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**PUBLIC POLICY DECISION MAKING IN SINGAPORE: HOW SHOULD IT
CHANGE?' OR "SUCCESS AND FAILURE OF PUBLIC POLICIES: THE
SINGAPORE EXPERIENCE, 1960-2000"**

Dr Khor, President of ESS

Thank you for giving me the privilege of addressing members of the Society at this close-door luncheon. You have ever so gently suggested that my short talk revolve around the topic "Public Policy Decision Making in Singapore: How should it Change?". As the doors are closed (to the media) and our minds open to debate, with your permission, I would like to redefine the agenda as, "Success and Failure of Public Policies: The Singapore Experience, 1960-2000".

Tribe of Economists

2 This is the first time I am addressing a group of fellow economists. As individuals, economists are among some of the nicest people in the world. But as a tribe, most of us are arrogant. From sunrise to sunset, economists always think they are right and every other Gentile is wrong. But when the sun sets and darkness descends on an economy, economists are as much at a loss as anybody else unschooled in the dismal science.

3 How has this come about? Economists from Adam Smith to Keynes, and Friedman, are forever searching for the holy grail of equilibrium, just as statesmen strive to receive the mandate of heaven. As a career Singapore civil servant, I am somewhere in between. So when you hear me holding forth on public policy issues today, I hope you will forgive some intellectual arrogance on my part. But at least

you know where I am coming from. And tell me if I am dead wrong. Stop-At-Two

Population Policy

4 At a time when Singapore is not even replacing itself, it is difficult to recall that the population growth rate in the early 1960's was over 4%. The rate of birth was 3.6%. From today's perspective, it seems to be a golden age. At the time, it was a nightmare. Our stop-at-two family planning policy has to be seen in this context. In a matter of two decades, our population growth rate trended towards 2%, and soon fell below. This occurred in the mid-1970's when we achieved full employment, ie at an unemployment rate of below 3%. What was known as job-hopping was the despair of employers. While our demographers were tracking the statistics, they failed to think out of the box. Given abundant job opportunities, married women chose paid-employment outside the home to having more babies and domestic chores. Worse, single women chose careers to marriage. Even as the birth rates were falling, the Ministry of Health and the Family Planning Board continued to fly on the policy autopilot of penalising the third order of birth.

\$1 million Immigration Deposit Scheme

5 In the early years, when numbers were literally drowning us, our immigration policy was to bridge the talent gap. The Trade Department of the Ministry of Finance introduced what was known as the Immigration Deposit Scheme. For a \$1 million deposit, entrepreneurs from around the region can settle their families in Singapore as permanent residents. They are free to invest their funds in industries on a list suggested by us. That was how NatSteel, OG Garments, Malayan Steel Pipes, and a host of other SMEs started in Singapore.

Critical Population Size: Asking the Right Questions?

6 Even when the EDB was scrambling for every job in the international market place, those of us who were at the frontline of job creation, realised we did not have the critical mass to be an industrial nation. Our population was around 3 million. What then was the magic figure? 4 million, 5 million, 6 million? Comparing ourselves to countries like Switzerland, Israel, Sweden. Our physical planners in the URA poured over their maps to determine the optimum size of population that Singapore can accommodate. But were we asking the right questions? If size alone counts, then countries like China and India would have dominated the world, as indeed they now can by opening up their societies and economies. What then are the options for small states like Singapore?

Global Knowledge Based Economies

7 As competition in the global economy moves from a resource base of land, labour and capital, to a knowledge driven race in education, technology, skills, and organisation, sheer population size is no longer decisive. If it ever was. What counts is the average level of academic education of the bulk of the population.

8 A former President of the Matsushita Corporation of Japan told me when he met me as Chairman of the EDB in the 1970's that Japan was strong in manufacturing because the average level of schooling of the population then was senior high, roughly the equivalent of A levels in Singapore. He also made the point that what counts is a high massive plateau of people with a high average level of education.

