up.

Now, this thing has taken 40 years to travel down to this position. London Underground in 1946, 1947, 1948 was a picture of a very orderly mass rapid transit (MRT)—polite, safe, clean. I went to Paris for a holiday, it was a mess, the Metro. Today, you get mugged on the London Underground. You are afraid when you travel into certain tube stations at night. Why? Because the system did not adapt and change and tackle those problems.

If we are just constantly responding to our press and our media and in their system, when you are a graduate, the bright ones, you do not want to be an MP, it is just stupid. You get beaten up metaphorically, satirised, made fun of, sit on the backbenches for years. In the opposition, even in the government, you are never really appreciated. You want to be a TV personality, play with words, ideas, then in next to no time, you are having a programme of your own with big fees. But do they really have the wit and the experience to propound a philosophy, a policy that will work? It sounds clever. Does it work?

So, all these clever criticisms of us, I have asked, I have invited them. 'Sit with me. Here is the microphone, that is the camera, now, we go in live'. They always want to interview me and then they go home and they nicely edit and they choose the parts that will make me appear a fool and

they as wisecracks. So, my answer is 'live or none', and live, they are vulnerable because they are ignorant and I am more knowledgeable than they are. It is a fact.

**Question:** I am Anthony Poon from the School of Communications, studying first year. Mr. Lee, what do you think is the role of the opposition parties in Singapore?

**Senior Minister:** If you asked that question seriously, I will give a serious answer. If you asked that question in a facetious way, I will give you a clever answer. Which one would you want?

**Question:** Serious question.

**Senior Minister:** We had no opposition from 1965 to 1981. Barisan resigned from their seats. When we became independent, they said this independence was bogus. They resigned, they abdicated. They had at that time 13 members. So we filled the vacuum. We won all the by-elections and in 1968, in a general election with the British troops withdrawing, some seven or eight were contested and we won by 80%, 90% margins because everybody knew that this was a serious business and nobody else could solve the problem.

So, I worked at a disadvantage and when I said disadvantage, I mean it because I had no foil. You see, I need a too-clever-by-half opposition to throw up the wisdom and the judgment that we were exercising. It is very difficult when you do not have the backdrop. So, by presenting themselves and their arguments, especially in an extreme way, like Jeyaretnam used to do, it acts as a foil. For instance, before I turned up tonight, they told me, 'Please do not wear a pink shirt'. I said, 'Why?' 'Sir, we are having a pink backdrop'. I have come here and I do not see a pink backdrop and I am confused, but anyway, we will find out later what has happened.

But I need a backdrop to throw my ideas into bold relief. So an opposition, in that sense, is my first need which I did without for 14 years. But the opposition we have got is really not up to its job. I mean, if you watched Mr. Ling [How Doong] or Mr. Cheo [Chai Chen] . . . The only ones who do try to do a serious job are Low Thia Kiang and Chiam See Tong, but, you know, it is also fun because when he does his mental arithmetic, you can almost hear it creaking away. So, there is a bit of fun and games, but at the same time, it is a bold relief. It is one thing having that happen, somebody without responsibility and just throwing eggs. Just imagine if he were in charge of the Housing and Development Board (HDB) and the cost, whether it is \$5,000 more \$5,000 less per flat and there is a young graduate three-E (Electronic and Electrical Engineering) or about to be, it will depend whether he buys a four-room flat or an executive. It is not so amusing.

Now, can we develop a really serious alternative? The theory, which I was taught when I was a law student on British constitutional law was that the opposition is there in waiting to present an alternative that can take over, as has on every policy or almost every policy, it would propound its alternative and there will be a lot of common ground in between. If there is absolutely no common ground, then no parliamentary democracy is possible. Like between the communists and the non-communists, there is no common ground because once they win, they are going to stop all further elections.

Now, can we develop that? I think we would have developed that but for our peculiar circumstances. We got turfed out of Malaysia. Within Malaysia, we would have worked the two-party system. The country, the population, is wide enough, the diversity of policies that you could offer would also be wide enough. But with our much narrower base, you have not got the talent. To find 15 good ministers, I literally scoured the whole of Singapore.

I had great argument amongst my older colleagues and myself. One school of thought or, not school of thought, one group said, that they will come out, the active and the energetic from the party branches, or they will turn up and join us. But it was not happening. We were getting people who were good activists. They run around canvassing with you, campaigning for you, getting your platform ready, getting lorries together. But at the end of the day, you have got to run a government. You have got to be able to go through files that thick and just know which key documents to concentrate on and what is the final turning point of a decision you are going to make. In other words, you need not only brains but also training.

As I grew older, I discovered that whatever your discipline, whether they can learn history, geography or three-Es or accountancy or law, when you have to choose people, you have to decide how good the quality of the man is. So, in the old days, we followed the British system, which had . . . every year, everybody would have a report. Every important civil servant had to report in which you are ticked 'Very Good', 'Good', 'Fair', 'Poor' and 50, 60 different points. So, you get confused. So I used to ask top bankers, top chief executive officers (CEOs), 'How do you choose people?' and they gave me all kinds of systems that they ran.

I remember once, a very capable American banker say, 'Well, I send the man, a promising young man to the head of a certain department', and I said, 'Do you want to take him?' And the man has got to make a very serious assessment because if he says 'yes', he will get the man. So, in this way, he decides who are the good men but I found from trial and error that the best system was that worked out by Shell. They have thousands of executives all over the world—oil companies, drilling, selling, marketing, refining—and they have to transfer and re-sort them elsewhere. How do you assess? And they assess it on three qualities: powers of analysis, sense

of reality, imagination and fourth, leadership. That is very simple. Can the man think properly? Powers of analysis. If you have got a good first-class degree from a good university, you must have good powers of analysis or you would not get it. But that is not enough. You have got any number of very clever people who make dreadful messes of their jobs when they are given an executive decision to do. Often, you have great visionaries. They can write sci-fi books. If you put money researching on those lines, then you are going to lose your money. So, you have got to match your sense of imagination with a sense of reality.

And looking for those qualities is really what leadership is about. So, you can toss a man into any job. If he has those qualities, he will be able to exercise his judgment. He will absorb the data, analyse its components, decide, 'Yes, this is the problem.' How do you solve it? He will solve it not just by staying on the ground in a mundane way, but with a bit of imagination, turn it on his head, look for an original solution. Then, you have got a first-class man.

So, if you ask me, 'Do we have many of those in Singapore?' If you see the number of appointments the few top men are holding, then you will know we are very short. So Mr. Dhanabalan resigns and wants to go into the private sector. Finally, the Prime Minister persuaded him why not [to] take over SIA as non-executive chairman and he says, 'All right, three years only'. If there were other young men growing up with that judgment and those powers of analysis, imagination and sense of reality, would he want to trouble Mr. Dhanabalan? So Tony Tan goes back to Oversea-Chinese Banking Corporation, becomes chairman. Then he is pressed, the prime minister is pressed. He looks around. We have got everything now on the computer. Every year's top scholars, but they do not all make it, you know, because other things may be lacking but you will know who are the people doing well in every profession: in business, the top 50 doctors, no difficulty; the top 20 lawyers, also no difficulty. So you comb through. It is a problem.

