

Beyond neoliberalism: A road map for Singapore

By Woo Jun Jie, For The Straits Times

IN HIS recent writings, former British Minister of Science and Innovation David Sainsbury warned against the continued adherence to neoliberal models of economic development. Such models are based on the logic that economic growth is the basis for everything and the market the dominant organising mechanism for achieving growth. He called for it to be replaced by a new "progressive political economy".

Although it remains within the paradigm of capitalism, this new progressive political economy calls for a greater role of state institutions in guiding markets. It is also strongly focused on social justice or fairness as a measure of economic performance. Indeed, the global financial crisis of 2008 has led economists and policymakers to question the fundamental principles which underlie neoliberal capitalism.

In particular, the crisis laid bare the deficiencies of the unfettered free markets which form the centrepiece of neoliberal capitalism. Despite this, states and firms remain ensconced within the neoliberal paradigm of political and economic governance. As a consequence, financial markets remain mired in excess, while income inequality remains high in the world's leading financial centres.

Nonetheless, the global financial crisis has exposed three inherent weaknesses of free markets which need to be addressed.

First, free markets are not perfect. They are fraught with information asymmetries that hinder the effective governance and regulation of markets. There has been an increasing awareness since the financial crisis that markets are much more complex and much less rational than conventional wisdom had assumed.

Second, markets are not fair. Many developed economies and financial centres are experiencing high levels of income inequality. With a Gini coefficient of 0.412 in 2013, Singapore is not exempt from these trends either. In such economies, the size and importance of the financial sector relative to the overall economy is also becoming larger.

Third, free markets are not really "free". Rather, there are important social and environmental costs that emanate from the daily functioning of markets which are not priced into the system. Economists call these costs "externalities". One obvious externality is the systemic instability and economic hardships faced by households during financial crises.

In fact, even the haze can be seen as a negative externality of neoliberal capitalism, given that much of the forest fires arise from illegal land clearing practices by companies operating in Indonesia.

These three weaknesses are not new. Economists, policymakers and analysts have been discussing these issues for the past few years. Yet, efforts to ameliorate these weaknesses are often found wanting.

As an open economy and a small city-state, Singapore is highly vulnerable to the vagaries of systemic instability and negative externalities arising from neoliberal capitalism. Little can be done about Singapore's geographic realities. Neither should its well-regarded position in the global economy be taken lightly.

Although it is now grappling with rising income inequality and financial market instability, the reality is that Singapore's position as a leading financial centre has allowed it to maintain economic growth and development.

Nonetheless, there is much that Singapore can do to shield its citizens from the negative impact of neoliberal capitalism while at the same time ensure that its economy is both just and competitive. In fact, one does not have to look far to find solutions. The recently unveiled 2014 Budget and its various measures show that Singapore is aware of the excesses of neoliberal capitalism and is working towards reducing its negative impact.

The Budget's focus on the elderly, vulnerable and less privileged in particular promises to deal with income inequality. A key theme of the Budget is "a fair and equitable society". Given that free markets do not care if economic gains accrue to

the aged, vulnerable and less privileged or not, there remains a need for the Government to perform a redistributive function.

In other words, the Government plays a crucial role in ensuring that Singapore remains a fair and just society, and that the vulnerable and less privileged are cared for.

Furthermore, the Budget includes measures aimed at increasing worker productivity as well as providing support for small and medium-sized enterprises. These measures will also help reduce income inequality by ensuring that workers attain higher skill levels and, therefore, higher income levels.

More broadly, these measures are geared towards transforming Singapore's economy. Given the availability of cheap rents and labour in other emerging economies, Singapore needs to move up the value chain and develop comparative advantages in higher value-added industries and services.

Left to its own devices, the free market mechanism will result in a lengthy and painful process of "creative destruction". This requires the collapse of old industries and the emergence of new ones.

Singapore has thus far been able to manage this process by identifying newly emerging industries and retraining its workers for inevitable shifts in the structure of its economy. This adaptive approach to industrial policy has allowed Singapore to transform its economy time and time again, whether in its shift from manufacturing to services or the development of its financial centre, while at the same time avoiding painful economic overhauls.

There is much that the Government needs to do in order to ensure that Singapore remains both a competitive economy and a just society. An important first step is to recognise the inherent flaws and contradictions of neoliberal capitalism. Yet it is also important to recognise that capitalism remains important and relevant, particularly when it comes to property rights and meritocracy.

Rather than throwing the baby out with the bathwater, there is a need to develop an augmented form of capitalism that features strong state involvement in ensuring social equity and the protection of its citizens. While greater state involvement may not appeal to all, we should always remember that governments are still accountable to their citizens. The same cannot be said for markets.

According to the political philosopher John Rawls, every society needs to choose a socio-political model that provides the maximum benefit to the least advantaged. This is known as the "difference principle". In this respect, Singapore can make a difference by developing a model of economic development and governance that addresses the weaknesses of neoliberal capitalism but maintains economic competitiveness amidst an overarching focus on social justice.

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