

'Making the centre hold' – keynote speech by Tharman Shanmugaratnam*

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Thank you very much, Bronwen. Thank you for this opportunity to address you.

I should say immediately that I am not here to talk principally about the United Kingdom, and I hope I'm not an intrusion in your present debates. I will talk quite frankly about the challenges that a range of societies face – particularly the more advanced societies, including the UK. I will talk about some of the lessons we are getting from around the world – and I say that coming from a country that's continually searching for lessons everywhere.

And I'll talk about the new ambition of the state that's needed to rebuild confidence in the broad centre of the political spectrum. Because it is only that confidence in the broad centre that's going to get us out of present difficulties on any lasting basis, and that can generate optimism in the future, nationally and internationally.

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1. The basic problem: a loss of trust

The basic problem, across a wide range of nations, is the **loss of trust in either governments or markets to deliver broad-based prosperity, and to give people a fair chance in life**, a fair crack at success. And this loss of trust in the system has been **compounded by an equally-evident loss of a sense of togetherness in society**.

You see it across the whole range of advanced societies. You see it in the US, and in the UK. It's clear in Europe – in France, in Germany. There's good data behind this. Some of it is soft data from surveys, some of it the hard data on the realities that shape people's perceptions and views. If you look at the surveys – done by Pew Research and the Edelman Trust Barometer – the picture is bleak. On average in the advanced world, less than 15% of people trust government to do most of the right things for their countries. And less than half – about 45% – trust governments to do even some of the right things. (45% is the average in the 2017 Pew Research findings; it's a little higher in Sweden, lower in the UK and US – both around 35% – and sharply lower in France and Spain.)

Importantly, it's not a recent phenomenon: it's not Brexit, or the latest government or administration in any particular country. It's been that way for a while, certainly for the last decade. And we haven't focused enough on this ebbing of trust and confidence, and on tackling what lies beneath it.

The loss of togetherness, this growing sense of us versus them, is even more apparent. You see it in the politics, in the sharp difference in voting patterns between those with less education versus those with more. You see it in the geography of voters' choices – the sharp divergences depending on whether you're in a thriving city, or a lagging town or rural area. That's now a deep reality, and not going away soon. You see it very clearly in the advanced societies, and even elsewhere like Turkey.

We have to focus on these fundamental shifts and figure out what's behind them, because people don't vote in an entirely fickle or irrational way. They vote on the basis of different experienced realities, and we have to understand those different realities. Look beyond the national averages, look at the divergences beneath the averages.

The reality of economic divergences is clear enough. Wage stagnation in the broad middle has been a fact over a long period of time in most of the advanced societies. People with lower or even average education and skills have seen fewer good jobs and little increase in real earnings, while the highly skilled have seen rising incomes. And incomes and opportunities have grown in only a few leading cities, leaving the rest of the country behind. (In the US, for example, most of its 300 urban centres have seen an absolute reduction in real median incomes over the last two decades.)

At its core, the **problem is not about globalisation, it's not about technology, but about our responses to globalisation and technological change**. It's about policy responses and about whether we take political responsibility for tackling divergences – that's the core of it. In fact, the few countries that have avoided wage stagnation and

the hollowing out of jobs in the middle, like Singapore and Sweden, have been more globalised, and more exposed to new technologies, than most.

But there's another factor compounding the legacy of domestic economic divergences. People have also lost faith in social mobility. If I start off with disadvantage, do I have a chance of escaping that background? If someone else is born with advantage, does he or she get to keep that advantage over others for the rest of their lives?

The faith in meritocracy, the faith in education and job markets, being able to spur social mobility is no longer there. That faith was part of the social and political make-up of the advanced societies, but it's no longer there. In the UK, for example, your latest Social Mobility Barometer shows that younger people – not just the very young, but even people in their 30s and 40s – have little faith in the idea that people can end up in a position not determined by their backgrounds.

It's on people's minds. And besides concerns about social mobility within their own generation – in other words, relative mobility – what's equally troubling is that far fewer people expect even absolute mobility, where today's children grow up better off financially than their parents. In the advanced societies on average, only 30% of people believe today's children will do better (according to Pew Research surveys). Those are perceptions, but reality itself shows a significant reduction in inter-generational income mobility.

That's a profound phenomenon, because the whole experience of capitalism and markets was that each generation was able to do better than the last, and parents expected their own children to do better than them, unless they started off very rich. It was a basic article of faith and that's no longer the case for the majority in the advanced world.