Peaks and Plateaus

9 High peaks of academic achievement by our President Scholars, modern day imperial scholars, are of course a matter of pride not only to their families, but also the country. Mr Yamashita's deeper point to me is that an education system should not be totally dedicated to producing imperial scholars. It is better for the country to achieve high national averages. He preferred massive plateaus to high solitary peaks. I believe that Singapore has to resolve this conflict in our national psyche. When does meritocracy end and elitism begin?

Landed PR Scheme: Hongkongers

10 When we thought we had too many people in the early years, we kept people out except for the \$1 million entrepreneurial depositor families. When our birth rate fell below the replacement rate, we panicked. We introduced the landed PR scheme for Hongkongers just before 1997. Other than those with criminal records, any Hongkong family can literally obtain PR status on arrival at Changi Airport. Even then, Hongkongers thumbed their noses at us. The few who did accept PR in Singapore promptly bought an HDB flat on the resale market, which they were allowed to let out because they did not stay to work in Singapore. When property prices rose, they gave up their PR and sold their flats for a capital gain.

Selective Immigration: Raising the Average

11 In a knowledge-based world of global competition, sheer numbers alone are not enough. What counts is the quality of the numbers. I venture to suggest that the average level of education of Singaporeans should be at least A or polytechnic levels. All PR applicants should be better. Their role is to help raise our average, not just to add to our numbers. We need to build up this critical mass of people as quickly as possible from our own people and selective immigration. The name of the game is to build up the numbers and quality. If we go about it methodically, we may

have 10-20 years to build up the critical mass. The critical mass is however a moving target.

Education: Having Content

12 Not being a teacher, I am not acquainted with the theory of education. But I was privileged to know the late Mr Tan Teck Chwee, an illustrious chairman of our Public Service Commission. Mr Tan was a teacher at Raffles Institution in the early years of his career. He told me that before anyone can be selected to be trained as a teacher, the person must have a first degree in a teaching subject. He must have content before he can teach.

13 Similar advice was given to Dr Winsemius by Dr Pannenberg, the R&D head of Philips of Holland. He told Dr Winsemius that his grandson should do a first degree in engineering before he specialises in software and computers for which the boy had a special talent. A person must have a thorough grounding in one intellectual discipline before he can be creative in his chosen field of endeavour.

Immersion and Creativity

14 Our newspapers today are full of stories of educational reform. The point about education made by Mr Tan Teck Chwee is that a person must be deeply immersed in the basic of a subject before one is able to solve problems and be creative. While I am all for fun learning, especially for my grandchildren, I hope that the growing effervescence of spirit in our schools will not be overdone that it turns into froth. In our heart of hearts, we all know that learning is hard work. It is not just play.

15 By most measures of academic achievement, our schools, polytechnics and universities have done well. Both Singapore and MNC employers acknowledge that

our graduates are competent. They know "how to get things done", but when faced with a roadblock, they often cannot figure out the "why".

Passion and Brilliance

16 To succeed in discovering new knowledge you need the spark of brilliance. Eureka does not come at the flip of a switch. Mr Evan Erikksen, President of Sundstrand, who invented the constant speed drive for jet engines, told me that when he was a young research engineer he could not wait for the sun to rise before rushing off to his research lab. Mr Erikksen held three patents, which were the foundation of success of his company.

Materials Science

17 Prof Shih Choon Fong, President of NUS, gave members of the EDB Society a fascinating demonstration on how a block of ice which shatters on impact when dropped from a height, remains a solid block when tissue fibre is mixed with the water before freezing. A materials science professor, he then compared the qualities of steel, plastics and glass. Steel is the strongest proportional to weight, and plastics, the most malleable. Glass, which at first sight is the weakest compared to steel, and most brittle compared to plastics, turns out to be the best material when pure glass fibres are fused with plastic to produce strong lightweight car chassis.

Nation of Singapore

18 So, Singapore with a population of 4 million cannot play the steel numbers game alongside China and India with their billion populations. But an educated 4 million population can endure, if we have some of the globally mobile talented, including our own to be engaged, work, live, and stay in Singapore, perhaps not for a lifetime but in the prime of their lives. In this way, the nation of Singapore will be

larger than the country of Singapore. The little red dot will grow into a centre of world civilisation and not fade away into history.

