Economists generally agree that democracy is an important contributor to a nation’s economic development. Representative government via regular general elections seems to be one of the best methods humans have yet devised for controlling predatory states. It is thus not surprising that, across the globe, representative democracy and economic growth go hand in hand. But that fact, in turn, makes the island City-State of Singapore almost uniquely weird. Singapore exhibits a union of discretionary political power alongside the Rule of Law in markets. In other words, there is a very small group of politically powerful people—call them elites—who can and do fashion the laws to suit their own interests. These elites nonetheless define, enforce, and observe laws that make for a (relatively) fair and competitive market economy.

So the puzzle is this: Why doesn’t the discretionary political power bleed into the market? Why aren’t Singaporean elites like the elites in some Latin American or sub-Saharan African countries, or North Korea for that matter, taking all they can from their subjects? How does a country sustain a government many call a “benevolent autocracy” and a market economy simultaneously?

A complete answer must be highly complex and beyond the scope of anything I can offer. What I want to do is suggest one important contributing factor: Singapore’s Sovereign Wealth Funds (SWFs). I contend that Singaporean elites are made richer by preserving a robust market economy rather than by plundering, specifically through the mechanism of Singapore’s SWFs. The elite would prefer to see the economy as a whole grow rather than any particular firm or industry succeed, because they (sort of) own stock in every company, as well as most of the land in the SWF portfolios. This fact incentivizes them to establish competitive market institutions.

In the article that follows, I describe the puzzling confluence of Singaporean institutions in greater detail; summarize an important theory in the political economy of autocracy (Mancur Olson’s stationary bandit model); and apply this theory to the case of Singapore’s SWFs and show how elites are incentivized to protect individual liberty in the market.
The Puzzle of Singapore
Political Authoritarianism

Although Singapore is formally a multiparty state, a small coalition of ruling families has governed the country that I refer collectively to as elites. My objective is to clarify who counts as an elite, to illustrate the extent of their political power, and to show that the elites do in fact use this power for their own enrichment.

The ruling party calls itself the People’s Action Party (PAP). The PAP won a landslide general election in 1965 when Singapore first became an independent nation and used its newfound power to ensure that no meaningful political opposition could ever form. There are three primary channels through which a small ruling coalition of elites maintains power.

First, the Constitution of Singapore vests the Cabinet of Ministers with executive power. The cabinet is a small body whose members are appointed by the president. The president is, however, more or less a figurehead, and he is constitutionally required to appoint cabinet members with the “advice” of the Prime Minister (PM). The PM, in turn, is the head of the cabinet, appointed by the president, who is required to act in accordance with the “advice” of the cabinet. In short, the cabinet of ministers and the prime minister mutually select future ministers.

The cabinet wields extensive powers. Most obviously, as the executive branch of government, ministers directly control the enormous regulatory apparatus. But Singapore does not maintain a strong separation of powers, and the legislative and judicial functions of government are often subsumed by the cabinet. For instance, the cabinet is responsible for setting the legislative agenda for Parliament. Additionally, judges (excluding judges on the High Court) are employees of the executive branch of government, the practical implication of which is that judges can be (and are) moved around, appointed, or removed from office at the discretion of the cabinet.

Second, the government has established very stringent election controls. For example, a person cannot run in an election without submitting a deposit, which is only remitted to the candidate upon his or her securing a certain percentage of the votes in the district. The deposit size varies by time and place, but is always rather hefty—at least US $12,000 is normal. There are also laws in place that dramatically restrict civil liberties—primarily freedom of speech, of the press, and of assembly—which make it very difficult to organize an opposition party. The government systematically discriminates against the small number of opposition-controlled districts in terms of the provision of “Public Goods”—goods or services that the private sector is not incentivized enough to produce—e.g., districts that vote opposition enjoy less frequent trash collection. Most
notably, the government maintains very stringent antidefamation laws and uses these laws to shut down opposition leaders. Anyone sufficiently critical of the PAP or of any minister will find themselves subject to a defamation suit. Judges, of course, always side with the state—remember that their jobs depend on the goodwill of the cabinet. In a comprehensive analysis of Singapore’s defamation cases, one scholar found that the average amount of damages awarded to a litigant who is a member of the PAP is US $1,100,000, whereas the average for a non-PAP litigant is slightly below US $44,000. An obviously enormous difference!