We are in a situation that is not socially or politically sustainable across the Western democracies, and I don't think that's speaking in too dramatic a way. The loss of trust, of confidence, of a sense of togetherness or solidarity, is undermining the quality of democracies. We're seeing it already, and it is not a passing phenomenon. Where it takes us is unpredictable, but it will quite possibly be a bad place. **And the undermining of the quality of the major democracies will have major consequences for the international order.**

2. The new ambition of the centre

We can only redress this through fresh ambition at the centre of politics, with a new social contract at its core. I will attempt to describe its basic aims shortly. It will require leadership, moral purpose, honesty and agility – elements of which are present to varying degrees in today's world. But the longer it takes to build consensus around a new social contract, and thus rebuild confidence in the broad centre of politics, the more lasting the damage to the quality of democracy and the more difficult its retrieval.

This new ambition, and new social contract, must involve **a much bolder role for the state in investing in the social foundations of inclusive, broad-based prosperity.** These foundations are in disrepair across much of the advanced world, and in most developing nations too. We have to reinvest in the social foundations, and in new ways. So that we grow opportunities, but also give everyone a fair chance to take opportunities, including stronger chances early in life, and second and third chances later. So that we enable everyone to achieve a decent and dignified life, and trajectories in life that are not limited or determined by where they start from. And so as to build the sense of togetherness and shared identity – among people of different social backgrounds and ethnicities – that’s critical to generating optimism in the future and reducing the appeal of the extremes.

These goals must be at the heart of the ambition of the political centre, but it takes more than moral and political purpose to achieve them. It takes certain basic orientations in the role of the state, and in our collective thinking. These basic orientations tend to be neglected, but they determine both the shape of our policies and whether we achieve our goals. I will say something about these basic orientations first, before coming to the key policy issues.

Basic orientations

1. Ensure a moving escalator

The first basic orientation is to recognise that, to achieve greater social mobility and reduce inequality in a sustainable way, we must focus on enabling everyone to move up. The absolute growth of incomes matters greatly if we want to make progress in reducing the relative differences between different groups.

We must do more to spur social mobility and mitigate inequalities. But it is harder to achieve this on a stationary escalator. Harder economically, harder socially and harder politically. People get much more anxious on a stationary escalator about someone coming from behind to overtake you or someone in front moving further away from you.

A moving escalator, with everyone moving up, is hence the best way to get acceptance of the fluidity that we need in society. It relieves a great deal of the anxiety of those in the broad middle. Because one of the unfortunate facts of society is that people are not just concerned about those who are moving further away from them at the top, they are also concerned about people catching up from behind. (There are good survey findings in the US, for example, about why the white poor and lower-middle class are more pessimistic than the black poor and lower-middle class: that sense that previous advantages or privileges are being eroded and that someone else is catching up.)

So we have to bear that in mind in the basic design of economic and social policies. We will make more progress on social mobility and inequality, and more durably, when we have absolute growth of incomes and help everyone better achieve what they want in life. **Achieving greater economic dynamism is hence a must today and it is a social**

objective, not just an economic one. We must turn around the prolonged slow growth of productivity in the more advanced economies (close to zero in some), to make lasting improvements in the distribution of productivity to ordinary wage earners.

2. Intervene upstream

The second basic orientation I would emphasise is the importance of investing and intervening upstream. **All the major issues that hold people back and lead to an uneven spread of opportunities start early.**

In learning abilities, it starts with differences in maternal health when the baby is in utero and the earliest years in life. And what happens in school, well before you get to the tertiary years. In life-time health, if I'm obese at the age of seven, I have a high chance of being obese through life, with a multitude of other health problems that arise from that. In neighbourhoods, if we don't tackle segregation and seek to integrate people of different backgrounds early, we get more profound differences developing over time. And if we don't 'fix the broken window' immediately, the problems in the neighbourhood get a lot more intractable over time. At work, it's much better to invest in upskilling workers while they are still in the job, so they can be matched to new tasks and jobs as technologies change, than to wait until they lose their jobs.

