

Chapter 2:

The Historical and Political Origins of 'The Capitalist Success Story'

We, the returned students, would be the type of leaders that the British would find relatively the more acceptable. For if the choice lies, as in fact it does, between a communist republic of Malaya, and a Malaya within the British Commonwealth, ... there is little doubt which alternative the British will find the lesser evil. ... If we, who can become the most privileged part of the local population under British rule, openly declare that British imperialism must go, the effect will be immediate. But if we do not give leadership, it will come from the other ranks of society, and if these leaders attain power, as they will with the support of the masses, we shall find that we, as a class, have merely changed masters ... But our trump card is that responsible British leaders realise that independence must and will come to Malaya and that therefore, it will be better to hand Malaya to leaders sympathetic to the British Commonwealth, and what is most important, willing to stay in the sterling area.

Lee Kuan Yew, 1950, 'The Returned Student', speech to the Malayan Forum, London.

(Cited in Josey 1971, pp. 31 and 32-33.)

2.1 The importance of historical perspective

An important dimension of the political economy approach of this thesis is to give serious consideration to the economic history of Singapore. To have a full appreciation of the character of Singapore's economic development, the factors behind the evolution of the prevailing social structure and how it shapes modern Singaporean society, one has to consider the political environment in the immediate post-war era, and the events which led up to full independence in 1965. Failure to do so would be to ignore the historical development of the PAP and its élitist and authoritarian ideology which so dominates life in modern Singapore. The main objective of this chapter is to show that, by its very nature, the PAP-state is simply not predisposed to the idea of greater equality among the citizenry of Singapore. This is not to make a case for the

impossibility of a more egalitarian Singaporean society, but to argue its improbability given the conflicts that have existed (and continue to exist) between social forces and the elements which constitute the state.

As the sections below will reveal, the PAP originates not from the domestic capitalist class, but from a group of English-educated intellectuals and professionals who came to power on the back of left-wing trade unions. Having gained power, the PAP leadership then ensured it took control of the executive organs of government, and by the late 1960s it had engineered a new power base for itself, convincing the electorate of the virtues of government that was not dominated by interest groups. Publicly, the PAP's ideology became the 'ideology of survival', one based on the notion that all considerations are subservient to economic and political survival even if this meant self-sacrifice for the 'national interest'.⁵⁶ As Rodan (1989, p. 89) notes: 'the effect of this ideology was to legitimise the existing social order, justifying questions of social control and the distribution of resources on rational and scientific grounds'. Therefore, although the ruling class comprises technocrats, rather than capitalists,⁵⁷ in the final analysis the resulting class relations are fundamentally similar to those that have emerged in other capitalist societies. Indeed, once it had gained power, the PAP concerned itself with the weakening of the working class with a view to providing a favourable investment climate for foreign capital, even if the justification for this was 'couched in terms of objective necessity and pragmatism' (Rodan 1989, p. 91).

⁵⁶ For a detailed commentary, see Chan (1971).

⁵⁷ See Chapters 4 and 5 for a more detailed discussion.

2.2 Post-war Singapore and the emergence of a militant working class

When Singapore was liberated from Japanese occupation at the end of World War II, the communist-dominated Malayan People's Anti-Japanese Army were the great heroes of the day. The Malayan Communist Party (MCP) had been formed in 1930 but was outlawed by the colonial authorities, forcing the Party underground. But during the war, the MCP gained prestige, not only in the eyes of the masses, but also among middle class Chinese who looked upon them as anti-Japanese patriots. So, when the British recognised the legality of the MCP, as a reward for its wartime cooperation, Singapore's political climate appeared ripe for the furthering of communist influence. Indeed, shortly after the war, the MCP was able to count on 70,000 supporters in Singapore, mainly from the General Labour Union (GLU) which covered more than sixty unions (Turnbull 1992, pp. 219-24).

Post-war dislocation brought widespread unemployment, rising inflation and food shortages and, in late 1945, there was a series of strikes. The British Military Administration (BMA) at first elected not to use force against the GLU, but as the union's tactics grew more aggressive, the BMA took a tougher stance, jailing the GLU's secretary-general, and even resorting to the use of Japanese prisoners to replace the strikers. This, of course, created further unrest and the civilian government, which took over in 1946, saw the need to curb the activities of organised labour more energetically, banning the Singapore Federation of Trade Unions (SFTU) (as the Singapore GLU was then known).⁵⁸ In response, the MCP abandoned peaceful agitation in favour of armed revolt, and in June 1947 the Governments of Singapore and Malaya declared states of emergency. As Rodan (1989, p. 53) notes, the events of these

⁵⁸ The Singapore Federation of Trade Unions was a constituent of the Pan-Malayan Federation of Trade Unions (PMFTU). The unions within the GLUs of Singapore and Malaya formed the PMFTU in February 1946, claiming a membership of 450,000 (Turnbull 1992, p. 224).

early post-war years proved two things; first, the working class was capable of militant action so long as it had strong leadership, and second, the government was determined to quash this leadership to prevent the emergence of a militant workforce. This was a pattern that was to continue in the years leading up to full independence.

The arrival of the civilian government marked the separation of Singapore from Malaya, under the Malayan Union scheme,⁵⁹ and the commencement of its status as a Crown Colony. But the objective of the colonial authorities was to work in stages towards internal self-government. For the first two years, the Governor of Singapore, Sir Franklin Gimson, ruled with the help of an advisory council. This council was instrumental in the setting up of a new constitution to take effect after the March 1948 elections, which created an Executive Council (with a majority of British officials) and a Legislative Council which consisted of 9 British officials and 13 non-officials. Of the 13 non-officials, 4 were nominated by the Governor, 3 were chosen by the chambers of commerce, and 6 were elected by British subjects resident in Singapore for one year (Turnbull 1992, pp. 225-30). By 1951, the number of elected seats had increased to 9 from a total of 25, and by 1955, the number has risen to 25 from a total of 32. At this stage, although self-government was still some four years away, the constitutional changes that had occurred were sufficient to encourage the formation of indigenous political parties (Rodan 1989, p. 54).

⁵⁹ The Malayan Union scheme was put forward by Edward Gent, the Assistant Permanent Under-Secretary of the Colonial Office in 1943, to include the four former Federated Malay States, the five unfederated Malay States, Penang and Malacca. Singapore was deliberately excluded for two reasons; first, the British were keen to keep it a free port and imperial defence base, and second, they were cognisant of the Malay States' fear of Singapore's domination (Turnbull 1992, p. 217).

Singapore's first political party was the Malayan Democratic Union (MDU), founded in 1945,⁶⁰ consisting, mainly, of English-educated, middle-class, university-trained professionals who were not communists, but opposed imperialism and were committed to Singapore becoming part of the Malayan Union. In brief, the MDU was a moderate party committed to agitate for social reform through the extension of representation within the Legislative Council. It was, however, part of the group that called itself the Pan-Malayan Council of Joint Action, later renamed the All-Malaya Council of Joint Action (AMCJA) which, in 1947, demanded the inclusion of Singapore in a Federated Malaya. The AMCJA was quite a disparate group,⁶¹ but was dominated behind the scenes by the MCP. The group organised a number of mass rallies and, in 1948, secured the support of the Chinese Chambers of Commerce throughout Singapore and Malaya for a nation-wide economic boycott. But the British remained undeterred, and when the Malayan Union was superseded by the Federation on Malaya in February 1948, Singapore remained a separate Crown Colony. Shortly afterwards, the MCP withdrew its support for the AMCJA, and deprived of finance and popular backing, the group disintegrated (Turnbull 1992, p. 227).

2.3 The 1948 and 1951 elections and the consequences of the Rendel Commission

The MDU by this time was dominated by militants, and had become a communist front organisation. It decided to boycott the March 1948 elections in protest against the new constitution, and this left the door open to the

⁶⁰ The MDU was a multiracial party formed by two radical Cambridge-educated lawyers, Lim Kean Chye and John Eber, communists Wu Tian Wang, Gerald de Cruz and Lim Hong Bee, and chaired by a respected British-Guyana born lawyer, Philip Hoalim (Turnbull 1992, p. 225).

⁶¹ In addition to the MCD, there was the Straits Chinese British Association, the PMFTU, and a mix of commercial and communal groups.

Singapore Progressive Party (SPP).⁶² The SPP represented the mercantile interests traditionally associated with the colonial regime and, not surprisingly, it was not interested in the promotion of radical political, social or economic change.⁶³ Indeed, the SPP were happy to cooperate with the British to usher in gradual constitutional reform, they set no target date for self-government and, in contrast to the MCP and the MDU, their stated aim was to achieve self-government before merging Singapore with the Federation of Malaya. Given its platform, the SPP had a very narrow social base, only attracting the support of the English-educated, upper classes of colonial society, most notably the Straits Chinese British Association, whose fortunes coincided with those of the colonial authorities.⁶⁴

The SPP was the only party to contest the 1948 election, winning three of the six elected seats, the remainder falling to independents. The dominance of conservative politicians was assisted shortly after the election when a state of emergency was declared following the outbreak of MCP orchestrated armed struggle on the mainland. Restrictions were placed on meetings, associations and strikes, and it was permissible to detain individuals without trial. All political groups associated with the MCP were pursued, there were a number of arrests, and the MDU, fearing the worst, voluntarily dissolved itself in June 1948. The SFTU, meanwhile, did not wait this long, and disbanded on the eve of the outbreak of violence in the Federation.

The only opposition to the SPP at this time was the Singapore Labour Party (SLP). Formed shortly after the 1948 election, the SLP leadership was

⁶² The SPP was formed in August 1947 by three lawyers; C.C. Tan, John Laycock and N.A. Mallal. Laycock and Mallal were former municipal councillors, and Tan, the first chair of the party, first entered public life as an unofficial member of the Governor's advisory council (Turnbull 1992, pp. 230-31).

⁶³ In this sense, the Singapore *Progressive* Party is something of a misnomer.

dominated by English-speaking Indians, whose intention it was to break the communist influence in the labour movement. The Party modelled itself on the British Labour Party, and aimed to achieve self-government in Singapore by 1954, followed by full independence as part of a socialist Federation of Malaya, in which, *inter alia*, rubber and tin industries would be nationalised. The SLP certainly had the scope to develop a broad social base for itself given the disintegration of leftist political movements in Singapore, but this was not to be. By 1952, the SLP was in complete disarray as a consequence of in-party faction fighting, and the SPP was given a clear run.⁶⁵

At the 1951 election, the SPP won 6 of the 9 seats, and continued to dominate the Legislative Council with Tan Chin Tuan as Deputy President. In 1953, the SPP set a target of self-government by 1963, to be followed by full independence as part of the Federation. These plans were welcomed by the colonial authorities who were keen for there to be a gradual and peaceful transition, which would not harm their economic interests. However, the British were concerned that the present constitution did not meet the needs of the masses (Carnell 1954, p. 219). Indeed, the predominantly Chinese working class, and a section of the English-educated middle class, simply regarded the activities of the Legislative Council as irrelevant — the real political issues of the day taking place outside of the council chamber. In short, the problem for the colonial government was that, while radical opposition had been effectively suppressed since 1948, there were no channels for institutionalised protest. As a result of this concern, Sir George Rendel was appointed in 1953 to head a commission to review the constitution of the colony (Turnbull 1992, p. 237).

⁶⁴ Among the most prominent supporters was Tan Chin Tuan, managing director of the Overseas-Chinese Banking Corporation (OCBC). Tan is related to Senior Minister Lee Kuan Yew by marriage, and is the uncle of the current Deputy Prime Minister, Dr. Tony Tan.

⁶⁵ The SLP was founded by Indian-born M.A. Majid and Ceylon-born Peter Williams, who formed the radical wing of the SLP. They were opposed by a Fabian English school teacher, Francis Thomas, and a former SPP

In 1954, the recommendations of the Rendel Commission were accepted by the British authorities, and elections were arranged for the following year to implement the new constitution. In the process, a significant amount of power was transferred from the colonial government to a 32-member Legislative Assembly, comprising 25 elected councillors. Importantly, there was to be automatic voluntary registration of voters which meant, for the first time, that the Chinese working class would be eligible to vote. Furthermore, the Executive Council was to consist of 9 councillors, 3 appointed by the Governor and 6 recommended by the leader of the strongest party in the Legislative Assembly (Clutterbuck 1985, p. 101). The significance of this was that the leader of this party would be taking on many of the roles and responsibilities a prime minister. Not surprisingly, the prospect of much greater scope for self-government caused a number of groups to enter into discussions over the formation of new parties and alliances.

One of the new parties formed was the Labour Front (LF). This party, drawn together by former SLP members Lim Yew Hock and Francis Thomas, was led by prominent lawyer, David Marshall. An outspoken critic of colonialism before the war, Marshall was approached by the MDU but declined, preferring, instead, to join the SPP. However, unhappy with the SPP's gradualist approach, he resigned and accepted the offer to head the new LF party (Turnbull 1992, p. 247).

The LF also approached Lee Kuan Yew but failed, as Lee saw there was more to be gained from forming an alliance with the militant left. Lee was a recent law graduate of the prestigious Cambridge University, third generation Straits Chinese, and well connected with the upper class. He had acted as secretary to the Straits Chinese British Association and had also campaigned for the SPP in

member, Lim Yew Hock. Williams eventually won control of the SLP and expelled Lim, but by this time the

the 1951 elections (Turnbull 1992, pp. 246-48). It might seem a little strange, therefore, that Lee was prepared to align himself with the extreme left wing. It is not so strange when one considers Lee Kuan Yew's considerable political acumen. Indeed, one could look upon it as the first step in a grand master plan to prevent a social revolution from occurring that might well have seen the demise of Lee and his class.

2.4 The rise to power of Lee Kuan Yew

Even before he had returned to Singapore, Lee and a group of other students met and exchanged their views on Singapore's political future through a discussion group in London known as the Malayan Forum.⁶⁶ The clearest indication of Lee Kuan Yew's views were outlined in a remarkably candid address entitled 'The Returned Student', which he delivered to his fellow Malaysians in 1950. In this speech, an extract from which is quoted above,⁶⁷ Lee made no attempt to conceal his élitist ideals.

Lee Kuan Yew's group was augmented when, in the early 1950s, he became legal adviser to various trade unions. During this time he gained a reputation as an advocate for trade unionists and other progressives who had fallen foul of the colonial authorities, and he made a number of important contacts. Most notable among these were Sinnathambay Rajaratnam, associate editor of the *Singapore Standard* and president of the Singapore Union of Journalists, and C.V. Devan Nair of the Singapore Teachers' Union. Both of these individuals were to have an important role in Lee's rise to power, but at this time it was Nair who proved to be the most vital connection as it was through him that Lee

party had all but disintegrated (Turnbull 1992, p. 233-34).

⁶⁶ Apart from Lee, the most notable among this discussion group were Goh Keng Swee, the Malayan Forum's founder and first chair, and Toh Chin Chye, who subsequently became the second chair of the group (Turnbull 1992, p. 246).

⁶⁷ See the opening quotation to this chapter.

met with militant Chinese leaders (Turnbull 1992, pp. 246-47, George 1973, p. 33).

Although the MCP had been effectively subdued in Singapore during the Malayan emergency, by 1953 the Federation government had gained the upper hand over the communists on the mainland, and in response, political repression in Singapore was relaxed somewhat. The MCP took advantage of this opportunity and looked to garner support within trade unions and Chinese schools. This was not difficult given the depth of opposition to government policy. The Chinese schools, in particular, were ripe for infiltration. Middle-school graduates were unable to gain access to the English-medium University of Malaya, and there were no openings for them in government organisations. This was a source of much disgruntlement among intelligent and ambitious Chinese school students, many of whom were in their early twenties because of the interruption to their education caused by the Japanese occupation, and the discontent was further fuelled by a feeling of pride towards communist achievements in China. Within a relatively short period of time, therefore, a radical student movement emerged (Clutterbuck 1985, pp. 84-98).

