# PRIME MINISTER'S ADDRESS TO THE ECONOMIC SOCIETY OF SINGAPORE AT ITS 14TH ANNUAL DINNER, SATURDAY, 25TH JULY, 1970

## THE UNPREDICTABILITY OF RESULTS IN ECONOMIC POLICIES

In recent years, economists in Britain and America have watched in embarrassment as their predictions were proved wrong. It is not only with academics. Experts in government, in possession of all data, and formulating policies, have been making forecasts which have not come true.

But, however unpredictable economic events may be the business of present day government requires an understanding of the mechanics of economics forces and institution, and of the methods and techniques to control and regulate these forces. If there is also an awareness that these forces operate differently in peoples of different culture, then economics need not be so frustrating an exercise of the art of interpreting cause and effect.

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When the United Nations designated the 1960's as the "development decade", development economists believed that poor countries could be transformed into developed countries if the developed countries each gave 1% of

their GNP to supply capital and expertise to the undeveloped countries. They did not take into account the different cultural, social, and ethnic qualities. The results were frustrations which led to recriminations.

A few years ago, a British MP of Irish descent, with a robust sense of homour, recounted to me this story. The Irish, he said, are an easy-going people, who do not expect too much out of life. The Dutch, he said, are the exact opposite - thrifty, hard-working, good at calculating and carving a larger future for themselves, constantly reclaiming land from the sea. If all Irishmen were to be transferred to Holland, and all the Dutchmen to Ireland, in one generation, he said, the Irish would have been drowned as the dykes in Holland collapsed for want of maintenance, and the Dutch would have made Ireland a most prosperous country.

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Some time later, I had lunch in Dublin with some Irish friends. I recounted this anecdote. My host countered with this rejoinder, that when the Irish went to America they were so hard-working, thrusting and successful, that many became multi-millionaires like the Kennedy's. What would happen, I asked, if all the Irish in Ireland were transplanted to the eastern seaboard of America, and all the Americans of Irish descent on the eastern seaboard were brought back to Ireland? An American women of Irish descent, now settled in

Ireland, laughed and said that after a generation the position of Ireland would be unchanged. No, her Irish husband said. It could be very different if the water in Ireland could be changed, so that it did not make such good stout and whisky. The ensuing laughter helped our digestion.

Economics is concerned primarily with human beings, working on the natural resources available. Many politicians overlook the fact that economic and fiscal policies must take into consideration the cultural values and social habits of a people. Often underdeveloped countries uncritically follow the practices of highly developed western countries in subsidising food, providing free education, free health services and generous welfare and unemployment benefits. These western countries have very small, if any, population growth. Some, like France, have had their population static for several decades. Under those circumstances, generous tax concessions and even baby bonuses, free pre-natal, accouchement and health services, and free education makes sense. It is a policy designed for, among other things, to encourage people into having larger families. But even in Britain, the Labour Party, which first introduced the National Health Scheme in the late 1940's, had to put up prescription charges in the late 60's in order to discourage indiscriminate over-use of the Health Services, and check rising costs.

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However in developing countries, such subsidies can be ruinous. Most people have large families by force of habit, reinforced by religion and tradition. Such subsides can only encourage social irresponsibility. There is nothing wrong about free health and education, if a society can afford it. But a developing country which wants to develop, cannot afford a large increase in population. There should be more than token payments for use of these services if the ills consequent on too rapid a population growth are to be avoided. Parents must know the costs of these services. Beyond the third child fiscal policies must be devised to check the irresponsible from putting the costs of bringing up their children on the backs of the hard-working and economically productive, who already pay more than their fair share of taxes and, because they have small families, use less than their share of these services.

Let me give an indication of the scale of the annual recurrent cost of some of these services, without including the capital or development costs. Health services cost us $87.7 million for this fiscal year, or 11.4% of the total budget (minus Defence). Education costs $174.1 million, or 22.6% of the budget (minus Defence). Social services, $19.5 million, or 2.5% of the budget (minus Defence). A total of 36.5% of the budget not including subsidies for public housing.

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A mother in a Class C ward in K.K. Hospital pays $10 accouchement charges. But the actual cost to the tax payer is not $10 but $110. A patient in a Class C ward in O.R.G.H. pays $1 a day. But the true cost is $35.

It costs $15 per month to provide a place in primary school for one child. It costs $30 per month per secondary school child, in the academic school, and $70 per month in the vocational institutes and Industrial Training Centres. A medical student pays University fees of $540 a year. But the cost to the government is $7,500/- a year.

