

## **Budget Debate Roundup Speech**

Mr Speaker, Sir, I thank all the MPs who have spoken, given suggestions and supported the Government's financial policy. I have listened to all the speeches, including Dr Teo Ho Pin who just spoke before me. Many suggestions have been raised. I cannot take all of them in my round-up speech, but I can assure you that we have listened to every view. There are many issues which we have to study further and some which we will follow up on. There were also various suggestions that concerned other Ministries besides the Ministry of Finance, and my colleagues will be taking them up, either at the COS or subsequently.

Let me address the major issues that have arisen in the Budget debate. There is strong support for the three key thrusts in this Budget. First, to sharpen our competitive edge by lowering corporate taxes and building capabilities for the future. Second, to strengthen our social security system through Workfare and the CPF changes. Third, to raise the GST now and build a strong and sustainable revenue structure to meet our future needs.

The issues that have been raised in the last few days can be grouped under three key questions. First, why do we need to strengthen our revenues and, especially, why raise the GST? Second, does the Budget position Singapore well for future growth? And third, is the Budget fair, and is it fair to all Singaporeans?

*Why do we need to strengthen our revenues?*

Let me first reiterate the fundamental shifts in the budget position that have made the GST increase necessary. We face declining revenues. That is the first fundamental shift. Our operating revenues have not grown as fast as our GDP. Revenues as a percentage of GDP have declined quite considerably, from around 19% in 2001 to just 14% last year. Two main reasons: first, personal and corporate taxes came down as a percentage of GDP, and second, vehicle-related and road-related revenues –COEs, ARF – also came down significantly as a percentage of GDP.

Secondly, our expenditures have to be built up. We have to spend more, invest more, do more, to stay competitive and to prepare ourselves well for the future. We are cutting corporate taxes; that is our first major move in this Budget to stay competitive. That will cost us \$800 million a year. We are enhancing continuous education and training to help Singaporeans to re-skill and stay relevant. That will cost us an extra \$300 million a year but probably more over time. We are strengthening our social security system – we have discussed that extensively – through Workfare, and that will cost us about \$400 million each year. We are increasing our healthcare expenditure in the next five years and we think that will cost us an extra \$300 million a year, but it will certainly be more than that over time as ageing starts to kick in.

The items I have just mentioned will alone cost us \$1.8 billion a year. But we also need to make major investments to enhance our capabilities and to invest in infrastructure for the long term. So it is not just the corporate tax cut,

not just the social expenditures, but the major new investments we need to make in infrastructure and capabilities. That is why I expect expenditures as a whole to rise as a percentage of GDP faster than revenues. These expenditures would include R&D, rejuvenating our housing estates, refreshing our Downtown, making Singapore a green and blue city and many other infrastructure investments: roads, MRTs, IT broadband. These are major requirements for the future – higher social expenditures starting now and building up over time, and new investments to prepare Singapore for the next 10 to 15 years of its development. That is why we need additional revenues by raising the GST and by drawing more from our Net Investment Income from our past reserves.

The GST increase will help us to fund our Workfare Income Supplement scheme and the other social expenditures that we need to increase, like healthcare. It will also enable us to make improvements now in our competitiveness. But the GST alone can only form part of our increased expenditure needs. Redefining the NII will also allow us to invest significantly in our infrastructure and to build our capabilities. The redefinition of NII will allow us to take further steps to reduce direct taxes and improve competitiveness. That is the way the Government intends to use the NII. And that is the right way – use it to boost Singapore's productive potential and our growth prospects for the long term. That is the way in which we will serve both current and future generations, putting the NII for long-term use.

This is why the GST, which is focused principally on funding social expenditures, and the NII, which will be focused on making long-term investments in our future, are both necessary. A quick look at the estimates that I have provided in the Budget speech should show that we are not raising revenues in excess of our needs.

This is why Mr Low Thia Khiang and Ms Sylvia Lim are wrong in thinking that there is no need to raise the GST because, they say, we can use the NII instead. We need both the GST and the NII for these new major expenditures that we need to engage in in the future, both on the social front as well as infrastructure, productive potential and competitiveness. They have also given other reasons why we should not raise the GST: we can use gambling revenues which Sylvia Lim thinks will be about \$1.5 to \$3.8 billion a year; use revenue from land sales, which Mr Chiam See Tong also advocated; or wait for corporate income taxes to grow, because although we are reducing corporate tax, with good economic growth our corporate tax revenues will eventually go up; or use revenues from personal income tax and stamp duties, which Sylvia Lim observed increased sharply last year; and from statutory board contributions. Sylvia Lim had systematically listed out all these items and questioned the tightness of the Government's fiscal position. So let me go through each of the items that she mentioned and explain why she is mistaken.

First, the Integrated Resorts. To get that amount of taxes from gaming that Sylvia Lim expects, the two Integrated Resorts would need to generate combined gaming revenues of \$15 billion to \$38 billion. That is based on an

effective tax rate of 10% on gaming revenues. I do not know if she really believes this. But to put it in perspective for her, all the casinos in Las Vegas put together earn \$10 billion a year in gaming revenues. So the \$15 to \$38 billion which she hopes she will get from the two IR resorts will be 1.5 to 4 times the gaming revenues of the whole of Las Vegas!

Next, land sales. Sylvia Lim and Low Thia Khiang have noted quite rightly that most land sales are actually leases. So they argue that we should treat the revenue from the sale of land as income, not capital, and spend it for current use. I think that is what Mr Chiam also believes. Our treatment of land sales is prudent and responsible, and I agree with what Dr Ong Seh Hong said on this matter.

