



PRIME MINISTER'S OFFICE SINGAPORE

The Straits Times Interview with DPM Tharman Shanmugaratnam

DPM Tharman Shanmugaratnam | 11 January 2018

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How our social policies have shifted

The first point I would make is that our economic and social strategies have always been inextricably linked. We should never think of them as competing with each other. In fact, the most important way we can provide for social well-being across the full span of the population is to have a vibrant economy.

Hence our efforts to build an innovative economy, and to provide quality jobs for all, are not just an economic strategy. They are ultimately also the most important social strategy. That's how you make possible a broad-based improvement in people's well-being.

It works the other way too. Our social strategies provide the underpinning for a vibrant economy. What we do in education, starting very early in life, what we do in SkillsFuture to help people push their potential through life; and what we do in housing to provide a sense of equity, will remain critical to our economic progress.

We have seen a very significant step up in our social interventions and our social spending. It's part and parcel of the evolution of Singapore's economy and

society. In the early days we started off from very low levels - low levels of education, of income, of home ownership. And we were a newly independent country. So survival was a pre-requisite. If you look at the early Budgets you see very little to do with social subsidies, and very little concern with inequality. The focus was basically on getting a viable, competitive economy, and providing basic education and basic housing.

But in those first few decades, a rising tide lifted all boats. We were starting from a very low level, so the rising tide, made possible by education and new jobs, lifted all boats. It did not lift them equally, but everyone's incomes were going up and those who were able to own a home, which became an increasingly large proportion of the population, saw the values of their houses going up. So with a focus on just basic education, housing and the economy, a rising tide lifted all boats.

It was only in the 1990s where we began to have significant social interventions to support the lower income group. Before that, if you go back to early years, people who were around then remember the Social Welfare Department, Hock Lee Po (福利部) in Hokkien. It provided help to only those who were suffering from malnutrition or who were destitute and homeless, very small number of people. There were minimal social provisions, beyond education, owning a home, and critical thing was to get a job. But in the 1990s we started intervening more specifically – Edusave, Medifund, and that's when we introduced the housing grants to help lower income families own a home.

But it's really in the last decade that you see a decisive shift, a deliberate tilt, towards tempering the inequalities of life and ensuring the lower income group keeps pace with the whole society as it moves up.

It was a deliberate strategy, a systematic one, and if you look at the series of National Day Rally speeches, you can see that shift unfolding.

It starts in education, where we have been paying more attention to those who have a weaker start. Basically, we have upped the subsidies for the lower income group in education, from pre-school all the way to tertiary education, over the last decade. In the school system we are spending a lot more per student, and a lot more resources are going especially to those with a weaker start. We spend about 50 per cent more, per student, on the weaker students than we do on the average.

Second, at work – Workfare, the Progressive Wage Model for those with the lowest incomes and the most vulnerable, and the Special Employment Credit for older workers. If you put those three together, it was a significant intervention to temper inequality. It wasn't about alleviating absolute poverty; it was about inequality. Even as incomes go up over time for the whole society, we still need to do something about inequality. It was not about absolute poverty, but about inequality. And that was a decisive shift, a mental shift - we knew that a rising tide won't lift all boats like in the early years, and we had to do something about it through public policy. So Workfare, the Progressive Wage Model and the Special Employment Credit have been important interventions during the working years.

Third, housing grants have seen a significant step up. It's still a source of amazement to the rest of the world that the bottom 10 per cent of our population has an 84 per cent home ownership rate. Our bottom 20 per cent has an 87 per cent home ownership rate. Not much lower than the national average which is about 90 per cent. And it comes about because of a system of grants to help them to own their homes. So even for those with very low incomes, the grants allow you to own a two-room

flat and service the loan out of your CPF, so instead of paying rent you can use all of your cash income for your daily needs, plus you own your home. Which is a rarity internationally for the lowest income group, to own your home.

And the fact is that our home values have gone up roughly equally over time - for the smaller flats, compared to the largest HDB flats and private property - over the last four decades, or even if you look at the last 10 years. Basically, we've been able to sustain equal appreciation on home values because of our housing strategies, and the way we design our neighbourhoods. And that is a real rarity internationally.

