

Price of char kway teow: Cheap is not always good

Transiting to a higher-wage, higher-cost economy will be hard but can be good for Singapore, says Ravi Menon in a new book based on his lectures.

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It has been just over a year since Mr Ravi Menon caused ripples with his four thought-provoking lectures as the Institute of Policy Studies' Ninth S R Nathan Fellow for the Study of Singapore.

While some proposals drew headlines - such as [introducing property gains and inheritance taxes](#) and [having a minimum wage](#) or a proxy of it as a wage floor - what is more interesting is how his ideas cohere to create a vision of Singapore that differs from what we see today.

This is most apparent when one reads a new book just released - [The Singapore Synthesis: Innovation, Inclusion, Inspiration](#) - which captures the four lectures and the question and answer (Q&A) sessions that followed each.

In the first line of the book's foreword, Mr Menon, who is managing director of the Monetary Authority of Singapore but delivered the lectures in a personal capacity, says explicitly: "This series of lectures springs out of a conviction that Singapore can do better."

In an e-mail interview this week, he added: "The ideas in the Singapore Synthesis are meant to be part of a coherent whole, mutually reinforcing."

The first lecture lays out four driving forces that Singapore, like other societies, must respond to: ageing demographics, rising inequality, technological disruption and climate change. In a mark of how fast the world is changing, Mr Menon added a fifth driving force - pandemics - when he spoke in July 2021. When Deputy Prime Minister Heng Swee Keat spoke at the book launch last month, six months after Russia invaded Ukraine, he added a sixth: conflict.

The subsequent lectures focused on building an innovative economy; having an inclusive society; and being an inspiring nation.

The sense of a world changing quickly, and [the need for Singapore to adapt and change some cherished ways of doing things](#), permeates the book. After all, the notion that Singapore can do better must come from an *a priori* assessment that it has not done well in some areas.

'Dual economy trap'

For Mr Menon, the problem is that Singapore is stuck in a "dual economy trap".

While it has a high-wage sector, [too many Singaporeans are trapped in jobs with wages kept low](#) in part by foreign labour. This is true not only at the low end, but also for skilled jobs in the middle that also have large numbers of foreign labour. Examples are nursing and healthcare jobs.

[Reducing reliance on foreign labour](#) in these sectors will allow local wages to go up, and encourage employers to raise productivity.

Instead, Singapore businesses, workers and the Government are stuck in a paradigm from the past (high costs sent Singapore into recession in the mid-1980s) and remain over-sensitive to costs, he maintains in the book.

"We have taken, in my view, the easy way out, in a desire to always keep costs low. I think we are overly obsessed with cost competitiveness, not realising that keeping costs low is actually keeping wages down," he said in the Q&A after the second lecture on the economy.

I was the moderator for [his third lecture on an inclusive society](#) in which he laid out his vision of lifting the broad middle of Singapore by raising productivity and wages.

This can be done by professionalising all jobs so productivity and wages can go up, and by developing an exportable domestic services sector (think healthcare and education) to raise wages in these sectors. He also suggested reclaiming mid-level jobs (think administrative assistants, technicians) for locals by raising the salary bar for hiring foreigners to make them less attractive to employers .

While proposals to move to a higher-wage, higher-cost society have been made before, what sets the book apart is the way Mr Menon drills down to specific policies, makes concrete proposals, and refers to a wealth of data and useful charts to support his arguments.

What would be the impact of this kind of high-cost, high-wage society? Who will bear the cost? These were questions from online viewers at the Q&A session.

Mr Menon, who had made it clear his ideas are meant to spark discussion, not be adopted wholesale, replied then: "Those are exactly the issues we need to investigate further... Moving from a low-wage equilibrium to a high-wage equilibrium is a tricky transition. You can expect a fair amount of disruption and dislocation in the process." But this is not beyond Singapore's capability, he said.

He added: "The current situation is not satisfactory. We have a dual economy. It is not as bad as in some other countries, but we have 35 per cent of GDP in sectors with high productivity growth and high wage growth, and the rest of the economy at much slower growth. Fortunately, we are still registering positive wage growth overall, but the gap is widening.

"At the bottom, we have a large number of foreign workers and low-wage Singaporeans side by side. This is the price - if we want to reduce inequality and resolve this dual economy, or at least reduce its degree, then we need to bear higher costs and higher prices, and help those who cannot bear the higher prices... We should move, we need to move. The current situation is not good; it traps too many people in low wages."

