

# Social Welfare Spending in Singapore: What do we know, and what should we know?

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# Welfare in Singapore: The stingy nanny – The Economist, Feb 13<sup>th</sup> 2010

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*FOND of having the last word, Singapore's government can nevertheless be flexible. Who would have thought it would be building casinos? But one policy that shows no sign of reversing is Singapore's antipathy towards public welfare. The state's attitude can be simply put: being poor here is your own fault. Citizens are obliged to save for the future, rely on their families and not expect any handouts from the government unless they hit rock bottom. The emphasis on family extends into old age: retired parents can sue children who fail to support them. In government circles "welfare" remains a dirty word, cousin to sloth and waste. Singapore may be a nanny state, but it is by no means an indulgent nanny.*

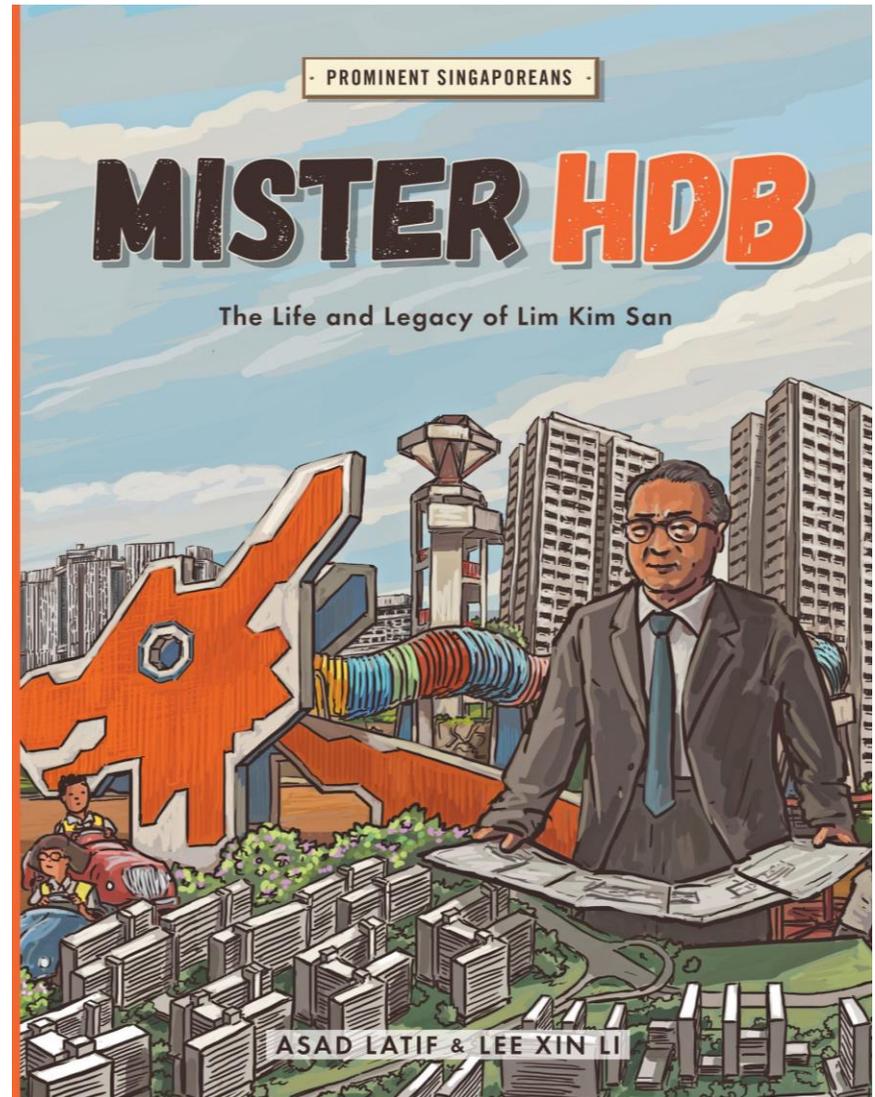


# What do we know about Singapore's approach to welfare?

- Is Singapore really a 'stingy nanny' state?
- Is it reasonable to suggest that *"In government circles "welfare" remains a dirty word, cousin to sloth and waste."*?
- What are the facts and context behind Singapore's spending on social welfare programmes?
- What do we know about how effective such social welfare spending has been?
- What do we need to know to improve social welfare policy and to address remaining gaps going forward?

