EDITORIAL

Budget 2015: a chance to recalibrate policies and targets

THE upcoming Budget 2015 presents the Singapore government with a suitable and timely opportunity to recalibrate its approach to economic restructuring and particularly its push for greater productivity.

There is a need for recalibration because the initial targets may be unattainable using current approaches. Productivity is an important case in point. Singapore's productivity growth has been dismal over the last few years. According to the Department of Statistics, productivity growth here has declined from 2.2 per cent in 2011 to -1.4 per cent in 2012, -0.2 per cent in 2013 and -0.5 per cent last year (based on the first three quarters of 2014).

This is a far cry from the targeted 2-3 per cent productivity growth per annum over the decade, a goal which was set in 2010.

The problem is not a lack of effort on the part of both the government and the industry to push for more productivity. The government has allocated huge sums of money in grants to incentivise companies to be more productive including the productivity and innovation credit (PIC), while businesses themselves have tried to be more cost- and manpower-efficient wherever they can.

Some sectors, however, may just take longer than others to make that transition or see their productivity-boosting measures bear fruit. The construction, food-and-beverage and retail sectors are examples of where technological advancement and innovation can make only a certain amount of headway. This may be no bad thing though, and the government should recognise that taking a longer time may allow businesses to restructure without displacing a great amount of labour – itself a side effect of economic restructuring – or disrupting their operations.

Part of the problem may in fact lie with the way productivity improvements have been defined and measured. Much of the emphasis of the productivity push, in the local context, has been in terms of achieving improvements in labour efficiency using technology.

Productivity may need to be considered more broadly; there is much else that can be changed in a business besides manpower quality or quantity. Companies, for instance, should be encouraged to review and improve their business models. Restructuring business models could help companies make their processes and systems more efficient and even generate newer sources of revenue, which could translate into productivity gains.

Another observation that has been made is that in the use of the PIC provided by the government, companies have given too much emphasis to the "P" and too little on the "I". Creativity and innovation can be important sources of revenue and profits. Even simple forms of innovation – for instance, becoming more customer-centric – can make a significant difference to a company's bottom line, even without additional inputs.

Land is another area which may deserve more attention. Given the high cost of land, greater productivity in land use could go a long way in boosting overall productivity. There may be room for the government to provide companies with more incentives to optimise the use of land or even office space.

Budget 2015 is the midway point in the government's economic restructuring plans. It is an appropriate time for the government to recalibrate its policies, or even the targets themselves, with a view to making them more realistic and achievable.

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Supporters holding up images of Mr Sirisena as they celebrate in the streets of Colombo last week. The new government is extremely diverse and could easily fall apart. PHOTO: AFP

A CHANCE TO PUT SRI LANKA IN ORDER

Things have gone terribly wrong with Sri Lanka's politics, ethnic relations, economy and foreign policy. The regime change offers fresh opportunity. BY RAZEEN SALLY

IN NOVEMBER last year, Sri Lanka's then president, Mahinda Rajapaksa, called a snap election believing he would cruise to a third term in power. But, out of the blue, a hitherto feeble and divided opposition united around a common presidential candidate, Maithripala Sirisena. Against most odds, he won the election on January 8. A decade of Rajapaksa rule has collapsed suddenly. Sri Lanka has an unexpected fresh start.

President Rajapaksa campaigned on his economic record after comprehensively defeating the Tamil Tigers in 2009. On the surface, Sri Lanka looks a lot better. It has among the highest growth rates in Asia – an average of 7.5 per cent per annum in the last five years. There is peace. Infrastructure has improved massively. And tourism is booming.

But this surface reality is deceptive. Things have gone terribly wrong with Sri Lanka's politics, ethnic relations, economy and foreign policy.

First, politics became a one-family business. Power was centralised in a quartet – the president, his two brothers Gotabhaya and Basil, and his son Namal. The Rajapaksa clan – an outer circle of relatives and hangers-on – were appointed as senior government officials, heads of state-owned enterprises and ambassadors. The clan indulged in unprecedented levels of corruption. Public institutions – the civil service, legislature, judiciary, local government, police and military – were emasculated. Business was co-opted. The media and NGOs were repressed. Sri Lanka became an "illiberal democracy", less like India and more like Russia and Venezuela.

