

BUDGET 2008 DEBATE ROUND-UP SPEECH BY MINISTER FOR FINANCE, MR THARMAN SHANMUGARATNAM ON 27 FEBRUARY 2008

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1. Introduction

- 1.1. Mr Speaker Sir, I would like to thank all Members who have spoken and supported the Budget.
- 1.2. I will address the main issues of the Budget Debate in this round up speech. Members had also raised many specific questions related to the programmes of the various Ministries which will be addressed at the Committee of Supply sessions.
- 1.3. This Budget is about our future.
 - (a) It will develop our people and our enterprises - the key drivers of Singapore's long term competitiveness. It will create sustainable advantages for Singapore, through advanced education and training of our people and by spreading the practice of innovation across our economy.
 - (b) Ultimately, as Members have pointed out, growth must translate into a better life for Singaporeans. This Budget therefore is also about creating a stronger and more resilient community, one where every Singaporean has the best opportunity to move ahead, and where we help those most in need to keep up with the rest. It is about ensuring that as we grow, we will leave no one behind.
- 1.4. The Debate has thrown up issues that can be summarised in three broad questions:
 - (a) Is the Government taking too much and giving back too little?
 - (b) Are we doing the right things to sustain competitiveness?
 - (c) Are we doing the right things to help Singaporeans in need?

Finding the right balance – basic considerations behind the Budget

- 1.5. Before I address these questions, I would like to explain the three key considerations that have shaped this year's Budget:
 - (a) First, what should our overall balance be this year? Should our fiscal stance be expansionary, contractionary or neutral?
 - i. We have gone for a small overall deficit this year.

- ii. It is in fact a neutral position in terms of the impact of the Budget on the economy. If we exclude the Net Investment Income Contribution and our transfers to the endowment funds, which are items that have no immediate effect on the domestic economy, the expected budgetary balance is close to zero.
 - iii. This is an appropriate fiscal stance because we expect Singapore to see healthy economic growth of 4% to 6% this year. Singapore and Asia's fundamentals remain strong. Positive trends on the domestic front, such as a strong pipeline of manufacturing investments and construction projects will also keep the economy going. Our unemployment is at record low, and many jobs go unfilled.
 - iv. If we had an overheated economy, we should be going for a significant Government surplus this year. However the economy is not overheated, although specific segments of the economy, especially in the office space market, have been facing shortages and rapidly rising rentals.
 - v. If we were headed for a recession this year, we should be going for a larger deficit. On current indications, this is unlikely to be the case.
- (b) The second consideration is - what should be the balance between measures aimed at short term relief for rising costs and long term competitiveness?
- i. The Budget goes for a balance between providing short term benefits to Singaporeans and building up capabilities for longer term competitiveness and social resilience.
 - ii. This year, Singaporeans will receive \$2 billion worth of short-term benefits (comprising Growth Dividends, Personal Income Tax rebates and the GST offsets that were announced last year but continue to run this year). But we will also provide a roughly equal amount - \$2.2 billion - to build up longer term capabilities and help Singaporeans with future financial security (comprising the

PSEA top-ups, CPF Bonuses, Medisave top-ups and tax incentives for businesses¹).

- iii. On top of this, we are putting aside \$2.4 billion in the endowment funds and the National Research Fund to cater to longer term needs.
 - iv. This is the balance we have struck between meeting short term needs and keeping our eye focused on the much larger challenges that we face over the longer term - sustaining our economic competitiveness and our social compact.
- (c) The third consideration is, what is the right balance between benefits to households and businesses?
- i. In this Budget, we have provided more significant benefits to households. We know they are facing a challenge in the near term with the rising cost of living.
 - ii. By providing direct assistance now, we are preventing a spiral of wages and prices from developing, which will affect competitiveness and growth. It is in the interests of businesses that we do so.
 - iii. But we are also providing further incentives for businesses on top of last year's major moves. We made significant permanent cuts in corporate taxes for businesses last year, which they will start benefiting from this year in terms of significantly lower tax bills. Large companies and small.
- 1.6. It is not possible to do more for both the short term and the long term, and to give more to both households and businesses. If we did this, it would mean running a larger deficit, in other words an expansionary budget at a time when the economy is not in recession, when unemployment is very low and where costs are still rising. Doing so would only over-stimulate the economy, precisely what some Members have accused the Government of doing.
- 1.7. A balance has to be struck. This is how the Budget has been shaped – to strike the best balance between competing needs,

¹ This includes the Fixtures and Fittings Allowance, the R&D tax allowance, further tax deduction for R&D and R&D Incentive for Start-up Enterprises (RISE).

and doing what is best for Singapore, not just for one or two years, but for many years. We have put something aside for the future. Or as Dr Ong Seh Hong said, “putting aside grain for times of scarcity”.

- 1.8. Overall therefore, this Budget aims to provide the right balance for an economy which continues to enjoy good growth, but is exposed to significant global uncertainty in the year ahead.
- 1.9. While inflation is causing immediate concerns, because it erodes spending power, this is not a crisis. People have jobs. Our surplus sharing must be seen in this context. We are not in a crisis.
- 1.10. Nevertheless, the global economic outlook is less certain this year. The financial markets in US and Europe have been affected by the problem of sub-prime loans, now in fact a broader credit crunch, and there are worries of a recession in the US.
- 1.11. We have retained the flexibility of being able to respond if the economy takes a significant turn for the worse, which we do not presently expect.
- 1.12. I will now address the key questions that have been brought up in the Debate.

2. Is the Government taking too much and giving back too little?

Is the Government taking too much?

Reasons for the surplus

2.1. Many MPs have questioned the exceptionally large underestimate of last year's revenues. Were we too conservative?

(a) Our basic approach in the Budget is to use the best information available at the time. This is what we did last year, when we estimated at the start of the year that GDP growth for 2007 would be 4.5% to 6.5%. This was also in line with private sector forecasts.

