BUDGET 2010 DEBATE ROUND-UP SPEECH BY MINISTER FOR FINANCE, MR THARMAN SHANMUGARATNAM ON 4 MARCH 2010

A. INTRODUCTION

Charting A New Course

A.1 Mr Speaker Sir, I would like to thank all Members who have spoken, given suggestions and supported the Budget. I will address the main issues of the Budget Debate in this round-up speech. Members had also raised specific issues related to the programmes of the various Ministries. These will as usual be addressed at the Committee of Supply sessions.

A.2 As many members have said – MPs Irene Ng, Yeo Guat Kwang, Arthur Fong and Mohamad Maliki Osman, and NMP Calvin Cheng – Budget 2010 is aimed at the long term. Most Members, including opposition MPs, recognize this, and have expressed their support for various initiatives to take our people and enterprises on a journey leading to higher productivity and higher incomes over the next decade.

A.3 Our overall commitment of resources in the budget is higher than it was last year when we intervened robustly to counter the crisis. But the nature and purpose of the budget has shifted. This year, we make a major commitment for the future – to put our people on a path of superior skills, quality jobs and higher incomes.

A.4 But the pay-offs will not be seen quickly. As MP Zainudin Nordin put it, changing both skills and mindsets will not be easy, but we have to persevere and avoid thinking that there are shortcuts.

A.5 Our ultimate aim, as MPs Josephine Teo, Muhammad Faishal, Ong Ah Heng and several others recognized, is to raise the incomes and sense of self-worth of our citizens, including those at the lower end of the income ladder. In order to achieve this, we have to make a sustained effort to grow skills, to innovate and to raise productivity. We must also ensure that all Singaporeans are included in growth and, as MP Jessica Tan put it, feel that they have a fair chance of success and that they can achieve more for themselves and their families through their own efforts, helped by the Government.

A.6 My response to the issues in the debate will therefore be set out along the lines of these two major themes. First, investing in productivity and second, investing for inclusive growth.

B. INVESTING IN PRODUCTIVITY

Productivity: A Recurring Priority

B.1 As members have noted, our focus on productivity is not new. We had productivity movements in fact going back to the 1970s, then in the 80s and 90s, each with a different focus. Some like NMP Viswa Sadasivan thought that our renewed attention to productivity growth reflects the failure of these previous efforts. This is patently not the case.

B.2 The Singapore of today is a completely transformed place, in most sectors of the economy, compared to what we were 20 to 30 years ago. Since 1980, our productivity levels have more than doubled. It has brought us to about 60% of the average productivity levels of the US and Japan, despite both countries themselves moving ahead. And it has been achieved not just by investments in hardware, but by nurturing a more educated workforce, bringing in new higher value industries to replace old ones, and spreading the good practices from leading players to the rest throughout the economy. That's also why most economic studies have assessed that Singapore has done relatively well in the last three decades in growing 'total-factor productivity' – in other words, not just adding more inputs but using inputs better to create more value.

B.3 So the productivity effort goes back a long way. And it is in fact worth going back to read some of the early speeches that were made at that time. I happen to have one of MM's speeches here with me, he was then PM, made in 1986 at the launch of the annual Productivity Month. He quotes from a letter he had received from Mr Kohei Goshi, who was at that time the recently retired Chairman and President of the Japan Productivity Centre. As Mr Goshi put it to MM, the productivity effort is a "marathon with no finish line". It is therefore a continuous and unending effort. This is also why many of the advanced countries are themselves revisiting the issue of productivity, as a basis of sustaining their growth.

a) Take Canada for example. Productivity growth was doing well in the 1990s – growing by almost 2% a year, which is a healthy rate for an advanced economy. But it subsequently fell to about 0.5% in the current decade. In 2009, an Expert Panel made recommendations for comprehensive improvements, including investments in ICT, and sharpened incentives for innovation and commercialisation of R&D.

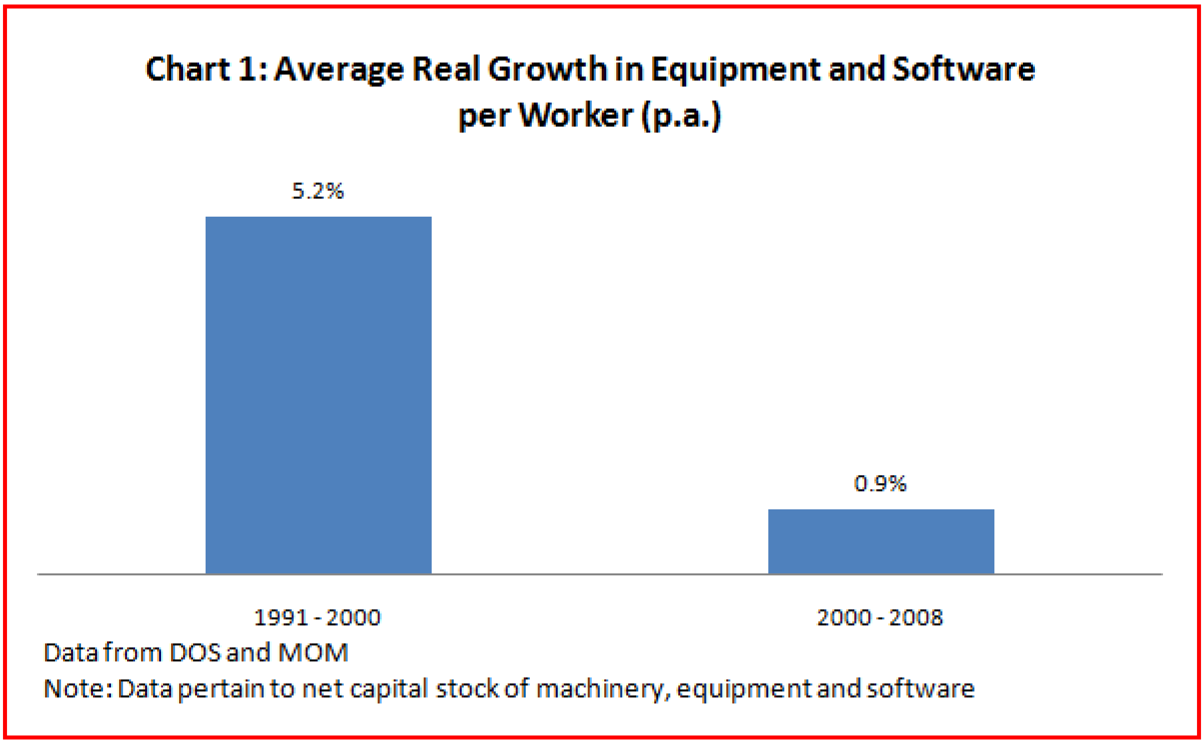
b) Australia is another example. In the 1990s, the government undertook significant reforms to improve productivity by opening up their businesses to competition. Productivity went up by 2.2% a year. But it has since moderated to 1.5% per year in this last decade. The government made a renewed commitment in its Budget last year, to investments in education and other areas to boost the productivity of its workforce and economy.

c) Ireland, a small open economy like Singapore, saw productivity grow by over 4% from 1995 to 2005, as it attracted new investments in high-value sectors such as pharmaceuticals and ICT. However, with domestic sectors showing weaker productivity performance and the export economy itself eventually losing competitiveness, productivity growth has fallen sharply to about 1% since 2005. To address this, Ireland too has embarked on a major plan to boost enterprise capabilities and competitiveness.