When we sell land on short leases, we do treat the proceeds as operating revenues which can be used for spending. For longer leases, we put it into our reserves so that it earns income, which we then draw on through NII. And when we re-define our rules for NII, we will be drawing more of the income on our reserves, including the reserves that have accumulated as a result of our putting the proceeds from land sales into our past reserves.

Mr Chiam also mentioned Hong Kong because they do use land revenues directly in their budget. Hong Kong's own tax reform panel and their Financial Secretary have noted that their reliance on land sales has resulted in a very volatile revenue structure – narrow-based and highly volatile. Their own analysis shows that land sales revenue as a share of government revenue has fluctuated between 3% and 28% in the past decade. In fact, the latest Budget

Speech by the Financial Secretary, delivered yesterday, which I read carefully yesterday evening, points out that Hong Kong has to “face up to the long-term pressures on public finances brought to bear by such challenges as a narrow tax base, unstable revenue, economic restructuring and an ageing population”.

There is another reason why we should avoid linking land sales directly to Government revenues and spending. If we do that, we open ourselves to the danger of subsequent governments being motivated to sustain a property boom. We have seen how it has happened elsewhere and this is not what we would like to get ourselves into. Avoid any incentive for governments to be keen, wittingly or unwittingly, to sustain a property cycle.

Next, corporate income tax. Low Thia Khiang and Sylvia Lim say that with better economic performance we should be able to collect more from corporate taxes and therefore we do not need GST. We do hope that with improved competitiveness and growth, corporate taxes will continue to grow well. But this does not mean that corporate taxes will increase as a percentage of GDP. You must remember that when we budget for the future, we budget knowing that our expenditures increase more or less in line with GDP and, on top of that, we have got new initiatives which will make expenditures increase faster than GDP. I explained earlier that we are now mapping our future and planning expenditures that involve significant new investments on top of what would happen if expenditures merely grow in proportion to GDP. So our expenditures will rise in proportion to GDP. Corporate taxes will not be able to fund an increase in expenditure as a percentage of GDP.

Sylvia Lim went on to suggest other alternative sources of revenues: stamp duties, personal income tax, statutory board contributions. She noticed that stamp duty went up sharply last year because of the property market upturn. We have no idea whether these improvements will be sustainable and it would be very poor fiscal policy to commit to future expenditures in the hope that short-term spikes in revenue will be sustained.

Sylvia Lim and Low Thia Kiang want us to take the easy way out. They say, wait for the Integrated Resorts, in case we get a bonanza in gaming revenues; wait for corporate taxes, in case it comes out more strongly than expected or can be reasonably hoped; or wait to see whether spikes in stamp duties and personal income taxes and any other spikes are sustained year after year. When we finally run out of revenues, then come and ask, "Can I please raise the GST?" That is not the way that a responsible government conducts its fiscal policy. I think Ms Lee Bee Wah had a rather colourful way of responding to this. As Second Finance Minister, I have to choose my words carefully, of course, but let me just say that we make no apologies for the fact that we anticipate future needs. We look into the future, look at what the needs for Singapore are, prepare ourselves to meet those needs and go forward from a position of strength. That is the way that we have done it and that is the way we must continue to do it – go forward with confidence, not uncertainty.

Sylvia Lim and Low Thia Kiang agreed that our prospects have never been better. It is precisely because we have pursued the right fiscal policies, monetary policies and economic policies – cutting corporate taxes and personal

income taxes to 20%, introducing the GST in 1994 and then raising it to 5% – it is precisely because we have put in the right policies that we are able to say with some confidence that our prospects for seizing the opportunities of globalisation are solid. And it is precisely because we have confidence in our future that we are able to take these bold steps now – cutting corporate taxes now, investing in new capabilities and infrastructure, and raising the GST to 7%. Because our prospects are good, we are able to operate from strength, make bold changes now that will position us well to take the opportunities that are coming, because we think Singapore is uniquely positioned to take advantage of the opportunities of globalisation. That does not mean we are assured of growth. It means we have to keep taking the right steps to seize these opportunities to convert them to growth and convert them to jobs for Singaporeans. That is what the game is about.

The moves that we are making in this Budget are moves that will ensure that how we got here, despite many odds, is not a one-off story, but a continuing story – that we keep seizing opportunities, keep making opportunities that are available outside translate into gains for Singaporeans. And we are able to take bold steps because we know they will pay off for Singaporeans.

Let me go now to the issue of Net Investment Income from our reserves. Dr Ong Seh Hong had made some very useful points about the need to guard our reserves and our NII carefully and not allow them to be squandered. He warned about the danger of incentivising Governments to realise capital gains to boost their incomes for immediate spending. Ong Seh Hong is right. The

discretion to realise capital gains opens up the possibility for Governments to game the system. A government can decide to liquidate assets to boost the NII, take in more revenues, spend it now – and the gains cashed out may well be reserves that have been accumulated a long time ago, as Ong Seh Hong has pointed out. So there is a need for prudence in working out the new NII formula, as Mr Liang Eng Hwa also emphasised earlier today.

That is why we agree with Mr Inderjit Singh that it is worth looking at how the US university endowment funds address this problem. They do not base their spending on realised capital gains. Instead, leading universities like Yale and Harvard have designed spending rules that are based on expected long-term total returns. In other words, the increase in the value of the reserves that is expected over the long term.

I think Mr Liang Eng Hwa had some apprehensions over what Inderjit Singh said because he might have thought Inderjit was referring to eating into the reserves, reducing the reserves year by year. I understood the point Inderjit was making with reference to the US endowment funds to be about projecting the increase in the reserves in future and deciding on the percentage of that increase that you should be able to prudently use for your current spending. So the way they do it, these US university endowment funds, ensures that there is no incentive for the fund manager to realise capital gains because it is the gain in the total reserves that counts, not just the gains that are realised from selling off assets. Spending on the basis of expected long-term returns, prudently

determined, also avoids the volatility of using actual annual returns. How do these universities do it?

