

Insight's **Leonard Lim** examines the pros and cons of public policy largesse to influence consumer behaviour for long-term gain.

THIS week, administration assistant Winnie Low set her alarm clock to go off earlier so she could hop on the train in Woodlands, get off in the Central Business District by 7.45am, and not pay a cent for her travel.

"I usually reach Tanjong Pagar (in the city) at 7.40am but this week I wanted to get there a bit earlier, 7.30am, to make sure I take advantage of the free travel," she said.

The 50-year-old's switch in travel pattern is exactly the result the Government hoped to obtain when it started its year-long free-travel trial on Monday. The aim is to ease overcrowding on city-bound peak-hour trains by changing commuters' behaviour.

Opening-day figures were encouraging: The number of commuters tapping out of specified stations during the free-travel period of 7am to 7.45am rose 25 per cent to nearly 29,000, up from a daily average of 23,000 in the first three weeks of this month.

The number of those who tapped out between 8am and 9am in the trial - involving 16 MRT stations - fell 9 per cent.

A similar move to scrap entry charges for Singaporeans and permanent residents at 11 National Heritage Board (NHB) institutions from last month has also triggered a change in consumer behaviour.

In the first weekend of free admission, May 18 to 19, the NHB institutions - which include landmarks such as the National Museum and the Asian Civilisations Museum - saw a 35 per cent increase in visitorship year-on-year, from 17,000 to 23,000. As with the free MRT travel trial, the NHB offer - which comes after patchy attendance over the years at its repositories of Singapore's rich cultural past - will last for a year.

For a fiscally conservative government like Singapore's - The Economist magazine once tagged it "a stingy nanny" - these two moves mark a significant departure from its long-held stance that in life there is no free lunch, or for that matter, free ride.



That is why it has always required citizens to co-pay – even if what they fork out is a token sum – for services they need or want such as health checks.

So why the change in approach in this year's Budget, which also saw the Government announce free vaccinations for Singaporean children, and the doing away with of a \$3 administrative fee each time Medisave was used to pay for medical treatment?

Does it mark a significant turning point in the Government's thinking on spending and give-aways?

What does it hope to achieve through zero pricing for certain public goods and services? Might such policies actually be good long-term investments?

What can a government afford to give away for free and what should it not, regardless of public pressure?

Penny foolish, pound wise?

THE hope is that free entry to museums and train travel will alter one of the most difficult things to change – human behaviour.

How? By spurring people to either consume a public good or service that they are not attracted to, as in visiting museums, or consume a service in a way that they are not naturally inclined to do – such as catch a train at dawn.

As for the cost to the Government in terms of revenue lost, in both of these cases, the risk of over-consumption is low.

The long-term benefits are, however, potentially large.

"We have good museum collections but even if it's a few dollars, people don't have the urge to spend the money," Tampines GRC MP Baey Yam Keng, who first mooted the idea of free museum entry in 2011, lamented to Insight.

In the case of free museum entry, getting citizens to visit these heritage institutions, with their array of Asian culture and history, helps strengthen a sense of common identity, at a time when society is grappling with an influx of foreigners.

Acting Minister for Culture, Community and Youth Lawrence Wong, in announcing the scheme, said that Singapore's rapid development and social changes have made it "difficult to develop strong cultural anchors" for national identity, and this has led to a sense of disorientation.

On the cost versus benefits of the museum and MRT freebies,



When things are free...

"nobody takes MRT rides just for the fun of it", noted Lee Kuan Yew School of Public Policy senior fellow Donald Low.

"As for museums, what's wrong with somebody visiting the museum repeatedly just to take advantage of the free entry?"

Getting more people through museum doors also incurs little or zero marginal cost, said Mr Baey, since guards, curators, and other staff are on duty whether there is one patron or 50.

The potential long-term social or monetary benefits must outweigh the short-term costs, agreed Nominated MP and Singapore Management University don Eugene Tan.

