

Parliament Sitting Date: 17 Aug 1999

**ISSUES RAISED BY PRESIDENT ONG TENG CHEONG
AT HIS PRESS CONFERENCE ON 16TH JULY 1999**
(Statements by the Prime Minister and Minister for Finance)

The Minister for Finance (Dr Richard Hu Tsu Tau): Mr Speaker, Sir, on 16th July 1999, President Ong Teng Cheong held a press conference announcing that he would not stand for re-election as President. At this press conference, the President spoke of what he described as a "long list" of problems he had encountered in trying to protect past reserves. In particular, the President raised four issues:

(a) It would take the Accountant-General "52 man-years" to produce the list of physical assets of the Government.

(b) One "unpleasant" encounter where he had to withhold approval of a statutory board budget because it would have caused a draw on its past reserves.

(c) Whether Net Investment Income (NII) should be treated as current reserves or past reserves.

(d) His "disappointment" that the Government did not need him to unlock the past reserves to finance its package of cost cutting measures, because it had changed its treatment of NII.

These issues concern the working of the Presidential safeguards to protect past reserves. The Constitution had been amended in 1991 to provide for a directly elected President who would have discretionary powers to veto the use of past reserves and the appointment of key officials in the public service. Such a move was without precedent in any country. It was a novel experience for both President Ong Teng Cheong, the first person directly elected by the electorate to this new office, and the Government.

The past six years have therefore been a mutual learning experience for the Government and the President. Many problems were encountered and resolved. Both sides have worked together to interpret the constitutional provisions, and to develop working procedures for carrying them out. The agreed understanding is contained in the set of Principles for determining and safeguarding the accumulated reserves, which was published as a White Paper.

I will now give the House a full account of the four issues raised by President Ong, to clarify what had actually transpired. In the Government's view, these problems were neither fundamental nor intractable. They arose mainly because of differences of opinion on the accounting of Government's physical assets, and difficulties that arose in operating the new system. They were inevitable consequences of the two-way learning process.

Obtaining an Inventory of Government's Assets

The President had said it had taken the Accountant-General "more than two, three years" to inform him what the Government's reserves consisted of. He said that when he asked for an

inventory of the physical assets, the Accountant-General had responded that it would take "52 man-years" to produce. He had replied, "Never mind. Go ahead", and finally he received the list plus diskettes a few months before the 1997 elections.

Members of this House must wonder why it would take "52 man-years" to produce a listing.

The President's office had requested a listing of physical assets from the Accountant-General, Mr Goh Khee Kuan, on 18th June 1996. At a meeting with the President on 14th August 1996, less than two months later, the Accountant-General provided a listing of State buildings, while the Commissioner of Lands provided a listing of State lands. Updates were subsequently sent to the President's office.

At this meeting, the President remarked that to protect past reserves, the reserves should ideally be denominated in dollar value. In response, the Accountant-General conceded that following accounting principles, one should take the value of what was protected at that point in time, but it would take 56 man-years (not 52) just to value the existing properties. He added that for the purposes of protection of the reserves, it did not matter when the valuation was actually made, and it could be at the point of sale. This was recorded in the minutes.

"56 man-years" does not mean it takes 56 years to complete the task. A man-year is a measure of the amount of work to be done, and not of the time it will take to do it. It means that it takes 56 men working for one year, or 28 men working for two years, or one man working for 56 years. It is not unreasonable for a team of 56 men to take one year to value the entire stock of land and buildings owned by the Government. The land was in some 50,000 parcels, including miscellaneous parcels like roads, drains and even some reservoirs. Such land parcels had to be verified through actual surveys.

Thus, the President's recollection of what the Accountant-General had said was mistaken. The Accountant-General did not say that 52 man-years were needed to produce a listing of physical assets. He actually said that it would take 56 man-years to conduct a complete valuation of the physical assets. Furthermore, at the time he said this, he had already produced the listing that the President had requested. He did not produce it only after two or three years, or only after the President insisted upon it.

It is therefore clear that the Accountant-General and the Government departments have cooperated fully with the President, and have not in any way sought to hinder the President in his job of protecting the reserves.

The question whether to revalue all State properties at each changeover of Government had arisen earlier. On 15th July 1996, the Auditor General had written to inform the Ministry of Finance and the key statutory boards and Government companies (Those listed in the 5th Schedule of the Constitution.) that he would require all state properties to be revalued at market value as at the date of changeover of the Government. He cited the Constitution, the impending general election, and the Audit Act.

