Singapore: Or, How I Learned to Stop Worrying and Love the State[1]

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Abstract: The city-state of Singapore is a rare case of market autocracy. The government systematically suppresses political dissent through its courts and legislature, and political power is concentrated almost entirely in the hands of a small governing body: the Cabinet of Ministers. At the same time, Singapore has highly liberal markets: low taxes, few regulations, strong property protections, and fair and efficient commercial courts. Building on Mancur Olson's "stationary bandit" model, I argue that a small coalition of elites has, through the use of Singapore's sovereign wealth funds, established a wide encompassing interest in the productivity of the country over a multigenerational time horizon. By becoming a residual claimant to the nation's land and capital, the government is able to emulate many of the development-enhancing properties we conventionally associate with democracies.

Keywords: Singapore, development, autocracy

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"I always tried to be correct, not politically correct." - Lee Kuan Yew

I. Introduction

Singapore is widely touted as one of the great development success stories in modern history. Its government has also been widely criticized for its slew of policies which curtail civil liberties. Singapore is, and has been for the vast majority of its life as an independent country, a single party state. The ruling party has maintained its privileged status by suppressing press freedom and tightly controlling elections. It should not be surprising to us that we find Singapore to be rich when its government meets Adam Smith's famous mandate of "peace, easy taxes, and a tolerable administration of justice." What is striking is that, unlike most other developed economies, Singapore has failed to produce a flourishing democracy. Executive privileges remain enormous in scope, and an elite wielding these privileges remains entrenched. As one scholar asks, "How is it possible that Singapore lacks almost all the conventional requirements for 'good government' but manages to achieve it nonetheless" (Hamilton-Hart 2000, 202)?

My thesis is this: while most developed economies have limited state predation by democratizing, Singapore has managed to do so while retaining its autocratic nature. By making a small set of elites residual claimants to the country's productivity, Singapore's political institutions cause the economic policy interests of the elite to dovetail with those of their citizens. Importantly, the Singaporean state is only able to maintain this residual claimancy by means of its restrictions of civil liberties.

Salter and Hall (2015) identify Singapore and the United Arab Emirates as "calculating bandits", offering an argument that prefigures mine. My contribution extends in important ways on their initial analysis. First, Salter and Hall leave the mechanisms shaping elite incentives underspecified; I detail these mechanisms by analyzing the role of the state's sovereign wealth funds. Second, I show that the government's oppressive strategies for ensuring peaceful succession and constraining intra-party competition are essential for the maintenance of its residual claimancy.

My argument contributes to two literatures. First, I add to the ongoing dialogue on the relation between development and political institutions (Acemoglu, Johnson, and Robinson 2001; Acemoglu and Johnson 2005; Barro 1996; Boettke 1990, 1993; Djankov et al. 2003; Glaeser et al. 2004; La Porta and Shleifer 2014; Leeson 2008; North 1990; North and Weingast 1989; North, Wallis, and Weingast 2009; Weingast 1995), by presenting a novel case of autocratic development. My argument suggests that autocracy is in fact sustainable, and that there is no necessary link between autocracy and underdevelopment, though of course the two remain strongly contingently related. Second, I contribute to the body of scholarship on Singaporean and East Asian development more broadly. A literature exists which charts the history of Singapore from a political economy perspective (e.g. Barr 2014, 2020, 2022; George 2007; Hamilton-Hart 2000; Murugesan 2012; Ng 2018; Rodan 1989; Turnbull 2009). The consensus finds that Singapore's autocracy is a bug, and that development has persisted in spite of the government's oppressive tendencies. I challenge this consensus by offering an account of Singapore's development in which its autocracy plays an integral role.

It should be further added that I see my argument as situated within a tradition that, to my mind, endogenizes social institutions to the economic process: namely, the Austrian tradition. Menger (1892), Mises (e.g. 1920, 1922, 1949), Hayek (especially 1973), Rothbard (1962), to name but a few guiding lights, each sought to understand not *merely* the way that economic systems operate under a set of established institutions, such as money prices and well-defined and enforced property rights. Where other economists took such a framework for granted in their general equilibrium models, the Austrians further sought to explain where such institutions came from – as with Menger's *On the Origins of Money* – and what happens in a world where such institutions no longer exist – as with the socialist calculation debate. Mises famously wrote, "The body of economic knowledge is an essential element in the structure of human civilization… It rests with men whether they will make the proper use of the rich treasure with which this knowledge provides them or whether they will leave it unused. But if they fail to take the best advantage of it and disregard its teachings and warnings, they will not annul economics; they will stamp out society and the human race" (1949 [1998], 881). We have seen our fair share of dictators who, through their rejection of this "rich treasure," have come quite close to stamping out society. What Singapore shows us is a dictatorship that *does* make (some) proper use of the body of economic thought, and on that account has earned my interest.

