

BUDGET 2012 DEBATE ROUND-UP SPEECH BY DEPUTY PRIME MINISTER AND MINISTER FOR FINANCE, MR THARMAN SHANMUGARATNAM ON 1 MARCH 2012

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Introduction

1. Mr Speaker, Sir, I would like to thank all members for their views over the course of this two-and-a-half day debate. There have been many useful comments, both on the broad themes of the Budget, and also many specific comments - some to do with housing, MCYS schemes, MTI issues and others. Many of these specifics will be taken up during the Committee of Supply
2. I would like to concentrate in my response today on the broad themes that have come up in the course of the debate:
 - a. First, how we can support our SMEs in transforming themselves over the next decade.
 - b. Second, how we should tackle the challenge of inequality
3. I will also address the questions that many Members have raised regarding the Government's expenditure of \$1.1b over the next 10 years to expand public bus capacity.

Supporting SME Transformation over the Next Decade

4. Let me start with the challenge of transforming our SMEs. Many members such as Ms Jessica Tan, Mr Teo Siong Seng, Mr Inderjit Singh and others, have spoken with great concern about this topic.
5. We have to be concerned about our SMEs. Do they have a future? What role will they play in our economy? Will they be a vibrant part of it or will they suffer and find it difficult to survive, year after year?
6. The SME sector is a critical concern for our economic policies. They are also important from the social point of view because they are mainly owned by Singaporeans, and hire a majority of Singaporean workers. Therefore, keeping that part of our economy alive and thriving is also a way in which we preserve an inclusive society.
7. The operating environment for SMEs, as Mr Lim Swee Say said yesterday, is tough. We must never neglect our SMEs as we go forward.
8. The principal reason why the operating environment is tough is that costs are going up. The reasons are as Mr R. Dhinakaran mentioned a short while ago.
 - a. First, labour is more expensive, because wages have gone up significantly for Singaporeans. Basically, the labour market is tight and will remain that way. This is however a good thing for Singaporean workers, and we do not want this to change.
 - b. Second, rentals are increasing. This is principally because of our natural constraints as a city state, and the fact our business community is on the whole doing well. Demand for office, industrial and commercial space has gone up faster than supply because we have many more businesses being formed, and growing.

9. These are the two major cost drivers – a tight labour market with rising wages, and a strong demand for space (industrial, commercial, office) which is driving up rentals - which reflect our inherent structural constraints as a city-state. Rentals also follow a cycle, and hopefully this year rental growth will level off. We are already seeing signs of moderation in average rentals. MTI will be addressing the issue of rental costs more fully in its Committee of Supply.

10. But the fundamental constraints will remain. We are not a low-cost business location, and will not be in future. So we have to help our companies, and especially our smaller companies adapt to the reality of Singapore being a relatively high cost business location.

11. Where we can, we will try to mitigate or slow down the pace of cost increases. The Government has and will continue to make more land available under the Government Land Sales Programmes. We will ensure that there is sufficient commercial and industrial space to meet demand in the medium-term. If you look at the potential supply of new shop space, there are **90,000 sqm** of new shop space coming on stream **each year** over the next five years. For industrial land too – extra land is coming on stream. In fact, 24ha of industrial land is being made available in the first half of this year.

12. These are the things we will do over the course of the property rental cycle, but the fundamental constraints remain unchanged. This is not a low-cost business location; it is a relatively high-cost business location and therefore needs relatively high productivity, relatively high skills, and the entrepreneurial abilities to put it together and not just survive, but thrive.

13. So this is what the government is focused on – helping our SMEs raise productivity and invest in better jobs, and that way also enable our people to have higher wages. It means training in skills, it means better use of technology, developing new products and better branding, and it means finding new markets abroad, including niche markets for specialised products or services. In each of these areas, the government pledges its support for our SMEs.

Moderating Foreign Worker Growth

Pace of Tightening Measures

14. Let me now address, more specifically, the concerns over foreign worker policy measures – how fast we should tighten, and if we should tighten at all. This occupied a good part of the debate on the challenges that SMEs are facing.

15. We just had another interesting term to describe our reliance on foreign workers - from Dr Lim Wee Kiak - ‘addictive narcotic drugs’. Earlier on we had ‘performance enhancement drugs’ from Mrs Lina Chiam, ‘crutches and braces’ by Dr Chia Shi-Lu, ‘intoxicants’ by Dr Amy Khor, and ‘two rear wheels of a bicycle’, Mr Patrick Tay.

16. Many descriptions, but let me first make clear that foreign workers are and will remain integral to our economy and to our competitiveness. They are a valuable complement to the Singaporean core that we must keep building up in every segment of our workforce. They are arms and legs, and part of the brain, of a

competitive global city. Foreign employees are a valuable complement to our Singaporean core.

17. Our strategy of allowing foreign workers at all levels of our workforce - those with low skills and in areas where you do not normally find Singaporeans; those with technical skills; and those with the higher skills, the talented or entrepreneurial individuals who bring specialised skills, networks and opportunities for Singapore - this strategy has by and large worked. It has gone hand in hand with the rise in incomes of Singaporeans, both lower income Singaporeans as well as our middle income Singaporeans. You have seen the data.

18. As Dr Lim Wee Kiak just pointed out, and Mr Lim Swee Say emphasised yesterday, we are not “turning off the tap for foreign manpower”. There is no “cold-turkey treatment” for our companies. This is not a sudden change in policy. It is a graduated and calibrated strategy. We made our intentions very clear two years ago, after the Economic Strategies Committees report, when we started tightening. We introduced a 3 year programme of increasing foreign worker levies.

19. Last year we accentuated the increases, because foreign worker growth had been rapid in an unusually strong economic recovery. This year, we are taking a further step, with a calibrated reduction in dependency ratio ceilings, again because the growth of foreign workers continues to be rapid - and much more rapid than the growth of local workforce.

20. It will not be our last move. We have to watch how rapidly the foreign workforce grows this year. And if need be, we will have to make further moves particularly in the FW levies in the years to come. We will watch this carefully over this next year, and calibrate our moves so that businesses can adjust. We will also accompany any further levy increases with support for businesses to help them upgrade.

21. Members had differing views on the pace of FW tightening. Some members such as Mr Zainal Sapari, Mr Yeo Guat Kwang, Dr Chia Shi Lu, and a few others, were squarely in favour of the pace we have adopted in tightening policies. Some others were concerned and understandably, such as Mr Teo Siong Seng, Mr Inderjit Singh, Ms Lee Bee Wah. They were concerned about whether SMEs would be able to cope and whether we are moving a bit too fast.

22. Mr Low Thia Khiang and Mr Chen Show Mao, I think now recognise that we have to maintain a very careful balance in how we go about our foreign worker policy. I think you have shifted your position because I have checked what was said previously during the 2010 and 2011 Budget and COS debates and also your Workers’ Party Manifesto in last year’s General Election when you criticised the Government for allowing in too many foreign workers. I think your position now accords with ours, and recognises that this is a very careful balance. First, because we have to ensure that our companies can stay competitive, and that Singaporeans thereby keep their jobs and their incomes continue to grow.