(b) Likewise, for the property market which accounted for over \$3.5 billion extra revenues beyond what we had projected. I will go into some detail on stamp duties because several Members had raised the issue of why our stamp duties turned out to be grossly underestimated and also because it was the largest swing factor in last year's Budget.

i. [Chart 1] Mr Gautam Banerjee asked why we had expected stamp duty collections in 2007 to be lower than 2006. At the time of the Budget in February last year, we had estimated 2006 stamp duties to total \$1.5 billion. On the basis of information we had, we projected the same level of stamp duties in 2007. This was because 2006 was itself already an exceptional year. (In fact the subsequent data for FY2006 based on actual collections for January to March, (the data comes out after our Budget), which increased sharply, took the total stamp duty collections to \$2 billion, more than the \$1.5 billion estimated at the time of Budget).

ii. While we had assumed further price increases in 2007 for the property market, just as the private forecasters did, no one anticipated the surge in volumes of transactions that took place. There was also considerable uncertainty at the time of last year's Budget as to the extent to which the pick up that was taking place at the luxury end of the market would spread to the rest of the property market.

- iii. Our stamp duties projections for 2007 were nevertheless significantly above historical collections - more than double that of 2005.
 - iv. Even then we were wrong; stamp duties significantly exceeded expectations, especially because of the surge in transaction volumes. But should we have based the Budget last year on optimism that was unsubstantiated at the time? And should we now for this year's Budget be optimistically assuming the same volume of transactions as last year?
 - v. I think it would be quite imprudent for us to do so.
- 2.2. I agree fully with all the Members who urged us to improve our budget marksmanship. I can assure Members that we do not set 'soft targets' for ourselves, just so we can exceed them.
- (a) In fact over the past 10 years (FY1998 to FY2007), we have over-projected revenues for six years and under-projected revenues for four years. Last year we under-projected. But we are not inveterate conservatives in fiscal forecasting.
 - (b) However forecasting will remain inherently imprecise, especially because we are a city economy that is fully exposed to the swings in global economy and the vagaries of our own asset markets. So, as Dr Loo Choon Yong cautioned, we cannot expect too much prescience in the budget planning process.
 - i. Hong Kong too faces this challenge. It now expects to run a fiscal surplus exceeding HK\$116 billion (S\$21 billion) for last year, compared to an originally projected surplus of HK\$25.4 billion. Just to put this in perspective, they started the year expecting a surplus of 1.6% of GDP and they ended with a revised figure of 7.2% - in other words, they exceeded their original estimate by 5.6% of GDP.
 - ii. This is just like in our case, where the final budget outturn exceeded the original estimate by 3% of GDP.
 - (c) I should add that the Government is not alone in finding economic forecasting a challenge. Ms Sylvia Lim cited Citigroup's comments about the mistakes we had made in budgetary estimates last year. But Citigroup's own

projections of GDP growth at the time of the Budget last year were in fact the same as ours - 5.6%, which was midway between the Government's forecast of 4.5% to 6.5%. Some private forecasters did expect more rapid growth for last year, while others were more conservative.

- (d) However, the difference between Government and private forecasting of the economy is that we have to set out our plans for the whole country on the basis of our forecasts. This is why we have to try to use the most realistic assumptions when we set out our plans, rather than use the most optimistic assumptions, in the hope that they will come true. I am sure most Members would agree that this is the prudent and sensible thing to do.

Should we have raised the GST?

2.3. Many of you including Mr Inderjit Singh, Mr Low Thia Kiang, Mr Gautam Banerjee, Ms Eunice Olsen and Ms Sylvia Lim concluded from last year's large surplus that we made a mistake in raising GST.

2.4. Ms Sylvia Lim in particular said that we raised GST without compelling reasons, and that we could instead have relied on other revenues to fund our expenditures.

2.5. Let me explain why this would have been the wrong approach.

2.6. First, GST was not a revenue raising measure for 2007. GST was raised so that we could introduce the Workfare Income Supplement (WIS), a permanent scheme, not just one off, to help lower income Singaporeans. The GST increase also enabled us to reduce the Corporate Income Tax rate significantly – by 2 percentage points to 18%. Further, the GST increase was essential for putting in place a stronger revenue structure to fund the increased expenditures that we decided we have to undertake in the next five years and beyond:

- (a) These include substantially increased healthcare expenditures and investments in continuing education and training.
- (b) But it was not just our social expenditures that we were expanding, and which are being primarily funded by our GST, but much beyond that:

- i. Infrastructural investments - the next eight years of spending in this area will be three times more than the past five years;
 - ii. R&D;
 - iii. Housing rejuvenation;
 - iv. Refreshing our downtown;
 - v. And further reductions in income taxes to stay competitive, should they become necessary.
- (c) Our GST increase, together with the planned revisions in the rules for drawing on Net Investment Income will provide the revenues for us to make these investments in our future.
- 2.7. Second, for 2007 itself, the GST increase was revenue neutral and had no impact on our surplus position.
- i. Total collection from the additional 2% GST amounted to around \$1.4 billion.
 - ii. This was in fact equal to the GST offsets plus the WIS which we paid out in FY2007 alone (this is not counting future years of GST offsets and WIS).
- 2.8. Third, by introducing the GST increase at a time when economic growth is healthy and our revenue position still strong, we were able to fully offset its impact on the cost of living for most Singaporeans.
- (a) In fact lower and middle income Singaporeans have received significant net benefits as a result of the GST increase last year. This is because they pay only a small portion of the GST, but receive the bulk of the GST offsets.
- i. The bottom 20% of resident households paid only 5% of the total GST collected. The next 20% (in other words from the 20th to the 40th percentiles) paid 7%, and the subsequent 20% (in other words from the 40th to the 60th percentiles) paid 10%.
 - ii. Adding up, this means that the bottom 60% of all resident households contributed less than 25% of total GST collected.

- iii. This is because upper income Singaporeans, as well as tourists and foreigners, account for the bulk of our GST collections.
- (b) Let us now look at what Singaporean households are getting back.
- i. [Chart 2] The chart plots the additional GST paid by each of the household quintiles (in dollar terms) against what they have received in FY07 from the GST Offset package and WIS.
 - ii. As you can see, households in the bottom 60% are getting back much more in terms of offsets than additional GST paid.
 - iii. For the bottom 20% especially, it is quite significant. In 2007 alone, the GST offset package plus WIS is five times more than the GST they paid.
- 2.9. Fourth, given that the GST increase was an essential part of our strategy for funding future expenditures, it would have been quite unwise for us to wait until we have run out of revenues before raising the GST.
- (a) The last thing we should do is to wait until there is an economic downturn, households are facing financial difficulties, and the Government is facing declining revenues before we raise the GST, because then we would be unable to provide a full offset for Singaporeans.
 - (b) We should never try to game this – to wait until the last minute to raise revenues, or to roll back the GST increase now because we had a good year of surpluses, in the hope that we can raise it again later - as suggested by both Mr Gautam Banerjee and Dr Loo Choon Yong. We could do that if Singaporeans were simply shareholders in Singapore Inc. But they are citizens, and the Government's job is to anticipate their future needs, put in place the finances that allow us to meet these needs and help Singaporeans with the changes that are necessary by providing them offsets to help them adjust.
- 2.10. Internationally too, the trend continues, of moving away from direct taxes on income to indirect taxes on consumption.