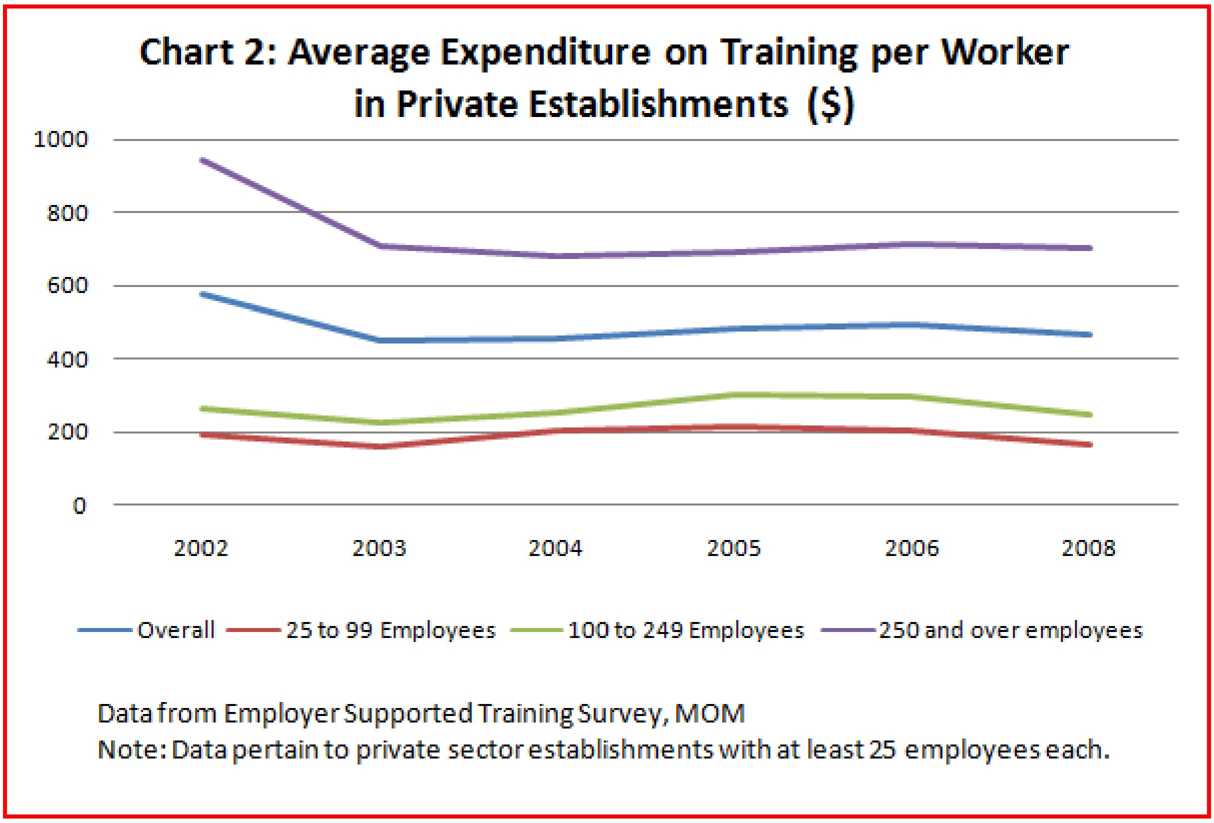
B.4 The journey of productivity, innovation and service quality therefore never ends, as MPs Denise Phua, Ho Geok Choo, Zainul Abidin Rasheed, and Wee Siew Kim, and NMP Paulin Tay Straughan emphasised. It will also get more challenging as we catch up with the leaders and strive for higher levels than before.

B.5 But we do have significant headroom for improvements in productivity. In almost every area that contributes to productivity, there is scope for major improvement – bringing in new and better equipment or software to help workers create more value; training and upgrading employees themselves; spending on R&D or its commercialisation; reorganising the workplace so as to cut out unnecessary processes and focus on delivering customers the best service and value; and building a culture that motivates people and encourages them to take initiative. In some of these areas, there has been a distinct slowdown in the last decade.

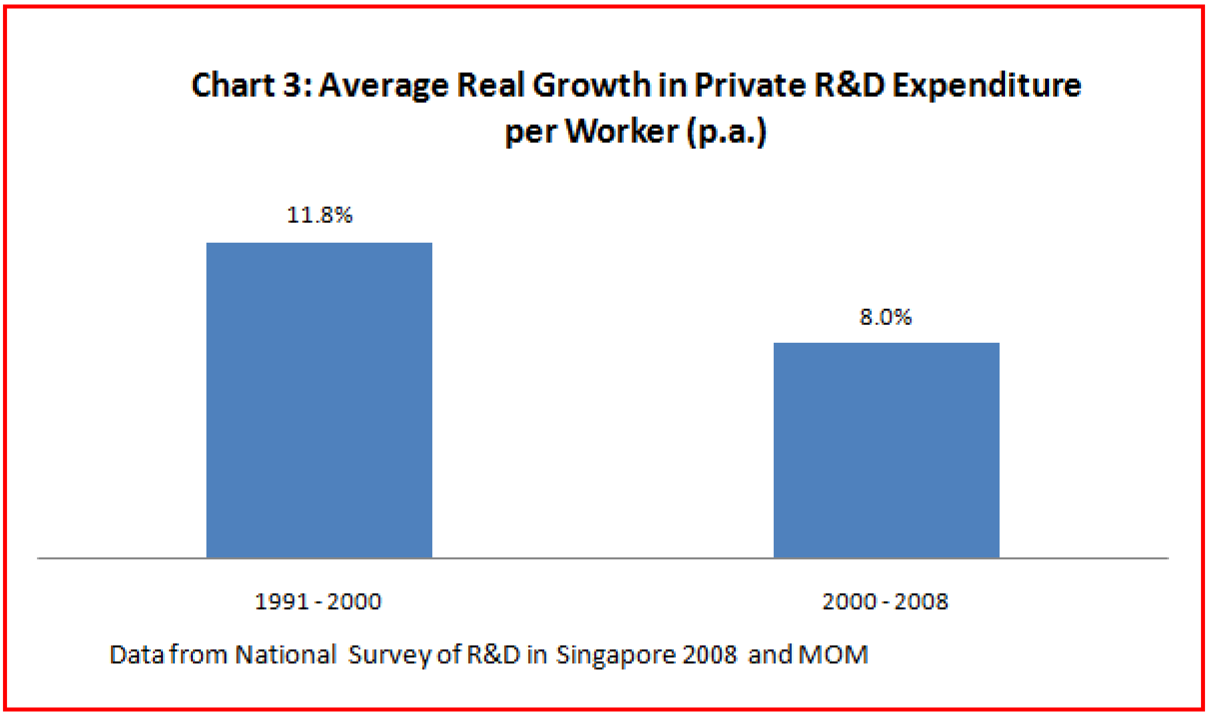
a) Take companies' investments in equipment and software per worker. It has grown much more slowly in the last decade, than in the 1990s (See Chart 1).



b) Training has also slackened. While our workforce itself has become better educated as younger Singaporeans who have graduated from post-secondary education begun working, average training expenditures by businesses, have been falling (see Chart 2).



