

ECONOMIC GROWTH

Just a numbers game? Quality counts too



RECENT observations by economists suggest a need to reconsider some aspects of Singapore's economic growth experience.

In an article in this newspaper last Saturday on the inflow of foreign workers, National University of Singapore professor Hui Weng Tat was quoted saying: "Growth at any cost is not something we want."

In a chapter in a forthcoming publication of the Institute of Southeast Asian Studies, Professors Lee Soo Ann and Linda Lim observe: "The fact that government officials are rewarded economically, through salaries and bonuses...for delivering GDP growth, may also lead to 'growth

fetishism'... and thus to preference for the easiest route to growth, which is through the addition of inputs of foreign capital, labour and skills."

These comments raise a number of related issues. Differing somewhat from professors Lee and Lim, I am of the view that, in general, inflows of foreign capital and skills provide valuable growth momentum. However, large inflows of lower-skilled foreign workers are a different matter.

Such inflows create a vicious circle. The availability of low-skilled workers reduces the incentive for employers to upgrade their operations through mechanisation, automation and the like. The resulting low productivity levels imply that they can offer only low wages, which in turn acts as a disincentive to Singaporeans to take up such jobs, and which in turn leads employers to continue demanding for foreign workers.

Of course, the foreign worker "tap" should not be abruptly curtailed. But a gradual and sustained tightening of the inflow is likely to be highly beneficial over

time. There would also appear, as professors Lee and Lim suggest, to be a need to reconsider the GDP bonus scheme for civil servants, which factors in only the real total GDP growth rate each year.

Economic growth should, one, be significantly based on productivity improvement or at least not interfere with such improvement; and two, be inclusive, benefiting all sections of society, especially the less privileged.

I am therefore of the view that consideration should be given to replacing sole reliance on GDP growth in the bonus scheme with a composite criterion, comprising:

- GDP growth
- A fairly broad-based measure of productivity growth, such as the growth of per capita indigenous GDP (GDP accruing to Singaporeans divided by the total number of Singaporeans); and
- A welfare measure, such as the growth rate of the average household disposable income of the lowest 20 per cent of Singaporean households.

No set of criteria for the bonus scheme

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can be perfect. Just as the current scheme leaves out other desiderata of economic policy – such as low unemployment and inflation rates – so does the proposed composite criterion.

However, a composite criterion along the lines I have proposed will have the effect of, at least symbolically, reinforcing the desirability of productivity growth and inclusiveness as public policy goals.

Two other issues: First, I have referred in the third measure above to "disposable income", which would be inclusive of fis-

cal transfers. Is there a danger that an "easy" route to achieving higher disposable income among the poor might be sought – through overly generous transfers, rather than through training and skills upgrading, thus breeding an entitlement mentality?

Clearly, the application of any criterion will have to be tempered by good judgment. Though, in this case, a little "erring" on the side of generosity may not be a bad thing for the least-privileged among us, especially if it helps to produce a more comfortable home environment for children in these households.

Second, what weights should be attached to the three criteria in the composite scheme? Since we are considering simply a bonus scheme and the signal we wish it to send to public servants, the exact choice of weights is not critical.

Tentatively, may I suggest equal weights to all three criteria, based on the following considerations: the intrinsic worth of each criterion; and since GDP growth is also facilitated by productivity growth, on the part of both higher- and less-skilled Singaporeans, the three criteria can, to a certain degree, be mutually supporting.

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