We have to make a series of adjustments to make some people more aware of the real cost of large families. We must re-establish social responsibility. The ideal would be negative income tax, N.I.T., where the lowest paid workers will have a sum of money paid to them by the government to bring their incomes up to a socially desirable minimum. Out of this, they will pay at least half the actual costs of the services each of their children uses. So they will have to make a choice between having another baby, or having the amenities of modern living, a flat, with television, refrigerator, washing machine, scooter or mini-car.

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Fortunately, we never attempted to subsidise rice or other staple foodstuff. Those governments which have done so face grave problems, as more and more of their revenue goes into feeding more and more mouths at subsidised prices, generating over-population, under-education, low economic growth, massive unemployment and resulting social unrest. And this is what has happened because elected governments in several new countries have baulked at taking unpopular decisions.

But highly developed countries can also run into problems when their health and social services are highly subsidised. In November 1967, the British Labour Government, after three years of strenuous resistance, and the employment of every fiscal economic device and tactic, devalued the £. Inflation had forced prices so high in a cost-push spiral, that British goods had been over-priced in the foreign markets, and exports had fallen, whilst British workers, with their high wages, bought ever-increasing amount of imported European,

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American and even Japanese products. British economists predicted that after this 14.7% devaluation, the fortunes of the £ will improve. Imports will be dearer, so workers will consume less foreign goods, exports will be cheaper, and will therefore increase.

For over two years these pundits had to explain why their predictions were not coming true. The British people went on a spending spree, expecting prices to go up. Imports remained high, and the £ remained weak and low, almost at the bottom of the 1% lower limit allowed by IMF rules. Meanwhile the British Treasury tried every single trick in the economic game. Bank rates went up to record high's of 91/2% to make credit expensive. An import deposit levy of 30% was imposed to check consumption of imports. They still appeared not to work. When it finally did, it was after a whole panoply of economic weapons was brought to bear to cut down the money supply and dampen consumption.

Then, by the spring of 1970, the pundits were at last proved right. A balance of payments surplus of some £600 to £900 million was predicted. How much of this was helped by purely fortuitous changes in European exchange rates, the devaluation of the French franc in August 1969, and upward revaluation of the Deutsche mark in October 1969?

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At the end of April 1969, General de Gaulle lost his referendum and resigned. de Gaulle is a man of his word, a leader of immense tenacity, steadfastness and courage. He had given his word that the franc would not be devalued. He was prepared to enforce tough measures to maintain the parity of the franc, in spite of the damage to the economy after the grave student and

worker unrest in June 1968. Pompidou, his successor, had not promised that the exchange rate of the franc will be maintained at all costs. After he became President in June 1969, he devalued the franc in August by 12.5%.

This solved a small part of a larger problem, which was the strength of the German mark. Speculative movements of currency into Bonn created new pressures in the summer and autumn of 1969. Dr. Kiesinger, the Chancellor, and his Finance Minister, Herr Strauss, rightly viewed Germany's strong economic position as the reward for hard work, good planning and enterprise. They saw no reason why the Germans should be penalised by an upward re-valuation of the mark and so help out the thriftless and unsuccessful countries. But they lost the elections. The Social Democrats, under Willy Brandt as Chancellor, with Schiller as the Economics Minister, both took a more charitable view of the problems of their neighbours. They allowed the mark to float in October 1969, and revalued upwards by over 9%. So the £ was helped, and the British balance of payments began to show a substantial surplus. The character, the personalities, the economic and political philosophies of these leaders, have changed the course of economic events.

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Next, Special Drawing Rights, or paper gold, was voted for by the requisite majority in the I.M.F. in August 1969. As a result, gold on the free

market slipped below US$35 per fine ounce in a matter of months. All this would not have happened with de Gaulle and Kiesinger in office. So economic history, like all history, was determined by the different traits and characteristics of the different peoples and the mettle of their leaders.

It was not predictable in its details, because of fortuitous events, like the way de Gaulle chose to make a referendum in April 1969 an issue of confidence on which he resigned, or the Social Democrats being able to form a new government in Germany by forming a coalition with the Free Democrats. But it was predictable that the German economy was getting stronger and stronger, and after the student and worker disorders in 1968, the French economy was running into trouble.

So, whilst economies will never become as exact as the physical sciences, analysis and anticipation can become more accurate, as the social sciences give us better insights into the group behaviour and responses of different peoples, and the character of their leaders.

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