

MENDAKI POST GE 2011 FORUM

Re-thinking Singapore's Social Safety Net and Social Compact

23 July 2011

Impact of new global competition on a small and open economy

- Economy extremely open to trade and direct investment, few sectors will remain insulated from global competition
- Coupled with China, India, ASEAN, Eastern Europe, LatAm supplying to global product and service markets...
- Economy open to innovations in new IT technology and excellent IT infrastructure
- **In addition, one of the highest rates of unskilled immigration in the world!**
- ...All exerting major pressures on wages of unskilled/semi-skilled workers
- Risk of structural unemployment, median wage stagnation and low wage decline will increase

Global Trends Towards Median Wage Stagnation and Low Wage Erosion

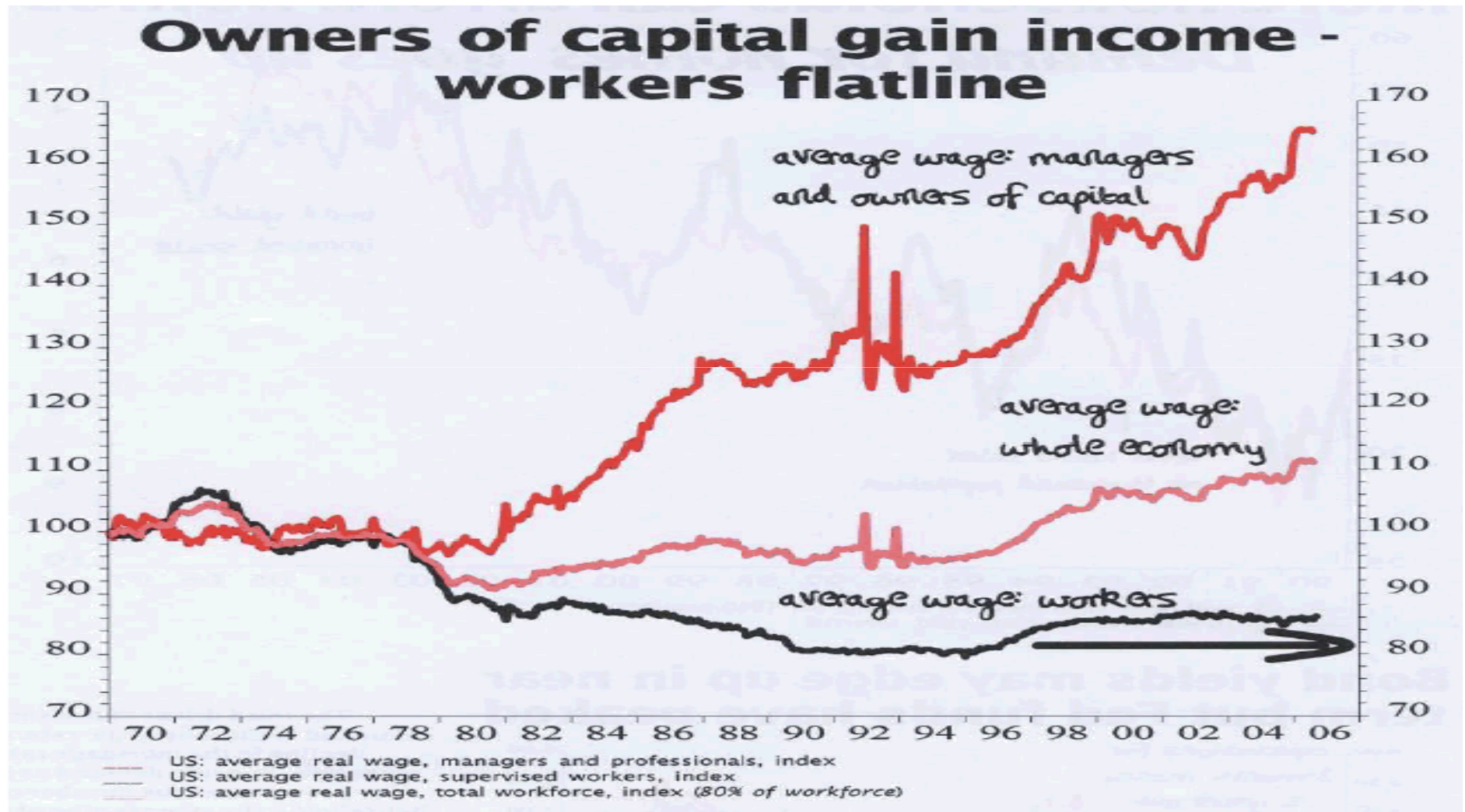
- Globalisation given a bigger push by emergence of countries like China, India, Brazil, Russia (Chindia Effect)
- Rapid IT innovation: (IT Effect)
 - 10- 20% of jobs vulnerable to outsourcing or replacement
 - Skills biased job growth and contraction
 - Skills bias increasing over time