# Singapore's Budget Problem

*“...basically our problem stems from our large and increasing population living in a small island with no natural resources. The entrepot trade on which we thrived and prospered in the past is not expanding fast enough to provide the jobs for the increasing population, nor is it capable of generating sufficient revenue to maintain the level of education, housing, medical and welfare services that a modern civilised society expects.” - Mr Lim Kim San, Finance Minister, 13<sup>th</sup> December 1965. First Budget of the Republic of Singapore*



# Central Themes of Post-Independence Budget Policy in Singapore

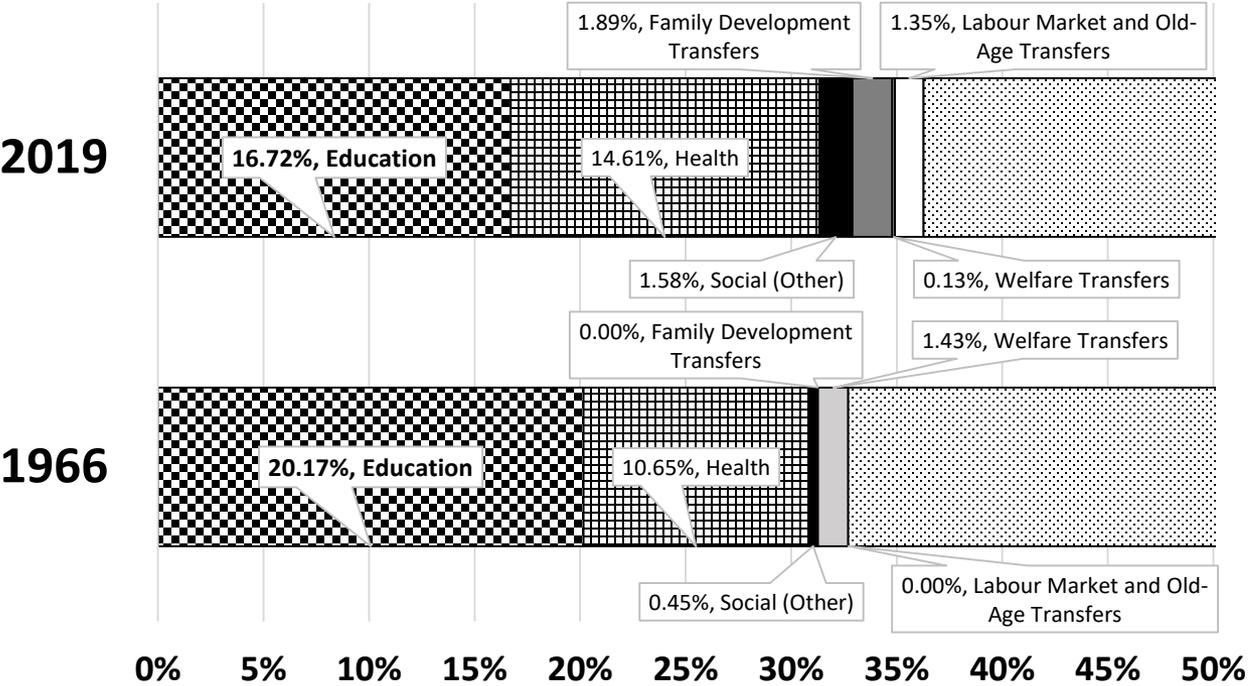
- Population and the economy as a resource and constraint.
  - *“The entrepot trade... is not expanding fast enough to provide the jobs for the increasing population”*
- The Government plays a key role in social welfare provision.
  - *“...sufficient revenue to maintain the level of education, housing, medical and welfare services that a modern civilised society expects.”*
- Contrary to popular opinion, Singapore has accepted, from independence, that Government has a responsibility to provide social welfare.
- Social welfare, however, is not viewed as a goal that should be pursued independently of the constraints placed by the market and economic reality – hence the development of what some call a “Productivist” model of social welfare spending, where social welfare is promoted through the investments in society and the economy necessary to promote economic growth.