23. Second, we have to be extremely concerned about the SMEs, which you have all rightly emphasised. If we withdraw the foreign workers too quickly, this will curb our SMEs and they will not be able to cope with the pace of change. But if we are too

slow in tightening on foreign worker policies, the incentive to upgrade will also lessen. And we will face, as Mr Lim Swee Say said, even bigger and longer term problems further down the road. So it is a very careful balance we have to maintain.

24. The Government does not think we can slow the pace that we have adopted in our foreign worker policies - the pace of adjustment of the foreign worker levies, and the moderate reduction in dependency ratio ceilings. As I mentioned earlier, we may have to go further in future years on the levies. For the latest DRC measures, we are giving companies a 2-year transition period for them to adjust to the new DRC for existing workers, as we recognise that businesses have already invested and trained these workers.

25. For the larger companies, this is a challenge most can respond to. Investing in creating better jobs, equipment, looking for new markets, improving their branding. Many smaller companies will be affected, but in fact the number of workers involved in most of these cases is small. For most small companies affected by the new DRCs, they will only need to find a substitute for one or two foreign workers - either finding a Singaporean to take the job, or raising productivity.

26. There are some useful suggestions on some of the flexibilities we should consider in the use of foreign workers, so that businesses can optimise the use of their foreign workers within the dependency ratio ceiling limits.

Flexibilities in Use of Foreign Workers

27. Mr Ang Wei Neng and Ms Tin Pei Ling suggested allowing companies to keep experienced foreign workers who have been trained for longer periods, as long as the company is still within its DRC. There is merit to this proposal. Retaining well-trained and experienced foreign workers is a plus for productivity, and it spares the company from having to re-hire and re-train another foreign worker. MOM is reviewing its policy to see how we can achieve this objective for Work Permit Holders (WPH), particularly for workers who are unable to pass the stringent skills tests but have gained experience on the job and are useful people in the firm.

28. A second area of flexibility that has been raised is in the deployment of foreign workers across job duties within the same firm. We have been very strict about the occupational roles. In our dialogues with industry, business chambers and associations, there have been requests to allow more flexibility for this. For example, in hotels, housekeeping staff may be needed to help out in F&B when there is a slack period in housekeeping. And in small restaurants, they sometimes want kitchen staff who are not being used to be re-deployed as waiters, or vice-versa. In small restaurants, this can be a meaningful boost to efficiency.

29. MOM will look into allowing this. We will start with relaxing the occupational restrictions in the hotel sector. We will be working closely with our tripartite partners to set the criteria and conditions to make sure the productivity improvements also flow through into benefits for our local workers.

30. These are two useful suggestions we have received and we will look into them.

Why Industry-Specific Foreign Worker Allocation will not Work

31. Next, the broader issue of how our foreign worker policy is implemented. In particular, we have had some suggestions from Members as to whether we can give more flexibility to specific industries that seem to have greater need for foreign workers.

32. In reality, we already have different levies and DRCs for the broad five sectors of manufacturing, services, constructions, marine and the process industry.

33. Mr Low Thia Khiang and Mr Chen Show Mao have suggested that this framework is too blunt, and that we should instead work out foreign worker allocations at a greater level of disaggregation, to meet the industry-specific needs, and based on consultations with the industries. Mr Chen Show Mao specifically suggested that high-end industries like Aerospace should be given more stringent limits and industries like construction can be given more liberal limits. Some other MPs had suggestions for the cleaning industry, F&B, retail, healthcare and social services - all of which it was felt had special cases for why they should be treated differently and given more foreign workers.

34. Let me say that this approach has some appeal when you first look at it, and especially if you talk to the businesses, it is a very persuasive case because they are indeed short of workers.

35. But it will not in fact work.

- a. First, it will not achieve our objective of preventing excessive growth in the overall number of foreign workers.
- b. Second, it will not achieve our objective of boosting productivity and incomes.
- c. Third, it is not only impractical in practice, but it can be inequitable - it gives unfair advantage to some firms over others.

36. Let me explain this in some detail, as this is an important issue on how we implement our foreign worker strategy. The reality of the matter is that the most rapid growth of foreign workers has been in the same sectors that we are now asked to make exceptions for.

- a. These are the Construction industry and services industries like F&B and retail. Services and Construction account for 90% of the total increase in foreign workers that we have seen in the last five years. Within Services, it is basically the industries that the MPs have identified, that are the ones that have seen the most rapid growth.

37. So if we want to be more liberal on them, whether it is in DRCs or levies, either we have to be extraordinarily stringent on the other sectors where foreign worker demand has not been going up, or we accept more rapid foreign worker growth overall. And the likely and realistic outcome is we will have more rapid foreign worker growth overall. That is the upshot.

38. Second if we are going to do something along the lines of what Mr Chen Show Mao suggested, where the more productive and higher skill industries are given more stringent limits, while the less productive ones like construction are given more liberal limits, over time, what that amounts to is that we provide more help to the low-productivity sectors relative to the high-productivity sectors. And that is the opposite of the restructuring we want to encourage in our economy, because that will hamper overall productivity growth. Overall, the economy weakens and slows down. What we instead want to do in every sector - whether it is construction or F&B - is to help every player to raise productivity. For companies that start off from a low base, never mind, raise productivity. For those that are already high in productivity, raise it even further. That is our approach.

39. The levy system is the basic approach we have in place to ration foreign labour. We don't control the actual numbers that come in but we control the price. It is a level playing field, every firm in every industry knows what the levy is. Within the same industry, if I am competing with another firm and if I am less efficient, I will have to pay more, because I need more foreign workers. If I had to pay more, there is an incentive for me to upgrade. And for an industry is inefficient as a whole, the same incentives apply. So there are incentives for everyone to upgrade.

40. It would not be a sensible strategy to discourage upgrading, weaken productivity growth and seed further growth of our foreign workforce.

41. The same sectors that are in greatest need of foreign workers are also the sectors where our productivity lag furthest behind international leaders, such as Construction, F&B, Retail.

- a. In F&B, we are three-quarters the level of productivity of Hong Kong and 40% the level of New York. In retail, we are two-thirds the level of Hong Kong and 45% the level of New York in terms of productivity. In Construction, we are one-third the level of Japan, and half the level of the US.
- b. So, these very same industries which understandably cry out for more foreign workers are in fact those with the greatest scope to upgrade productivity, and to attract Singaporeans into better quality jobs.

42. The third reason why it will not be the right approach to go 'industry by industry', or 'firm by firm', is because of its complexity, and because it would therefore also not make for an equitable system. There is a great overlap between industries. Even in the current system with broad sectoral distinctions between manufacturing and services, we already face issues of an unlevel playing field.

- a. If I am a large F&B operator with a central kitchen, my central kitchen is classified as Manufacturing and have an advantage over a smaller company that is not able to have a central kitchen and is hence classified as Services, which is subject to a more stringent Dependency Ratio Ceiling.
- b. Likewise, in a manufacturing company, in-house logistics is part of Manufacturing, whereas an independent logistics provider is treated as Services, with more stringent foreign worker limits.