So, the free-travel trial – in which an expected \$10 million in revenue will be forgone – may prove to be a more cost-effective way to ease congestion than building a new train network or adding carriages during the peak hour, transport researcher Lee Der Horng said.

He added: "The East-West Line is particularly crowded during the morning peak."

"Building a new line would cost billions of dollars in infrastructure. There will be maintenance costs as well when it starts running."

When such conditions are met, zero pricing – an economic term meaning something is free – can be a powerful way to shape behaviour, as a study by academics from top North American universities has shown. It provides evi-

dence that making something free is a powerful way to shape and change consumer behaviour, far more so than simply giving a discount, no matter how large.

Aptly titled Zero As A Special Price, the paper records the results of experiments carried out with selling Lindt truffles and Hershey's Kisses at varying prices. Demand did not change much even when the Hershey's chocolates were sold for one cent. But it shot up dramatically when the Kisses became free.

Consumers' behaviour is influenced as they are led to perceive the benefits of the goods as larger when they are free, the academics from the Massachusetts Institute

of Technology, University of Toronto and Duke University found.

No-go zones

HEALTH care and education are two essential services some governments have chosen to provide free of charge to all citizens and even residents of their countries.

They are the pillars of the welfare systems in the Nordic countries and in Britain, whose National Health Service is both boon and bane.

But both pose a real risk of over-consumption because of moral hazard, a term economists use to describe the incentive to consume more when someone

else is paying.

Consequently, Singapore's leaders have emphasised the principle of co-payment in health care.

As far back as 1993, the White Paper on Affordable Health Care stated emphatically: "To avoid the pitfall of 'free' medical services stimulating insatiable demand, patients pay directly for part of the cost of medical services which they use."

Free health care is a bad idea as this opens the door to abuse, Nee Soon GRC MP and eye surgeon Lim Wee Kiak has said.

His parliamentary colleague Chia Shi-Lu, an MP for Tanjong Pagar GRC and a consultant orthopaedic surgeon, said he has witnessed numerous examples of such distortional behaviour overseas in the health-care field.

"Hence, I've always favoured targeted subsidies rather than a one-size-fits-all welfare strategy," he said.

France's generous health-care system, which extends to subsidies for taxi rides to the hospital, offers an instructive example of the moral hazard that can arise from extensive welfare.

The January issue of Businessweek magazine reported that a retiree who suffers from arthritis went for nine massages and 18 mud baths at a luxury spa. The French government paid two-thirds of her US\$1,022 (S\$1,300) bill.

In Singapore's public health system, experts say what could be provided free must always be

judged against the outcomes it would produce.

Health economist Phua Kai Hong of the Lee Kuan Yew School of Public Policy said these could include disease prevention and health promotion programmes in which whole populations benefit, or immunisation of targeted groups, such as the free vaccinations for children announced in this year's Budget.

This focus on health outcomes was also raised by Pasir Ris-Punggol GRC MP Janil Puthucherry in a parliamentary speech in March, when he mooted the idea of free train rides.

"Doing more, spending more is not automatically going to improve health," said the doctor.

He cited how the American medical community is looking to reduce the number of procedures and medications administered, in recognition of the fact that sometimes, in spending more and doing more, errors may be more likely and it subjects patients to risks and side effects.

In the ongoing review of health-care financing, Health Minister Gan Kim Yong has said what will not change is the emphasis on individual responsibility for one's health and the principle of co-payment.