Fourth, healthcare, again, a significant step-up in subsidies. The Pioneer Generation were a special generation, and they had a special package. But across the board too, our permanent healthcare subsidies for the low income group and the middle income group have gone up.

And finally, social support in retirement, through the CPF and Silver Support. CPF - we provided higher interest rates for those with low balances, and especially once you are older, well above market rates for those with low balances. Plus, Medisave top-ups through the permanent GSTV scheme. It was a way to helping those with lower incomes to build up their savings for retirement.

Silver Support was the counterpart to Workfare. What we do during your working life to top up your income, we sustain in your retirement years, so we temper inequality through life.

So from education, to what we are doing in the working years through Workfare, the Progressive Wage Model and Special Employment Credit, to housing, healthcare and then in retirement through the CPF and Silver Support, when you add it all up

together, it is tilting the balance across the spectrum of life to support the lower- and middle-income group.

Very importantly, it also has to do with support networks on the ground, not just policies and dollars and cents. What was a small Hock Lee Po (Social Welfare Department) in the old days is now a whole network of SSOs (Social Service Offices) on the ground. As we now build up the Community Networks for Seniors (CNS), that's going to be a strong network on the ground, where people get involved, where people contribute, and people are helping and caring for each other. It's really quite a transformation in our social support landscape.

Social mobility: we have to work harder at it

What are the future challenges? The big challenges: social mobility and ageing. They will be with us for a long while. They are not one-off challenges, not challenges for 10 or 15 years, they are challenges for decades to come.

I will start with social mobility, although the dollar-spending consequences are not as large as healthcare. But because they are very important for the texture of our society, or the type of society we are. Particularly for Singapore, our whole identity rests on the fact that everyone has a fair chance to move up. And we've got to work harder to be able to sustain that. All over the world, if you look at the mature societies, including the Scandinavian societies which have been relatively more egalitarian, social mobility has slowed. In fact, it is stuck at low levels in most advanced countries. It's been part of the natural workings of most societies, when they become more settled – class divisions become firm, and starting advantages or disadvantages last through life. It is true in every mature society. And the same can happen to us.

We are still a more fluid society than most Western societies, but it will get harder over time. We know that and we can see that. It means we will have to work harder at it. Work harder at providing a fair chance for everyone to find their strengths, make the most of them, and move up in life.

It means starting earlier. KidSTART is going to be a major intervention. We have an education system that is very well-regarded internationally. What we are doing is that we are now starting much earlier, but we are also continuing through life. So what used to be an education system that was focussed on the school years and the tertiary years, is now extending in both directions – starting much earlier and continuing through life. Both these shifts are critical.

SkillsFuture and what we are doing to reinvest in people through life is not just an economic strategy. It serves the needs of an innovative economy, but it is fundamentally a social strategy too. It is about becoming a meritocracy of skills, not one based on grades you earn early in life. That's a fundamental shift that we are working towards. It will take time. It is not something you achieve by turning on a switch. We've got to build up the infrastructure, build up the culture amongst the employers, and we have got to build up that social culture where you keep pushing your potential though life. That too is fundamental to social mobility - becoming a meritocracy of skills, not one based on grades you earn early in life.

It is a permanent challenge; we know that by looking at every society. We will have to work harder at it, and become a better society as we do so.

Healthcare: we have to spend more and raise more revenues, but keep cost increases in check

Healthcare is the biggest challenge for the future of social spending. It's the fundamental reason why we need to raise more revenues, and why we have to spend effectively so that people get real quality of care from the dollars spent.

It's a real success of our times that people are now living much longer. It's a real success. It's true internationally, but we take special pride in the fact that we have one of the longest lifespans in the world. It's increasing significantly, decade after decade. It is an achievement, but we have to enable people to make the most of life in their senior years.

To summarise the challenge: today, about one out of eight Singaporeans is aged 65 and above. By 2030, it's going to be one out of four Singaporeans. So we are moving from one out of eight to one out of four in less than 15 years. That's a dramatic shift in the composition of our population, as the baby boomer generation moves into their senior years.