Second, ethnic relations did not improve after the end of the war. There was no attempt at genuine reconciliation with Tamils in the war-scarred north and east. Senior members of the government promoted Boddhu Bala Sena, an organisation led by Buddhist monks, which attacked mosques and Muslim shops, and even some Christian churches. There seemed to be a concerted attempt to stoke Sinhala-Buddhist chauvinism to shore up the Mr Rajapksas' Sinhala vote base.

Third, the economy's structural problems became more acute. This seems surprising, for headline numbers on growth, inflation, the budget deficit, public debt, interest rates, extreme poverty and unemployment all look much better since the end of the war.

But many serious observers dispute the government's economic numbers. More worrying is that post-war growth is debt-fuelled and driven by an expanding, inefficient public sector, not by productivity gains. The government has gone on a borrowing spree abroad. Foreign debt is now 43 per cent of total debt and servicing it gobbles up 25 per cent of export earnings. Sri Lanka is increasingly vulnerable to volatile international capital markets for debt financing.

The last decade has also seen much more government intervention in markets. Subsidies to loss-making state-owned enterprises have increased and there are more restrictions on the private sector. Trade protectionism has increased and export competitiveness has declined. Trade has shrunk dramatically as a share of GDP, and exports have not diversified beyond garments and plantation crops. Foreign investment is stagnant, with the exception of hotel and real estate projects. Infrastructure projects have had massive cost overruns. The defence budget has increased, and the military has diversified into business activities.

Fourth, foreign policy swung strongly in favour of China and away from the West and India. Chinese loans pay for much of Sri Lanka's new infrastructure and Rajapaksa vanity projects. But this runs directly counter to Sri Lanka's global economic interests. The US and EU account for two-thirds of Sri Lankan exports. Most tourist arrivals are still from EU countries. India is a far bigger trade partner than China with huge potential for closer trade and investment links, particularly with the four states of South India. Sri Lanka should have good relations with China, but it has become far too dependent on China, at the expense of other more important relationships.

POPULIST POLICIES

If Mr Rajapaksa won, Sri Lanka would have slipped further into political authoritarianism, Sinhala-Buddhist chauvinism and ethnic strife, economic nationalism and dependence on China. So Mr Sirisena's victory presents a golden opportunity for a fresh start. He and his new prime minister, Ranil Wickremesinghe, head a coalition that spans all ethnic and religious communities. He was elected with the overwhelming support of the minorities and a significant share of the Sinhala-Buddhist vote. The young and aspirational, fed up with quasi-feudal, dynastic politics, flocked to his banner. Hence there is a good prospect for a return to open democracy and a liberal flowering in the media and other parts of civil society.

But this is far from assured. The new government is extremely diverse and could easily fall apart. There could be recriminations against the minorities. Public institutions are still packed with Rajapaksa lackeys. And Sri Lanka has squandered rare opportunities for regeneration before.

The new government has announced an ambitious 100-day programme. At its core is constitutional and political reform. The all-powerful executive presidency will be abolished and a Westminster-style parliamentary system restored. A 19th Amendment to the constitution will re-establish the independence of institutions such as the police, judiciary and public service. New Independent Commissions will be responsible for making public appointments. There will be a Right to Information Bill. And new parliamentary elections will be followed by a cross-party government for at least two years.

The 100-day programme has nothing to say on ethnic relations except to reject international jurisdiction over the investigation of war crimes. Those who favour genuine ethnic reconciliation will have to fight their corner. Long-delayed devolution of powers to provincial councils, including those in the Tamil north and Tamil-Muslim east, must be part of the solution.

What the 100-day programme has to say on the economy is interventionist and populist. Public-sector salaries, pensions and welfare benefits will be raised and taxes reduced. There will be guaranteed purchase prices for some agricultural and plantation products. Farmers will have debt relief. There will even be a new government agency for drivers of three-wheelers. All this is for short-term political gain, but it is economically nonsensical. It puts further stress on already precarious public finances.

This makes it all the more urgent for Sri Lanka's tiny number of economic liberals to make the case for a radical economic overhaul. Priorities should be the repair of public finances; domestic deregulation to liberate the private sector; trade liberalisation and an open door to foreign investment; public sector reform; and lower defence spending. Realistically, these reforms will have to await the outcome of the parliamentary election. The best hope for market reforms is a strong performance by the United National Party. That would allow Mr Wickremesinghe, its leader, and a competent economic team to pursue at least some core reforms.