First, they rigorously estimate the returns that they expect to make over the long term, given the type of portfolio that they invest in. Then they decide how much of that long-term expected return should be spent annually. In fact, they also adjust the expected returns for inflation so as to make sure that they are protecting the real value of the endowment.

The Government has not decided on the most suitable methodology that we should use. We are studying this issue carefully and we will be seeking the President's views and agreement when ready. There will be a full parliamentary debate on these and other NII issues at that stage.

*What do we need to do to grow Singapore?*

Next, I move on to the second major theme of the Budget debate, which is what we need to do to grow Singapore. It is a rapidly changing world. Many Members have emphasised that in different ways with different examples. And it is getting much more competitive. Mr Teo Ser Luck, Mr Gautam Banerjee and Mr Arthur Fong have all emphasised this – it is getting more competitive. We are well-positioned for the competition, and we do not compete on cost alone. It is a total package, as Teo Ser Luck and Mr Sin Boon Ann have emphasised. Trust, skills, quality of life, costs – all part of the total package that we offer.

I gave some examples in the Budget speech of how companies, big and small, are looking to Singapore, and how Singapore businesses, big and small,

are reaching out to the world. These were not exceptions. They are not one-off examples. They are, in fact, typical.

We took a look at the newspapers over just the last two weeks. We are exactly two weeks since the Budget speech. At least 30 reports in the local newspapers of new investments into Singapore – in two weeks. I will not give all the examples but let me mention just a few. PayPal has picked Singapore for its regional headquarters. Google decided to open an R&D centre in Singapore, its first in the region. Qimonda, the world's third largest computer memory chip maker, opened its biggest global distribution centre in Singapore. British power supply equipment maker XP Power has decided to move its global headquarters to Singapore so as to make the group more "Asia-centric". GE Healthcare has decided to base its regional headquarters here. That's foreign companies coming to Singapore – and there are many other examples.

Singapore companies are also reaching out. Banyan Tree has entered into a joint venture to operate two new resorts in Mexico. Mapletree is investing \$65 million to build warehouses in Malaysia and China. Bakerzin, a small player - I think most of you know Bakerzin – has opened its first outlet in the United States. Its founder, Mr Daniel Tay, hopes that it will be the first of 500. He was quoted as saying, "I might sound stupid for aiming so high, but there are huge opportunities in the States". We hope more SMEs will be willing to sound stupid and aim as high.

All in the last two weeks. We are a compelling node for foreign companies to base themselves here and root themselves here, and for local companies to reach out, because we have a total package.

We are the most trusted player. Things work in Singapore. Business risks are lower than anywhere else in Asia. The current *Economist* [the latest issue of *The Economist*, I think that is 27th of February] talks about it in the context of banking and finance, and I quote: "Regulators in Singapore, for instance, habitually consult local business people to see how they can improve cooperation. Their clients say this is not just public relations." And then they quote a British banker who says, "They are willing to listen and change. They are not rigid like regulators in Japan and Korea". So that is our first attribute - we are the most trusted and reliable player.

We are also focused on keeping costs competitive and taxes low. We are focused on improving our skills and deepening our capabilities. We are focused on developing best-in-class infrastructure, transport, communications, financial infrastructure. And we are also focused on developing a first world quality of life. So that is the total package, but with many moving pieces, and many competitors for each piece who are also moving. We keep watch on the total package and make sure we stay competitive.

Let me now talk therefore about corporate income tax. Ms Eunice Olsen is not entirely wrong to say that low corporate taxes alone will not attract businesses here. But it is a critical piece in the total package. As Teo Ser Luck has noted, we do not have the advantage of huge markets, like Hong Kong has

China. But there are other pluses in our favour, which I have just mentioned - our skills, infrastructure, quality of life, the fact that we are the most trusted player – and these work to our advantage. So it is not a case, as Mr Siew Kum Hong feared, that this will be a race to the bottom in corporate taxes. The total package puts us in good stead; keep a close watch on corporate taxes, but it does not mean a race to the bottom.

Mr Lim Swee Say mentioned yesterday the example - in fact the *Straits Times* had just covered it a few days ago - of India moving into wafer fabs, trying to invite people like Intel, Infineon and others. India has for long been highly protective of its manufacturing industry, including the hi-tech sector. So this was a major decision for them, and they spent a whole year deliberating on this, whether to open up this sector to foreign direct investment. According to the article in the *Straits Times*, what clinched it was this: “Finally, someone produced a paper showing how Singapore’s government backs the chip industry as a strategic investment for the economy. That clinched the argument.”

So we have to keep watching the competition, assessing where we stand, given our total package. And we have to watch both the headline tax rates as well as the incentives we offer to the best players, the leading edge players. Make sure that our incentives are attractive enough to bring them here. This is the way it is done all over the world: this game of headline corporate rates as well as incentives for the leading players. Even Ireland, with a 12.5% headline tax rate, one of the lowest flat corporate tax rates in the world, offers grants to

selected companies. In the United States, individual states compete by offering incentives and grants. In Switzerland, individual cantons compete amongst each other as well as with the rest of Europe, offering tax incentives to companies and, in fact, to individuals.

Competitive headline rates, attractive incentives for leading edge players and low rates for SMEs and start-ups: that is our approach and that is the way in which we will keep creating clusters of high performance, high value-added activities in Singapore that grow our local industry and create jobs for all. As Ms Cham Hui Fong, Mrs Josephine Teo and others have pointed out, this pro-business approach is also a pro-worker approach. This is how we create jobs up and down the ladder - by providing incentives for companies to grow in Singapore.