Public Finance: Inverted Pyramid

19 In most countries, the public finance structure is a normal pyramid where the broad base 90% of the population support the poorest 10%. Singapore is an exception. We are an inverted pyramid where the ablest 10% support the other 90%. 10% of the population pay all the income taxes. They also pay the bulk of dividend taxes, tax on interest, property and estate. The net balances in the CPF accounts are saved by this group.

20 Public finance in Singapore is like a top spinning. So long as the momentum is at an annual GDP growth rate of 8% or better, the social compact prevails. But when the growth rate is halved to 4% or less, social fissures will appear. There are some signs of unease even now. The upper middle class which do not enjoy public housing subsidies or conservancy rebates are increasingly frustrated by what they view as populist schemes, such as the ERS share schemes. Cars, housing and education of children are more expensive than even in the capital cities of developed countries.

GST: Sticky Prices

21 When personal income tax rates are dropped, the GST goes up by 1%+1%, bringing about a general rise in the retail price index. We have to remember that prices are sticky downwards. And as we have to give more rebates to the poor to offset the GST increase, the revenue impact is at best neutral. It was in fact slightly negative when we first introduced GST in 1996 at a rate of 3%. I hope my guess at the arithmetic is wrong.

22 Surely, at a time when we are just about to recover from a severe economic recession, the Government ought to cut its own expenditure to make up for the loss of revenue from an income tax cut. In real life, the best time to cut income tax is when an economy is booming. A lower rate of tax from an expanding economy will yield higher revenue. In a recession, a lower rate of tax can only lead to even lower revenue. To reduce taxes and hope that the economy will expand is in my view an exercise in futility.

Pioneer Status: A Bonus

23 When we offered 0% pioneer status tax status in our early struggling years, it was because Singapore was competitive. The MNCs came because their operations in Singapore were fabulously profitable compared with operations in their home countries. Pioneer status was a bonus after they came, not before.

24 Being a former PS(MOF), I do not wish to be cast as a gloom monger. But I do believe that tax gymnastics is not a panacea to our problem. Such gymnastics can only pile on the costs of doing business in Singapore. We have to face reality, and tighten our belts. To do otherwise, is to lose the very people we need most, the pure glass strands in materials science.

The Exchange Rate

25 In the mid-1970's, I was invited by Dr Goh Keng Swee, who was then the Chairman of MAS, to attend its weekly staff meetings, normally held on Monday mornings. The meetings were in effect tutorials Dr Goh conducted to train his officers on how to read interest and exchange rates in the coming week. Out of this baptism of fire, we have produced men such as Ng Kok Song, MD of GIC, and Seck Wai Keong, now with SGX. It was excruciating even for me, a non-combatant from the Ministry of Finance, when forecasts made were way off the mark against the actuals

as recorded by Chuang Kwong Yong in his precise methodical way. Kwong Yong today is Singapore's Auditor-General. He was helping Dr Goh to audit the performance of our young money managers then in training. Dr Goh was however more interested in their reasoning than in the actual results. After university, this was the most intellectually stimulating period for me.

Honeymoon

26 The honeymoon lasted until the day I had the temerity to challenge Dr Goh's exchange rate policy. Under Dr Goh, and to this day, the MAS's instinct was always for a strong Singapore \$ to the point that it became a badge of honour. The *raison d'être* was a strong currency kept imported inflation at bay.

Twin Blades

27 By the early 1980's, Singapore's competitiveness in the international markets was rapidly eroded by what Dr Tan Kong Yam, who became the chief economist of MTI, called the twin blades (as in a pair of scissors) of high wages and an overvalued (strong) currency. Dr Goh would not give way on the exchange rate, and Dr Winsemius and myself would not budge on our wage adjustment policy.

Policy Tug-of-War

28 The policy tug-of-war between MAS and MTI was resolved when Government accepted the recommendation of the first 1986 Economic Review Committee to cut the employers' CPF contribution by 16%. CPF was slashed from 46% to 30%. Currently, it is at 33%.