Two Chinese High School graduates, Lim Chin Siong and Fong Swee Suan, were particularly prominent. Lim was expelled from school in 1952, while Fong left of his own accord after narrowly escaping arrest. Both men took up low paid jobs with bus companies, and devoted their energies to promoting communist influence. By May 1954, Lim was secretary-general of the Singapore Factory and Shop Workers' Union (SFSWU). He organised a number of successful strikes and membership of the union soared. Importantly, while the majority of SFSWU members were Chinese, the executive committee included both Chinese- and English-educated radicals. Apart from Lim, the committee included Fong Swee Suan, now secretary-general of the Singapore Bus Workers' Union (SBWU), Devan Nair, and three founder members of the University of Malaya Socialist Club, James Puthuchery, Jamit Singh and

Sandra Woodhull. This was a significant development in that it was the first time that members of different social class and ethnic group were united in a single anti-colonial movement. Known as the 'Middle Road Group', the SFSWU, together with the SBWU, was soon in control of whole sectors of industry and the public services (Rodan 1989, p. 56, Clutterbuck 1985, pp. 99-100).

An alignment of much greater significance, however, was that between the Middle Road Group and Lee Kuan Yew's group of intellectuals. This was a classic marriage of convenience. The illegal MCP had a moderate, English-educated political front and Lee's group had access to the Chinese-educated masses. In November 1954, the PAP was formed with Lee Kuan Yew as secretary-general, Toh Chin Chye as chair, and a Central Executive Committee (CEC) consisting of trade unionists and Chinese- and English-educated radicals (Rodan 1989, p. 57).

In view of the fact the British still retained a considerable amount of power under the Rendel Constitution, the PAP decided to contest only four seats in the 1955 election, winning three. The LF formed a minority government under the leadership of David Marshall. This it did with the support of the Malay Union Alliance (MUA),⁶⁸ the ex-officio members and two nominated non-officials, giving it control of 18 of the 32 seats. From the outset, life proved to be very difficult for the Marshall Government with its restricted constitutional powers. The LF had declared its intention to work for immediate self-government and a lot rested on the All-Party Constitutional Talks which took place in London in 1956. When these talks failed to produce agreement because of British reluctance to relinquish control of internal security,⁶⁹

⁶⁸ A parliamentary coalition of United Malays National Organisation (UMNO) and the Malayan Chinese Association (MCA) (Turnbull 1992, p. 285).

⁶⁹ The British were not at all impressed with Marshall's handling of the left. Emergency regulations were still in place, but the LF took a very soft approach not wanting to be perceived as the lackey of the colonial authorities.

Marshall felt compelled to resign and he was succeeded by Lim Yew Hock (Rodan 1989, p. 58, Turnbull 1992, p. 252-57).

In the light of the failed talks, the PAP left felt the time had come to even up the balance of power within the CEC, which it had not contested at the 1955 party conference. At the 1956 conference, it won 4 of the 12 seats, with Lim Chin Siong polling the highest number of individual votes. There was also a move to change the Party constitution so that branch committees would be able to nominate members for the CEC. Lee Kuan Yew's faction was opposed to such a move given the depth of support for the left at grass roots level, and it was determined to resist any change to the PAP constitution. As it turned out, the Lee group received assistance from unexpected quarters when, as part of a general campaign to counter subversion, the Lim Yew Hock Government banned a number of what it alleged were communist-front organisations, closed two Chinese schools and expelled 142 students. In response, 5000 students, led by Lim Chin Siong, staged a sit-in at six Chinese schools. The police eventually drove them out with tear gas, but mass rioting ensued with 15 people killed and more than 100 injured. Documents were found shortly afterwards at the SFSWU premises which implicated the union leaders in the demonstrations and as a result, the union was forcibly dissolved. In the process, several of the leftist leaders were arrested including three of the four individuals elected to the CEC of the PAP (Turnbull 1992, p. 258, Rodan 1989, pp. 58-59).

Following the LF clamp-down, a second all-party delegation went to London in March 1957 to discuss self-government. The negotiations between the British and the five-person delegation — including Lee Kuan Yew and no representative from the PAP left — went much more smoothly and there was

In 1955 alone, there were nearly 300 strikes, only one-third of which were about pay and conditions. The remainder were sympathy strikes or in connection with the release of imprisoned trade unionists (Turnbull 1992,

agreement over the formation of a seven-member Internal Security Council (ISC) on which the British and the Singaporeans would have equal representation, with a Federation member having a casting vote. It was also agreed that Singapore would merge with the Federation of Malaya. This was bad news for the left because it meant that then right-wing Federation Government would be in a position where it would have the power to arbitrarily arrest and detain its leaders (Turnbull 1992, p. 258, Rodan 1989, pp. 59-60).

This latest development provoked new forms of militancy. The new Nanyang University became a hotbed of unrest, the MCP made strenuous efforts to regain its strength within the union movement, and at the PAP's third annual conference in August 1957, there was an all-out battle for supremacy between the Lee faction and those on the left of the Party, who were convinced now that Lee was working to undermine them. The left won 6 of the 12 seats on the CEC, and Toh Chin Chye and Lee Kuan Yew stood down from the leadership. The shift in power did not last long, however, because just over a week later, the LF Government stepped up its attempts to purge the labour movement of communist influence and made 35 arrests, including 11 PAP branch officials, and 5 of the 6 newly-elected members of the left on the PAP's CEC (Turnbull 1992, p. 259). As a consequence, there was a dramatic turn-around in the fortunes of the Lee faction.⁷⁰

With characteristic political aplomb, Lee Kuan Yew publicly condemned the LF Government's actions,⁷¹ but wasted no time in ensuring that the left would find it very difficult to pose a threat to his faction on the CEC again. The

p. 256).

⁷⁰ Many of the PAP left were of the view that Lee had been privy to the intentions of the Lee Yew Hock (Turnbull 1992, p. 259), just as he had been instrumental in the ISC formula. Lee's role in the latter was publicly revealed by Lee Yew Hock in a 1959 Legislative Assembly debate (see George 1973, p. 44).

⁷¹ What Malcolm Caldwell refers to as 'waving a red flag to defeat the red flag' (Caldwell 1979, p. 6).

CEC's term of office was extended to two years, and a cadre system was created whereby only full cadre members of the PAP were eligible to vote for the CEC. To be a full cadre, one had to be a literate Singapore citizen, and over the age of 21, which precluded most students and the majority of the Chinese working class from whom the left drew its support. (Turnbull 1992, p. 260) Cadre members also had to be approved by the CEC, so a very cosy situation emerged whereby the leadership was able to select who could, and who could not vote for the CEC.

With the left in disarray, this was hardly the time for a confrontation with the Lee faction, so the alliance continued. Meanwhile, satisfied with the LF Government's clamp-down on 'subversives' the British were more amenable to the idea of full self-government, and in April 1958, the third all-party delegation went to London for constitutional talks. With the granting of independence to the Federation of Malaya in August 1957 a further stabilising factor, the terms of the new constitution were agreed to relatively quickly, and in August 1958 the State of Singapore Act was passed by the British Parliament. Singapore was now no longer a colony, but was it was not fully independent as internal security was in the hands of the ISC, and the British retained control of foreign affairs and external defence. But the Act legislated for a 51-member Legislative Assembly, to be elected on the basis of compulsory adult suffrage. Crucially, 'known subversives' were disqualified from contesting the first elections scheduled for May 1959, after which the new constitution would come into being (Rodan 1989, p. 61, Turnbull 1992, p. 261).

In preparation for the 1959 elections, the PAP drew up an electoral manifesto providing information on its political, economic and social programme for the Party's first five years in government. The manifesto, entitled *The Tasks Ahead*, gave details on how the PAP would lay the foundations for the

transition to a socialist society (PAP 1959),⁷² and mass rallies were organised, beginning in February 1959, to disseminate and publicise the Party's policies.

At the first of these meetings, the PAP accused the LF of receiving political funds from the United States which had been embezzled, so it was alleged, by the Minister for Education, Chew Swee Kee. Lee Kuan Yew called for the immediate resignation of the Lim Yew Hock Government, and when Francis Thomas, then Minister of Communications and Works, came out in support of Lee, the LF fell apart. The likelihood of a PAP victory was further enhanced by the fact Lee made it clear all political detainees would be released should the PAP win government (Turnbull 1992, p. 262, George 1973, p. 48).

Lim Yew Hock set up a new party to fight the election called the Singapore People's Alliance Party (SPAP), but it was viewed as an old party with a new name, and it posed only a limited threat to the PAP. There was little doubt that the PAP would win the election, but the size of the victory was not anticipated. Contesting all 51 constituencies, the PAP won 43 seats. Of the remaining 8 seats, 4 went to the SPAP, 3 to the MUA, and 1 to an Independent (Turnbull 1992, p. 263).

The PAP had a strong working majority, but it was quite clear that the Party faced something of a crisis. The economy had no agricultural base, and in the wake of declining entrepôt trade there was a surplus of unemployed labour. Thus, rapid industrialisation was imperative and in conjunction with its commitment to a merger with the Federation, the PAP adopted an import-substitution industrialisation (ISI) strategy, as the centre-piece of its State

⁷² As Rodan (1989, p. 61) notes, the Lee faction did have a 'socialist vision of sorts'. It committed the PAP to a range of social reforms aimed at improving conditions for the poor, but at no time did Lee and his associates entertain the idea that there would be a transfer of political power to the working class. For Lee's group, socialism was an outcome, and if this outcome was to eventuate, it would be as a result of technical, rather than ideological considerations.

Development Plan for 1961-64.⁷³ There were two main reasons for this: first, Singapore had no ready-made industrial sector, and within a broader Malayan-Singapore economy, it would have a better chance of fostering infant industries; second, for Singapore to embark on ISI by itself would be unwise given its small population, whereas integration with the Federation of Malaya would provide an enlarged common market (Rodan 1989, p. 64-66).

The PAP left was not overly impressed by this initiative. The Plan advocated state intervention to encourage the development of industry, but it was to be intervention that encouraged private investment. The left had envisaged the state taking more of a pivotal role with a direct stake in ownership of industry, on the basis that this would safeguard the conditions of workers. But as the Lee faction still held the reins of power within the CEC, the left had little alternative but to go along with the programme.⁷⁴ This said, it was not all plain sailing for the PAP Government. The first two years were turbulent times for leadership as it sought to assert itself, and there was a certain amount of disillusionment with the PAP among the masses. There was unhappiness about Malay being designated the national language, for example, and trade unionists were disturbed by attempts to reorganise and unify the labour movement under a National Trades Union Congress (NTUC), an institution that would work closely with the government, and have sole responsibility for the calling of industrial action (Turnbull 1992, pp. 264-69, Rodan 1989, p. 63).

⁷³ This it did on the recommendation of the Winsemius Report, the product of a United Nations industrial survey mission that came to Singapore in 1960. This mission, which visited Singapore at the Government's request, was headed by Dr. Albert Winsemius.

⁷⁴ Some, but not all of the political detainees had been released following the election of the PAP Government, and while members of the left were appointed to positions in the Government, they were not installed in positions where they could wield influence. Furthermore, former prisoners were not allowed to become full cadres of the PAP, and as elections for the CEC were conducted before their release, Lee and his associates had ensured they would be unchallenged for a period of two years anyway (Rodan 1989, p. 63).

The level of dissatisfaction with the PAP showed itself in dramatic fashion in the Hong Lim by-election held in April 1961, which was won in convincing style by a disaffected former PAP Minister standing as an independent.⁷⁵ But paradoxically, this event served to strengthen the Lee faction's position. The by-election was adjudged to be such a set-back that there was considerable speculation over the future of the Lee administration. This stirred the Malayan Prime Minister Tunku Abdul Rahman into action, who thus far had distanced himself (and the Federation) from the tumultuous goings-on in Singapore. Worried about the possibility of an independent Singapore with left-wing controlled government and the security threat this would pose, the Tunku proposed for the first time, albeit informally,⁷⁶ the notion of a Federation of Malaysia, which would see a merger of Malaya and Singapore, together with Sabah, Sarawak and Brunei (Turnbull 1992, pp. 269-71).

This was very welcome news for the PAP Government because of the popular support it was likely to engender, but disastrous news for the PAP left, given the constraints likely to be placed upon its activities by the right-wing government in Kuala Lumpur. Until this time, the left had been content to bide its time, assuming that the prospects of immediate merger were unlikely. But now, with merger likely to occur sooner rather than later, it became inevitable that the simmering conflict between the executive and the left wing would become more public (Turnbull 1992, p. 271, Rodan 1989, p. 67).

⁷⁵ Ong Eng Guan, an influential individual, was Mayor of the City Council before it was absorbed into the central government in 1959. His influence was such that he was given the important Ministry of National Development and was a member of the ISC. But there was a clash of personalities and, after accusing the Party executive of creating an undemocratic party structure and failing to advance towards independence and socialism with sufficient speed, Ong was dismissed from his Ministry and expelled from the PAP. Ong then resigned from the Legislative Assembly and contested the by-election for his former seat. Despite attempts by the PAP executive to discredit him, he went on to win a landslide victory (Clutterbuck 1985, pp. 152-53, Turnbull 1992, pp. 269-70).

⁷⁶ Tunku Abdul Rahman put forward the idea in a luncheon speech to the Foreign Correspondents' Association in Singapore on 27 May 1961.

Not long after the Hong Lim by-election, there was another by-election in the Anson constituency. Lim Chin Siong and others on the PAP left, trade union leaders and party officials decided it was time to bring matters to a head, and they refused to endorse the Government's candidate. Instead, they backed his opponent, David Marshall, now chair of the Worker's Party, who won the seat with a small majority. Lee Kuan Yew responded by forcing the merger issue in the Legislative Assembly where he called for a vote of confidence in the Government.⁷⁷ The merger debate went through the night and when the final division came, 27 voted with the Government, and 24 either abstained or voted against the motion of confidence. Recriminations followed shortly afterwards, and 13 PAP Assembly members were expelled from the Party, together with 14 PAP district secretaries (Turnbull 1992, pp. 271-72).

These events prompted the formation of the Barisan Sosialis (BS) on 26 July 1961, comprising the rebel Assembly members (led by Lee Siew Choh) and the prominent militant trade unionists; namely, Lim Chin Siong (who became secretary-general of the new party), Fong Swee Suan, Sandra Woodhull, Jamit Singh, James Puthucheary and S.T. Bani. Given the popular support for the left, people defected from the PAP to the BS in large numbers, effectively crippling the lower level of the PAP's organisation.⁷⁸ The BS also had great strength outside of the party organisation in that it could count on the support

⁷⁷ Lee could no longer be sure that he had the superior numbers, and in an attempt to mobilise support for his faction within the Party, he went so far as to suggest that the British were conspiring with the left; the theory being that the Government would be forced to crush the left, or resign and allow the British to resume control. Rodan (1989, p. 68) describes this as a 'fantastic allegation', and as Turnbull (1992, p. 271) documents, while James Puthucheary, Lim Chin Siong, Sandra Woodhull and Fong Swee Suan sought assurances from the British that the constitution would not be suspended if Lee was voted out of office (at the so-called 'Eden Hall tea party'), the idea of a sinister British plot is extremely far fetched. It would appear that Lee's primary motivation for making the accusation was to whip up popular support and nothing else.

⁷⁸ No fewer than 35 branch committees resigned, together with 19 of the 23 organising secretaries. Cadres quitted in large numbers, and only 20 per cent of the PAP's membership renewed their subscriptions in 1962 (Pang 1971, p. 15).

of the Nanyang University students, in addition to the 43 trade unions (around two thirds of organised labour) which publicly declared their support for the BS at the time of the split (Turnbull 1992, p. 272, Clutterbuck 1985, p. 154).

2.5 Merger with the Federation and the end of PAP ‘socialism’

The PAP was clearly in trouble at this time, and it was a period that could have seen a major turnaround in the political fortunes of Lee Kuan Yew and his associates. As it was now clear that socialism was nothing more than a flag of convenience for Lee, mass support for the PAP was dramatically reduced. The one thing going for Lee was that the PAP still held a parliamentary majority. However, this was somewhat precarious, and it appeared as though it would not last beyond the current term of office unless drastic action was taken to shore up support for the PAP. To this end, the State Development Plan was pursued with new vigour with a view to improving the Government’s electoral appeal, and in an attempt to undermine the left’s dominance of organised labour, the Government deregistered the Singapore Trade Union Congress (STUC).⁷⁹ In its place, it encouraged the formation of the National Trades Union Congress (NTUC) with PAP control. Not surprisingly, the struggle for control of the labour movement became intense, and not to be outwitted, the left wing reorganised and registered the rival Singapore Association of Trade Unions (SATU) (Turnbull 1992, p. 276, Rodan 1989, p. 69).