B.6 R&D expenditures however are growing well in the business sector (see Chart 3). However, they start from a low base and we still have a significant way to go in making R&D pervasive across our economy, not just in industries like pharmaceuticals. The Global Innovation Index 2009, compiled by INSEAD, ranks Singapore 5th overall, but only 21st in terms of innovation in new technologies and 17th for the presence of innovative products.



B.7 We are therefore making a major push to invest in productivity. The Government will provide significant support to our enterprises to invest in <u>upgrading efficiency</u> as well as to develop new products and secure new markets so as to <u>grow their top-line</u>. We are also embarking on a major new phase of investments in our people, particularly through the development and comprehensive system of continuing education and training.

B.8 DPM Teo Chee Hean had set out the comprehensive approach that the National Productivity and Continuing Education Council will take as we go forward on this journey. I will take the opportunity to address some of the specific issues that have arisen in the Debate on the Budget 2010 initiatives.

<u>Investing in Enterprise Upgrading</u>

B.9 Most Members, including MPs Amy Khor, Baey Yam Keng, Lee Bee Wah, Ong Kian Min and Koo Tsai Kee, and NMP Teo Siong Seng have provided strong support for the Budget 2010 initiatives to boost enterprise productivity, including both the Productivity and Innovation Credit (PIC) and the schemes that would be funded by the National Productivity Fund. However, several members were concerned about <u>whether all our businesses will be able to benefit from the schemes</u>, and especially whether our SMEs would benefit adequately.

B.10 Let me first explain that the approach to businesses that we are taking in this year's Budget is fundamentally different from last year's Resilience Package, which was applied liberally across the business sector. While we are making a major commitment to helping our businesses, the benefits will not be spread out equally. Dynamic companies, those which are investing in innovation and upgrading – including small enterprises – will benefit more than others.

B.11 There are in fact three key principles behind Budget 2010's package of productivity measures:

a) Focus benefits on growth-seeking businesses;

b) Provide bang for the buck for SMEs; and

c) Take a two-pronged approach – involving both broad-based incentives and targeted programmes.

Focus Benefits on Growth-Seeking Businesses

B.12 First, we will facilitate economic restructuring by focusing benefits on businesses that are looking ahead, innovating and investing.

B.13 The approach we took with the Jobs Credit and the Special Risk-sharing Initiative (SRI) last year was a liberal one. The package was costly, but as MP Christopher De Souza noted, it was the best way to avoid large job losses and inject liquidity into the business sector at a time of great difficulty. It was meant to reduce costs for all firms, whether or not they were in trouble. In fact, if we had extended the Jobs Credit only to companies in trouble, we would have provided the wrong incentives, and would not have succeeded in holding down job losses across the board.

B.14 Companies will continue to benefit this year from the extension of Jobs Credit for the first 6 months, as well as the other initiatives introduced in last year's Budget – such as accelerated Capital Allowance, enhanced loss carry-back scheme for corporate tax, and the permanent 1% cut in corporate income tax with effect from YA2010. Taken together, these measures will provide businesses with substantial cash-flow benefits this year.

B.15 However we must now shift our focus towards restructuring our economy. Our economy is well into recovery, with improvements in most industries. While there remains some uncertainty over the pace of growth in the second half of the year, we have to set our sights on sustaining growth not just for 2010 but for the next five years and beyond.

B.16 It is therefore not appropriate for the Government to extend the Jobs Credit to the end of the year as MP Alvin Yeo had suggested, or to extend the SRI beyond Jan 2011 as NMP Calvin Cheng had suggested. Doing so would dilute and hamper the move that we have to make to restructure the economy and provide companies with incentive to upgrade productivity.

B.17 The measures this year aim to get businesses to invest in innovation, and to upgrade their operations and develop the skills and potential of their workers. Every company that is willing to do so will benefit from the schemes we have introduced.

B.18 The PIC, in particular, will benefit businesses which are already profitable and have taxable incomes. But it would also benefit the profile of companies that MP Liang Eng Hwa had pointed to – growing companies which do not yet have significant taxable profits but which expect to become profitable over time. The PIC is a generous scheme – in fact exceeding what any other country provides – and is therefore a major push in support of companies that will help restructure our economy through their investments.

a) A profitable company paying the headline corporate tax rate of 17% can get back $43 in tax savings for every $100 invested. A smaller company would already be paying a lower marginal tax rate, of say 8.5%, because of our partial tax exemption system –they would still get back $21 on every $100 invested.

b) A company which does not have taxable income can opt to get a cash grant of $18 on every $100 invested[1], and store the rest of its tax benefits until it eventually earns taxable profits.

c) For training in particular, employers would obtain a 250% tax deduction on top of the very substantial training subsidies that they can get from the WDA. With current SPUR subsidies of up to 90%, an employer may fork out as little as $6 for every $100 of training costs.

Providing Bang for the Buck for SMEs

B.19 The second principle behind our approach is to provide the most bang for the buck for SMEs.

B.20 Several MPs spoke about the need to nurture local enterprises who are rooted to Singapore. Some of our SMEs also have the potential to grow into larger enterprises over time, and will add further to the resilience of our economy. The Government agrees with this.

B.21 Making sure that SMEs benefit most is the reason why the PIC is capped at $300,000 of expenditure per year for each of the six qualifying activities. By setting the cap at $300,000 for each activity, we have been able to give companies an unprecedented tax deduction of 250% of expenses. That way, the vast majority of SMEs will receive more assistance to upgrade and upscale. If we had instead designed the PIC with a higher cap of say $500,000 but a lower deduction of 150% of expenses, it would have tilted the benefits towards larger companies who are the ones that make the larger investments.

[1] Every $100 would give rise to $250 tax deduction, which can be converted to a cash grant at a rate of 7% to $17.50.

a) The most significant item of expenditure for SMEs is usually automation. However, under our Capital Allowance (CA) regime, only 7% of CA claims exceed $300,000 per year

B.22 MP Ahmad Magad and NMP Mildred Tan have commented that SMEs may need some time to develop their innovation plans, including looking for suitable systems and weighing the costs and benefits. The Ministry of Finance has also received similar feedback from the business associations since the announcement of the PIC scheme in the Budget.

a) To help SMEs benefit from the PIC scheme without rushing the implementation of their investments, <u>we will refine the PIC claims process to enable companies to combine the $300,000 ceilings per year for the first two years into a new ceiling of $600,000 over two years.</u> Businesses will therefore be able to claim a 250% deduction for the first $600,000 of expenditure on each activity that they incur for YA2011 and YA2012 combined. Thereafter we will revert to the yearly cap of $300,000 per activity so as to keep the scheme focused on our SMEs.

b) We have also received feedback that companies will find it easier to benefit from the PIC scheme if it covers a wider range of in-house training programmes – besides the WDA-certified in-house programmes. This is besides external training programmes which will all be covered under the PIC. MOF will therefore work with MOM and agencies such as SPRING and BCA to see how a broader range of in-house training programmes can be recognised for the purpose of PIC benefits.