The Pioneer Generation was a generation that stretched over 40 years, from those in their mid-60s to a few centenarians. They were 450,000 Singaporeans. Those who followed over the next 20 years, now in their late-40s to mid-60s, are a million Singaporeans. More than double the size of the Pioneers. That illustrates the scale of things to come in healthcare.

First, how do we avoid some of the problems that we see in the rest of the world? I said that we would have one out of every four Singaporeans being above 65 by 2030. In much of Western Europe today, they are not yet there - one out of five is above 65. But even at one out of five elderly, their systems have led to high costs for the ordinary citizen. If you look at countries in Western Europe, the average citizen pays an income tax of 21 percent of their salaries, and a VAT (which is like our GST) of 22 percent. And on top of this, in France

and Germany, employers and employees pay a payroll tax of 15% or more for healthcare. They have also accumulated debts which don't show in today's taxes but will show up in tomorrow's taxes. Instead of raising taxes to fund the extra spending, they postpone the problem by raising debts. So that will be tomorrow's higher taxes.

In Singapore today, the average person pays little or no income tax, a 7 percent GST. If you own a car especially, there's more taxes, but the overall tax burden on the average person is much lower in Singapore compared to these other countries. It will have to go up over time, but we want to avoid getting to a situation where the average person has the heavy burden of taxes that we see elsewhere.

So, we know spending will go up and we have to raise revenues, but what mistakes do we avoid?

The first thing for everyone to recognise is that there is no such thing as free healthcare in the world, even if you do not pay when you go to hospital. There are many systems, particularly in Europe and Britain, where healthcare is free or close to free when you go to hospital. But in fact you've paid for it upfront, through taxes and insurance. So, everyone has actually paid for it, and they pay for it big time in these countries. It is not free.

But one of the reasons why healthcare has become such a large spending burden in many countries is that people don't realise they are paying for treatments, and the result over time is a system with over-prescription and over-spending. That's the first big lesson - we must get the balance right in how healthcare is paid. How much is paid by people out of their own pocket or through their Medisave accounts when they get treated, where they know that they are paying something themselves. How much they pay in advance through insurance, where everyone contributes to the pool

and when you get a major illness, you draw more from the pool. And thirdly, how much is paid by Government out of the taxes everyone pays.

Getting that balance right is very important. If you rely too much on people paying for themselves, it will be inequitable. The poor will suffer. If you rely too much on insurance, where insurance is not just for big hospital bills like in Medishield Life but is much more comprehensive, then you get a problem of doctors over-prescribing or the system gets overused.

The Japanese are an example. They visit physicians three times as often as other advanced countries, and they stay in hospitals two or three times longer. Even if you compare them with healthcare systems which are equally good, the Japanese spend more time in hospitals and visit physicians more often because of a very comprehensive insurance system. It is cheap or free treatment, but in fact everyone pays for it through insurance. If we over-rely on insurance, the costs of the healthcare system go up.

And that overuse and over prescription is also seen in systems that rely on the Government to pay for everything, and people do not realise they are paying. The result is taxes go up much more significantly.

We have shifted the balance in Singapore. The Government is now paying more. Insurance is also paying for more, with Medishield Life. Individuals are still responsible for part of the payment. But the Government is now paying more. If you look at the subsidised healthcare system, which includes our public hospitals, polyclinics, and aged care providers - if you add up the costs of building the facilities and subsidising patients - the Government is now paying for 70% of the costs. This subsidised

healthcare system is what the majority of Singaporeans use, and the vast majority of our elderly especially use.

That has been an increase over the last ten years. We have upped our subsidies and expanded the subsidised healthcare system. But it must never get to 100% being paid for by government. We must retain a system of individual co-payment, with the family also chipping in to help, and citizens taking collective responsibility for each other through insurance, where everyone contributes and pools their risks. So we've got to keep this balance even as we go forward. Otherwise we end up with the problems seen elsewhere, where people think it's free because the Government is paying, but the average person ends up paying big time in taxes, and the system gets overburdened.



The Straits Times: How did we arrive at 70%, being the optimal...?