Global Trends Towards Median Wage Stagnation and Low Wage Erosion

Unprecedented increase of unskilled/semiskilled labor in global markets

Increased fragmentation and vulnerability of less skilled jobs to offshoring or computerisation

Global Trends Towards Median Wage Stagnation and Low Wage Erosion



(Source: Societe-Generale, Nov 06 – based on official US data)

Global Trends Towards Median Wage Stagnation and Low Wage Erosion

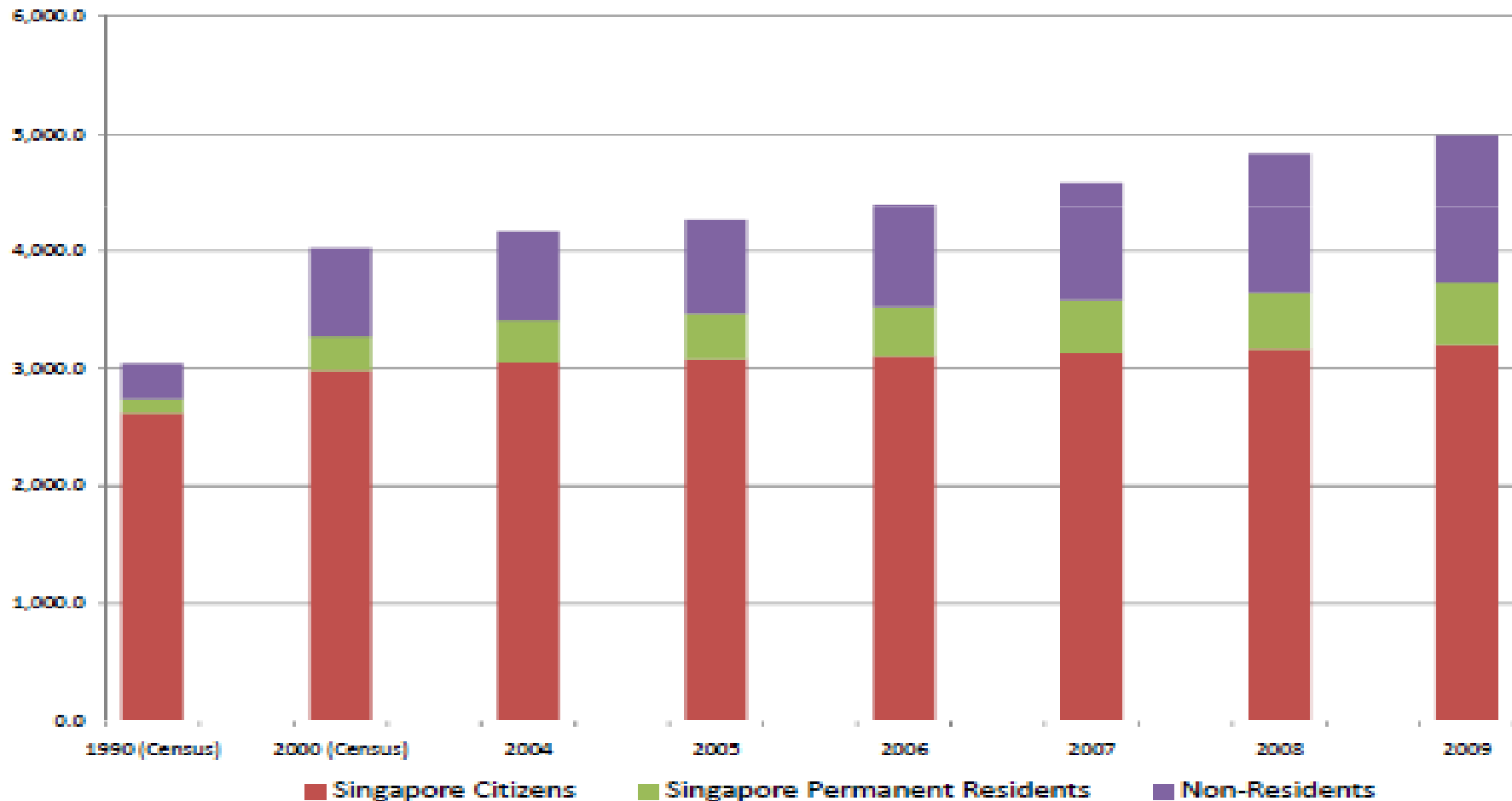
Not cyclical, but a secular trend driven by trade, technology and capital mobility

Median /low wage stagnation needs to be actively managed by policy over long term

(Source: Societe-Generale, Nov 06 – based on official US data)