The Ministry of Finance sought the Attorney General's advice on the Auditor General's directive. On 30th September 1996, the Attorney General's Chambers advised that, in so far as the directive concerned land, such a complete revaluation was unnecessary as a matter of law. It did not result from a Constitutional need to protect the reserves, as the question

whether past reserves were being drawn down did not arise unless a piece of land is actually about to be sold off or alienated. Furthermore, the proposed revaluation was a waste of resources, as firstly the reality was that much of state land would remain as state land, and secondly the value of each piece of land depended on planning and zoning restrictions, which the Government could change.

The Ministry forwarded this opinion to the Auditor General. The Auditor General then revoked his directive to revalue all properties at changeover, stating that there was now no legal basis to do so.

How to protect State lands and buildings in the reserves is a complex issue which the Government and President's office subsequently studied in much greater depth. The final arrangements agreed upon make up an entire two-page paragraph (Paragraph 10 in Part A.) of the White Paper on Principles.

Withholding Approval of a Statutory Board Budget

President Ong said that public officers should change their mindset, and report to the President any improper transaction which may draw down the reserves. He said that he suspected that some public officers in the Executive, including some ministers, considered the President a nuisance.

The President cited as an example one "unpleasant" encounter when he had to withhold approval of the budget of a statutory board. Its expenditure of \$27 million had exceeded its income surplus of \$23 million, which would have caused a draw on its past reserves. He said he was prepared to approve the drawdown, but there were problems because of its accounting system. He brought the matter to the Government's attention, and the matter was resolved and he approved the budget.

The statutory board in question is the Central Provident Fund Board. The chronology of events is as follows.

On 8th November 1996, the CPF Board put up its budget for 1997 to the President for routine approval. The budget showed an operating surplus of \$23 million. The submission was accompanied by a declaration signed by the Chairman, Dr Andrew Chew, and the General Manager, Mr Lim Han Soon, that the budget was unlikely to draw on the Board's reserves which were not accumulated during the current term of office of the Government.

On 6th December 1996, the Principal Private Secretary to the President informed the CPF Board that the Council of Presidential Advisors (CPA) had noted that the Board had budgeted a capital expenditure of \$27 million, which exceeded the budget surplus of the year by \$4 million. The excess would have to be funded by the Board's accumulated surpluses. But with a changeover of government scheduled to take place soon, all of the Board's accumulated surpluses would become past reserves. Therefore, the CPA wanted the Chairman and the General Manager of the CPF Board to clarify the basis on which they made their declarations, "knowing full well that there will be a General Election soon".

The General Manager replied on 7th December 1996 to explain that the CPF Board accounts were on an accrual basis. In accrual accounting, capital expenditure is depreciated over the useful life of the asset, rather than in one lump sum in the year of expenditure. The

operating surplus of \$23 million projected by the CPF Board had already charged annual depreciation of \$11 million against the year's income. Therefore, there was no drawdown on past reserves, whether the elections were held or not.

The General Manager further explained that even on a cash basis, the CPF Board would still project a budget surplus of \$7 million. On a cash basis, we would indeed deduct the \$27 million capital expenditure from the projected operating surplus of \$23 million, but we would also have to add back the depreciation of \$11 million. Otherwise we would in effect be deducting the capital expenditure more than once, erroneously. The CPF Board's budget and accounts were thus in order and there would not be any drawdown on the CPF Board's past reserves.

However, the President did not accept the CPF Board's explanation. He wrote to the Prime Minister on 16th December 1996, stating that he would approve the budget because the expenditure was not wasteful and was in the public interest. However, following the Constitution, he would be gazetting his opinion that the budget was likely to draw on the past reserves of the CPF Board after the changeover of Government.

The Government did not agree with the President's approach. The Prime Minister replied the next day repeating the explanation given by the CPF Board, and requested the President to hold back gazetting his opinion. He suggested that since there seemed to be a difference in interpretation of the budget, we should get the Accountant-General or the Auditor-General to state whether or not there would be a drawdown on reserves following the changeover of Government.

The President replied on 20th December 1996. He agreed to hold back gazetting his opinion, and stated that he would also hold back his approval of the budget until the issue was resolved. In response to the Prime Minister's proposal to seek the views of the Accountant-General and the Auditor-General, the President wrote as follows:

"My duty does not include clarifying with the professional bodies the principles and interpretation. That duty lies with the Government."