- (a) Even in Hong Kong, which today enjoys very strong revenues, professionals and the serious money know that the GST would eventually be necessary in order to sustain their revenues and make the investments they need for the future. Hong Kong's strong surpluses today are largely due to buoyant stamp duty and land sales collections.
- (b) As the Hong Kong Financial Secretary stated in his Budget speech this morning, "revenues from land premium and stamp duties together will account for about one-third of total government revenue for 2007- 08. This is the highest contribution that these relatively less stable revenue sources have made to total government income since 1997 – 98."

2.11. To sum up, we made the right decision to raise the GST last year and put in place a strong and stable revenue position for the future. We introduced it at a time of good economic growth, although no one expected growth to be as strong as it eventually was. Doing so allowed us to provide substantial offsets to lower and middle income Singaporeans, and to put in place the WIS as a long-term programme of income support for our low-wage workers. The 2% increase in GST also did not contribute to the fiscal surplus in 2007.

Is the Government giving back too little?

2.12. Let me now examine the question of whether the Government is giving back too little.

Transfers are too small compared to our surplus

2.13. Mr Seng Han Thong said that the amounts we are giving out this year are significant. However several MPs referred to feedback that this year's surplus sharing package (at \$1.8 billion) is small compared to our surplus of \$6.4 billion last year. Couldn't we have afforded to give more, for example, through S&CC rebates and property tax rebates as Mr Inderjit Singh suggested?

- (a) First to clarify, the special benefits that we are providing to households through this year's Budget amount to \$2.8 billion. This is because, in addition to the \$1.8 billion that comprises this year's surplus sharing package, we will in fact be giving \$1 billion of benefits that were previously announced as part of the GST Offset Package.

- (b) Second, it is useful to put in perspective the \$6.4 billion estimated surplus for 2007. It is in fact not large by historical standards, relative to the size of the economy.
 - i. [Chart 3] The surplus is a turnaround from the deficits we have been running in recent years. But at 2.7% of GDP, it is in fact not large compared to the budget surpluses we were running in the 1990s.
 - ii. There is no assurance that we will continue to run significant surpluses and we do not expect to.
- (c) This is why while we have provided a substantial package of benefits in the \$2.8 billion that we are providing to households this year, we are also setting aside resources for the endowment funds that are dedicated to the long term social expenditures that are necessary for Singapore and for R&D.
 - i. By doing so, we are ensuring that long-term needs such as Medifund, Eldercare and continuing education obtain a secure stream of funding, independent of the ups and downs of the economic cycle.

2.14. In total therefore, when we take into account the amounts set aside for endowment fund top-ups, as well as for surplus sharing, we will be spending \$5.4 billion.

- (a) This is a large sum we are putting aside to meet the needs of Singaporeans, both for the immediate term as well as for the future.

3. Are we doing the right things to sustain competitiveness?

Rising Business Costs

- 3.1. Many MPs, including Mr Inderjit Singh, Ms Jessica Tan, Mr Gautam Banerjee, Mr Michael Palmer, Ms Penny Low and Mr Edwin Khew have spoken up for local businesses and SMEs. They were concerned that this Budget has not done enough for them.
- 3.2. Local costs are rising because the economy is doing well and there is increased competition for resources, especially labour and industrial and office space.
- 3.3. Mr Inderjit Singh attributed this to what he said was the Government's 'grow-at-all-costs' policy, which he says had overheated the economy and has been the cause of our inflation in business costs and prices of consumer goods including even food. In other words, the problems faced by businesses and households are the result of a flawed growth policy.
- 3.4. It made for very entertaining listening, but it was in fact Inderjit's analysis that is flawed.
- 3.5. The Government has not pursued a 'grow-at-all-costs policy' as Mr Inderjit Singh suggested. We 'went for growth' not by overstimulating the economy with fiscal spending (because our budgets have been fairly balanced, and indeed in surplus last year as some Members have complained), but by making Singapore more competitive by building up our capabilities, keeping taxes competitive and investing in infrastructure.
 - (a) Our whole approach has been to enable our people and businesses, as both Mdm Lee Bee Wah and Mrs Josephine Teo have pointed out, so that we can take advantage of opportunities for growth when external conditions are good.
 - (b) This is why, for example, we cut corporate taxes last year, which Mr Inderjit Singh in fact strongly supported - although we did not cut Personal Income Taxes, which he had called for and continues to call for now. We wanted to provide the best conditions for our enterprises to seize opportunities and grow, not just for one or two years, but over the long term.

- (c) We know that growth will be volatile – strong in some years and weak or even recessionary in other years. We cannot avoid these cycles because it is part and parcel of being a global city. But we have to take advantage of the opportunities when external conditions are favourable so that the good years can offset the down years when the global cycle turns. This is how we assure Singapore of healthy long term growth through good years and bad.
- 3.6. Our economy has grown at an average 5% over the past 10 years. But this is only because we grew rapidly in the last four years, by close to 8% on average. If we had not had this strong growth in recent years, we would not have made up for the very weak growth in earlier years and would in fact have performed below the economy's potential over the last 10 years.
- 3.7. There is another reason why we should be prepared to take the opportunities when they come.
- (a) The significant opportunities come in cycles – chemical crackers, once every seven to eight years. When they are ready to invest, and we say no, they go elsewhere. If we miss them, we miss the whole cycle.
 - (b) And we lose not just one investment. We lose the whole cluster – the critical mass necessary for the industry to be in Singapore.
 - (c) We could have rejected leading manufacturing investors or turned away financial sector players when they wanted to expand in Singapore, in the name of avoiding rapid growth. Would Singapore today have been better off if we had done so? Would food be more affordable? I am sure most Members would agree that Singaporeans would be worse off today if we had adopted that path.
- 3.8. Mr Inderjit Singh had in fact claimed that our growth policies had led to lower income Singaporeans being worse-off. This is plainly wrong. It is precisely the rapid growth that we have seen in the last few years that has turned things around for our low income households and allowed them to enjoy positive growth in real incomes after the very difficult period they went through in the earlier part of this decade.