## National Archives of Singapore

So I ask the next question. Will those who will not join the PAP because they want their private lives and are walking into a job want to join Mr. Chiam or Dr. Chee Soon Juan and present an alternative? Does not make sense but the day the PAP does not absorb such people because they do not agree with you or the PAP policies, that day, things go wrong. They will coalesce, they will find like-minded people, whether doctors, dentists, architects, accountants, [they] will get together and form a party, then that day, the PAP faces a challenge which will defeat it.

I have told my younger colleagues that the reason why they could not challenge was every year I harvested, I green harvested. Often, even before the man has got to the top, I have got him into some MP position or member of some board to test him out. Has he got good judgment besides a good mind? Has he got integrity, character that will respond to responsibilities because you are

dealing with billions of dollars if you are in defence, you know, between buying one set of aircraft and another set of aircraft. You have seen what happened in Korea and you know what happens in other parts of the world.

I think we just do not have the numbers to develop an alternative team as long as the PAP does its job and is prepared to absorb the ablest and the best. And by that I mean, regardless of whether they agree with you or not because the answers to our problem cannot be all that divergent. How do you get this place going? Because it is not supposed to exist as a nation. We did not believe it. That is why we joined Malaysia.

So what do we do? I think whatever we do, we should leave the opposition alternative open because that will keep the government on its toes. If you have a one-party state, like in Africa, then you only join the PAP to be elected and there is nobody else who can contest in an election against you, then immediately, they say, 'Well, let us not bother', and then we slide downhill. So, when there is an opposition, that means the PAP leaders have not gone out of their way and recruited and absorbed the best and are on the wrong track.

**Question:** Good evening, Sir. I am Jason Tan, a second year student from the School of Communication Studies, NTU. I have two questions for you here. The first one is that Singapore has always placed an emphasis on the [US] military presence in Southeast Asia. Do you foresee any change in the US military commitments to the Asia-Pacific region in the near future, especially in the wake of the pull-out in the Philippines and the Okinawa incident in Japan? Second question is, over the past few years, Singapore has, as we know, achieved quite good economic success and that is why we have projects like HDB upgrading but when Prime Minister Goh announced in 1992 that the precincts to be upgraded are also based on how the voters vote in the wards, do you think that PAP is indulging in money politics then? Thank you.

**Senior Minister:** Well, first, your question on the US presence. I think in the next 10, 15 years, there is no problem regardless of Subic Bay or Okinawa because US capability will remain, the Seventh Fleet is there. In fact, they have got more equipment than is necessary as a result of the build-up in the Reagan years. The longer term, how long will they want to stay? If you judge it by the leaders whom I have met in Congress and in the intellectual community, yes, they want to stay because they want to be a positive factor in the world and play a big role. They want to be number one.

The problem is, can they always afford it at this level? I say 10, 15 years, no problem, but if the deficit is not resolved, the economy does not bounce . . . it is a vicious cycle. You are spending more than you are earning, so you are borrowing. As you borrow, the interest rates go up. If you

cut subsidies, you get turfed out. So, it is a kind of a bit of a logjam. To benefit from the growth in East Asia, they must have a robust economy, capital to invest, then they grow, like the Japanese are investing throughout East Asia. I mean, they have left the Americans way behind. 1970, 25 years ago, the Japanese were nowhere but now, they are everywhere. If the Americans cannot turn this around in their system—well, in fact in any system, but more in their system—Congressmen will ask themselves why are they voting so many billions to maintain peace and stability in East Asia when the benefits are being derived by the Japanese, the Koreans, the Chinese, the Vietnamese, Singapore, Malaysia, Indonesia? What is this in aid of? We are not paying them like Cisco guards, right? They are here to do a job and at the same time, that job enables them to get certain privileges in trade, investment and so on. But if they cannot take advantage of those privileges, then I see a very difficult situation developing 15, 20 years down the road. We will have to wait and see. It is not something we can determine as Americans will have to decide what they want to do.

Your second question. What was it? Money politics? If you ask me, it is again a question of definition. I mean, it is like that law student and I was disappointed because he is a law student. He says we are myopic; we are apathetic. If you can point to any single cent that a minister has gained by it, then I say 'Yes, it is money politics in the name, as the term is used in the popular press to mean'. In other words, you get a personal advantage out of it. But using public revenue for policies which bring you votes, that is the whole essence of politics. Surely. If we were running deficits, could the prime minister borrow money and do this upgrading and the interest rates are going up, growing bigger and bigger year by year? But we have managed the economy so well that at the same tax rates every year, we have a surplus and we are able to reduce the tax rates and still get a surplus.

Now, how did that happen? Because we did not fall into the syndrome: high-spending, high-welfare, low-savings, low-investments. Watch it. You will not find this in any textbook. I figured this out and I stuck to that policy. High savings, high investments all the time and if you want them to work, you give them welfare, you are in trouble. How do you avoid it because they say, well, it is unfair. Says Mr. Low Thia Kiang, you give a few hundred dollars to the man in the one-room flat and you give a few thousand dollars to the man with a private property worth millions of dollars. Is that the case? Not really. We are giving the man in the one-room, two-room and three-room flats money which he never earned. We are giving back to the man in the upper brackets his money which we have taxed from him and it is money at the top end that we are deriving to pay for this \$1 billion worth of upgrading every year.

Why do we do it? There are two ways in which you keep a country together. If there is no unity in the country, you cannot succeed unless you are like Hong Kong where there is a colonial

government that runs this place and refugees have come from China and nobody looks to the government for anything. The government owes you nothing. All it does is law and order, minimum welfare. Everybody tries his best and what you earn, you keep and they have got more millionaires than we have. The tax rates are lower, their welfare costs are lower until Governor Chris Patten now, as they are about to leave, feels that they ought to make life more comfortable for the lower classes and the Chinese say 'You are fixing us'. I do not know. We have to wait and see, but they have every intention of reversing it but because they have no subsidies at all, the Hong Kong economy has always been more efficient than the Singapore economy. I watched them recover from that oil crisis in 1973 and it was spectacular. They took pay cuts straight away. Business fell, waiters, salesgirls, salesmen all took cuts.

You cannot do that in Singapore. Real trouble, unions, agreements and so on. But unlike them, we have to defend ourselves. They do not have the cohesion to protect their collective interests. The British never allowed them to develop it because they wanted to govern the place. Now at the last moment, five years before the handover, they wanted to develop this democracy or votes. We need that cohesion without which we cannot survive. So the first thing we decided was that everybody, since all their sons, and maybe their daughters in future if we are short of men, will have to defend this country, National Service. But why should I have my son go to war and be killed to defend your big house?