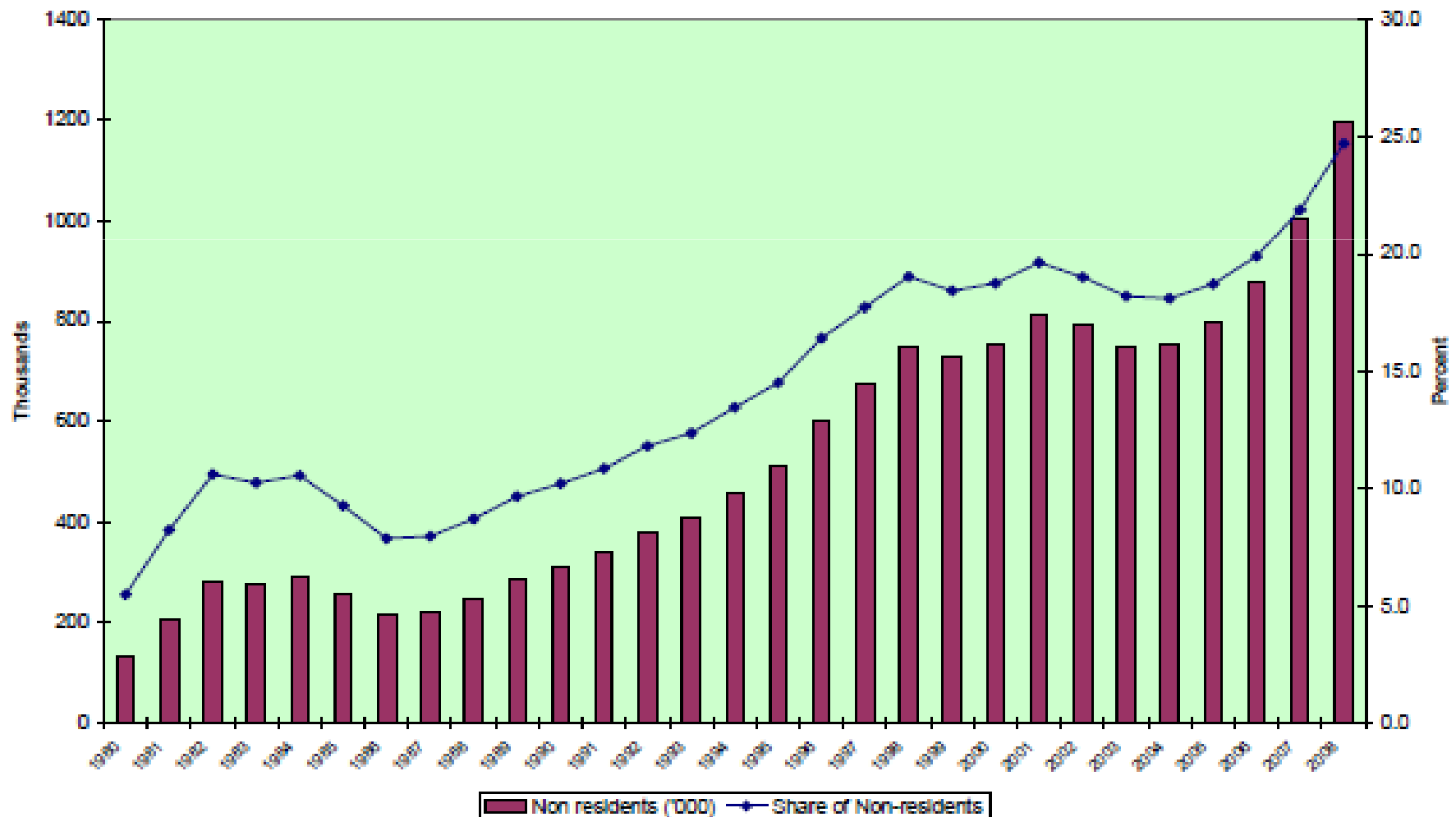
Key Local Trend behind Wage Stagnation and Erosion -- Singapore's Foreign Population has Exploded over the last 20 years

Singapore Population



Foreign Population Increase led by Unskilled and Semi-skilled Non Resident Workers

Singapore's Non-Resident Population



Singapore: Trends in Wages and Household Income

Average Annual Growth of Real Monthly Incomes (2001-2008)

Decile	Households		Individuals
	All Resident Households	Employed Households	Resident Working Persons
1	-16.1%	-0.9%	-1.4%
2	-2.1%	0.3%	-1.1%
3	0.9%	1.9%	-0.2%
4	1.6%	1.9%	0.4%
5	1.9%	2.3%	0.5%
6	1.9%	2.5%	1.4%
7	2.7%	2.8%	1.3%
8	2.3%	2.4%	2.0%
9	3.1%	3.4%	2.2%
10	4.1%	4.1%	3.2%