You can't leave it to the markets to tackle divergences. The natural workings of society don't lead to different groups integrating with each other, or wanting their children to grow up together. They don't lead to early advantages and disadvantages in life – depending on the parents you are born to – disappearing over time. **On its own, the social marketplace tends instead to replicate and even multiply initial disadvantages and advantages.** And it happens in a whole range of ways: assortative mating; parents who are better off or better educated spending a lot more time reading and talking to their kids and being able to send them for enrichment programmes; the kids growing up in very different neighbourhoods, either safe or dangerous, and attending schools with peers who want to score high marks versus schools where they don't, or schools which become more segregated over time; top-tier employers hiring excessively from the most prestigious universities or based on social pedigree.

So we can't leave it to the market – we have to intervene, and we have to intervene upstream. One of the common objections to doing so, and it's a facile objection, is that this is 'social engineering'. It's facile because it is the market that does the 'social engineering', and **the role of the state, and of all of us collectively, must be to even out opportunities at every stage of life, and mitigate and redress that social engineering of the marketplace.**

We cannot shrink from upstream interventions, and a bold role for the state and community. They give us the best chance of solving the big problems of the day – far more effective than having to tackle larger problems downstream. They give better value for money, if you're thinking as a finance minister.

3. Invest in public goods and in the long term

We have to pay a lot more attention to spending on public goods and the long term. There has been a drift in fiscal policy, in a wide range of countries, towards spending on individuals rather than public goods, and towards spending for the short term or the next electoral cycle rather than for the long term.

For instance, in the US in the 1960s, 75% of the budget went into public goods of one form or another – public transport, infrastructure, R&D [research and development], defence and diplomacy, public schools, libraries and parks, and so on – and 25% went towards various benefits for individuals. Today it's the other way around – 75% on individuals, and 25% on public goods.

Subsidies for the poor or middle-income groups are necessary – we must ensure fair access to education, healthcare and housing, and we must top up low wages and ensure fair rewards from work. But **the overall balance of fiscal policies in many democracies has shifted too far away from investments in public goods and for the long-term social good. That spending too is critical for creating and spreading opportunities, and it lends itself to broad-based optimism.** If people can't see that you're investing for the good of society and for the long term, it's hard to get a more optimistic society.

4. Focus on regeneration, not just redistribution

A fourth basic orientation: the social contract of the broad political centre must engender and support a culture of both collective solidarity and personal responsibility.

We shouldn't see collective and personal responsibility as alternatives, but look for ways in which they reinforce each other. There's a very important way in which the state, the community and businesses can open up opportunities and help people to take them and earn their own success: starting with education, staying engaged in work and improving continually on the job, owning a home, raising a family, and finding ways themselves to contribute to the community. And that culture of personal responsibility also helps sustain the sense of solidarity that has to be at the heart of the political centre. People never tire of helping those who are making an effort to help themselves.

It also requires that we **go beyond the traditional narratives of the right and the left.** The narrative of the right has tended to attribute life's outcomes to whether people exercise responsibility for themselves. But it does not explain why we've had wage stagnation for decades in the advanced world, a hollowing out of jobs in the middle, and the widening urban and regional divergences we've seen in so many countries. We haven't had a surge of personal irresponsibility to explain what has happened.

But the narrative of the left in recent decades, focused largely on redistribution to reduce inequality, is too narrow a view of the role of the state and of how we have to be collectively responsible for each other. It has also long lost its appeal within the major social democracies. The political left would surely otherwise have done better following many years of wage stagnation and rising inequality, and in the aftermath of a global financial crisis that imposed great difficulties on ordinary working people and families.

We need a progressive slant in the social contract of the centre. We need it if we are to sustain open, market-based democracies. We need progressive tax policies and ways of spending the resources of the state to support broad-based prosperity and mitigate inequality.

But the progressive social contract has to put much greater emphasis on strategies for regeneration – of social mobility, of skills at every stage of life, and of towns and communities that have lost whole industries and need regrowth. These strategies are **fundamentally different from responding to economic change by ‘compensating the losers’**. They empower and go well beyond traditional redistributive schemes that have left people, and places, in continued decline.

It has to be about growth and regrowth; about the state intervening early to even out opportunities; about building the local networks and social capital that help people reskill and rebuild their careers; about rewarding workers fairly; about investing in public goods and our collective potential; and about that compact of collective solidarity and personal responsibility that builds a cohesive society. That has to be the ambition of the centre.

Don’t leave it to markets, but don’t think the problems are solved just by redistribution. They won’t be – and people no longer believe they can be.