B.23 I would also like to assure Members such as MPs Cynthia Phua and Heng Chee How and NMP Mildred Tan that the administration of the PIC scheme will be kept simple. Businesses will be able to ride on the existing tax filing system and will not need to fill out lengthy application forms.

Balance between Broad-Based and Targeted Measures

B.24 The third principle is to strike a balance between across-the-board tax incentives, which any company can benefit from so long as they take the initiative to invest, and grants that are discretionary and given on a more targeted basis.

a) The PIC is a broad-based incentive which any market participant can benefit from. But if we rely only on the PIC, we will not be able to catalyse the major industry-wide changes that are required in several sectors – like construction and F&B. Industry and sectoral grants will support coordinated efforts by enterprises, unions and Government agencies so as to maximise productivity improvements. These coordinated efforts are especially important in helping our SME sector build up strengths for the future.

b) But if we rely only on grants, without across-the-board tax incentives, we will be relying too heavily on the discretion of Government agencies and industry associations to determine which firms or industries should be given more assistance.

B.25 We are therefore offering a two-pronged approach, both broad-based and targeted, to provide maximum support for enterprise upgrading. And as MP Jessica Tan had noted, these new programmes would also complement the existing schemes that provide companies with assistance on financing and capability-building, such as those run by SPRING. Companies can leverage on such schemes immediately even before they obtain the benefits of the new programmes.

Other Issues

B.26 Before I move on the second major issue, which concerns inclusive growth, let me quickly address three other specifics that arose in the Debate.

B.27 MP Jessica Tan felt that the phasing out of the Industrial Building Allowance (IBA)will raise costs for businesses, and that the Land Intensification Allowance (LIA) is too restrictive as it covers just 9 sectors.

a) The IBA is no longer suitable for Singapore's needs as it was provided irrespective of land intensity. It is also a tax subsidy enjoyed by a very narrow segment of the corporate sector. Only 5% of taxpaying companies made claims under the IBA and less than 200 companies account for more than 90% of the IBA claimed.

b) The 9 sectors under the new scheme, the LIA, are identified as having large land takes and relatively lower Gross Plot Ratios due to the more complex nature of their production process. However, we will remain open to including other sectors where there is a pressing need for land intensification, and where there are significant barriers which companies need to overcome in making such investments.

B.28 MP Jessica Tan also asked if the cap under the new M&A Tax Allowance can be removed, and if the allowance can be extended to sole proprietorships.

a) The $5 million cap effectively allows for a company to make an acquisition of up to a $100 million in any particular year. It does not provide a significant incentive to undertake very large acquisitions but it is more than adequate to cater to the SME sector, for which it is aimed.

b) For sole proprietorships however, such transactions typically take the form of acquisition of assets. There is no M&A as such as there is no acquisition of shares. For his asset acquisition, the sole proprietor can claim capital allowances and deduct related financing expenses.

B.29 Let me turn now to our green initiatives which MPs Lam Pin Min and Lee Wee Kiak, and NMP Mildred Tan had emphasised the need for.

a) This year’s Budget did not feature fresh green initiatives, besides the enhancements to the scheme for test-bedding of green transport technologies (TIDES), because we had already committed in 2009 to a significant $1 billion of funding for sustainable development initiatives over the next five years. Since then, $400 million has already been earmarked for a variety of projects, such as incentives for green buildings, and test-bedding of solar panels in public housing. In addition, the Government itself will be spending about $500 million over the next 10 years to retrofit large existing public sector buildings to Green Mark Goldplus standards.

b) The Minister for the Environment and Water Resources will be providing more of both the details and thinking behind Singapore’s sustainable development initiatives in his Committee of Supply (COS) debate.

C. INVESTING FOR INCLUSIVE GROWTH

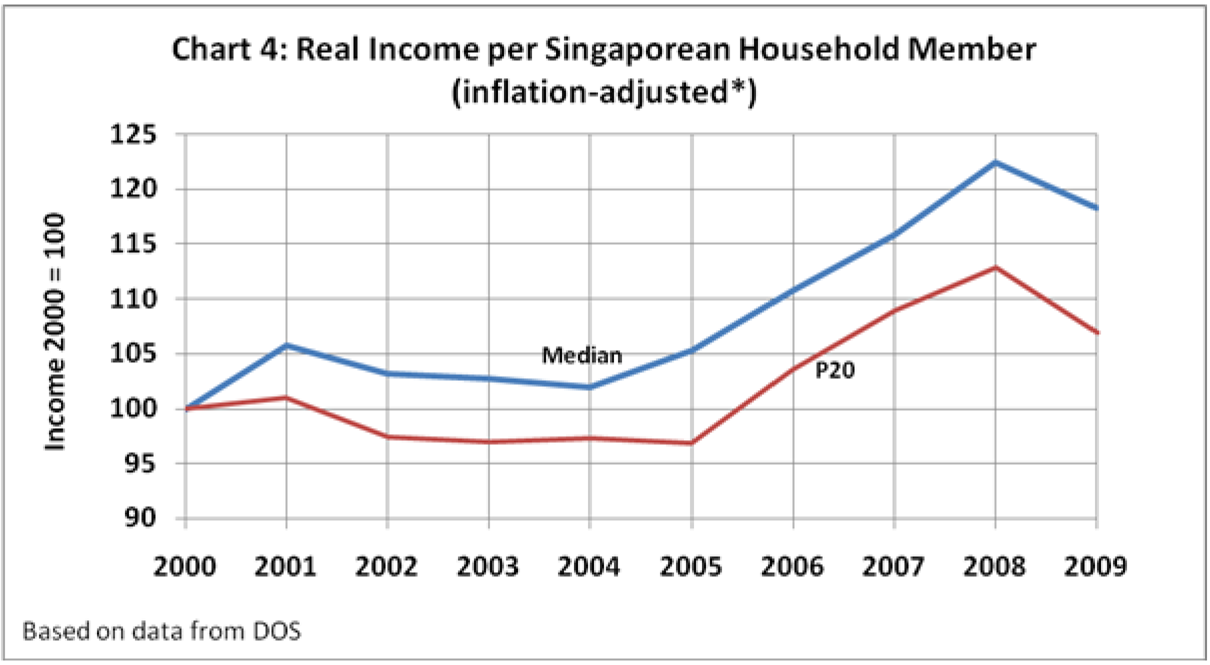
Raising the Incomes of the Lower Income Groups

C.1 Let me now address the important issue of how we must help our low income families. This was rightly the focus of many Members, including MPs Masagos Zulkifli, Fatimah Lateef, and NMP Laurence Wee.