# What is social welfare spending?

- Government spending on infrastructure and services with the primary aim of addressing social needs and improving social welfare. Standard definitions include:
  - Public health programs and subsidies
  - Pensions, retirement, disability payments, and other elderly-targeted support
  - Cash and in-kind transfers to low- or zero-income families and individuals
  - Employment-related insurance and transfer programmes, including income support and unemployment benefits.
- Welfare spending measures generally exclude developmental and economic investments:
  - National development infrastructure and subsidies (e.g. MRT lines and roads)
  - Industrial development infrastructure and subsidies
  - Public Institutions (e.g. Courts, Regulatory Authorities), Public Security and National Defence
- The “Productivist” view would see public expenditures on national development as ultimately addressing social needs. Nonetheless, for ease of comparison, we will concentrate on the standard measures above.

Social Welfare Expenditure as a share of Singapore’s Government Budget, 1966 and 2019. Table reports share of GDP.

Source: Figure 4.1.1, Theseira 2021 (forthcoming)



	1966	2019
Education	4.71%	2.64%
Health	2.49%	2.31%
Social (Other)	0.11%	0.25%
Family Development Transfers	0.00%	0.30%
Welfare Transfers	0.33%	0.02%
Labour Market and Old-Age Transfers	0.00%	0.21%
Remainder of Govt Budget	15.70%	10.08%

# Social Welfare Spending in Singapore, 1966 and 2019

- Education and Health remain top social welfare spending areas in 1966 and 2019, with relative importance of education falling due to changing demographics.
  - 43.7% of population aged 14 and below in 1966, compared to 14.7% in 2019.
  - 2.7% of population aged 65 and above in 1966, compared to 14.4% in 2019.
- Intensity of education spending has risen sharply, while intensity of Government healthcare spending has remained in check due to high share of private expenditure (including Medisave).
- Emphasis of social welfare transfers has changed. Direct welfare transfers for public assistance was 1.43% of budget in 1966, and only 0.13% in 2019.
- Yet, programmes to support family development and to support low-wage workers and retirees now each occupy similar share of Budget spending, as public assistance alone did in 1966.
  - Family development: Baby Bonus and related schemes
  - Labour Market and Old-Age Transfers: Workfare Income Supplement and Silver Support.

# Current Social Welfare Expenditures as % of GDP and Selected Outcomes in International Perspective

Source: Table 4.1.1., Theseira 2021 and Table 4.4., Lindert 2021.

Country	Health	Old-Age Benefits	Labour Market	Welfare / Family	Housing	Public Educ.	Life Exp. at Birth	Human Capital Index
Singapore	2.31%	0.21%		0.57%	0.44%	2.64%	83.1	0.887
<b>Highly Developed Economies</b>								
UK	7.40%	6.50%	0.80%	3.90%	1.40%	5.60%	80.4	0.765
France	8.40%	13.60%	2.70%	2.90%	0.80%	5.90%	81.7	0.757
Germany	8.00%	10.60%	2.40%	2.20%	0.70%	5.10%	80.0	0.761
Sweden	6.30%	9.50%	1.70%	3.40%	0.40%	7.30%	81.5	0.762
Russia	3.70%	8.70%	0.40%	0.50%	0.10%	4.10%	68.8	0.601
USA	8.00%	6.70%	1.20%	0.70%	0.40%	5.40%	78.5	0.692
<b>Emerging Market Economies</b>								
Brazil	5.30%	11.90%	0.80%	0.40%	0.00%	5.60%	73.6	0.533
Turkey	4.20%	7.80%	0.10%	0.30%	0.00%	2.90%	74.5	0.627
<b>Asia Pacific Economies</b>								
Japan	7.30%	11.60%	0.60%	1.30%	0.10%	3.80%	82.8	0.816
India	0.05%	0.20%	0.70%	0.10%	0.00%	3.30%	66.7	0.440
Indonesia	0.10%	0.10%	0.04%	0.40%	0.00%	3.00%	69.2	0.496
Thailand	1.00%	1.70%	0.10%	0.20%	0.00%	3.80%	74.2	0.585