- 3.9. In the last two years, our strong economic growth has increased the number of employed persons amongst lower income households. And as Ms Cham Hui Fong pointed out, 2007 was also a good year for low wage workers because we had the lowest retrenchments since 1994.
- (a) This is why the bottom 20% of (non-retiree) households saw their incomes grow by 5% in 2007 in real terms (over 7% in nominal terms).
 - (b) This is before taking into account the substantial Government transfers to the lower income group which has further boosted their incomes.
- 3.10. Our SMEs too have been better off because Singapore has grown well in the last few years. Many of them are involved in the domestic market rather than exports and their businesses have picked up because of the strong growth in Singaporeans' incomes. Costs are higher, but so is the overall demand for goods and services.
- 3.11. Our approach therefore, is to provide the conditions for Singaporeans and our companies to succeed and to grow over the long term. We will help our companies to move up the value chain so that they are more competitive in a higher cost environment, and help our people to acquire the skills and competencies they need to earn a good living.
- 3.12. In the short term, however, we address the bottlenecks.
- 3.13. The key constraints that we face today are that of labour and space.
- 3.14. To ease pressures on the tight labour market which MPs like Ms Penny Low and Mdm Lee Bee Wah have asked about, the Government has allowed more flexible access to foreign manpower:
- (a) MOM has increased the quota for mid-skilled foreign manpower (S pass holders) from 15% to 25% in January 2008.
 - (b) The Dependency Ratios (the number of foreign workers companies can hire for every local worker) have been raised

for the manufacturing, services, construction, process and marine sectors from January this year.

- (c) Office space, on the other hand, has seen a serious shortage – much of it due to the rapid expansion in the financial sector in 2007, when it grew by 17%. Businesses have found rapid rises in rentals unsettling. I have set out in the Budget the measures the Government is taking to address the temporary shortages in office space until the large supply of new office space comes on-stream in 2010.
- (d) Industrial rentals too have risen significantly. Since the resumption of the industrial Government Land Sales programme in 2003, MTI has been putting out an orderly release of industrial land, which will result in a significant supply coming on stream in the next year or so. This will be close to twice the quantum of industrial space added in the last two years, and is expected to ease tight occupancy rates and relieve pressure on rentals.

Land Sales Policy

3.15. Mr Inderjit Singh suggested that the Government was responsible for driving up property prices because we have had a land sale policy that has sought to time the release of land to get the best price for Government, instead of providing a steady long term release of land.

3.16. Our land sales policy has been a responsible one that is market-led. We ensure that enough supply is made available to meet basic demand through the Confirmed List, and let the market decide whether it wants to develop more sites through the Reserve List. No one anticipated the strong surge in demand for office space in the last two years coming right after the 2002-2004 period, when market conditions were very weak. In fact, some owners were converting their office space to other uses then².

- (a) Mr Inderjit Singh said that the Marina Bay Business and Financial Centre (BFC) could have been released for development two years earlier. I think everyone in town would like to take this view with the benefit of hindsight. But let me remind Members that when the Government was actively planning the sale of the BFC site in 2003, the

² Between 2001 and 2004, there was a net conversion of around 120,000 sqm of office space to other uses

feedback from the industry was very negative. Nevertheless, the Government went ahead to make the site available for sale on the Reserve List in 2004. The site was eventually sold in 2005, after much marketing.

3.17. Mr Inderjit Singh and Ms Jessica Tan also suggested that we give rebates to businesses to address their short term cost pressures.

- (a) We had indeed done so back in the past, such as 1999, 2001 and 2002.
- (b) That was however in response to economic downturns rather than problems caused by strong economic growth. Businesses then were suffering because of weak demand rather than rising costs.
- (c) Today's situation is very different. The economy is expanding.
 - i. Providing rebates would not solve the imbalance of supply and demand, which is the source of the problem. In fact, it might even accentuate the problem.
 - ii. In an environment of strong demand for rental space, it is quite possible that the outcome of Government giving tax rebates on rental costs will drive prices up further, because it would stimulate demand for rental space without adding to the supply of space.
 - iii. The real solution is to relieve the bottleneck in supply, which is what the Government has been seeking to do.

3.18. MTI will also be addressing the issue of rising business costs and supply constraints at their COS.

Providing an Attractive Tax Environment

3.19. We will continue to ensure that Singapore remains the best place for businesses to start, grow and mature.

3.20. We have provided an attractive tax regime for all our companies, having made decisive moves in last year's Budget when we reduced the Corporate Income Tax rate from 20% to 18%, and enhanced the Partial Tax Exemption scheme to benefit SMEs.

- 3.21. This year's further tax moves to promote productivity and innovation will complement the reduction in headline rates that we announced last year.
- (a) The Fixture and Fittings Allowance together with the R&D incentives will cost us a total of \$380 million every year. Of this, about \$150 million will go to SMEs – much more than Mr Inderjit Singh's estimate of about \$50 million. This is on top of the \$160 million that SMEs will benefit from the CIT rate cut and partial tax exemption changes that were announced last year, which will take effect this year. So that makes a total of \$310 million for SMEs.
- 3.22. [Chart 4] These incentives will make Singapore one of the most compelling locations for companies to start, grow their companies, and engage in R&D activities. A company with about \$1 million of profits – in other words, still an SME – and which spends 1.5% of its turnover on R&D in Singapore would have an effective tax rate of about 6%. This is comparable to that in Ireland despite their much lower headline tax rates, and much lower than that in Hong Kong.
- 3.23. This is our focus – we will provide a conducive and attractive tax environment for companies to build sustainable competitive advantages through innovation.
- 3.24. But it will take time. As Mr Zaqy Mohamad, Mr Ong Kian Min, Dr Amy Khor and Ms Denise Phua have pointed out, we will have to nurture an entire culture of innovation, especially among our smaller companies. There is a lot of work ahead in spreading the message amongst all our companies and helping them to take advantage of the incentives we have provided.
- 3.25. They do not have to be in the high-tech sector. Mr Gautam Banerjee had asked about this. The definition of R&D that we currently adopt for corporate tax purposes is in fact a broad one, and is consistent with that in countries such as UK and Ireland.