Next, personal income tax. Several Members have spoken a little unhappily about this. Dr Ong Chit Chung this afternoon, Mr Alvin Yeo, Mr Seah Kian Peng, Dr Amy Khor, Gautam Banerjee and others were disappointed that we did not make a move on personal income taxes in this year's Budget. They pointed out something which we accept fully, that personal income tax is a factor in attracting and retaining talent. We have gradually reduced our personal income tax rates, quite significantly, from the top marginal tax rate of 28% in 2001 to 20% this year. Overall, our personal tax rates are competitive for the majority of the workforce. But we have to make sure that we retain our appeal and stay competitive at the top end, so that we will continue to be a city

where top talent congregates, lives, and stays on permanently. The last round of personal income tax changes that we made will not be the last.

Several Members also spoke about estate duty. I think they were the same Members who were concerned about personal income tax and they were also unhappy that we made no move on estate duty. I agree with the views expressed that the current exemption thresholds are not ideal and should be revised. The exemption threshold for dwelling houses for residential homes is \$9 million and that for other assets is \$600,000. So I agree they are out of kilter and we have to revise them. But we are also carrying out a comprehensive review of asset taxes. Whether to retain estate duty or not is a key issue we have to think through and study, and we will take all these issues together. Alvin Yeo asked me for a timeframe. The Prime Minister had said one more year last year, so I will say one more year this year. We are very consistent!

Next, competing on skills and capabilities. Besides competing on taxes and costs, it is essential that we build up our capabilities for the future. The key is investing in our people – both our young as well as adult Singaporeans; basic education, post-secondary education and lifelong learning. As Dr Maliki Osman and Mr Sin Boon Ann have both mentioned this afternoon, it is not just the infrastructure on investments, but also about attitudes and culture. We will have to see what we can do to encourage an attitude of wanting to keep learning throughout your career, throughout life, amongst our people. It is not one of the areas in which we are leading internationally. It is something in

which we need to catch up on and we agree that this is something to be looked at holistically and thoroughly.

There were some comments on the Post Secondary Education Account and I thank all the MPs who have supported the creation of this account. There were some suggestions from Dr Loo Choon Yong and others, which we will study.

Mdm Ho Geok Choo, Ms Penny Low, and Loo Choon Yong suggested an individual lifelong learning account scheme. It is an interesting idea and it is worth studying, but we have to study it carefully. Moving on such a scheme too quickly, without the necessary infrastructure and accreditation system, can lead to many problems. It can lead to many abuses. This is the lesson that was learnt in the UK, which shut down its Individual Learning Account scheme after just one year in response to complaints from learners that learning providers were abusing the system and quality was often found lacking. This is a point which Teo Ho Pin had made - quality matters, not just quantity, not just scaling up the provisions. So we are starting small and we will build this up as we put in place the necessary infrastructure to promote and support lifelong learning. The Minister for Manpower will provide more details on our efforts to promote upgrading and lifelong learning.

PMETs were a recurrent theme in the debate. Many spoke on it - Mr Zaqy Mohamad, Dr Lily Neo, Mr Zainul Abidin Rasheed and Mr Chan Soo Sen amongst others - emphasising the need to step up Government efforts to re-design jobs and upgrade the skills of our workers, including our older PMETs. We agree that this is a group that requires more attention and more focus. We

will be reviewing our whole framework for continuous education and training, and lifelong learning, and the PMETs will be an important group in this review - in all aspects, making sure that they are constantly updated with knowledge, skills or, as Denise Phua pointed out, with life skills, or even language skills, refreshing your language skills in the course of your career. We will look at this comprehensively.

I should also emphasise what Mr Lim Swee Say had highlighted yesterday, which is that our PMETs will be a key beneficiary of our growth strategies, the new growth opportunities that we are creating in Singapore. This is still our fundamental policy - grow the economy, create jobs up and down the ladder for Singaporeans.

Next, quality of life - an important competitive issue. Ms Jessica Tan, Mr Ong Kian Min and others have pointed out it is a key issue which decides where skilled professionals will locate, which city they want to live in. Singapore is not doing badly. We are the top-ranked Asian city in many surveys, for instance the *Mercer Quality of Living Survey* that was conducted last year. A month ago, *The Straits Times* reported that the country Brand Index had ranked Singapore as the second-best city in the world for dining and night-life - after Italy. No one would have expected this even five years ago.

We are not doing badly on quality of life, but again, it is a moving piece. And we need to do more. The competition is fluid, with new players emerging. Gautam Banerjee mentioned new emerging cities who offer a high quality of life - Shanghai, Bangalore in some ways, Dubai. In fact, the second-tier cities

are catching attention internationally as important competitors, not just the primary cities, and not just the capital cities.

Last month, Forbes published a list of seven "emerging global cities" to watch: Chengdu, Toulouse, Pune, Warsaw, Abu Dhabi, Curitiba and Tripoli. PM mentioned Chengdu during his *Chap Goh Mei* speech a few nights ago; he met the Singaporeans there, and some of them in fact wanted to stay on for good. Life was good in Chengdu. I noticed that on Monday, *The Straits Times* carried a full page advertorial on Chengdu. A page full of text, with some exhibits in the middle, promoting its "beautiful natural scenery, magnificent man-made landscapes and rich cultural heritage that Chengdu has long been known for". Plus Xiling Snow Mountain, which they say is "a natural gift from God".

We have no natural gifts from God. Quality of life is therefore a critical issue for us, man-made quality of life, and we have to keep moving, keep remaking ourselves, keep reinventing our city. Not just to appear in advertorials or magazine covers, but because this is a competitive factor: it attracts people, it retains people. And it provides an appealing and inspiring home for all Singaporeans. This is why we are investing, transforming our living and business environment - public housing, new Marina Bay, new network of waterways, green and blue.