So, right from the word 'go', we sat down and decided we will give everybody a home and that is what we have done. Even today, you can buy a five-room flat and if you do not have the five years' qualification before you are able to sell it, you can immediately sell it in the market and earn \$100,000, \$200,000 immediately. But we have started to give everybody a chip. 'I am stakeholder. I own this place'. Without that cohesion, we cannot defend ourselves; without that cohesion, we cannot achieve anything. But too much cohesion, all equal shares, like in China, nobody tries. However hard you work, you earn, you are lucky, they take and we are all the same—all wear blue Mao suits. But even at the time when they were wearing blue Mao suits, they were not really the same. When you got close up, the quality of the blue is different. As one minister discovered, a chap opens his jacket during winter and it was fur-lined. But there was this tremendous show of egalitarian sameness. So the more solidarity you have, the better the harmony in the country, but the poorer the total result because there is no competition, nobody is trying to achieve his best. So, what we have to do is to get everybody to achieve their best, but make sure that everybody gets a share of the big cake.

If I can choose a metaphor, life is like a marathon. When we started in 1959, everybody thought his son or his daughter has a chance for the big prize. But, you know, 32 miles is a long way to run, so by the 1970s, halfway through, many knew that they were never going to finish this race



because as in all marathons, you see, some are naturally born that way, far ahead. You will never catch up. So, what we do is that at every point, even if you finish one-quarter of the race, we give you a prize. You finish one-half of the race, we give you a bigger prize. You finish three-quarters of the race, a bigger price still. You win it all as the winner, God bless you.

How do we achieve this? In theory, all nations should try to do this. We have achieved it by distributing assets, not subsidies. When you distribute for consumption, you create dependency. I would rather if you said, 'Let us subsidise transport'. I said, 'No, that is wrong. You are disturbing the efficiency of the economy'. I would rather say, 'Right, I give you x dollars. Now, you decide whether you take a bicycle or a bus or MRT or a car or a taxi'. Then you will have an efficient, functioning economy.

Some things you cannot, like medicine, health. But we have found a way. It has not worked anywhere else in the world, but it is working for us. You co-pay and you pay for the higher quality of the service you require. You want to choose your doctor and have one single room with air-conditioning, you pay A class fees and there is no subsidy. You are willing to go down one level, you pay B fees; we subsidise 30%, you pay 70%. You go B2, we subsidise 50%. You go to C, we subsidise 80%. Now you decide. If you really want to save money, there is no means test, you know. A very wealthy man can say, 'Admit me into C and I pay only 20%. I co-pay'. And some are quite smart. They say, 'Right, I will pay . . .' You admit to C, the operation over for a very low fee and he says, 'Now, I am going to recuperate in B. They are quite smart. The Singaporean is . . . I completely disagree with that law student who says they are myopic. If they were myopic, they would not be able to see that far ahead.

Now because of this, we have been able to get everybody to do their best and we redistribute in assets. If you want to sell your house, you say, 'I do not want a refurbishing. Give me \$50,000'. I say, 'Easy; after your house your flat has been refurbished, sell it, buy an old one without the refurbishing'. Then you got immediately profited by \$50,000, \$60,000, sometimes . . . The one I saw at Toa Payoh, they made \$100,000 straight off on the open market. Now, you spend it. But they do not, you see. I guess my hunch was they would not spend it. They will accumulate and they will invest. I was right. Telecom shares, 95% held their shares to get the bonus shares; now they are worth twice as much as those who sold immediately. So, the lesson is sinking home. I see letters being written: Since we have a surplus, give it back to me. Can we? If we give everything back and we do not have this redistribution of assets, the person who cannot finish that race says, 'What is there in it for me? Why should I be peaceful and cooperative? Why should my son be doing National Service to save your skin and your property? Count me out'. You have large numbers of people saying that this country must go down.

So, I used this little metaphor and you think about it. You know that Korean symbol *yin* and *yang* on . . . It is a Chinese symbol but the Koreans have put it onto their national flag. It is a balance between male and female. *Yin-yang*. *Yin* is the all-embraciveness. That is solidarity, the mother embraces all. *Yang* is the masculine side, competitive, fight. You must find a balance. Every country must decide for itself, given the culture of its people, where do you strike that balance between *yin* and *yang*? If you have too much *yin*, you will lose competitiveness, the *yang* is missing. You have all *yang*, like Hong Kong, it cannot defend itself. I feel sorry for the Hong Kong people because the British did not give them a chance to develop the mechanisms to act as a community. Or they would have thrown up leaders, not Martin Lee at the last moment, but real leaders would have been there a long time who could talk to leaders in Beijing in their own rights and have experience of government or how to run the community. Now, it is too late. They are all off on their own, the habits of 150 years. Now, we have only had these habits for just over 37 years, that is all, but it is something and we have to decide for ourselves this trade-off between *yin* and *yang*, between equality and competitiveness and high performance. Too much of *yin*, our performance will go down, too much of *yang*, our solidarity will go down.

So, we run a meritocracy. You are doing National Service, you are an officer or you are a private, not depending on your father, but how do you measure up. In that way, we prevent a certain sense of deprivation, however poor. I was very pleased this year when I saw [that] two of our top A-level students came from very poor families and that is the way nature works. But the chances are—and I keep on telling the graduate men this, but they do not believe me—how good your children are is usually the average between you and your wife. It is not all you. It cannot be, as Bernard Shaw said to the [stage] actress Ellen Terry, ‘It cannot be as bright as me and as pretty as you. It is going to be somewhere in between’. So, if I look at the results, say, 30 years ago, they all came from taxi-drivers, hawkers, shopkeepers. Now, more than half, whose mother and father are professionals, school teachers, headmasters. But however lowly, there may be a great grandfather somewhere up the family tree who was once a scholar in China. That gene popped up.

So, we have a lot of trouble persuading the chaps at the lower end, do not have 10 or 12, but they keep on trying, like buying a lottery ticket. The chances are loaded against them but they do happen and on the average, I am very pleased that every year, that is about one-third, 4%, from across the board from the lower half, but more and more what psychologists call ‘assortative mating’. You look for your own kind, the same background, same education, and the chances are . . . If you toss a double-headed coin, you are going to have heads. You have a double-headed tails, it will be a miracle if it lands on the edge.

**Question:** My name is Adam Atlas and I am a third-year law student at the NUS. Like my colleague, I have a question about education. I think it has been established that now, one of the most important priorities in education for today's economy is creativity. From my experience at the NUS, with respect to the faculty and the administration, I find that the atmosphere is not conducive of creativity and expression and, indeed, that at various terms, whether it be in theatre or the contents of a computer program, students are discouraged from time to time from expressing themselves. I am wondering if, in the interests of the economy of the future, Singapore might foster creativity through fostering expression with moves such as a free press or perhaps free expression in the arts?

**Senior Minister:** This is an argument which I've heard many times and I've not changed my view. I think if we were that uncreative and we were zombies, we would not have got here because as I explained, you cannot just copy somebody else's method and create something completely different in a different environment. I do not know . . . are you American or British?

**Question:** Canadian.

**Senior Minister** Well, let me put it bluntly in this way. Have you been to the Philippines?

**Question:** No.

**Senior Minister:** They have got a free press. They have got any number of people expressing very vivid opinions in the most colourful of language and it ends up in total confusion. So, do not discount the problem of interpreting a different culture. I am pretty Westernised in my upbringing. I was brought up, taught in school by British headmasters and school teachers, form masters, in Raffles Institution. So, I know how British students are and I am telling you that there is a difference, always has been, between the Chinese in a Chinese school and the English schools in Singapore and it is not because they are unable to think.