43. So, even with the broad classifications that we are making in our current framework, we already have problems at each of the boundaries, and consequently the lack of a level playing field. These inequities will be greatly accentuated if we get down to 'industry-by-industry' distinctions.

44. Take the aerospace industry, which Mr Chen Show Mao raised, as an example of an industry which should be given more stringent quotas. What is aerospace?

- a. In reality, the aerospace industry comprises many different types of companies operating in a broad cluster. It may sound high-end and high-skill, but actually a significant part of aerospace is airframe maintenance and overhaul, which is highly labour-intensive. At the other end of the spectrum are skill-intensive areas like the repair of components.
- b. Within the aerospace industry, there are some large firms that perform both high-skill and low-skill, labour-intensive businesses, and others that specialise in one particular segment.

45. It will be quite inequitable if a large firm that undertakes both the high end and low end segments is entitled to a higher foreign worker quota on grounds that it is doing low-end work, while a small firm that is competing with it at the high-end is forced to operate within the more stringent foreign worker quota.

46. These are the impracticalities and inequities that arise when we try to choose how many foreign workers each specific industry or firm should obtain based on merit or consultations. Who is more deserving than the other?

47. In fact, Mr Low Thia Khiang made a good point. We should avoid the situation where small firms are disadvantaged compared to large firms, or where a firm that is able to get foreign labour has an advantage and can succeed, while those that cannot are disadvantaged. That is precisely why we should not go about choosing and deciding that you should get more foreign labour and you should get less. It would be highly inequitable and will disadvantage our small firms in practice.

48. It is an interesting suggestion, but you may not have realised fully what its consequences will be. The consequences are quite predictable. It would mean more growth of our foreign workforce, lower productivity growth and a lot of inequity on the ground as well as scope for abuse.

Calibrated Approach towards Employment Pass Holders

49. We have to maintain a careful balance, and this applies also to the issue of Employment Pass holders. Mr Patrick Tay and Mr Low Thia Khiang raised concerns about Employment Pass holders. This is an issue we are concerned about as well.

- a. First, let me say that Employment Pass holders are an important part of our economy. The growth in Employment Pass holders in our workforce has gone hand-in-hand with the growth of local PME employment, as well as local PME wages. The fact that both wages and employment went up for local PMEs indicate that there has been an increase in demand for local PMEs.

- b. Likewise, at the lower-end of skills - Singaporeans who perform ordinary jobs in our firms have also benefited from the presence of Employment Pass holders. If you go down and look at any individual company, you will see the complementarities. Without that team of people comprising both Singaporeans and foreigners working in the technical and professional jobs, it would be hard for the company to stay competitive and to generate the jobs lower down in the skills ladder.

50. So, we have to be careful about how we tilt this balance as we go forward. We are tightening on Employment Pass eligibility rules, because we want to build up our Singaporean core in each sector. But we are tightening in a graduated fashion.

51. Maintaining the right balance is crucial for our SMEs in particular, who are an important source of demand for Employment Pass holders and S Pass holders. Mr Low Thia Kiang spoke about the growth trends in both groups of pass holders in the previous two years. In fact, in the last two years, one-third of the increase in Employment Pass and S Pass holders were hired by small firms - those with less than 50 workers. If we tighten too quickly, these small firms will be the most hurt. So let us be careful about how we go about this.

52. I'm glad Mr Low now shares the same objective. We now have the same sense of needing to maintain a careful balance between lowering our dependency on foreign workers and helping our SMEs adapt.

Our Basic Strategy for SMEs

53. We will go about achieving this in a graduated fashion, and will not spare any efforts in helping our SMEs upgrade and improve productivity. I do not need to go through the schemes that have been announced in the Budget, but I do want to address Ms Jessica Tan's point that some of our brochures about PIC are excessively long. I would like to assure her that no one will need to read 66 pages, which includes all the annexes. We will make it as simple as possible for SMEs. We will go out of our way to reach out to them, hold their hands, work with the business associations, enterprise development centres, and CDCs. We will proactively look for SMEs and help them to take advantage of our schemes, instead of waiting for them to come forward. We will talk more about this during the MOF's Committee of Supply.

54. Mr Inderjit Singh asked if we will be overtaxing our SMEs, if we add up all the taxes that they pay. Now, our tax rates in Singapore are extremely low. Our tax rates for SMEs are lower than most jurisdictions. A small enterprise with a turnover of less than \$10m pays on average corporate income tax of 8%. In Hong Kong, the same size company would pay about 16.5%, and in Taiwan about 17%. The other developed countries typically have higher tax rates.

55. There is then the foreign worker levy, which is a form of tax. But as I emphasised in the Budget, we are giving back much more to companies through our tax deduction and grant schemes, much more than the increase in foreign worker levies. And this applies especially to SMEs.

56. Not everyone will get the same support. We have adopted a strategy that that deliberately favours those that are doing something to train their workers, invest in

equipment, and make better use of technology - anything to raise productivity. The gains are substantial, even for companies that do not have taxable profits - they can get a very generous cash co-payment. For every \$100,000 of expenditure on productivity, the Government will pay \$60,000.

57. But the company must do something, the company must invest in something, and then it gets aggressive support. That is our basic approach, and I think we have at least a fair chance of success. As Mr Lim Swee Say had emphasised yesterday, we cannot say for sure that we are going to succeed. But I think we have at least a fair chance of success, of ensuring that amongst our SMEs today and the new SMEs to come, that we will have a vibrant pool of Singapore firms 10 years from now, and with a significant international reach.

Tackling Inequality: Our Approach

58. Let me now move on to the second broad theme of the debate, which is about tackling inequality.

59. Virtually everyone spoke on this topic. I am glad that most members supported the thrust of the Budget and the direction the government is taking, not just for this year, but in the years to come.

60. Many spoke about giving more help to the lower income groups, such as Ms Amy Khor, Ms Lily Neo, and NMP Mary Liew.

61. Others, such as Mr Patrick Tay, Mr Zaqy Mohamed, NMP Eugene Tan, and Mr Sitoh Yi-Pin had specific points to make on the middle income group or the sandwiched class, especially those who feel the squeeze of costs, with young children and elderly parents.

62. Mr Gan Thiam Poh, Mr David Ong, Mr Zainudin Nordin, NMP Mary Liew and Mr Lim Wee Kiak also spoke about retirement adequacy. That too is a very important issue, which will be addressed in the Ministry of Manpower's Committee of Supply debate.

Four-prong Approach to Tackling Inequality

63. Let me start by reiterating our basic approach in tackling the challenge of inequality.

64. First, we must grow our economy on a sustainable basis, and in particular, grow it by raising productivity so that we can raise incomes across all income levels. Our economic strategies are thus closely bound with our social strategies - how we create an inclusive society depends also on how we grow our economy. This first strategy, of growing incomes of all Singaporeans, is extremely important.

65. Second, we have to do everything we can to preserve social mobility, starting from a young age. Several MPs spoke about various initiatives - Ms Intan Azura gave the example of Mendaki's Max-out programme. Mr Faisal Manap spoke about social workers, and I am glad he agreed with what was said in the Budget Speech about the need to reward social workers appropriately and give them fulfilling careers. Ms Low Yen Ling spoke about specific schemes to attract therapists and

Learning Support Coordinators to work with children at the pre-school level. There are many programmes. We have to work harder in each of these areas and do everything we can to preserve and enhance social mobility.