This is why also, as Mr Baey Yam Keng mentioned, we have to do more to encourage the creative arts, not just Government, but corporations and the people themselves. Mr Lui Thai Ker and others also keep bugging me about

arts and education, whether we can do more to encourage quality arts teaching in education. Not just because we want more artists – in fact, we probably do not need huge number of artists – but because the arts are a useful trainer of the creative imagination. We are trying to improve, recruit more art teachers and put more of them in schools. So it is a total picture, making ourselves a city that is humming with creative energy.

And with first-class social habits, which Ms Indranee Rajah, Mr Masagos Zulkifli and others, emphasised. Indranee Rajah put it very well, that no doubt we are bringing waterways and water bodies right to our HDB doorsteps, but we do not mean water bodies in the lift!. We will not be a first-class city without first-class social habits, and we will have to work much harder at this.

Next, the environment – an important part of the quality of life and an important part of being a first-class city. Many MPs - Dr Lim Wee Kiak, Mr Hri Kumar, Jessica Tan, Mr Sam Tan, and Mr Edwin Khew and others - spoke about the need to promote environmentally-friendly practices, and for Singapore to stand out as an environmentally-conscious city. We agree. We know the Government has to play its part, and we have to develop a stronger awareness amongst our citizens to preserve the environment.

First, this means maintaining high environmental standards within Singapore. This is why we are doing so much in Singapore to promote good air and water quality. This is why Singapore took the lead four decades ago in becoming a green city. This is also why we are taking a major leap forward in

creating a green and blue city, plus our investments, as Mr Edwin Khew emphasised, in alternative and sustainable energies.

Secondly, besides doing our best within this small patch of land that is ours, we have to play our part as part of the global effort. But we have to be realistic. Singapore is tiny. What we do cannot make a significant difference to global warming, or ozone. If big countries like the US, China and India do not come on board, everything we do will be in vain. Also, if Singapore alone cuts back on CO2 emissions while other countries do not, it will increase our costs and affect our competitiveness.

Therefore, Singapore will do its share as part of the international effort to combat global warming. We have ratified the Kyoto Protocol, and will participate in working out global solutions to these global problems. We will comply with our international obligations. But we cannot go it alone. We have to be pragmatic. The Minister for the Environment and Water Resources will speak more on this during the COS.

As many MPs pointed out, we are not just an economic city, of course. We are a country. We are a society. Mrs Yu-Foo Yee Shoon, Mr Yeo Guat Kwang, Dr Faishal and others have stressed the importance of community bonding, and especially the importance of keeping strong family values as the bedrock of our society, the bedrock of a strong society. Dr Ahmad Magad, Mr Wee Siew Kim and Mdm Cynthia Phua also talked about population challenges, immigration and integration issues. DPM Wong Kan Seng will be elaborating on how the Government will be addressing these issues, including

the integration of new immigrants and measures to support marriage and parenthood, in his speech during the Committee of Supply.

*Is the Budget fair to all Singaporeans?*

Let me now come to the third major question that has arisen during the last three days, and that is, is the Budget fair? Is it fair to all Singaporeans?

This Budget has something for everyone. It is designed to provide opportunities for all to succeed, the young and the older; the lower-income, the middle-income, even the higher-income; small and big companies; provided they are willing to make the effort.

Mr Lim Swee Say has addressed several of the key issues concerning Workfare, especially issues concerning informal workers that several MPs have raised. And Dr Ng Eng Hen, just before the Budget debate, has also spoken about this in reply to parliamentary questions. So I will not elaborate on this now.

Let me just say that I agree fully with Mr Ong Ah Heng in the way he summed up the philosophy of Workfare, "You must try your best to help yourself, then others can help you." And I agree also with Mdm Halimah, Ms Cham Hui Fong, Dr Ahmad Magad and others who emphasised that Workfare should aim to help workers to upgrade, increase their incomes and graduate out of Workfare, rather than be dependent on Workfare for good.

Some MPs, like Ms Irene Ng, had wanted Workfare expanded. Some wanted to know now whether we are ready to expand it in the future. And there

were some specific suggestions; for example, should we take into consideration family size in working out Workfare benefits?

We will be watching the development of the scheme carefully over the next three years, before seeing how we need to refine it further. But we should be careful not to add further complexity to the scheme, such as by introducing new criteria like family size. We should be very clear that Workfare was a scheme to supplement income and incentivise work. It is not a needs-based welfare scheme.

I will move now very quickly to the issue of CPF returns. Mr Christopher De Souza and Mr Ong Kian Min had asked if we could increase the CPF returns. I understand fully the logic and argument of Mr Ong Kian Min's speech, which I think are good. We agree we have to find ways to increase CPF returns. But it is not straightforward. Higher expected returns of course come with higher risk, and the Government has to consider who will bear the risks, and how much risk should be imposed or absorbed by CPF members themselves in their accounts. It is an important issue, as Mr Ong Kian Min has highlighted, one which we are studying carefully, and we will talk more about this later.

I now come to an important issue concerning the implementation of the GST, and this is the issue of whether we should have a single-tiered or a multi-tiered GST system; in particular, the issue of whether we should exempt certain items from the GST.

Inderjit Singh and Mdm Ho Geok Choo, and one or two others, had felt that we should exempt or zero-rate essential items from GST, so as to help the poor. I agree completely with their objective. We should and we will find ways to help buffer the impact of the GST on the poor. That is our objective as well. This is what we have done through the GST Offset Package. More importantly, we have Workfare, funded out of GST, which will systematically and permanently help lower-income Singaporeans, and be much more than the increased expenditure that they will have to pay on the GST. The question is: what is the best and most effective way for us to achieve this objective of helping to buffer the impact of the GST on the poor?

