

1 0 DEC 1990

Singapore Government

PRESS RELEASE

Ministry of Communications & Information, 38th Storey, PSA Building, 460 Alexandra Road, Singapore 0511. Tel: 2769794/5.

90-442-9

Release No: 25/NOV08-1/90/11/15

**KEYNOTE ADDRESS BY DR RICHARD HU, MINISTER FOR FINANCE,
AT THE 15TH FEDERATION OF ASEAN ECONOMIC ASSOCIATIONS
(FAEA) CONFERENCE AT THE EQUATORIAL HOTEL
ON THURSDAY, 15 NOVEMBER 1990 AT 9.15 AM**

It gives me great pleasure to be here this morning to address this gathering of economists and friends from the ASEAN countries. The conference focuses on the important topic of income distribution. All countries face income inequalities. In many developing countries, it is perhaps the most pressing economic and social concern. Gross inequalities of income and opportunity almost always breed social divisions and political instability, and throttle economic growth. Happily, most of the ASEAN countries have avoided this predicament through much of the post-war era.

Much attention has been paid to the extremely rapid growth performance of the East Asian NIEs over the last three decades, and the enormous growth potential that has emerged in the ASEAN economies in recent years. However, rapid economic growth brings with it both risks and opportunities, the risks arising if growth is accompanied by gross distortions of income and wealth distribution, and the opportunities that growth can provide for a general uplifting of living standards. There is, therefore, a need for economists and other social scientists to study the impact of economic growth on income distribution and the effects of redistributive policies on economic growth. The importance of these matters is dramatically highlighted by the economic and political changes which are now sweeping through Eastern Europe and the Soviet Union. There, attempts to totally eliminate income inequalities have led to economic atrophy and a breakdown of social order. For governments, the dilemma is how

to devise an economic and social system which adequately rewards hard work, skills and entrepreneurship and yet ensures that a social compact is maintained through equitable income distribution.

This morning, although the focus of my brief remarks will be on how some of these issues are managed in Singapore, I hope that the points that emerge will be of interest to those of you from our ASEAN neighbours.

The philosophy underlying policies on income distribution in Singapore has been partly shaped by our constraints. Singapore is physically small and totally lacking in natural resources. We have, therefore, had to maintain an extremely open economy. The necessity of adopting an export-oriented strategy of industrialisation since the mid-1960s has implied letting markets work so that products can be competitive in the world market.

The need to be competitive internationally has limited the extent to which the government can undertake income redistribution policies directly through progressive taxation. It has also prevented the use of extensive subsidies or handouts aimed at offsetting inequalities.

Policies favouring a reduction in inequality have instead sought to provide equality of opportunity. Equal access to education and the practice of meritocracy have fostered remarkable social mobility over the last 25 years. The opportunity for upward mobility has, in turn, acted as a powerful spur to economic endeavour. It has provided the often overlooked social underpinning for the rapid economic growth that we have experienced. An essentially market-based strategy of growth - providing the incentives and opportunities for self-advancement - has proven successful in raising overall living standards and reducing social inequality.

In the early years of Singapore's independence, however, mass unemployment, crowded and unsanitary living conditions and the low level of per-capita income required direct government initiatives to redress inequality. In countries such as South Korea, Japan and Taiwan, reductions in inequality during the immediate post-war period were achieved partly through land reform. In urban Singapore, land reform has taken a different form. The provision of low cost public housing and other amenities on state land, including that acquired at below market prices from private landowners, served to effect a major redistribution of wealth.

Owners and tenants of Housing Development Board (HDB) flats who today comprise almost 90% of Singapore's population, have enjoyed low housing prices and rental subsidies. Singapore's home ownership rate exceeds 80%, and continues to increase each year. The proposed upgrading of the quality of HDB flats, under which the government will subsidise the improvements made to the public housing units, represents another exercise in wealth redistribution.

Equally important in the 1960s and the early 1970s was the eradication of poverty through the route of job creation. Faced with a labour surplus situation, policies were aimed at attracting labour-intensive industries. This was done primarily by creating an efficient industrial infrastructure, maintaining a stable environment of labour relations, and through selective use of fiscal incentives. By reducing unemployment, these policies effected a reduction in inequality between those previously outside the workforce and those within, and all but eradicated poverty. Unemployment fell from over 10% in the mid-sixties to less than 4% by 1974.

Since the early 1980s, with unemployment below 3%, Singapore has been in a labour shortage situation. The emphasis of our growth strategy has shifted from employment creation to that of upgrading the quality and skills of our present and future workforce. Government expenditures on education increased

by about 11% per annum on average in the eighties. Their share of total expenditures also increased from 8% to 13% over the course of the decade.

Workers and companies have been enjoined to boost productivity levels through training and the introduction of new technology in the workplace. While the tight labour market puts constant upward pressure on wages, higher wages can only be sustained by higher levels of productivity.

What does this imply for income distribution? As low-skilled jobs are phased out of the economy, and as the proportion of jobs requiring a high degree of knowledge and expertise increases, it is reasonable to expect a further reduction in income inequality. Whereas the returns to capital previously accrued to owners of enterprises, they will increasingly be shared with employees possessing human capital. The wage share of income should increase over time, as it has done in both Japan and the West.

In many countries, efforts to improve the wage share of income or defend existing levels often take a confrontational approach. While militant unions are sometimes responsible for this state of affairs, it is frequently a reflection of an unstable macroeconomic environment. Where inflation is high, workers cannot be blamed for wanting to preserve their real standard of living. Conflicts over distribution then lead to an unsustainable spiral of wage and price increases, eventually halting economic growth.

Singapore has placed considerable emphasis, for this reason, on maintaining a low rate of inflation. Over the past 25 years, consumer prices have gone up a mere two-and-a-half times, compared to an increase of over 400 times in the developing countries taken together, or of almost five times in the industrial countries. With the purchasing power of their incomes being protected, Singapore workers have been able to

concentrate on increasing their skills and productivity, as a means of raising living standards permanently.

As Singapore moves towards joining the ranks of the developed countries, increasing emphasis will be placed on uplifting the quality of life of all its citizens. We will need to ensure commensurate improvements in the quality of life of those who are handicapped and disadvantaged. The government will continue to ensure unhindered access to basic education and health care for the lower income groups. Private and voluntary efforts would also have to contribute to the care of the aged and underprivileged.

However, as per-capita income increases and basic needs are afforded by the vast majority, the need for subsidised government services will continue to decline, but the core of the government's social responsibilities will always remain - that of ensuring security and opportunity for all citizens and their children.

I have summarised, within the briefest compass, the Singapore situation. The issue of income distribution is complex, yet practically essential. Each country cannot afford to merely experiment in its own well. All can profit from each other's experience, enriching their respective systems through thoughtful adaptation. This conference represents a landmark in this direction. I wish it success. May all of you have a truly fruitful time.

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