The PAP also pursued merger with the Federation even more zealously than before, and in November 1961 it was agreed that Singapore would become part of the new Federation of Malaysia, along with Malaya, Sarawak and Sabah. However, the terms of Singapore’s membership were different from

⁷⁹ The STUC was founded in 1951 at the instigation of the colonial government, with a view to providing a moderate alternative to the SFTU. Originally, it was closely associated with the failed SLP, but by the mid-1950s, it was effectively controlled by the left (Turnbull 1992, pp. 244 and 276).

those of the other members in the proposed federation. On the one hand, Singapore was to have greater autonomy than the other states, with its own executive government, but it would have smaller representation in the federal government than its population warranted, Singaporeans would not automatically be granted Malaysian citizenship, and Singapore citizens were barred from voting or standing for election in other states (Turnbull 1992, pp. 272-73, Rodan 1989, p. 70).

The BS was critical of the conditions underpinning the proposed merger, but gave its 'in principle' approval to the idea. This turned out to be a costly political error for the BS, if for no other reason that it gave the PAP an opening to build up its electoral appeal. With cross-party agreement on the idea of merger, there was justification for a referendum that focused solely on the terms of the merger. In the wake of the by-election defeats and the *en masse* defections, the PAP was in dire need of a political victory and the BS handed it to them on a platter. The referendum, to be held in September 1962 simply offered three alternative forms of merger, without offering the choice of voting against merger (Rodan 1989, pp. 70-71, Clutterbuck 1985, pp. 157-58).

As an opposition party, the BS did not have the access to the media enjoyed by the Government. The press were supportive of the PAP,⁸⁰ the Ministry of Culture disseminated large quantities of propaganda on behalf of the PAP, and Lee Kuan Yew made a series of radio broadcasts via the state-owned Radio Singapore, deriding the BS's position. It came as no great surprise, therefore, when 71 per cent of registered electors voted in favour of the Government's preferred option (Rodan 1989, p. 71, George 1973, pp. 64-66).

⁸⁰ The emergency regulations dating back to 1948 discouraged press criticism of official policy by requiring newspapers to apply annually for renewal of their licences.

The referendum result certainly bolstered the PAP's confidence, but its position was still precarious as by this time it had lost its parliamentary majority following the defection of another Assembly member to the BS, and it now had to rely on the support of Lim Yew Hock and the Alliance representatives. But then, on 2 February 1963, the PAP's position was strengthened in quite dramatic style as a consequence of 'Operation Cold Store'. This was the code name for a crack-down orchestrated by the ISC which eventually saw the arrest of 131 individuals deemed to be 'subversive elements' on account of their supposed links with the Communist Party of Indonesia. These individuals were accused of conspiring to build a 'Cuban' base in Singapore as a springboard to subvert the Federation of Malaysia, and their alleged links with, and support for, the 1962 revolt in Brunei were cited as evidence for the authorities' assertion that the detainees were advocates of violent revolution (Caldwell 1979, pp. 23-24).

This episode cut at the heart of the BS as those arrested included Lim Chin Siong and the large part of the Party's executive. It also proved devastating for SATU, with 50 executives in 13 of its trade unions among those detained. Yet again, Lee Kuan Yew and his associates benefited from having their political rivals removed from a position of power at a very opportune moment, and once more, the blame was laid firmly at the doors of others.⁸¹

With the BS leadership in tatters, tensions over the impending merger subsided, and as Lee was in a stronger political position domestically, he was also able to negotiate a better outcome for Singapore. This, in turn, translated into greater popularity for the PAP. The Federation of Malaysia finally came into being on 16 September 1963. On 12 September, the PAP Government

⁸¹ Lee dismissed the political significance of the arrests and disassociated himself from the detention order, stating that 'if left alone, without outside factors', the Singaporean Government would never contemplate 'such sweeping action'. This is despite the fact there was unanimous agreement among the seven members of the ISC,

called a snap election, that was to take place just nine days later on 21 September. The PAP was in much better shape than it had been two years previously, it had made strenuous attempts to revive the party structure, and many new members had been recruited, especially among the Malay and Indian communities. But as the Party had lost so much of the mass support it had commanded in 1959, the result of the contest was far from certain. As it turned out, the PAP gained a clear victory, winning a total of 37 of the 51 seats (Rodan 1989, p. 72, Clutterbuck 1985, p. 160, Turnbull 1992, pp. 274-75).

2.6 The emergence of the PAP-state

A key factor behind the PAP's 1963 electoral success was the achievement of the Government in terms of housing, health, education, and industrial development. The Housing and Development Board (HDB), set up in 1960, had completed 22,336 apartments in just three years, providing housing for around 100,000 people.⁸² Health services had been expanded, particularly in the area of maternal and child welfare clinics, and there was better provision in terms of sanitation and immunisation. Expenditure on education, meanwhile, had increased from M\$600,000 in 1960 to M\$10 million in 1963. Over the same period, the school population increased from 290,000 to 430,000, such that there was a primary school place for every child in Singapore. On the industrial development front, the State Development Plan for 1961-64 was ahead of schedule, and infrastructural developments were proceeding apace. In short, the PAP had done a lot to woo the Singapore voters, particularly among the disaffected Chinese working class (Rodan 1989, p. 73, Turnbull 1992, pp. 276-77).

three of whom were Singaporeans, including Lee Kuan Yew himself, Goh Keng Swee and Ong Pang Boon (Caldwell 1979, pp. 23-24).

⁸² By comparison, the HDB's predecessor, the Singapore Improvement Trust, had constructed as many over a period of thirty years.

It is important to note, however, that the building of support among the working class would have been made considerably more difficult had it not been for the civil service. Indeed, following the split with the BS, it was very deliberate policy on the part of the PAP to employ the apparatus of the state for its own ends. In short, deprived of a party machinery, the PAP made use of the machinery of government, whereupon the civil servants effectively became the new foot soldiers of the Party. This move was considered a priority by the PAP if it was to stand any chance of holding onto power into the future, and it achieved its objective by reorganising, colonising and integrating with the state apparatus to such an extent that within a few years the boundary between the bureaucracy and the PAP became blurred.⁸³ Put simply, the Party became indistinguishable from the state, a development which necessarily resulted in the PAP becoming less accountable for its actions. In the words of Rodan (1989, p. 70), the Government was no longer responsible to the Party, but the Party responsible to the Government.

The evolution of the PAP-state was made easier by the fact there was a great deal of sympathy for PAP policies among the conservative, relatively privileged, and largely English-speaking bureaucracy, now the Party had shed its ideological commitment to socialism. But the PAP's new-found political moderation was not the only attraction for the civil service. Loyalty could be commanded for other reasons too. Not least of these was the full restoration of privileges that had been taken away from the civil service when the PAP came to office in 1959.⁸⁴ Of no less importance, was the considerable amount of power afforded bureaucrats under the new regime following the dissolution of the City Council, and the emergence of the various statutory boards like the HDB, the Economic Development Board (EDB), and the Public Utilities Board

⁸³ See Cheng (1987, pp. 386-89).

(PUB). From this time on, individuals employed in the bureaucracy would come to occupy an elevated position within Singaporean society (Rodan 1989, pp. 69-70).

Shortly before the 1963 election, the PAP took every possible precaution within the law to ensure that it secured another term in office. It called the election in the minimum permissible time, it ensured that imprisoned BS leaders were prevented from standing for office by requiring that candidates put forward their nomination in person, it placed restrictions on meetings, and it revoked the registration of seven trade unions supporting the BS. After the election the PAP did not relent, and it wasted no time in taking steps to further strengthen its position. The boycotting of classes and protest marches at Nanyang University saw the arrest of twenty individuals including graduates who had stood as BS candidates in the election. This was followed by an abortive general strike which brought about the arrest of the SATU leaders who led the strike (including three BS Assembly members), and the de-registration of the union. The Government also dissolved BS-dominated rural associations and hawkers' associations, and withdrew the registration of other unions that sympathised with the BS. This was made all the easier for Lee Kuan Yew and his associates on account of the fact that they were deeds for which the Federal Government assumed responsibility. This aside, these actions did much to cement the PAP's political supremacy, and make any constitutional challenge to its authority very difficult indeed (Rodan 1989, pp. 72-73, Turnbull 1992, pp. 277-78).

There was a further merging of party and state in 1964 when the PAP announced the formation of People's Management Committees comprising local citizens appointed by the constituency MP, and the establishment of

⁸⁴ On coming to office, the PAP had been concerned to 're-educate' civil servants. Privileges afforded the bureaucracy by the colonial powers were removed, including variable allowances, and new disciplinary measures

Citizens' Consultative Committees (CCCs) the following year in each of the 51 constituencies. At first, it was not a requirement that committee members also be a member of the PAP, but this policy fell by the wayside as many of those on the CCCs decided to join the Party. The main function of the CCCs was to neutralise political dissent. They were set up to ensure that any grievances at the grass roots level could be transmitted upwards, and government policy could be transmitted downwards in a favourable light. This was a significant development in the sense that the PAP-state had reached a new level of sophistication. In short, a direct, ostensibly non-partisan link with the masses had been established, which had sufficient PAP influence to seriously undermine the capacity of other political parties to harness dissent at the grass roots level to further their own causes (Rodan 1989, p. 74, Clutterbuck 1985, pp. 323-24).

While the political situation within Singapore was as stable and controlled as it had been at any time since 1955, political relations within the Federation were becoming increasingly strained. There were a number of reasons for this, but the prospect of successful merger was always in doubt given that the different parties had different motivations. In the case of Singapore, merger was of critical importance to its industrialisation programme because of the scope that would be provided by the common market. For the Malayan Government, on the other hand, it was more a question of political security, or more precisely, control of the left wing in Singapore.

The uneasiness between the two parties first showed itself when the PAP made it clear that it intended to be a force to be reckoned with in Malaysia. After registering the party in Kuala Lumpur, it was announced that the PAP would be fielding candidates in nine constituencies in the mainland states in the

were introduced (Rodan 1989, p. 69).

elections to be held in April 1964.⁸⁵ As it turned out the PAP won only one seat, but the ruling Alliance Party was alarmed by the PAP's intervention and treated it as a clear indication that Lee Kuan Yew was set on displacing the MCA — the ethnic Chinese party in the Alliance — in a bid to become Premier of Malaysia.⁸⁶

Relations between the PAP and the Alliance deteriorated further the following month when UMNO secretary-general Dato Syed Jaffar Albar accused the PAP, and Lee Kuan Yew in particular, of being anti-Malay. Then, in July 1964, racial tension spilled over into full scale rioting. Malay hostility towards the PAP had been growing because of enforced resettlement from their kampongs to make way for HDB flats, but the rioting was sparked largely because of Lee Kuan Yew's refusal to grant ethnic Malays in Singapore the same special privileges they enjoyed in the mainland states.⁸⁷ A demonstration staged by Malays degenerated into a street battle in which two people were killed and more than 100 were injured. Problems continued for five days, but began again a month later, continuing for another five-day period. At the end of it all, 34 people had been killed and several hundred injured (Clutterbuck 1985, pp. 319-21).

⁸⁵ This was contrary to what Lee had intimated at the time of the September 1963 election in Singapore, and it did not go down well with the Tunku (Turnbull 1992, pp. 280-81, Rodan 1989, p. 79).

⁸⁶ The Alliance Party comprised UMNO, the Malaysian Chinese Association (formerly the Malayan Chinese Association [MCA]) and the Malaysian Indian Congress (MIC). The PAP declared that it would not be fighting UMNO but the MCA, arguing that the PAP had the better credentials to be the second partner in the Alliance on account of the fact it could best represent the increasingly urban Chinese population on the mainland. The PAP's tactic, which failed rather miserably, was to depict the MCA as a conservative force which had lost the confidence of the Chinese community. As far as the MCA was concerned, the PAP was its natural enemy and it had categorically rejected an earlier PAP proposal that two PAP Government Cabinet members be included in the Alliance Federal Government Cabinet (Shee 1987, p. 9).

⁸⁷ Singapore Malays had hoped that Singapore becoming part of Malaysia would provide them with the same constitutional privileges enjoyed by their mainland counterparts, including preferential quotas in respect of employment opportunities, promotions and licences. The PAP was opposed to this and promoted the concept of a 'Malaysian Malaysia' as opposed to a 'Malay Malaysia' (Turnbull 1992, p. 282, Rodan 1989, p. 80).

By the time of the second wave of rioting, Singapore had formally separated from Malaysia, becoming an independent state on 9 August 1965. But there was more to the divorce than the outbreak of communal violence. There were disputes over issues like tax collection and the size of contributions for federal services, for example, while the common market agreement, considered by the PAP to be the very essence of the merger, was also presenting problems. Not least of these was the fear, in some quarters, that the benefits the common market would bring Singapore would not be transferred to other states (Rodan 1989, p. 80, Turnbull 1992, p. 284).

In the end, however, while there are a number of interrelated explanations for the failure of the merger, the major determining factor was the perception that Lee Kuan Yew was intent on making a grab for power. It was this that really brought matters to a head, and Lee did nothing to make the Alliance Government think otherwise, dominating the air-waves with his frequent appearances on radio and television, discrediting the central government in his characteristic abrasive style. The Tunku became increasingly incensed by the speeches and decided that the expulsion of Singapore from the Federation was the only solution. Strangely enough, Lee Kuan Yew was devastated by the news, seemingly having given no thought to the idea of independence, and it was rather an emotional broadcast when Lee announced to the people of Singapore that it was to become an independent state (George 1973, pp. 72-91).

2.7 The political necessity of a new economic strategy

When political differences paralysed the Federation and Singapore was forced to leave, ISI ground to a halt. The British military pulled out the following year (the naval station generated a third of Singapore's national income), and Singapore's status as an independent economy was under enormous pressure.

In the circumstances, the PAP leadership was of the view that it had little alternative but to go for a market-oriented, export-oriented industrialisation (EOI) with a heavy reliance on multinational corporations (MNCs). However, the important point to observe here is that the PAP embraced EOI, not because of some simple ideological commitment to free market economics, but because it was politically imperative that it did so.

There had been some advancement with respect to industrialisation by the mid-1960s, but the pace of progress was decidedly slow. Domestic capital (the Chinese bourgeoisie and British agency houses) could not be relied upon to spearhead the process given its lack of industrial expertise, and despite the Government's efforts to attract suitable investors through tax incentives, there was a certain wariness about investing in a politically unstable country, with relatively high wages, and a small domestic market. The big hope was that merger would eradicate these problems. With the failure of the merger, the problems were made worse. Not only had the eagerly anticipated common market disappeared, but entrepôt trade declined as Malaysia and Indonesia elected to follow policies that focused on greater self-sufficiency.⁸⁸

The first real sign of a major change in policy direction came in late 1966, when Finance Minister Lim Kim San delivered his budget speech. In this speech it was declared that the Government intended to attract large MNCs that would bring, not just their expertise, but guaranteed markets. To entice these large international corporations, the PAP stated that various tax concessions and tax holidays would be made available, that were designed specifically to encourage manufactured exports. But this was not the full extent of the new

⁸⁸ Beginning in mid-1963, the Indonesian Government, pursued a policy of 'konfrontasi' (armed confrontation) towards the Federation of Malaysia. The campaign, which lasted nearly three years, was a result of President Sukarno's objection to the creation of the new state which was at odds with his own idea of a single nation that would unite the entire Malay world. By 1964, the loss of the vital Indonesian trade was beginning to take its toll on the Singapore economy (Turnbull 1992, p. 282).

strategy. The remaining elements were not to be revealed until after the 1968 election (Rodan 1989, pp. 87-96).

The PAP had, by late 1966, achieved political supremacy when the BS determined that it would resign from Parliament. The BS argued that MNC-dependent EOI was tantamount to neo-colonialism, and it supported an autonomous, albeit more gradual, development strategy. While there was not total agreement within the BS over the decision, secretary-general Lee Siew Choh announced that the Party would continue the struggle outside Parliament unless the PAP acceded to several demands that, in their judgement, would actually permit serious political opposition to take place.⁸⁹ This principled stance by the BS was ruthlessly exploited by the PAP. It agreed to none of the BS's demands and clamped down harder on civil liberties to disable its proposed extra-parliamentary strategy. When the BS boycotted the general election in 1968, this further cemented the PAP's supremacy and, unopposed in Parliament, Singapore became a one-party state with the PAP having *carte blanche* to implement whatever type of development strategy it wished.