DPM Tharman Shanmugaratnam: There is no precise figure that we will claim to be optimal. The government share of spending has increased significantly, but we should never get to the pretence seen in many systems, that if the government pays 100%, healthcare is free for the people. Avoid the pretence that if the Government pays more, I'm paying less. Actually if Government is paying more, people are paying more through taxes, and it is the average person who is saddled with extremely high taxes in the traditional welfare states in much of Europe. It will mean much higher GST and income tax rates compared to what we have today.

The critical issue is to maintain a balance between individuals' paying, risk pooling through insurance, and government paying. That balance is important because it helps prevent over-prescription and keeps costs down.



ST: Given that the balance has shifted over the years, looking ahead, do you think it will have to continue shifting and we have to continue tweaking this?



DPM Tharman: We will continue tweaking it. But what is critical too is not just the overall subsidy level, but the targeting of the subsidies and benefits. That is the second critical issue. That too distinguishes us from many other systems. The traditional welfare state which operates in the European and UK healthcare is one of universal benefits - doesn't matter if you are rich or poor, healthcare is free at the point of need.

It has a simple emotional and political appeal, but has turned out to have huge consequences as their societies get older. When Aneurin Bevan introduced the National Health Service (NHS) in the UK, in fact exactly 70 years ago, he thought that the system of universal benefits, free at point of need, would lead to a healthier society and healthcare costs going down. The opposite happened. Healthcare costs have gone up tremendously. Now, particularly with an ageing society, the NHS is in trauma, with disorderly rationing and tens of thousands of people having their

operations postponed. If everyone rich or poor gets the benefit of free healthcare, as your society ages, it becomes unaffordable.

What's happening now in Finland is also instructive. They have a universal system, with both rich and poor getting benefits paid by the state. Because their society is aging, it can no longer afford it. But it is very difficult anywhere, politically, to cut back on the benefits from the elderly. So the government is cutting back on other things, including higher education, and the economy and jobs are also getting hurt. Young people are hence leaving, which adds to the problem of an ageing society.

We've got to keep our subsidies targeted at the lower income group especially, and with enough support for the middle income group. We do this targeting in the MediShield Life subsidies, and we also do it in the hospitals, SOCs, CHAS and long-term care sector.

The third major issue, which Minister Gan Kim Yong has frequently spoken about, is about keeping costs in check by rebalancing the structure of our system of healthcare - with greater emphasis on preventive care and primary care, and on long-term care in the community. For example, the emphasis we have to place on lifestyles - incentivising people to maintain a healthy lifestyle. That's the third element in keeping costs in check, keeping medical

inflation in check, and ensuring that people are getting value care, not just spending more.

We will need to raise taxes as healthcare spending goes up, but must keep the features of our system that keep costs in check. We must keep our subsidies targeted at the poor, with some support for the middle class. Keep the balance between individual co-payment, insurance and the Government paying, and not skew it too much in one direction or the other. And importantly too, continue the healthcare reforms and innovations that will help to keep medical cost inflation down.

Keeping our overall system of taxes and benefits fair, even as we raise taxes

Our fundamental approach is to keep our overall scheme of taxes and benefits fair and progressive. Even as we raise taxes, which we must do in good time, we must keep the system fair. That means those who are better off pay more of the taxes and get less benefits. Those with lower incomes pay some taxes - because everyone must contribute - but they get more of the benefits.

It is the overall combination of taxes and benefits that matters in achieving a fair system, not each individual tax or subsidy on its own. Some taxes are progressive, like income taxes, and some are on their own regressive, like GST without offsets. But what matters in a fair system is the overall mix - when we take all the taxes and their offsets, together with all the subsidies and other benefits, their overall impact must favour the poor and middle-income groups.

Currently, for the lower income group (those in the bottom 20%) for every dollar they pay in taxes, they get \$4 back in benefits. For the middle income group, every dollar they pay in taxes, they get \$2 back in benefits. That's the result of the shifts we made in the last ten years, to tilt the balance in favour of the lower and middle-income groups.