Or the Japanese, they bow, they suck their breath and they never tell you 'no', but if you interact with them a long time, you get to know them. You know that behind that bland facade is a very fast-thinking mind. True, they are not very strong in computer software, but that is because they have decided that they can make use of other people to do the software. They are going to concentrate on the hardware where they had the advantage. They are going to manufacture it and the Americans have very late in the day, decided that if they give up the computer chip, the silicon chip, wafer fabs, to the Japanese, then they have really lost the next generation's industry. So, the Americans are fighting hard to keep it. One by one, the Japanese took over all the electronics. I think, do not misjudge them. They can buy brains in India, in China for the software,

or America, but if they have the hardware, then they got the patents, they got the jobs. Then they manufacture anywhere in the world. But everybody condemns them for saying 'lack of creativity' and the Japanese are the first to agree. They say, 'Yes, yes, that is right. I am greatly disadvantaged'. I do not think they really mean all that. I think they know what they are doing and they may not have thrown up as many Nobel Prize winners.

There is a college in Cambridge called Trinity and I was at dinner once there and the master was saying, 'There are as many Nobel Prize winners in Trinity, former Trinity men, as they were, he mentioned some European country, the whole of Spain or Portugal whatever, just at one college. But is that sum total? Can they keep it up when they have not got the research funds to attract these men? I met a mathematics teacher a year-and-a-half ago, who was doing a year's sabbatical, I think, either [at] the NUS or the NTU, I cannot remember and he was telling me that they are losing their best men now

.  
So, I do not altogether think you ought to discount the cultural behaviour. We have never been an argumentative society. I mean, you can see from the way the students react. I mean, if I were speaking to a British audience and I am a foreigner and I have spoken to them, it is a boisterous crowd. They are out to joust with me. Whether they win or they lose, they do not care but in an Asian society, nobody will . . . As I asked that young man, 'Do you want a serious answer or a not-so-serious answer?' and he says, 'I will stick to a serious answer', because if he says, 'No, I want a funny answer', he will get one and he will lose face. So, there is that element.

I think over time, I am not complacent about it, I think we have got to . . . Let me put it this way. In the end, we have to find our own balance. All our top students are either abroad or spend part of their time abroad. I mean, you can go to any profession and you will find that they have all been abroad, lived four, five years or three years, minimum, for an undergraduate degree. So, we are not a closed-up society and that, at second hand, will flick off on their children and onto society. So, slowly, we will change, but I think we will still be, if we are to remain ourselves, a more deferential and a more respectful society and that could be interpreted by a Canadian as a lack of brio, a lack of zest, a lack of original thinking. But do not conclude that the mind behind that deferential demeanour is not ticking. I think it is.

**Question:** Good evening, Mr. Lee. I am Tammy Tay. I am a first-year arts student from the NUS. There has always been a great emphasis on economic development in Singapore and Singaporeans have been driven by this ambitious need. Do you feel that they have become very individualistic to the point of lacking in social graces? So, I would like to ask your viewpoint, in your vision on Singapore being not only an economically developed nation but also a socially developed nation?

**Senior Minister:** I want to answer that question in a philosophical way. What do we mean by we have overemphasised the economic? Have we overlooked other basic qualities that we should aspire for? I do not think so. I think first things come first. If I look back on my duties, when I first started in 1959, I had an enormous problem of trying to get Singapore into a wider context and I spent the next four years getting Singapore into Malaysia. Then we had a wider base, we all believed better prospects and we had a lot of trouble with the communists in the unions, in politics, in society, in the schools and in the universities. So, first, we had to attend to those problems.

Then when we started in 1965, we were thrown out of Malaysia; we had a key problem to solve: How do we make a living? Because we had made a living for the 120 years under British rule as the administrative centre, the military base and the commercial centre of the British Empire in Southeast Asia. That was coming to an end. The Malaysians were going to cut us off. The Indonesians had already cut us off. So how do we live? When we were asked to leave, the Malaysian Government, the Malaysian leaders thought that within four, five years, we would be crawling on our hands and knees to get back, but this time on their terms, but not on the terms we bargained and agreed upon. That made us and the people determined, including two race riots when [we] were in Malaysia, that we will succeed. And we did.

To succeed, first, we have to build the economy, a new economy, one where we link ourselves up with the developed world. We succeeded. Nobody thought it could be done. We had our doubts, too, but we had to try and it worked. Then we had to build an armed force; otherwise why should somebody not just walk in and take us over? So, we had to start from scratch and nobody wanted to help us. Finally, we had the Israelis to come and help us and we were so sensitised to the hate that the Muslims have for the Jews that we called them 'Mexicans' when they came, to disguise them for a few years until we got started. So, it is first things first. I mean, if you have powers of analysis and a sense of reality and imagination, you will know, first, be able to feed yourself, then be able to defend yourself. Then we talk about other things.

Now, what are the other things? The most important thing is education. You change the quality of your population's performance. We had four different language streams: Chinese schools, Malay schools, Indian schools, English-language schools. Nobody wanted to give up his to get them into one national system, slowly edged them to one school and eventually, the market decided English as the main medium of instruction, your mother tongue as your social language. That took nearly 30 years. We transformed them from shanty huts with zinc or *attap* to high-rise with modern sanitation and now refrigerators, washing machines, hi-fi, the works.

But there is a generation that has been brought up in those shanty huts and they still take unwanted furniture and they go over the balcony and they throw it out. Why trouble to take it down the lift? You may have to call somebody to carry it. Why not we just chuck it overboard? So, it is not easy to transform habits. Maybe in one generation, the generation that has always used the toilet with the flush system knows that they should not soil the public toilet when he uses it. But that is a very difficult thing to do. You go to Japan; you know that they have succeeded. Spotlessly clean, completely odourless. Can we achieve it? I am confident we will. Will it take time? Yes. But we must persist the way we persisted and we stopped them from spitting. Taxi drivers would hawk and spit, and I used to watch it with great anguish and anger. Finally, we succeeded. So, when we had our first Chinese visitors, having met them in the Great Hall of the People with a spittoon, I decided we will provide one and because they saw that nobody used it, they decided not to use it and the next time I went to the Great Hall of the People, they also did not have spittoons. So you see, it takes time.

So, you cannot change a lifetime's habit. So, clean closets and not to bother your neighbour or endanger your neighbourhoods with your doings are going to take some time, but if we persist, we will succeed because of two reasons. We are an exposed society. We have seven million tourists and if you behave crudely, the SIA will collapse. So, all these SIA stewardesses and stewards, they cannot just leave their jobs and immediately act crudely anymore. So, that is going to flake off and all the waiters, all the counter clerks and so on. It is going to take time but I think it will percolate.

