

Notice for the Sitting of Parliament on 19th July 2010

MATTER OF MOTION FOR ADJOURNMENT

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LOOKING BEYOND GDP FOR PROGRESS

Preamble

1. Mr Deputy Speaker, Sir, I thank you for the opportunity to move this motion. Before commencing my speech, I would like to convey my congratulations and gratitude to the government for steering an impressive economic recovery – far exceeding expectations.
2. The Gross Domestic Product or GDP, has been and, I foresee, will continue to remain the most commonly used indicator of economic performance and growth. This speech will not contest that reality.
3. My intent in making this speech is to highlight that the changed circumstances today require a broader framework where policy makers have the benefit of being prompted by socio-economic indicators other than GDP. This helps us better address important issues that are not strictly economic in nature, such as aspiration, equity and happiness which in turn have an increasing impact on national goals such as sustained economic growth, productivity, innovation, work-life balance and, of course, procreation.

4. In this year's Committee of Supply debate, the government made it clear that it no longer adopts a "GDP growth at all cost" approach. I am heartened by this assurance, and I have reason to believe that the government is already looking at other indicators to ensure that negative externalities of policies and programmes are identified early and addressed or mitigated. The Economic Strategies Committee (ESC) also highlighted the importance of evolving a more qualitative, "sustained economic growth". However, its recommendations are still focused on economic growth and productivity which a growth-centred model tends to emphasise, with too little consideration of social and environmental factors.

5. My concern is that if we do not develop a **formalised framework** for analysis, these other indicators will continue to play second fiddle to GDP, instead of being considered together with GDP and with the same level of importance. Sustained economic growth is necessary for job creation and employment which in turn is a key determinant of standard of living. This government has delivered this. Paradoxically continued economic progress over the years has resulted in the cause of the challenges we face today – balancing the needs of an increasingly educated and sophisticated populace with those from the middle and lower middle class sector who are struggling to match up and keep up.

6. In the first 30 years of Singapore the population was less bifurcated, socially and economically – so, GDP as a key indicator was sufficient. We just needed to grow fast, create jobs and build affordable houses. Today, it is no more about how fast we grow – increasingly, it is about:
 - how we grow
 - where we grow
 - are we prepared to pay the price for growth
 - and, whether we are growing together.

7. These are all challenges that developed societies face; challenges of managing success. The GDP is not equipped to prompt us or provide answers in these increasingly critical areas. Worse, if we focus too much and for too long on the GDP, it could paint too rosy a picture – a false positive - and distract us from these issues. The GDP is essentially a measurement of economic activity, not economic benefit. Used on its own, it can be a misleading indicator of economic progress and welfare of the individual Singaporean.

Some troubling signs that should prompt a review

8. Mr Deputy Speaker, Sir, while one cannot dispute the correlation between economic growth and standard of living, the GDP was never meant to measure the well-being of people. **Simon Kuznets**, one of the founders of the GDP calculations, made this quite clear. He said, “...*distinctions must be kept in mind between quantity and quality of*

growth, between costs and returns, and between the short and the long run. Goals for more growth should specify more growth of what and for what....”

9. GDP figures limit the assessment of **both objective as well as subjective elements of well-being and development**. Objective elements refer to issues of income distribution, purchasing power parity, per capita consumption, and wage shares. Subjective elements refer to issues such as health and mental well-being, life and job satisfaction, work-life balance, happiness and social and environmental capital.
10. I believe that some of the socio-economic dysfunctions we see in Singapore have been exacerbated by a combination of a strong focus on GDP growth and the inherent limitations of and the skewing effects of the GDP figures. Let me highlight a few of these dysfunctions, by way of illustration.
11. First, let's look at some of the market-driven negative externalities that the GDP figures don't highlight. As I brought up in my speech made in this House last August, Singapore's per capita GDP has risen exponentially over the past 44 years. According to figures from the department of statistics, in Sing dollar and nominal terms, Singapore's per capita GDP grew from \$1, 567 in 1965 to \$53, 192 in 2008, certainly one of the highest in the world.

12. But when we look closer at what constitutes the GDP, there is cause for concern. According to data, profits take about 46% of Singapore's GDP, which according to economists I spoke to, is extremely high compared to other developed economies. And from what I understand, half of this high profit share is repatriated ie, it goes to the coffers of foreign-owned companies with operations here. What is left in the GDP pie to directly benefit Singaporeans is therefore a relatively small amount. With such a significant amount of growth driven by foreign MNCs, the net welfare benefit to the average Singaporean is unclear.
13. According to economist, Manu Bhaskaran, and I quote: *"...This could be why even though Singapore's per capita GDP is roughly 11% higher than Hong Kong's, our per capita consumption is about 21% lower than Hong Kong's. If we take per capita consumption as a better indicator of welfare, then simply going for high growth per se does not guarantee that we will achieve the best possible welfare outcome for Singaporeans...."* Unquote.
14. Similarly, if you look at the **wage component of GDP**, you will see that the Singaporean workers' wages account for less than half of Singapore's GDP. In other developed countries, these wages take up more than half of the total GDP. In Singapore, wages account for about 43% of our GDP, compared to 58% in the USA and 57% in Japan, according to a report published by Singstat. This is due to a conscious effort by the government to moderate wage increases to