5. Combine moral purpose with practical and sustainable solutions

A fifth basic orientation of the political centre: **we must combine moral purpose, especially a relentless desire to root out unfairness, with a search for practical and sustainable solutions.**

I know this appeals to the work you’re doing at the Institute for Government. It means constant experimentation, constantly adapting based on evidence, constantly learning from experience in our own countries and abroad.

We must have a politics that speaks to the heart. But we must also **develop in our democracies the collective capacity to recognise the costs and benefits of our choices.** Some do this better than others, but we have generally seen a lurch towards promising benefits without acknowledging the costs, either today or tomorrow.

Key policy priorities

Let me go on now to a few key policy priorities that should reflect these basic orientations, and which the new ambition of the centre has to lend a lot more energy to. I will highlight four key areas.

Widening opportunities at every stage of life

First, and the most important: growing capabilities and widening opportunities at every stage of life.

I’ve spoken about the criticality of intervening early. The first few years of life are critical – that’s now a truism. In fact, the pre-natal period, followed by the first few years of life,

are critical. We've got to find new ways to even out the large differences in how children grow through these years. It's not just about putting infants in a subsidised care centre, although that can certainly help. We know the old saying about how it takes a village to raise a child. **It takes a modern village to raise a child born into disadvantage** – a whole team of professionals, from doctors and nurses to early childhood professionals, working with parents and local volunteers. And we've got to try different ways and assess what works best over time. We're trying a few ways in Singapore. I know you've embarked on Sure Start in the UK.

Schools remain a big leveller or divider. And the big improvements in equity can only come from the way public or government school systems are run. That's unfortunately not your greatest strength in the UK, and it gets a failing grade in the US as well. But when you look at the outcomes in PISA (Programme for International Student Assessment) or equivalent international surveys like TIMSS (Trends in International Mathematics and Science Study), you notice that the countries near the top have universally public systems, or have public school systems as the large anchor. Singapore, Finland and several other countries have public school systems that account for both their high average performance and higher peaks.

That's the first lesson from international experience – don't lose faith in the ability of public school systems to provide for upward levelling, and for excellence. The key is in how we run those systems – especially how we recruit and reward teachers, and develop them through their careers, including allowing for sabbaticals as we do in Singapore. It's when you distribute a high quality teaching workforce across the school system, when your social elite goes to the public school system and when children are admitted regardless of social background, and when every school competes to do well in some sphere, that you get those high averages and high peaks.

It also involves not shrinking from a more difficult issue, which concerns the need for differentiation in the school system. **If you go for a completely egalitarian approach, where everyone studies the same content and has to move at the same pace, you tend to get very inegalitarian outcomes.** Every year in France, 20% of kids who come from weaker income backgrounds drop out of high school without a qualification – a very inegalitarian outcome. We have to differentiate the school curricula to cater to different strengths and learning styles and help everyone do their best. But it requires fluidity, so that we avoid students thinking that they belong to a separate path, and avoid trapping people on any one path for all time. We need that combination of differentiated paths and fluidity between paths.

Beyond the school years, we have to **redress glaring policy failures in tertiary education**, in much of both the advanced and developing world. In India, for example, 70% of college graduates are deemed unemployable by employers.

The challenge everywhere is: how do we give you an education that's suited to your strengths and suited to the needs of the market, so that you open up opportunities in working life? That's what most people want out of a tertiary education.

David Sainsbury [Chair of the Institute for Government], in his dinner speech yesterday, mentioned the tragedy of technical education in the UK – I think he used a harsher word. We sought to avoid the same problems in Singapore as we scaled up our tertiary education system, and took lessons from Switzerland and some other countries. We fortified and built credibility in technical education, which I would say is a jewel in our system, and expanded the broader system of applied education.

But it's not just about building up technical education, or further education as I think you call it. It's also about what goes on in universities. **We have moved, in too many countries, to an overly academic model of university education itself.** Not very different from what it used to be when a far smaller proportion of each age cohort went to university, but we stuck to the model and scaled it up as 40 or 50% of young people go through university. The evidence everywhere is fairly clear – it doesn't prepare a large proportion of graduates for the demands of the market, and it leads to state and family resources being wasted on something that's really not providing the value people had hoped for.

It is also a little elitist to think that the applied or dual model of education doesn't give people the soft skills, the creative skills and all those good things that we all need in life. That's the usual case made for the traditional academic model. But there's no reason to assume that an applied-oriented education – for example, where you do a good part of your college education in work internships, and you have a blend of academic and applied study – doesn't develop critical soft skills, like being able to think and solve problems on the job, to work well in a team or to work well across cultural boundaries. And if many of us think honestly about our own experience at traditional universities, it's not as if it was a rich dose of critical or creative thinking for much of the time.