In Section II, I summarize the relevant political and economic conditions in Singapore. In Section III, I draw heavily on Mancur Olson's (1993; also McGuire and Olson 1996) work to argue that economic growth occurs only when potential predators can be reasonably constrained. I show how, theoretically, democracies alter elite incentives in order to allow for economic growth. In Section IV, I show how Singapore emulates the constraining incentives of democratic government while preserving its essentially autocratic political structure. The result is a government that maintains its status as "stationary bandit" (Olson 1993, McGuire and Olson 1996) while developing markets. Section V concludes.

II. The Puzzle of Singapore

II.1 Party, Family, and Structure of Government

Singapore is an elite-governed country (Rodan 1989; Barr 2013, 2020, 2022). In its early days of independence, Lee Kuan Yew coopted the People's Action Party (PAP), and used the apparatus of the state to suppress political dissidence. Lee was Singapore's Prime Minister for 31 years, and, after his retirement, fellow party insider Goh Chok Tong assumed the government for fourteen years. Lee's son, Hsien Loong, took over from Goh in 2006, and remains Prime Minister to this day, and he likely would have assumed the head-of-state earlier if not for a lengthy battle with cancer.

Under the guidance of the Lee family, Singapore has remained a one-party state. It was perceived as a disastrous defeat for the party when the PAP lost a grand total of 6 seats (out of an 87-seat parliament) to the opposition party in the 2011 election. Sometimes, legal technicalities prevent opposition parties from fielding any candidates for office, and running for office may require that a person submit a large deposit which will be returned to them only if they win. Lower-ranking members of the PAP are frequently the children of higher-ranking members, preserving a kind of nepotistic ascendancy pattern (Barr 2013). Singapore is home to a large number of enormous Government-Linked Corporations (GLCs); GLCs' highest positions tend to be filled by government officials (who are, of course, members of the PAP), and their boards of governing shareholders are similarly stocked from party members (Barr 2013).

There are two heads of state: the Prime Minister and directly-elected President. The president has very little real power (Barr 2013). Instead, political decision-making is vested primarily in the hands of the Cabinet of Ministers, which is headed by the PM, an office whose holder receives a higher annual remuneration than any other head of state in the world. The President technically appoints the PM; however, in practice the PM has usually been the leader of the majority party in parliament, which is to say, the party leader of the PAP (Thio 1999), which makes sense, since the President is constitutionally bound to appoint a PM most likely to command the confidence of a majority of Members of Parliament. The President is forbidden from having any party affiliation; however, since the PAP through the Cabinet and Parliament controls election laws, the President has always been a PAP figurehead. The President is constitutionally bound to exercise any powers she holds (which are quite limited, though they have expanded since the 1990s) in accordance with the "advice" of the Cabinet (Const. Art. 21[1]). Similarly, the President holds the power of appointing MPs to the Cabinet; however, she is constitutionally instructed to do so in accordance with the "advice" of the PM (Const. Art. 25[1]).

The Constitution of Singapore vests the Cabinet with "the general direction and control of government" (Const. Art. 24[1]). Currently, there are 20 Ministers, though this number can vary; there are as many Ministers as the President and PM appoint. Ministers of the Cabinet are typically granted authority over some regulatory department, such that each Minister exercises a great deal of autonomous authority. Additionally, the Cabinet is responsible for setting the legislative agenda for any session of Parliament. Nominally, Parliament has the authority to constrain and overrule the Cabinet when a Minister fails to justify his actions adequately to a majority of MPs. Internal rules within the PAP, however, prohibit party members from voting against the dictates of the party whip, so in practice the Cabinet has virtually full control of Singapore's laws. Furthermore, the Cabinet may nominate MPs directly to parliament, expanding the size of the assembly; these MPs do not run in elections and are referred to as Nominated Members of Parliament (NMPs). Since any MP can be appointed to the cabinet, it is entirely possible for Singapore to have an NMP Minister – that is, a Minister who has taken office without having once run in an election.