66. Our third strategy is redistribution. Quite apart from growing incomes and doing what we can do to preserve social mobility, we have to redistribute resources through a fair system of tax and benefits.

67. This has been a feature of all our previous Budgets, and is very much present in this year's Budget. We will provide significant benefits to the lower income group to help them keep up and upgrade. But we also want to avoid placing an excessive tax burden on the middle income group. That's our third strategy.

68. Our fourth strategy, equally important, is to partner the community. This is not about the Government alone. It is about building up our VWO partners and supporting community volunteers in every field, so that we can support the disabled, poor and elderly. None of this is about just the Government and the CDC, but also about community organisations and volunteers who are there with us.

69. So these are the four prongs by which we tackle the challenge of inequality, and we are going to do more and do better on each of the four prongs.

70. Now let me address some of the main issues in turn.

More Support for the Lower-Income

71. First, the issues concerning the lower-income group. Let me say that inclusive growth is not a new focus in the Budget, as Mr Faishal Ibrahim had pointed out, and Mr Lim Biow Chuan just a short while ago had emphasized.

How Government Efforts Add Up For Them

72. We made major moves in the last 5 years, major interventions – Comcare; Workfare in 2007; enhancing housing subsidies very substantially. I would like to assure Mr Gerald Giam, who might not have caught up with all the developments, that our enhanced housing grants for lower income families are such that a family with a monthly income of as low as \$1,000 can now purchase a small flat. 98% of our younger cohorts, those who are below 35, earn at least \$1,000 of income a month. A family that earns a bit more, say \$1500, can purchase a medium-sized flat.

73. The housing grants that we have been giving are more aggressive than what any other Government would give. For those who really cannot afford it, we have other schemes to help them. So home ownership is a very important plank of how we are helping our low-income group, and in particular helping them to accumulate savings over time.

74. We also expanded education subsidies significantly in recent years – especially at the tertiary levels – and healthcare subsidies.

75. As a result, in the last 5 years, the transfers we provided to the low-income group – net of the taxes that they pay, which is basically GST – amounted to almost 20% of their incomes. This is a significant increase from the previous 5 years. We

have made major moves, a range of interventions, to address the issue of inequality and help build an inclusive society. So this is not something that came about only post-GE 2011.

[Refer to [Annex A](#) for chart]

76. Now, another way of expressing what we are doing, and taking into account what this year's Budget contains, is to think of this over a lifetime. What do taxes mean, and what do transfers and benefits mean, over a lifetime for a low-income household?

77. If you add it all up together, you will find that for every dollar that the low-income household pays in taxes, they get back more than four dollars in benefits. A whole set of benefits add up to this – which includes Workfare, housing grants, and means-tested healthcare and education subsidies.

[Refer to [Annex B](#) for chart]

78. This is a simple expression of how progressive our system is. Everyone pays some taxes, because everyone should contribute to a better Singapore. But the low income group gets back much more in targeted benefits, which support work, education, and housing. They get back four times the amount that they pay in taxes.

79. But this is also a reminder of a different point, raised by Mr Ang Hin Kee, Mr Edwin Tong and Dr Amy Khor, which is that we also need to be careful how much further we go. As Mr Ang Hin Kee and others mentioned, we have to be concerned about what too high a level of benefits will mean. It is not that people try to game the system deliberately. It is only natural human behaviour to want to stay where we are, and not upgrade, if it means losing benefits if we upgrade. Every society has found this to be a problem. As we expand benefits, more people try to stay within the group that receives the benefits, instead of upgrading beyond that threshold.

80. So we must be quite careful. To preserve that drive to do better, to learn a new skill, and to help the whole family move up. Because that drive at every level of Singapore society is what defines us. It is not just the drive among the most talented or the most well-educated, but the drive among ordinary, working Singaporeans, that has defined us. So let's not lose that.

Focusing on Four Areas

81. This means being focused in our interventions as we go ahead. We will do much more to build an inclusive society. But let's not try to do more across the board, and more and more every year.

82. What we will be focusing on, first, is social mobility – we are going to do more, particularly at the early stage, similar to what many MPs have spoken about.

83. Second, we must do more to help the lowest wage workers, including cleaners, the lower end of security guards, and a few other occupations. Wages have been stagnant in these occupations. So they need more help, and we must intervene on a tripartite basis to help them.

84. There are many reasons why wages are so low. The composition of some of these occupations are part of the reason. About three quarters of our cleaners in offices have very low education – primary level or lower – and most are older Singaporeans. While that does not justify such low wages, it is part of how the market works. We do need to do more to help them, and make sure they get a proper wage – enough to live on, and enough for their families to get by.

85. We will do more, together with our tripartite partners. For the cleaners in particular, MOM is working with NEA; in the case of security guards, with the Ministry of Home Affairs. We will look into improving professionalism, employment standards, and wages.

86. We will be providing more details on this later.

87. Third, we will do more for those with disabilities. Many MPs have spoken on this. Ms Denise Phua and Ms Jessica Tan had a specific suggestion about extending the Special Employment Credit (“SEC”) to people with disabilities who had not gone through our SPED schools. This is a useful suggestion. MCYS will be addressing this in the Committee of Supply.

88. There were also suggestions during the debate about extending the SEC to other groups – home-makers who reenter the workforce, ex-offenders, single mothers. I would be very careful about extending this to more and more groups, as the SEC is a major intervention in the job market.

89. And not everyone faces the same disadvantage. There are some home-makers who are not disadvantaged when they return to the workforce. So I would be very careful about extending what is a major intervention in favour of older Singaporeans to more and more groups.

90. Finally, we are expanding our support for our elderly, particularly in healthcare. We have spoken extensively about this. There were some suggestions. Dr Lily Neo had a view with regard to how much money needed to be put into CPF Life when an elderly person takes advantage of our Silver Housing Bonus or our Lease Buyback Scheme. This is a valid issue. For those, say, in their mid-70s who want to take advantage of our scheme, it may not make sense for them to top up their CPF all the way to the prevailing Minimum Sum to purchase a CPF LIFE annuity. This is something which we are studying, and we will complete our review within a couple of months.

A Fair Deal for the Middle-Income

91. Let me move on to the middle income group - a very important group. Many MPs spoke about this as I mentioned.

Raising Incomes

92. What is our basic strategy to help the middle income group? First and foremost, it is to raise real incomes. That is our most important strategy for helping the middle income group to cope with the cost of living.

93. We have not done too badly in raising the incomes of our middle income group. It is not very well known, but our middle income households have seen the most significant growth in real terms over the past five years –3.2% per annum.

[Refer to Chart at [Annex C](#)]

94. Income growth is slightly lower for lower-income households, but the median household has done well compared to the higher end households. This is on a per capita basis, which is the most meaningful indication of income growth.