Providing the Best Workforce

- 3.26. We are committed to providing the best workforce, this is why companies will continue to invest here, establish themselves here.

CET - Learning at all levels

- 3.27. Many Members such as Dr Lily Neo, Mr Ong Kian Min, Mdm Ho Geok Choo, Mr Heng Chee How, Mrs Josephine Teo, Mr Zainudin Nordin, and Mr Yeo Guat Kwang have strongly supported our investments in retraining and CET.
- 3.28. Mdm Halimah Yacob asked if we can consider opening individual learning accounts (ILA) to mitigate financial barriers that individuals might face in pursuing adult learning. Dr Teo Ho Pin also asked for incentives for education institutes and training allowances to encourage lifelong learning.
- (a) Adult training is already heavily subsidised. Workers who attend re-training continue to receive subsidies of up to 80% of course fees (for older workers, 90%). This is regardless of whether they attend courses by themselves or are sent by their companies. This year the Government has made it easier for individuals to obtain tax relief for the cost of re-training and has also agreed to fund up to 40% for part-time degree programmes.
 - (b) The ILA concept is an interesting one which we will study. Our survey of ILA schemes overseas has shown that there are problems of abuse and workers who end up experiencing poor quality programs. We will need to study carefully the issues and potential in introducing an ILA scheme.
 - (c) In the meantime, our focus is centred on building capacity, further developing the Workforce Skills Qualifications (WSQ) certification framework and improving the quality and span of CET programmes as a whole.

Sustainable Development

- 3.29. Many MPs like Ms Jessica Tan, Mr Gautam Banarjee, Ms Penny Low, Dr Lim Wee Kiak, Dr Teo Ho Pin and Mr Edwin Khew, were disappointed that we did not announce more incentives to promote green business practices.
- 3.30. They are right that the Budget delivered no new initiatives on this important issue. However, we are addressing the whole framework of sustainable development comprehensively.
- (a) This is why the Government has set up two Inter-Ministerial Committees, one on Climate Change chaired by DPM Jayakumar and another on Sustainable Development co-

chaired by Minister Mah and Minister Yaacob, which will be looking at our domestic strategies.

- (b) Minister Mah and Minister Yaacob will be elaborating on the issue of Sustainable Development during the MND and MEWR COS sessions.

3.31. We are embarking on a comprehensive study of the measures we should take to support environmentally friendly development. We want to look at this holistically, and avoid rushing into schemes that would increase costs for businesses and consumers without real impact on the environment.

- (a) Our strategy has always been to focus on areas where we can make practical, effective, and impactful contributions. With this approach, we have managed to achieve good economic growth, while sustaining a high quality environment.
- (b) We are a small player, contributing very little to global emissions. But we want to play a meaningful role where we can.

3.32. However, we are not starting from scratch. Singapore is today widely recognised as a clean and green city. Indeed, as Mr Kevin Hydes, Chairman of the World Green Building Council has noted recently, on a per capita basis, Singapore probably has one of the highest incentives to encourage green buildings³. We are also developing a cluster of world class players and R&D capabilities in the green industries.

3.33. Mr Edwin Khew also noted that we were already in the lead in environmental initiatives but he wanted to make sure that we did not lose the momentum of what had been started. I can assure him and Dr Teo Ho Pin and the others that spoke about this that the Government will not be complacent on this issue.

3.34. This year, we will be taking a few further steps to encourage energy efficiency. MEWR and MTI will elaborate a bit more on these areas during their COSes.

³ The Business Times, 23 February 2008

4. Are we doing the right things to help Singaporeans in need?

4.1. The third broad question that has come up in the Debate – how do we ensure that we are doing the right things to help Singaporeans, especially those in need?

Cost of Living for Households

4.2. Despite the good growth, there are still many Singaporeans who are struggling to make ends meet. Many of you such as Dr Teo Ho Pin, Ms Ellen Lee, Mr Ong Ah Heng, Mdm Cynthia Phua, Mr Zainudin Nordin, Ms Indranee Rajah and Dr Mohd Maliki Osman spoke passionately about the less privileged groups, particularly:

- (a) Lower income groups who are fearful that the growth in their wages will not keep pace with inflation;
- (b) The sandwiched middle class who often have dependents, both young and elderly;
- (c) The elderly retired and the disabled, who have no regular source of income.

4.3. I agree that we should be concerned about each of these groups. Our whole approach has been designed to help these Singaporeans in a sustainable way.

Increases in the headline inflation rate

4.4. You have all seen the latest January CPI numbers, which show inflation at 6.6% compared to January 2007.

4.5. MTI has explained the reasons for this increase, which largely have to do with the unusually low level of prices in January last year. (In particular, there were one-off factors such as the S&CC rebate that was given in January last year, but not in January this year. The schedule for S&CC rebates has been changed so that the rebate was given in December 2007 instead. Fuel prices were also at a two-and-a-half year low in January last year).

4.6. The Government's forecast of inflation remains at 4.5% to 5.5% this year. As I mentioned in the Budget Speech, we expect inflation in the first half of the year to be higher before declining in

the second half of the year, due to the wearing off of one-off factors such as the GST increase.

Helping households

4.7. As I explained in the Budget Speech however, we cannot avoid global inflation, but we are mitigating its effects.

- (a) Our efforts to diversify our food sources and our policy on the Singapore dollar exchange rate have helped mitigate the effects of inflation. Dr Teo Ho Pin and Mr Liang Eng Hwa have supported this move to diversify our food sources to build resilience of our food supply and encourage competition among suppliers.

4.8. We are also helping Singaporeans directly.

- (a) First, by helping them own their homes, which provides a large hedge against inflation.

- i. This is why as we have explained before, although the revision in the Annual Value of homes has raised the CPI number, it has no impact on most Singaporeans. The 95% of Singaporeans who own their homes are not affected by inflation in the rental market, which is especially worrisome if you are a retiree household.

- ii. In fact, the AV revision simply recognises the fact that HDB flats have become more valuable. It does not mean that homeowners are worse off.

- (b) Second, by helping needy Singaporeans directly. Because we had a large surplus last year, we have been able to provide a substantial package of benefits directly to Singapore households. It will in fact exceed the cost of living increases that most lower and middle income households will experience.