Let me explain why zero-rating of essential items is not an effective way of helping the poor. The first reason is that most of the spending of lower-income households is in fact not on essentials. Based on the *Household Expenditure Survey*, if we take the most commonly cited eight essentials - this is frequently mentioned in the letters to the press, and I think some Members of the House had also mentioned these essential non-cooked items – they comprise only 5% of the expenditures of the bottom 20% of households. Even if we take all uncooked food, that comes to 1/8 of the expenditure of a typical bottom 20% household. If we add public transport and utilities, another 13%, the total for these three categories comes to about one-quarter of their total expenditure.

[Refer to Chart A.]

There will be some families that spend more, especially some extremely poor families that have a larger proportion of the expenditures on these

essentials – and we have ways of helping these families. But we have studied this carefully, and most families in the bottom 20% of the household income ladder do not spend the major part of their income on essentials. They spend a major part of their income on the remaining items, including a good 29% or so on items where GST is already being absorbed by the Government. That is the first point: that spending on essentials, as defined by Members and various suggestions outside the House, is not a significant part of the expenditure of a low-income family.

The second point is that the GST that we collect from spending on essentials comes mainly from higher-income households and foreigners. If we take uncooked food as an example, the bottom 20% pays only 7% or so of the total GST that we collect on uncooked food. The remaining is paid by the rest of the population, Singaporeans and foreigners. This means that for every one dollar that the lower-income family does not pay, we will be losing an additional \$14 that is not being paid by the rest of the population. Put another way, if we exempt uncooked food from GST, we would be losing \$450 million in tax revenue, of which only \$30 million would benefit the bottom 20% of households. That is another reason why exempting essentials is not an effective way of helping the lower-income group. It is much better to use the monies that are gained from applying the GST to essential items to help the lower-income group directly.

There is another reason why exempting essentials is not the most effective idea. If we exempt essentials, it will mean that GST on the rest of the items,

the non-essentials, will have to be higher. This would affect the lower-income group too, because, as we have just seen, they too spend a not insignificant amount of their income on non-essentials. The middle-income group would be particularly hard-hit, if we were to raise the GST on non-essentials on account of having exempted essentials from GST. This is what has happened in many other countries. In Australia, for example, they exempt essential food, and they have a GST rate of 10% on non-essentials. In Dublin, which is more representative of European rates, they exempt food, and it is 21% GST on the rest of the expenditure basket.

This is why we have decided that the most effective way of raising revenues to help the poor is to administer a simple, across-the-board GST rate on all products in the market, and to compensate the lower-income group more – through offsets, and by using the GST revenue to fund Workfare. Rather than exempt essentials or food from GST, and have the bulk of the benefits go to those who are not in the lower-income group, we should have a clean GST rate for all items and use the revenues to help the lower-income group. [*Refer to Chart B.*]

Finally, even if we wanted to move towards a multi-tiered GST system, it would be highly arbitrary and administratively costly to implement in practice. Where do we draw the line for essential items? What the Government decides is an essential item is something which will move over time. That is why countries which start by exempting a few essential food items end up by expanding these definitions to whole categories of items.

Take rice, for example. Just look at NTUC Fairprice alone. There are 37 varieties of rice being sold in NTUC Fairprice. If we focus only on the cheapest, then we would draw the line at NTUC Fairprice Thai White Rice, at \$0.76 per kg. But NTUC Fairprice tells us that most of their customers prefer higher-quality rice, and not just the rich customers. For example, Royal Umbrella, a very popular brand of rice in Singapore, is \$1.84 per kg. There are also other kinds of rice, not wildly expensive: Dragonfly Jasmine Rice at \$2.35 per kg or Great Harvest Thai Organic Fragrant Rice at \$3.95 per kg. I presume the reason why they are well stocked in NTUC Fairprice is that people are buying them – they are in demand. And there is an interesting range of rice products outside NTUC Fairprice. Should we cover ‘Pearl’ rice from Niigata, Japan? That, incidentally, had a wonderful food review from Ms Teo Pau Lin of the *Straits Times*. I read it on the “ST Foodies” website. But it comes with a price - \$14.24 per kg. Should we extend exemption to *chapati*, which for some groups is an alternative staple to rice?

Because governments find it very difficult in practice to tell people what is essential and what is not, the list keeps growing. And as the list grows, the more items you include, the more the beneficiaries are not in the lower-income group, and the more the revenue that is lost has to be made up for by a higher GST rate on other items in the expenditure basket. That is why the best way is for us to help the lower-income group directly and let them decide on what they need to spend on, instead of exempting essentials. It is why we have chosen the approach which we have used in the past when we implemented GST and

which we have retained in this Budget: compensate the lower-income group directly with our GST offsets, and by using Workfare, which is now a permanent scheme of compensation and topping-up of their incomes.

### *GST Offset Package*

Everyone agrees that this is a generous offset package and, in particular, that the lower-income group is receiving a very substantial offset. Several Members like Mr Lim Biow Chuan and Mr Siew Kum Hong, have asked if the middle-income group or “sandwiched” class is getting a fair deal. However, as Mrs Josephine Teo has pointed out, they are, in fact, getting “real, tangible benefits”. They get between four to seven years of GST offset typically – for four-roomers all the way to executive apartment owners and, in fact, some of those at the lower-end of the private property market. The middle-income group will also benefit more from the property tax rebate than other groups. In addition, there are other Budget tax changes that they benefit from, such as the reduction in road tax and foreign domestic worker levy. They will also benefit from the increase in CPF employer contribution rates.

Some Members asked about families with elderly parents and children to support. This is, in fact, something which we considered carefully: size of family and the fact that some families have more dependants to look after with the same breadwinner's income. That is why we have provided the Senior Citizens' Bonus, as part of the GST offset package, and PSEA top-ups for families with children who are still in school. And for very young children, many measures are already in place today, such as the Baby Bonus and the

Children's Development Account scheme. We have boosted further our subsidies for KiFAS and child care in the present Budget.