manage the cost of doing business. Another cause of the low wage level in Singapore is the influx of foreign workers which has had the effect of pushing wages down. I believe the government is addressing these issues through our concerted efforts to boost productivity and innovation in the workplace. However, the Prime Minister's recent statement indicating that with the blow-out economic growth rate we would need another 100,000 foreign workers is a cause for concern – it appears to go against the ESC's recommendation to reduce our dependency on foreign workers, and for good reasons.

15. The other area that the GDP figures tend to mask is **income distribution** – which for most developed, affluent economies remain a key challenge. While we have one of the highest per capita GDP in the world, according to figures from the **CIA World Factbook for 2009**, Singapore ranks as one of the highest in the world in terms of income inequality. The Gini Index is the measurement of income inequality – the higher the Gini coefficient, the worse the level of inequality. Based on 2008 figures, Singapore has a Gini coefficient of 48.10 – which is much higher than other countries in Asia including China, Malaysia and the Philippines. In fact, it would appear that Singapore is closer to many under-developed countries in the Gini Index. This should certainly be a cause for concern for us, but it will be red-flagged only if we pay enough attention, and prompt attention, to this indicator together with the GDP.

16. One evident cost when pursuing an economic growth-centred model is a possible **short-sightedness that could lead to short-cut solutions**. We lose peripheral vision, which is an important public policy imperative. Take the policy of importing foreign workers in large numbers into Singapore – something that we have only recently started pulling the brakes on. Yes, our GDP has risen as a result of this policy – but it has, over the years, systematically depressed wages of lower-skilled workers, and contributed to a surge in rental costs and inflation.
17. Secondly, the economic growth-centred model focused on GDP can come at a social and ecological cost. Given that social and environmental factors such as work-life balance, job satisfaction and happiness have been proved to be essential – especially in developed societies – for economic sustainability, it is necessary to stop seeing social and economic policies as tradeoffs.
18. Take the **Kelly Global Workforce Index**, for example. It measures work-life balance and the use of technology in countries. In 2009 it was stated that only 54% of Singaporeans are satisfied with their work-life balance, compared to 69% in the USA. We were even significantly lower than other Asian countries – India had 64% and Indonesia, 68%.
19. A **Grant Thornton study** in 2007 ranked Singapore 6th globally in terms of stress level of the population.

20. And, in a 2009 survey conducted by **Robert Half Singapore**, a HR consultancy firm, Singapore ranked second lowest worldwide in terms of job satisfaction, with only 53% of respondents being satisfied with their work.
21. From all this, it is clear that the equity versus efficiency debate needs to be adjusted from being a zero-sum issue to one of balance and complementarity. Economic growth and general well being must be seen as equally important societal goals. After all, the end goal of economic policies should be to benefit the citizens and improve their well-being and give happiness. It is difficult, even for the best intentioned policy makers to develop this reflex, if the GDP remains the default indicator.

Global trend towards a more balanced framework

22. Mr Deputy Speaker, Sir, in many ways the recent global economic meltdown has served as a wakeup call for political leaders. It has sparked introspection and close examination of the systemic flaws in the way we manage economic growth, and consequently, the way prosperity is measured.
23. Many eminent economists, for example, have pointed to GDP figures “masking the true health” of the economy in the lead up to and during the recent global economic crisis in the USA. They argue that if policy makers had focused on a broader set of indicators, there is a good chance the adverse

situation would have been prevented, or at least managed better with early detection.

24. Consequently, in the **USA**, a new system of national measurements called the “State of the USA” has emerged, with several hundred new measures and indices pushed to policy makers, and at the same time made available to the public. The idea is for this to evolve into a “national indicators panel”. President Obama’s recently passed Healthcare Bill included a provision requiring Congress to finance and oversee the creation of a “key national indicators system”. These indicators include crime, energy, infrastructure, housing, health, education, the environment, in addition to and interfaced with key economic indicators such as the GDP and consumption index.

25. US Federal Reserve Chairman, **Ben Bernanke**, is another proponent of this line of thought. He has argued passionately for an acknowledgement of the inherent limitations of the GDP as a tool for policy makers, as it focused primarily on what he terms “material determinants of social welfare”. He calls for a “broader measurement of human welfare” which includes what he refers to as the “economics of happiness”. This is a concept that has since gained credibility and traction globally, even though it has been in practice in Bhutan for some years now as what they term the “Gross National Happiness”.