The President also explained his reservations over accrual accounting as follows:

"My concern here is that this approach (i.e. accrual accounting) will allow a profligate Government to hide its lavish spending under the guise of capital expenditures. In the final analysis, it is the Government which would have to recommend whether this is a principle that should guide my actions. And in the absence of clearly enunciated and mutually agreed principles and procedures for dealing with such matters, I would rather err on the side of stringency. If the principles had been settled earlier, this uncertainty about what is or is not a draw would not have arisen."

Accrual accounting is a standard practice not only in statutory boards in Singapore, but in commercial firms worldwide. Companies and statutory boards have auditors whose duty is to ensure that what are declared as capital expenditures have in fact been properly spent on capital items. Furthermore, under the Constitution, the Chief Executive Officer and Chairman must declare whether the budget is likely to draw on past reserves, and board members and CEOs have a duty to inform the President of any proposed transaction which is likely to draw on past reserves. As an additional safeguard, the appointments of the Chairman, Board and

CEO of the key statutory boards and Government companies are subject to the President's veto.

In view of the President's stand, the Government took an explicit decision reaffirming that statutory boards and Government companies should continue to prepare their accounts and budgets on an accrual basis. This has since been incorporated in the White Paper on Principles.

On 27th January 1997, the Prime Minister wrote to the President seeking his agreement to accrual accounting, and explaining the safeguards in place. On 30th January 1997, the President replied stating that he had approved the CPF Board's budget and agreeing to the principle of accrual accounting. But he still said that "the concern that a profligate government could hide its lavish spending under the guise of capital expenditure was not fully addressed."

This account of events makes clear that no public officer failed in his duty to report a possible drawdown on reserves to the President in this instance. The Government does not understand why the President regarded this genuine difference of opinion as "unpleasant".

Net Investment Income - Is it Current or Past Reserves?

The President raised the question of whether Net Investment Income (NII) should be treated as current reserves or past reserves. He said that he had been told that according to the Generally Accepted Accounting Principles (GAAP), NII constituted current reserves, but he was not sure, as he was not an accountant.

The proper treatment of NII is not a question of opinion. It depends on the constitutional definition, and on what constitutes standard accounting practice. On these matters, the Government does not act arbitrarily on its own. It takes legal advice from the Attorney General's Chambers, and professional advice from the Accountant-General and the Auditor-General. Similarly, the President and the CPA can obtain legal and professional advice, should they wish to. The Constitution does not envisage either the Ministers or the President and the CPA having to be their own lawyers or accountants.

Let me explain what exactly NII is. NII is the interest and dividend income earned from investing Government's reserves, net of expenses on investment and debt servicing. NII does not include any capital gains or losses that may be made from the disposal of investments, which are classified as Investment Adjustments.

Under the Constitution, the President has custodial powers over "reserves which were not accumulated during the current term of office of the Government". The Attorney General's advice is that this definition does not cover NII, because NII is accumulated during the current term of office of the Government. This is so even when this NII is derived from investing past reserves that are themselves locked up. Therefore, the President's second key does not extend to NII. The President has not challenged this legal opinion.

Treating NII as current income is also the standard approach under Generally Accepted Accounting Principles.

The President also said that the Government had locked up NII as part of past reserves

since 1992, but last year decided that "the NII should now belong to the current account". This is not accurate. The actual situation is as follows:

Under the Constitution, NII is and has always been current income. The Government has not changed this treatment. However, it has carefully studied whether it should do so, and lock up part of NII as protected reserves, especially that part of NII earned from investing past reserves.

This is a complex issue. We have to project the likely state of the economy and the budget position of the Government over the long term, to assess how much revenues the Government will have and what it will need to spend. This involves many uncertainties. We must also weigh carefully the proper balance between restraining a profligate government on the one hand, and allowing a responsible government enough flexibility to operate on the other. The matter is not pressing, and if we decide hastily and make a mistake, it will be difficult to reverse later.

It was the Government, not the President, who first raised the issue of NII in January 1992, well before President Ong took office. Against a backdrop of comfortable surpluses, the Government decided to take the more conservative stance of locking up all the NII earned from past reserves, and to amend the Constitution for this purpose, not immediately, but after about a year of implementation.

However, subsequently the Government did not follow up to amend the Constitution. Revised projections of revenue and expenditure showed that earlier expectations of continuing large surpluses had been too optimistic. The Government therefore looked for more flexible alternative ways to protect the NII.