Sacred Cows and Bitter Medicine

29 In 1986, the full burden of economic adjustment fell on labour. The CPF cut of 16% was in effect a wage cut. Weeks before this cut was made, both PM(SM) and DPM(PM)(Mr Goh) were making speeches to the effect that the CPF was sacrosanct

and would never be cut. As PS(T&I), I went to see Dr Goh, always the eminence grise on economic policy. He told me that there were no sacred cows in politics. So I pressed this insider's knowledge on DPM Lee, who was then the Minister for Trade and Industry, to cut the employer CPF contribution by 10%, as recommended by the Committee. In the event, 16% was cut. Our people swallowed bitter medicine in one gulp. Within two years the economy recovered.

CPF Cut

30 I now know that DPM Lee, my Minister then, was against a cut. He was wrong then, as a CPF cut was the only available policy instrument. He would be right today if he, as the Minister for Finance, had rejected the CPF cut option as recommended by the current second Economic Restructuring Review Committee 2002-2003. The CPF cut in 1986 was bold and decisive. It would have been of lasting value if it had been a permanent cut, a basic structural adjustment. Instead, it was adjusted upwards from 10 to 16% for employers. The current cut of 3% is even more tentative. We have by not facing up to our loss in competitiveness (wage increases exceeding productivity increases for far too long) introduced too much uncertainty into the decision-making process for foreign investors. Investors are prepared to adjust to market pressures, but they will not accept Government mandated wage cost increases.

Uncertainty: In Extremis

31 The CPF is the one silver bullet adjustment to be used in extremis, such as in 1986 when it was reduced to 30%. It should have been a permanent change. Instead, it crept up once again to 36%, and now reduced to 33%. The uncertainty introduced is bad for forward planning by companies and employers. Most of them attracted by China, and soon India, will vote with their feet. A fluctuating CPF

contribution rate by employers is also bad for the HDB and MOH. When CPF rates rise above 30%, HDB will be tempted to overbuild. not only in terms of numbers, but also size of flats. Similarly, MOH will rush in to increase Medisave rates the moment the employers' rate rises.

CPF: 20% + 10%

32 I believe the MOF is still studying what should be the optimum CPF rate. Let me suggest that my former Ministry adopt what Dr Goh would approve as a robust approach in policy making. I propose that the CPF rate be fixed permanently at 20% for employees' contribution and 10% for employers'. Saving 20% of one's monthly salary to pay the housing loan mortgage is not an unreasonable arrangement. HDB's calculation of affordability will be less optimistic and more concrete. The tendency to overbuild will be curbed.

Overbuild

33 PM had suggested to me, as Chairman HDB, that the carrying cost of unsold flats be met from HDB's operating budget. My HDB management was horrified! Similarly, MOH would have to accept that the Medisave rate would have to be frozen at its current 6% (8%). Saving for old age, which is a tiny 4%, can only increase if we are able to cut back the portion for housing to below 20%. The political arithmetic is tough, but it has to be done if we are to retain the confidence of investors and employers. Any real wage increase must come from real increases in productivity.

The Singapore Dollar Peg

34 Productivity increases in Singapore have long lagged wage increases. This time around, the adjustment must fall on all Singaporeans, not just labour. The other

blade of the policy scissors, the exchange rate has to be used. The MAS under Dr Goh has pegged the Singapore dollar exchange rate to a weighted basket of currencies. In other words, the exchange rate band is calculated on the balance of trade flows with 6(8) major trading partners, such as the USA, China, Malaysia, Indonesia, and the EEC. It is a clinical approach giving intellectual satisfaction.

The US Dollar: The Old Currency Board System

35 But in the real world, nearly everybody trades in the US Dollar. Two of our major trading partners, China including Hongkong, and Malaysia, and one can even argue a case for Japan, have pegged their currencies to the US Dollar. Under the old Currency Board system, the Malayan Dollar was pegged to the pound sterling, and when it devalued, we pegged the new Singapore Dollar to gold. The old Currency Board system did not allow the colonies, such as Singapore, to depreciate their currencies as it has to be fully backed by gold. Gold was and still is a stable store of value. So long as a currency is 100% backed by gold or foreign currencies, it will always be convertible and stable.