Median wage stagnation largely caused by globalization, low wage erosion by immigration

Greater Inequality Means Less Social Well-being

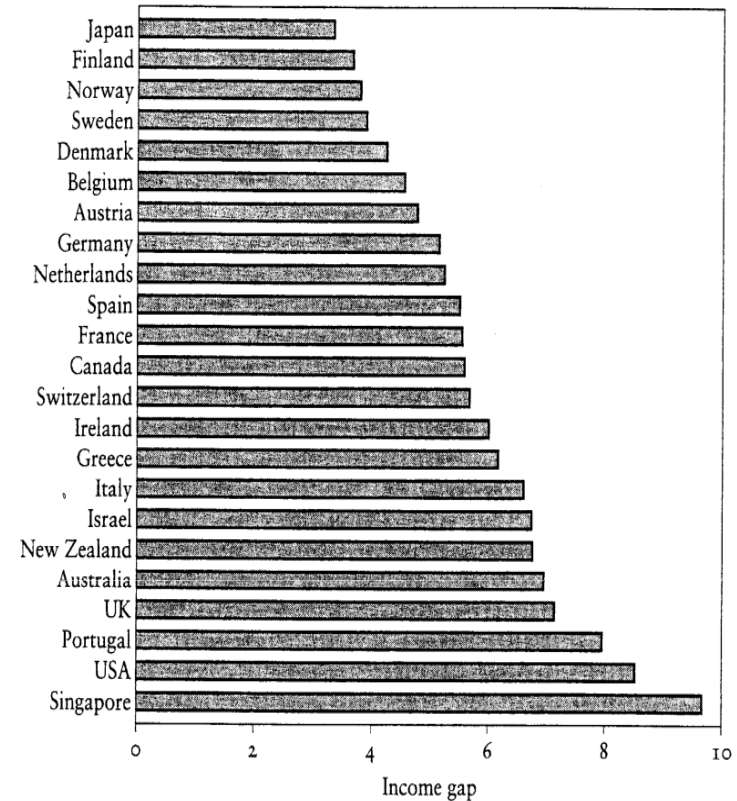
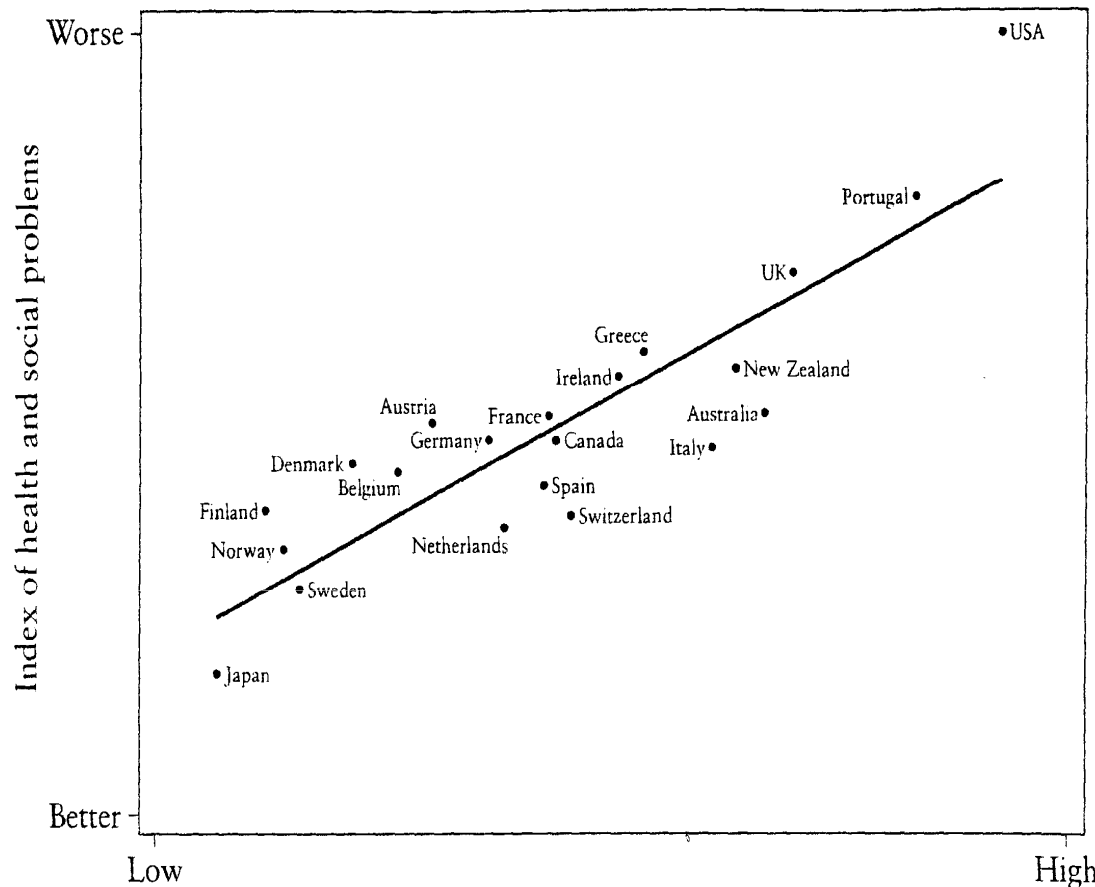
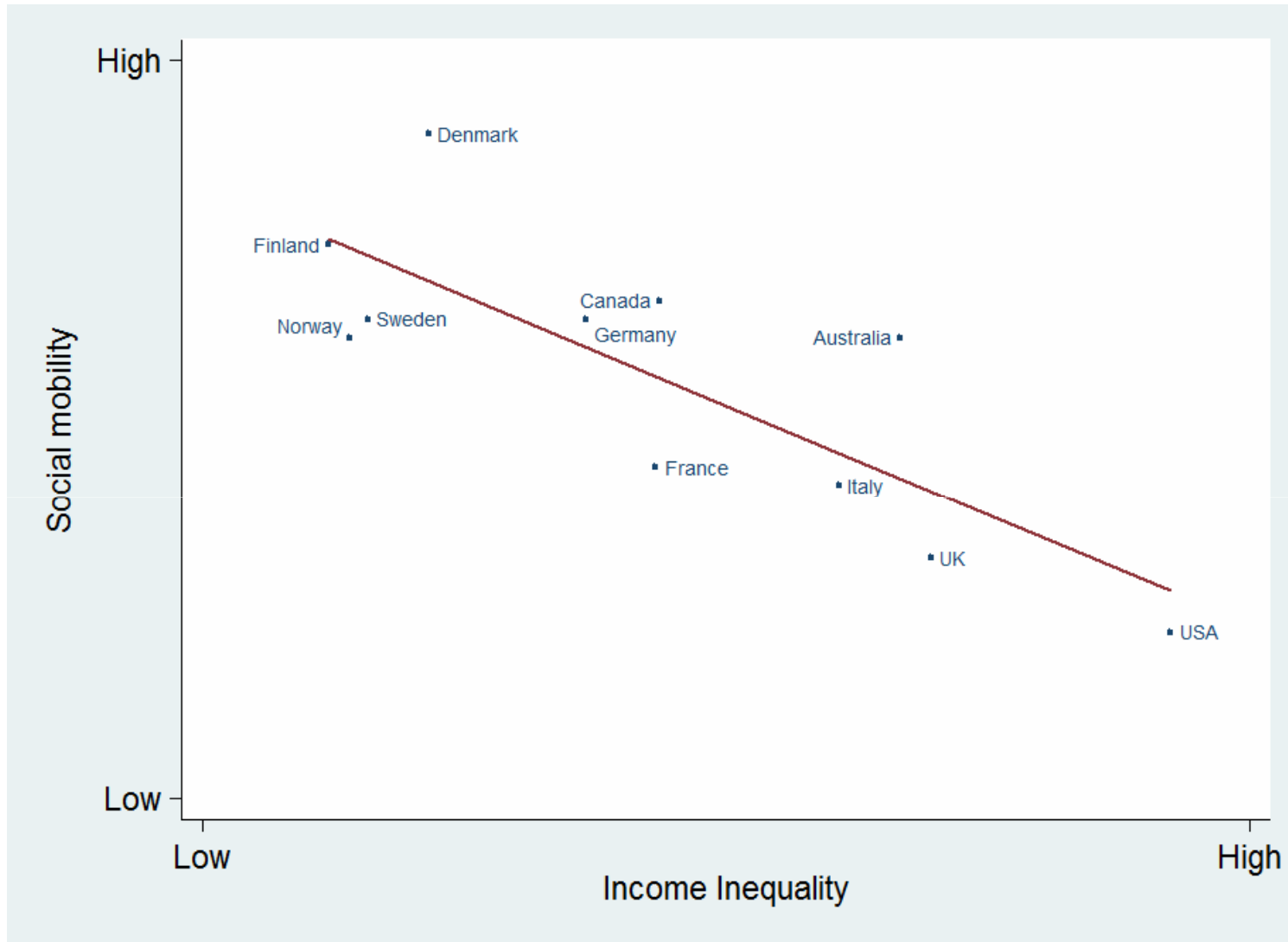


