# SOCIAL SECURITY SYSTEMS IN ASEAN

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# PREFACE

In November 1985, the Economic Society of Singapore hosted the Tenth Annual Conference of the Federation of ASEAN Economic Associations (FAEA). It was felt that the conference topic should be thematic and not take the macroform which had been the norm of several previous conferences. The decision to focus on social security was based on a number of considerations. First, as industrialization and urbanization proceed apace in ASEAN, there will be an increasing need to tackle issues relating to both short- and long-term income maintenance. Thus, an examination of existing social security arrangements to determine their nature, adequacy, financing, and economic effects would be a useful starting point. Second, this was hitherto an unexplored area for ASEAN although snippets on social security arrangements in some individual ASEAN countries can be found, for example, in ILO documents. For the region as a whole therefore, such information has been unavailable in a convenient form. Third, while a voluminous literature exists on social security, it is almost entirely concerned with developed countries. A volume addressed to ASEAN, the first of its kind, would thus help to close this gap. It is hoped that this effort will serve as a springboard for further research.

In keeping with the tradition of FAEA conferences, the first paper focuses on current developments in the region and short-term prospects. The next two papers provide background information. The second paper attempts to place the discussion of social security on an academic footing by addressing itself to both theoretical issues and country experiences, which for the most part pertain to the developed countries. The third paper complements the second by highlighting the implications of social security schemes as administered in the developed countries. It proposes a provident fund cum pension scheme as an attempt to mitigate some problems associated with the pension approach.

The next five papers are country papers. We had hoped to have participation from Brunei, ASEAN's newest member, but this did not materialize. It was suggested that the editor write an overview to provide some comparative analysis. Upon reflection I have decided to let the country papers speak for themselves. I have only this to add: each country's experience with social security is fairly varied although, of course, there are a number of common denominators, in terms, for example, of origin, extension of coverage, problems encountered and so on. These are affected by the socio-political and institutional setting of each country. Any direct comparison is perhaps possible only between Malaysia and Singapore, since both share much the same system due to a common historical heritage. Their systems are generally more comprehensive compared with the rest.

Each paper was assigned a discussant; thus comments accompany each paper. These helped to provide focus for the general discussion which followed. This was both spirited and insightful and provided many relevant and useful points. Space constraints, however, prevent the inclusion of the general discussion in this volume.

**Amina Tyabji**
*Guest Editor*

# Welcoming Address

**Professor Lim Chong Yah**
**President, Federation of ASEAN Economic Associations**
**and**
**President, Economic Society of Singapore**

Welcome to the Tenth Annual Conference of the Federation of ASEAN Economic Associations. To the overseas participants, welcome to Singapore. I hope you will find the deliberations useful and your stay memorable and enjoyable.

Some five years have passed since the FAEA last met here in Singapore. At each FAEA conference, a special topic of interest and importance to the ASEAN region is chosen for deliberation. For this Tenth Conference, as you know, the topic is ASEAN Social Security Systems — provision not only for the aged in the ASEAN region, but also for the sick, the unemployed, and the unemployable. The debate no doubt will centre, *inter alia*, on the nature and extent of state social security provision deemed necessary in the context of the special circumstances of each of the ASEAN countries.

As the Honourable Minister for Finance and Minister for Health, Dr Richard Hu, will soon deliver his key-note address on the subject of this conference, and as two and a half days have been set aside for deliberation based on eight papers written specially for the occasion, I may be forgiven if I were not to dwell any more on the subject of social security.

Five years ago, when we last met in Singapore, Singapore's economy was still booming. Today, it is in recession. For the first time since Independence in 1965, Singapore is going to have a small negative growth rate for this year. My own diagnosis of the cause of the current recession is sluggish international and regional demand coinciding with a serious decline in the growth rate of the domestic construction industry.

For the last five years or so the construction industry in Singapore — including the building of hotels, shopping complexes, offices, public and private residential units, as well as economic infrastructure by the public sector — has surged forth at an unprecedented rate culminating in the present over-supply situation. When this over-supply in the construction industry brings in its train falling rentals, falling hotel tariffs, and serious capital losses, even the banking sector and the stock exchange are affected. The multiplier effect on the whole economy, combined with sluggish international and regional demand has led to the current recession. Indeed, had it not been for the unprecedented growth of the construction industry culminating in a growth rate of nearly 44 per cent in 1982, the Singapore economy with a domestic export down-swing showing a growth rate of −1.0 per cent in that year, would have gone into recession then in 1982, instead of today in 1985.

However, on the brighter side, the productive capacity of the Singapore economy remains intact. The buildings of one form or another and the economic infrastructure are here to stay. The human capital that has been so assiduously built over the years, remains intact, too. When demand picks up, the economy will undoubtedly boom again.