Bretton Woods: Balanced Budgets

36 The breakup of the Bretton Woods agreement by President Nixon, resulting in floating exchange rate regimes, made life more difficult for central banks, but not impossible. Instead of fine tuning exchange rate fluctuations, the weighted basket of currencies approach, it would be better in my view to simply peg the Singapore Dollar to the US Dollar, just as Malaysia and China have done. The whole world prices in US Dollar. If the price of exports from Singapore goes up in US Dollars, it is a clear signal that we are less competitive for whatever reason. So long as we stick to the straight and narrow road of balanced budgets and do not induce our CPF savers to

participate in stock markets, the Singapore Dollar will always be fully convertible, a sine qua non of competing in a global knowledge-based economy.

Spending Our Reserves

37 From time to time, when times are hard, there are calls in our Parliament to spend our reserves to "tide us over". The MAS should educate the people to understand that our reserves are our best guarantee for a stable fully convertible currency. Without such a currency, we will not be able to import anything. Unlike the Americans, we are just too minuscule for anyone to give us any long-term credit. Our real reserves are the budget surpluses and net CPF balances accumulated over the years. Any reserve over this hard core are just temporary funds parked with our banks because the depositors expect the Singapore Dollar to appreciate, or our interest rates are attractive, or both. MAS, in my view, should not just look at the gross official reserves, but the net hard core, ie what really belongs to us and over which we have control. Hence, my "kiasu" attitude against MAS's strong Singapore Dollar stance. If the hedge funds sense that our currency is overvalued, they can make a meal of us in a morning's trading.

38 What Singapore needs is a stable fully convertible currency like the old Singapore Dollar under the Currency Board system.

Land and Transport Policy

39 In Singapore's context, land and transport policies are intertwined. As early as the late 1960's, the Ministry of National Development established the State and City Planning Office, which evolved into what is now the Urban Renewal Authority, the URA. The SCP proposed what is now built as the PIE, the spinal pan island

expressway, the ECP as the east west parkway, and the CTE, the north-south central expressway. Our planners told us that these expressways, which are land-intensive, are just to meet basic needs. To be a modern dynamic city, we need to invest in a mass rapid transit system to get people to work on time in the morning and to be home in time for dinner in the evening. Such a system has to be rail-based with clear rights of way in the form of tracks. Bus lanes are a second best, and motorists who pay most of the road taxes have no rights at all.

USSR Offer

40 Very few of us will know that the USSR Government offered to build Singapore an MRT in the mid 1960's. According to Mr Howe Yoon Chong, who was PS(ND) then, we could have had the MRT system built for less than \$1 billion if we had accepted the Russian offer.

Dr Goh: Making Small Mistakes

41 When Singapore decided to build the MRT in the late 1970', it would cost us \$5 billion. Such a heavy investment triggered an intense debate, both in private and in public. In one corner of the ring was MOF, led by Dr Goh, who argued for an all bus system.

42 When I asked him years later after he lost the fight why he was so adamant for an all bus system when it was clear that our roads cannot take the load, he offered the explanation that it was better to make mistakes in small incremental steps, ie bus by bus, than to sink in \$5 billion on an unknown and untested system. Until today, I still cannot make up my mind whether Dr Goh was serious in his view, or speaking tongue in cheek.

The MRT

43 The pro-MRT believers were more numerous, namely Howe Yoon Chong, the late Teh Cheang Wan, Lim Leong Geok and myself, as PS(Communications) from 1970-1972. SM and Hon Sui Sen, the Finance Minister, were the referees. Joe Pillay led the official Finance team. Even then, Dr Goh nearly torpedoed the MRT proposal by asking what I would call an economist's "trick" question. He asked Lim Leong Geok whether it was justifiable to sink about \$300,000 per head so that the morning commuter can get to work on time in the CBD.

Killer Question

44 Unfortunately, I was not present at the meeting when Dr Goh unleashed his killer question. I would have argued that an MRT system, by providing easy access to suburban Singapore, would in itself raise property value. Without raising property tax rates, revenue would rise to yield the \$5 billion required to build the first MRT east-west line. Teh Cheang Wan, who was then the Minister for National Development, made the same point, but in a more dramatic way. He said that land sales on the newly reclaimed Marina new Singapore city site would provide all the capital needed to build the MRT lines.