- i. [Chart 5] I will show three examples that describe typical households. The first example shows a 2-room HDB household comprising a retiree elderly couple. The total amount that 2-room retiree households spent last year would have been about \$980 per month on average, or \$11,900 per year. This year, their total spending could go up by about \$650 for the year because of inflation (this

assumes the top end of the forecasted inflation range of 4.5% to 5.5%). However they will get around \$3,100 in benefits from this year's surplus sharing package and the GST offsets that they continue to get – more than four times their increase in cost of living.

- ii. The second example is a typical 4-room household - a couple with two children, one in secondary school and the other in Polytechnic. Their total increase in expenditure due to inflation in 2008 is about \$2,200, and they will receive around \$4,100 in benefits from the 2008 transfers – almost twice their cost of living increase.
- iii. The third example is a 5-room household – a family with two children (one in primary and one in secondary school) and one grandparent. Their total expenditure arising from inflation in 2008 is about \$3,100, and they will receive around \$4,400 in benefits from the 2008 transfers – more than their cost of living increase.
- iv. These illustrations, I have to emphasize, are before taking into account the increased wages that working households would experience in a growing economy.
- v. The Government's package of measures has therefore helped to offset the impact of higher prices on most households. This will have to be taken into account by the National Wage Council (NWC) when it considers its recommendations later this year. It will not be in the interest of either businesses or households if we end up with a spiral of wages and inflation chasing each other.

4.9. The inflation resulting from higher food and energy prices means we are indeed seeing some impact on the living standards of consumers, and on the profit margins of companies.

4.10. But as Dr Lim Wee Kiak pointed out, the only real solution is to raise our productivity. Mr Yeo Guat Kwang also said that the only lasting way to help low income Singaporeans cope with rising costs is to improve their employment prospects through training. If we try to remedy the problem caused by inflation by pushing up wages to catch up, or by companies pushing up prices to maintain profits, we will end up chasing our tail. The only reliable and sustainable way to address this problem is for both workers and

companies to improve productivity, so as to justify a higher standard of living for ourselves.

4.11. Let me now move on to other suggestions from Members on how we could mitigate the impact of inflation.

Zero-rating GST on essentials

4.12. Mr Inderjit Singh and Ms Sylvia Lim had asked if we could exempt GST on certain essential items to help the lower income group. I had explained fully in last year's Budget Debate why this is not a good idea, especially not for lower-income Singaporeans. It is still not a good idea today.

- (a) The argument to zero rate essentials has always had great emotional appeal. As Mr Inderjit Singh pointed out, lower income groups spend a higher percentage of their incomes on essentials compared the higher income groups.
- (b) There are two reasons why exempting essentials from GST is not an effective way of helping the lower income groups:
 - i. First, most of GST revenue collected on essentials comes from the higher income households and foreigners. They contribute the bulk of GST on essentials, just as they do for all other types of expenditure.
 - ii. Second, the bulk of consumption by the lower income is not on essential items, but on other items. As I showed in the Budget Debate last year, the 8 most commonly cited essential items make up only 5% of the expenditures of the bottom 20% of households. Even if we take all uncooked food into account, it is only one-eighth of the expenditures of a typical household in the bottom 20% of the income ladder. And if we add their spending on public transport and utilities, the total comes to around one-quarter of their expenditures.
- (c) Therefore, it is far better for the lower income groups that we help them directly in a targeted manner and allow them to decide on how best to use the assistance we provide for their household expenditures. Exempting GST on essentials will benefit mainly richer Singaporeans and foreigners and leave less to be provided to lower income households.

- (d) Exempting certain items from GST is also not cost free. It will mean the need to impose higher GST rates on other items over time, in order for the GST to generate the same amount of revenues as before. This is in fact what has happened in several other countries which have exempted essentials from GST. It will affect Singaporeans across the board if we were to do that, including those in the lower income groups.
- (e) In sum, it is far better that we provide help to lower-income Singaporeans directly, so that we can target the assistance and provide help in much larger quantum.

Government fee freeze

- 4.13. Mr Inderjit Singh and Mr Michael Palmer gave a long list of price hikes Singaporeans have faced on the ground. Inderjit Singh says many were factors that Government should have watched and prevented, including even prices of certain non-government entities. I notice their lists were remarkably similar to a blog posting that has been making its rounds for quite a while now.
- 4.14. First, let me clarify that taken as a whole, Government taxes, fees and charges, other than GST itself, contributed only 0.1 percentage points to the 2007 CPI inflation of 2.1%. If we look at the January 2008 numbers, the Government related contribution (excluding the GST increase) was also about 0.1 percentage points out of the total CPI inflation of 6.6%⁴.
- (a) We announced a one year freeze on Government fees starting from July last year when the GST was raised.
 - (b) We have decided to extend the Government fee freeze till end of 2008 to provide further reassurance to Singaporeans, at a time of rising prices.
 - (c) This will include fees charged on all Government provided services (for example school fees, ITE and Polytechnic fees, charges in public carparks, and all license fees).
 - (d) Regulatory charges, such as those in the transport sector and the development charges applied in the property market

⁴ It does not include taxi fares, bus fares and MRT fares which are charged by private companies, not the Government. The latter contributed 0.15 percentage points to 2007 average inflation and 0.5 percentage points to January 2008 inflation. Electricity and gas tariffs which were also not included above contributed negative 0.1 percentage points to the 2007 average inflation and positive 0.3 percentage points to the January 2008 inflation.

will not be frozen. They must continue to serve the purpose of regulating demand. (For example, the increase in ERP charges which has to be seen together with the decreases in road taxes and Additional Registration Fees that comprise part of the Land Transport Review).

4.15. The Government fee freeze has not applied to fees charged by non-government entities, such as the universities, restructured hospitals and town councils. These entities have to make their own decisions on whether or not they will raise fees. I would however urge the town councils to consider holding their S&CC charges unchanged this year.

(a) In the case of the universities, fee increases have been announced, but they apply only to first year students in 2008. They will face a once off 4% increase in fees this year, with no subsequent increase over their next three years in university. So, the once-off 4% increase works out to only 1.6% a year.

(b) However, while we have to allow our universities to raise fees from time to time, so that they can cover their cost and raise their quality, What the Government is doing is extending further support to lower as well as middle income students.