Finally, foreign policy should be reoriented, emphasising better relations with the West and India. Thankfully, this seems to be underway already. But a more open, liberal Sri Lanka also presents a fresh opportunity for closer relations with East Asian countries – Asean, Japan and South Korea, extending to Australia and New Zealand. Singapore should be at the head of this list.

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THE BOTTOM LINE

Why drugs cost so much in US

> Companies are taking advantage of a mix of laws that force insurers to include essentially all expensive drugs in their policies, and a philosophy that demands that every new healthcare product be available to everyone, no matter how little it helps or how much it costs.

By Peter B Bach

ELI Lilly charges more than US$13,000 a month for Cyramza, the newest drug to treat stomach cancer. The latest medicine for lung cancer, Novartis's Zykadia, costs almost US$14,000 a month. Amgen's Blincyto, for leukaemia, will cost US$64,000 a month.

Why? Drug manufacturers blame high prices on the complexity of biology, government regulations and shareholder expectations for high profit margins. In other words, they say, they are hamstrung. But there's a simpler explanation.

Companies are taking advantage of a mix of laws that force insurers to include essentially all expensive drugs in their policies, and a philosophy that demands that every new healthcare product be available to everyone, no matter how little it helps or how much it costs. Anything else and we're talking death panels.

Examples of companies exploiting these fault lines abound. An article in *The New England Journal of Medicine* last fall focused on how companies buy up the rights to old, inexpensive generic drugs, lock out competitors and raise prices. For instance, albendazole, a drug for certain kinds of parasitic infection, was approved back in 1996. As recently as 2010, its average wholesale cost was US$5.92 per day. By 2013, it had risen to US$119.58. Novartis, the company that makes the leukaemia drug Gleevec, keeps raising the drug's price, even though the drug has already delivered billions in profit to the company. In 2001 Novartis charged US$4,540, in 2014 dollars, for a month of treatment; now it charges US$8,488.

But what if we didn't require insurance companies to cover all drugs? We can see the answer in Europe. Many European countries say no to a handful of drugs each year, usually those that are both pretty ineffective and highly costly. Because they can say no, yes is not a guarantee. So companies have to offer their drugs at prices that make them attractive to these healthcare systems. A recent survey of cancer drug policies revealed you don't have to say no very often to get discounts for saying yes. Of the 29 major cancer drugs included in the study that are available in the US, an estimated 97 per cent and 86 per cent are also available in Germany and France, respectively.

As a consequence of the stand taken by those countries, prices in Europe for prescription drugs are 50 per cent below what Americans pay, according to a 2008 McKinsey study.

Saying no, or even the threat, works to lower prices in the US, too. But it's rare. In 2012, my hospital said we wouldn't give the colon cancer drug Zaltrap to our patients because it cost twice as much as another drug (Genentech's Avastin) that was just as good. When we refused to use it, the company realised that other cancer hospitals and doctors might follow, and halved its price nationwide.

More recently, Express Scripts, a company that manages pharmacy benefits, showed that approval was no guarantee. It was therefore able to play two makers of treatments for hepatitis C off against each other. Express Scripts said yes to AbbVie's Viekira Pak (for the most common subtype, genotype 1 disease), and said no to Gilead's Sovaldi and Harvoni. Another pharmacy benefit programme, CVS Caremark, played it the other way, closing out AbbVie and choosing Gilead.

Either way, the lesson is that Express Scripts, once it showed it could say no, got AbbVie to discount its product. It isn't saying how much, but Steve Miller, a senior executive, said it had "significantly narrowed the gap between prices charged in the US and Western Europe". Sounds like the kind of progress we need.

You might worry about patients being harmed through these moves. But we rejected Zaltrap knowing it was no better than the alternative.

The industry might argue that drug spending is only 10 per cent of all healthcare spending, but that 10 per cent equals around US$300 billion per year. More important, the costs of high-priced drugs are being passed on to patients.

That leaves us with two options. We can free insurers and government programmes from the requirement to include all expensive drugs in their plans as we explain to the public that some drugs are not effective enough to justify their price. If we do this, we can be confident that manufacturers will lower their prices to ensure their ability to sell their products. Or we can piggyback on the gumption of bolder countries, and demand that policymakers set drug prices in the US equal to those of Western Europe. Either approach would be vastly superior to the situation we have today. NYT

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