C.2 I want to start with the points raised by MPs Low Thia Khiang and Inderjit Singh and NCMP Sylvia Lim. They claim that wrong Government policies in the last decade depressed the incomes of our low income groups. They say the Government went for "growth at all costs" – a strategy which Mr Low Thia Khiang in fact says started in the late 90s – and that by allowing in more foreign workers, we reduced the wages of Singaporeans at the lower end of the income ladder. At first glance, the analysis has intuitive appeal. But their argument is wrong and misleading.

C.3 We achieved an average growth rate of 5% over the last decade. It was a healthy rate of growth. Few economists would consider 5% to have been excessive or beyond Singapore's potential. But we were only able to achieve this healthy average growth because we grew much faster from 2004 to 2007, when our GDP grew at an average of 8% per year. This offset the series of downturns that we experienced earlier in the decade – the global dot-com bust in 2000, then with 9/11, and again when SARS hit the region in 2003. In other words, by achieving above-potential growth of 8% per year from 2004 to 2007, we were able to offset the below-potential growth of about 2% per year that we had over 2001 to 2003.

C.4 By allowing the economy to grow rapidly in the second half of the decade, we were also able to bring unemployment down and grow the incomes of Singaporeans. The resident unemployment rate, which was above 6.0% in late 2003, and stayed above 4% for a couple of years, gradually fell to 2.4% by the end of 2007. In the Budget Speech, I mentioned how median incomes per Singaporean household member had consequently grown over 2005 to 2008. The growth over those four years in fact accounted for all of the income growth that took place during the decade. Median incomes grew by about 20% over the decade, adjusted for inflation[2] (see Chart 4). (Note that this refers to the median or 50th percentile of Singaporean household incomes; MP Inderjit Singh had thought that these were average incomes, and reflected the growth of upper income salaries.)



* Adjusted using Consumer Price Index (All items). If the imputed rental of home-owners were excluded, real income growth would in fact be higher than shown in the graph.

[2] Data refers to non-retiree Singaporean households. It excludes households consisting solely of non-working persons over 60.

C.5 Lower income households also saw their incomes rise. Their incomes grew by less over the decade compared to the median household. But all their increase took place over the three years from 2006 to 2008 – when their incomes grew by about 16% in real terms. Taking into account the decline in their incomes earlier in the decade as well as during last year's recession, they ended the decade with total growth of incomes of about 7% in real terms.

C.6 But the improvement in unemployment, and the growth in Singaporeans' incomes that we saw in the last decade, including the modest lift in real incomes at the lower end, would not have been possible if we had prevented businesses from expanding quickly in the second half of the decade. The external environment was favourable, but their growth would have been choked off if they had not been able to obtain more foreign workers.

C.7 Bringing in foreign workers allowed businesses to seize opportunities, accept orders and grow, and to create more jobs for Singaporeans. Wages rose as the labour market tightened. In fact, the three years from 2006 to 2008 in which wages showed healthy growth for our lower income families corresponded to the period when the foreign workforce was growing most rapidly (see Chart 5). This was how we were able to offset the decline in wages for our lower income group that had taken place in the first part of the decade.

Chart 5a: Low Income Singaporean Household Members (20th Percentile): Incomes Adjusted for Inflation

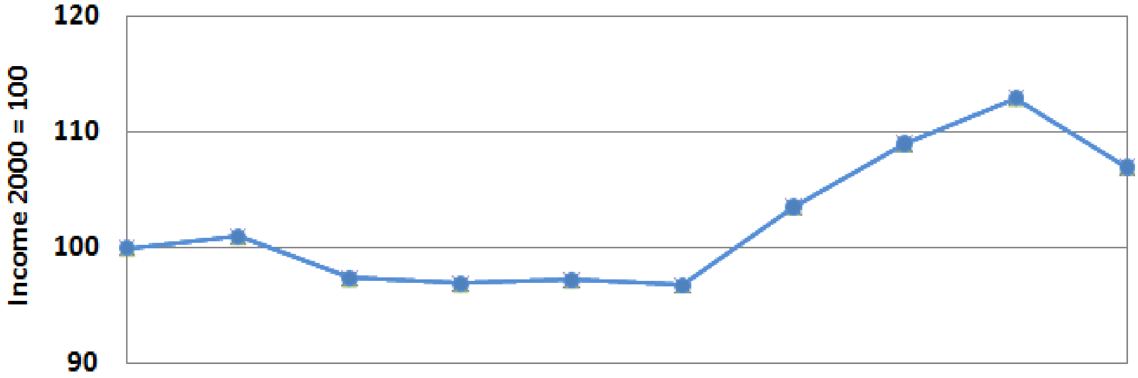
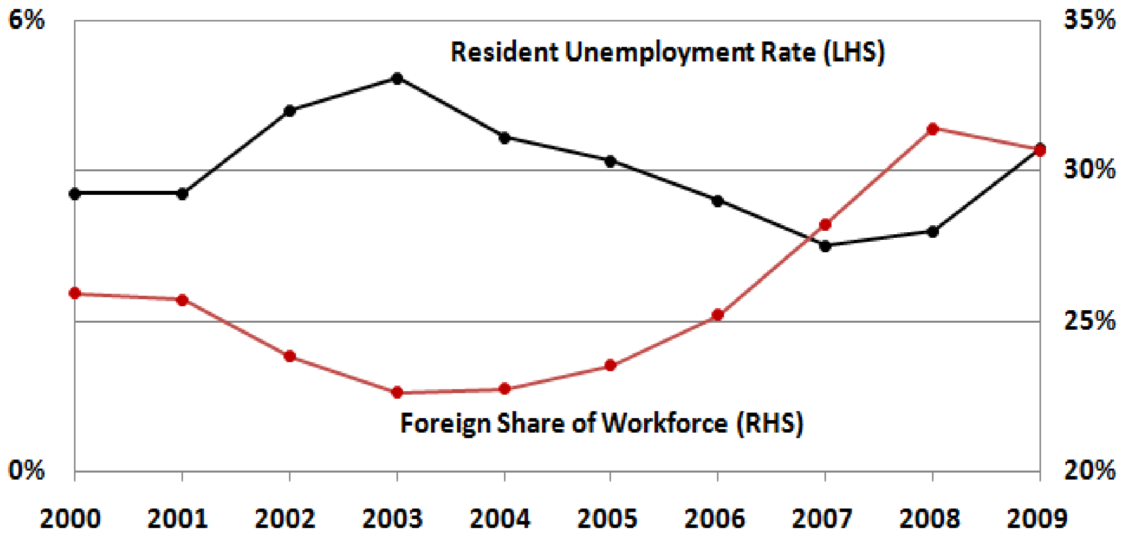


Chart 5b: Resident Unemployment Rate and Foreign Share of Workforce



Based on data from DOS and MOM

C.8 There is another reason why it was sensible for us to have allowed businesses to invest and grow in Singapore when the opportunities presented themselves in the second half of the decade.

a) The significant opportunities come in cycles, not every year or when we want them to come. In the case of the petrochemical industry, the cycle is once every seven to eight years. When the companies are ready to invest, and we say no, they go elsewhere. If we miss them, we miss the whole cycle. And we lose not just one investment. We lose the opportunity to grow a whole cluster – the critical mass of companies necessary for the industry to be in Singapore.

b) Had we rejected leading investors like Shell or Exxon-Mobil when they wanted to expand here, Singapore would be weaker today.