The matter has been discussed at length between the Ministry of Finance, the Cabinet and the President's office. The Government seriously studied including a more stringent definition of NII in the White Paper on Principles. It finally decided against doing so, because the present uncertain economic outlook made long-term budget projections difficult. A second reason was that doing so would cause the Principles to go beyond the Constitutional provisions. The Principles cannot override the Constitution; they can only give effect to them. A future government would not be bound by the definition of NII in the Principles.

The President and CPA have given their opinions, including the suggestion to lock away half of the NII from past reserves. The Government has carefully considered their views. The suggestion to lock away part of the NII has merit. But we have to find the right basis for determining how much to lock away, as a fixed proportion like 50/50 may not be appropriate for all circumstances. The Government therefore has not yet made a final decision.

In March 1999, the Government informed the President's office that while it had earlier been inclined not to change the status quo treatment of NII, it had relooked at the calculations and concluded that there could be a case for protecting NII or a significant part of it. This would require a Constitutional amendment, rather than a provision in the Principles which would have no legal force. The Government needed time to study how best to protect NII. This study could lead to an amendment of the Constitution next year.

Therefore, while NII continues to be current reserves, the Government is aware of the problem which the President has highlighted, and has been working with him and the CPA to

find a solution.

No Need to Draw on Past Reserves Because of NII?

The President also expressed his "disappointment" that the Government declined his offer to unlock past reserves to finance its package of cost cutting measures, and said that the Government was able to do so because it had changed its treatment of NII to count as current reserves.

This is not the Constitutional and financial position. As I have just explained, NII has always been current reserves under the Constitution. In any case, the Government has not needed to fall back on NII at all, whether these constitute past or current reserves, to fund its special packages and the budget deficit. Through careful financial stewardship, the Government has accumulated sufficient budget surpluses within its current term of office for this purpose. The budget surplus does not include any NII, because NII has always been an item "below the line" in the Government budget.

I informed this House during my FY99 Budget Debate round-up speech on 9th March 1999, that between 25th January 1997, which is the day the present Government took office, and 31st March 1998, the Government had generated an operating budget surplus of \$6.3 billion. After taking into account the expected deficits in FY98 and FY99, we would still have a cumulative surplus of \$368 million as at 31st March 2000.

As it has turned out, in FY98, instead of the budget deficit of \$466 million originally estimated, we achieved a budget surplus of \$925 million. Hence, by the end of FY99, we now expect to have a cumulative budget surplus, since this Government took office, of \$1.8 billion, excluding NII.

Therefore, the Government has had no reason to ask the President to unlock past reserves, regardless of the treatment of NII. This is a positive outcome of our prudent policies, and not a cause for "disappointment".

Conclusion

I have explained that while there were difficulties between the President and Government, they arose from honest differences in views. The Government has extended full cooperation to the President and the CPA, and made no attempt to obstruct or show disrespect to the President. Despite the problems encountered, the Government remains committed to protecting past reserves and making the institution of the President with custodial powers a success.

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The Prime Minister (Mr Goh Chok Tong): Mr Speaker, Sir, as Members know, I had originally wanted to make this statement on 3rd August, but decided to postpone it because the President's wife had just passed away. Ideally, this statement should be made later because President Ong Teng Cheong is still in bereavement. But the President's term will expire on 1st September and it would not be proper to make the statement after he has left office.

Dr Richard Hu has addressed the specific items raised by the President at his press conference on 16th July. But having listened to him, some Members of the House and the public may still wonder why the President should choose his end-of-term press conference to criticise the Government in this way. It could not just be the initial difficulties experienced by the President. After all, the problems happened three or four years ago. The public will continue to speculate that there must be more problems with the relationship between the Government and the President which it does not know about.

Public reactions to President's statements

The media have already reported some of these comments and conjectures. For example, Mr Viswa Sadasivan, Chairman of the Feedback Unit's Political Matters Group, told the Straits Times: "If a President who is a former Deputy Prime Minister can be given the push around in that way, I shudder to think what a newcomer to the scene would face."

Dr Kevin Tan of NUS told the Straits Times [30th July]: "The trouble is: either the President should be a figurehead President, or an executive President. To do a little bit of both is terribly confusing."

Mr Simon Tay told Asiaweek [30th July]: "There are two implications here - bad and good - that shock people. The bad one is that even though Ong was an insider, it was still hard [for him] to get straight answers. The good one is that Ong did not see himself as a rubber stamp".

Mr Simon Tay also published an article in the Straits Times [6th August] together with Mr Zulkifli Baharuddin, stating that "the elected presidency remains an institution whose powers are not yet fully worked out and accepted by all."