Indeed, in 1959, when Singapore achieved self-government and when the old guard in the PAP first assumed office, the economy witnessed a negative growth rate of minus 3.4 per cent. However, the recession today is remarkably different from the recession in 1959. Then, there were the ugly spectres of serious mounting unemployment and terrifying urban slums with hardly any tourist industry or any signficant financial or manufacturing sector to speak of. Today, notwithstanding the present recession, there is still full employment. The present basically sound economic health is also reflected by a balance of payments surplus, a low rate of inflation, an insignificant foreign debt burden, a strong Singapore dollar, an enviable accumulation of foreign exchange reserves, and a very impressive saving to GNP ratio. The national productive capacity has expanded in real terms by eight times compared with 1959. In terms of real per capita income, the present recession plateau is nearly six times higher than the corresponding recession plateau at the time of self-government. Although the national economy each year has become more diversified, more sophisticated and more productive, especially since independence, it nevertheless has become much more vulnerable to the vicissitudes of the global economy.

The current recession will continue, so long as the excess capacity remains, so long as demand does not pick up. If prices and costs are more flexible, the excess capacity will be reduced. Meanwhile, notwithstanding the presence of the serious foreign leakage, domestic demand management should not be totally overlooked. Pump priming, which is in fact a facet of demand management and has been resorted to by the government, among many other anti-recessionary measures that have been announced thus far, is certainly helpful to speedier economic recovery. The long-term solution, as the Singapore Government spokesmen often have also correctly emphasized, must be in increasing productivity and in enhancing international competitiveness.

Lest I get carried away, I should remind myself that it is not my intention in a welcoming speech to deal at length with the Singapore economy. I merely thought that the seemingly unusual phenomenon of having a recession in Singapore after two decades of high growth rates is worth an explanation, however brief, at least for the benefit of our colleagues and friends from the other ASEAN countries.

Lastly, I would like to take this opportunity to thank the conference organizing committee and its sub-committees for their generous input of time and effort in organizing this event.

I would also like to place on record, on behalf of the Economic Society of Singapore, our thanks and gratitude to our various conference sponsors. Without the voluntary effort from the organizers and financial support from the sponsors, it would not have been possible for the Economic Society of Singapore to host this conference.

Finally, it gives me great pleasure and a rare honour indeed to be able to call on the Honourable Minister for Finance and Minister for Health, Dr Richard Hu, to deliver the key-note address and to declare the conference open.

# Keynote Address

**Dr Richard Hu Tsu Tau**
**Minister for Finance and Minister for Health, Singapore**

I am very pleased to welcome all of you to Singapore for the Tenth Annual Conference of the Federation of ASEAN Economic Associations. The FAEA meetings are a good example of ASEAN co-operation and the benefits we can obtain by sharing our expertise and experience.

A cynic once remarked that if all the economists in the world were laid end-to-end they would never reach a conclusion. Whether you would reach conclusions in this conference is premature to predict, although for certain, a wide variety of topical issues will be discussed and all will benefit from the deliberations.

The theme you have chosen for this conference — the Social Security Systems of the ASEAN Countries — is of vital interest and importance to all the citizens in this region. I would like to make a few remarks about social security systems in general, and then review our experience and approach in Singapore to illustrate a few points.

As you would be well aware, the art of designing a social security system involves balancing the trade-offs between a host of social and economic goals. But I would like to suggest two principles to be absolutely fundamental to all other considerations.

Firstly, financial resilience. A social security system must be able to meet future financial claims against it, and be able to weather unexpected periods of high inflation or high unemployment.

Secondly, the system should serve to complement the key social and economic priorities that are held to in each society. In market economies such as ours, it should promote social cohesion without at the same time dampening private initiative and enterprise. It should not, for example, erode the traditional support system of the family, or reduce work incentives. And as an instrument of macro-economic policy, it should serve to promote non-inflationary growth.

With these broad principles in mind, let me now turn to some specific issues. Perhaps the greatest controversy revolves around the problem of adequacy. Should the state aim for the "cradle-to-grave" security blankets of some of the Western economies? For one thing, developing countries often cannot afford such systems because of their enormous direct costs. The more important question, however, concerns the basic economic philosophy that should dictate policy-making. Many of us believe that it is ultimately growth, not redistribution, that can provide for a sustained increase in standards of living all round. And that the most efficient way to achieve growth is to support private initiative and the functioning of private markets. In practice, far from implying a pure *laissez-faire* system (where there would be no need for state social security in the first place), this often requires governments to provide incentives that actively foster a growth ethic and promote dynamic adjustment to competitive realities. I have little reservation in saying that in the long run, a state social security system can only be run successfully in a framework that encourages self-reliance and induces workers and firms to adjust rapidly to market realities. The sluggish economic performance of the European welfare states, and the growing trend there and elsewhere towards a greater emphasis on market decision-making are quite instructive in this respect.