Figure 2.1 How much richer are the richest 20 per cent than the poorest 20 per cent in each country?

- Wilkinson and Pickett's *The Spirit Level* uses epidemiological research to show that higher levels of inequality are correlated with:
 - Lower levels of trust
 - More mental illness (including drug and alcohol addiction)
 - Lower life expectancy and higher infant mortality
 - Higher levels of obesity
 - More teenage births
 - More homicides
 - Higher imprisonment rates
 - Lower social mobility

Social mobility is higher in more equal countries



Intergenerational income mobility data from: Blanden J. (2009) Centre for Economic Performance, LSE. Paper No' CEEDP0111.

Goals of economic policy shifting to better measurement of economic well-being

- The Commission on the Measurement of Economic Performance and Social Progress proposes to *shift the emphasis from measuring economic production to measuring people's well-being*.
 - When measuring material well-being, look at income and consumption rather than production (e.g. GDP, GNP)
 - Give more prominence to the *distribution* of income, consumption and wealth
 - Broaden income measures to non-market activities
- Governments should develop indicators that *measure peoples' quality of life*.
 - Improve measures of people's health, education and environmental conditions; develop robust and reliable measures of social connections, political voice and insecurity.
 - Quality-of-life indicators should assess inequalities in a comprehensive way.
 - Measure people's life evaluations, hedonic experiences and priorities.
- Measure and assess *environmental sustainability*

Rapid Immigration Growth Model Leads to More Inequality and Less Societal Well Being

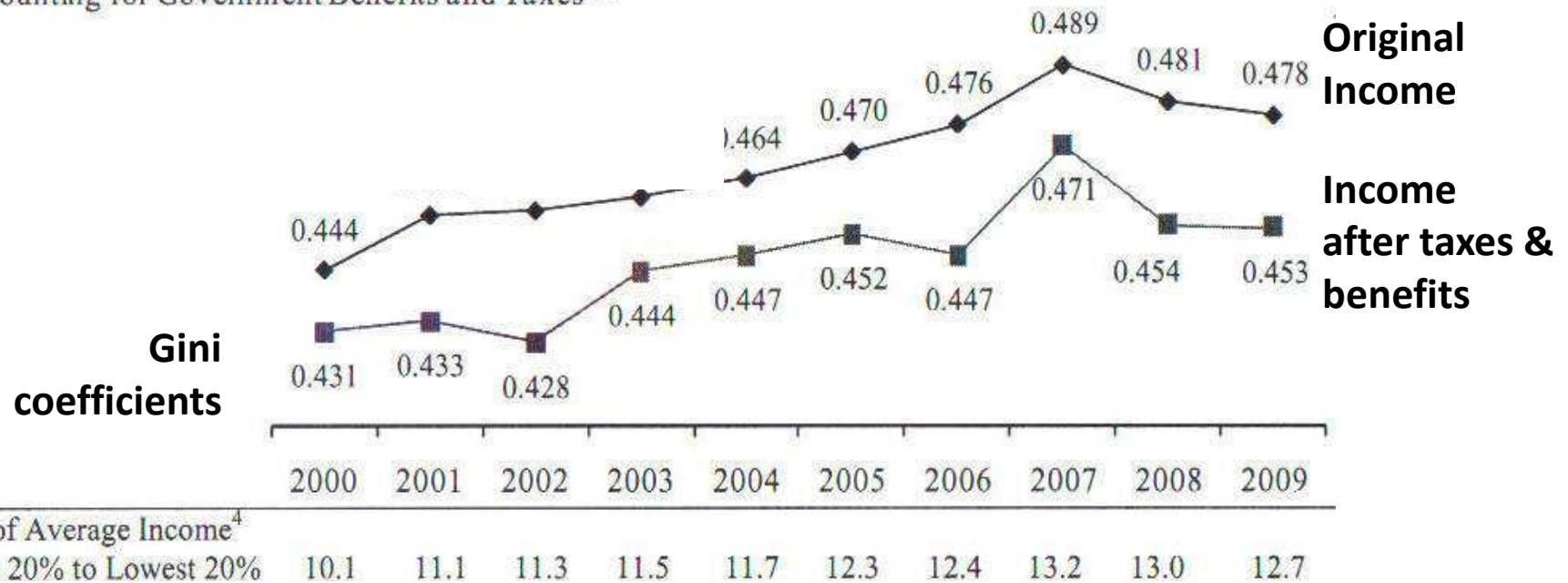
Income Inequality in Singapore

Relatively High, but Income Redistribution Makes a Difference

Chart 1 Gini Coefficient¹ among Employed Households

◆ Based on Original Income from Work per Household Member

■ Based on Income from Work per Household Member After Accounting for Government Benefits and Taxes^{2,3}



Singapore Department of Statistics, Key Household Income Trends (Feb 2010)

Stronger Safety Net Reduces Inequality Where it Matters Most

Vulnerable demographic and educational profile of Singapore residents and ESC

- Significant number of resident low-skill, low-wage workers
- An estimated 300,000 according to IMC on LWW report released in Jan 2006
- **Large stock of older, poorly educated workers** (3 to 400,000)
- By 2015 - 35% labor force still secondary level or below;
- 21% of 1994 cohort did not complete post secondary education
- **Distinct economic and social safety net needs in remaining working life and retirement**