Never Tested: Political Hostage

45 To be fair to Dr Goh, his conviction that an all bus system would serve as well was never put to the test. The younger Ministers adopted a fail safe position. Under the guise of rationalisation, bus services into the city, which paralleled the MRT route, were terminated. Though MRT was a superior service, MRT fares were only marginally higher than bus fares.

46 I recall vividly PM(SM) urging his Cabinet to set MRT fares at levels much higher than bus fares. He made the point that if initial fares are not set at fair economic value, ie a superior service commanding a premium vis-a-vis bus fares, we

would be stuck with uneconomic fares forever. By not biting the bullet at the beginning, public transportation fares will be held to political hostage.

Singapore Traction Company (STC)

47 When the Singapore Traction Company collapsed in 1970, the Minister for Communications, Mr Yong Nyuk Lin, myself as his PS, and Mr Goh Yong Hong, ROV, scrambled to organise the four main Chinese bus companies operating in the north, east and west to take over the STC routes into the CBD. We swore never to depend on one major bus company alone. On my return to MOF in 1972, I was therefore startled to read in the newspapers that Government would merge all 4 bus companies into one sole provider, namely Singapore Bus Services. Wiser counsel prevailed later and TIBS was founded almost as an afterthought to be a second bus company.

Rail and Bus

48 Having one, ie SMRT, as the sole rail operator in Singapore, or two to include SBSDelgro for the NE line, is not the right question to ask. As Dr Goh would have insisted, the competitive test is between rail and bus operations. The comparison is not between SMRT and SBSDelgro. A duopoly in Singapore's small market may be worse than a monopoly. The root of the problem, as Lim Leong Geok told me some years later, is that after the epic battle to build the first MRT line, it became too easy to go on to build the second, the third line. Dr Goh is no longer around to scrutinise the case for rail systems. The Administration just flew on auto pilot. Because of their "kiasu" mindset, they made an uneven playing field more so. The Public Transport Council, just as the NWC, should take a sabbatical. As Hon Sui Sen would have said, Government should learn to leave well alone. Let buses compete with rail

freely. Fare increases (or decreases) should be decided by the respective operators. School bus operators do not need to ask the PTC when they increase their charges.

Land Policy: Potential Value

49 Housing 85% of the population in 900,000 flats is no mean achievement by the HDB. Few know that the cornerstone of our vast low cost housing programmes is the Land Acquisition Act. The Act allows the State to acquire private land for public purpose at pre-development prices. Dr Goh asked me, then a young officer, to draft the Cabinet memorandum proposing that the compensation to be paid for land acquired exclude its potential value. We saw no reason why landlords should benefit from public infrastructural investment in roads, drainage, sewerage, power and water pipelines, etc. We would pay only the market value of raw land before public development. Our policy discouraged land speculation. The development charge imposed for change of use falls within the same concept. In effect, the State creamed off about half the potential value. Very few Governments are electorally strong enough to implement such a robust policy. But the PAP did.

Clarity of Thought

50 Sadly the clarity of thought shown by Dr Goh in pricing land was lacking in more recent years. Relying on the concept of opportunity cost, the Chief Valuer, at the behest of either the Ministry of National Development or the Ministry of Trade and Industry (I am not sure which), valued land with Raffles Place land as the benchmark. The assumption is that every square meter of land in any part of Singapore has the potential to be Raffles Place.

51 I was in the Ministry of Finance and had no inkling of what was happening until MCDS came rushing to us to give them a supplementary budget to help voluntary bodies running charity homes to pay their substantially increased rentals on premises

belonging to the Land Office. Similarly, EDB asked for more funds to help defray the higher land cost of MNCs setting up wafer fab plants in Singapore. We kidded ourselves into thinking that we are the only intelligent island in the world.