The Asian Wall Street Journal [9th August] reported that the President had talked of a "long list of problems" at his press conference, and linked this to the President's decision not to stand, stating: "Many political analysts believe that Mr Ong wanted a second term but was discouraged by senior political figures."

PERC, the Political and Economic Risk Consultancy based in Hong Kong, has marked down its rating of Singapore, in a recent report [Asian Intelligence, 28th July] comparing national institutions in different Asian countries. PERC stated that while Singapore's institutions were still professionally run, there were controversies suggesting that they may face some challenges in future. PERC cited the President's revelations of "behind-the-scenes struggles he had with the government and bureaucracy during his term of office. Apparently, the former deputy prime minister took his job of protecting the nation's reserves rather more seriously than many had expected when he was chosen for the post back in 1993."

Need for Government to respond

We should not regard it as unusual for the President to publicly acknowledge differences between him and the Government. It shows the independence of the Presidency in the two areas in which he is vested with custodial powers, and this will help future Presidents. Unfortunately, President Ong's criticisms, both direct and implied, went beyond these differences.

The Government has to guard its honour and integrity jealously. If there are doubts over its probity, the Government cannot command respect and would lose its moral authority to govern. So the Government has consistently defended itself whenever its reputation has been unjustly called into question.

I am duty bound to respond to the points raised publicly by the President at his press conference. I am pained and saddened to have to do this now, at such a difficult moment for the President personally. Indeed at the time of the press conference, his wife was already gravely ill. But it is a responsibility I have to discharge.

Implications of President's Statements

The President's statements have left the following thoughts in the public mind:

(1) The Government had been unhelpful and uncooperative with the President in the discharge of his duties.

(2) Public officers, including possibly some Ministers, regarded the President's checks as a nuisance.

(3) The Government might have withheld information from the President.

(4) The Government had disregarded the independent views of the President; and

(5) The President's difficulties with the Government may have caused him not to seek another term, since his health was "fine".

Teething problems

The tone of the President's comments puzzled me. I thought the Government and the President had developed a good working relationship. Mr Ong Teng Cheong had done a good job in his six years as President. We had worked together to make the new institution of the President with custodial powers succeed. I did not expect him to cast doubts on the Government, that it was unwilling or reluctant to give him full access to all information and documents for him to discharge his constitutional duties.

There were indeed difficulties in working the new system of Presidential safeguards in the initial two or three years. This was due to the complexities of the issues involved. The Government had set up a new system. The President was new to the job; indeed the job itself was new.

These initial difficulties were not unexpected. In our speeches at the swearing in ceremony of the President on 1st September 1993, both the President and I referred to the challenges and likely problems ahead. I said:

"My Government has not the slightest intention of using the financial reserves to finance wasteful, unproductive programmes. We will not squander the financial reserves which we have so painstakingly accumulated. . I do not intend to bring about a situation which will give you cause to exercise your veto powers. I have no doubt, however, Mr President, that if you are ever in disagreement with what my Government proposes to do in the areas spelt out in

the Constitution, you will not hesitate to exercise your constitutional authority.

Mr President, you and my Government will have to work together to give effect to the letter and spirit of this new system of checks and balances. I pledge you my fullest support and cooperation and that of my Government."

The President replied in his speech:

"The legislation creating the institution of the Elected President is still new. While its philosophy and intent are clear, the detailed Constitutional provisions have not yet been fully tested out. Nor is there established precedent on how the Elected President actually exercises his powers. Both the President and the Government will have to feel their way forward.

I look forward to developing a sound working relationship with the Prime Minister and his Government. As we accumulate experience with the new system, we can refine the arrangements, and define through practice and precedent how the Elected President will function."

Indeed this is what the Government, and I believe President Ong, have sought to achieve over the past six years. Most of the difficulties that arose were resolved after discussion and explanation. I regarded them all as teething problems. As we solved them, we refined and elaborated on the arrangements and workings of the Presidential safeguard. Many of the items in the White Paper on principles for determining and safeguarding reserves first arose from careful deliberations by both parties to deal with such practical problems.

As a result of our experience working the new system, we amended the Constitution several times to refine the provisions - in 1994, 1996, 1997 and 1998. The President supported all the changes, except for one - the amendment to Article 22H. This concerned the President's power to veto proposed legislation which circumvented or curtailed his discretionary powers.

