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Why S'porean leaders believe in govt action

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THINK-TANK

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By Kishore Mahbubani, For The Straits Times

THE most withering look of contempt I have ever received in my life was from Dr Goh Keng Swee.

The year was 1971. I had just graduated with a first class honours degree in philosophy from the then-University of Singapore. In what must have been a rare honour, I was invited to a one-on-one conversation with Dr Goh, then-Minister of Defence, in his office at Pearl's Hill.

He made me a generous offer: join his team of 'whiz kids' in Mindef, a team that included the likes of Mr Lim Siong Guan and Mr Philip Yeo. He assured me that I would rise far and fast.

I was impressed, but replied, somewhat meekly: 'Dr Goh, I am afraid I cannot join Mindef.' He asked: 'Why not?' I replied: 'Because I am a pacifist.' With a withering look of contempt, he threw me out of his office.

Fortunately, I redeemed myself later. After some years in the Foreign Service, I realised how easy it was for a small state like Singapore to be bullied. I became a defence hawk. Perhaps that was why Dr Goh forgave me and continued to talk to me. Indeed, the most candid conversations I have ever had about Singapore's political and economic vulnerabilities have been with Dr Goh.

I have been thinking of Dr Goh again because I have been wondering what he would think of the current debate emerging once again between capitalism and socialism.

No, capitalism is not dead. It is alive and well. But the bloom is off the rose. As Ms Gillian Tett of The Financial Times puts it: 'The efficient market thesis is no longer in such vogue. Elaborate computer models do not command quite such reverence.'

In 1971, I was more socialist than capitalist. Indeed, socialism and pacifism seemed to fit together comfortably in one ideological package. Over time, I became more capitalist than socialist as I was swept along by the prevailing Reagan-Thatcher ideology of the 1980s. I came to believe that efficient markets could help reduce poverty by generating economic growth and creating jobs.

The global financial crisis of 2008-9 has brought to a screeching halt the Reagan-Thatcher revolution. Indeed, one of former United States president Ronald Reagan's most famous statements sounds downright stupid now: 'Government is not the solution; government is the problem.' Former US Federal Reserve chairman Alan Greenspan had heeded that principle in avoiding intervening in

the markets to regulate new-fangled instruments like credit default swaps. This and several other factors led to the crisis. Now only an idiot would say 'markets know best'.

So far, most of the debate has been about the relative weights of markets and government in managing an economy. A deeper debate will emerge on the role of government in redistributing the fruits of economic growth and wealth.

The Reagan-Thatcher ideological revolution led many to believe that the best way to help the poor, and even the middle class, would be to let markets do their work. Sadly, this has not worked. Inequality has not diminished in advanced capitalist countries.

Indeed, by all indicators, America has become a much more unequal country since the 1980s. A recent study showed that the top 10 per cent of US households earn about 50 per cent of the country's total income. Three quarters of the growth in income during the eight years of the Mr George W. Bush's presidency went to the top 1 per cent of the population.

Amazingly, most Americans are unaware how unequal the country has become. A recent survey by Michael Norton and Dan Ariely found that Americans thought that the top 20 per cent should own just over 30 per cent of the country's wealth, and the bottom 40 per cent about 25 per cent. In reality, the top 20 per cent own about 85 per cent of the wealth and the bottom 40 per cent owns very near 0 per cent. Many at the very bottom have negative assets.

Of course, nothing like a socialist revolution appears imminent in America. There are many reasons for this: a deep distrust of socialism; ignorance of the actual wealth and income disparities; the continuing belief that any American can go from rags to riches if he tries hard enough. But there is no doubt that growing inequalities will generate new social and political stresses. One does not have to be a genius to forecast that.

Why is all this relevant to Singapore? The simple answer is that inequality levels in Singapore are also rising. Singapore's Gini Coefficient (if government transfer payments are excluded) is 42.5, exceeded only by Hong Kong's 43.4 among countries or territories with very high human development. (A value of 0 represents absolute equality and 100 absolute inequality).

Unlike America, however, Singapore has a whole slew of policies to help people at the bottom - from subsidised housing and health care to virtually free education, as well as a carefully managed workfare and welfare system. In many respects, Singapore remains quite socialist in its orientation, reflecting the democratic socialist ideals of Singapore's founding fathers, including Dr Goh. They once co-authored a book in the 1970s titled *Socialism That Works*, referring to the socio-economic system they had created.

Based on government surveys, Singaporean households need a minimum of

\$1,700 to cover basic costs of living like food and utilities. Yet the lowest 20 per cent of households earned an average of \$1,274 per month in 2007-8. At some point, this inequality will create stresses, as government leaders have acknowledged in justifying schemes like Workfare, Jobs Credit, HDB upgrades and massive expenditure on Continuing Education.

So, if Dr Goh were alive today, would he pragmatically and pre-emptively intervene to improve the lot of people at the bottom or would he assume the market would solve all problems?

My guess is that he would intervene pre-emptively.

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