Under these circumstances, the final and most important element of the PAP's EOI strategy could be implemented with greater ease. Fiscal incentives are one thing, but if, as the PAP planned, economic growth was to be predicated on labour-intensive manufactured exports, then to be truly competitive in the eyes of the MNCs, steps would have to be taken to ensure that Singapore could supply a cheap, docile labour force. To this end, the political defeat of the labour movement took on new importance, and the PAP achieved this objective by turning adversity to its political advantage. In short, making full use of the

⁸⁹ The BS specified eight conditions in all, including freedom of speech, the release of political prisoners, abolition of detention laws, publication of party materials without censorship, the establishment of police neutrality, automatic citizenship and voting rights, an end to PAP intimidation, and no revision to electoral laws (Chan 1971, p. 23).

machinery of government,⁹⁰ the PAP promulgated the ‘ideology of survival’, whereupon national economic and political survival were one and the same thing, and all other considerations were secondary to this overriding goal.

Importantly, presenting itself as an almost apolitical organisation, guided only by pragmatism, it was the PAP who defined what constituted the national interest. Furthermore, it was no coincidence that what the PAP defined as the national interest was entirely congruent with the interests of the Party. This meant discipline, patriotism and self-sacrifice, or, translated, a weakening of the working class to provide an attractive investment climate for foreign industrialists. Shortly after the 1968 election, legislation came into effect that made it abundantly clear that militant trade unionism was to be no more than a relic of the past in Singapore.⁹¹ In the process, assured of the active cooperation of labour organisations, the latter were effectively absorbed into the PAP-state.

2.8 Development with equality?

From this time, Singapore has relied heavily on foreign capital and will continue to do so. Between 1980 and 1990, Singapore was the largest single recipient of direct foreign investment in the developing world, receiving almost 13 per cent of all such investment in developing countries (United Nations 1992, cited in Huff 1995, p. 6). It is hardly surprising, therefore, that

⁹⁰ The Ministry of Culture, Radio Singapore and the CCCs were very effective conduits for the dissemination of propaganda (Rodan 1989, p. 90).

⁹¹ This legislation included the Employment Act and the Industrial Relations (Amendment) Act. The effect of these acts was to significantly alter the pay and working conditions of employees, producing considerable savings for employers. These new laws also ensured there was considerably less scope for industrial action (Cheng 1987, Chapter 6).

in 1992, 32.8 per cent of GDP accrued to non-Singaporeans (Department of Statistics 1994, cited in Huff 1995, p. 4).⁹²

However, these statistics notwithstanding, the Singapore economy is not completely beholden to foreign companies. While it is true that foreign capital has overwhelmed domestic capital, state capital has played a very active role in the Singaporean economy.⁹³ As Low (1973, p.15) has pointed out, the PAP as an anti-colonialist regime, justified its policy of embracing MNCs by building up state capital as a safeguard against massive foreign control and ownership. This, of course, raises an interesting question: just how market-oriented is the Singapore economy? As the analysis of the existing literature in Chapter 1 has revealed, a number of commentators have praised Singapore for its strongly interventionist policies which direct the economy rather than leave it to the vagaries of the market. Indeed, it is quite ironical that when Friedman *et al* praised Singapore for its liberalised, free-market economy, they failed to acknowledge that the Singapore state owns, controls and regulates land, labour and capital resources, and it sets or influences many of the prices that affect the business decisions of private enterprise.

The simple fact of the matter is that state intervention gave Singapore a competitive advantage in export manufacturing that would not have eventuated if it had opted for a strict *laissez-faire* policy. While not all neo-classical

⁹² While dependence on foreign capital remains high, a recent Department of Statistics study suggests that foreign involvement in the local economy may have peaked. In 1988, foreign capital stock as a proportion of local capital stock was 67.8 per cent. By 1992, this figure stood at 52.9 per cent. According to the Department of Statistics, this is a result of slower growth in foreign investment relative to that of domestic investment. The study also reports that the foreign share of total equity in Singapore fell from 37.2 per cent in 1990 to 34.6 per cent in 1992 (see 'S'pore less reliant on foreign capital: Study', *Straits Times*, 30 March 1995, p. 38).

⁹³ As Huff (1995, p. 12) reports, 'by the mid-1980s, prior to privatisation beginning in late 1985, the Government wholly owned or partially owned some 490 companies, including 30 statutory boards through which the Government organised infrastructure provision'. This is a subject that will be referred to again in Chapter 5, but it is worth noting here that in spite of the Government's intended privatisation policy, the number of

economists are blind to this fact, few (if any) would apportion Singapore's economic success to state intervention of an extra-economic nature. As Rodan (1989, p. 28) points out:

Historically, the emergence of the modern state was a necessary prerequisite for the establishment of capitalist relations of production, providing all the extra-economic conditions required to ensure their dominance. Since then individual states have unavoidably shaped the particular courses of capitalist development in their respective societies through their influence over the social and political environment ... The Singapore Government seems to understand this since official projections of greater institutional flexibility in wage determination, that is, greater 'market freedom', have been accompanied by new measures to consolidate social and political control over labour.

The institutionalised subordination of labour and the suppression of political opposition has been central to the pursuit of MNC-dependent and state-led EOI, and some commentators argue that this has only been possible because of a coercive PAP-state machinery that guarantees political repression.⁹⁴ Cheng (1987, pp. 389-90), however, considers this view to be a little unbalanced because it fails to acknowledge that the Government has managed to compensate labour, via public housing projects, education and medical services, for example. There is certainly some merit in Cheng's argument, and Huff (1995, p. 30), for example, is sufficiently convinced to argue that Singapore's development experience 'lends significant weight to the growing reassertion of a structuralist approach to development economics' or what he calls 'neo-structuralism'.⁹⁵

government-linked companies has continued to climb (see Vennewald 1994).

⁹⁴ See, for example, Buchanan (1972) or Heyzer (1983).

⁹⁵ A structuralist approach is not bound by any common ideal and there can be quite a significant difference in emphasis, depending on one's ideological stand-point (see Edwards (1985) for a survey of the different philosophies). There is, nevertheless, a general consensus that neo-classical policy prescriptions aimed at alleviating the economic problems of developing countries are largely irrelevant. The reasoning is that economic concepts and principles fundamental to orthodox economics are founded on the special institutional and structural

The PAP has, indeed, managed to keep faith with foreign capital at the same time as it has proceeded with a programme to modernise the nation's socio-economic infrastructure. This has been possible because of the Government's strategy of enforced saving whereupon a sufficient pool of funds has been available from citizens' contributions to the Central Provident Fund (CPF)⁹⁶ to ensure that infrastructural spending has been financed in a fiscally responsible fashion, avoiding the kind of macroeconomic instability that might deter potential foreign investors. However, as this thesis will argue, the PAP approach can only be considered 'structuralist' in the sense it is quite systematic in the way it emphasises and strengthens class differences. In short, interventionism occurs in order to dismantle 'rigidities' in the labour market, or to disperse political opposition by manipulating electoral constituencies,⁹⁷ not to secure greater participation and equality for the population at large.

Some commentators have argued that the PAP's authoritarianism can be explained in cultural terms, and that a thin dividing line exists between authoritarianism on the one hand, and traditional Confucian ideas of firm direction on the other.⁹⁸ The likes of Amnesty International, however, are likely to have little sympathy for this view, given the considerable evidence they have accumulated over the years on the treatment of Singaporean citizens

characteristics of the developed nations. The development strategies proposed by this school of thought concentrate, therefore, not on growth *per se*, but on the process of growth. In particular, they argue for the wider participation of the people who populate developing countries, as only then is it possible to confront structural rigidities, and truly address the social problems that plague their nations.

⁹⁶ The CPF system began in 1955 with the primary aim of providing social security in Singapore. Today, a wide range of programmes operate within the system including home ownership, medical care, tertiary education and approved investment schemes subject to the maintenance of a minimum balance of S\$30,000. Since July 1991, employers have had to contribute 17.5 per cent of the net wage, and employees 22.5 per cent (see Asher 1993, p. 155-58).

⁹⁷ This is one effect of the public housing programme that receives little attention.

⁹⁸ An issue addressed in more detail in Chapter 6.

held without charge under the infamous Internal Security Act.⁹⁹ The number of political prisoners held under this law increased from around 40 in early 1976, to 488 in August 1989.¹⁰⁰

The Internal Security Act is the mainstay of the PAP-state's repressive apparatus and it is used, ostensibly, to quash any subversive activities adjudged to be detrimental to the interests of the nation. However, as Seow (1990) points out, it is an instrument of suppression used to stifle the voices of dissent, and if this proves to be ineffective, the one-party state simply amends the Constitution to pursue its objectives. This the Government has done on many occasions, not by referendum, or after long and considered debate, but by steam-rolling the amendments through Parliament with its massive majority.¹⁰¹

In summary, the so-called 'capitalist success story' warrants closer investigation. Singapore has become a lot wealthier in the aggregate sense, but as this thesis aims to demonstrate, this has been achieved through the formation and maintenance of a repressive one-party state, which must bear responsibility

⁹⁹ See Amnesty International (1988), and for a personal account of what it is like to fall foul of the Internal Security Act, see Seow (1994).

¹⁰⁰ The 1976 figure is produced by Amnesty International and quoted by Rodan (1989, p. 126), while the 1989 figure was quoted Seow (1990, p. 7).

¹⁰¹ Instances include, for example, the amendment to the Constitution so that Singaporeans resident outside Singapore for ten continuous years are deprived of their citizenship — a change in the law designed for the likes of Tan Wah Piow and other political exiles who might return to Singapore and embarrass the government; amendments to the Newspaper and Printing Presses Act to restrict the circulation of foreign publications which are deemed to be engaged in the domestic politics of Singapore — *Time*, *Asiaweek*, the *Asian Wall Street Journal* and the *Far Eastern Economic Review* have all fallen victim to this law; amendment to the Legal Profession Act so that the Law Society's powers of comment on current and proposed legislation were removed — the Law Society had been critical of changes in the law for political purposes; amendment to the Internal Security Act to abolish appeals to the Privy Council — this followed appeals submitted by detainees accused of involvement in a 'Marxist conspiracy'. Twenty-two 'conspirators' were originally arrested, a group comprising young professionals, Catholic Church workers and social activists, which was allegedly 'master-minded' by Tan Wah Piow (see Chapter 5).

for the creation of a society where economic and social stratification is becoming increasingly evident.

As Chapter 3 will show, given its methodological bent, the *East Asian Miracle* report does not acknowledge these kinds of issues, and the image of Singaporean society that it projects is one of great efficiency and equality. Yet ironically, while the World Bank does not acknowledge that growing inequalities are becoming a problem in Singaporean society, the Singapore Government does.¹⁰² Indeed, the Government has taken several initiatives in recent years with a view to defusing what it considers to be a politically sensitive issue. The interesting point is that in presenting these initiatives, the PAP leadership has been most concerned to distance itself from what might be construed as Western solutions to the problem. Instead, it has opted (ostensibly, at least) for a communitarian strategy based upon the promotion of 'Asian values'.

To embrace such a value system is to accept the ethic of self-reliance and to discard that of the right to welfare as a right of citizenship, something quite fundamental in Western-style welfare states. In effect, the PAP is putting forward the case that there is a cultural solution to inequality, and that it is quite possible for Singapore to maintain social cohesion and the economic imperative, so long as it does not fall prey to state welfarism. In short, the PAP recognises that the increasing economic and social stratification of society represents a danger, but argues that it need not erode the fabric of society as it has in the West if it is managed in accordance with the cultural norms of Singaporean society. In short-hand, it is possible for a nation to develop successfully along capitalist lines without it becoming 'Westernised'.

¹⁰² The income gap problem (one manifestation of inequality in Singapore) was first publicly acknowledged by Prime Minister Goh Chok Tong in his National Day Rally speech, 15 August 1993. See, for example, 'No equal incomes in free economies', *Straits Times*, 30 August 1993, p. 2.

Chapter 3:

Capitalist Development, Inequality and the Authority of *The East Asian Miracle Report*¹⁰³

The Bank's legitimacy depends upon the authority of its views; like the Vatican, and for similar reasons, it cannot afford to admit fallibility ... Hence for good organisational and political reasons the Bank's research is biased towards the conclusion that 'there is no alternative' to government policies that stay within the bounds of 'strengthening the enabling environment for private sector development' ... The research must also be largely quantitative, for numbers and econometric technique themselves confer authority.

Robert Wade (1996, pp. 34-35)

Often approximations will suffice; precise magnitudes will not matter. Depending on the kind of research being undertaken, however, economists should make every effort to ensure that the quality of the numbers corresponds to their research needs, particularly if they wish to reach strong conclusions.

Terence Moll (1992, p. 699)

3.1 Introduction

It is common for the leaders of economic opinion to refer to the authority of the World Bank with a quiet acceptance that the research findings of this powerful supranational must necessarily be consistent with the evidence.¹⁰⁴ This is a sentiment not reflected in this thesis, and as the discussion in this chapter will demonstrate, there are instances where the Bank's research function is found wanting in a number of respects. The explanation for this is quite complex, and a thorough critique of the role and functions of the World Bank

¹⁰³ A large part of this chapter draws on Williams (1996).

¹⁰⁴ This is not to discount the views of the many commentators who oppose World Bank policy prescriptions, but with respect to these people, their opposition is no match for the might of the World Bank with its huge research budget and the media coverage its research reports attract.

is beyond the scope of this study. This notwithstanding, the tale of *The East Asian Miracle* report does provide a useful insight into the workings of the organisation.

As the section below will reveal, the political motivation for the *Miracle* report was considerable, which automatically calls into question the extent to which the Bank may be perceived as an independent broker of advice. This is important background to the discussion that follows in the next section, which focuses on the academic shortcomings of a report that is essentially a political compromise. The chapter then concentrates on one of these shortcomings in particular; namely, what the Bank considers to be the ‘essence of the miracle’ of capitalist development in East Asia — that rapid growth has been achieved with equality. This is a bold claim to make as it runs contrary to the findings of the leading researchers in the field outside of the Bank. The chapter then continues with two sections that concentrate on inequality in Singapore, before concluding with a summary discussion of the main problems associated with the World Bank approach and how this thesis proposes to address these problems.

3.2 The *Miracle* report: Its *raison d’être*

One of the interesting things about *The East Asian Miracle* report is that it gives no clue as to its real reason for being. The text opens on page 1 with a comment on East Asia’s remarkable record of high and sustained growth, and how the twenty-three economies in this region have grown faster than those in any other region in the world. It then identifies eight economies in particular, which are responsible for the large part of this growth. These economies, the so-called high-performing Asian economies (HPAEs), include Japan, the ‘four tigers’ — Hong Kong, the Republic of Korea, Taiwan and Singapore — and the newly industrialising economies (NIEs) of Southeast Asia; Indonesia, Malaysia and Thailand. The report then states that these HPAEs are to be the subject of the study, but there is also some acknowledgement of the world’s

other top growth performers; namely, Botswana, Egypt, Gabon, and Lesotho in Sub-Saharan Africa, and Brazil, Cyprus, Greece and Portugal. A question is then posed: ‘Why focus on eight economies in East Asia?’. The reason, according to the authors of the report is that:

In part the choice reflects popular interest; it has become common to see references to the ‘Asian Economic Miracle’. In part, it reflects recent attention by the academic and development policy communities to the relationship between public policies — which some authors have argued have a number of common threads in the eight economies, especially Japan, Korea, Singapore and Taiwan, China — and rapid growth. And in part it reflects the belief of those involved with this study that the eight economies do share some economic characteristics that set them apart from most other developing countries.