Central bankers are careful and precise with their words, which can rout markets, so when Mr Menon says twice that a situation is "not satisfactory" and "not good", the journalist in me interprets that as the status quo is rather bad.

To be fair, though, Singapore has [bucked the trend of stagnating wages](#) in many industrialised economies. Here, real median wages rose an average of 2.6 per cent per year from 2011 to 2020.

But wages at the bottom one-fifth have not kept pace with median incomes. The ratio of the bottom 20th percentile in income to the 50th percentile was 52 per cent in 2020. (This means the worker at the bottom 20th per cent earned 52 per cent of the median wage.) This is lower than 20 years ago (58 per cent in 2001) and lower than OECD averages of 60 to 70 per cent.

In his lectures, Mr Menon makes the point more than once that one person's low cost is someone else's low wage. He illustrated this most graphically when responding to a question on whether the price of a plate of char kway teow at a hawker centre will rise to \$15 in such a high-wage, high-cost economy.

He said this was a question he asked himself too: "Why is it that so many of us are willing to step into a restaurant or hotel and pay \$15 to \$20 for chicken rice or char kway teow, which is actually not as good as the one you can get in the hawker centre at \$3 or \$4."

It boils down to demand and supply and willingness to pay. Singaporeans have become used to cheap hawker fare and get unduly upset when prices rise. But Singaporeans must be prepared to pay more to sustain hawker culture, he said, adding: "I would rather that the price for char kway teow goes up to \$8, most of us happily and willingly pay for it, and for the few who cannot afford it, we give them assistance. It is the better outcome if you have to provide assistance only to a small group, and the rest of us have high enough wages to pay one another for goods and services.

"It can be a virtuous circle, because when I have high wages and I pay more for your services, you get higher wages and you are able to afford more things."

Priority policies

When I asked Mr Menon this week which of his ideas he would like to see implemented, he mentioned [greening the economy](#) as the first. This requires not just developing the renewables industry, but for every sector to measure, and reduce, their carbon footprint and resource utilisation.

He then highlighted two others: professionalising all jobs; and building a meritocracy of hope.

Elaborating, he said: "Professionalising all jobs is the most effective way in which we can sustain real wage growth across the spectrum. It is a lofty goal but it is my dream that every job in Singapore is seen as a vocation to excel in."

"In concrete terms, this means every job being based on recognised skills and competencies, with clear training pathways and career road maps. More importantly, every job is respected and seen as a pathway to learn and to grow."

On building a meritocracy of hope, his book highlighted the need to fine-tune meritocracy so it remains a meritocracy of hope.

Mr Menon said this week: "Reforming our meritocracy is essential to refreshing our social compact. We must make sure our meritocracy continues to provide the hope that tomorrow can be better than today if we strive. Our meritocracy is still one of hope but less than before. To re-energise a meritocracy of hope, it must recognise a more diverse set of human talents and skills. It must not be fixed too early in life but instead offer opportunities to advance throughout one's life."

"We must also not take our meritocracy too literally. Fortune, family and society play a big role in individual life outcomes and that realisation should make our meritocracy more compassionate towards the less fortunate."

On greening the economy, professionalising all jobs and reforming meritocracy, he added: "All three are among the hardest to do. But the important things are usually hard."

Although I had read news reports and watched the videos of the lectures, I still enjoyed reading the book in its entirety this week, seeing how key concepts are, as Mr Menon put it, mutually reinforcing.

For example, developing domestic services like healthcare or education into an exportable sector boosts the economy.

This creates an additional impetus to professionalise skilled jobs in this sector, which will raise wages. Higher wages allow workers to pay more for services, expanding the pool of well-paid locals. All these can reduce inequality, which increases social cohesion and the sense of belonging to the nation.

A year on, the ideas in The Singapore Synthesis for a more inclusive and innovative Singapore appear even more relevant in a post-pandemic world where inequalities were made more visible, stirring a conscience-driven sense of greater solidarity.

And as Singapore positions itself to once more catch the winds of growth, throwing wide its doors to foreign labour, Mr Menon's diagnosis about the "dual economy trap" should prompt policymakers to pay a lot of attention to helping employers raise productivity to boost Singapore workers' wages.