C.9 Our growth strategy in the past decade, therefore, was not wrong-headed. It illustrates the very <u>real trade-offs we face in practice</u> when deciding whether to allow the economy to grow rapidly and above its potential for a period. To do so indefinitely will lead to overheating. But it would have been ill-judged to prevent businesses from expanding in the name of avoiding rapid growth, even after having suffered a period of very weak growth in earlier years. Members would I'm sure recall that there were calls from many quarters a few years ago for the Government to relax the foreign worker rules so that industries which were unable to find enough Singapore workers would stay rooted in Singapore and grow. In fact, in the 2007 Budget Debate, MP Inderjit Singh himself had called for a relaxation of foreign worker rules to alleviate the shortage of labour that businesses faced. It illustrated the real pressures that the business sector faced at the time.

C.10 If we had turned away investments and prevented competitive businesses that were already in Singapore from growing, we would have ended up with a decade of very weak income growth. In particular, <u>low growth would have hit our low income families the hardest</u> – as it did in the first part of the decade.

C.11 We cannot do away with foreign workers. If we had not brought them in, we would not have been able to ease the supply bottlenecks in the private property markets, build HDB flats, or expand our MRT network. Our essential services will also be affected. Our hospitals and nursing homes would be short of nurses and caregivers, and we would have one-third fewer bus drivers as MP Ong Ah Heng pointed out, even with good pay being offered to attract Singaporeans.

C.12 <u>However, growing our dependence on foreign workers is not a sustainable strategy for the long term</u>. It will reduce the incentive for employers to upgrade their operations and raise productivity. We will also run up against the social and physical limits that an ever-increasing proportion of foreigners in our workforce would bring.

C.13 This is why we are moving forward in a balanced manner. We are phasing in an increase in foreign worker levies so as to encourage employers to innovate, and improve productivity, and to keep our dependence on the foreign workers at about a third of the total workforce over the long term. The Government will however provide enterprises and workers with strong support at the same time – to raise skills, develop new capabilities and find new ways of creating value. Contrary to what MP Low Thia Khiang claimed about the increase in foreign worker levy being aimed at fattening the Government coffers, we are going to put back into the economy more than what we will be taking out by way of the increase in foreign worker levies. What businesses pay extra in foreign worker levies will be more than made up for by subsidies and grants they can receive to upgrade their operations and train their workers.

<u>Inequality</u>

C.14 NCMP Sylvia Lim raised a valid concern over inequality. If we are able to choose, we would want growth of incomes to take place without, at the same time, letting incomes become more unequal. However, the reality that we face is that to create jobs and income growth for lower skilled workers, we have to first grow our economy. And we can only do so by enabling those with higher skills and entrepreneurial abilities to do well.

C.15 This is also the situation faced by other global cities such as Hong Kong and New York. Their Gini Coefficients are in fact more than 0.5 – like several other American cities. The Scandinavians have avoided these levels of inequality in their cities. However, they have long histories as close-knit, homogeneous societies, with people accepting extremely high rates of tax on both consumption and income, in order to subsidise the middle and lower income groups. Denmark, for instance, has a 25% VAT rate and a headline income tax rate of over 60%.

C.16 Each country has to find a balance suitable to its circumstances. The solution for Singapore cannot be to grow slowly in order to reduce inequality. If we do that, it will only hurt the people we are trying to help. Slow growth will make everybody worse off, but it will have the harshest impact on those at the bottom. Jobs will be lost and incomes will fall for those at the lower end of the workforce, while at the top end, those with the talent or entrepreneurial ability to seize opportunities elsewhere will up and go. Slow growth will not assure us of a more equal society, as long as we live in a globalised world.

C.17 Even New Zealand, with its wide-open spaces and attractive lifestyle that NCMP Sylvia Lim spoke about, has seen large numbers of its own talent move to Australia, the US and other countries in search of jobs and better incomes.

C.18 Our basic approach therefore must be to maximise opportunities for all Singaporeans – the opportunities to get a good education, to work or to start a business, to retrain and upgrade, and the opportunity to own a home and raise a family in a community they feel they belong in. We should never reduce the incentive for people to work and to make the most of their skills and talents. That has to be the basis for our society, for how we keep our economy growing, and for how we must strive to raise living standards for all Singaporeans including those in our lower income groups.

How We are Helping the Lower Income Group

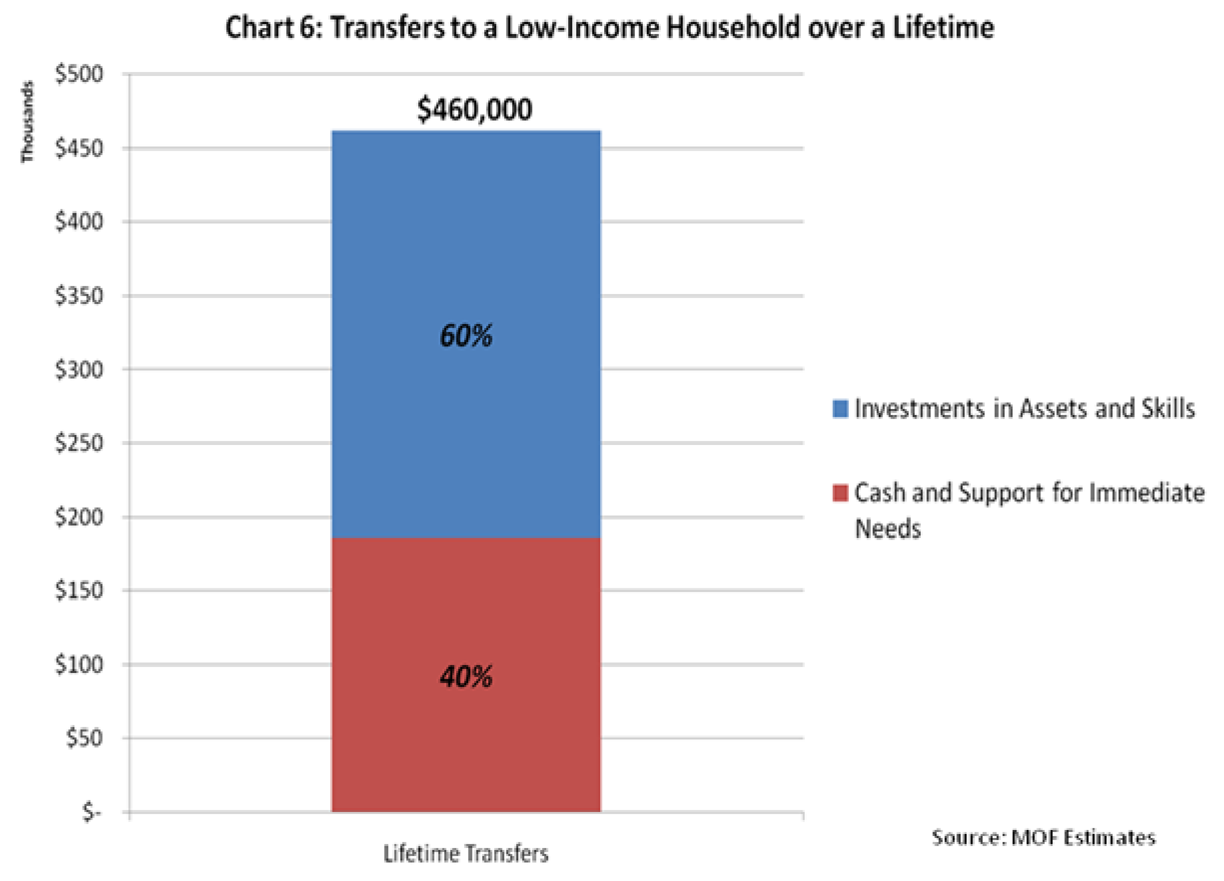
C.19 We have substantially enhanced the Government's support for lower income workers and their families so that they have the best chance to progress.

