Lesson 7: Singapore

Introduction

In this lesson, students learn about the strong economic growth of the Singapore economy since achieving national sovereignty in 1965 and examine the unique mixed economy that brought about that growth.

Materials

Lesson 7 slide deck:
https://docs.google.com/presentation/d/1mK3cdwy0H1t-S9w9EHWDa9FMZSpB_sdI/edit?usp=sharing&ouid=116660462288476410506&rtpof=true&sd=true

Optional: Lesson 7 **Background Information**. 1 copy per student (if assigned as student reading)

Key Terms

Incentives	A factor that influences behavior. Incentives can be rewards or punishments, monetary or non-monetary.
Institutions	Laws, customs, moral principles, superstitions, and cultural values influence people's choices. The institutions of an economy set out and establish the incentive structure and the basic design of the economic system.
Laissez-faire	A French phrase that means "let people do as they choose." Laissez-faire economies allow private transactions of individuals without government interference.
Market Economy	An economy that relies on a system of interdependent market prices to allocate goods, services and productive resources and to coordinate the diverse plans of consumers and producers, all of them acting according their self-interest.
Mixed Economy	An economy that combines elements of both market and socialist economies.
Property Rights	Legal protection for the ownership of tangible or intangible resources. Property rights give the holder the ability to do with that property what they choose, including holding on to it, selling it or transferring it to someone else.
Socialist Economy	An economy in which the state controls resources and makes decisions about production and equitable distribution.

Objectives

Students will be able to

- Define Mixed Economy.

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- Explain the paradox of Singapore's market economy with strong government controls.
- Identify the institutions of the Singapore Economy: property rights, rule of law, open markets, and strong cultural norms of self-reliance.

Time Required

45 minutes

Voluntary National Content Standards in Economics

CONTENT STANDARD 4: Incentives

Students will understand that People usually respond predictably to positive and negative incentives.

- Benchmark 1: Acting as consumers, producers, workers, savers, investors, and citizens, people respond to incentives in order to allocate their scarce resources in ways that provide them the highest possible net benefits.

CONTENT STANDARD 10: Institutions

Students will understand that Institutions evolve and are created to help individuals and groups accomplish their goals. Banks, labor unions, markets, corporations, legal systems, and not-for-profit organizations are examples of important institutions. A different kind of institution, clearly defined and enforced property rights, is essential to a market economy.

- Benchmark 1: Property rights, contract enforcement, standards for weights and measures, and liability rules affect incentives for people to produce and exchange goods and services.

Procedures

- Prepare by reading the **Background Information** included at the end of this lesson.
- Use the **Lesson 7 slide deck** to teach about the unique mixed economic system of Singapore.
- Alternate Activity: Assign the **Background Information** as a student reading.

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Background Information

The following background information is quoted directly from the Fraser Institute publications of "Meritocracy, Personal Responsibility, and Encouraging Investment: Lessons from Singapore's Economic Growth Miracle" published as a part of the Realities of Socialism materials. For a complete copy of the readings please go to RealitiesofSocialism.org.

INTRODUCTION

Commentators and scholars ranging from classical liberals such as Milton Friedman to social democrats such as Joseph Stiglitz have admired and praised Singapore's record of economic growth from 1965, when it achieved national sovereignty, to the present. The remarkable growth in the standard of living of Singaporeans is well illustrated through a comparison with the United States. In 2020, the real per capita Gross Domestic Product (GDP) for Singapore (US$58,057) was virtually identical to the real per capita GDP of the United States (US$58,190). By comparison, in 1961, Singapore's real per capita GDP (US$3,727) was only about 20 percent of the United States' real per capita GDP that year (US$19,271). In a wider comparison, in 2020 Singapore's real per capita GDP was substantially higher than Canada's (US$43,258) and the United Kingdom's (US$41,098) and slightly higher than Australia's (US$57,952).

ECONOMIC GROWTH

Relatively strong economic growth has always been a public policy priority in Singapore. Successive governments have emphasized the importance of growing the "economic pie" in order to broadly raise standards of living rather than relying heavily on government transfer payments financed by high taxes on economically successful individuals and companies.

Singapore has strong **institutions** that are favourable to investment including an independent judiciary, a legal system inherited from the British that protects **property rights**, and a government bureaucracy that has an international reputation for its lack of corruption.

Singapore is a small city-state in Southeast Asia with a population of about 5.7 million (in 2019) that has undergone significant changes over the years. Founded in 1819 as a British colony, it experienced more than a century of colonial rule that emphasized economic openness. After a brief period under the Japanese occupation from 1942 to 1945, Singapore started on a gradual process of self-government which took about two decades to unfold. During that time, from 1963 to 1965, Singapore tried merging with Malaya—an idea that ultimately proved to be unsuccessful. It finally achieved national sovereignty in 1965 when the Republic of Singapore was born.