95. These rates of growth are rare when looked at internationally over the last five years. In Hong Kong and Taiwan, the median income growth in real terms was negative over the same period. Median income growth in Korea was positive, although lower than ours. And most developed countries have had either lower or negative income growth over the last five years.

Keeping the Tax Burden Low

96. Our second strategy is to keep the tax burden low for the middle income group. This is an important feature of our tax system, which is not widely recognised. Our taxes for middle income group are much lower than in most countries. The middle income group has to pay GST and very limited income taxes, since the income tax schedule starts from the 60th percentile of incomes – and even then, at very low rates. Some pay maid levies or expenditures for their cars. But overall, the tax burden on the middle income group is relatively low by international standards.

97. For the lower income group, they get more than \$4 back for every dollar paid. For the middle income family that owns a car – and a car is extremely expensive in Singapore – they get back about 80 cents for every dollar in taxes paid. Without car ownership, they could get back \$1.50 in benefits for every dollar in taxes paid.

[Refer to Charts at [Annex D](#)]

98. There are very few systems that provide this. Even for those who want to have a car, for convenience or because they have a large family or elderly family members who need to be ferried around, it is still a very fair system. There are very few systems that would give the average household 80 cents back for every dollar of tax paid.

99. In short, that is our strategy - keeping taxes low and making sure that the system is as neutral as possible for the middle income group, while providing the lower income group with substantially more benefits than the taxes they pay.

A Fair Tax System: Making it Last

100. Several MPs – Mr. Janil Puthuchear, Mr. Lim Wee Kiak, Mr. Ang Wei Neng, Mr. Desmond Lee, Mr. Vikram Nair and Ms. Tin Pei Ling highlighted the need to maintain our fiscal sustainability. They emphasized that whatever we do, we have to keep an eye on the long-term.

101. We have to make sure that we can sustain our various initiatives, and not do them for a few years and then start withdrawing them, or start raising taxes to pay for

them. We have to think though very carefully - how much should we do, and how we should fund it, in order to sustain a fair and progressive tax system not just for a few years, but well into our children's generation.

Managing Healthcare Spending: A Key Challenge

102. The key challenge is healthcare spending. That is going to be the biggest driver of our expenditures over the next 10, 15 and 20 years.

103. We are currently spending 1.6% of our GDP on healthcare. By 2016, it will go up to 2% of GDP. However, if we extend healthcare spending all the way to 2030, which is when the aging of our population has set in more fully, then it will increase to around 3.5% of GDP - an extra 2 percentage points of GDP in expenditure from today. This is a significant increase.

104. Transport expenditure will also remain high for a while especially because we are massively expanding the rail systems. But healthcare expenditure will be a long term commitment. By 2030, it is about 3.5% of GDP - and that too, only if we play it right. It could be much more if we do not play it right.

105. Ms. Sylvia Lim suggested that we follow other developed countries, and spend an average of 6% of GDP on healthcare. Mr Low Thia Kiang also spoke about a first-world social safety net. I do not like the idea of a first-world safety net because what it also means is first-world taxes or first-world debts, and I do not like both ideas.

106. To explain this in detail. If we have to take our healthcare spending to 6% of GDP which is around the global average, it means that we will have to raise taxes very significantly to generate the necessary revenue to fund the system. It would mean increasing the GST to about 20%. Or raising corporate income taxes to above 40%. Or lifting personal income taxes across the board and with the top rate moving to 60%. Some countries, especially the Nordic countries, do have such high tax rates. And even if we think of using a combination of these different taxes, it is still a significant increase in each of these taxes.

107. This is why, as Mr. Liang Eng Wah, Mr. Hri Kumar and Dr. Chia Shi-Lu said, we should focus on healthcare outcomes, instead of spending, as a measure of our healthcare system. We are already getting relatively good outcomes – it is not a perfect system, but one of the better healthcare systems in the world when we look at outcomes. This is despite spending much less, both through government and private spending.

108. Second, we should focus subsidies where they are most needed. There will be groups that have affordability problems. We should help them with targeted subsidies, not broadly across the population. In particular, we should encourage people to shift to lower-cost, but good quality care settings. Instead of staying in an acute hospital for a long period and incurring high costs for the individual or family as well as for the taxpayer, they can instead enjoy community-based or home-based care at lower cost. This is what we are doing in this year's Budget. We have provided very substantial subsidies and expanding our capacity for community and home-based care, to help people stay at home and yet obtain quality care. This is a very

important dimension of keeping healthcare costs down while getting good health outcomes.

109. Third, we are improving support for the middle-income group. Under the measures introduced in this year's Budget, a typical middle-income family will see their expenditure on long-term care halved. The Medisave top-up introduced in GST Voucher is also significant. For those who are say 75-years or older, the permanent, annual Medisave top-up through the GST Voucher scheme is enough to fund on average, half of their annual Medisave withdrawals.

110. Next, risk-pooling. We have to keep the 3M framework going, because that is at the heart of our system. The framework encourages people to save, to think about their health actively from young, because it is also their savings that will eventually be paying for it.

111. But I agree with Ms. Sylvia Lim and Mr. Laurence Lien that we have to think about increasing the scope for risk pooling. We are indeed studying Eldersshield to see how we can enhance the scope. MOH is studying how we can, in the right measure, use Eldersshield to support the longer-term medical needs of Singaporeans. Likewise, we will study Mr. Yeo Guat Kwang's important suggestion on the portable medical insurance. It has not taken off as much as it should and we should look into whether we should provide more incentives to promote portable medical insurance.

112. Even with Medisave, there will be some who cannot afford their medical expenses. We want to make sure that these individuals make use of Medifund well before their children's savings are exhausted. There are flexible criteria, and in fact a growing number from both the lower-income group and also the middle-income group are being helped through Medifund.

113. VWOs are an important part of our approach to providing long term care. I think Ms. Sylvia Lim has overstated things when she said that the Government is taking the backseat and leaving things to the VWOs. Quite the contrary, there is in fact no Government that is as aggressive as us in supporting VWOs and working with them. Looking at fiscal support alone, the Community Silver Trust has set aside 1 billion dollars, and together with our tax deduction schemes for donation, this means that for every dollar VWO receives from a donor, 60 cents comes from the government. This too is how we encourage everyone to contribute to our VWOs, and not leave the task only to the Government.

How Do We Sustain a Progressive System?

114. There have been many, very useful and thoughtful proposals that MPs have made on what we should spend more on. But we must always ask ourselves how it all adds up, and how we fund it.

115. And remember there is a major driver of rising costs - the aging of the workforce. Dr. Lim Wee Kiak has indeed asked how we are going to fund this.

116. For healthcare spending, we are going to go up by another 1.5 percentage points of GDP beyond 2016, or 2 percentage points of GDP more than what we spend today. With the ageing of workforce, there will be increased utilization of

healthcare services and long term care services. Demand will go up and as technology improves, people will want better care. This is why we must expect healthcare expenditure to go up another 2 percentage points of GDP by 2030.

117. We must therefore have a strategy to fund our expenditures for the next 10 to 15 years after 2016. We should not be forced to cut back on funding for education, defence, and the other fundamentals that keep Singapore going.