(World Bank 1993, pp. 1-2)

While this may be a true statement of fact, it is not, as we shall see, a true statement as to why the *Miracle* report came about. As the discussion in this chapter will demonstrate, the study was undertaken somewhat reluctantly, and it only went ahead because of pressure from the Japanese. Indeed, the report received significant financial support from the Japanese.¹⁰⁵

The main findings of the report are that the success of the HPAEs rests on two factors. First, and most important, the nations in question ‘got the fundamentals right’ with sound macroeconomic policies, high levels of saving and domestic investment and rapidly growing human capital. Second, governments pursued selective interventions in the three broad areas of industry development, finance, and the export sector. In this instance, the authors show less conviction. Sometimes the report is positive in tone, noting that intervention has proved useful and been closely associated with high rates of private investment and productivity growth. At other times, there are signs of scepticism over the wisdom of intervention given that price distortions may

¹⁰⁵ The financial support of the Government of Japan is acknowledged in the foreword and the acknowledgements (World Bank 1993, pp. vii and xiii).

serve to undermine 'policy fundamentals'. As a result, the authors conclude that:

... in attempting to distinguish interventions that contributed to growth from those that were either growth-neutral or harmful to growth, we cannot offer a rigorous counterfactual scenario. Instead, we have had to be content with what Keynes called an 'essay in persuasion', based on analytical and empirical judgements.
(World Bank 1993, p. 6)

In effect, this amounts to a political compromise. It is the World Bank treading very carefully between two rival camps within orthodox circles: those who subscribe to the neoclassical view that the HPAEs' success is down to getting the basics right — the so-called 'Washington consensus',¹⁰⁶ and those who adhere to the newly powerful revisionist view that favours Japanese-style industrial policy and interventions on financial markets. This becomes clearer when one considers the events that led to the publication of the *Miracle* report. In particular, it is important to understand that the report is essentially the product of a build-up of tension between the Japanese government and the World Bank spanning a number of years, over the role of the state in economic development;¹⁰⁷ Japan endorsing a market-guiding role for the state, while the Bank has championed free markets.

The first signs of tension began to emerge in the early 1980s, when Japan started to pour foreign aid and investment into East Asia which, in the process, promulgated its particular brand of development thinking. The Bank, meanwhile, was proceeding along a different path, extolling the virtues of market liberalisation and privatisation. This became a problem when the

¹⁰⁶ The 'Washington consensus' is a term used to describe the acceptance by most governments in advanced and developing countries, that the prerequisites for growth are an outward-oriented trade policy, minimal regulation of the domestic economy, and fiscal and monetary discipline (see Williamson 1990, for example). This is the approach traditionally favoured by the World Bank.

¹⁰⁷ For a detailed analysis, see Wade (1996, pp. 3-17).

Japanese aid agency, the Overseas Economic Cooperation Fund (OECF), was criticised by the World Bank in 1989 on the grounds its aid programmes to Southeast Asia, specifically its directed credit programmes,¹⁰⁸ undermined those of the Bank and the International Monetary Fund, which insisted that credit should always be at market rates.¹⁰⁹

The Japanese were not impressed, and strong protests were made to the Bank's senior management and to the Board of Executive Directors from member governments. It was now abundantly clear that a stage had been reached where Japan was no longer prepared to occupy the role of a key financier without a commensurate amount of representation. Japan, at this time, was the second biggest shareholder in the World Bank after the United States, and it had the largest bilateral aid programme in the world. But this notwithstanding, its complaints went unheeded, the Bank's senior management refusing to back down. It was not until 1991, with the arrival of a new president, Lewis Preston, that the World Bank made any concession to the Japanese, agreeing, albeit rather reluctantly, to permit a study of the East Asian development experience. That the Bank's senior management agreed at all had a lot to do with the fact the Japanese were prepared to fund the project with a budget of US\$1.2 million (Awanohara 1993).¹¹⁰

The preparation of the *Miracle* report got under way in January 1992 — the project team having until the Annual Meeting of the World Bank in September 1993 to complete the study — and, given the quite pungent circumstances in which the *Miracle* report began, it is not altogether surprising to find that the

¹⁰⁸ Subsidised, targeted credit to support private sector development. In 1988, for example, aid was given to Thailand for the construction of industrial estates for Japanese companies.

¹⁰⁹ Concessional credit from the Japanese aid budget obviously makes World Bank credit less attractive, but a further problem for Bank officials was that it runs counter to the Bank's emphasis on financial deregulation.

¹¹⁰ According to Wade (1996, p. 18), the total budget was US\$2.2 million as the Bank agreed to pay for the time cost of its own staff.

political manoeuvring was to continue over the duration of the project. Wade (1996), in particular, provides a very detailed account of these manoeuvrings, benefiting from his time working as an economist for the World Bank between 1984 and 1988, and through interviews with officials in Tokyo and Washington who wished to remain anonymous.

Wade identifies two stages in the preparation of the report; the first stage being the period between January 1992 and March 1993 when the first drafts of the chapters were written, and the second stage being the period between March 1993 and September 1993 when the drafts were revised before publication. Of the first stage, Wade makes a number of observations drawing attention, first of all, to the apparent bias within the core study group towards US-trained economists. This group, which was to provide the overall analysis and conclusions, was based in the Bank's research complex under Lawrence Summers and Nancy Birdsall, both Americans.¹¹¹ They appointed John Page, another American, to head the study, and Page put together a team of six, all with PhDs in economics, and all bar one, hailing from US universities. Wade also notes that none of the team had adult experience of living and working in Asia (1996, p. 18).

Meanwhile, a number of case studies of countries were organised by the Bank's East Asia vice-presidency. Some of these case studies were compiled internally, but others went to outside consultants who were required to submit drafts after six months. As a result of this time constraint, their input was essentially desk-top research. This might have been avoided had the vice-president for East Asia, Gautam Kaji, been fully briefed. According to Wade (1996, p. 19), when Kaji was asked for his views about the study by an executive director, he confessed to not having heard about it. This episode, maintains Wade, is down

¹¹¹ Summers, a Harvard economist, joined the World Bank in January 1991 as chief economist and vice-president. According to Wade (1996, p. 10) he is not noted for his tact and openly held the view that Japanese economists are 'second rate'. Nancy Birdsall is director of the research department.

to the fact that Lawrence Summers was aware that the senior managers and economists under the East Asia vice-presidency ‘held views towards the free market extreme of the Bank’s range’, which meant they were likely to push for a largely free market interpretation of East Asian economic success. This, of course, would not have satisfied the Japanese.

Another event of note in this first stage concerned the restructuring of the ‘institutional basis’ chapter.¹¹² Initially, the main question to be addressed was: ‘What features of East Asian institutions enabled these economies to avoid the costs that befall equally interventionist and authoritarian states elsewhere?’, but according to Wade (1996, p. 20), Birdsall and Page later decided that this was a problem on the grounds it might have been interpreted as sanctioning interventionism and authoritarianism. As a consequence, this theme was much diluted in the report, so that there are only oblique references to authoritarianism.¹¹³

The second stage in the production process saw further dilution of the report as the East Asian vice-presidency, still smarting from its exclusion at the initiation of the project, attempted to assert its influence. The East Asia staff were not happy with the first drafts on the grounds they believed there was an excessive emphasis on government intervention. They were not happy, for example, about use of certain terminology which put forward a stronger argument about the efficacy of industrial policy than they felt was warranted. They wanted more emphasis on neo-classical ‘fundamentals’, they argued for

¹¹² Entitled ‘Chapter 4: An Institutional Basis for Shared Growth’ in the final draft.

¹¹³ Some critics of the first draft called for references to authoritarianism to be completely dropped which the authors resisted (Wade 1996, p. 22). This notwithstanding, reading the chapter, one could be forgiven for thinking that authoritarianism is not a feature of any of the HPAEs. On p. 188, for example, it reads ‘all leaders need a strategy that will induce people to participate willingly in growth. Whether by accident or design, the leaders of the HPAEs have to various degrees devised mechanisms that effectively deliver the promise of shared growth’ (World Bank 1993). As the discussion in Chapters 5 and 6 of this thesis will argue, these mechanisms are not very much in evidence in Singapore.

words like ‘strategy’ and ‘strategic’ to be replaced with the more innocuous ‘functional’, and they wanted the term ‘market-friendly’ to be given a much higher profile (Wade 1996, pp. 21-22).¹¹⁴

As the deadline loomed closer, these concessions were granted and the critics appeased. In the process, the *Miracle* report came to resemble, more and more, the kind of document that one would normally associate with the World Bank. Just to make absolutely sure, the Bank’s senior in-house editor was commissioned to pay special attention to headings, so that the headings themselves would present the argument (assuming many readers do not go beyond them). This argument was not to stray outside the range of views represented by the Bank, but it was not simply to repeat the Bank’s standard line. To do this, would be to risk offending the Japanese. So, to avoid this happening, the second draft was also debated in a Singapore round-table discussion (including senior or ex-senior government officials from Singapore, Malaysia and Indonesia) and in Tokyo where there were three meetings with individual senior officials who had made comments on the first draft. Individual chapters were also presented at seminars in Singapore, Indonesia and Korea by members of the Bank’s research team (Wade 1996, p. 22).

3.3 The academic shortcomings of political compromise

There is an old English adage that says ‘seldom any splendid story is wholly true’, and as proverbs go, there are certainly none more appropriate than this when it comes to describing *The East Asian Miracle* report. After all the politicking, what emerges is a document which succeeds in satisfying the main objective of mollifying all concerned parties, but which is sadly lacking in terms of its academic integrity.

¹¹⁴ For example, ‘The Strategic Growth Framework’ became ‘The Functional Growth Framework’ (see World Bank 1993, p. 87-90) and the market-friendly approach (as articulated in the *World Development Report 1991*) is

For the first time in a publication associated with the World Bank, it is acknowledged that extensive government intervention does exist in East Asia. The report also notes, albeit in rather tentative language, that some of these interventions contributed to growth in some parts of East Asia. Thus, statements appear which say selective interventions in the form of ‘forced savings, tax policies to promote (sometimes very specific) investments, sharing risk, restricting capital outflow, and repressing interest rates ... *appear to have succeeded* in some HPAEs...’ (World Bank 1993, p. 242, emphasis added), and ‘...credit programs directed at exports yielded high social returns and, in the cases of Japan and Korea, other directed-credit programs also *may have increased investment and generated important spillovers*’ (World Bank 1993, p. 356, emphasis added).

Interestingly, the wording in Lewis Preston’s preface to the report is more forthright. Written within the core research team, it did not have to run the gauntlet with the East Asian vice-presidency and, as a consequence, the ‘may haves’ and the ‘appear tos’ are not in evidence. As Wade (1996, p. 23) observes, ultimately, the president has to keep the main shareholders happy, and in this case, ‘the number two shareholder evidently needed to be made less unhappy’. To this end, the preface states, quite unequivocally, that: ‘It [the report] concludes that in some economies, mainly those in Northeast Asia, some selective interventions contributed to growth, and it advances our understanding of the conditions required for interventions to succeed’. Wade (1996, p. 24) rather mischievously suggests that this, along with the line on page 356, is what the Japanese got for their US\$1.2 million.

When presented with the final draft of the report, the World Bank’s executive directors (the representatives of the member states), responded with sharply

reaffirmed as the recipe for development success (see World Bank 1993, p. 84-86).

differing opinions. According to Wade (1996, p. 28) the US Board member enthusiastically endorsed what he took to be the free market message of the report, the Japanese representative was cautiously complimentary, the Argentinian representative condemned the whole report as an apologia for interventionism, while his Indian counterpart intimated that the report's 'anti-interventionist conclusions were fixed in advance and the evidence tailored to fit'.¹¹⁵ John Page is reputed to have said later, that if one is being attacked from all sides, the argument must be about right.

This was a pattern that continued after the *Miracle* report was officially launched in September 1993. The Japanese media claimed that the report confirmed the effectiveness and replicability of East Asian governments' interventions, while the media in the West (mainly in the US and Britain) claimed that it did precisely the opposite, that government interventions were ineffective and not replicable.¹¹⁶ In short, the overwhelming impression one is left with, is that there is something for everybody in the *Miracle* report. The problem, however, is that this inevitably casts doubt over the intellectual consistency of the document.

A number of commentators who have reviewed the *Miracle* report have picked up on this, albeit to varying degrees. Dowrick (1994, p. 469), for example, considers the report to be 'a surprisingly well written and easily read

¹¹⁵ The Indian executive director's cynicism was well-founded. Wade (1996, p. 28) reports that the draft sent to the Board had been revised in the month between being sent to the Board and being actually discussed. Many of the revisions addressed matters the Board raised, and these were subsequently reported as being made 'in response to Board suggestions'.

¹¹⁶ Wade (1996, p. 28) compares, for example, the coverage in the London *Financial Times* (27 September 1993, p. 16) with Japan's leading business newspaper, *Nihon Keizai Shimbun* (26 September 1993, p. 7). The *Financial Times* reported that 'Industrial policies to promote particular sectors or companies have been a failure in East Asia and do not explain the region's rapid growth in recent decades'. The *Nihon Keizai Shimbun*, on the other hand, said that 'the report cites the accumulation of high-grade human and physical capital as a motivating force and highly evaluates the effects of government intervention...'

document' but then concedes that 'contradictory conclusions' are put forward at various points. Similarly, Zysman and Doherty (1996, p. 242) state that although the report 'suffers from inconsistencies and occasional contradictions (due perhaps to multiple authorship or perhaps to political compromises made at the World Bank during its writing), it stands as a landmark in the policy debates on developmental economics'.

Other analysts have been more strident in their criticism; most notably, those authors contributing to Fishlow *et al* (1994). In this volume, which provides an excellent summary of the *Miracle* report, Dani Rodrik, Robert Wade and Stephan Haggard argue that much of what the Bank researchers call 'evidence' is highly dubious. Rodrik (1994, pp. 35-39) for example, takes issue with the Bank over the finding that indicators of openness are positively correlated with growth in the basic growth regression (World Bank 1993, p. 51).¹¹⁷ One of these indicators, constructed by Dollar (1990), is essentially an index measuring real exchange rate divergence rather than openness. Furthermore, if used as an index of openness, Dollar's own published results show that Japan and Taiwan were less open between 1976 and 1985 than Argentina, Brazil, India, Mexico, the Philippines, and Turkey (Dollar 1992); a fact that the *Miracle* report mysteriously does not acknowledge. Rodrik (1994, p. 37) concludes that the evidence presented in support of the claim that more open economies grow faster is simply untenable.

Another bold claim made by the authors of the *Miracle* report is that 'price distortions were mild' (World Bank 1993, p. 24) and that 'East Asia's relative prices of traded goods were closer on average to international prices than other developing areas' (World Bank 1993, p. 301). As Wade (1994, p. 78)

¹¹⁷ The basic growth regression in the report includes, as explanatory variables, GDP per capita in 1960 relative to the United States, primary and secondary school enrolment rates in 1960, the average investment-GDP ratio (1960-85), and the population growth rate (1960-85). The dependent variable is average per capita GDP growth between 1960 and 1985.

points out, this generalisation is important because it is crucial to the argument put forward by the Bank that while industrial policies existed in East Asia, their influence was slight. The temerity of the claim is apparent when the report acknowledges that the relative prices of Japan, Korea and Taiwan deviated more from world prices during 1976-85 than Brazil, India, Mexico, Pakistan and Venezuela, all of which were pronouncedly interventionist. The report makes no attempt to account for this 'discrepancy' but does concede that its findings are 'broadly indicative' given that any attempt to compare real prices across a large number of economies is subject to methodological and empirical problems. This notwithstanding, the vital conclusion that price distortions in East Asia are mild is allowed to stand. This is possible largely because the evidence on price distortions in Japan, Korea and Taiwan is disguised when it is averaged with the other HPAEs.

There are other propositions in the *Miracle* report which are decidedly suspect according to the contributors to Fishlow *et al* (1994). Wade (1994, p. 77) concludes, *inter alia*, that the report makes 'a variety of theoretical and empirical assumptions that bias the results against selective industrial policy'. Haggard (1994), meanwhile, criticises the report for playing down the relationship between rapid growth and authoritarian government. Along with these, there are many other criticisms made of the *Miracle* report,¹¹⁸ but interestingly, most of the sound and fury surrounds the debate over industrial policy. Few of the critics devote attention to what the authors of the report refer to as 'the essence of the miracle', that rapid growth in East Asia has produced relatively equal outcomes (World Bank 1993, p. 8).

¹¹⁸ See, for example, Gore (1996), Cappelán and Fagerberg (1995), Amsden (1994) and Lall (1994).