The President took the view that he could veto the proposed amendment to Article 22H. However, in the interest of testing out the system, he requested that the matter be referred to the courts for a ruling, and indicated that he would abide by whatever ruling that was made. The Constitution was amended to set up a constitutional tribunal. The matter was referred to a tribunal of three judges, which ruled that the President could not veto the proposed amendment to Article 22H.

Notwithstanding these successive refinements to the scheme, we still cannot consider the system of a custodial President fully tested out and in its final form. It is still running in, and may well need further fine-tuning to make it workable. That is why the Government has not yet entrenched the provisions in the Constitution, to give the President a veto over proposed amendments to his discretionary powers.

Differences healthy - Full cooperation rendered

The Government does not expect the President to agree with it on every issue where he exercises custodial powers. That from time to time the two should hold different opinions on these issues is healthy, and to be expected. The President is assisted in his duties by a Council of Presidential Advisers (CPA) of six members. These are men of substance who have

distinguished themselves by their balanced judgment. The President and Prime Minister each appoint two members. The Chief Justice and the Chairman of the Public Service Commission appoint one each. The President then appoints the Chairman of the Council from among the six members. Under the Constitution, the President has to consult the Council before making his decisions concerning reserves and key appointments. Differences between the Government and the President are therefore not personal, but reflect the independent judgment of the President and the Council.

My Ministers and I treated all queries and requests of the President and CPA seriously. Whether the Government agreed or disagreed with the President, his queries and requests had to be answered. And they were answered. At no time did the Government withhold information or co-operation from the President or show him any disrespect.

Contrary to what Mr Simon Tay and Mr Zulkifli Baharudin wrote in the Straits Times of 6th August, the Government fully accepts the custodial powers of the President. It was the Government which created this new institution to oversee two areas: reserves and key appointments.

The Government worked out its powers and enacted the provisions in the Constitution. So it wants the new institution to succeed. It has absolutely no reason to obstruct the President.

Information Withheld? Procedures Exist

President Ong urged public officers to change their mindset and see it as their constitutional duty to help the President protect past reserves. He said:

"It is not possible for the President's office with a very small staff to know what's going on. The civil servants know what is happening in the ministries and departments. We have discovered in the past that, if they don't tell us, most of the time we would not know. And by the time we know, it may be too late."

This implied criticism of the Government is not justified. I agree that if a civil servant knows that his political masters are drawing down reserves behind the President's back, he should inform the President. But I do not think that every transaction of the Government, or every land sale, should be reported to the President. This would go beyond what is required of all civil servants, and also beyond the scope of the duties of the President as laid out in the Constitution.

There are established procedures for drawing up Government budgets, approving expenditures, and acquiring and disposing of assets. The accounting officer of a ministry is the Permanent Secretary, not the Minister. The accounting officer is responsible for the ministry's budget and its expenditure, as well as the proper accounting and management of public money and assets. The Government budget is prepared by the Ministry of Finance. When it is presented to Parliament, the Minister for Finance is required by the Constitution to certify whether or not there has been a drawdown on past reserves. That is provided for in Article 147.

Furthermore, Article 148G of the Constitution imposes on the Auditor-General and the Accountant-General a duty to inform the President of any proposed transaction which to their

knowledge is likely to draw on past reserves. Members of key statutory boards, the boards of key Government companies, and their CEOs have a similar duty, as required under Articles 22B and 22D. All these appointments are subject to the President's veto. It is up to these officials to devise their own systems, staff support and channels of information in order to discharge their constitutional duties effectively.

Therefore there is adequate mechanism for keeping the President informed of what is happening in Ministries and Departments in time, rather than after the fact. The Presidential safeguard is designed to work through officials in the Government whom he has vetted and can rely upon, and not through a large parallel staff in the office of the President.

Using NII In Regional Crisis?

The President said that his greatest disappointment was his inability to use the second key during the economic crisis. He said this was because the Government had decided that Net Investment Income (NII) should go into current reserves instead of past reserves. The implication was that the Government had changed the rules in order to circumvent the second key mechanism.

The President did tell me that he would agree to draw down the reserves, should the Government need to use them to fight the regional crisis and prevent Singapore from going into recession. I thanked him, but told him that the Government would try its best not to draw on past reserves.

As Dr Richard Hu has explained, the Government had accumulated substantial budget surpluses since the 1997 elections, before the crisis struck. The budget surpluses exclude net investment income, which are "below the line" items in the Government accounts. But the accumulated surpluses were enough to pay for the budget deficits we expected last year (FY 98) and this year (FY 99), beyond the current term of the President. Thus we have not needed to use the net investment income at all. Whether the net investment income was earned from current reserves or past reserves made no difference to this.