In addition to all these forms of assistance, there will be families who will somehow fall between the cracks because they have special needs that are not well-served by the way we have provided the benefits. This is why the CDCs, CCCs, self-help groups and voluntary welfare organisations will deal with these families case by case – look at their special needs, see how we can help them additionally. This is the discretion that we are giving to these agencies. We are also providing them additional funding, so they are able to do more to help these families.

There have also been suggestions to extend benefits to other groups to recognise their contributions. Several Members, such as Dr Lim Wee Kiak, Ms Lee Bee Wah and others, spoke about the concerns of homemakers. I think at least nine or 10 Members must have spoken about this. First, let me say that homemakers do, in fact, benefit from the GST offset package, like all other adult Singaporeans. In fact, a homemaker living in a three-room flat can get more than the breadwinner typically, because she has effectively no income. There was a specific suggestion made by Assoc. Prof. Kalyani Mehta with regard to caregivers, and I think she is referring here to specific categories of caregivers who work at home and not people who stay at home generally. I agree that there is real work involved here, and sometimes very challenging work. I think we should keep our minds open, study what other countries do, before deciding if we should take this step. There are some major issues that

we have to address before we decide if we should move in this direction - in fact, two quite significant issues. First, it is going to be very difficult and very intrusive for the Government to be able to figure out or establish who is really giving care at home and how much work it involves, from this family to the next. It will require a certain degree of intrusiveness on the part of the Government to decide on a scheme on how to compensate or recognise caregivers at home in monetary form. More importantly, we will have to be careful that, in attaching a monetary value to work within the family, we do not inadvertently undermine the values that underpin the strength of the family and indeed the strength of Singapore society. These are important issues which we will have to think about and address. We will keep our minds open, study the issue further, and I am sure there will be more discussion on this later.

*A progressive fiscal structure*

I think Members are satisfied from the examples and the data we have provided, including the data that Mr Lim Swee Say provided yesterday as well, that the GST increase, when coupled with Workfare, is not a regressive scheme. The lower-income group will be better off after the GST increase and Workfare. Our fiscal structure as a whole, apart from the measures taken in this year's Budget, will also remain a progressive one. I have put up a chart here. [*Refer to Chart C.*] This chart shows the shares of total taxes that are contributed by households on different parts of the income ladder. The top 20% of households contribute 54% of total taxes. They contribute, in fact, four times as much as the bottom 40% of the population. This, by the way, is well

beyond the proportion if we look at their respective shares of total income. In other words, if we take the share in total income of the top 20%, it would be about twice the share of the bottom 40%. But the amount of tax they pay is four times as much as the bottom 40%.

The second chart shows that after all the measures we have taken in this year's Budget, the total tax burden faced by different households – all existing taxes plus the changes we made in this year's Budget – continues to follow a highly progressive pattern, significantly in favour of lower-income households. This chart includes the GST offsets. [*Refer to Chart D.*]

In the next chart, we take out the GST offsets and just look at the permanent tax scheme, less Workfare Income Supplement benefits (because WIS is really a negative tax). This chart shows taxes as a percentage of your income. But for the bottom 10% of households – retirees and those who are unemployed – there is no income, and that is why they are not on this chart, although they in fact receive Workfare. But it is basically a highly progressive tax schedule that we have in Singapore. [*Refer to Chart E.*] This does not include the changes we made to CPF contribution rates which will further benefit the lower middle and middle-income groups especially, and it does not include other fiscal transfers that we make directly to households, in particular, our housing subsidies and our lower-income housing grants. If we include these other fiscal transfers, we have a highly progressive fiscal scheme in Singapore.

Some Members have nevertheless asked whether we have done enough for the “squeezed middle-income group”. I think, from the descriptions given,

they are referring mainly to the group of Singaporeans who pay income taxes, own a car and have a maid, and therefore, pay significant indirect taxes, in addition to direct taxes. This is a group that is mainly between the 60th and 90th percentiles of our population. Their overall tax burden is typically about 9%-11% of their annual income. I agree that we should be concerned about the tax burden of this group. The Government has been taking steps to reduce their tax burden, for example by reducing the maid levy and ownership taxes on cars as well over the years. This year, we have taken another stab, lowering the maid levy further and extending the concession to employers with disabled family members who need additional caregiving support, and lowering road tax further.

When you look at the chart as a whole, is it fair? Taxes have to be paid by someone. I think Members would agree that it is fair that the lower-income group pays less taxes as a percentage of their income. It is also fair that the highest-income groups pay more taxes as a percentage of their income. So the 9%-11% of income that the middle and upper-middle income group pays is really part of a fair distribution of the tax burden in Singapore. And in aggregate, it is not a high tax burden, because we only collect 15% of GDP in total revenues, and tax revenues are only part of that 15%.

I should also note that if we compare the tax burden of the middle and upper-middle income groups to that in any other advanced city, it is not high. In fact, it is significantly lower than what it is in most cities. The same upper middle-income family that we see, between the 60th and 90th percentiles here,

would in Dublin and Sydney pay between 29% and 32% of their income in taxes respectively. If we look at Hong Kong, we are broadly comparable. Hong Kong has no GST, but the effective personal income tax rates for the middle and upper-middle income groups are higher than Singapore. This is shown in the chart. [*Refer to Chart F.*] It is updated to take into consideration the changes made in the Hong Kong budget yesterday, which lower the effective personal income tax rates for the middle and upper-middle income groups. Despite that, the personal income tax burden on our middle and upper-middle income groups is not high. It is lower than Hong Kong, and certainly lower than any other advanced city.