Moral hazard rears its head also in the education sector. It points to why free higher education in Europe has been a bane to governments there, with students keen to remain in the cocoon of the school system, rather than



Singapore's leaders have emphasised the principle of co-payment in health care to avoid the pitfalls of abuse if health care were provided free. ST FILE PHOTO



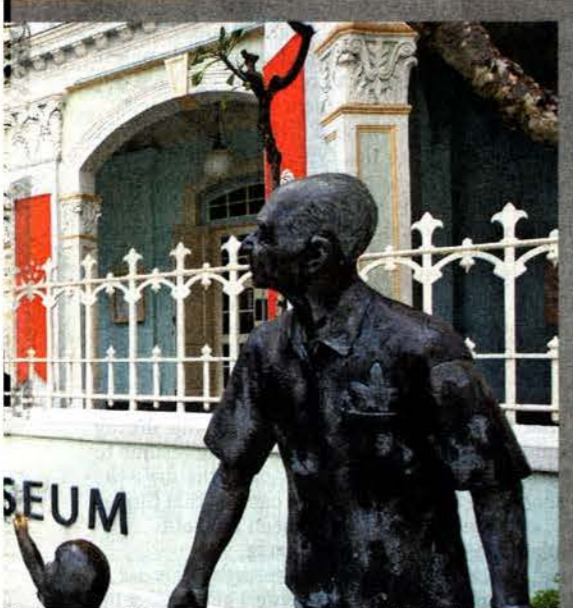
**FREE
VACCINATIONS**

■ Since May 18, Singaporeans and permanent residents get free admission to 11 museums and exhibition centres.
 ■ They include the National Museum, the Singapore Discovery Centre, and Memories at Old Ford Factory.

■ From this month, Singaporean children can get two vaccinations for free at polyclinics.
 ■ The jabs will shield them against some common and preventable childhood infections.

Free entry to museums led to visitorship rising 35 per cent year-on-year for one May weekend. ST FILE PHOTO

Free vaccinations for Singaporean children have been announced in this year's Budget. ST FILE PHOTO



Hits and misses of free benefits around the world

Train travel

In 2008, Melbourne let passengers who arrived at their destination by 7am, from Mondays to Fridays, travel free. But peak-hour traffic was reduced by just 2 per cent.

Still, transport analyst Graham Currie said that effort was worthwhile as the state government could hold off on investing A\$100 million (\$118 million) to improve the train system.

Museums

Since 2001, all of Britain's museums - there are over 50 - have given visitors free entry, adopting a policy that major ones including the British Museum, Tate Modern and National Gallery had practised for years before.

Visits soared by 51 per cent, a study done a decade later found.

There was also significant tourism impact. According to Britain's National Museum Directors' Council website, in 2000/01 there were 9.2 million visits by overseas tourists and by 2010/11 this number rose to 17.7 million.

Welfare benefits

Denmark, where the unemployed sometimes get more money to spend than most full-time workers, is overhauling its welfare system.

The jobless used to be able to collect benefits for up to four years. It is now two.

Students are entitled to six years of stipends, of about US\$990 (\$\$1,255) a month, to complete a five-year degree that is



What will it cost us?

enter the marketplace of a debt-ridden continent in which jobs are hard to come by.

In Denmark, the situation is exacerbated by students getting stipends for six years, though their tuition-free degrees take five years to finish. Many take an even longer time to graduate, going for internships or holidays so they can delay their entry into the job market.

The Singapore system avoids that. Yes, compulsory education is free at primary schools, where parents pay only a monthly miscellaneous fee of a few dollars. And while there are fees at the secondary level, a carefully calibrated scheme of subsidies and bursaries ensures that the needy are not denied the chance to study as far as they can go.

But the system's structure removes any incentive for students to stay longer than necessary, yet ensures that everyone at least gets access to basic education.

There have been occasional calls to tweak the system to make higher education free, but Mr Lim Biow Chuan, who chairs the Government Parliamentary Committee for Education, cautioned that this will result in a greater tax bill.

"Is it possible? Certainly. But citizens must have the appetite for more taxes," said the Mountbatten MP.

The true price of free

SOME politicians, after the idea of free early-morning MRT train

rides was raised in Parliament, asked for senior citizens to be allowed to take public transport for free as well, as a gesture of respect.

Has giving something for free opened up the possibility of calls for more freebies?