118. There are several elements to this strategy. It means first, that we stay competitive and grow our economy in a sustainable basis, because that is the biggest source of our revenues.

119. Second, we need to find new sources of revenues. Our Budget is fine for the next five years. That is why we have been setting aside monies now in trust funds and endowment funds, to fund future spending, whilst we still have the resources. But beyond the next 5 years, we will have to think of raising revenues.

120. Third, we must spend judiciously in every area, both for development and operational expenditures. Always spend with outcomes in mind, not for show.

121. And finally, we have to be prudent and targeted in our subsidies. People do need more help, but we have to be very clear about who needs the most help and target our subsidies carefully.

122. Many countries in the West have allowed social expenditures to creep up gradually, thinking that each incremental rise will be affordable. However, each term of Government - whether it is a conservative or left-of-centre - has found itself pressured to raise the subsidies or include more people in the subsidies. The overall bill goes up, from one term to the next. And it is almost always the middle-income groups that end up paying much higher taxes.

123. This also addresses MP Denise Phua's point. There is a limit to how high you can push taxes at the upper end. The reality of the matter is that our income taxes are significantly higher at the top end of incomes compared to Hong Kong. So the competition for talent is real.

124. Half of our personal income taxes are paid by non-citizens. But even if we consider Singaporeans, they are mobile. If we look at many graduates, increasingly, many of them start their careers in Hong Kong or elsewhere. They are well-educated. They are talented. They too are mobile. We have to ensure that we keep our best talents here. We will make our system more progressive over time, particularly with regard to property taxes. But there is a limit to how high taxes can go at the top end, without hurting our competitiveness. This is the reason why we have got to guard how we spend and what we spend on, so that we avoid imposing too heavy a burden on the middle-class.

\$1.1 Billion Package to Expand Bus Capacity – Who Are We Subsidising?

125. Finally, Mr Speaker Sir, we come to the issue of why the government is taking the extraordinary step of spending \$1.1 billion over 10 years to increase bus capacity.

126. Several MPs have asked about this, including Ms Amy Khor, Mr Seng Han Thong, Mr Lim Biow Chuan and Mr Pritam Singh. There are in particular questions on whether this is a subsidy to the transport operators and their shareholders.

127. The Government considered its investment to expand bus capacity very carefully. This was not a normal budgetary decision. It is an important step, to reduce waiting times and crowdedness that Singaporeans experience daily as they take public buses.

128. Let me start by explaining what the Public Transport Operators (PTOs) themselves are responsible for. The PTOs are required to expand their fleets, their bus fleets to cater to the growth in passenger numbers, as well as to ensure that they meet the service levels that are mandated under the existing regulatory framework. This is why, in addition to operating the existing bus fleet of about 4000 buses, they will have to buy 250 additional buses to achieve this; and they will fund this on their own.

129. The Government is putting \$1.1 billion into the bus system in order to step up bus service levels beyond the current service standards that are required of the PTOs.

- a. It will increase bus capacity on existing heavily-utilised routes making them less crowded and giving commuters a more pleasant journey.
- b. Almost all feeder buses will run every 10 minutes or less - for two hours in the morning, and the evening, two-hour peak periods instead of the current one-hour peak period as under the current service level requirements.
- c. Commuters on existing routes will thus benefit both from shorter waiting times and less crowded bus journeys.
- d. And a number of new bus services, in addition to existing bus services, will be added to improve connectivity, and provide commuters with more public transport choices.
- e. So these are improvements that commuters have been hoping for and waiting for.

130. As a condition for the Government's investment, the PTOs will have to deliver on these service level improvements, which go beyond existing regulatory requirements.

131. We cannot simply mandate that the PTOs add these 550 buses to improve service levels. First, because it goes significantly beyond the current service levels in the current regulatory framework. Second, the PTO's bus operations are already

running operating losses, and the 550 additional buses in particular are projected to be a loss-making operation. The cost of acquiring and running the 550 buses is beyond what can be recovered from revenues in running the buses.

132. Take the example of improving the frequency of feeder bus services. Increasing the number of buses to make this possible will shorten waiting times but will add little to revenues, since the total number of passengers taking the service will remain largely the same. So more buses, more drivers, more fuel but no similar increase in revenues because it is essentially the same pool of passengers. They now have to wait shorter times and enjoy less crowded journeys, but it is essentially the same pool.

133. Without the Government stepping in, these significant service level improvements would only have been achievable if fares have been raised sharply. The 550 additional buses mean significantly higher costs - not only to purchase the buses, but also because more than 1000 drivers would need to be hired and paid a good wage, as Mr Seng Han Thong and NMP Mary Liew have pointed out. Fare revenues of the PTOs would have had to go up by about 12% - 13% - which translates into an increase in passenger fares of about 15 cents per journey - if the PTOs had to achieve this on their own. How much is 12% - 13%? In the last 5 years since 2006, fares went up by 0.3%. So 12% - 13% is quite a significant leap compared to what we have seen in the last 5 years. That would have been the only way which we could have achieved these service level improvements if the Government had not stepped in.

134. Hence the reality of the matter is that the \$1.1 billion Government package, or \$110 million per year, is a subsidy for public transport commuters, and not a subsidy for the PTOs. It will improve service levels for commuters, not the profits of the PTOs.

135. The \$1.1 billion package is expected to cover the losses on the 550 buses - in other words, the additional costs net of revenues. Of the \$1.1 billion package, \$280 million is budgeted for the purchase of the 550 buses over the next five years, and \$820 million to cover the net operating costs over the 10 years. This is based on the best estimates currently. However, we will be monitoring and scrutinising the PTOs' actual costs for both the purchase and running of the buses. Should their losses turn out to be lower than expected, the Government funding will be reduced correspondingly. So one way or another, there are no profits to be made from the 550 buses.

136. The \$1.1 billion for additional buses complements the \$60 billion we are putting into the expansion of the rail system. It will take several years for these new rail lines to come on stream or all of them to come on stream. That is why we are stepping in now to add bus capacity and quickly improve the daily experience of commuters. It is what commuters want, and we have assessed that it is worth the public investment. Both the \$1.1 billion over the next 10 years for bus capacity, and the \$60 billion that we are putting into the rail system, are worthwhile public investments.

137. Despite this Government package and independent of this Government package, regular and incremental fare increases will continue to be necessary, as

wages and operating costs rise, so that the bus industry can stay financially viable. The Government will also continue to make sure that needy commuters get adequate assistance for their transport expenses.

138. The MOT will elaborate further on all these issues during their COS.

Conclusion

139. Mr Speaker, Sir, let me now conclude. Members of the House have voiced strong support for the Budget - both the restructuring of the economy so as to improve productivity and raise wages of Singaporeans, as well as our efforts to build a fair and inclusive society.

140. But as Mr Seah Kian Peng and Dr Lam Pin Min have pointed out, building an inclusive society will always be work-in-progress.