We do have to shift the balance in tertiary education in most countries – towards one that's less heavily skewed in favour of academic study, that's fairer to the diversity of individual strengths in every society, and a balance that better meets the needs of the market.

Finally, lifelong learning, which requires a major step up and major shifts in thinking. It is an important new area of public policy and tripartite action (by unions, employers and government) – investing in people to ensure they keep their relevance and avoid being displaced by new technologies, as well as enabling them to keep growing their potential through life. If we do it right, it can help sustain social mobility.

It is a major shift. We need new funding approaches, new corporate norms, a new focus in collective agreements, and new social norms to make lifelong learning part and parcel of an inclusive society.

We have to think hard about different models of lifelong learning, **and recognise that there is typically a difference in incentives facing firms and individuals.** The firm wants its workers to be skilled up for its own production process – for the new device

it is making or service it's providing, or for the new technology it intends to employ. The individual wants to pick up new skills to enhance his or her career prospects, but not just at that particular firm. We've got to find the right balance, therefore, between firm-specific training, training that's relevant to a broader industry and training that's relevant to an individual's future career options. There is a difference in emphasis, for instance, between the Danish and German models. The German approach tends to be more firm-centric – and the firms do take training of their workers very seriously. The Danish approach is centred on individuals going to public institutions for training that is often of more general relevance to the industry or to their future careers. Matching this, the Danes also have higher levels of job turnover. Countries have to find their own balance in this, taking the corporate and social norms that we each start with, and helping them evolve.

In Singapore, we've embarked upon lifelong learning in a systematic way, through a national programme that we call Skills Future. It includes an individual learning account for every citizen. The Canadians have just introduced something similar.

It is partly about stretching out education, through regular injects during people's careers, instead of the heavy front-loading of learning that describes most education systems today. But it will inevitably also require investing more in human capabilities over a lifetime, not just redistributing those investments across time.

Focus on places: enabling inclusive neighbourhoods and regional hotspots

The next policy challenge concerns places. It's been a neglected field of public policy. The ambition of the political centre must be to redress segregation among neighbourhoods, and actively support more inclusive ones. And in most of the advanced nations, it must also address what are now large regional disparities and a legacy of declining places, a legacy that lends itself to political polarisation.

Inclusive neighbourhoods are Singapore's secret sauce. It's also a case of the benefits of intervening upstream, rather than waiting for problems to accumulate downstream. We intervened upstream through social urban planning and housing market rules to ensure we had relatively inclusive neighbourhoods, rather than wait for whole neighbourhoods to become disadvantaged, or wait for segregation to grow, not just as a physical reality but in people's minds.

We did it in our case through publicly developed housing estates, which is where over 80% of Singaporeans live. We designed neighbourhoods to provide homes for people from all socio-economic groups, from the poorest to the upper-middle income group, and critically, too, to integrate people from all ethnic groups. Importantly, there are no gates and fences separating the apartment blocks, so everything on the ground level is a shared public space: the parks, the children's playgrounds, the markets – everything is public.

But it would not have happened without rules, in fact intrusive rules, to ensure that people's choices in the housing market do not lead to an excessive concentration of any ethnic group in any one neighbourhood. **Without that willingness to use public policy to shape housing and neighbourhood choices, we could not have achieved the multi-ethnic cohesion that we have in Singapore today.** And we could not have avoided the large and growing problems that we see elsewhere.

I would also say that societies will increasingly find that **you either intervene upstream, and have a chance to shape a degree of social cohesion, or you have to intervene downstream when discord is already troublesome.** The downstream interventions of the state, to arrest problems that are already festering, can be rather intrusive too. So we should think hard about that choice and the social legacies we are choosing.

Robert Putnam, the well-known American sociologist, published a book in 2015 called *Our Kids*. He highlighted the profound consequences of kids growing up separately in the US, in different neighbourhoods and schools, with increasingly different resources and influences playing on them. How you grow up, either together or separately, shapes so much of the way you view each other through life.