Indeed, the challenge ahead for policymakers, say observers, is to use the carrot of "free" sparingly to influence individual behaviour for a specific purpose, and yet preserve the fundamental values of a strong work ethic and personal responsibility that are crucial for Singapore's survival.

Yet some experts are of the view that there is more scope for the Government to zero-price specific goods and services and thereby shape citizen choices.

To that end, Professor Lee suggests extending free early-morning travel to include public buses to ease congestion above ground, like what the current MRT trial hopes to achieve.

The Government could also save money in the long run by making health screening for certain conditions free, said the Lee Kuan Yew School's Mr Low, as these screenings could lead to earlier detection of diseases and reduce the costs of expensive treatment subsequently.

Another proposal, made in 2010 by the Economic Society of Singapore (ESS) - a non-profit organisation of economists and other professionals - illustrates how a typically welfarist programme of free unemployment

benefits could be tweaked for the Singapore context, to achieve a targeted outcome and ensure the core principle of hard work remains.

Adapting an idea by the United States' Brookings Institution, the ESS mooted a wage and training insurance scheme for low- and middle-income earners, to protect them from involuntary unemployment as the economy restructures.

The scheme differs from conventional unemployment insurance - benefits kick in only upon re-employment and are a percentage of the difference between the worker's previous and current wages. This gives them a stronger

incentive to find a new job quickly, even if the starting wage is lower.

To facilitate transitions between industries, a portion of the payouts can also be used to pay for the unemployed person's training.

Such payouts will help address the problem of the unemployed having to fork out their own cash for government-funded training programmes, the ESS said in a paper that was intended to provide feedback to the Economic Strategies Committee.

While this scheme removes the moral hazard problem that plagues typical unemployment benefits, one criticism is that the

jobless would not get any cash for daily expenses when they need it most.

Still, the ESS argued, incorporating such an element in the social safety net would help build social cohesion by assisting citizens affected by the vagaries of the economy.

"We contend that increased social protection for our citizens need not weaken economic incentives or competitiveness, as long as the social protection programmes are properly designed and their incentive effects carefully considered," the society said.

In a similar vein, Dr Puthucherry hopes that his idea of free rides will not just get alarm clocks ringing earlier but spark a wider paradigm shift, with Singaporeans no longer viewing "free" as a "dirty word" in the provision of public services.

With the rise of behavioural economics helping policymakers better understand how incentives can shape behaviour, there is more room than ever to experiment with the use of freebies to nudge people in the direction that the Government wants them to move.

Success will hinge on good judgment and designing policy that adheres to Singapore's core principles. The country, which has so far avoided imbuing in its citizens the entitlement mentality that is plaguing so many Western governments, could prove a good test bed for such experiments.

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free.

Many of them take even longer to finish, taking breaks to travel and for internships. This delays their entry into the workforce.

Health care

France's health-care system is among the most generous in the world, but the government projects a budget shortfall this year of about €5.1 billion (\$8.4 billion) for the sector.

Spa treatments, support tights and taxi rides to hospital are among the many costs reimbursed by the social security system.

An article in the Jan 3 issue of Businessweek magazine quoted a cabbie in Burgundy as saying that 95 per cent of his business came from shuttling patients to and from the doctor in his Mercedes-Benz. He bills the government at a discounted rate of 7 per cent less than regular customers.

Education

Finland's education system is regularly rated as one of the world's best, according to the Organisation for Economic Cooperation and Development, with students scoring well in reading and science standardised tests.

The pre-school year, basic education and upper secondary education are free for everyone. Free daily school meals are provided.

At the university level, all undergraduate and most graduate programmes do not charge tuition fees.

The state sees free tuition as conferring a competitive advantage in helping it lure top foreign professionals.

The quality of teaching has been one factor of Finland's high rankings in international studies - all teachers must hold at least a master's degree.



Singapore's education system removes any incentive for students to stay in the system longer than necessary. ST PHOTO: RAJ NADARAJAN