141. We do not claim to have a perfect system. But we are not doing badly:

- a. Median Singaporean incomes have risen faster in the last 5 years than in any of our peers in Asia – the NIEs or Japan, or any of the developed countries
- b. Our unemployment rates are the lowest in Asia and certainly the lowest amongst the developed countries.
- c. Social mobility through education remains higher than in most other countries, certainly in most of the developed countries.
- d. Home ownership remains amongst the highest in the world, and in particular home ownership amongst our lower income group is without equal internationally;
- e. We are still rated AAA by S&P and Moody's - a diminishing breed.

142. But as Members have pointed out, none of what we aim to achieve is about government policies alone.

143. As Mr Desmond Lee pointed out very eloquently yesterday evening, none of these measures we are taking will automatically foster a society where people care for one another or for the less fortunate.

144. Dr Amy Khor and Mr Laurence Lien had emphasised that we have got to involve everyone, tap on every group, as everyone has something unique to offer to Singapore, something unique to offer others.

145. As Dr Lam Pin Min and Ms Tin Pei Ling have said, we have got to do more to build a resilient society; we are not quite there yet. We have got to do more to build pride and dignity in every job, no matter how humble.

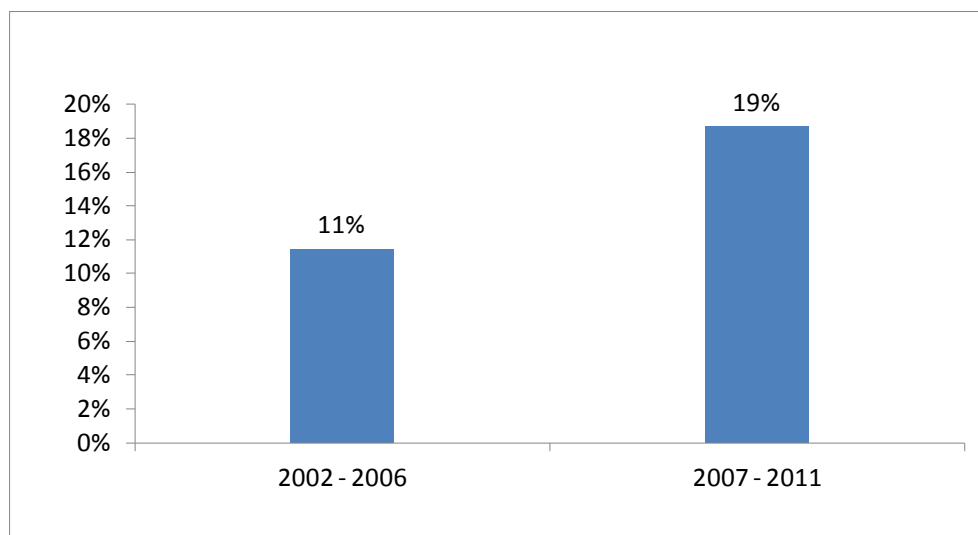
146. As Mr Seng Han Thong had said, we've got to make sure that all the Singaporeans like *Bao Pings* get the support that they need to live long and enjoy their lives.

147. As Ms Irene Ng pointed out yesterday, we've got to preserve a state of self-reliance. And as Dr Lim Wee Kiak pointed out, preserve a sense of filial piety and responsibility to the family that are also at risk of being lost over time.

148. And as Ms Janice Koh pointed out, building an inclusive society is also the role of –Singaporeans like our local artists, who help us to define what we are as Singaporeans, even as we become a global city.

149. So, it's about all of us, what we do daily, what we think of doing more of each year, what we will do with our fellow citizens to continue our journey towards being an inclusive society.

Transfers Net of Taxes¹: Low-income Households² (% of Household Income Per Member)



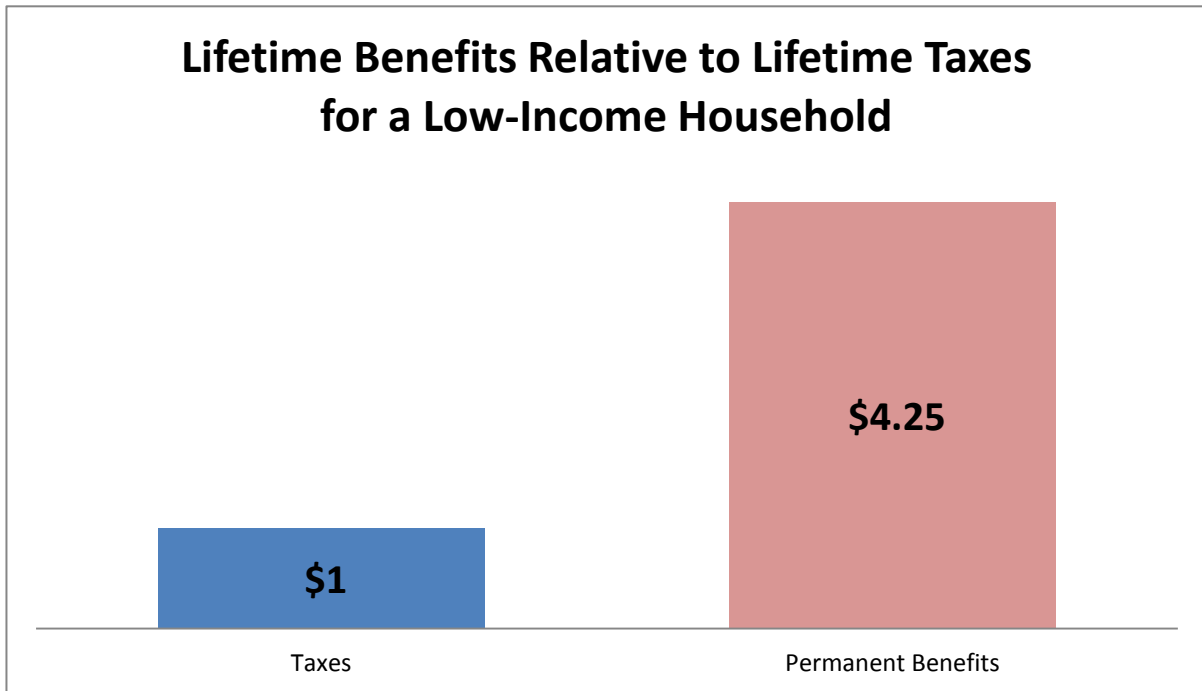
Source: MOF estimates

¹ Net transfers comprise Government transfers to Singaporean-headed households, net of all taxes paid.

² Low-income households refer to households in the 2nd decile.