a) The main way we support them is to invest in their education and skills, and help them build up their assets through their HDB homes and their CPF.

b) We are also supplementing this by providing them with cash and support for their immediate needs – through the WIS cash component, subsidies for medical care and temporary financial support in difficult times.

C.20 If we add this up over a lifetime, the support the Government is providing is substantial. Take a family in the bottom 20% of household incomes. The husband and wife are in their mid-20s. He earns $1,000, while she earns $500 from part-time work. They have just purchased a 3-room HDB flat costing about $200,000 near their parents. Let's say they have two children, one of whom eventually goes to a polytechnic, the other to ITE.

C.21 Over the next 60 years, this family can expect to receive transfers of about $460,000 in real terms (2010 prices) (refer to chart 6 and Appendix 1). About 60% of this would comprise Government subsidies for their education and skills and to help them build up their assets. (This excludes Government spending on education that goes to all children). The remaining 40% would comprise support to help them meet immediate needs, through WIS and discretionary financial assistance such as Work Support and Medifund subsidies. When we count in Government spending in education and other areas that all Singaporeans benefit from, the total transfers such a family would receive would be even greater.



<u>Investment in Assets and Skills:</u> Housing subsidies and the CPF portion of WIS; Means-tested grants and subsidies for education and training
<u>Cash and Immediate Needs:</u> Direct cash payments (e.g. under WIS and M&P), and subsidies for healthcare

C.22 Let me elaborate briefly on each of these forms of support.

Investing in Skills and Education

C.23 We are doing more to help the lower income workers to build up their skills and capabilities so that they can participate fully in a growing economy.

a) Budget 2010 grows this commitment – through the development of the comprehensive CET system over the next five years, and through the new Workfare Training Scheme (WTS) that will help our older, low-wage workers to enhance their skills and stay gainfully employed.

b) MPs Halimah Yacob, Zainudin Nordin, and Amy Khor have made useful suggestions on how to help casual and contract workers go for skills upgrading. The Minister for Manpower will be addressing these issues in his Committee of Supply debate.

C.24 Second, we are increasing our investments in the education system itself, which remains the most basic lever that any society has in giving low income families the best chance of success in the future.

a) Our investment in education for each student cohort will increase significantly.

i. For the entire cohort which entered post-secondary education last year – to JC, ITE, polytechnic, or university – we expect to spend about $4.5 billion between the time they entered Primary 1, till they graduate from the education system. This is over a third higher than for the cohort which entered post-secondary education five years earlier in 2004.

ii. For the cohort which will enter post-secondary education five years later, i.e. in 2014, we expect to increase spending by about 20% over the 2009 cohort.

iii. What this means is new and better facilities, improved teacher-student ratios, higher quality teaching, more opportunities to gain exposure outside the classroom and abroad, and wider cohort participation rates in our tertiary institutions including the universities.

b) We are also providing enhanced subsidies and support for a quality pre-school education for children from low income families, which as MP Indranee Rajah noted is an important part of how we help them to level up with other children when they enter primary school. We have also stepped up our bursaries for low income pupils throughout the school and education system, and have provided significant top-ups to their Post Secondary Education Accounts.

i. A student from a lower income family could receive more than $6,000 in bursaries and financial assistance over the span of his education from pre-school up to the completion of his polytechnic diploma. This works out to more than 60% of his total fees. If we add in the PSEA top-ups over the past three years, <u>he would receive over $8,000 in bursaries and top-ups or more than 80% of his total fees</u>.

<u>Building Up Assets</u>

C.25 The second part of this strategy is to help low income families own a home that can appreciate in value over time and give them a nest egg that they can draw on in retirement, as well as to build up their CPF assets (through the CPF component of their WIS payments, the extra 1% interest on their balances, and periodic top-ups to their CPF accounts like the Medisave top-ups this year).

C.26 Taken together, Government's support adds up over time to a large part of their retirement assets. Going back to the example of the lower income family I had referred to earlier, <u>government investment in their assets would amount to about 50% of the total value of their assets in retirement</u>.

Cash and Support for Immediate Needs

C.27 Our basic approach therefore is to focus on helping the low income group to build up their skills, capabilities and assets. However, many families will face difficulties from time to time and need additional support.

C.28 Let me go through the main prongs of this support for immediate needs:

a) Our most important intervention was to introduce WIS. While the major part of this goes towards building up their CPF balances, a portion of the WIS is paid in cash to help them meet immediate needs.

b) Second, through heavy Government subsidies and the 3Ms (Medisave, Medishield and Medifund) framework, we will ensure that all Singaporeans can afford basic healthcare, including especially the lower-income and the elderly. Minister Khaw Boon Wan will be saying more about this during the COS.

c) Third, we provide a safety net for the most vulnerable and needy in our society. We render targeted help through the Work Support Scheme for the needy unemployed, CCC ComCare Funds for families in temporary financial distress, Public Assistance scheme for those unable to work and with limited means of family support, and Medifund. This year, we are also topping up both the Medifund and Eldercare Funds to help the lower income groups with their healthcare and long term care costs. Minister Vivian Balakrishnan will be announcing refinements to the Public Assistance scheme at the MCYS COS.

C.29 Whilst our help must be flexible and adequate, we have to ensure that in providing assistance we never undermine the culture of self-reliance which remains a key strength of our society. In particular, we must continue to avoid the temptation of providing a permanent and unconditional social safety net.

C.30 Our current approach of providing discretionary help for individuals and families in need is working and we must keep improving it. We must keep providing real support where it is needed, to help individuals and families to get back on their feet. For any individual who is out of work, but is willing to adapt, pick up skills and do what it takes to get a new job, we will do everything we can to help him. But we must also encourage and grow the many useful initiatives by individuals, community organisations and corporates that will build an inclusive society. The Government is committed to helping this flourish. That is why in Budget 2010, I extended the 250% tax deductions for charitable contributions, which means that Government is literally contributing up to 50 cents for every dollar donated to charitable causes.