Port of Singapore Authority (PSA) & Tanjong Pelepas

52 As a result, PSA priced itself out of the market for transshipment.

Unwittingly, we gave Tanjong Pelepas the window of opportunity. One of the main causes of Singapore's loss of competitiveness in recent years is our perverse land pricing policy. What did it achieve? It was no more than a muddle headed book keeping exercise. MOF paid out subsidies to MCDS and EDB, which were returned to MOF as land revenue. In one mistaken manoeuvre, overall land price shot up and Singapore lost part of its competitiveness.

Asset Enhancement

53 Those of us who grew up after the war in the 1950s will recall the festering urban slums of Chinatown and the mosquito-ridden kampongs of Toa Payoh. So, when our families moved into high-rise HDB flats from the mid-1960's onwards, it was like paradise on earth. The EDB worked in tandem with the HDB. The EDB found the jobs, and the HDB built flats at the rate of one flat every 36 minutes. It was a winning combination underpinning the electoral success of the PAP Government at every general election since. Jobs and housing secured the mandate of heaven for the PAP led by Mr Lee Kuan Yew.

Close Down HDB!

54 Mr. Howe Yoon Chong, the first CEO of HDB, once startled his ministerial colleagues by proposing that we close down the HDB as it had by then housed some 80% of the people. He thought that we should leave it to the private sector to build for the other 20%. Old habits, particularly success, die hard.

Second Bite of the Cherry: Asia Financial Crisis

55 So from providing a first home for a family, we went on to give them a second bite of the cherry by giving a second loan to upgrade from a 3 to a 4 or 5-room flat. As property prices were rising in the 1980's, there was good cheer all round. The HDB thought they had an endless queue for new flats and went into overdrive. But the party had to end. The Asian financial crisis in the mid-1990's led to a sharp and sudden fall in demand, particularly those who were hoping to make money by upgrading. The queue disappeared, and HDB was left with unsold flats which total some 17,000. HDB would have gone bankrupt years ago if it had been a private company. But as a statutory board, it was kept afloat by MOF which picked up the tab.

IUP and MUP

56 With falling demand for new flats, the HDB was asked to embark on what is now known as the interim and main upgrading programme, ie the IUP and the MUP. When first conceived, the clear intention was for the lessee to pay 50% of the cost, with the other 50% from the Government. As it turned out, to secure the 75% majority to vote for upgrading, the share of the lessee was reduced from 50% to nearer 20%. It was our kiasu way of obtaining the mandate to upgrade. Even then, in one or two recent polls, the HDB could not secure the 75% majority to proceed. The reason was simply that the increase in the resale value of the flat after upgrading has of late been less than the cost of upgrading. So much for asset enhancement.

Singtel Shares

57 Similarly, the dividend yield from discounted Singtel shares bought by CPF members in the IPO has been less than 2.5%, which is the minimum paid by CPF on members' balances. There was no secondary market for Singtel shares after listing

because the share was priced at the margin of \$3.60. There was nothing left on the table for anyone except the Government shareholder. While the laudable intention of the issue was to enhance the asset value of the ordinary CPF member, the market taught everyone a hard lesson. There was no free lunch.

58 As Chairman CPF, I had urged the MOF to pay CPF members the Government long-term bond rate of about 4% at the time, instead of promoting unit trusts for them to invest in. The CPF minnow would surely be swallowed by the shark in the unequal market place. What pains me most is having invested in the market, the CPF member has nothing left to pay his HDB mortgage when he loses his job.

Famous Last Words

59 When Mr Lim Siong Guan was PS(Defence), he came to see me one day to discuss the concept of total defence. We both agreed that total defence would have to embrace economic defence, social defence, psychological defence, and from MINDEF'S point of view, the bedrock of military defence. Having spent most of my career in the economic ministries, I thought that a strong economy is the bedrock of everything else, including military defence. We agreed to disagree.

60 I would just end by paraphrasing Lord Keynes, who said that even the wisest statesman is often the slave of some defunct philosopher. In plain English, the politician is often misled by the economist. So, for those of us who profess to be professional economists, heavy is our responsibility. So in the spirit that I begin with, I would urge my fellow economists to accept that sometimes we can be grievously wrong.