# Singapore's Social Welfare Spending: The International Context and Outcomes

- Challenging to make direct comparisons between countries and to find common measures of 'social welfare outcomes', so treat evidence with caution.
- Singapore spends less – as a share of GDP – in most social welfare areas compared to the HDEs.
  - 2.31% of GDP on Health, compared to 7%-8% in HDEs
  - 2.64% of GDP on Public Education, compared to 5%+ in HDEs
- Compared to most HDEs, Singapore spends a negligible amount on old-age benefits. This is partially due to structural reasons, since the CPF system – rather than Government transfers – forms the main basis for old-age security.
- Despite relatively low levels of social welfare spending, Singapore does well on measures of social welfare outcomes such as life expectancy and human capital development.
  - Outcome measures of life expectancy and human capital development chosen because cross-country data available.
  - Human Capital Index, developed by World Bank, measures extent to which a child can expect to attain education and health capital as they grow up.
- The broader point is that policy outcomes matter and a simple cross-country comparison of spending shares will tend to be misleading.

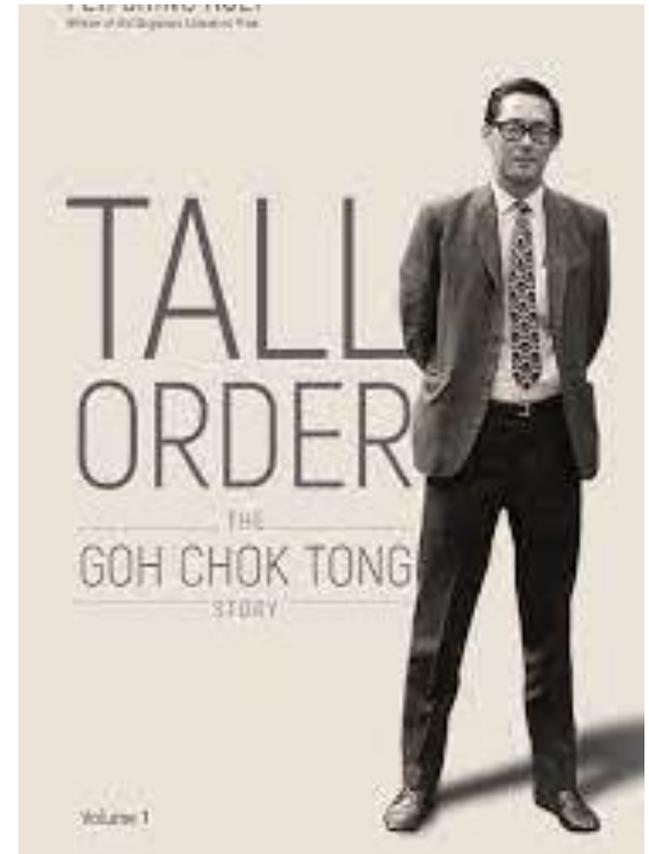
# How do we measure the effectiveness of Social Welfare Spending?

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*“Many developed countries, for example, Britain, West Germany, France, Italy, Australia and Japan, have implemented different variations of a liberal “cradle to grave” health care service. We have studied the efficacy of these welfare models 30, 40 years after their birth. We have seen their quick degeneration from their first youthful blush to their present pallid state as the cash runs out, and the services run down, unable to meet ballooning demand...*

*Europe faces a health crisis because the welfare model of free medicine has not worked. Free medicine does not reward those who make an effort to stay healthy. There is really no such thing as free health care - whether in Britain, West Germany or USA.*

*Every person who works pays for the country's health care system. If he gets it free at the point of utilization, it is because he has paid in advance for it, either in the form of taxes, compulsory national health insurance, or voluntary health insurance.” – Mr. Goh Chok Tong, Second Minister for Health, 30<sup>th</sup> August 1983.*



# Social Welfare Evaluation: Distribution, Efficiency, and Outcomes

- While reasonable people might disagree with Mr. Goh on his claim that “*welfare model of free medicine has not worked*”, he correctly identifies that the overall healthcare system costs, and the health outcomes delivered for those costs, are the key issues.
- In economic terms, the key questions in evaluating social welfare policy including not just the distributional consequences of those policies, but also their impact on overall economic efficiency and policy outcomes.
- As today’s discussion will show, however, there are substantial knowledge gaps in our understanding of these key issues – distribution, efficiency, and outcomes – in many areas of social welfare spending in Singapore.
  - While there are many areas of social welfare spending that can be considered, this presentation is only able to give a brief overview of family development and social assistance spending.