The PAP exercises strong internal party discipline through its Central Executive Committee (CEC), which is structurally similar to a Leninist cadre system. The CEC decides whether and which party member will run for election in a given district. The leadership of the PAP is thus able to turnover potentially threatening or factionalist MPs every general election, by simply selecting different party members to run on the PAP ticket in the problematic districts. As one scholar summarizes, "The PAP's regular turnover is also significant as it (1) reminds the MPs of the party hierarchy and the authority of the CEC; (2) emphasises the need for loyalty, compliance, and performance; and (3) ties the MP's career prospects to the CEC and not to local constituency support" (Tan 2020, 131).

A very small segment of the PAP comprises the CEC, and there is, of course, considerable overlap between the CEC and the Cabinet. Factionalism is thus extremely rare in the PAP (Tan 2020), as both the law and the party cooperate to discourage political dissent. There is also the Personal Bonus to one's annual salary, received by civil servants in an amount left to the discretion of the PM – quite simply a bribe to ensure good behavior in the eyes of the party. The PAP uses both carrots and sticks to disincentivize internal dissent.

II.2 Civil Liberties

The state has effectively arrogated to itself all manner of political powers that would be deemed tyrannical in many other countries. The criteria for the use of eminent domain, for instance, are almost laughably unstringent. The Land Acquisition Act specifies that eminent domain can be exercised at the Prime Minister's discretion for any project he deems in the public interest; the public interest is very explicitly said to include the interests of Singaporean corporations; and the act mandates *below market compensation* for victims of government takings (Chen 2010).

Free speech is constitutionally protected, provided, of course, that the speech does not say anything the government deems harmful to public interests. The government has effectively curtailed any criticism of its policies through its legal dominance of the press (Tey 2008). And freedom of assembly is in a similar boat: it is nominally protected, but parliament may adopt whatever restriction “it considers necessary or expedient” in the pursuit of such nebulous aims as public morality (Const. Art. 14[2]). Such a blank legislative check has enabled the government to require all public gatherings of more than five people to be pre-approved by the state. Spontaneous demonstration is thus effectively prohibited.

Murugesan (2012) finds that, in a comprehensive survey of defamation cases heard in Singapore courts, the largest damages awarded to a non-PAP litigant are smaller than the smallest damages awarded to a litigant affiliated with the PAP. Defamation is apparently a far worse crime when the government is the defamed object. And the PAP clearly uses defamation suits to political advantage. As one NGO report notes, “Singaporean defamation law makes one radical departure from its common law roots: it does not provide any privilege over statements made by politicians [or journalists] in the discharge of their public duty. This legal gap has permitted the PAP to use defamation actions to stifle and punish criticism by opposition politicians,” (Lawyers’ Rights Watch Canada [LRWC] 2007) notably opposition leader J. B. Jereyatnam, as well as some journalists critical of the state. Singaporean election law very cleverly prohibits anyone who has filed bankruptcy from holding office, which sets up a one two knockout punch for the PAP: sue any influential opposition member for defamation, and when he files bankruptcy because the damages are so exorbitant, it becomes illegal for him to run in an election.

The judiciary is as independent as speech is free. Singapore has two lower courts: Magistrate and District Courts. These handle minor civil and criminal cases; which court a case ends up in largely depends on the dollar value of damages in question. Appeals are resolved by a hearing before a single justice on the High Court. If the civil or criminal trial is more serious (for instance, if the claimed damages exceed 250,000 SGD), then the case is initially heard before the High Court, and appeals are resolved by a tribunal of three High Court Justices. High Court Justices have very limited tenure; the executive, which is to say, the Cabinet, can and does remove justices who rule against them (LRWC 2007). Magistrate and District Judges have no tenure whatsoever and are formally members of the executive branch. They are thus regularly moved around, between, say, the bench and the Attorney General's office, by decisions of the Cabinet (LRWC 2007).

II.3 Economic Freedom

One way of setting up the puzzle of Singapore is to call attention to the discrepancy between input and output variables of its governance. The input variables for Singapore's government look pretty bad. The PAP controls the government entirely, and all of the power of the PAP is vested in its higher ups, which happen to comprise the Cabinet. The Cabinet is functionally the only political body that matters, since internal party discipline regulates PAP MPs, and tight election laws and other laws which curb civil liberties prevent any substantial opposition from forming within Parliament. The Office of the President remains largely ceremonial, without much real power, and operates under the PAP's thumb. Courts are effectively controlled by the Cabinet as well, and the High Court never sides against the state, which is to say, the PAP.