A Progressive System

C.31 Let me sum up.

C.32 Every society faces the challenge of uplifting those at the lower end of the skills and income ladder in a globalised marketplace.

C.33 We cannot determine the wages of Singaporean workers unilaterally, even if there are no foreign workers physically in Singapore. However, the average Singapore worker already commands a significant premium compared to those in competing locations in Asia because we have built up their skills over time and because Singapore remains an attractive place for companies to invest and do business in. For example, in manufacturing, the total hourly compensation for workers in Singapore is about 25% more than in Taiwan, more than twice as much as in Malaysia and about 5 times more than in China. Even with the recent rapid rise in Chinese wages (of 25% in the past 2 years), the pay of a production worker remains far lower than in Singapore.

C.34 We should keep our premium in wages, even as other countries such as China, Vietnam, India and others catch up. In fact, it is precisely this catch-up in skills from those who have been behind us that makes it imperative that we raise skills and expertise across the board. It is why we are making this major effort.

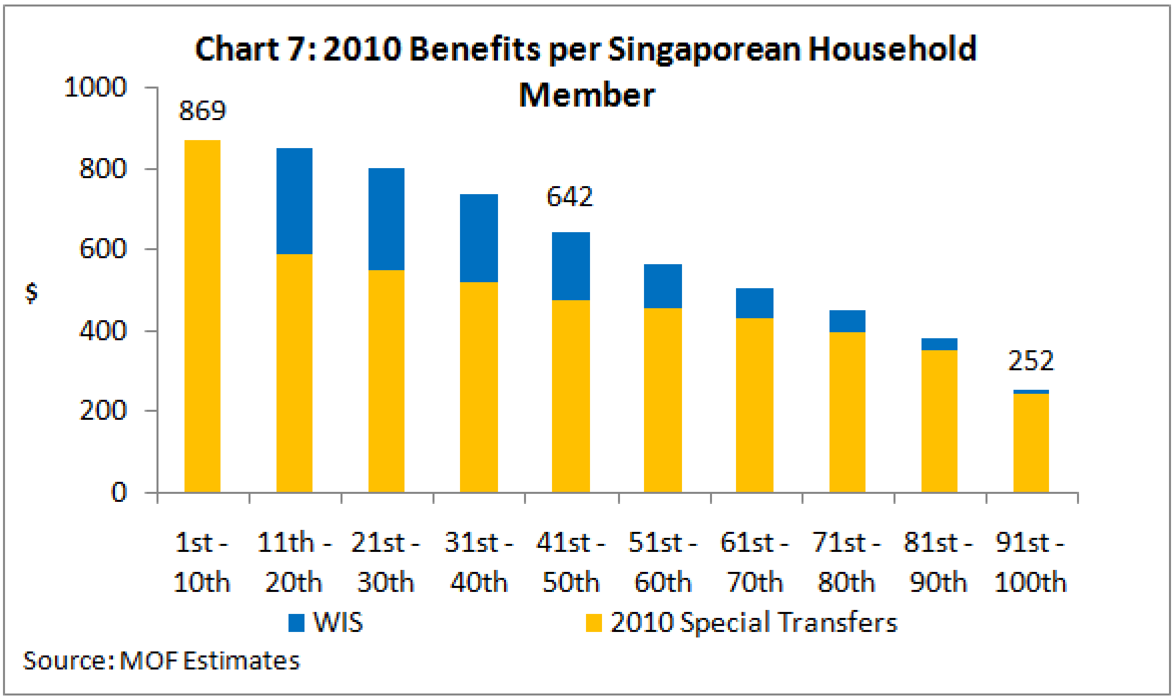
C.35 We are also lending significantly greater support to those with low incomes so that all Singaporeans can take pride in standing on their own feet and progressing with the rest of society.

C.36 Our approach is helping lower income workers and their families in real ways. Their incomes have generally risen over the last decade, although by significantly less than the average Singaporean worker. Their incomes would remain under pressure over the next decade because there is no lessening in the competition in Asia and globally. But there is no short cut, no quick fix, and certainly no magic solution to raise and sustain higher wages by command, as Mr Low Thia Khiang seems to believe. The only way we can sustain higher incomes of those at the lower end is by investing in their skills and expertise so that they have the confidence to do well and contribute on the job. Employers must give them every opportunity to do so, and the Government will support them strongly.

C.37 However, the Government is also providing low income families with substantial direct support that has raised their standards of living by more than their wages have gone up. Our spending on direct transfers to lower income households has increased greatly in the last five years. On our current schemes of support, to help them build up their skills, own a home and grow their savings, and to supplement their wages and provide them relief where necessary to help them meet their immediate needs, a low income family can stand to receive $460,000 over a lifetime, as I indicated earlier.

C.38 We are able to do this because we have a progressive fiscal system where those with higher incomes or wealth contribute more than the rest, but where the overall burden of taxes on Singaporeans remains low so that we encourage enterprise, hard work and allow our economy to keep growing at a healthy rate.

C.39 The benefits we are providing Singaporeans this year alone also illustrate how we distribute more to the middle and lower income groups (see Chart 7). This is without taking into account HDB housing grants, which if included, would show an even larger redistribution in favour of the low income groups.



Note: Based on ranking of citizen households by income per household member. The first decile consists mainly of retiree households with no household income for whom Workfare Income Supplement (WIS) is not applicable.

Benefits other than WIS include: GST Credits, Senior Citizens' Bonus, Utilities-Save rebates, Service and Conservancy Charges rebates, rental rebates, property tax rebates, final tranche of WIS special payment, top-ups to Post Secondary School Education Accounts and CPF Medisave accounts.

C.40 Some members had asked about benefits for the middle-income. They too benefit significantly – from the shift to a more progressive property tax system, the enhanced income tax reliefs for families as well as the CPF Medisave and PSEA top-ups announced. The example of a middle income household that I gave in the Budget Speech, a 5-room household between the 60th and 70th percentile of incomes, showed benefits amounting to $1,700 this year.

D. CONCLUSION

D.1 Our approach has produced real results for Singaporeans. We have one of the lowest unemployment rates and the highest home ownership rate in the world. Our education and healthcare systems are among the best in Asia. And we are building a society where families of all backgrounds, including our lowest income groups have the best opportunities to progress and realise their hopes.

D.2 We are fortunately in a different position from many other countries, especially following the crisis of the last two years. We are not in the situation where the net worth of our citizens has fallen over a whole decade, or where unemployment is stuck at 10% well after the crisis. We are not being forced to cut back on Government spending on essential services in health and education, or to raise taxes on our citizens to rein in Government debts.

D.3 We are instead investing in a new phase of Singapore's growth and transformation. If we all play our part in the productivity effort, then as MM put it in the conclusion of his 1986 speech which I mentioned earlier, today will be better than yesterday. And tomorrow better than today. This is the way to prosperity and security.