# Family Development

- Early social welfare spending on family development concentrated on restricting fertility rather than enhancing it – due to the policy belief that Singapore’s economic challenges post-independence stemmed from having too many, rather than too few, births.
- Since the late 1980s, family development policy shifted to a “pronatalist” stance (Wong and Yeoh 2003), with funding increasingly devoted to promoting fertility, and supporting Singaporean families with the costs of child development.

# Family Development Spending Today

- Government spending on family development policy comprised 72% of MSF's budget in 2019, or \$2.08 Billion.
  - Transfers and subsidies to individuals comprised \$1.51 Billion or 0.30% of GDP, with a further \$0.47 Billion in transfer to institutions.
- Benefits to individuals/families (often called the “Baby Bonus” scheme) include:
  - Cash gift of \$8,000 to \$10,000 per child
  - Child Development Account grant and matching gift of up to \$6,000 per child
  - Childcare subsidies of up to \$1,310 per month.
  - Qualifying Child Relief, Working Mother's Child Relief, and Parenthood Tax Rebate
  - Pro-Family Leave Schemes with Government-paid Maternity and Paternity leave

# Distributional Consequences of Family Development Policy

- Family development transfers are generally structured to benefit higher income parents more, because a significant part of the transfers are structured as tax relief, tax rebates, and Government-paid leave.
- For example, a high-income working mother who claims the maximum per-child tax relief of \$50,000, and who is taxed at the highest rate of 22%, enjoys up to \$11,000 of tax savings for that child per year, whereas a median-income working mother enjoys tax savings only worth up to \$787.50 for that child per year.
- Despite the potential for Child Development Accounts to allow lower-income households to start building lifelong assets for their children (Loke & Sherradeen 2009), only one-third of a sample of Family Service Centre clients reported they had saved in a CDA (Han and Chia 2012).

# Does pronatalist policy work?

- Singapore shares in common with many developed economies a slow decline in fertility due to the 'second demographic transition' (Lesthaeghe and van de Kaa 1986).
- There is limited published evidence on the effectiveness of Family Development policy in Singapore, with only one study (I am aware of) identifying an effect of qualifying tax relief on increasing fertility (Park 2005).
- Qualitative research suggests that the barriers to fertility in Singapore lie in the intense competition for educational and market success in our meritocratic society, leading parents to choose quality over quantity in family size (Becker 1960; Hanushek 1992; Sun 2012)
- It may be more useful to focus on the role that family development spending plays in supporting the financial needs of families in Singapore, rather than on their pronatalist effect. But if so, we should question whether it is by design or accident, that pronatalist policy often distributes more benefits to higher-income families.

# Social Welfare and Financial Assistance

- On-budget spending on direct financial transfers to the needy has fallen from 0.33% of GDP in 1966, to 0.02% of GDP in 2019.
- However, a complex system of targeted schemes, subsidies, and Government-supported voluntary welfare initiatives, has been developed to supplement (or replace) direct cash transfers to the needy – sometimes termed the “many helping hands” or “kueh lapis” approach.
  - Also characterised as a “confucianist” model based on self-reliance and community support (Chia 2010).
- The Government also argues that public support for lower-income Singaporeans goes well beyond direct cash transfers to the needy, and a more holistic view should include expenditure on other social services and programmes.

# Are all social welfare transfers the same?

- In 2019, the Government estimated that the average annual transfer to residents of HDB 1 and 2 Room flats was \$10,680 per household member – more than twice the transfer to the average household of \$4,684 per member. This transfer is equivalent to nearly seven months' income for such 1- and 2- Room residents. (DOS 2019)
- However, the transfer computation includes a large number of schemes and benefits that are unrelated to daily living expenses, such as “the Digital TV Assistance Scheme and DTV Starter Kit”, or the “Enhancement for Active Seniors”.
- It is impossible to tell from currently published official Government data on transfers to what extent these transfers help to meet the daily needs of low-income Singaporeans.