Meanwhile, in terms of outcome variables, Singapore has flourished. They are renowned for having some of the fairest and most efficient courts in the world, ranking well above most other developed countries, such as the United States (World Justice Project 2020). How is this possible, given the state's use of the courts to quash dissent? The courts are exceedingly fair when it comes to criminal trials that do not question the government's legitimacy, and Singapore's justice system is one of the best for resolving civil disputes. The World Justice Project measures the general criminal and civil performance of courts. The fact that Singapore performs generally well despite also being obviously politically biased likely indicates that a) politically important cases are a small percentage of total cases and b) they do have a fantastic track record for their hearings of cases which are *not* politically charged.

The country's protections for private property rights are internationally some of the strongest (International Property Rights Index 2022), and its crime rates some of the lowest (World Population Review 2023). Its marginal income tax rates, both personal and corporate, are some of the lowest (World Population Review 2023). Inequality is low and trending downward (Singapore Dept. of Statistics 2021). The government has adopted no tariffs or trade quotas, and immigration is relatively easy and uncontrolled. GDP growth is consistently high. Singapore's regulatory apparatus is as un-burdensome as a regulatory apparatus can be, and it consistently ranks among the top countries for ease of starting new businesses (World Bank 2019). Shockingly, Singapore also does extraordinarily well in measures of corruption (the fifth least corrupt in the world, according to Transparency International's 2021 Corruption Perception Index). The Corruption Perception Index is constructed primarily based on a survey that measures how corrupt citizens think their government is. The fact that Singapore has such a controlling state and yet performs so well in the eyes of its citizens is striking.

What makes the economic success of Singapore so puzzling is that, given such sweeping government power, and such an entrenched, stable coalition of elites, the incentives seem to indicate that the government should be highly predatory. For instance, the fact that party members happen to own and staff large Singaporean corporations might lead an economist to expect large tariffs or other protectionist trade barriers. Similarly, government officials operating corporate enterprises might seek to impose heavy regulations on local businesses, once again to insulate themselves from competition, or take bribes from rent-seeking businessmen who seek such protection.. Or we might expect the state to threaten to impose burdensome policies on private businesses in order to extract rents (McChesney 1987). Certainly, we should expect very high tax rates, so that government officials can extract large quantities of wealth from their subjects. In short, the conventional literature on rent-seeking and autocracy would suggest that agents of a government that is functionally autocratic would use their discretionary power to benefit themselves. Thus, an economy under autocracy should be characterized by all manner of inefficiencies, principally monopoly, subsidy, negative externality, and outright theft by the state. But such is not at all the case for Singapore.

III. Some Economics of Autocracy

Mancur Olson (1993) contrasts two hypothetical primitive societies. The first is plagued by gangs of roving bandits; the second is governed and regularly plundered by a gang of stationary bandits. From the perspective of the expropriated villagers, the latter case is preferable. When the bandit acquires an "encompassing interest" – Olson's term for residual claimancy – in the productivity of the village, he adopts policies to increase the village's productivity.

Since the bandit expects to plunder the village repeatedly, he limits the amount of wealth he extracts at any particular time. By allowing the villagers to retain some of their produce, he incentivizes and enables them to produce more in the future. We can call this the *time horizon effect*. Because the bandit's time horizon is lengthened when he becomes stationary, he plunders less at any given time than his roving cousins.

Second, the bandit acquires an incentive to invest in the production of public goods. Any loss of economic efficiency is borne by the bandit, since he is the residual claimant to all of the village's output. Thus, in order to maximize his own revenue, he invests in protection for the villager's private property rights. The bandit wants to be the only thief in town. Not only does he want to prevent enemies from taking wealth that he intends to confiscate; the increase in predictability generated by a stable property regime encourages the villagers to invest more. The effect of predictability on the villagers' savings rate also encourages the bandit to tax in predictable quantities at regular intervals. We can call this set of effects the *encompassing interest effect*.

Under roving banditry, the situation is not quite as sunny. Roving bandits who take everything they can and get out of Dodge disincentivize investment. In the case of frequent and unpredictable bandit attacks, economic growth falls to zero. The villagers produce just enough for themselves to consume in the present, since they will not be able to avail themselves of the fruit of any investment. The roving bandits steal everything the villagers save.

