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Ministerial Salaries – can economics explain?

Posted by [theonlinecitizen](#) on August 29, 2011 [172 Comments](#)

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~ by *Dr Ivan Png* ~



Since 1994, when they were first pegged to the pay of the highest local earners in six professions, salaries of our government ministers have been a very controversial issue.

But while listed companies benchmark their executives' pay against comparable businesses, ministerial pay has no such market reference.

As Deputy Prime Minister Teo Chee Hean said in 2007, "You have to look at what a young man in his 30s or 40s is comparing himself to when he's deciding what he's going to do with his life. These are the relevant market comparisons — not what politicians in France, Finland or Denmark are being paid."

The Government's assumption is that the alternative careers for our ministers would have been the six professions.

"A key strategy"

In their own ways, all three prime ministers – Lee Kuan Yew, Goh Chok Tong and Lee Hsien Loong – have advocated high salaries.

One reason is to discourage corruption. Mr Lee Kuan Yew said he has "always held to the belief that public servants need to be paid well, or they will succumb to corruption".

Attracting talent is another reason. When introducing the private sector benchmark in 1994, then Prime Minister Goh argued that "it will be penny wise and pound foolish if you deny me the means to get the best people in government".

When Parliament debated ministerial salaries in 2007, current Prime Minister Lee affirmed that "our salary policy is to ensure that Singapore has a good government, continue to have honest and capable leaders, and this is a key strategy".

What do we know?

Mr Lee justified the salary policy by Singapore's good economic performance with "Singapore Inc" being worth \$4 trillion.

"If we do a good job we can achieve 7 per cent economic growth and 3 per cent if it is not so good," Mr Lee said, implying a drop of 4 percentage points or \$8 billion off the then \$200 billion GDP.

If we stipulate GDP to be the single appropriate measure of national welfare (which itself is a controversial assumption), estimating the value brought by our ministers to the country needs knowing the counterfactual: What would GDP have been without highly paid ministers?

But the prime minister's suggestion of lower economic growth by 4 percentage points is completely hypothetical – because in truth we do not know.

We simply do not have the evidence that lower salaries would have attracted a different team, or that an alternative government would have caused GDP growth to be that much lower.

An issue for politics, not economics

So data limitations currently prevent economic analysis from directly addressing the worth of our ministers, but does economics at least provide evidence that high ministerial salaries discourage corruption and attract talent?

It seems intuitive that ministers who earn higher salaries would be less tempted to accept bribes, and also that the harm which they could then possibly cause through misconduct would far outweigh million-dollar salaries.

The only empirical study of the issue focused on the governments of various developing countries from 1982 to 1994 (advanced countries were deliberately excluded), and concluded that higher pay was associated with less corruption.

But Singapore is now an advanced economy and a highly developed society, where other factors – particularly social values and enforcement – may have a stronger influence on discouraging corruption.

The evidence is much clearer on the other issue of attracting talent, where many studies in different contexts including Brazil, Italy and Finland confirm that higher pay does attract more educated people to political office. But such research focused on relatively low-ranking politicians such as mayors and members of parliament.

Indeed last week four well-qualified individuals filed nomination papers for the Presidency, knowing that the president's salary is under review and likely to be cut.

So, it is still not clear that multi-million dollar salaries are necessary in today's Singapore to attract talented individuals to serve.

And without more information, we cannot gauge how much value our highly paid ministers add to the economy.

With economics only providing some limited guidance, this very sensitive question of ministerial pay can thus only be resolved politically.

The writer is the Lim Kim San Professor at the NUS Business School, and Professor of Economics and Information Systems. He was a Nominated Member of Parliament from 2005 to 2006. He will be a Visiting Professor at the Tuck School, Dartmouth College from September.

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1. Robert Teh [30 August 2011](#)

Goh

What you said is true. After Tony Tan is elected, papies would feel they have won on their autocratic rule.

It seems useless for people to talk and argue among themselves only.

They ought to get more educated and committed people like Low Thia Kiang, Sylvia Lim, Chen Show Mao, Nicole Seah, Tan Jee Say, Dr. Ang Yong Guan to go into the political arena to restore all the wrongful self-serving manipulations back to healthy pro-people rule.