3.4 The 'essence of the miracle'

According to the *Miracle* report, the defining characteristic of East Asian development is that rapid growth has produced 'highly equal income distributions' (World Bank 1993, p. 8).¹¹⁹ The report does concede, however, that 'some studies of Korea have shown increasing inequality in recent years',¹²⁰ but that this can be largely explained by 'the rising value of assets, particularly land, rather than increased variation in incomes' (World Bank 1993, p. 32). The wording contained in this paragraph of the report would seem to imply that rising asset prices should not be a reason for Korea becoming more of an unequal society. This may leave a person without economics training a little confused as to the authors' intended meaning. The reader may be led to believe, for example, that any income received from asset sales is trivial, and therefore of little significance to the issue of societal inequality, or alternatively, remuneration paid to factors other than labour is of no analytical importance. A professional economist, on the other hand, will quite likely accept the wording of the paragraph without question, for the simple reason it has almost become normal custom and practice, in the case of econometric studies on inequality at least, to use any data, so long as it can be easily processed. As Moll (1992, p. 690) puts it:

Occasionally political or polemical motives can be discerned behind the use of bad numbers, with accuracy being firmly subordinated to predetermined conclusions. More often, economists are slothful, are not concerned about the sociological and methodological bases of their statistics, or use numbers simply because they are available and seem to make a rough kind of sense.

¹¹⁹ The same observation is made by the Asian Development Bank. The authors of *Asian Development Outlook 1994* state that: 'A remarkable feature of economic growth in East Asia is that it has been accompanied by a reduction in income inequality' (Asian Development Bank 1994, p. 35).

¹²⁰ These studies are not cited.

Thus, despite the fact that statistics on labour income are unlikely to give the full picture on the degree of inequality in a society, economists will generally proceed with the processing of this data from which they will make general inferences. Moll is quite scathing in his criticism of the economists who do this kind of thing,¹²¹ and with just cause if the evidence he presents with respect to studies of inequality in Taiwan is anything to go by (Moll 1992, pp. 691-99). Interestingly, he argues that Taiwan is not the shining star of egalitarianism it is regularly perceived to be, and while ‘the conclusion of a mild improvement in the Taiwanese income distribution after 1964 seems acceptable’, he believes that researchers have analysed the numbers too uncritically (1992, p. 698).

Moll begins by dismissing surveys conducted prior to 1964 on the grounds the sampling techniques and sample sizes are extremely suspect.¹²² He then comments on the fact that, although post-1964 surveys are more reliable, the precise magnitude of falls in the Gini ratios is open to question.¹²³ Subsequently, he argues that it would be quite fatuous to look upon the Taiwanese case as conclusive proof that export-oriented capitalism produces dramatic falls in inequality.¹²⁴ To support his argument, Moll tabulates the findings of several researchers which show that the measured fall in the household Gini ratio between 1968 and 1978 ‘varies between 23.1 per cent

¹²¹ Moll regards with disdain, for example, those cross-country comparisons and analyses of changes in inequality which pay scant attention to methodological details like sample sizes, income concepts and income-recipient units (1992, pp. 690-91). Paukert (1973), on the other hand, would argue that despite their shortcomings, the various types of data still permit broad cross-country comparisons.

¹²² Data for a 1953 study, for example, had a sample size of only 301 households (0.02 per cent of the total), and these households were selected non-randomly. Surveys conducted in 1959/60 and 1961 are subject to similar criticisms (Moll 1992, pp. 694-95).

¹²³ The Gini ratio, or Gini co-efficient, is the standard measure economists use to gauge income inequality. A Gini ratio of 0 represents perfect income equality, while a Gini ratio of 1 depicts complete income inequality.

¹²⁴ Among the accolades Taiwan has received for its income distributional record, it has been attributed with having experienced ‘probably the largest decline in the Gini in any non-socialist nation since 1900’ (Barrett and Chin 1987, p. 29), and ‘a distributional revolution greater than any achieved under socialist or communist auspices’ (Johnson 1981, p. 10) (cited in Moll 1992, pp. 693-94).

(Lui 1981, Table 3), 16.8 per cent (Kuo 1983, Table 6.1), 12.7 per cent (DGBAS 1990, Table 4) and 12.2 per cent (Kuo *et al* 1981, Table 5.1), while numbers from different studies do not always move together'. Furthermore, if one were to examine estimates of confidence intervals for Gini ratios, as Moll suggests, all variation in the household Gini ratio between 1970 and 1989 could be statistically insignificant (Moll 1992, p. 698).

Another frequently overlooked aspect of the Taiwanese case is that it began the post-war period as a relatively equal society following the reforms that were introduced in the aftermath of colonialism. Ho points out that inequality with respect to the ownership of physical capital was significantly reduced as a consequence of Japanese assets being appropriated by the state (Ho 1978, pp. 143-44), while land reform and the elimination of the property assets of the urban élite in the immediate post-war period also had a significant redistributive effect (Perkins 1994, p. 660). Given the arguments put forward by Moll about the unconvincing nature of the surveys conducted since these reforms were introduced, it would appear as though rapid economic growth has had a minimal impact on the already egalitarian base of Taiwanese society. Indeed, if one were to glean anything of importance from the econometric studies on inequality in Taiwan then, judging from the trend, capitalist development is causing Taiwanese society to become more unequal, as most studies, since 1980 at least, show that the Gini ratio is increasing;¹²⁵ a point the *Miracle* report does not allude to.

The situation in the other East Asian NICs is similar to that in Taiwan. Using the World Bank's preferred technique for measuring inequality, numerous researchers have shown that these societies are becoming more unequal, and have been since the early 1980s (Krongkaew 1994, p. 70). The fact the Bank fails to acknowledge this phenomenon is perhaps the single most miraculous

¹²⁵ See Moll 1992, p. 693 and Krongkaew 1994, p. 61 for evidence of this.

thing about the *Miracle* report. In the case of Korea, for example, there is evidence to suggest that increasing inequality set in even before the early 1980s, despite the World Bank's claim that inequality has increased only in 'recent years'.

Alice Amsden is less astonished by the Bank's intellectual dishonesty, arguing that while the World Bank 'purports to produce objective economic analyses' it is 'inherently a political organisation' with a top management 'comprised of political appointees who serve at the discretion of the industrialised countries, especially the United States' (Amsden 1994, p. 627). In this way, it is most unlikely that a report would be produced that (i) undermines the Bank's ideological commitment to the free market, and (ii) shows the free market to produce unequal outcomes. Amsden is quite scathing in her criticism of the Bank's failure to give the revisionist school a fair hearing, and its narcissism in seeing its own 'market-friendly policies' in East Asia's fortunes rather than the pervasive intervention of the state. The following passage explains the reason for this, which is also the reason why the *Miracle* report fails to acknowledge increasing inequality in East Asia:

A 'veil of money' separates the reader from East Asian development in the form of expensive 'background papers' by consultants, hand-picked and hired by the Bank, who collaborate with Bank insiders and personally interpret what they believe happened in East Asia, based, in some cases, on extensive bibliographic references mainly to their own work. Most experts outside immediate Bank circles, who have studied East Asia for years, are rarely cited, if at all. ... The failure to recognise classic works in the debate and to cite the original source — 'to get the copyright' — means that all information to the reader is filtered. Much of the statistical data are not fully identified.

(Amsden 1994, p. 630)

In support of Amsden's point, it is certainly true that as far as income inequality measures are concerned, the reference in every case is simply

'World Bank data'.¹²⁶ Meanwhile, the 'expensive background papers' to which Amsden refers fail to shed any more light on the matter. According to the World Bank (1993, p. 370) most of the background work on income distribution was provided by Campos (1993). There is no reference to Campos (1993) at the rear of the report, although he was responsible for the authorship of two undated background papers. Unfortunately, these two papers underwent so many revisions that they are not available for public consumption.¹²⁷ Other background papers germane to this study were acquired, with some difficulty, but none make any direct reference to the measures of income distribution referred to in the *Miracle* report.¹²⁸

In Korea, like Taiwan, there are problems over the reliability of survey results. Focusing on the period 1965-78, Mizoguchi (1985, pp. 310-12) comments on the difficulty associated with getting an accurate picture of nation-wide income distribution given the existence of two family budget

¹²⁶ See, for example, Figure 3 (World Bank 1993, p. 4), Figure 1.3 (World Bank 1993, p. 31), and Figures A1.7, A1.8 and A1.9 (World Bank 1993, pp. 72-74).

¹²⁷ This was confirmed through a personal communication with the World Bank in May 1997. The author was referred, however, to Campos (1993) and Campos (1994) which, in turn, form the large part of Campos and Root (1996). In Campos (1993) and Chapter 1 of Campos and Root (1996) there are figures and tables similar to those in Chapter 1 of the *Miracle* report, references are made (in the 1996 publication, at least) to the World Bank's East Asia Miracle database. Another commonality with the *Miracle* report is the fact that neither the 1993 nor the 1996 publication make any reference to any of the research work on income distribution in the HPAEs mentioned in this chapter of the thesis. One significant difference, however, is that whereas the *Miracle* report has no qualms about using Gini coefficients for the purposes of international comparison, Campos and Root are more circumspect, noting that although the interpretation of the Gini coefficient is 'straightforward', as there are 'differences in income definitions and survey methodologies across countries, it may not be well suited for cross-country comparisons' (1996, p. 8).

¹²⁸ The background papers produced by Chia (1992), Freeman (1993) and Stiglitz (1993) were eventually secured after a request some 18 months earlier had been denied. With the exception of the work by Chia, it soon became clear why the Bank was reluctant to release the documents. The papers included many hand-written comments and deletions, and overall, conveyed the impression they were very rough drafts. In the paper by Freeman, for example, Singapore's current Senior Minister is referred to as 'Lee Kew Yuan', 'Lee Yuan Kew', and 'Lew Kuan Lee', but not Lee Kuan Yew.

surveys, one for urban employee households, and one for farm households. Apart from the fact that income distribution for non-agricultural self-employed households has to be estimated, the surveys exclude all households on public assistance and those with incomes above a certain level, omissions that would obviously cause there to be inaccurate measurement of inequality. Even after 1980 when these groups are not excluded, the urban survey still fails to consider income data for self-employed and employer households (relying instead on expenditure data to calculate income), while the rural survey omits the rural, non-agricultural households (Krongkaew 1994, p. 60, drawing on Leipziger *et al* 1992).

These methodological deficiencies notwithstanding, the popular image of Korea continues to be one of a society having experienced little, if any deterioration in its income distribution during the course of its rapid economic growth. This image is not likely to change so long as documents like the *Miracle* report continue to be published and widely circulated. The fact that the report makes no comment as to the frailty of the surveys on Korean inequality means that in any cross-country comparison, Korea is inevitably placed in a favourable light.¹²⁹ Koo (1984, p. 1029), for example, cites Jain (1975) who, publishing the Gini ratios for various nations, shows Korea to have one of the lowest levels of inequality in the world. This could be a valid conclusion if only one were comparing like with like, but given the vagaries surrounding data collection, there has to be a question mark over the usefulness of this kind of cross-sectional analysis.

Another problem with cross-country analyses is that they generally pay scant attention to the historical and political setting of a nation. Like Taiwan, Korea

¹²⁹ Since Danny Leipziger, the Country Studies Director for the *Miracle* report, was clearly aware of this given the evidence presented in Leipziger *et al* (1992), it is surprising the issue was adjudged sufficiently unimportant not to warrant even a footnote.

also began its industrialisation phase as a relatively egalitarian society,¹³⁰ so one has to view changes in Korean inequality within this context. Drawing on the *Miracle* report, Perkins (1994, p. 660) argues that ‘subsequent growth did not really alter this egalitarian base’, but most studies present a different picture, the trend being one of growing inequality.

Koo (1984, p. 1030), who acknowledges that the quality of the data is not very high, indicates that during the 1960s (the first decade of Korea’s industrialisation) the trend was one of falling inequality, but during the 1970s this trend was reversed.¹³¹ This reversal was not as pronounced towards the end of the decade, and some researchers (Kim 1986, and Chung and Oh 1992, for example) have reported that inequality declined once again during the early 1980s. However, inconsistency abounds as another study covering the same period shows the Gini ratio to be on the increase (see Kim and Anh 1987), a phenomenon Leipziger *et al* (1992, pp. 18-20) ascribe to poor survey data.

According to Krongkaew (1994, p. 60), the Korean Development Institute (KDI) set about conducting its own household income and wealth survey in 1988 with a view to overcoming the problems surrounding the reliability of data. This study showed there to be a more unequal distribution than first thought. Meanwhile, the results of the study on the distribution of wealth in Korea which showed that 43.1 per cent of wealth was owned by just 10 per cent of households; a factor attributable, in large part, to land ownership

¹³⁰ This, as Perkins (1994, p. 660) points out, was ‘more the result of historical accident than deliberate policy’. Rodrik (1994, p. 26) and Haggard (1994, p. 82), meanwhile, point out that compared to the other countries at a similar level of development, all the HPAEs were relatively equal societies in the period that preceded economic take-off. However, as Rodrik (1994, p. 26) notes, the report’s treatment of this issue is ‘quite skimpy’, the emphasis being on how ‘growth and equity went hand-in-hand’. Wade (1994, p. 69) also complains about the tendency for mainstream practitioners to be ‘inattentive to history’, and how it is important to place the East Asian experience in a wider historical context.

¹³¹ Koo tabulates the findings of Choo (1979), the Korea Economic Planning Board (1982), and Renaud (1980).

(Leipziger *et al* 1992, pp. 41-47).¹³² As Krongkaew (1994, pp. 62-63) points out, this lends support to the view that, while there might be growing equality of labour income because of low unemployment, increasing educational attainment and minimum wage legislation, 'Korean income distribution became more unequal in the latter part of the 1980s because of the extraordinary rise in the relative position of the highest income group'. Krongkaew also comments on the KDI findings on the returns to capital (interest and dividends), which were only one quarter the amount calculated in the national accounts. Quite clearly, had all of this income been declared, the KDI survey would have found income inequality to have been even greater.

In Hong Kong, there is a paucity of research on income distribution, and only a handful of authors, most notably Hsia and Chau (1978) and Lin (1985 and 1994), have concentrated specifically on Hong Kong. The problems surrounding survey data in Taiwan and Korea also afflict Hong Kong. Lin (1994, p. 7) laments over the 'grossly inadequate' data,¹³³ so if the data is to be used responsibly, one can only examine the trend with respect to income inequality, as imprecision over the exact magnitude of inequality renders cross-sectional analysis inappropriate. According to Lin (1985 and 1994), inequality in Hong Kong increased between the late 1950s and the early 1960s, it started to decline in the mid-1960s, but then increased significantly in the late 1970s and early 1980s. There was then a slight improvement, before the arrival of the 'great U-turn' (Lin 1994, p. 30) when inequality increased once again during the latter half of the 1980s and early 1990s.¹³⁴ Furthermore, although no data is available after 1991, Lin is firmly of the view that, if

¹³² Recall that this was the issue the *Miracle* report glossed over.

¹³³ Lin (1994, p. 24) argues that the Hong Kong Government's quarterly household survey is far too simple, while the five-yearly population census does not produce adequate data. There are no statistics on the distribution of wealth.

¹³⁴ This trend is confirmed in other recent studies. See Terasaki (1991) and Hung (1994) cited in Krongkaew (1994, p. 60).

anything, inequality has worsened since this time, and advances several reasons to justify this claim (1994, pp. 24-30).

First, taxation policy has continued to favour high income groups, with a reduction in the business income tax rate, the abolition of tax on interest, and capital gains remaining tax exempt. Meanwhile, tax allowances for low income households have lagged behind inflation.¹³⁵ Second, the majority of Hong Kong's labour-intensive factories have relocated their plant to China to take advantage of lower labour costs (a phenomenon Lin (1994, p. 26) refers to as the de-industrialisation process). As a consequence, low income workers in Hong Kong have been displaced and wage rates depressed. Third, average family earnings have declined owing to the drop in the labour force participation rate (falling from 66.3 per cent in 1981 to 62.3 per cent in 1991) and the growing tendency for people to opt for smaller families (the average family size fell from 3.9 persons in 1981 to 3.3 persons in 1991). Fourth, as many Hong Kong workers are un-unionised or belong to weak trade unions, wage rates are left almost exclusively to market forces. Unfortunately, this often fails to guarantee 'a fair wage rate for workers due to the unscrupulous practices of employers' (Lin 1994, p. 27). Furthermore, in 1989, the Government gave in to pressure from industrialists and changed its immigration policy to allow the importation of foreign workers. As these workers are generally prepared to work for lower wages, this has served to suppress wages increases. Meanwhile, the emigration of professionals (because of fears surrounding Hong Kong's return to China in 1997) has drastically changed the pay structure in favour of those professionals who have remained. Fifth, the wealth effect arising from the performance of the Hong Kong stocks and property markets between 1986 and 1993 has been quite spectacular. As equity and property are assets which generally produce income for wealthy

¹³⁵ See the editorial in the *Far Eastern Economic Review*, (Anon. 1994a, p. 7), for a comment on the latest round of tax cuts.

people, one can only assume that this phenomenon would serve to aggravate inequality in Hong Kong's income distribution.