Now, between that civilised, gracious behaviour and a fully mature cultivated society with ballet dancers, art, drama, musical symphony, that is two, three generations. When Dr. Goh Keng Swee, my colleague, started this symphony orchestra, I told him if we want one quickly, recruit from abroad and from our neighbours and we did. In the first few years, out of 40, 50 musicians, only four or five were Singaporeans. Thousands of parents pay hundreds of dollars every month to have their favourite son or daughter either stringing the violin or playing the piano. Everybody wants to throw up a Yehudi Menuhin. You tell them to blow this, they said, 'No, no, not this'. When my son's schoolmate was offered a scholarship to study music and join the Singapore Symphony Orchestra for five years, my son came back, I asked him, 'What has happened?' He said the father told him, 'Do not be a fool. I will pay for your scholarship, you will be an architect'. He is not going to be a Yehudi Menuhin, what is he doing this for? You play for fun.

I was in Israel one-and-a-half years ago and they were flying in from Russia Jewish émigrés and everybody was carrying a case, a violin, a cello, whatever. One person came down carrying nothing. Says, oh, he must be a pianist! It is a totally different culture. They have, for the size of the country—they are just about three-and-a-half, four million now, slightly bigger than ours—

they have four or five world-class symphony orchestras. Will we ever get there? Not unless we are able to do some gene mutation. But need we get there? I do not think so. I think we only need only one good musical symphony orchestra but I would like to have the kind of computer programmers and the researchers in medicine that they have. I think that is where we have to concentrate.

So, it is going to take a long time, but as I said, if you do not have that economic capability, you go down and my best living example of that is Britain. The Britain that I knew as a student from 1946 to 1950 was gracious, very self-disciplined, very courteous, very self-possessed. Wrong policies, welfare compassionate policies brought down the performance. The London Underground was not updated, stations go on fire, the trains are overcrowded. But Paris Metro has been growing. So, without growth, you cannot keep up with your population expansion, you cannot keep up with expectations, your best people leave.

The British have been losing because they ran their National Health Service. Half the number of doctors they produce every year . . . Just think of it. Output of medical graduates, half are leaving at the very top for America where American doctors make vast fortunes and so, the British hire Indians, Pakistanis to fill up their hospitals. So, please do not sniff when people say, 'Oh, you are overemphasizing economic growth'. I think they dearly would like to have our kind of economic growth. We should dearly want to have their finer graces and we will get there. But keep at it.

# National Archives of Singapore

**ORIGINAL SCRIPT**

Release No : 24/MARCH

02-2/96/03/14

**SPEECH BY SENIOR MINISTER, MR LEE KUAN YEW**  
**TO NANYANG TECHNOLOGY UNIVERSITY (NTU)/**  
**NATIONAL UNIVERSITY OF SINGAPORE (NUS) STUDENTS**  
**AT NTU ON 14 MARCH 1996**

**WILL SINGAPORE BE ANOTHER**  
**SLOW-GROWING DEVELOPED NATION?**

**Introduction**

By several quantitative measures, including per capita income, Singapore is now ranked among the developed countries. But the government has not celebrated because we all know only too well how dependent we are on foreign technology, foreign entrepreneurs and foreign talent. We are not in the same league as America or Japan or Germany with their knowledge-and-technology-rich human resources. At a stretch, we may be equal to Portugal or Greece or Spain.



The next question is whether Singapore will become another slow growing developed nation. For young people of your generation, if Singapore grows like other developed countries at 2-3 per cent growth per annum, you will have to lower your expectations, take a longer time to find a job after graduation, settle for lower pay and smaller bonuses and compete harder for more limited promotion opportunities.

### **From Golden Age to Slow Growth**

For a quarter century after the Second World war, the world enjoyed a “Golden Age”. World economic growth during 1950-73 averaged 5.1 per cent per annum, much higher than the 2.8 per cent per annum during 1900-1913, and the 2.1 per cent per annum during 1913-1950.<sup>1</sup>

World economic growth began to slow down in the late 1960s and turned down decisively from 1973 with the first oil shock. Average growth rate in the OECD countries halved from the 5 per cent of the 1960-1973 period to only 2.5 per cent in the 1973-1994 period.

---

<sup>1</sup> Angus Maddison, “The World Economy in the 20<sup>th</sup> Century, 1989. World economic growth is proxied by growth of a sample of 32 countries.

This slowdown in growth resulted in an increase in the number of the unemployed in developed countries from 11 million or 3.3 per cent in 1973 to 33 million or 7.8 per cent in 1995. In Europe alone 18 million people or 11 per cent are now unemployed.

Economists have many explanations for this decline in growth rates and rise in unemployment. I would sum up the basic cause as the high-spending, low savings – high-welfare, low investments syndrome. These countries have achieved a very high level of security and comfort, and have allowed their people to be self indulgent.

### **Growth of the Welfare State**

In the pre-industrialised Europe, welfare was largely a private matter with the state assuming a minimal role. The hardship caused by industrialisation, urbanisation, the Great Depression and two world wars led to demands on governments to expand the policy of subsidies and social support. After World War II, Western governments believed they could banish unemployment by Keynesian demand management policies. So governments in Europe and the US assumed responsibility for maintaining full employment and for providing social security of varying degrees.

American and European governments believed that they could always afford to support the poor and the needy: widows, orphans, the old and homeless, disadvantaged minorities, unwed mothers. Their sociologists expounded the theory that hardship and failure were due, not to the individual person's character, but to flaws in the economic system. So charity became "entitlement", and the stigma of living on charity disappeared.

Unfortunately, welfare costs grew faster than the government's ability to raise taxes to pay for it. The political cost of tax increases is high. Governments took the easy way out, by borrowing to give higher benefits to the current generation of voters and passing the costs on to the future generation who were not yet voters. This resulted in persistent government budget deficits and high public debt. Government deficit of the OECD countries rose from 0.5 per cent of GDP in 1960 to 3.4 per cent in 1995. Net public debt rose from 20 per cent of GDP in the 1970s, to 47 per cent in 1995.

Italy can illustrate the costs of such “inter-generational transfers”. The present generation has to pay an average of US\$65,000 per person in taxes over his life-time. But the future generations will have to pay not only for the debt incurred by the present generation, but also for their own spending, and will end up paying five times this amount in taxes.<sup>2</sup>

To get people to lend money to the government to finance the deficits, plus the needs to keep a tight monetary policy to control inflation, real interest rates were pushed up. Real long-term interest rates in the OECD rose from 2-4 per cent during 1960-1967 to 4-7 per cent in the 1980s.<sup>3</sup> High real interest rates crowded out private investment.

Generous unemployment and disability benefits resulted in dramatic increases in the number of disabled or unemployed people. In the Netherlands, the Disability Insurance Act of 1967 introduced employee sickness benefits and disability insurance benefits for workers up to the age of 65, of up to 80 per cent of previous earnings. The number of claimants rose. By 1986, among those insured, there were more people in the 55-64 age group drawing benefits for

---

<sup>2</sup> From “The Hole in Your future” in *The Economist*, 9 September 1995.