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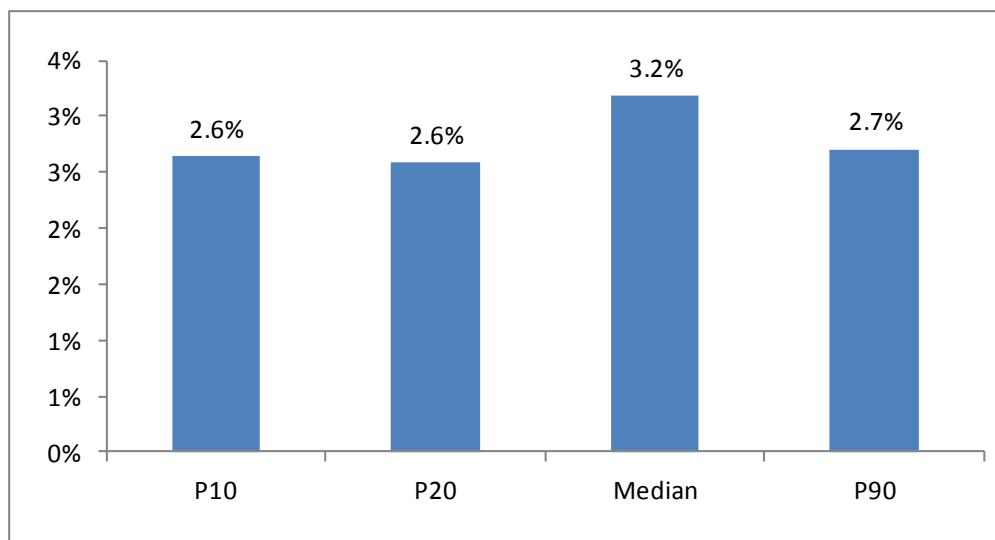
Lifetime Benefits Relative to Lifetime Taxes for a Low-Income Household



Source: MOF Estimates

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Annualised Real Growth of Singaporean Household Incomes Per Member, 2006-2011



Source: DOS, MOF estimates

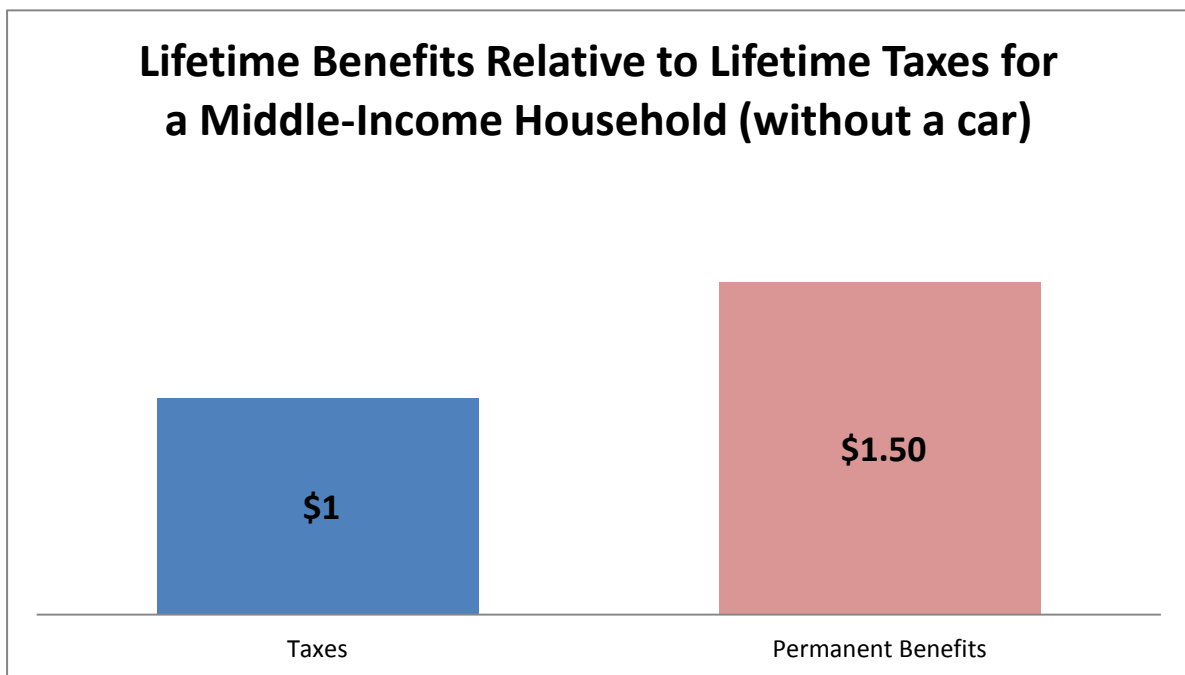
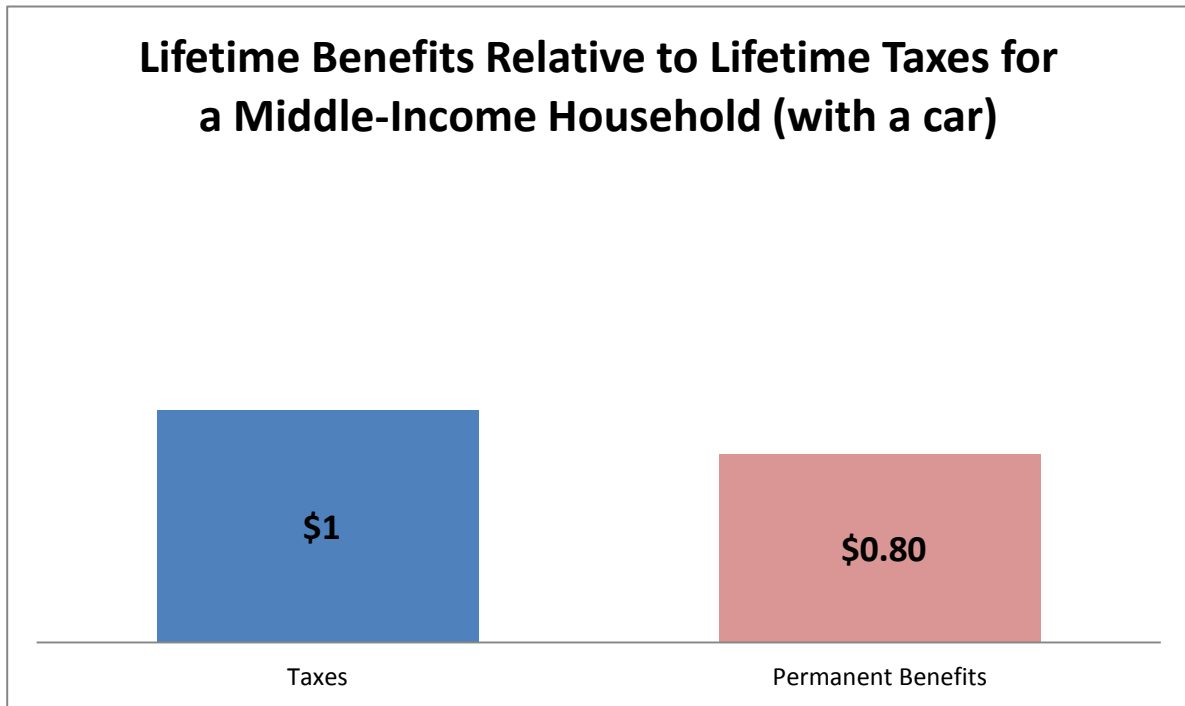
¹ Based on Singaporean-headed households with at least one employed person.

² Household income growth is based on household income (including employer CPF contributions) per member.

³ The CPI for the lowest 20% is used to compute the real changes for the 10th and 20th percentile (P10 and P20) households. Overall CPI is used for median and 90th percentile (P90) households.

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Lifetime Benefits Relative to Lifetime Taxes for a Middle-Income Household (with and without a car)



Source: MOF Estimates

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