26. Perhaps the most noteworthy and thorough reports on the need for this shift in practice is the “**Report on Economic Performance and Social Progress**”. This was commissioned by French President Nicholas Sarkozy in the aftermath of the global crisis that started in 2007. The Report states that conventional market-based measurements of income, wealth and consumption are insufficient to assess human well-being. It emphasised the need to give greater prominence to factors such as income distribution, personal consumption and individual wealth, while assessing qualitative aspects such as health, education, the environment, employment, material well-being, interpersonal connectedness and political engagement.
27. The “Report on Economic Performance and Social Progress” was tabled at the 2009 G20 Summit in Pittsburg, USA. The leaders endorsed the need to include indicators other than the GDP to have a better measurement of progress.
28. The **Organisation for Economic Cooperation and Development (OECD)**, is also actively challenging the pre-eminent status of the GDP as the “end all” of all indicators. They strongly support the “institutionalisation of a range of indicators”.
29. Similarly, the **Europe 2020 Strategy** will see the European Commission monitor member states based on a set of indicators to track overall progress. The idea is not to lose the plot yet again.

30. In Canada, the “**Canadian Index of Well Being**” measures social connections, in addition to standard of living, health, environmental quality, education and skill levels, participation in the democratic process, vitality of communities, and the state of leisure and culture.

Recommendation for Singapore

31. So, what does all this mean for Singapore, which today is recognised as a developed society, aspiring to become a global city of excellence?
32. The increased level of education and technology usage has made people more informed and exposed, and therefore demanding greater levels of transparency and accountability in seeking a better quality of life. Needs are shifting.
33. The **increasing demand for information** is linked directly to each individual’s life and priorities. When the government announces that the economy is recovering or doing well, people are asking how this is benefitting them directly. It is incumbent on the government to make available broad information to facilitate informed decisions by the people.
34. I would suggest a **3-step approach** for the government to consider, with a view to evolving a new collective reflex in

balancing economic growth with other goals that the people increasingly desire.

35. **First, the government should commit resources to ensure we collect and collate information on what the people want – their priorities.** It is evident that some of these determinants - job satisfaction, happiness, work-life balance, feeling connected, environmental degradation, pollution - are qualitative in nature. In economic parlance, they are non-market externalities. From what I understand, currently there is little available data on these factors, and it would appear they are not sufficiently accounted for in public policy.

36. **Second, the government should develop a framework for broad-based public policy analysis. It should create a mixed bag of social and economic indicators.** This would be in line with the OECD recommendation of “institutionalising a range of indicators”. Apart from the currently used key indicators of GDP, Consumer Price Index (CPI), Industrial Production Index, and Total Exports/Imports, we could consider including other economic indicators that measure median wages, income distribution, productivity, job satisfaction and household consumption. The new framework should also include indicators for quality of life and general well-being – a range of indices that measure income, public services, health, leisure, wealth, mobility, the environment and connectedness.

37. Experts I have spoken to, especially economists and researchers, are in agreement that what we have at present is not sufficiently versatile to anticipate, unearth and red-flag problem areas. This is because problems are complex and multifaceted, and because we don't have enough data on non-market externalities, they don't appear on the radar screens. And even if these problems are identified, solutions tend to be shallow and technical in nature because we rely primarily on economic indicators. To get a clearer, more accurate resolution of the situation and the issues thereof, we need to study the mixed bag of indicators in combination and where possible how they interface. Let's take the current challenge of boosting productivity in the workplace. A key solution is skills training and innovation. But, what if the key underlying problem is low job satisfaction, lack of ownership or empowerment, and poor work-life balance. Currently, these are indicators that are not readily available and therefore likely not to be given sufficient or prompt attention in addressing the productivity challenge.

38. **Thirdly, as in the case of the GDP and non-oil exports – which is reported on monthly - there should be quarterly or at least half-yearly reporting by the government on a handful of new indicators**, some measuring non-market externalities. Ideally these should be aggregated or composite indices to measure:

- a. Productivity and job-satisfaction
- b. Household consumption
- c. Income distribution

- d. Welfare
- e. and Quality of life and general well-being.

Conclusion

- 39. Mr Deputy Speaker, Sir, to conclude, I would like to acknowledge, once again, our admirable economic achievement over the past 45 years because of sound economic policies and good governance. What I am recommending is an improvement of a good system and practice as a necessary step in managing the success we have achieved – where a better educated, sophisticated people’s needs have moved up the value chain. It is about aligning our practices with the aspirations of today’s Singapore resident – citizens and PRs alike. It is about moving in tandem with the best practices in other developed economies facing similar challenges – best practices that have evolved through learning from lessons in recent history.
- 40. I urge the government to view my observations with an open mind – to see it not as a criticism of current practice but as a considered appeal for a review that will help provide greater clarity in policy formulation, resulting in policies and programmes that are likely to resonate better with the ground.
- 41. Yes, the increased level of transparency and public disclosure is likely to result in more questions asked about the

government's policies and the considerations behind them. This inconvenience must be seen as an **investment in building trust** between the government and the people, and evolving a more engaged society. This is necessary to help us move forward together even better – our priorities and goals synchronised.

42. Thank you.