<sup>3</sup> Interest rates were negative during 1967-79 when inflation was high and variable.

disability than there were working.<sup>4</sup> One-quarter of the 18 million pensioners in Italy drew a disability pension. The Economist described this as a “rate of misfortune that no other country can match”.<sup>5</sup>

### **The Exception to the Rule**

Japan did not fall into the same syndrome as the Americans and Europeans. They continued to be a low consumption, low welfare – high saving, high investment society.

When Japan reached full developed status, it could no longer sustain growth as high as when it was in the catch-up phase. But Japan still achieved growth higher than Europe and America.

Japan enjoyed faster growth than the OECD average for most of the last 40 years (see Chart 1). In the first half of the period, 1950-73, its growth averaged 9.2 per cent per annum, compared with 4.9 per cent for the OECD. In the second half (1973-94), growth for Japan averaged 3.4 per cent per annum, compared with 2.5 per cent for the OECD.

---

<sup>4</sup> OECD, The OECD Jobs Study, Part II, 1994.

<sup>5</sup> “Until the Fat Lady Sings: A Survey of Italy” in The Economist, 26 June 1993.

Japan has had high growth in Total Factor Productivity (TFP)<sup>6</sup> which exceeded 4 per cent per annum in the 1960s and early 1970s. Although TFP growth slowed down after the first oil shock, it recovered and continued around 3 per cent per annum better than most developed countries (see Chart 2).

Japan had three main strengths:

First, heavy investments in capital equipment. Its investment as a ratio of GDP nearly doubled from an average of 22 per cent between 1950-59 to 40 per cent Between 1970-79, and remained high at around 36 per cent thereafter. Since the 1960s, its investment rate has been consistently above that in the developed countries (see Table 1).

## National Archives of Singapore

---

<sup>6</sup> Total Factor Productivity (TFP) growth measures the growth in output which cannot be attributed to increase in labour and capital inputs. It measures the more efficient use of resources or the adoption of new and better production technologies.

**Table 1****Investment as a Percent of Output for Selected Countries, 1950-89****Per Cent**

Countries	Time	Period		
	1950-59	1960-69	1970-79	1980-89
North America	24.8	24.8	24.1	23.6
Western Europe	24.1	29.4	28.9	25.2
Japan	21.6	36.1	39.9	35.9

Source: IMF, "World Economic Outlook", October 1994

Second, a highly educated workforce. In 1970, even when its economy

was not yet fully developed, 48 per cent of its workforce had post-

secondary education or tertiary education.

Third, exposure to international forces, through exports, and access to Western scientific knowledge and technology through numerous licensing arrangements.<sup>7</sup> In this way Japanese companies mastered new technologies by a hands-on method.

### **How Japan adapted the oil crises in the 1970s**

The Japanese economy went into a sharp recession in 1974 following the first oil shock. But it recovered quickly (see Chart 1). The Japanese economy has been able to absorb the two oil shocks and the ensuing slowdown in world economic activity.<sup>8</sup> Between 1974 and 1980, the Japanese economy grew by 4.3 per cent, compared with 2.8 per cent for the OECD.

The reasons for Japan's quick recovery are:

## National Archives of Singapore

- (a) Their reflationary policies. Public investment grew by an average of 10 per cent per annum between 1976 and 1979.
- (b) Restructuring of the economy, led by the private sector, away from oil-reliant industries toward more technologically-advanced sectors. Oil

---

<sup>7</sup> From "The EIU Country Profile: Japan", 1995\96

<sup>8</sup> From "OECD Economic Surveys: Japan", 1980,1981



consumption was cut. In the car industry, it was cut by 37 per cent between 1973 and 1978.

- (c) Flexibility of wages and labour inputs. Between 1975 and 1980, average wage increase in Japan was 9 per cent, compared to 13.3 per cent in the rest of the G7. This kept business costs and unemployment down.

### **Why Japan's growth weakened in recent years?**

After 1988, the Japanese economy enjoyed above trend growth, due in part to the loose monetary policy to prevent a recession after the worldwide stock market crash in October 1987. Companies over invested in equipment and this could not be sustained. A correction was inevitable.

More fundamentally, Japan's domestic sector (ie services which are not exportable) was not exposed to competition. Japan's wholesale and retail trade sector was only two-thirds as productive as its US counterpart in 1990.

This inefficiency was a burden carried by the export-oriented manufacturing sector. But the rapid appreciation of the yen in the last 4-5 years eroded the competitiveness of this sector.

## **Limited Welfare the main reason why Japan an exception**

For over two decades after World War II, Japan focused on post-war reconstruction and economic development. Welfare grew very gradually. In 1972, the Tanaka government launched a grandiose welfare scheme, including significant improvements in insurance benefits for both health and pension schemes. Social security cost grew to become the largest item in government expenditure by 1975.

A few years later, after weak economic growth as a result of the first oil shock, high government debt, and concerns over the impact of an aging population on future pension payments, they cut back welfare. They constructed a Japanese-style welfare society based on self-help efforts of individuals, and co-operation within families and communities. Their reforms introduced co-payment for medical services for the elderly, reduction in pension provisions, an increase in contribution rates, and an increase in qualifying age for pensions from 60 to 65.

Japanese leaders were able to cut back because -

First, their society has a higher degree of national consensus, born of a deep seated feeling of economic vulnerability.

Second, there were alternatives to state welfare, in the form of employer-based benefits.

Third, unemployment benefits in Japan were relatively new and low compared with other OECD countries<sup>9</sup> and had not been regarded as entitlements.

### **Lessons for Singapore**

Singapore must never destroy or diminish the incentive to work and the need for everyone to take primary responsibility for himself and his family.

# National Archives of Singapore

---

<sup>9</sup> The unemployment benefit replacement rate (ie the benefit entitlement as a percentage of previous earnings) for Japan was 25%, compared with an average of 51% for 19 other OECD countries. Italy was excluded due to data constraints. From “The OECD Jobs Study”, Part II, 1994.

I read a Straits Times poll that 9 out of 10 of those surveyed felt that it was the government's job to help the poor and that nearly half felt that the government was not doing enough.<sup>10</sup> This is the easiest way to destroy self-reliance which has been a driving force for high performance. Many Singaporeans feel that the Government can afford it. This is precisely the trap which the advanced countries fell into when economic growth was robust and compassion was believed to be always affordable.

Some people look upon our reserves as "idle cash". They are wrong.

First, the reserve are our only or of wealth, apart from our human capital.

We do not have any forest, oil or natural gas. Australia has nearly

US\$600,000 worth of natural resources per person, Singapore has nothing.

Australia has US\$240,000 of other assets per person, Singapore has

US\$300,000. Adding the two, we are still poorer.<sup>11</sup>

Second, we are accumulating reserves now when our population is in the prime working age groups. As our population ages, we will need to draw down our reserves.

---

<sup>10</sup> "Who Should Look After the Poor?" in the Strait Times, 30 December 1995

Third, the reserves can be wiped out very quickly. In 1985, the economy went into recession. Income tax collection plunged by 16 per cent in 1985 and a further 26 per cent in 1986. Government expenditure had to go on to lay the foundation for further growth and social stability. The budget went into deficit and past savings had to be used. Our reserves now stands at \$95 billion. If we spend the OECD average on social welfare spending of 16 per cent of GDP, we will need to spend \$19 billion a year. Such spending will deplete our reserves in five years.