In each of the East Asian NICs examined so far, the evidence confirms that these societies are showing a tendency to become more unequal. At some stage in the early part of their rapid economic development, each nation experienced a downward trend in inequality as wage labour expanded to meet the needs of the industrialisation process, but in subsequent periods, the gap between rich and poor has widened quite markedly. Documenting the Hong Kong experience, Lin (1994, p. 24) remarks that on the basis of available statistics, inequality in this country is 'very bad by international standards'. Krongkaew (1994, p. 64) meanwhile, draws attention to Singapore, where 'the level of inequality is very high by the standard of countries ... with the same level of development' and the highest among the East Asian NICs. Krongkaew makes this observation on the basis of cross-country comparison of the Gini ratio, a form of analysis one has to be wary of for reasons argued above. It is, nevertheless, a claim that warrants further investigation. The next section will examine the Gini ratios for Singapore as they have been calculated by various individuals, with a view to getting a picture of the broad trend with respect to inequality in Singapore. This will serve as an introduction to the more detailed analysis in the chapters that follow.

3.5 Singapore and the Kuznets hypothesis

According to the *Miracle* report, for the period 1965-90 the 'HPAEs are the only economies that have high growth *and* [original emphasis] declining inequality' (World Bank 1993, pp. 4-5). Citing Kuznets (1955), the authors point out that this is 'contrary to historical experience' (World Bank 1993, p.29). In the case of Singapore, the report presents a particularly impressive picture and, using World Bank data, the authors claim that income became less concentrated during the period under consideration, with the average Gini

ratio falling by approximately 0.09.¹³⁶ Furthermore, measuring inequality by the ratio of the income shares of the richest 20 per cent and the poorest 20 per cent, Singapore once again scores very favourably with the third most impressive record behind the Republic of Korea and Taiwan.¹³⁷ These findings are quite startling when one considers that researchers in the field have found that inequality, in terms of the Gini ratio, has been steadily increasing since the late 1970s.

One of the first individuals to examine the relationship between economic growth and income distribution in Singapore was Chen (1974). In this paper, Chen puts forward the view that Singapore was proving to be an exception to the rule that rapid development of a nation necessarily means worsening inequality. Using income data from a variety of sources for the period 1960-73,¹³⁸ Chen found that there was no conclusive evidence to suggest an improvement or deterioration in measured income inequality. Nevertheless, his main finding was that income disparities had grown less in the course of Singapore's rapid economic development because of the redistributive policies of the Government. To support this assertion, Chen makes reference to a number of redistributive measures (public housing programmes, education and

¹³⁶ This is an estimate from a graph using the naked eye rather than an accurate figure. The exact figures are not given. The figure of -0.09 is the change in the average Gini ratio (1980s minus 1960s) according to 'Figure 3: Change in Inequity and the GDP per Capita Growth Rate' (World Bank 1993, p. 4). More information on Singapore's Gini ratio is provided in Figures A1.7, A1.8 and A1.9 (World Bank 1993, pp. 72-74). For the period 1965-70, the ratio is given as 0.5, for the period 1971-80 it is about 0.46, and between 1981-90 it is approximately 0.41. No exact figures are given in the *Miracle* report or any of the background papers that refer to Singapore. The data source for the graphs in the report is simply: 'World Bank data'.

¹³⁷ Once again, no exact figures are given, but according to 'Figure 1.3: Income Inequality and Growth of GDP, 1965-89' (World Bank 1993, p. 31), Singapore registered a GDP per capita growth rate of around 6.5 per cent and an income inequality index of less than 10.

¹³⁸ The 1966 Sample Household Survey (Ministry of National Development and Economic Research Centre), the 1973 Labour Force Participation Survey (Economic Research Centre), the 1972 United Nations ECAFE Survey, the 1972 Communication and Family Planning Survey, and the Inland Revenue Department Annual Reports (1960 and 1972).

medical services, for example) which, directly or indirectly, served to narrow the gap between rich and poor.

On the basis of this early analysis by Chen, one might be led to conclude that the Singapore experience was a case not supportive of the proposition, advanced by Simon Kuznets, that rapid economic growth and greater income equality were incompatible strategies. Kuznets (1955) argued that income inequality tended to widen in the early stages of economic development, and only started to narrow once a country had attained 'developed' status. According to Chen, this was not happening in Singapore because of 'the coexistence of capitalism and socialism' whereby, in its economic strategy Singapore was capitalistic, but in its social planning it was socialistic (1974, p. 129).

Chen's work was largely supported by Pang (1975a, 1975b and 1976) who continued with the theme that Singapore was one of only a handful of countries able to combine rapid growth with more equal outcomes.¹³⁹ In brief, Pang found that the distribution of individual income had improved in the period 1966-73 with the Gini ratio falling from 0.457 to 0.415, while the distribution of household income was less unequal with a ratio for 1973 of 0.4 (Pang 1975a, p. 81). Nevertheless, like Chen, Pang draws conclusions a little tentatively because of question marks over the reliability of the data used to calculate measured distributions of income. This notwithstanding, the general inference of Pang's work is that Singapore's all-out drive for rapid development had not produced increased income disparities, and in response to the Kuznets hypothesis, he goes on to suggest that the 'Republic may have undergone and passed its period of widening income inequality' (1976, p. 336).

¹³⁹ Irma Adelman (1974) identified just five countries in the world that had been able to do this.

The first really authoritative work on income inequality in Singapore was produced by Rao and Ramakrishnan (1980) whose study covered the period 1966-75. Using data on income distributions from a variety of sample surveys,¹⁴⁰ these researchers found there had been a marked decline in the Gini ratios with respect to personal income distribution whether one considered money income, pre-tax real income or post-tax real income.¹⁴¹ They also found that this tendency was 'broad-based' and applied to males and females alike, to employees and self-employed workers, to all the major ethnic groups, and to all the major sectors of activity. Furthermore, they estimated that if the effects of taxation and public expenditures were taken into consideration, the household income Gini ratio for 1972-73 would be somewhere in the region of 0.35 (Rao and Ramakrishnan 1980, pp. 65-67).

More strident in their assertions than their predecessors, Rao and Ramakrishnan go on to debate Kuznets' law and its relevance to the Singaporean case in greater depth. Interestingly, rather than reject the hypothesis out of hand, they speculate as to how one can accurately identify the various growth phases associated with a country's development. In so doing, they postulate that the 'transition phase' — the period when a country moves from pre-industrial to modern growth — should, in the Singapore case, be identified as the relatively long period over which Singapore transformed from a fishing village to an entrepôt trade centre. The implication is that it was in this period that Singapore experienced widening inequalities, that 'the peak of the inverted U-curve of the degree of inequality was attained some time during the mid-1950s or the early 1960s', and that 'the 1966-75 period might be considered as the early phase of the downward sloping part of the inverted

¹⁴⁰ The 1966 Sample Household Survey (Ministry of National Development and Economic Research Centre) and the two reports relating to the survey — You *et al.* (1967) and Daroesman (1971), the Preparatory Survey for the Household Expenditure Survey of 1972-73, and the Labour Force Surveys of 1973, 1974 and 1975 respectively.

¹⁴¹ Between 1966 and 1975, the Gini ratios fell accordingly: money income from 0.498 to 0.448, pre-tax real income from 0.496 to 0.462, and post-tax real income from 0.480 to 0.434.

U-curve'. If this were true, they argue, then the reduction in the Gini ratio during 1966-75 might be seen as the beginning of a tendency that could continue in the future (Rao and Ramakrishnan 1980, p. 69).

However, the work of Islam and Kirkpatrick served to undermine this hypothesis. In this study,¹⁴² evidence was presented to show that 'while relative earnings inequality declined up to the mid-1970s, this trend was not maintained after 1979'. In terms of the Gini ratio, inequality increased from 0.42 in 1979 to 0.46 in 1982, further increasing to 0.49 in 1983. This quite dramatic shift in earnings inequality was accompanied, according to the authors, 'by worsening inequality between occupational and educational categories' (Islam and Kirkpatrick 1986, pp. 120-25).

These results were corroborated by Rao (1988 and 1990) who, departing from his earlier work with Ramakrishnan, argued that the rising Gini ratios over the period 1979-83 could be explained in part, at least, by the Government's attempts at economic restructuring whereupon it signalled 'a policy of relatively high wages, especially for the skilled and professional groups', and 'a selective immigration policy'. Rao goes on to predict that when wages once again reflected productivity growth, the Gini ratios would 'probably settle at the 0.42-0.45 level' (Rao 1988, p. 31). However, in his later article, Rao confirms that inequality continued to increase after 1983, and according to his calculations, the Gini ratio for personal income had risen to 0.49 by 1989, almost back to its 1966 level (Rao 1990, p. 152).

In other words, 25 years after statistics on income distribution in Singapore were first recorded, Kuznets' inverted-U curve is nowhere to be seen. Instead, the Gini ratios display a quite distinct 'U' pattern. Presented with this evidence, Rao proffers two differing interpretations. The first centres around the idea

¹⁴² Using the Labour Force Surveys for the period 1973-83.

introduced by Rao and Ramakrishnan (1980) that the transition phase in Singapore's development commenced, not from the time it became an independent republic, but from the time Sir Stamford Raffles arrived in 1819. At this point in Singapore's history, Rao believes that 'income inequality must have been very low (especially since there is no historical evidence to indicate the existence of a powerful and wealthy princely family)' and estimates that the economy 'might have operated at a Gini ratio of around 0.25 to 0.3'. Thus, the first part of the Kuznets hypothesis is validated because inequality almost certainly increased after this time. Then, between 1966 and 1980 there was a decline in inequality as employment opportunities expanded rapidly (especially at the lower end of the income ladder). That trend was reversed in the subsequent period to 1989 with selective immigration and a wages policy geared towards economic restructuring. Taking the 1966-89 period as a whole, therefore, it may be viewed as 'a major fluctuation around a trend, rather than a trend.' The trend was one of stable inequality in the region of 0.45 to 0.5 (Rao 1990, p. 155). The inference of this interpretation, therefore, is that Singapore has not yet embarked on the downward-sloping part of Kuznets' inverted-U curve; that is, Singapore has yet to experience 'modern growth'.

A second, and more plausible interpretation according to Rao, is that 'societies may not exhibit their preferences' as per the Kuznets hypothesis, and the level of inequality remains at some long term constant once the upward phase of the inverted-U has ended. For Singapore, Rao estimates that, in all probability, the Gini ratio will be at 0.45 when the economy is at full employment. There may be short term influences like excessive unemployment (as in 1966) or higher wages for the low-paid (as in 1980) which cause the Gini ratio to fluctuate about its long term constant but, ignoring these transitory factors, it hardly changes so long as 'society is comfortable with it' (Rao 1990, p. 156).

Since 1990, Rao has produced three more articles on income inequality which do not add or detract from this latest conclusion in any substantive way (see

Rao 1993, 1995a and 1995b). However, in the most recent of these papers (which examines the data to 1993), the estimates for the various Gini ratios are 'revised and updated' so that the increase in the degree of inequality is not as pronounced as it has been in earlier publications.¹⁴³ With these new figures, Rao then goes on to reassert his view that the situation in Singapore is one of stable inequality (a Gini ratio of 0.47 from 1989 to 1993), but notes that there is pressure for income distribution to widen because of the recent large pay increases for top civil servants and ministers.¹⁴⁴

In summary, irrespective of the way one interprets the Kuznets hypothesis,¹⁴⁵ the bulk of quantitative research shows a trend of progressively increasing inequality in Singapore over the last decade or so. Indeed, it would be very difficult to argue the case that Singapore is becoming a more equal society. Interestingly, this is precisely what Singapore's Chief Statistician, Paul Cheung, attempted to do in response to an article written by a *Straits Times* journalist that focused on the growing income gap in Singapore (see Ibrahim 1993). In a letter to the 'Forum' page of the *Straits Times*,¹⁴⁶ Cheung publicly rejected the results of the research undertaken by Bhanoji Rao, questioning the use of the Labour Force Survey data preferred by Rao, and citing the census data for 1980 and 1990 which supported his argument that income inequality had, indeed, declined during the 1980s.¹⁴⁷ Rao, characteristically conservative in the

¹⁴³ Rao draws this to the reader's attention but does not elaborate as to the reason for the revisions.

¹⁴⁴ See Rao (1995b, p. 8 of the unpublished manuscript).

¹⁴⁵ While an in-depth analysis is outside of the scope of the present study, an observation one might make of the Kuznets hypothesis is that it fails to take account of the increasing concentration of power. That is, it assumes capitalist development proceeds along Marshallian lines, where many competing capitalists interact to produce equitable outcomes. While this may be true of the early phases of capitalist development, it is not true of the more advanced phases. In short, the inverted-U becomes an italicised, upper case 'N'!

¹⁴⁶ See 'How Govt is tackling problem of income gap', *Straits Times*, 8 June 1993, p. 28.

¹⁴⁷ Rao has a number of problems with the analyses of income inequality based on census data (see Rao 1995a), but draws attention to two in particular in his letter to the *Straits Times*. First, the data for 1990 were collected in 1989, yet the census reports give no indication as to how the 1989 data have been extrapolated to 1990. A

analysis of his research findings, was less circumspect about the defence of his professional integrity. After dismantling Cheung's argument in a carefully worded letter which appeared in the *Straits Times* three days later,¹⁴⁸ it is quite telling that Rao received no rejoinder.¹⁴⁹

3.6 Singapore: A comfortable society?

Even if one were to concur with the Rao hypothesis that increasing inequality during the 1980s was a transitory phenomenon and it is now relatively stable, one vital and dynamic element of his analysis remains largely undeveloped, that of perceived inequality. Indeed, there has been an absolute dearth of work in this area. Islam and Kirkpatrick (1986) and Quah *et al* (1991) make reference to the fact that there is a marked paucity of research on income inequality in Singapore of any type,¹⁵⁰ but research of the qualitative variety is conspicuously absent. This is despite the fact that virtually every commentator

second, more worrying limitation concerns the extent of income coverage of the two censuses relative to GNP estimates for the respective years. Income from work of resident households was 30.1 per cent of GNP in 1980 and 41.1 per cent in '1990'. These ratios are not expected to be equal, but in this case, the divergence casts serious doubt over the comparability of the data from the two censuses, and therefore the reliability of analyses based upon them. The annual Labour Force Survey data preferred by Rao is undoubtedly superior, but this data, too, is not without its problems (see Chapter 5).

¹⁴⁸ See 'Promoting unjustified wage jumps may erode competitiveness', *Straits Times*, 11 June 1993, p. 35. (The heading bears little relation to the substance of Rao's letter.) The argument presented in the letter is expanded upon in Rao (1995a).

¹⁴⁹ A personal communication with Associate Professor Rao on 2 March 1995 confirmed that there was no riposte from Cheung (public or private). This is probably the closest one gets to an admission from the Chief Statistician that inequality in Singapore is increasing.