Democracies, on the other hand, have more encompassing interests than do autocracies. Take the case of a direct democracy where the majority of voters get to decide what the tax rate will be. The tax rate they decide on will be lower than the revenue-maximizing rate. A small increase in the tax rate may increase state revenue, redistributing resources from the minority to the majority, but lower total income for the voters *because the voters themselves are the ones being taxed*. Thus, we can expect democracies to outperform autocracies in terms of economic growth; the encompassing interest effect is stronger for democracies. Olson notes that very often democracies are governed by ruling coalitions that are far smaller than majorities. In the limit where democratic government is entirely captured by a single special interest, the size of its encompassing interest is identical to that of autocracy. So long as the coalition remains larger than a single person or organization, however, democracies have a more powerful encompassing interest effect than do autocracies.

Similarly, democracies may well have a more powerful time horizon effect. The multigenerational nature of an electorate may extend the electorate's time horizon indefinitely. Meanwhile, autocracies suffer from two threats to development. First, on account of the simple fact that it's good to be king, a rival elite might try to stage a coup and instate himself on the throne. The threat of coup shortens the autocrat's time horizon, and he might decide to start getting while the getting is good, so to speak. Second, the problem of succession (see especially Tullock 1981) creates a good deal of future uncertainty, lowering the amount of investment that subjects are willing to engage in.

In short, then, democracies outperform autocracies in terms of economic growth for two reasons. First, they have more encompassing interests, which tends to keep the tax rate or level of redistribution lower in democracies than in autocracies. Second, democracies can extend the ruling coalition's time horizon indefinitely. By virtue of the electorate's multigenerational nature, political decision-makers acquire an interest in passing laws that benefit or at least restrain themselves from passing laws that harm future citizens. Further, by resolving the problem of succession, democracies minimize the threat of coup.

Now, it is clear that Singapore is not a functioning democracy. At the same time, it is also clear that Singapore's economic growth has dramatically outperformed that of most successful and economically prosperous democracies, and that its government has been minimally predatory. I am going to argue that Singapore represents the rare case of a state which replicates the encompassing interest and time horizon effects of democracy without sacrificing its own autocratic features. Indeed, its autocratic nature plays an essential role in the way that Singapore has successfully developed.

IV. Taxes, Temasek, and Terra Firma: The Government's Encompassing Interest

Government revenue in Singapore is generated from two main sources. Like most countries, taxes account for the majority of government revenue. Singapore has three main categories of tax: corporate income, personal income, and goods and services. As mentioned above, all three categories of tax are very low relative to their counterparts in other countries. The state's other source of revenue is its investments. Early in its existence, the government of independent Singapore created two sovereign wealth funds (SWFs): Temasek Holdings, Ltd., and the Government of Singapore Investment Company (GIC). Assets in each of these sovereign wealth funds mainly include stock in major multinational corporations, many of which are based in Singapore. Another significant chunk of both SWFs' portfolios consists of land. The government, through Temasek and GIC, owns more than 90% of the land in Singapore (Haila 2015), and leases it to citizens on 99 year contracts. The sole shareholder in both sovereign wealth funds is Singapore's Minister of Finance, who holds his seat at the behest of the PM and

Cabinet. Returns on SWF investments tend to account for about 20% of government revenue in a given year.[2] The government additionally issues large amounts of debt, not to pay for its operating budget, but to invest through its SWFs. Given that the government's assets are in excess of its liabilities, it is safe to say that in general the government earns a higher rate of return on its investments than its investors earn on government-issued securities.

Singapore has an extraordinarily remunerative compensation structure for political officeholders; expenditure on manpower usually accounts for just under 20% of the government's expenditure in a given year (Koo 2022). MPs are paid a base wage of about 150,000 USD per annum. The wage scales up exponentially with positions of seniority. Ministers, for instance, earn on average about 1.1 million USD per annum. All civil servants furthermore receive an annual National Performance Bonus proportional to their base pay. The size of the National Bonus depends upon four equally weighted criteria: real median income growth for the average Singaporean, real income growth for the lowest quintile of income earners in Singapore, the national unemployment rate, and the real GDP growth rate. Retired Ministers, MPs, and civil servants also earn a highly competitive pension, the size of which scales with their length of time in office. The PM exercises a great deal of discretion over the incomes of ministers and MPs: in addition to their base pay and the National Bonus they also receive a Personal Bonus, in an amount of the PM's choosing. The Constitution of Singapore (Art. 33) prohibits any Minister from "holding any office of profit or engaging in any commercial enterprise." Ministers must further disclose all personal assets and liabilities upon assuming office.