Older, less educated workers particularly vulnerable to main ESC policy to restructure /phase out labour intensive, low productivity industries

Illustrative Numerical Model of Expanded Absolute Poverty Measure in Singapore

Expenditure Items		Family Type			
		1 Adult	2 Adults	2 Adults / 1 Child	2 Adults / 2 Child
Basic Consumption	1. Food	250	500	700	800
	2. Housing	300	500	500	500
	3. Utilities	100	110	110	120
	4. Transport	150	200	250	300
	5. Medical	50	100	100	150
Basic Investment	6. Computer Services	100	150	180	200
	7. Education			300	600
	8. Training	300	600	600	600
[A] Basic Consumption [1 + 2 + 3 + 4 + 5]		850	1,410	1,660	1,870
[B] Basic Investment [6 + 7 + 8]		400	750	1,080	1,400
[C] Basic Consumption + Investment Total		1,250	2,160	2,740	3,270
[D] % Investment of Total Expenditure		32%	35%	39%	43%

Suggests that bottom 10% of resident, working age households do not earn enough for basic consumption needs, next 2 deciles have difficulty in meeting basic human capital investment needs

Trends in Household Income and Economic Insecurity

- High cyclical volatility – 4 recessions and 2 major financial crises in 12 years
- Unskilled workers starting wages fell 20-30% from 1996-2006
- House income (HIFM) of bottom 20% has yet to recover to 1998 levels in 2006
- Income of bottom 10% around \$800pm vs \$1200 -1500 basic needs poverty line
- Income of 20% tile around \$ 2000 pm vs \$2500 “social inclusion poverty line”
- **Older, less educated workers particularly vulnerable to ESC policy to restructure labour intensive, low productivity industries**
- **Insufficient Retirement Income, especially for medical coverage**
- **Higher frictional and structural unemployment for older less educated workers post ESC**

**Integrated Architecture of Key Policy Tools,
Spanning Both Working and Retirement, Needed
for Effective Economic Security**