But there's another important point here. When you integrate people, you avoid any neighbourhood being viewed as sharply different from the others. **We have disadvantaged families in Singapore, and we have to try our best to help them, but we do not have a single disadvantaged neighbourhood.** Every public housing neighbourhood is mixed. That has many social benefits, but it also has economic consequence. **Mixed neighbourhoods have meant that housing wealth has appreciated at a roughly equal rate for all groups.** (People buy and own 99-year leasehold apartments in the public housing neighbourhoods.) The poor, who get sizable grants to purchase their flats, have seen a rate of home equity appreciation over the last four decades that is no less than that seen for the larger apartments owned by the middle- and upper-middle-income groups, or that seen in the private property market in Singapore.

Social urban design, and government grants to enable widespread home ownership in the lower- and middle-income groups, therefore give us both social and economic assets. It doesn't require continuous annual subventions out of the national budget to give people that similar rate of home equity uplift. We get that for free – it comes out of urban design.

The second, critical issue is that of **regenerating cities and regions that are in decline.** We don't have problems of regional disparity in Singapore because we are just one city. But we too are continually upgrading our industries and our skills, and we all learn something from other cities that are being revitalised. Like Manchester.

These cities usually take advantage of what economists call the 'economics of agglomeration'. It's a fancy term, but it means there are benefits from networking when firms in the same field of activity are clustered together in the same city. Local networks

of firms, educational institutions and public authorities work together more effectively to develop skills, and people are matched to better jobs more easily. Suppliers and customers are attracted. And the higher the density of firms in the city, the greater the knowledge spillovers, stimulating productivity and wages.

You can't have this new clustering and economics of agglomeration in every town that is in decline. It needs enough scale and density of economic activity. But it should be possible to grow a few dynamic clusters or hotspots in every region. So that people can move to better jobs, and even if young people move to the hotspots, their parents and grandparents living in hometowns elsewhere in the region know that there is a revival story not so far away.

You see this in Japan, for example, which has the added challenge of depopulation, especially in its rural prefectures. Japan has had a deliberate strategy of helping every region have a few prefectures and cities doing well, besides the major economic hubs in Tokyo, Osaka and Nagoya. On the southern island of Kyushu, for example, collaboration between universities, enterprises and local authorities has helped make Fukuoka a leading centre for start-ups, and Kumamoto a thriving semiconductor cluster and emerging centre for the solar cell and life science industries. And what has long been viewed outside Japan as a bit of an oddity or inefficiency – that its political system has accorded excessive electoral weight to prefectures outside the major metropolitan areas – has helped ensure a continuing spread of resources across the country. Notably, Japan has avoided the populist extremes, and remains less polarised than any of the other major advanced nations.

Enabling people to age with dignity and purpose

The third priority, intrinsic in the social contract of the political centre, must be to enable citizens to age with dignity and purpose. It is a growing challenge almost everywhere in the more advanced world because our societies are ageing, but it's also becoming a major issue for China and a number of other emerging countries like Brazil. It is a growing challenge, and it's also about giving people opportunity, not just to have financial security in old age, but to stay active and productive for as long as they can.

We have to **reimagine work and learning** to help everyone stay engaged in the workplace for as long as they wish and can. It's not just about the retirement age, although that clearly has to go up in every society. It must also mean investing seriously in people in their 50s and 60s, to enable them to pick up new skills and be adept with the latest technologies. It means reconfiguring work spaces and rest areas, and enabling flexible workweeks as the norm as people get older. It means valuing and getting synergy in teams comprising people of very different ages. And it even means having a well-developed public transport network that helps people avoid long walks as they go to and from work each day.

The second opportunity is in organising neighbourhoods, services and community facilities around the needs of the senior citizen. Just like the village we need to help

every child grow, **it takes a modern village to help every senior citizen age with dignity.** It's about how we integrate social services for the senior citizen, not far from home. How we deliver healthcare and long-term care (or what you call social care in the UK), at home and in the community. How we study the lived experiences of older folk in the neighbourhood and ensure an elderly-friendly physical environment. How we provide attractive spaces for community activities so that they're up and about, practising a hobby or learning something new, staying fit and averting illness – and avoiding loneliness, which is a growing problem among the aged in many societies. Importantly too, it's about how we enable senior citizens to contribute in the community, either in paid work such as in community-based care, or as volunteers and organise activities for themselves.

It is an opportunity to develop a new urbanism, both physical and social, around the senior citizen. It goes hand in hand with, but involves issues quite distinct from ensuring fair and sustainable social security systems, which I will come to in a moment.