In most cases, when a PAP member brings suit, they do so against a member of the political opposition. Further, it is constitutionally forbidden for anyone who has ever filed bankruptcy to hold political office. Thus, the PAP has a classic one-two KO strategy: sue an opposition leader for defamation, and then have the biased courts apply severely punitive damages. The defendant files bankruptcy because she cannot afford to pay the damages, and the threat is effectively neutralized.

There is one flaw in my account so far: parliament remains democratically elected. Even if an opposition member cannot effectively gain a seat at the table, surely the same sort of political effect could be obtained if PAP members of parliament (MPs) formed caucuses. That is, if MPs could form voting blocs that worked against the cabinet, it would be incorrect to stylize Singapore as an autocracy. The ruling elite thus have a third strategy of control, which essentially neutralizes parliament altogether.
The PAP is controlled by the Central Executive Committee (CEC), a cadre at the top that selects party leadership. The CEC’s main function is to select MPs to represent the PAP in each district. What this means is that PAP candidates do not run in primaries. PAP voters in a district do not get a say in who represents the PAP in that district. The CEC chooses a candidate, and then voters are free to vote for or against them. But as established, the opposition has a hard time successfully fielding candidates in the vast majority of districts, so the CEC functionally controls parliament. Currently, the PAP controls seventy-nine of ninety-nine seats. Of the remaining twenty seats, only eleven are controlled by opposition parties; nine are held by nominated MPs—nonpartisan MPs who are placed directly in parliament by the decision of the Cabinet, and who consequently have not run in any election The CEC can and does “fire” MPs. An underperforming MP will be replaced by a different candidate in his/her district at the next general election. Thus, there is considerable turnover in parliament, but not because seats go to the opposition. Rather, parliamentary turnover is a tool of internal discipline wielded by the CEC.

Here’s the kicker: mostly the same people control the Cabinet of Ministers and the CEC. There are, of course, a few individuals in one body but not the other but by and large, the groups are nearly coextensive in terms of membership clarifying my definition of elites; members of both the cabinet and the CEC.

To sum up, the cabinet has all executive power, some legislative power, and exerts strong pressure on the justice system. The cabinet is unelected; future members are simply selected by the current prime minister, whom the current cabinet selects. Parliament and the cabinet have together passed laws that mostly keep any political opposition from forming; the courts also help the PAP out here. Internally, the PAP is tightly governed by the CEC. Because the cabinet and the CEC are usually the same people, elites have mostly dictatorial power over Singapore.

Moreover, they use that power to enrich themselves. Singaporean civil servants are the highest-compensated in the world. Current PM Lee Hsien Loong, for instance, earns over US $4 million per year as his base salary. It is not uncommon, however, for civil servants to hold multiple well-paying positions; Lee is also the President of the Government of Singapore Investment Corporation (GIC), for which he is generously remunerated. There are also ample bonuses, proportional to base pay, that annually line PAP pockets.

**Economic Liberty**

What makes Singapore puzzling is the extent to which the people enjoy economic liberty. The government is consistently rated as one of the least corrupt in the world. The courts are consistently rated as some of the fairest. Their protections for property rights are some of the strongest. Their crime rates are some of the lowest. They have extremely low taxes and zero tariffs or import/export quotas. And these market institutions, among others, contribute to consistently high GDP per capita and GDP growth. Singapore is among the richest nations in the world.

What might be even more interesting is that inequality remains relatively low as well, and is trending downward. Income gains are generally well distributed, even to the poorest. Wages for the lowest decile are comparable to those of the poorest in the United States and are higher than US incomes for increasing deciles. Note that wage comparisons are obviously subject to wide margins of measurement error. For example, while cost of living in Singapore is extremely high, which would suggest that we overstate real Singaporean wages in comparison to the US, public goods provision is also much higher quality in Singapore, suggesting real wage understatement. The point is that by any plausible metrics of quality-of-life comparison, Singaporeans tend to do at least as well, and by most metrics better, than US citizens. So take the wage comparison as a rough heuristic that, along with all the other available broad generalizations, suggests widespread prosperity. Singapore maintains high-quality public goods, from transportation to parks. People seem generally happy; self-reported happiness in Singapore is the highest in Asia, and tends to
rank around twenty-fifth globally. Life-expectancy in Singapore is seventh highest globally (for comparison, the US typically ranks around forty-fourth). The PAP itself tends to enjoy extremely high approval ratings, which should not be surprising given the average citizen’s living standards.