[2] I calculated this rough figure myself from two sources: Singapore's annual tax revenue (World Bank 2023) and Singapore's annual Net Investment Returns Contribution (NIRC) (Sovereign Wealth Fund Institute 2022); the NIRC represents the dollar value of returns on investments spent by the government in a given year. The government spends up to 50% of total returns; the remainder is reinvested.

The PAP, and in particular, its leadership in the Cabinet of Ministers, has thus built a very large encompassing interest in Singapore. Since Ministers cannot hold offices of profit, their income depends entirely on their remuneration as civil servants. The amount of their remuneration depends upon the size of the government budget and the annual performance of the economy. Thus, the Cabinet of Ministers can increase its wealth by increasing tax revenue.

However, increasing tax rates too much in the short run reduces long run wealth for Ministers. First and most obviously, high tax rates discourage investment, thus reducing growth. If the pool of taxable wealth grows over time, as it should if the investment rate is positive, then taxing at any positive rate means forgoing much greater wealth in the future. Second, there are Laffer curve effects: as the tax rate rises, people invest in avoiding taxes – perhaps even emigrating. Third, the reduction in investment generated by high tax rates impacts the bottom lines of the SWFs, through both stock and land depreciation. Stock values of Singaporean firms fall as these firms become less productive due to the deadweight loss effects of taxation. To the extent that SWF portfolios are comprised of stock in Singaporean corporations, the government suffers capital losses by discouraging investment. Similarly, higher taxes discourage entrance by new businesses and immigration by citizens, which reduces demand for land; high tax rates cause land values to depreciate, or to appreciate more slowly than they would under lower tax rates.

A similar story can be told for other kinds of interventions. Why does the state create such a friendly business environment? Most other autocracies – and often democracies – tend to privilege a few enterprises by squelching their potential competition through tariffs, regulations, and grants of monopoly privilege. But these interventions are net revenue reducing for the Cabinet. Since no Minister owns a business, he does not directly benefit by privileging any enterprise. But he would lose: deadweight loss reduces the state's revenue, which lowers both the Minister's salary and bonus. The Cabinet's financial dependence on the country's economic performance additionally accounts for the government's production of public goods. If building, say, a container port creates wealth in the long run, then the government will be willing to incur the expense. Any wealth-improving activity improves government tax revenues as well as the bottom lines for the SWFs.

Why not just tax? Why does the state also run its SWFs? I suggest three reasons:

(1) As hinted above, ownership of illiquid assets extends the Cabinet's time horizon. Land and stock values appreciate over time, and thus holding land and stock gives the state a long-run interest in the success of its economy. By making elite revenue depend partially on SWF performance, Singapore raises the cost of rent-seeking behavior for Ministers. While any one individual Minister might prefer to be able to take bribes from a business in exchange for economic protections, he would certainly prefer that other ministers *not* be able to do so. In the same way, a Minister would probably like to be able to hold an office of profit. But he is happy enough to forgo such a privilege as long as each of his fellow Ministers must do the same. The SWFs coordinate elite interests with one another.

(2) The SWFs provide a strong feedback mechanism for the state by enabling it to earn negative income. Significant capital losses don't just reduce income in the way that a reduction in productivity reduces tax revenue – they drive income into the red. Why would Ministers want negative income? The threat of capital losses acts as a much stronger punishment for bad policy than that of simply reduced tax

revenue, and thus credibly disciplines Ministers. While any one Minister might prefer to be immune to the threat of negative income, he benefits from the fact that his fellow Ministers do not have such immunity. These restrictions make the cost of personal rent-seeking very high for individual Ministers. Having sharp disciplinary mechanisms for reductions in economic productivity further aligns the interest of each minister with that of the others.