The President was thus mistaken in thinking that it was because the Government had redefined net investment income to be current income that it did not need him to use the second key.

Some people may think that had the President used the second key, we would not have needed to cut CPF contributions. Let me explain that drawing on past reserves would not have solved our economic challenges. It would only generate a false sense of well-being, when our real problems are to ensure that companies survive and Singaporeans have jobs.

Our business costs had become too high. We had to bring them down to restore our competitiveness. We reduced Government taxes and charges. But we also had to cut wages and CPF contributions, which form a major part of business costs. We could not avoid tightening our belts.

The proof of a policy is in its outcome. Our rational response to the economic crisis is working. Our economy is recovering strongly, and we have earned the respect and confidence of investors and economic analysts.

The President meant well in offering to unlock past reserves for the Government to use to counter the crisis. But it is for the Government to decide whether reserves need to be used under any given circumstances.

A Custodial, Not An Executive President

Some of the comments and reactions after the President's press conference have shown misunderstanding or confusion over the President's role under the Constitution. For example, Dr Kevin Tan, in Straits Times of 30th July, maintained that we should either have a figurehead President or an executive President, and that to do a bit of both is terribly confusing. Allow me with the authority of the Attorney General to correct this ill-informed view.

There should be no confusion. The true Constitutional position is very clear. The President exercises custodial, not executive powers. Only the Government exercises executive powers. Under the Constitution, the Cabinet shall have the general direction and control of the Government. In contrast, the President's custodial powers are reactive and blocking powers. The President does not have any executive power.

I made this clear when I moved the Constitutional amendments in this House on 4th October 1990 to provide for a President with custodial powers. I then said:

"Let me stress here, however, that the Bill does not transfer the power of government to the Elected President, nor vest in him absolute veto power. Firstly, even though the President is elected by the people, he is not the Head of Government. He is the Head of State. He is not the Chief Executive of the country. The Prime Minister is. The initiative and responsibility of governing Singapore stays with the Prime Minister."

This is in the Hansard of 4th October 1990 [Cols 464, 465].

This is why the Constitution retained the principle, which existed before we created the custodial President, that the President always acts on the advice of the Government, except where the Constitution explicitly provides otherwise. Article 21 of the Constitution states:

"21.-(1) Except as provided by this Constitution, the President shall, in the exercise of his functions under this Constitution or any other written law, act in accordance with the advice of the Cabinet or of a Minister acting under the general authority of the Cabinet."

The President's new custodial powers are to veto certain actions proposed by the Government: to block the Government from spending past reserves or to stop the Government from making appointments to key positions. If the majority of the six members of the Council of Presidential Advisers agree with the President, his veto is final. Otherwise, the Government can overturn the President's veto with a two-thirds vote in Parliament.

No article of the Constitution gives the President any power to initiate any action, or to appoint, promote, transfer, remove or dismiss any officer, or to spend money, or recommend that the reserves be spent. That right is with the Government and the Public Service Commission. It is not the President's task to set policy or run the Government.

Let me reiterate. The Prime Minister is the Chief Executive of the Government. All

Ministries and Statutory Boards answer to him. The civil service reports to him. The Prime Minister, not the President, chairs the Defence Council and has the overall responsibility for the SAF and the defence and security of the country.

In principle this distinction between custodial and executive powers is sharp, but in practice it may be less so. For example, the Prime Minister may consult the President informally before putting up a name for a key appointment, or the President may inform the Prime Minister that unless a statutory board's budget is revised, he will have to rule that it draws upon past reserves.

Such two-way informal communication is essential to the smooth working of a custodial President system. But it must not blur or obscure the Constitutional position: that the executive power remains with the elected Government. Singapore has always had a Parliamentary system of government, not a presidential one. The Constitution provides for a directly elected President with custodial, not executive, power. Singapore does not have an executive President, because Parliament did not create one.

Did The Government Oppose President Ong's Re-Election?

The most serious doubt which the Government must clear up is whether President Ong's problems with the Government are the reason he is not seeking re-election. Indeed, whether the Government, or some Ministers, opposed his re-election because of these problems.

The President opened his press conference saying

"Because precisely you asked about my health, we've waited until my latest health examinations to tell you about my latest health condition.

My current health condition is good; I'm physically fine. Notwithstanding that, I decided not to stand again for the coming Presidential Election. I find no compelling reasons to do so."