Since its inception as a sovereign state, Singapore has been open to international trade and international investment, and to immigration. Singapore's openness to the international economy has been a major source of competition for domestic producers, thereby encouraging them to be very efficient. Its openness to inward foreign direct investment and immigration has encouraged Singaporean companies to invest in physical and human capital which, in turn, largely underlies Singapore's real economic growth. A well-educated and hard-working labour force has been a particularly prominent contributor to Singapore's impressive record of economic growth.

Singapore's growth is not just a happy accident for a once-developing country. Its growth has been sustained by a general commitment to a pro-market, pro-business, pro-competition environment. Singapore inherited modern institutions from the British, institutions that have presided over a relatively

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tolerable administration of justice. Second, the Singapore government prioritized pragmatic goals centered around economic growth, market efficiency, and self-reliance over unrealistic socialist ideals.

A former British colony, Singapore inherited an enviable set of institutions even before it became independent. In the early years of its self-government (1945-1965), prior to its achieving full independence, Singapore was already a thriving commercial hub with all the institutions and infrastructure needed to support a thriving economy.

INDUSTRIAL POLICY

Singapore's economic strategy has always relied heavily on interventionist industrial policy— and continues to do so (Lim, 1993). In Singapore, industrial policy involves 1) government subsidies to firms so they can upgrade their technology, human capital, and business processes, 2) government investments in specific industries, 3) government provision of industrial facilities to specific companies, and 4) maintaining government-linked corporations (Chia, 2005). This naturally leads to questions about whether Singapore is a free-market success story, or whether its success was largely brought about by government intervention.

SELF RELIANCE

An emphasis on individual self-reliance and a belief in the importance of economic **incentives** are prominent features of Singapore's political governance. The emphasis on individual self-reliance and a related concern that universal government programs to fund social services will undermine that self-reliance help explain Singapore's approach to funding health care, education, employment insurance, and retirement that, while not unique to Singapore, is an important feature that differentiates Singapore from most other countries.

This sentiment is well documented the this quote form Lee Kuan Lew its first and longtime Prime Minister. "Watching the ever-increasing costs of the welfare state in Britain and Sweden, we decided to avoid this debilitating system…..Welfare undermined self-reliance. People did not have to work for their families' well-being. The handout became a way of life. The downward spiral was relentless as motivation and productivity went down…. They became dependent on the state for their basic needs."

The rejection of a welfare state does not mean that the Singapore government does not care about its people. Rather, it strongly believes that the best way to help the least-well off is not by reallocating shares of a fixed pie, but rather to grow the economic pie for all. This conviction explains why the Singapore government cares less about inequality and more about **income mobility**, a lesson that other countries should learn. The current prime minister remarked recently: "if the economy was stagnant, it doesn't mean everybody's going to be happy, and it may be equally unequal," adding also that "if I can get another 10 billionaires to move to Singapore and set up their base here, my Gini coefficient will get worse but I think Singaporeans will be better off, because they will bring in business, bring in opportunities, open new doors and create new jobs, and I think that is the attitude with which we must approach this problem."

CENTRAL PROVIDENT FUND

The main feature of Singapore's income support system is the Central Provident Fund (CPF), a compulsory program that requires workers and their employers to contribute a given percentage of their gross income into personal savings accounts and allows contributors a fair degree of autonomy over how they can use their savings. The savings can be used to pay for housing, education, health care,

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unemployment assistance, and retirement income. The system has several beneficial features. One is that Singaporean pension payouts depend almost exclusively on the amount of savings in the pensioner's account. The defined contribution design ensures that Singapore's pension system is sustainable.

The fact that residual savings from contributions to CFP accounts to pay for health care, education, and unemployment can be used to fund retirement and to leave as bequests mitigates people's incentives to use health care and related services more intensively and perhaps unnecessarily than they otherwise would. One might therefore expect to see evidence of relatively economical expenditures on social services such as health care and education in Singapore, as well as more consistent employment of workers. One observation that indirectly supports this latter inference is Singapore's relatively low unemployment rate compared to other wealthy countries. For example, Singapore's average annual unemployment rate from 1981 to 2019 was 2.74 percent. By comparison, Korea's average annual unemployment rate was 3.53 percent over the same period, while the rates for Australia and the US were 6.80 and 6.17 percent, respectively.