But if the elites (the intersection of the cabinet and the CEC who unilaterally determine Singaporean public policy) have so much power, then why do they not use it to enrich themselves? The answer is that they do. But the elites’ means of generating revenue largely dovetail with the general interests of the population, through the mechanism of Singapore’s sovereign wealth funds (SWFs). To show how the mechanism works, I need to take a brief detour through the economic theory of autocracy.

**Stationary Bandits**


Olson answers by means of a model. Consider a hypothetical world characterized by farming villages. The villagers face a threat from roving bandits. The bandits, when they arrive, kill opposition, take everything, and move on to the next village. The villagers thus adopt a strategy of underproduction in response. Rather than work very hard just to see their surplus confiscated, they produce just enough for themselves at a given time. Thus, in the world of roving banditry, economic growth is impossible. Nobody wants to save and invest.

But imagine that one bandit gang gets the bright idea of settling down and pillaging the same village repeatedly. The bandits show up, tell the villagers that they are there to take their stuff, but not quite all of it. The bandits know that if the villagers get to keep some of their harvest, they will plant more in the future, and the surplus of appropriable wealth will grow. If the villagers are allowed to keep some of their wealth, then they have an incentive to save and invest. The bandits and the villagers thus both become richer if the bandit plunders the same village over time, because the bandit does not have an incentive to take everything, and the villagers, knowing this, invest. Under stationary banditry, economic growth will occur. We can call this feature of stationary banditry the time horizon effect. The stationary bandit has a longer time horizon than the roving bandit, and thus extracts less in the present. By abstaining from present consumption, he increases his total consumption.

It gets even better for the villagers. The stationary bandit has an interest in keeping the wealth of his village safe. He wants to be the only thief in town. Thus, he will invest in defending his villagers from the threat of other roving bandits (since other bandits are, in essence, stealing from him now). And that is not the only public good he may find useful. The villagers might be more productive with a well-maintained road network. If so, the bandit may find that investing in the production of roads will further increase his wealth over time. The more the villagers produce, the more the bandit gets to plunder. Olson calls this the “Encompassing Interest Effect.” The stationary bandit has interests that encompass the success of the entire village, and thus minimizes his predation and invests in some public goods.

Roving banditry mostly means anarchy, and stationary banditry mostly means dictatorship. How does democracy fit into the picture? Olson argues that democracies have stronger encompassing interests and longer time horizons than dictatorships. Say that the stationary bandit is extracting 10 percent of the wealth of the village each year—we can call this mode of plunder a tax. Suppose then that the villagers revolt, overthrow the bandit government, and establish majority rule. Will the new government pick a higher or lower tax rate than the bandit?

Even if voters remain just as greedy and self-interested as the bandit, they will nonetheless pick a lower tax rate. The reason is that, under conditions of majority rule, the voters who vote on the tax rate are themselves a subset of the ones being taxed. So the winning coalition can plunder the rest of the village—the majority can tax the minority—but because the majority is also subject to the tax, they tax less than the bandit. For the democratic government, increasing government revenue decreases private revenue, for an ambiguous net effect. By a similar logic, the democratic government will also benefit more than the stationary bandit from public goods (goods or services that the private sector is not incentivized enough to produce.) A democratic government will tax less and produce more public goods than a dictatorship; the minimum winning coalition in a democracy has a more encompassing interest than the stationary bandit.

It may very well be the case that the governor’s time horizon in a democracy is longer. Dictators are, after all, frequently ousted by coups, which rather shortens their time horizon of governance (as well as their life expectancy). And democracies usually have multigenerational
A law that directly benefits any one minister at the expense of economic growth will also, through the SWFs, harm that minister and every other minister.

electorates, meaning that, for a policy to stick around for a while, it has to appeal to people consistently over a relatively long time horizon. So democracies may have a stronger time horizon effect than do autocracies.

Olson’s argument thus provides a very clear reason why, in the abstract, we should expect to observe what we actually do: democracies tend to be more developed than dictatorships. But this theory makes Singapore all the more puzzling: it is highly economically developed, more so than most democracies, and it has more robust market institutions than most democracies. That is, business in Singapore is very much protected from government predation. Singapore is, or is relevantly like, an autocracy, but nonetheless outperforms the majority of democracies around the globe on most measures of institutional quality when it comes to its markets. Is Olson’s logic wrong? No. My explanation for Singapore is that the elite developed institutions—namely, their SWFs—that emulate the encompassing interest and time horizon effects of democracy, without sacrificing authoritarian power.