The financing of the system is another major issue. The major choices are the pay-as-you-go system and the fully-funded system. As you know, in the fully-funded system, the benefits that an individual receives are directly related to the contributions he has made, while in the pay-as-you-go system this nexus is broken: payments to retired individuals may be made out of contributions from those still employed.

Without wishing to prejudge the issue, let me mention a few advantages of fully-funded systems for developing economies. In pay-as-you-go systems, since expenditures must be balanced by current receipts, no net savings are generated and therefore no additional funds made available for investment. In fact, as the experience of some of the more developed countries shows, social security expenditures may even lead to a reduction in savings available for investment, by draining general tax revenues and increasing the need for government borrowings. Fully-funded systems, on the other hand, do generate additional savings and can serve as an important source of capital formation. Since benefits are tied to contributions, these systems also have the added advantage of increasing the work-incentive. Finally, fully-funded systems would be more resilient than pay-as-you-go schemes in the increasingly uncertain external environment we all face. During economic downturns, falling contributions would under the latter schemes lead to either reduced benefits, higher taxes or growing budget deficits.

Let me now review some aspects of the social security system in Singapore. The central institution in our system is the Central Provident Fund, which is a compulsory savings scheme. It is fully-funded and members receive benefits from the CPF in direct proportion to what they contribute. Further, the CPF has enlarged its domain beyond that of post-retirement security to include other aspects of social policy such as housing and health. Through its various home ownership schemes, in which over half a million CPF contributors have participated to date, the CPF indirectly helps working citizens to obtain a concrete stake in the country. By allowing contributors to withdraw from their accounts to meet the hospitalization expenses of their immediate family members, the CPF indirectly also serves to promote the practice of intra-family self-help. A number of other proposals have been made for additional uses of members' CPF balances. Some have already been announced and others are currently under consideration.

Another feature of our system worth mentioning is that almost all the CPF funds are invested in government securities. It should be emphasized, however, that the CPF balances borrowed by the government are not entirely used to finance government expenditure. The public sector has generally enjoyed healthy surpluses on its current account, which have provided a source of finance for public sector development projects. A significant proportion of the funds borrowed from the CPF has thus been invested overseas. Whether placed overseas or in productive domestic investments, however, the key condition has been to ensure that the risks are sufficiently diversified and that the government can, at the very least, repay its CPF liabilities in full. We are nevertheless looking into ways to further liberalize the flow of CPF funds that would place greater responsibility on the individual and enhance the role of private financal intermediaries.

Before concluding, let me mention a rather longer-term aspect of savings in Singapore. One of the reasons why we have had a much higher rate of national savings in Singapore than in the advanced countries has been that we have had a relatively favourable demographic structure; a high proportion of our citizens have been within the active, income-earning age-group. By the year 2020, however, we would be considered to be what the U.N. defines as a "mature aging society" in its population statistics—that is, where one out of every seven people is aged over 65. By comparison, most of the West European countries became mature aging societies by the late 1970s, while Japan is expected to reach this state by the turn of the century.

If we were operating a pay-as-you-go social security system, like most of the advanced countries, the dependency burden would thus increase substantially and the strain on it would become very heavy. Fortunately, our fully-funded CPF system would not be affected by such problems of solvency. For countries which do not operate a fully-funded social security system, the economic implications of an aging population will have to be faced sooner or later.

I gather that the Japanese are trying to maintain their high savings rate as their population grows older, in order to ensure a soft-landing into the era of a fully-fledged aged society. They will be relying increasingly on technological innovation to offset the negative effects on economic growth of the levelling off in the growth of the productive population. The Japanese are perhaps better positioned than most to deal with the economic strains of an aging society, because their aged people have so far shown a much stronger propensity to work. The labour force participation rate of Japanese males over 65 is a strikingly high 38 per cent, compared with an otherwise respectable 28 per cent in Singapore, and well above the 18 per cent recorded in the U.S., and 7–9 per cent in the West European countries. This is a much larger social issue, of course, and not one for which answers can be easily prescribed.

To conclude, I can only emphasize that there is room for improvement in any policy scheme, especially in the light of changing circumstances. I have no doubt that the present conference, in which all our country experiences are to be critically analysed and compared, will prove illuminating for all of us. May I wish you every success in your deliberations. May I also take this opportunity to wish you a very pleasant stay in Singapore. It now gives me great pleasure to declare the conference open.