Critically too, we must avoid shifting the burden to our children's generation, and their children's generation. It's a basic conundrum in most democracies: governments don't want to admit that the system requires higher taxes, but they want to provide additional benefits to voters. The only way you can do both of those things is to borrow more today shift the burden to the next generation. And that's what's been happening in a whole range of countries.

Our starting point, fortunately, is a strong one. When Singapore was a young society and incomes were going up rapidly, we saved. The Government ran surpluses, and we built up reserves. That's why we now have an annual Budget where 17% of revenues are drawn from the investment income from our reserves. It is a big advantage we have over other countries. Most developed countries have to do the opposite in their Budget each year. In the U.K and Canada, they take out 5% of their revenues to pay the interest of the debts they have built up. In the US, they use 9% of their revenues to pay interest, and that figure will go up.

Building an inclusive culture: collective and personal responsibility go hand in hand

But very importantly too, beyond taxes and spending, we have to recognise the limits to what social policy interventions can achieve without a supporting social culture. If we look at the experiences around the world in the last 60 years, all the mature societies, there are a few basic lessons, and they will apply to us as well.

First, if you leave things to the market or leave it to people to fend for themselves, you get widening disparities. You widen life's inequalities. And those inequalities will reflect not just differences in abilities and talents, but also the advantages and disadvantages that people start with. So that's not a fair society.

But we have also learnt from 60 years of largely well-intentioned social policy experiments that it's very hard to get lasting improvements, very hard to build an inclusive society, through social policy interventions alone. How values shift, how people's behaviour shifts in response to social policies, and whether our civic culture strengthens or weakens, matters greatly.

So as we step up our social spending, we have to be very mindful of that. As we take more collective responsibility and seek to mitigate the inequities of life, we have to do it in a way that reinforces personal and family responsibility. They don't have to be at odds with each other - it doesn't have to be about self-reliance versus government or collective responsibility. The real challenge in social policy is to find ways in which they can reinforce each other.

If we focus the government's support on helping people get a fair chance - help those with a difficult start to discover their own strengths and move ahead, help people stay in the workforce through Workfare and to keep building their skills, help people own a home and raise their families - that way, we are not just supporting people but doing it in a way that strengthens personal responsibility, and strengthens the sense of pride people get from contributing to their own lives and to society.

That, I think, is the crucial social ethic that we've got to maintain. Step up social spending and take more collective responsibility in a way that strengthens rather than erodes that ethic of personal and family

responsibility. That is the Singapore approach, it can be done, and we've got to make sure that we sustain that into the future.



ST: I wanted to take this opportunity to ask you about the Trampoline model that you've spoken on before. We know that there are times when these people make poor choices because they have poor options. And whether it's a mother who did not manage to stay on in her job because she had to take care of her children, or whether it's about students who are trying to study in school but do not have the money for tuition or enrichment and they find themselves falling behind. Given that there are these cases, are there no limits to this metaphor? It is almost akin to these people trying to bounce up but being hobbled.



DPM Tharman: That's a good point, and I do not mean that people have equal options and will be able to make good choices on their own. The trampoline doesn't mean you leave people on their own. It means that you don't just provide a safety net, but help people to bounce back up.

And it doesn't happen simply by having the right policies. It requires the networks on the ground, the peers, a whole system of support to help people make the right choices. So it's not about waiting for people to take responsibility for themselves, it's also actively helping them to take responsibility.

It's everything from having empathetic teachers and volunteers, starting from early in life, parents' support groups in schools, where they influence each other, and circles of friends and peers, infecting each other with a positive spirit - rather than the reverse which can easily happen, when a circle of friends gets up to the wrong things. All these things matter. And that's the quality of the society that we have to build.

It's not just about the policies, and the grants to give you a leg up. It's about the empathy, the support, the advice and the influence, so everyone gets caught up in a spirit of aspiration. That's critical. And that's the world not just of the government but of the community, of the pre-school and school, of the workplace, and the networks on the ground.

And it has a way of reinforcing itself. Once you have that positive and aspiring culture, and where people help each other, it becomes a self-reinforcing strength of our society.