The question for Singapore is how best to invest and improve our economic performance and our social cohesion. In the first league, our human capital is inadequate. Our education and skills cannot compare with those of Japan. In the information age skills and knowledge can make up for lack of natural resources.

National Archives of Singapore

---

<sup>11</sup> The World Bank, "Monitoring Environmental Progress: A Report of Work in Progress", September 1995

A recent study published in the World Bank Economic Review attributed the rapid growth and low income inequality in East Asian countries to investment in basic education.<sup>12</sup> Investment in education contributes directly to growth by improving the productivity of the labour force. It also reduced income inequality as better educated workers are upwardly mobile. Growth in turn stimulates further investment in education and this sets up a virtuous cycle.

Education consumes 22 per cent of government expenditure in Singapore, significantly higher than the 11 per cent in the OECD.

Housing is another section we should concentrate on. We are an immigrant society. Loyalties to Singapore are not deep, after all Singapore has been a sovereign nation only since 1965. The housing program that has made 90 per cent of Singaporeans home-owners has given every family something tangible to defend.

National Archives of Singapore

---

<sup>12</sup> Birdsall, N., Ross, D., and Sabot, R., "Inequality and Growth Reconsidered: Lessons from East Asia" in *The World Bank Review*, Vol 9 No 3, September 1995

## Political Factor Decisive

Japan's LDP, gave Japan the political leadership, and their civil service, the top bureaucrats, gave the political leaders the advice and expertise that sustained high growth from the 1950s to the 1990s. The economy stalled when the bubble economy burst in 1991. The economy has been ailing since then, at an average of one percent growth per year for the last five years. The cause is as much political as economic. Corruption among political leaders contributed to a loss of faith in the government and resulted in an inability to exercise strong and decisive leadership when this was needed most. The LDP broke up when two major factions broke away and formed a new party called Shinseito in 1992. In the subsequent election the LDP lost its majority. Since then, Japan has had four prime ministers in less than three years.

The political factor, ie the nature and quality of leadership, is more decisive for the fortunes of a country than the economic factors.

Imagine Singapore with 9 PAP Government gone soft, corrupt, and split. Then that sureness of touch of a government that plans long term, is prepared to take unpleasant short term measures for good long term benefits, would be gone. Singapore would become like governments in most Western democracies, with

prime ministers and presidents who watch the polls and pander to interest groups in the hope of assembling a majority to win the next elections. When elections turn on a swing of 2 per cent to 5 per cent of the vote, short-term policies to placate lobbies and special interest groups became critical. Sound long-term policies are sacrificed for short-term electoral gains, and so growth remains in the doldrums.

Fortunately Singapore has a government able and willing to tackle sensitive and difficult problems. A few examples:

## **GST**

To introduce a Goods and Services Tax or GST was difficult because it affected everyone. Furthermore why GST when the government was running surpluses every year. In many countries, Finance Ministers who introduced GST or its equivalent, the Value-Added Tax (VAT) had to resign. In some cases, whole governments resigned. But these countries had to introduce GST or VAT at a high rate of 10 per cent or more, on top of high income tax, because they needed vast sums of money for the escalating costs of welfare. Singapore's objective was to have a broad-based, low tax structure to help the Singapore economy stay competitive. We needed to cut income tax to stimulate



entrepreneurship and encourage savings. And we were able to introduce GST at a low rate of 3 per cent and linked them to cuts in income tax so that net revenue remained the same. A package of offsets and subsidies cushioned GST's impact on the lower income groups. Next, only large business with annual sales exceeding \$1 million needed to collect GST. This meant nearly 80 per cent of the businesses in Singapore did not have to account for GST. A White Paper was published in 1993 and a year was spent preparing the ground. So we had a smooth uneventful introduction of GST in 1994, so smooth that most Singaporeans never realised how bold and difficult a decision it was.

### **Revision of CPF Minimum Sum Scheme**

Our population is aging. People are living longer. We had to make sure that Singaporeans had enough savings to last a longer retirement period. The CPF Minimum Sum Scheme provided only a bare minimum. But changing the rules was difficult. In 1984, when the government proposed raising the CPF withdrawal age from 55 to 60, Singaporeans reacted strongly. But we had to revise the scheme otherwise we will be saddling future governments with an intolerable burden. So despite the public's aversion to changes to the CPF system, the revision of the CPF Minimum Sum Scheme was discussed extensively. After much public discussion, the final scheme was to double the

minimum sum to \$80,000 gradually over 10 years, half of which in cash. Thus the change was implemented, but phased in. We also linked the starting age for monthly withdrawal of the minimum sum to the retirement age, at present 60. People have accepted these changes.

## **Health Care**

Another consequence of an aging population is the growing demand for health services and rising health care costs. Countries which have relied on the state to provide and pay for these services have found themselves in severe difficulties. The demand is infinite and the cost astronomical. Ministers chose to be frank and honest with the people and explained that health care financing had to be based on individual responsibility, coupled with government subsidies to keep basic health care affordable. People had to pay directly for at least a part of the cost of medical services which they use, to check abuse and waste which have happened whenever services were for “free”. The ministers raised Medisave contribution rates, particularly for older workers whose medical needs would be greater and got the self-employed who had not been covered before to contribute. They revised the medical benefits schemes for civil servants, to cut back free medical benefits, but made it up in the form of a higher salary increase, although this was unpopular with civil servants. As a result, Singapore has one

of the best health care systems in the world. Coverage is universal, the quality of the health care given is high, and the service costs much less than in countries where the government shoulders all the burden through taxes.

### **Ministers' Salaries**

The most sensitive and difficult issue was the salaries of ministers. Salaries for ministers, judges and civil servants were totally unrealistic. Despite revisions every few years, they never caught up with the private sector. For years it was difficult to persuade good lawyers to be judges and promising administrative officers were leaving for the private sector, often doubling their pay. But most crucial of all was that unrealistic pay would in the longer term lead to low quality ministers because good and able people would be less willing to be MPs and later become ministers. The government had made a major salary revision in 1994 but could not close the gap with the private sector. They followed up with a White Paper to peg top public sector salaries at 60 per cent, and in the longer term 2/3, of comparable salaries in the private sector. Civil servants salaries will now be revised automatically every year based on IRAS figures of private sector earnings of the previous year.

Salaries of ministers are a difficult and sensitive issue in all countries which have governments elected by one-man-one vote. It was easier for the Prime Minister to duck this issue and find ways like other governments to give perks which are tax free and bigger than the salaries. But that would lead to bad practices and end up in corruption as in many countries. During elections opposition parties will make ministerial salaries an issue, playing on the ignorance of people about the market value of talented professionals. What the PM has done is not to take the increases for himself but to show his motives were not personal. He has frozen his salary for five years. The salary revisions have already stanching the outflow of talent from the civil service. Singapore must maintain the high quality of ministers, judges and senior civil servants if it is to achieve excellence.