(c) Members have lent their strong support to this move. Dr Ong Seh Hong had also asked why the new MOE bursaries for polytechnics only applied up to the 50th percentile of household incomes, whereas the university bursary was being extended to the 66th percentile.

i. The reason is because polytechnic fees are already much more heavily subsidised by the Government. Polytechnic students therefore pay relatively low fees of \$2,100 per year, which are about a third of the fees that university students pay. Moreover, polytechnic students up to the 80th percentile are also able to take loans.

4.16. We are extending the Government fee freeze for the whole of this year. However we cannot do so indefinitely. We should not change our basic practice of charging realistic fees so we are not faced with ever increasing subsidies on public services.

- (a) This is the only way we can provide the quality services that people want, whether in healthcare or other areas.
- (b) If fees are not priced realistically, someone else will have to end up paying for the cost; which means taxpayers in general. Not only that, but there will be over-consumption of public services that are provided either for free, or on a highly subsidised basis. This is what has happened in many developed countries and is why they end up with extraordinarily high taxes to compensate.
 - i. This is the case in the Nordic countries, for example, where education and healthcare are free. Denmark's top marginal personal tax rate is 59% and their VAT (which is their GST) is 25%.
- (c) Our practice of charging realistic fees on public services is what allows Singapore to keep our total taxes, fees and other charges collected from the population, at one of the lowest levels in the world [Chart 6].
- (d) Our approach is working well – a low overall tax burden, realistic fees that only users of the public services pay, plus financial assistance targeted at the poor. This is how we will continue to provide the quality services in health, education and other areas that matter to Singaporeans, including our lower income Singaporeans.

Addressing the Needs of All Singaporeans

Disabled

4.17. Several MPs have also made points about groups they feel deserve more attention, especially the disabled and women. Let me deal briefly with each of these in turn.

4.18. Dr Ahmad Magad, Ms Denise Phua and Dr Teo Ho Pin are concerned with how we are helping the disabled.

- (a) MCYS will be addressing this more fully in its COS. Let me however say from a budgetary perspective that we are substantially increasing our spending to provide better support for the disabled.

- i. Between FY2007 and FY2011, Government expects to spend up to \$0.9 billion on disability programmes such as funding on special education (SPED) schools as well as SPED classes in mainstream schools. This also includes various MCYS programmes for the disabled. This is double what we spent in the previous five years
- (b) On top of this, MND and MOT will be spending about \$200 million over the next five years on barrier-free access – in our public housing estates and in public transport – and to encourage private building owners to retrofit their buildings with basic accessibility features for the disabled.

L-Bonus

- 4.19. Several Members like Dr Lim Wee Kiak, Mr Ang Mong Seng, Dr Amy Khor, Mdm Cynthia Phua, Professor Kalyani, Mr Yeo Guat Kwang and Mdm Halimah Yacob have highlighted the special challenges facing women, especially housewives who do not have much in their CPF accounts and who face the prospect of outliving their husbands. We agree this is an important issue which everyone should address.
- 4.20. Housewives were one of the reasons why we decided to offer the L-Bonus to those who wish to participate in the CPF-LIFE scheme but who have less than \$40,000 in their Minimum Sum. Dr Amy Khor had asked about what contributions this group of CPF members would have to make in order to receive the L-Bonus.
 - (a) We will extend the full L-Bonus to those whose balances are below \$40,000, as long as they have at least \$20,000 in their Minimum Sum. As they have smaller balances, however, they must be prepared to receive lower monthly payouts than those with \$40,000 or more would receive.
 - (b) We will also offer the L-Bonus to those whose balances fall below \$20,000, but on a pro-rated basis, if they wish to participate in LIFE. If they top-up their accounts to \$20,000, they will be able to qualify for the full L-Bonus.
 - (c) The L-Bonus will therefore provide strong incentive for husbands, children and other family members to top-up the accounts of our housewives. It applies across all income groups. And this is also why we have also enhanced the tax relief given to those who top up their family members'

accounts so as to encourage those with middle incomes and above to do so.

- (d) But the L-Bonus is not itself the solution to the problem of low balances of housewives. I think Members will agree that government's role should not be to substitute for the responsibility of husbands and children to provide for their wives and mothers.
- (e) The topping-up of housewives' accounts will require concerted effort in education and persuasion. NTUC is already moving. As Mdm Halimah said, it has embarked on a program specifically aimed at encouraging husbands to top-up their wives' accounts.
- (f) Nevertheless, there will be some CPF members who have low balances and limited family support. The CPF-LIFE scheme may not be the best way to help them if they have trouble meeting even immediate retirement needs. We will have to find other ways of helping them.
- (g) The Lease Buyback Scheme, which will enable elderly people to monetise their HDB flats to provide them with more retirement income, will be a significant measure for the low income aged. Minister Mah will be addressing this more fully during the MND COS.
- (h) Minister Ng Eng Hen will be addressing comprehensively the issues Members have raised with regard to CPF-LIFE during the MOM COS.

Design of surplus sharing system

4.21. There have also been suggestions on how we can improve on the way we share our surpluses.

4.22. Ms Jessica Tan, Mr Ong Kian Min and Mdm Halimah Yacob suggested using other means of approximating wealth so that we do not penalise needy families living in bigger HDB flats, or in a few instances, in private property. One suggestion was to look at the number of dependents living in the household.

- (a) I agree that home type is only a proxy for the household's wealth and it is an imperfect proxy. But it will be both difficult and extremely intrusive to design a national scheme that

takes into consideration the profile of needs of every household.

- (b) In practice, however, families with more dependents do get more benefits. This is because of the PSEA we have given to young Singaporeans, as well as the additional Growth Dividends and Medisave top-ups that we have given to older Singaporeans.
- (c) There will however be cases of families who do not qualify under the criteria but who are truly in need. This is why we have provided additional funds to the CCCs and CDCs, self-help groups and the VWOs. They are in the best position to assess the needs of such families in detail.
- (d) This is a fair and workable approach - to apply simple, consistent criteria at the national level, but provide targeted assistance at the local level for those who need more help.