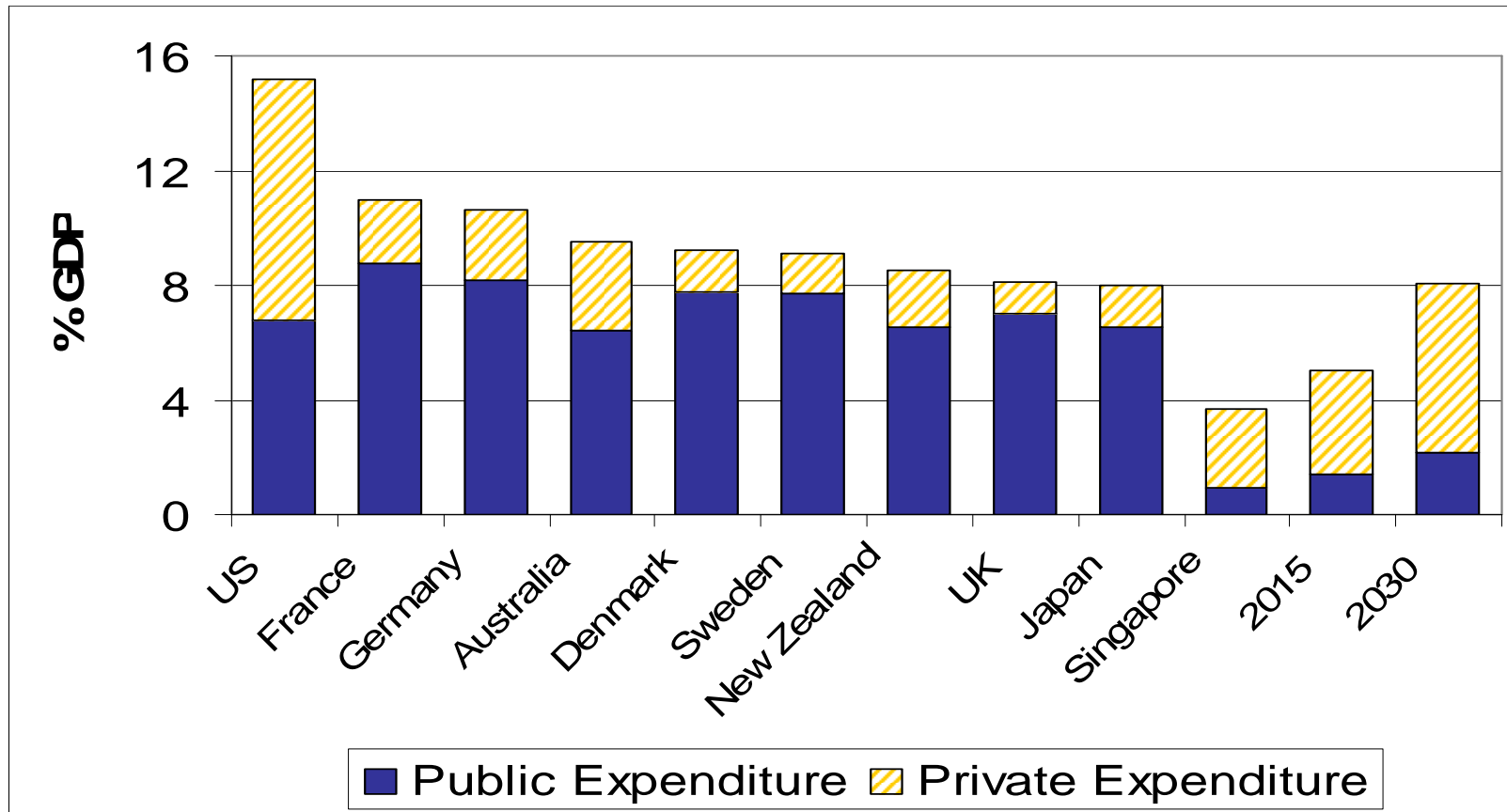
New Social Security System Needed

- First, **social justice** and **governance credibility**
 - Economic Security System and Social Safety Net needed as part of “growth with redistribution” social compact
- Second, **Competitiveness**
 - Efficient redistribution systems can globalise/ deregulate faster
 - Most developed countries constrained by fiscal limits, legacy welfare systems
 - Singapore unique in readily being able to both design and fund effective social security systems
- Third, **social well being**, the ultimate aim of economic policy

Effective social security safety net key for successful economic policy in Singapore

More Public Spending Still Needed

Health costs likely to double by 2030 and Singapore already has one of highest private cost shares



Lower income groups unlikely to be able to afford it without higher public expenditure share longer term

Main Gaps in Current Social Security System

Workfare Income Supplement



1. Living Costs

Needs increase for adequate investment and savings for bottom 20-30% of income earners

Gap in protecting from unemployment income volatility; smoothing job and re-training adjustment



2. Retirement

CPF Annuity /Leasehold Buyback

Needs supplement for lowest income deciles, especially those above 40 years old



3. Healthcare

Medishield for large costs till 85

Needs supplement for recurrent costs and large costs of terminal care after 85

Summary of ESS Recommendations :

- > Recognise strengthening total social safety/security net as necessary to post-ESC restructuring
- > Part of increasing national capacity for competitive globalisation

Seriously consider following key gaps in current system:

- Unemployment Credit and Wage Insurance Scheme (UWIS)
- Increase WIS payouts for bottom 3 deciles
- Introduce basic inflation indexed retirement grant at age 65 that is larger for older cohorts
- Supplement with age progressive subsidies for “small ticket” medical and transport
- Extend “big ticket” Medishield coverage above age 85 and to poor
- Expand housing monetization options
- Reconsider optimal funding balance between individual savings, taxes and social insurance
- Distinct needs of older, poorly educated population

Immigration, Inclusive Growth and Social Safety Net/ Security - **Conclusion**

- Globalization leads to median wage stagnation, income inequality
- Excessive immigration and labour intensive growth causes low wage erosion and exacerbates wage stagnation and inequality
- ESC immigration controls key to halt low wage erosion, raise real wages through stronger productivity growth
- However, a large cohort of older less skilled workers will be more vulnerable to labour market restructuring
- Strengthening safety net or social security system can alleviate poverty, reduce inequality where it matters most
- Necessary for social justice, to preserve the social compact and governance credibility, improve social well being and sustain competitive globalisation
- ie “Inclusive Growth”
- New social safety nets can be intelligently designed to preserve work incentives and be fiscally sustainable
- Key gaps (i)increase workfare,(ii) introduce unemployment credit and wage insurance, (iii) basic means tested pension benefits and (iv)extend medical insurance

Post GE 2011 - **Broader Conclusion**

- Post GE 2011 and in New Globalization World, New Social Compact Needed
- Social compact needs to address (1)Poverty alleviation (2) Citizen well being (3) Equality of opportunity
- Five Key Public Service Areas need rethinking and restructuring
 1. Social Security/Safety Net
 2. Public Housing
 3. Education
 4. Healthcare
 5. Infrastructure/transport and the Environment
- These are not adequately provided by the market and current market oriented arrangements inadequate gong forward
- Public consensus for long term goals/social vision in each of these 5 key public service areas need to be created
- Hard financial and policy tradeoffs then need to be examined and publicly debated