## **COEs**

# National Archives of Singapore

Our car population was growing rapidly. Roads were becoming clogged up. We had to take urgent measures not be like Bangkok, Taipei or Seoul. A Parliamentary Committee recommended a quota system for controlling the car population. The government accepted and implement the COE system. The COE system has kept our roads free flowing. It has made many Singaporeans unhappy, including many who do not, but hope to, own cars. Despite much

unhappiness, the government has not scrapped COEs. When problems arose, the government modified the scheme to close loopholes and stop abuses. When the public suggested changes to the system to make COEs cheaper, the government tried out these changes, even when it doubted it would make any difference to COE prices. This flexible approach has lessened the resentment. COE will never be popular. But they have prevented traffic gridlock, which would punish everyone on the roads and damage Singapore's economy.

### **Singapore system of governance**

Singapore inherited the British Westminster Parliamentary system. We have gradually amended and evolved our own form of parliamentary democracy, more suited to the cultural and social habits of our people. The evolution was shaped in the period from 1959-65, years of endless struggles against Malayan Communist Party, and then when we were in Malaysia, against Malay communalists. We have established a system where there is no money politics – no corruption of voters during elections and no corruption of Ministers after elections. This is no mean achievement for an Asian developing country with one government for 37 years. We have to safeguard this valuable asset for our economic and social progress.

The business of government in Singapore has become more complex with an ever more sophisticated economy. Since 1959 we have improved in the quality of our MPs and therefore the quality of our ministers with every election. The original cabinet of the 1950s to the 1970s had a number of star players, like “strickers” in a football team, the goal shooters. But the present cabinet of Prime Minister Goh Chok Tong, however, has far more talent across the board. The younger ministers need time and opportunity for a number of them to become “strickers”.

Since Goh Chok Tong took over as prime minister he has refined my method of selection of quality people. He goes head-hunting to make sure that he gets the best into politics. I have seen the candidates for the next election and I can honestly say that they are the best since the PAP first fielded candidates in 1955, 40 years and 10 general elections ago.

## National Archives of Singapore

Another institution that has evolved to the advantage of Singapore is the NTUC. Our trade unions have leaders who are practical and realistic, able to stand up for the workers, but once a bargain is reached, they are able to work closely with the management, and the government. Over the last 30 years, the NTUC has won many benefits for our workers in take home pay, in the assets workers own, and in the facilities that workers have access to, from NTUC

Clubs, to Pasir Ris resort, to FairPrice supermarkets, to Orchid Country Club and Sentosa chalets.

However, no system can be static. Technology is changing fast. Therefore our economy is changing fast, in tandem with technology. Our lifestyles will change. We must adjust and keep abreast with changing international conditions. To do this Prime Minister must have an inflow of younger talent every four to five years, men and women who are representative of their generation, sharing their generation's experience and aspirations, and as MPs, Parliamentary Secretaries, Ministers of State, and Cabinet Ministers giving their inputs before decisions are made. If this regular inflow of younger blood is sustained, Singapore's political system and the PAP will adjust and remain relevant, and continue to be effective. Success depends on getting the soundest and the best of each generation to take on the responsibility of office, even though they will lose some of their privacy and a good part of their weekends and holidays, because those are the times when constituents and workers in unions are free and need to see the MP and the minister.

The deterrent of low pay, compared to what the top talent can get in the private sector, should now be less of a problem. The formula for ministerial, judicial and civil service salaries will automatically give ministers, judges and administrators 65 per cent to 70 per cent of what they could get out in the private sector. This is a significant improvement over the past, when their salaries lagged behind at 35-45 per cent of the market as measured by their peers.

However good the government, there will always be voters who are disappointed and dissatisfied with the government, and who want to have opposition MPs. But no opposition party has been able to assemble a team which is a credible alternative government. The reason I believe is that our talent pool is small. And over the last 30 years the PAP has been methodical and diligent in scouring for talent, to persuade, cajole and conscript the best into public life.

## National Archives of Singapore

The PAP government of 1996 is not quite the same PAP government of 1966. Singapore society has changed. People are much better educated, so they expect to be served by better educated MPs and ministers. The aspirations of our people have soared. For example, I read the wish list of our HDB applicants: higher ceilings, concealed wiring, bigger bathrooms and living rooms, kitchen cabinets, wallpaper and an extra study room for two children with two



computers, blocks that are not so close together, flooring to be provided but colours to be chosen.

Between dreams and reality there is a gap to be bridged. The government's job is to build that bridge, if it is feasible so that some parts of the dream can be reached. Everybody in Singapore wants to own a condominium, or a landed property. Unfortunately not everybody can get landed property. However, within 15 years, the main upgrading program will give everybody the improvements that will totally change the present blocks and make them like condominiums.

But the difficulty will be how to maintain the environment of these new HDB condominiums at the standard to which the upgrading has brought them. Will conditions degrade, and they revert gradually to slums? That is the bigger challenge which requires the behavior for the people to change. The government can help with high level maintenance programs.

Next, everybody wants a car. This is not possible with today's technology. We can however try and let as many as possible own cars without clogging up our roads. We will continue to build more roads and expressways, and where feasible, we will build underground roads.

Technology will enable our roads to take more cars. After we computerised traffic lights in the city in 1988, travel speeds increased by 20 per cent. We will introduce Electronic Road Pricing (ERP) next year. If ERP makes everyone drive a little less on the congested roads, then more cars can be accommodated.

All these measures will let the vehicle population grow. In the next 15 years, one in seven Singaporeans can own cars, against today's one in ten. By then, roughly one out of every two households will have a car. But we can never be a 100 per cent car-owning society. No major city in the world has achieved this. What we can do is to give everybody good and convenient access to reliable and comfortable bus, light rail or MRT services in a world class public transport system.

In future, there will be technological breakthroughs that will allow us to manage traffic even better. Already, with GPS (global positioning system), it is possible to use satellites to monitor traffic conditions, and relay the information to the motorist to advise him on the best route to take. In 20 years' time, vehicle guidance systems could allow you to sit in your car, key in your position and your destination and the computer would pilot you to your destination at maximum speed and minimum interruption along the way.

There are no limits to human ingenuity and the capabilities of technology. The ultimate limit is the capacity of this earth to sustain the increasing number of human beings who will consume more and more of the earth's resources in order to have all the comforts which modern technology in high income societies have given the people.

To stay lean and competitive we must have a government willing to take the hard decisions with short-term pain for long term benefits. Then we can overcome our basic disadvantages of lack of natural resources by having our people well-educated and trained to use top class infrastructure and state-of-the-art technology in industries and services.

I am by nature a cautious optimist. The whole region is on the move at high growth. We can ride this wave of growth for the next 20 to 30 years.

The next 50 years will be exciting ones. We have the potential to be a rich city-state in a dynamic Asia with a standard of living higher than that of today's developed countries.

To achieve this potential, we must provide the right incentives for all workers, managers, professionals, risk-takers and innovators, to do their best. We have to learn from the mistakes of other developed nations and what has made for their slow growth and high unemployment.

National Archives of Singapore