

# Singapore Issues

Singapore needs new ideas. Growing the economy through growing the population is the easy way out while ignoring the glaring space constraints. In addition, GDP growth alone does not distinguish between the share that goes to households and the share that goes to firms. Moreover, per capita income and consumption are neglected. These are more important metrics to the people of Singapore.

Singapore is already overcrowded. The best measure of overcrowding is a quick show of hands and the result of that is not in any doubt.

Overcrowding is in part responsible for the accelerating and high cost of living. Competition for space and resources is causing high inflation. The open capital account is also allowing a massive influx of capital which has so far disproportionately benefited the banking sector and the luxury sectors. Adding to this, the trade dependent nature of the Singapore economy makes it a very cyclical and volatile one. But with a strong dependence on its financial sector, even limited capital controls, the only solution to imported inflation, is not an option. Much of the inflationary effects suffered by the emerging markets are the product of irresponsible central bank policies in the large developed market net debtor nations as they try to inflate their debts away. Short of some form of capital controls, the inflation will manifest where economic growth is still strong instead of where it is weak. Yet capital controls are like chemotherapy. They may well cripple if not kill the patient.

A managed currency and a captive underwriter of Singapore

sovereign bonds has kept interest rates low. This has impoverished creditors while presenting a picture of stability. That the largest creditor of the government is the CPF, ostensibly a defined contribution pension scheme, and thus ultimately the people of Singapore, does not make the government any more popular. Particularly when details of the financial strength of the government is shrouded away from the scrutiny of said creditors. Foreign creditors are only content to buy Singapore bonds because of the existence of a backstop buyer, the CPF. The government's reason for maintaining secrecy over its assets is that transparency may render it vulnerable to speculative attack, surely a spurious argument since a strong balance sheet neither attracts nor is vulnerable to speculative attack.

It seems that the necessary path for Singapore is to figure out what the world needs, that it can supply, which is not politically sensitive or risky from a regulatory standpoint, and to supply it. Local demand is simply insufficient. The origination of this intellectual property is hopefully, local, and if there are imports they should be required to transfer their intellectual property, for a price of course. Basically, the assets per person in Singapore need to be increased together with improving or maintaining a level of return on assets. Only then can wages be justifiably maintained and grown.

There is also a trade off that Singaporeans seeking a lower population density will have to face. Someone has to do the lower value added jobs. As a central planner, the balance is between improving the lot of the citizens by importing lower value added workers, and overcrowding. The issue facing Singaporean's is the reality that not everyone can rise to the top and that absent the import of labour, Singaporean's will need to fill all levels of jobs from CEO to domestic worker. The natural preference of the Singaporean is that imports fall below their level of wealth and income in the pecking order.

Government policy is more balanced and includes encouraging the import of entrepreneurs and the wealthy in order to create jobs and generate growth. A frank discussion needs to occur between the people and their representatives. Is it feasible to have the job creation and enterprise mostly or entirely home grown and only import the hired help? Yet every stratum of society has its own fulcrum.

Macro prudential policy, in other words micromanagement and meddling can help to address some of these issues, yet this may only create more red tape and complexity, adding to the inventory of such complexity that already chokes so much of the Singapore economy.

One can imagine policies to encourage long term investment and discourage short termism, or policies to encourage reinvestment in Singapore instead of repatriation of profits to foreign lands or liquid options which stand ready to flee in case of trouble, or policies that encourage a transfer of skills to locals.

In its formative years, Singapore had no choice but to allow foreign concerns in to take advantage of the local pool of cheap labour. In its maturity Singapore needs to balance its policies towards local households.

One only hopes that the ruling party, the PAP, has the stamina and the intention to carry on for the long term. If one analyses the PAP as a private equity general partner, it is well into Fund 5 and is ripe to be seeking exits. It needs new blood with ideas which may run counter to its original DNA.

The people have already fired across the PAP's bow. Yet opposition is ill equipped to run the country. It has not paid to be in opposition and thus natural selection has made it difficult for them to find and keep talent.

Singapore needs new ideas desperately. It has a finite land mass which it has overpopulated for lack of alternatives and

lack of vision.