MIXED ECONOMY

As is the case for all wealthy economies, Singapore has a **mixed economy** to a greater or lesser extent in that government has had and continues to play a significant role in market activities. In particular, the government has employed industrial policies to direct Singapore's economic development, including providing subsidies to private sector firms for the purposes of upgrading technology and business processes, making government investments in specific industries deemed important, and overseeing so-called government-linked corporations (GLCs). At the present time approximately 20 of Singapore's largest corporations are GLCs. The latter are akin to state-owned enterprises, except in Singapore's case GLCs are indirectly controlled through a sovereign wealth fund called Temasek Holdings. The reality of industrial policy as practiced by Singapore's government is nuanced. Specifically, even though there are numerous GLCs in Singapore, the government has always sought to maintain an element of market discipline. To this end, GLCs are expected to provide commercial returns commensurate with investment risk. Furthermore, they are not favoured with special privileges and hidden subsidies.

The use of market incentives is also a feature of public policy in Singapore—and not just industrial policy. One prominent example is the use of road pricing. Another is housing policy. The government supplies the market with most of the housing in Singapore, and the government's sovereign wealth fund is a large investor in domestic construction companies. However, Singaporeans can be bona fide owners of property that they can rent or resell.

Yet another example is unemployment payments. Singapore's Workfare program seeks to encourage low-skilled individuals to find work and upgrade their skills. It consists of an income supplement that tops up a low-wage worker's monthly income, but the supplement is unavailable to the unemployed

One important lesson to which other countries should pay attention is Singapore's judicious combination of pragmatism, economic growth, and equity. Social provision is present, but it never overwhelms individual self-reliance and community-based mutual aid. In those cases where the government must provide social services, it never dismisses market efficiency but, rather, appreciates it.

Public policy particularly makes considerable use of market incentives. Singapore is famously the first nation in the world to have adopted road pricing, an innovative model that allows it to limit congestion

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effectively. More significant is its housing policy, which has enabled Singaporeans to enjoy one of the highest rates of homeownership (over 85 percent) in the world, a great achievement considering the problems of access to affordable housing in many Western countries. Housing policy provides an interesting case study. It should be noted at the outset that most housing in Singapore is provided by the state, and more than two thirds of Singaporeans live in government apartments.

First and most significantly, government apartments in Singapore can be resold on the market subject to certain limitations. Singaporeans are bona fide owners or renters. So even though the Singapore state holds a monopoly on land (land was forcibly acquired in the country's early years and housing is largely state provided), Singaporeans nonetheless hold considerable property rights in their homes. This in turn means that residents benefit from the rising asset value of their homes and have a stake in the country's economic growth.

WORKFARE

The centrality of work is not mere rhetoric in Singapore but is reflected in many of its key social policies. One of the most striking examples is encapsulated in the name of a key piece of the transfer payment scheme: Workfare. Workfare payments are conditional on the individual being employed, and for those who struggle to do so, on upgrading their skills. While in typical social policies the focus of welfare seeks to provide temporary relief for the unemployed or the least well off, workfare—with the emphasis on work—seeks to encourage low-skilled workers to find work and to upgrade themselves in order to increase their earning power. It has two components. The first is an income supplement that tops up a low-wage worker's monthly income, a supplement that is unavailable to the unemployed (Singapore, 2023). The second component, Workfare Skills Support, encourages low-wage workers to undertake training by providing them with training allowances for selected courses and a cash reward for completing training.

A FREE MARKET PARADOX

Singapore's record of economic performance is one of the strongest in the world. GDP, Per Capita GDP, unemployment and employment rates as well as the size of government all support such a statement. To what extent has Singapore followed a free market economic model? Many will point to the fact that despite its high economic freedom rankings there has been substantial government intervention into markets in the form of the government-linked corporations (GLCs), sovereign wealth funds, and a range of other industrial policy initiatives. While this is the case, throughout Singapore's economic history, the size of the GLC sector has been a source of contention, such that the government decided to embark on a privatization exercise in the 1980s in order to maintain commercial discipline. Nevertheless, industrial policy has been a prominent government practice in Singapore, with substantial subsidies, loans, and incentives given to foreign multinationals, as well as to domestic businesses for economic upgrading purposes. Indeed, one of Singapore's leading economists, Linda Lim, wrote that the free market is a myth in Singapore, where the visible hand of the government has been more significant than previously realised (Lim, 1983).