(3) The most significant reason for the operation of these SWFs should be obvious: it extends the *encompassingness* of the government's interest. The reason for which democracy outperforms autocracy, in Olson's model, is that the electorate deciding on the tax rate is also taxed. While tax revenue rises with higher tax rates, personal revenue falls – meaning that as long as the winning coalition in a democracy is larger than that under dictatorship, the democratic state has a more encompassing interest and will thus redistribute less. Singapore, through the use of their SWFs, essentially forces its political elite to hold highly diverse portfolios. Since the state at least partially owns almost every asset on the island, any tax that raises government revenue also lowers it: a tax rate increase that raises total *tax* revenue might reduce total *state* revenue, since it hurts the capital value of firms and land in SWF portfolios. Singapore in this way mirrors Olson's model of *democracy*: the tax rate where marginal revenue equals marginal cost is lower when the state owns the wealth that is being taxed. Through its SWFs, the government lowers its net-revenue maximizing tax rate. The government of Singapore is composed, essentially, of the owners of most of the land and most of the businesses.

In short, the use of SWFs coordinates elite interests with one another, by punishing rent-seeking, which enriches the elite in the long run. It also encourages the state to adopt lower tax rates, which incentivizes greater investment, and thus economic growth, than higher tax rates. In this way, elites manage to capture larger long-run revenues than they would in the absence of the SWFs.

It should now be clear that some of Singapore's most oppressive attributes have been essential to its development. If the PAP were not secure in its power then the behavior of its leaders would look radically different. They would seek to pillage more in the present at the expense of economic development. Their interests would become *temporally* less encompassing. The abilities of the PAP to prosecute opposition leaders for defamation and bar them from office, to fine and imprison journalists, and to prohibit protests ensure that PAP leaders have a reasonable expectation of governing for a long time. The political mechanism of appointment to the Cabinet, rather than election, ensures that the children and friends of PAP elites will govern in the future, and election regulations serve a similar function. These expectations mean that the government of Singapore should seek to foster long term economic growth; as the economy develops, so do the elites' pocket books. Without its antidemocratic policies, the PAP would not have such firm expectations of its long-run control of the state, and the shorter time horizon means less growth.

Other civil liberty abuses have helped to extend the state's encompassing interest. For instance, the Land Acquisition Act – which gives the state enormously permissive license for eminent domain, and mandates below market compensation – was essential to the state's mass purchase of Singaporean land. By leasing the land on 99-year contracts, which are themselves alienable, the state is able to leave land use and allocation largely up to the market. However, it retains its claim to the capital value of the land, thus giving the state an interest in its appreciation.

Socialist states are often characterized as states which own the means of production, which sounds rather like a description of Singapore's government. But there is an important difference between Singapore and socialist economies. Socialist states abolish *private* property, in the sense property, under pure socialism, is no longer alienable (Alchian 1965). Socialist states cannot sell off assets that they have nationalized; to do so would contradict the essential feature of socialism, namely, the abolition of private property. If the rulers of a country seize control of all land and capital therein, and then legally prevent themselves from selling those assets, the result is obviously disastrous. Singapore's state, conversely, retains the essential feature of private property in almost all of its assets. It can – and does – sell land and stock from its portfolios. Singapore's state-owned assets are thus priced in markets, and the elites of the country acquire a vested interest in improving the value of those assets.

V. Conclusion

Singapore provides us with a rare example of a developed market autocracy. Economic development can only occur when the problem of banditry has been contained. Most developed countries have constrained their bandits by democratizing, which gives the government a longer time horizon and a more encompassing interest than they would have otherwise. Singapore has managed to emulate these features of democracy without democratizing. Through the use of tax revenue, SWFs, and the prohibition on Ministers privately owning any businesses, the elite mutually enforce portfolio diversification among themselves, which causes their interests to encompass those of businesses throughout the economy. Such a strategy only affords development, however, if the elite have exceptionally long time horizons. Singapore's government thus heavily curbs political opposition, and the ruling party exercises powerful internal discipline over its members, which gives elites the expectation that they and their families will govern indefinitely. The result is an autocratic regime which strongly liberalizes markets and exhibits minimal rent-seeking behavior from businesses and politicians.

My argument raises important questions. Most obviously, why have other autocracies failed to adopt the Singapore strategy? Or has this mechanism of portfolio diversification among elites fostered development elsewhere? Answering these questions may provide fruitful ground for further research. What is perhaps most interesting is how little Singapore's state looks like a state: in some respects, it behaves like a for-profit corporation, designed to maximize return for a few majority shareholders. And like a corporation in a marketplace, it seems as though maximizing shareholder return to some extent involves creating wealth for its consumers – in this case, its subjects.

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