The Straits Times, the next day, reported it this way:

"Mr Ong made it a point to begin the press conference by stating that his health was "fine" and, by inference, not an impediment to another six-year tenure if he had so desired. His doctors had declared his cancer to be in complete remission."

Let me state clearly that the Government did not object to the President standing for re-election because of any difficulties in its working relationship with the President. It had no reason to do so. The Cabinet found no fault with the way the President had performed his duties, and the way he exercised his custodial powers. He discharged his duties faithfully and independently. It did not see the differences between the President and the Government that arose from time to time as irreconcilable or unhealthy.

In fact, the Cabinet would have been happier if Mr Ong Teng Cheong had been able to continue for another full term. Singapore would have had the benefit of a well-respected and experienced President, who had been involved over the last six years in establishing the processes by which the President would exercise his newly created powers.

However, the Government did have one reason to be concerned should President Ong seek re-election, namely, his health. The health of the person holding the office of President is not merely a personal matter. It is a matter of state as it can affect the proper functioning of a key institution in our political system.

The Cabinet knew that President Ong had lymphoma and the disease was progressing. It was concerned that his health might not permit him to discharge the duties of President normally and fully for another 6-year term. The public also knew that President Ong had lymphoma. If he stood for re-election, the state of his health would be a natural and proper question that the electorate would ask.

The President discussed his intention to seek re-election with me on several occasions. He first told me that he was thinking of standing for re-election in February this year. The President made it clear that he was not asking for my permission or the Government's permission to do so. He was just informing me as a matter of courtesy.

I welcomed the President's intention to stand for re-election. But I also advised the President that he should obtain medical reports on his condition from his doctors, to be published if he decided to stand for re-election.

The President went to the United States in March, to see Dr Saul Rosenberg of Stanford University Medical Centre. In April, the Cabinet met to discuss what position to take on the President's re-election.

I circulated two medical reports on the President to Cabinet - one by Dr Rosenberg, and another by Dr John Wong, who is the President's principal physician. It is normal practice for the Prime Minister to receive such reports. I have to be informed whenever the President or a Minister is hospitalised for a serious ailment.

I asked Dr John Wong to be present at the April Cabinet meeting, to explain the medical terms and the prognosis for the President, in simple laymen's terms. Minutes were recorded, and I gave a copy to the President.

On the basis of the medical reports and Dr John Wong's explanations, the Cabinet concluded that there was a strong likelihood that the President's health would affect the discharge of his official duties in the next few years. For this reason alone, the Cabinet unanimously decided it could not support the re-election of President Ong, should he decide to stand again.

I conveyed the Cabinet's view to the President. I knew his interpretation of his medical prognosis was more optimistic than the Cabinet's. The President said that he would decide whether or not to stand in June. It was for him to decide, he said. The Cabinet could only offer its view. I agreed with him on this point. It was for the President to decide what he wanted to do.

On 9th July, the President told me that he had decided not to seek re-election, and that he would announce his decision at a press conference on 16th July, which he did.

The President and I enjoy a good working and personal relationship. We have been friends

and colleagues in Government since 1977, ie, over 20 years. Our discussion on his re-election was open and cordial. It was his decision to make, but I felt that it was only right that he knew the Cabinet's view.

President Ong Teng Cheong's Contributions

I would like to place on record before this House President Ong Teng Cheong's significant contributions as Singapore's first elected President. He took his job seriously. He has helped us to test the powers and workings of the new institution, and iron out ambiguities in the powers of the President vis-a-vis the Government. He set the pace to get the Government to complete and publish the White Paper on "The Principles for Determining and Safeguarding the Accumulated Reserves of the Government and the Fifth Schedule Statutory Boards and Government Companies".

Most important of all, he has demonstrated that the two-key system to safeguard Singapore's reserves and key public sector appointments can be made to work.

When President Ong stood for election to be President, some doubted whether a former senior Cabinet Minister and PAP leader could exercise independent judgment or make decisions against the Government in his new role. But friendships and past associations have not affected President Ong's independence of judgment in the two areas where he has custodial powers. President Ong has shown what the Government expected all along: that when an honourable man assumes this constitutional position, he has to exercise the powers of that institution without fear or favour.

Together with the Council of Presidential Advisers, President Ong has established an effective institution for those powers vested in the Presidency. That is a major contribution to Singapore.

The Government will be holding a farewell reception for President Ong on 30th August. At that function, I shall pay a formal tribute to him for his significant achievements as President.