What explains why an economy ranked as one of the freest in the world is also one that has numerous GLCs in operation? Why is it that an open economy that relies on markets, globalisation and private investment simultaneously engages in intrusive industrial policy by the state? Within the specific area of social policy, the Central Provident Fund (CPF) policy is itself a paradox. While it is based on the principle of self-responsibility, it relies on coercion. Individuals are forced to be self-reliant. One can ask if the CPF

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is a free market policy, and (more broadly) the degree to which Singapore follows a free-market model. These are legitimate questions without easy answers. The best way to understand these apparent contradictions is with reference to the worldview of Singaporean policy officials, who primarily adopt an elite-driven, pragmatic outlook.

Reliance on elite decision-making reflects the technocratic, as opposed to democratic, characteristics of Singapore politics. At the same time, government elites believe that they make decisions on purely neutral, technical grounds that best serve the people. Government officials claim to be pragmatic and free from ideological blinders and rigid political positions. The current Prime Minister Lee Hsien Loong says it best: " A government that is pragmatic—it looks for solutions that work, rather than starting out from any ideological presumptions. It depends to a considerable degree on the free market because markets make economies efficient. But at the same time, the government is not shy to play a very active role—in public housing, education, healthcare, infrastructure."

Market institutions are seen as beneficial because of their consequentialist benefits in terms of economic growth and efficiency and not because of moral considerations such as individual freedom. Markets in Singapore are accepted only to the extent that they achieve goals of economic growth and efficiency. It should also be noted that historically, Singapore was not born out of revolution, or out of a resistance against established authority, as was the case in Western Europe and the United States.

Restrictions on the sale of certain items, such as drugs, cigarettes, pornography, and alcohol—commonplace in Singapore—are all justified on grounds of ensuring a society that is stable, well-ordered, and free from the vices typically seen in the Western world.

Market competition was also justified on the grounds that local enterprises need to be competitive in order to successfully compete on a global level. Thus, Singapore's embrace of markets was and is driven by economic survival, and not based on a deeper socio-cultural appreciation of the moral virtues of freedom on which market capitalism is based. What this means once again is that other demands which are deemed pressing at any given moment—whether they involve national security, political control, or social stability—may, as part of some broad cost-benefit rationalisation, trump markets.

Like begets like, and this system has perpetuated itself from the beginning. Significantly, the public administration apparatus has consciously developed human resource policies to attract the best talents from the private sector to join the government (Quah, 2010). Government scholarships to top universities are generously offered to the best performing students, who in turn are attracted to government careers due to its high status. With doctors, engineers, lawyers, and various professionals forming the government, there is also a strong conviction in the power of big data and the technological sciences to understand and plan society.

Importantly, it should be noted that because Singapore is not a **laissez-faire** utopia does not mean that there are no important lessons to be learned from its use of market-based institutions in policymaking, which is nevertheless significant. The fact that Singapore is a mixed economy does not detract from the fact that in social policy for instance, there exists a high degree of reliance on personal responsibility, community self-help and private mechanisms, all of which are typically downplayed in welfare states. The goal of equity, which many would accept as an important plank of government policy, is pursued in Singapore in ways that are compatible with meritocracy, personal responsibility and the work ethic, a praiseworthy approach worth considering elsewhere.

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Far from a vulgar commitment to materialism, Singapore's prioritisation of economic growth reflects a modern pragmatic outlook centred on social progress. This is consistent with the classical liberal belief that economic growth produces win-win opportunities for all.

CRITICS

Some critics would object that the Singapore model may not be worth emulating. For all its achievements, especially in the economic realm, there is a dark side to Singapore that should be acknowledged. Here, critics of the Singapore model would point to its political system, specifically the way in which it falls short of the liberal democratic ideal favoured in the West. Such criticisms range from the moderate to the scathing. Singapore is known for its paternalism, most famously for banning bubble-gum. The passing of L Kuan Yew led many to reflect on his rule as a "benevolent dictator."

Therefore, whether Singapore should be emulated will also depend on who is the one doing the learning. Clearly, Singapore has much to learn from the West in terms of how political freedoms and civil liberties are prioritised, not just as a pragmatic benefit, but as a cardinal virtue. When it comes to achieving material welfare and personal safety, developing countries have much to learn from Singapore.

The second important factor to consider is the culture. In Singapore, the reason why many of its social policies work is because people genuinely share in a culture of self-responsibility. This is not merely the rhetoric of government leaders or elite propaganda. Citizens genuinely believe that dependence on the government is a failing to be avoided, and that the individual and the family should be the first source of help. Singaporeans are also fiercely meritocratic and imbibe in the shared value "work for reward, reward for work."

CONCLUSION

We are left with the question of whether Singapore is a **market economy** or a **socialist economy**. Because of the intertwined nature of a market economy in function, whose structure is carefully planned and the virtue of self-reliance is championed it is a question that does not illicit a clear answer.

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