# Is Social Welfare Spending Effective?

- At the broader level, measures of human development such as educational attainment, health outcomes, and social mobility suggest that Singapore's performance is comparable or better than that of many HDEs with extensive welfare states.
  - For example, 14.3% of children born to parents in the lowest income quintile reach the top quintile as adults – a level of mobility higher than that of the UK, Denmark, or Canada. (MOF 2015)
- Yet there appear to be no official Government measures of the efficacy of social welfare spending, based on whether it uplifts families above the poverty line, helps families meet basic daily needs, or addresses social challenges such as food insecurity or homelessness.
  - There is no official published poverty line or definition of basic needs.

# Of measurement and blind spots

- While this seems like an academic exercise in complaining about data availability, there is a real danger of developing blind spots on social welfare conditions.
- Researchers writing on social issues in Singapore seem to have believed at the time that the most severe problems of poverty, such as food insecurity and homelessness, had largely been addressed by the 2000s (see, e.g. Yap 2010; Ng 2013).
- Parliamentary records in the 2010s reveal no debates about hunger or food insecurity in Singapore, or about chronic homelessness.
- Has poverty been addressed in Singapore, or is it merely invisible?

# Some new evidence on poverty in Singapore

- A nationally representative study in 2019 found that 1 in 10 Singaporean households experienced food insecurity in the last 12 months (Nagpaul et al 2020).
  - Food insecurity rates were significantly higher in 1- and 2- Room households.
  - Three quarters of food insecure households were not receiving official (e.g. from welfare organisations or community) food support.
- A nationwide street count in 2019 identified close to a thousand street homeless persons in Singapore (Ng 2019).
  - 1 in 3 had been homeless for 6 years or more, while 1 in 4 had eaten one meal or less the day of the street count.
  - Official MSF records suggest that less than half of the street homeless persons are actually contacted and assisted in a given year. (official records, however, do not attempt to enumerate the total number of street homeless persons)
- These findings suggest that the challenges of the poor, for much of the 2000s, were largely invisible rather than non-existent, and that the “many helping hands” approach has serious coverage and efficacy gaps.

# Do Singaporeans have enough income to meet basic needs?

- In 2019, a Minimum Income Standards-based study established that elderly single Singaporean households required a monthly income of \$1,379 to meet a basic standard of living (Ng et al 2019; 2020).
  - Estimates of official cash assistance to the elderly only cover half of the MIS requirement (Ng 2019), while the average monthly CPF payout for members aged 65-69 was \$450 in 2019 (and lower for older members).
  - The Basic Retirement Sum, which one-third of active CPF members were unable to meet on reaching age 55 in 2020, only pays out about half of this.
- Subsequent research has identified that a 4-person family requires \$6,426 per month to achieve a basic standard of living (Ng et al 2021).
  - Perhaps 30% of households today have insufficient work incomes to meet this standard.
  - The Progressive Wage Model, even at higher tiers, does not provide enough income for a two-earner family to meet this standard.
- Even if families can meet basic needs such as food and shelter on lower incomes and with community support (which, as the previous studies indicate, shouldn't be assumed), the MIS studies suggest that perhaps a third of Singaporean families are unable to afford what social consensus considers to be a basic standard of living.

# Some concluding remarks

- Social welfare transfers have roughly doubled – as a share of the Budget and of GDP – since 1966.
- Yet this has come largely through direction of funds to support policies for improving fertility and family life, supporting low-wage work, and low-income retirees.
- Funding for direct cash support to low-income persons through public assistance schemes has fallen to relatively negligible amounts, with the gaps picked up largely through promoting full employment and “many helping hands”
- Despite a renewed emphasis and commitment to social welfare spending, there is relatively little economics-based research that studies their distributional consequences, outcomes, and the extent to which social welfare programmes meet social needs in Singapore.
- Addressing these research gaps will be important for developing social welfare policies for the next stage of Singapore’s development.