The reverse is also the case. Once you lose that culture, you'll depend more and more on government to do things for society. But it eventually breeds divisions, and reaches a limit. If we do not sustain a culture of personal responsibility, you'll get over time what we see now in several mature societies, which is a hardening of attitudes towards the poor. The cutbacks to welfare that are happening in many countries are

not cutbacks of the universal benefits that the rich and the middle-class benefit from, but to the benefits that the poor get.

So that's why collective and personal responsibility go hand in hand together. With individuals and families taking responsibility, we are more likely to sustain collective support and the majority of people being willing for the state to play an active role to help people in their lives. And with that collective support, that intervention by government and the networks of support and empathy on the ground, it makes it easier for individuals to take responsibility for themselves and make the right choices in life.



ST: Speaking of networks of support, there's recently the IPS survey that found that people there are not interacting across class divisions.



DPM Tharman: It's something that's happened all over the world, as societies become more settled. It means that we have to find every opportunity, early in life and through life to maximise interactions. And even when some people do better than others, we must avoid a culture of elitism. Everyone must take a real interest in others in different stations of life from them. That's critical.



ST: Is that happening enough in Singapore?



DPM Tharman: There's a risk that it will get eroded over time, and we have to work harder at it.

Basically, we've got to find every opportunity to maximise interactions, as you grow up, in the neighbourhood, through voluntary activities - not just contributing charity dollars, but getting involved.

Our basic model is stronger than in most societies because of housing and education. The way in which housing is organised in Singapore, with a broad span of the population in the same neighbourhoods – that's a big advantage already. Our public school system for all, rather than a separate private school system for the better off, is also a distinguishing characteristic, if you compare us with Britain or the US for instance. But even in a meritocratic, public school system, you find over time that people cluster together based on their backgrounds. It happens all over the world. And we have to work against that.



ST: Aside from encouraging people to just interact across more actively, are there policies we can look at tweaking to make this a more egalitarian landscape? Whether it's about the siting of certain schools in the Bukit Timah belt, or whether it's about the affiliate policies?



DPM Tharman: We have to ensure that schools around the island provide quality, and become pinnacles in their own right. Rulang was not originally a premier school. And there are several Rulangs around the island which have over time become pinnacles, and become sought after. Just assigning brand-name schools around the island doesn't itself do it.

There's no easy solution to this problem anywhere in the world. You have to keep tilting against it, keep working actively on it, but there's no easy solution.

Doing what works



ST: Can I ask you, which are the sacred cows of social policies left in Singapore? We have talked about minimum wage, unemployment insurance. Looking ahead, do you think the government's stance may shift?



DPM Tharman: If we come to a point where our current approach no longer leads to broad-based income growth, and that you find that year after year, the bottom 10 per cent, bottom 20 per cent, is slipping further away from the rest of the population, then we may need new approaches.

So far, our current approach has sustained very low unemployment, low long-term unemployment as well, compared to many other countries in the same situation as ours. And it has sustained income growth

across all brackets of the workforce, including the bottom 10 and 20 per cent. It was tougher for the lower end of the workforce early in the previous decade, when we went through two recessions. But if you look at the last 10 years, the lower income group has in fact had as fast or faster income growth.

The current approach still requires a lot of hard work. If at some point we find that it is inadequate and we are not sustaining this broad-based income growth, then we have to consider alternatives that are workable, and nothing is sacrosanct.

The Progressive Wage Model would not have been introduced 20 years ago. But we did it, because even with jobs being available for all, even with a relatively healthy economy, we found that some workers were not being fairly treated - particularly in industries where there was a lot of outsourcing, such as cleaners, security guards, some others - and we needed the additional intervention. That's an example of what I mean. If our current approach is not working, we need to adapt it or try something else.



ST: This idea that nothing is sacrosanct, is that a thinking that permeates throughout the entire Cabinet? Is everyone on board?



DPM Tharman: Basically, we take a practical approach towards social and economic policy, not embedded in ideology.



ST: And the 4G leaders. Are they...?



DPM Tharman: Very much so. They very much have this approach. They have open minds.

Topics: Economy, Families and communities,
Healthcare