It requires experimentation. We have some 70 such initiatives underway in Singapore now. It is a very interesting space too for ground-up community initiatives, often with funding support from the [Singapore] Government.

Being fair to the next generation: ensuring sustainability

Finally, we must tackle issues of financial sustainability, especially in healthcare, and global warming, and not keep pushing the burden of adjustment to the next generation.

It cannot be good for democracies anywhere, and cannot inspire confidence in the political centre, if we keep evading today's problems – if we keep pushing the burden of funding today's healthcare and social security systems into the future, and if we keep postponing actions to arrest the crisis of global warming. It is inequitable, it is irresponsible, and in the case of global warming, it will have crippling consequences on future generations globally.

Pension reforms still have a long way to go in many advanced countries. Many traditional, 'defined benefit' public pension schemes remain greatly underfunded and unsustainable. We know how that happened: promises of increased benefits were made which were not being accompanied by increased contributions.

But there are also problems with the wave of 'defined contribution' schemes that have replaced or supplemented many 'defined benefit' schemes. While defined contribution schemes are sustainable, they have not been a fair deal for ordinary members. Most such schemes have put the responsibility on individuals to manage their own retirement accounts. And they have usually shifted the burden of investment risk from governments or employers onto individuals. That hasn't worked well anywhere in the world, because not many individuals can manage or absorb such risks. Individuals have systematically underperformed the market, and they have also typically paid significant fees to intermediaries.

Fortunately, there is room to reform and redress these drawbacks of the defined contribution schemes. We have to bring a collective element back into defined contribution schemes – keep them fully funded and self-sustaining, but have the funds collectively managed and invested, so we get rid of large fees and don't place an unrealistic burden of responsibility on individuals to be able to manage their own retirement savings over 30–40 years. The Danish and Singapore models, for example, involve collective defined contribution schemes.

Healthcare financing is an even larger problem – it's the elephant in the room today, in a whole range of advanced nations. It is a sensitive issue. I know of the debates here in the UK over the years, and the deep affection that most people still have for the NHS – especially for the fact that all healthcare is free at point of use for everyone, rich or poor. But the first thing we must help everyone understand is that **there's no such thing as free healthcare** anywhere in the world. The public pays for healthcare in one form or another – if it is not through co-payments or charges when you go for a check-up or get treated, it is being paid for upfront through higher taxes, or through higher insurance premiums. So you either pay for it upfront or you pay for it at point of use.

When Aneurin Bevan launched the NHS more than 70 years ago, it was believed that universal free healthcare could be sustainably financed through general taxes because the demand for healthcare would fall as the population became healthier. It turned out radically different in reality. Like everywhere else, as life expectancy went up, people contracted diseases that were more difficult and more expensive to treat and which they had to live with for longer. Further, healthcare inflation has outstripped general inflation, as more sophisticated procedures and drugs became available and public expectations of them went up. **Medical science, longevity and public psychology made a bold and spirited belief in 1948 quite unrealistic within just a few decades.**

Many systems have addressed this rising burden of healthcare financing by moving away from universally free healthcare at point of use. They have introduced co-payments and charges, while using means-tested subsidies and healthcare safety nets to make sure that no one is denied healthcare because they lack the ability to pay. Depending on the structure of payments and subsidies, these systems are often quite progressive, with significant support for the poor and middle-income groups.

That's indeed the principle used in social care in the UK (what some countries call long-term care), which will see demand grow as many more people face the infirmities of old age. Interestingly, a recent Institute for Government study shows that a good majority of people in the UK are insistent on this system of means-tested subsidies being preserved in social care, so that those who are well off do not get the same benefits as the poor – unlike in the NHS.

These are choices each country has to make. The political centre has to be serious and square about them, and committed to choices that are both fair and sustainable. We have to commit ourselves to a system that is socially equitable – by ensuring that people pay for and benefit from the healthcare system in a way that stacks up fairly for

the poor and those in the middle. And critically too, we have to commit to social equity for the next generation.

There is no free lunch. If we do want to provide free healthcare for everyone rich and poor – and there appears to be a strong desire to hold to that principle in the UK, for example – it has to mean that as our populations age, we must raise either taxes or raise national insurance charges very significantly to avoid an underfunded healthcare system; or we deal with an underfunded system by rationing more medical treatments or lengthening waiting times; or we push the burden to the next generation to pay for the costs of today's universal benefits.

We cannot evade these realities, anywhere.

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