Sovereign Wealth Funds and Incentives

Early in its history, Singapore created two SWFs: Temasek Holdings and the Government of Singapore Investment Corporation. Think of an SWF like a mutual fund, except the investor is the government and their initial capital is either government-issued debt or tax revenue. Think of Singapore’s SWFs in particular as actively managed mutual funds that hold three kinds of assets: stock in major Singaporean firms, stock in major multinational corporations (many of which have operations in Singapore), and Singaporean land.

A company’s stock price will be affected by government policy. Policies that privilege particular firms will increase those firms’ profits, and investors will thus be willing to pay more for those stocks. Policies that harm particular firms will lower those firms’ profits, and investors will be willing to pay less. One way that authoritarian leaders manage to generate revenue for themselves is by conferring special privileges on the business that they own or that their friends own. While these special privileges—monopoly grants, special tax status, tariffs, occupational licensing, etc.—confer windfall gains on the privileged firm or industry, they often confer windfall losses that are spread out among other firms and industries. For example, a tariff on steel would cause domestic steel producers to earn windfall profits, since the tariff protects them from foreign competition and they can consequently charge higher prices. However, it would cause windfall losses for domestic producers of anything that uses steel as an input, since those producers must pay higher prices when buying steel; their costs of production rise. Political leaders, then, who own stock in particular companies can pass laws to confer windfall profits on those companies and thereby enrich themselves. A politician who owns stock in a domestic steel company can enrich himself by throwing his or her weight behind steel tariffs.
But what happens if a politician owns stock in every company? Then anytime he/she gives special privileges to one firm, the politician both gains and loses money. His/her income increases because stock ownership in the privileged industry appreciate but personal income decreases because he/she owns stocks in industries that are harmed by this ownership policy. The net effect, of course, is ambiguous in the abstract. However, it is easy to imagine cases where the politician suffers a net loss through policies that privilege some but not all the firms represented in his/her portfolios. For instance, a politician might own stock in a steel company and also in an urban housing development firm. The housing firm loses money when its costs of production rise and steel is one of its main inputs. So the politician might gain some money by supporting the steel tariff but loses more money than is gained, because the housing firm’s stock price falls by more than the steel company’s stock price rises.

Singapore’s SWFs basically force a kind of portfolio diversification among elites. That is, the SWFs make it such that the Singaporean elite act as if they own stock in every major company. The SWFs hold large but typically noncontrolling shares of all major Singaporean firms, as well as a number of multinational corporations, many of which have operations in Singapore. Returns (in the form of both dividends and capital gains) on these assets provide a significant chunk of annual government revenue. Recall that government revenue is used to pay elites enormous salaries. Elite revenue, then, depends significantly on the performance of the SWFs. And SWF performance depends on the nation’s general economic growth—the aggregate performance of every firm.

Thus, because elites’ revenue depends upon the performance of every firm, they do not want to insulate particular firms against competition. The value of the SWFs appreciates with the value of Singaporean firms in general—which means that the elite have an incentive to structure fair and competitive markets. While an individual minister might be able to benefit his/her family, or friends by passing some law that secures extra profits for a particular firm or industry, that law would also lower the bottom line for the SWFs. A law that directly benefits any one minister at the expense of economic growth will also, through the SWFs, harm that minister and every other minister. It is thus extremely unlikely for firms to successfully receive special privileges from the state.

The government of Singapore also owns roughly 90 percent of Singaporean land, primarily through GIC. This land is leased on ninety-nine-year contracts; the contracts are saleable in secondary markets, so land is priced and allocated in markets. However, the final claimant to the capital value of the land is the state. Thus, the elite have an interest in improving land values over time, which means making Singapore an attractive place to live and do business. By extracting large amounts of wealth from businesses operating in Singapore, the state would incentivize businesses to exit the country, and exit would entail falling demand for Singaporean land. Thus, in order to maintain land values, the elites have an interest in protecting the nation’s market institutions.

Recall what makes democracy outperform autocracy in Olson’s model: more encompassing interests and longer time horizons. In a nutshell, my argument about Singapore is that the SWFs mimic the encompassing interest effect of democracies. A democracy picks a lower tax rate than an autocrat because the voters in a democracy are the ones being taxed. The elite in Singapore extract less from the people they govern because—through their ownership of land and stock via SWFs—they partly extract from themselves. A tax on Singaporean firms lowers their profitability, which
Economists and political scientists tend to have the intuition that we need democracy to constrain predatory states. This intuition is not a bad one, as far as it goes... Nonetheless, Singapore is evidence that democracy is not the only way of defending a market economy from the grasping hand of the stationary bandit.

NOTES
3. Ibid.

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