¹⁵⁰ Islam and Kirkpatrick (1986, p. 119) point out that the pattern of income distribution is a 'relatively under-researched aspect' of Singapore's development experience, while Quah *et al* (1991, 130) make the comment that 'for unknown reasons', the discussion of the relationship between economic growth and income inequality stopped at the first half of the 1970s. Quah *et al* appear not to be aware of the Islam-Kirkpatrick effort or the Rao publications of 1988 and 1990, but judging by the dates of their survey work, their book was in press for some considerable time. This notwithstanding, there has been no published work of a substantive nature on the issue of inequality in Singapore since the work of Quah *et al* (1991).

on the subject has acknowledged that there are problems with the quantitative data they have used, and the fact these commentators usually concede that, ultimately, perceptions of inequality constitute the most important determinant of social stability.¹⁵¹

The monitoring of changing perceptions of inequality in Singapore remains an area of study that is confined to the 'too-hard basket'. Indeed, only Quah *et al* (1991) make any attempt at redressing the issue. As part of this study, around 1600 respondents of a survey were asked, *inter alia*, to compare their present economic condition with that of their parents, and also how they believed their children would fare in the future compared to them. Not surprisingly, given the enormous changes in Singapore over the space of a few decades, nearly three quarters of the respondents believed they were better off than their parents. Interestingly, the respondents were a lot more uncertain about the prospects for their children. Just over half believed their children would be better off, while more than a third said they were unsure. This notwithstanding, Quah *et al* find that 'in general, Singaporeans are optimistic about their future economic well being' (1991, p. 129). However, they do include a caveat in their concluding section that despite all the positive indicators of economic well being, growth in income has been faster among high-income groups than low-income groups and that growing awareness of this relative deprivation 'may generate dissatisfaction' among the latter. 'It is important' they note 'to explore this aspect further in future research' (1991, p. 136).

While there can be little doubt that the management of these perceived inequalities is of considerable importance to the future prosperity of Singapore, research on the issue would appear to be strictly off-limits to

¹⁵¹ See, for example, Pang (1975, pp. 78-79), Islam and Kirkpatrick (1986, p. 125), Rao (1990, p. 159 and 1995b, p. 8 of the unpublished manuscript).

scholars based within Singapore.¹⁵² Consequently, much of the research work on the social and political dynamics of Singapore's rapid economic transformation has been conducted by overseas scholars. Rodan, for example, has focused on the Singaporean political system and how the PAP has preserved and regenerated its authoritarian rule as circumstances have changed.¹⁵³

According to Rodan, there is plenty of evidence to suggest that the system is under strain. He makes the point that while the picture on inequality may be clouded (in terms of the conventional economic indicators) 'what matters in political terms are people's perceptions' and as far as he is concerned, 'a greater awareness of income differentials does seem to be surfacing in Singapore'. In this sense, argues Rodan, Singapore is no different from other nations that have gone through a major economic transformation. The problem, it would seem, is that while in the early stages of development 'many Singaporeans were simply grateful to have stable employment and steadily rising incomes', nowadays the working class is 'increasingly viewing its social and economic position with reference to what it sees as the especially

¹⁵² The guarded analysis of Rao would support this point, while others who have been less guarded, including Cheah (1977) and Liew (1992), have found it to be of detriment to their career development. Each produced a Master's thesis on the subject which effectively ended hopes of an academic career within Singapore. Cheah currently lectures at the University of New South Wales Defence Force Academy in Canberra, while Liew gave up plans to pursue an academic career, and now works for a public relations company in Singapore. The author managed to procure copies of each thesis only through personal communication as, mysteriously, neither thesis is available for public viewing at the National University of Singapore library, and library staff were unable to explain their whereabouts. One Singaporean scholar who does delve into the sensitive matter of inequality is Chua Beng Huat, a sociologist employed by the National University of Singapore. Chua has raised the hackles of the establishment on a number of occasions as a result of his candid remarks in public fora. To date, he has managed to escape retribution, although his critical response to the Government's 1993 Cost Review Committee report did earn him a rebuke in Parliament from Lee Kuan Yew. In an article that appeared in the *Sunday Times* on 3 October 1993, Chua argued that the report lacked 'flesh and blood' and that the Government would have to bridge an apparent gap between cost of living statistics and 'everyday reality', because the findings of the report did not square with the experience of the poor (*Straits Times*, 14 October 1993, p. 18).

privileged middle class and the PAP Government's central role in institutionalising privileges' (1992b, p. 378).

At a similar stage in their development, other nations have dealt with the problem of real or perceived inequalities by extending the cushioning effect of the welfare state. In Singapore, this course of action is anathema to a Government publicly committed to the ideal of meritocracy. Rather than look after the weak, the able are rewarded in order that they may pull the rest of society along. Government spending on social security represented only 2.3 per cent of the total budget in 1992 compared to an international average of approximately 30 per cent (IMF 1994, p. 62). On the other hand, government subsidisation of education, housing and private consumption is high by world standards. The main point to note, however, is that these subsidies are not means tested. In other words, 'it is not the principle of subsidisation that irks the PAP, but rather the deliberate redistribution of income and wealth to the detriment of the 'high fliers' (Rodan 1992b, p. 378). The question remains as to how much longer the Singapore Government will be able to continue with such a tactic. The promotion of the meritocratic society has been a strategy that has served the Singaporean economy well, but is it an appropriate strategy for a nation entering the advanced phase of capitalist development?

Publicly, the PAP continues to insist that it is not about to change course, but it is alert to the fact that the position of the poor in Singapore is becoming a politically sensitive issue. The Singapore Democratic Party (SDP) — the main opposition party — has taken up the cause as part of its alternative vision for Singapore,¹⁵⁴ and it has been sufficiently vocal in its criticism of the PAP to be allotted column space in the Government owned and controlled print media. While the SDP is careful to point out that it is concerned about the creation of wealth for all Singaporeans, Chee Soon Juan, the Secretary General of the

¹⁵³ See, for example, Rodan (1992a), (1992b), (1993a) and (1993b).

SDP, made it plain that his party does not embrace the meritocratic ideal quite so readily:

If one gets rich through integrity and diligence, then one has every right to enjoy the prosperity. ... However, when resources are limited, the Government must step in to see that the poor are not disadvantaged. ... If the nation becomes rich through its people, the Government has a moral responsibility to take care of the lower strata of society. ... Presently, there are 750,000 people, more than half of the working population, earning only \$800 a month. After CPF deductions, they take home about \$600. ... But even these people are not the worst off. A hundred and thirty thousand families in Singapore have monthly incomes of \$313. Of these, only 2000 receive financial assistance from the Government.
(Chee 1993, p. 23)

The Government has responded to such criticisms by disputing the validity of the data used by their opponents, accusing the SDP of pushing ‘the politics of envy’, and by reasserting the virtues of its meritocratic policy stance.¹⁵⁵ Nevertheless, it would appear that the PAP has been sufficiently unnerved to view the inequality issue a little more seriously. Indeed, in recent times it has become quite noticeable how the PAP is keen to project itself as a compassionate government.

In September 1993, while restating its opposition to the notion of state welfarism (which the PAP believes would rob Singapore of its economic competitiveness), the Government outlined a social welfare policy aimed at helping Singapore to become ‘a balanced, rounded society’. Prime Minister Goh Chok Tong warned that Singapore would become ‘a hard, selfish, materialistic society driven by greed’ unless its citizens showed a little more compassion. For its part, the Government stated its intention to target four groups of disadvantaged Singaporeans: the disabled, the elderly destitute, the

¹⁵⁴ The SDP manifesto, *Dare to Change*, written by Chee Soon Juan, was released in June 1994.

¹⁵⁵ See comments made by Prime Minister Goh and Matthias Yao, the PAP’s 2nd Organising Secretary, in the *Straits Times Weekly Edition*, 13 March 1993, p. 5 and p. 23 respectively.

20,000 families living below subsistence level, and those with specific problems (children from violent homes, for example) unable to support themselves.

Rather than introduce state welfare programmes for these groups, however, the Government announced plans to help fund voluntary welfare organisations. 'This way', said Prime Minister Goh, 'the disadvantaged do not expect and cannot demand that they be looked after by the State as a matter of right. We preserve their sense of personal responsibility. Otherwise, those who need help might develop a crutch mentality, and the problem will spiral out of control, as has happened in the Netherlands and New Zealand'.¹⁵⁶

Shortly after this announcement, the much-awaited Cost Review Committee (CRC) report were released for public consumption. The CRC, set up at the instigation of Goh Chok Tong the previous August, was chaired by Lim Boon Heng, the Second Trade and Industry Minister, and charged with the responsibility of examining the rate of cost increases, analysing areas of most concern, and assessing the impact of rising costs on different income groups. The main findings were that the quality of life for most Singaporeans had improved, although there had been sharp increases in the cost of health care, housing, transport and education in recent years (since 1990). While it is highly likely that these findings would have surprised few people, what is surprising is that the report showed cost-of-living increases to have been lower for low income groups than for the general population.¹⁵⁷

According to the CRC, lower-income Singaporeans were less affected by inflation than the higher-income groups over the last decade, largely because the price of food (which forms the large part of the household budget of the

¹⁵⁶ Reported in the *Straits Times Weekly Edition*, 18 September 1993, p. 1.

¹⁵⁷ This was one of the main themes picked up by the print media, at least. See the *Straits Times Weekly*

less well-off) rose only slowly. Meanwhile, the price of private transport, education and health (which higher-income groups consumed more of) rose more quickly. Furthermore, using data for the period 1980-90, the Committee found income relativities to have narrowed between the top 20 per cent and the bottom 20 per cent of income earners.¹⁵⁸

Goh Chok Tong expressed his satisfaction with the Report, saying that the cost-of-living issue had caused unnecessary anxiety and alarm for Singaporeans. Complimenting Lim Boon Heng on his thorough analysis, Goh stated that as his Committee had dealt with the issue 'openly and convincingly', its conclusions would 'dispel the misimpression of rapidly rising costs in Singapore, and reassure people that costs of living are under control'.¹⁵⁹ Interestingly, Prime Minister Goh does not draw attention to the one of the other findings of the report that the lower-income households 'had a sense of being left behind'.¹⁶⁰

Responding to this perception of growing inequality, the CRC argued that the Singaporean notion of 'the good life' would need to change in years to come. There is nothing wrong with Singaporeans having high aspirations, said the report, but given the country's scarce resources, not everyone would be able to achieve what they desired.¹⁶¹ The CRC then goes on to point out that younger Singaporeans, especially graduates, expect to live as well, if not better, than their parents, but there has been a lot of 'frustration and angst' when many of the young find that the lifestyle they aspire to is priced increasingly out of their reach. These concerns must be addressed, say the CRC, lest they become discouraged.¹⁶²

Edition, 2 October 1993, p. 1 and pp. 4-5.

¹⁵⁸ This would appear to be at odds with the results of the research work cited in section 3.5 of this chapter.

¹⁵⁹ *Straits Times Weekly Edition*, 2 October 1993, p. 1.

¹⁶⁰ *ibid.* p. 5.

¹⁶¹ In effect, the CRC concedes that structural inequalities have emerged as a consequence of Singapore's resource constraints.

¹⁶² *Straits Times Weekly Edition*, 2 October 1993, p. 4.

On the whole, these ‘minor’ problems aside, the CRC report is largely uncritical of the Government. Indeed, the report generally endorses the PAP’s meritocratic approach, with one of its recommendations being that the needs of the less well-off should be addressed through skills upgrading. In other words, with better skills, Singaporeans can earn higher wages and cope with higher costs. Nevertheless, despite the fact the public reputation of the PAP was left untarnished by this report, there is evidence to suggest that it has become more receptive to the idea that government does have more of a responsibility to provide for the weak in society. It has made strenuous efforts to disguise this by continuing to pour scorn on welfare state practices, but if the Small Families Improvement scheme,¹⁶³ or the recent move to secure HDB flats from the market to be resold at a discount to the poor are an indication, then ostensibly, at least, the PAP would appear to be softening its hard-line approach to welfarism.¹⁶⁴ This, however, is an issue that will be examined in more detail in Chapter 6.

3.7 The *Miracle* report: Inclusions and omissions

The *Miracle* report stands out as a very important document, not so much for what it includes, but for what it leaves out. This chapter has presented evidence which strongly suggests that the academic integrity of the report was seriously compromised on account of the World Bank’s political expediency. However, while critics of the report have tended to concentrate the Bank’s treatment of industrial policy, surprisingly little debate has surrounded the so-called ‘essence of the miracle’; namely, that rapid economic growth in the HPAEs has produced relatively equal outcomes. This is a finding which this thesis emphatically rejects for a variety of reasons.

¹⁶³ See ‘Scheme to help poor families to start next year’, *Straits Times*, 24 August 1993, p. 3.

¹⁶⁴ See Tan S.S. (1994).

First, the Bank's data sets on income distribution (over which it has exclusive copyright) appear not to stand up alongside those of individual researchers in individual countries. A second point, clearly related to the first, is that the findings of the Bank's researchers are quite at odds with the leading scholars in the field, none of whom are cited in the report. Third, the report makes cross-country comparisons regarding income inequality without reservation, despite the fact this was identified as a problem in the main background paper that concentrated on the issue. Last, and not least, the report pays a meagre amount of attention to the historical and political context of rapid growth in the HPAEs, so that the reader is left with the impression that not only has growth proceeded with equality, but its achievement has been an essentially technical process, overseen by 'good government'. In short, what the report does include on the question of inequality is rather dubious, but more important than this, are the glaring omissions which cause the report to present a grossly misleading picture of reality.

The omissions do not come as any real surprise given the *Miracle* report's limited conceptual framework. The report does devote a chapter to the role of institutions and the principle of 'shared growth', where it is argued that the leaders in the HPAEs have secured legitimacy for their regimes through the adoption of 'specific institutional mechanisms', tailor-made for the purpose (World Bank 1993, p. 157).¹⁶⁵ The problem here, however, is that while the consideration of institutional factors breaks with the orthodox, neoclassical economics tradition of the Bank, the analysis put forward is closely aligned with public choice theory, an ahistorical branch of political economy which views the interrelationship between political and economic processes as being largely independent of social structural factors, whereupon society is treated as an undifferentiated mass. In short, there is no class conflict, and the state is looked upon as a neutral agent.

¹⁶⁵ Much of the material in Chapter 4: An Institutional Basis for Shared Growth (World Bank 1993, pp. 157-89) reappears, in greater detail, in Campos (1993), Campos (1994) and Campos and Root (1996).

The mechanisms of shared growth to which the *Miracle* report refers include, *inter alia*, what it calls ‘deliberation councils’ (DCs). These are defined as legitimating devices used to obtain consensus among relevant participants, such as big business, labour, and the academic community (Campos 1993, p. 33). Apparently, the National Wages Council (NWC) constitutes a prime example of a successful DC operating in Singapore, whereby representatives from government, business and labour meet to further business-labour cooperation (World Bank 1993, p. 184). According to Campos, the NWC ‘exemplifies’ the PAP’s ‘deep socialist roots’ (1993, p. 30). This is a fantastic assertion given the evidence presented in Chapter 2 of this thesis. It also ignores the comment made by Chia in the manuscript prepared for the *Miracle* report, where she states that ‘the labour legislations of the late 1960s and the introduction of tripartism have reduced the power and influence of the labour movement. Although trade unions are well organised groups today, they are no longer pressure groups’ (1992, p. 11). In short, the message conveyed by Campos (and subsequently the World Bank) is that it is through the philanthropy of the PAP leadership that labour gets a voice in the decision-making process. There is no reference at all to the fact the tripartite arrangement came about only after the PAP’s systematic repression and eventual destruction of the free labour movement in the 1960s.¹⁶⁶

There are many other omissions in the *Miracle* report that arise as a consequence of its rather limited theoretical framework. The discussion in this thesis will not be so constrained. Chapter 4 defines inequality in much broader terms than it has been defined thus far, concentrating on the concept of class to help explain some of the facts associated with inequality. Building on this conceptual framework, the discussion in Chapter 5 then concentrates on evidence which undermines the claim that capitalist development in Singapore

¹⁶⁶ The only reference to this process in the *Miracle* report appears on p. 184 when the authors state that the PAP ‘rejected more typical democratic forms as too adversarial’ (World Bank, 1993).

is producing a more equal society. However, in contrast to the early part of this chapter, rather less emphasis will be placed on economic aggregates and their statistical refinement. Instead, the approach will be to investigate the dynamics affecting inequality by referring to case studies and by examining sets of small-scale indicators. In this way it is possible to gain a broad, but clear understanding of the economic and social forces at work. In short, no attempt will be made to modify 'bad numbers', to simplify or abstract in misleading ways, or to summarise complex issues using a few indices. The starting point for analysis is one that assumes much knowledge is difficult or impossible to quantify, and for this reason, it is better to be 'roughly right' than 'precisely wrong'.¹⁶⁷

¹⁶⁷ This is a maxim favoured by the Post Keynesian school of thought.