### *Conclusion*

Let me conclude. Members have given this Budget their strongest support – the hardware, the software, and the “heartware”. You have supported the measures the Government is taking to sharpen our competitiveness and build new capabilities, to make the most of the opportunities that are presented to us by globalisation. You have supported our measures to strengthen social cohesion, by helping lower-income Singaporeans in the face of increased pressures from globalisation, pressures that we face now but which we know will be with us for a long time to come. You have supported the measures we are taking, now and in the future, to create the city of the future, to raise the quality of life for all Singaporeans, and to build a strong society.

But underlying this all, the Budget is about maximising opportunities. Our approach to the challenge of inequality must be to find every way to provide

opportunities for Singaporeans to succeed. It is about providing every incentive for individual effort - to study, to work, to retrain, to upgrade, and to uplift your family. As Mr Zainudin Nordin put it, to give everyone a fair chance to succeed in Singapore.

It starts with education. Singapore is still unique in the extent of social mobility that we see. We all know about the tremendous amount of mobility that took place in the first few decades after our independence. Members in this House are in many instances themselves testimony to that mobility, starting from near the bottom and moving up.

It is still happening. If you look at current batches of Singaporeans entering university – for instance at last year's university intake into our three universities – 63% had parents with secondary or below education.

It will get more difficult over time. Every developed society has seen this. In Britain, they saw tremendous social mobility after the war, working-class kids moving their way up, becoming part of the middle-class, becoming professionals, lawyers. But it gets more difficult over time. If you look at the developed societies now, most of them are highly stratified - if you start at the bottom, you tend to stay near the bottom.

In Singapore, it is still happening. We are still seeing this churn and mobility in every new generation. And it is because of the emphasis we are placing on investing in education and delivering quality in every school. Throughout the island, we have good primary schools that provide a high

quality of education and the best chance for their kids to succeed. And entry to secondary school and beyond secondary school is based on merit.

We ensure that all our students have access to quality facilities and teachers, not just for academic learning, as Ms Denise Phua was mentioning earlier, but for the whole range of talents that we are trying to develop. We spread this out across the system.

We have enhanced opportunities in the last few years, by adding to our financial assistance programmes. Opportunity Funds have already benefited many students. Financial assistance schemes were widened last year and benefited a whole lot more students. We are providing more support at the pre-school level – we already have the "Baby Bonus" and the Child Development Account, and we have enhanced KiFAS and the CFAC scheme for childcare centres.

So this is why, even if we look at those in primary schools now, a much younger batch than those I mentioned earlier, we see this churn and mobility. Take students who live in one- to three-room flats in our primary schools. That is the bottom 20%, in terms of socio-economic profile. In fact, one to three-room flat kids are only 12% of our primary school kids. About 30% of our students in one to three-room flats make it into the top 50% in PSLE performance. And almost 10% of students in one to three-room flats end up in the top 20% of PSLE performance.

How do we achieve this? It is basically a system that provides opportunity for every student to succeed, and a system that rewards effort, not just in

academic work, but in all areas. We provide this through good schools; not just a few exceptional schools, but across the board. There are many examples. I will cite you just one - Bukit View Primary School. Four years ago, their PSLE results were below the national average and they were facing declining enrolment. In four years, they pulled their results up from below national average to the top quarter of PSLE performance. How did they do it? There were many strategies. None of which were new-fangled ideas, but hard work, good quality and tremendous motivation. The Primary Six teachers have been allowed to design their own curriculum to meet the needs and abilities of their students. They have been visiting students who have been absent from school – they visit them at home. Students who are weak in a particular area, they give one-on-one coaching. They have been motivating students through their CCAs, the dances and the sports, and giving them confidence in their talents. They have tea sessions as well, like we do! But their tea sessions are for the most problematic pupils, motivating them and encouraging them on.

This means many real individuals in Bukit View, like many other schools, who start off from very modest beginnings, are moving up very fast. Take Nurul Syafiqah as one example. She lives with her parents and five siblings in a three-room flat. She has benefited from our schemes – used our Financial Assistance Scheme, and is also on the School Breakfast Programme. She was an unmotivated student in her lower primary years. Then, they got her into the Malay dance group in Primary Four and she also joined the concert band - two CCAs. Last year, they won the Gold medal at the SYF for Malay dance, and

the Silver medal for concert band. Nurul became a very responsible, highly-motivated pupil. She was also made a prefect. She did very well in her studies. Got 254 points in PSLE. That is in the top 10%. She's now at Bukit Panjang Government High School.

There are many Nurul Syafiqahs in our system. We have got to do more, do our best to keep up this churn and mobility, even as it gets more difficult. That is our approach – maximise opportunities, give everyone a fair chance to succeed.

This year, MOF, with the Economic Society of Singapore and the *Straits Times*, organised a Budget Essay Competition. We received a lot of entries: 125 from students, mainly in Singapore, but also several from abroad.

The winning entry at the school level was from Daniel Ong of RJC. I read his essay, but I assure you that I had no part in the judging. He summarised what he thought the philosophy of the Budget should be. He says, and I quote, "the overarching priorities for Singapore's fiscal policy remain starkly simple: to ensure Singapore's long-term economic survival, and its survival as a cohesive social unit. We must remain competitive in a global economy which becomes increasingly aggressive every day, while continuing to take advantage of the opportunities globalisation offers us. All this time, we have to take care of each of our citizens - low-income, middle-income, high income - and provide the support infrastructure to maintain Singapore as an effective social unit."

This is exactly what the Budget has been about and what Members have given their wholehearted support for. Let us do this well - and work to build the Singapore of the future which Members have in different ways described - a future which Daniel Ong describes as "a land of opportunity and hope in the years to come, and also a land that takes care of its citizens - a land to call home".