Addressing the Widening Income Gap

- 4.23. Let me now address the challenge of a widening income distribution which many Members, including Dr Lily Neo and Mr Zainudin Nordin, have spoken about.
- 4.24. As set out in both last year's Budget and this year's Budget, this has to be a key concern for Singapore. As Dr Lily Neo puts it, if those at the bottom end of the income ladder stagnate, or see declining living standards, Singapore's social compact will be at risk.
- 4.25. This is why we have embarked on major new initiatives in the last two years to help our lower income workers with their income, their savings, their job prospects and the upgrading of their skills.
- 4.26. Workfare is a major addition to our social security system - it will give those at the lower end of the workforce a strong incentive to find a job, stay employed and save for their future. But as Ms Cham Hui Fong pointed out, Workfare should not be the end game for any worker. Our objective should be to help our low wage workers up-skill and graduate out of WIS.
- 4.27. Several MPs, including Mdm Halimah Yacob, Mr Christopher De Souza and Mr Zainul Abidin Rasheed had suggestions on how to improve the Workfare scheme, including broadening its reach

amongst informal workers. Mr Inderjit Singh also suggested raising the WIS ceiling and increasing the quantum of payouts.

- (a) WIS is a new scheme - the first payments were only made in January this year. We should not be changing the basic parameters so quickly. The current ceiling of \$1,500 captures the bottom 30% of the working population. In fact, the scheme was targeted at the bottom 20%, but was extended up to 30% so that there would not be a sudden fall off in benefits for those at the margin.
- (b) We will need more time to see how well the scheme is working and whether it should be refined. We have committed to review the scheme by 2010.
- (c) I should add that Workfare is not simply a means to supplement the income of low-wage workers. As Minister Lim Swee Say put it during last year's Budget Debate, another important objective of Workfare is to encourage as many people as possible to join the CPF system.
- (d) We know this will take time, and will take considerable effort. But getting as many workers as possible to join the CPF is the only real way we can more adequately address their needs, through the OA (for housing), the MA (for medical needs) and the SA (for retirement), and now the CPF-LIFE scheme.

Keeping a progressive fiscal structure

- 4.28. Workfare is part of a broader fiscal system that supports Singapore's social compact. It is a highly progressive fiscal system, despite our very low rates of tax on the middle and upper income groups.
- 4.29. The Singapore system is one that provides targeted help for the needy, while keeping the overall tax burden low so that we reward work and enterprise.
- 4.30. [Chart 7] This next chart shows what households pay to the Government in taxes and receive from the Government in benefits this year. However it does not include our housing, healthcare and education subsidies which are in fact much more significant for lower income households.

- (a) You can see that up to the 40th percentile of households, Singaporeans are getting a positive net transfer from the Government this year. This means that these households are getting back more than they are paying to the Government.
- (b) Households in the second decile, in other words from the 11th to 20th percentile, will obtain a net transfer from Government that is equal to about 25% of their incomes this year.
- (c) However, while the bulk of Government revenues come from the top 20%, the burden on them is not high. The top 10% pays to Government about 13% of their income on average, including not just personal income tax, but also motor vehicle taxes, foreign maid levies, property tax and GST.
- (d) Even after this year's surplus sharing benefits, and after the GST offsets are fully paid out in 2011, there will still be the permanent scheme of Workfare to support lower-income families. In net terms, the bottom 20% of families will still receive a positive net transfer from Government after the GST offsets have run out.

5. Conclusion

- 5.1. Mr Speaker Sir, the most important debate in the last two days has been about the basic ethic that we want to sustain in our society.
- 5.2. We all aspire to help and uplift the less fortunate members of our society.
- 5.3. Mr Siew Kum Hong made an impassioned speech. He says that the Government is only concerned about not eroding the work ethic, rather than caring for Singaporeans, and so we tend to provide the bare minimum to Singaporeans in need such that they have just enough to survive.
 - (a) His description does not square with the reality of Government interventions to support the lower income group. Through Workfare, through our housing subsidies, through our CPF subsidies and top-ups, through the support we provide the poor with Medifund and the many flexible schemes that ComCare offers, we are providing substantial support for lower income Singaporeans.
 - (b) His desire to see nobody left behind is noble and shared by us all. But his exhortation that we should ignore waste, ignore deadweight loss, ignore disincentives to work is reckless.
 - (c) As Chew Chu Ching pointed out in his ZaoBao column today, commenting on Mr Siew Kum Hong's speech, "if a country does not care about creating wealth at all, it is big question whether it could survive in the real world." [Chart 8] The cartoon accompanying his commentary expresses it more pithily.
 - (d) To be able to help the poor, we must first create wealth, grow our GDP and provide every incentive for Singaporeans to strive and work to improve their lives and that of their families.
 - (e) If our policies harm that, for the noblest of reasons, we will be in serious trouble, as many other countries have found. Instead of helping the people we all want to help, we will be doing worse for them.

- 5.4. The real issue is how we can keep our economy productive and vibrant, and how we can keep our society resilient and caring, not just now or for a few years, but for many years to come. Will it be achieved by Government giving more and more and handing out more and more goodies, which MPs like Mr Sam Tan, Dr Ong Seh Hong, Mr Baey Yam Keng and Dr Lim Wee Kiak cautioned against?
- 5.5. As Chua Mui Hoong put it in yesterday's Straits Times, "it is timely to recall that the Finance Minister is not the God of Fortune, and that not all calls for spending have merit. Even if there is a \$6.4 billion surplus".
- 5.6. Our basic philosophy has been and must remain what Mr Zaqy Mohamad, Mr Zainul Abidin Rasheed, Dr Lily Neo, Ms Lee Bee Wah, Mrs Josephine Teo and Dr Lim Wee Kiak expressed – we must keep alive the incentive for every Singaporean to strive and maximize opportunities to do better for themselves and their families.
- 5.7. This Budget has given Singaporeans something to tide over their present difficulties. But far more important is what we are doing to help every individual upgrade himself through education and training, to stay in a job and keep advancing his skills, and to save for retirement.
- 5.8. We have embarked on new initiatives, and there is much more work ahead. We will stay focused on this central task. As Mdm Halimah Yacob summed up, it is what we have to do so that this continues to be a place where everyone has the opportunity to fulfil his dreams through hard work and can look forward to the future with hope.
- 5.9. This is the philosophy which will keep Singapore going through good years and bad, which will ensure that prosperity will last more than three generations as Mr Seng Han Thong hoped. And above all, which will make this a society where every Singaporean can be proud that they are playing their part, not just by doing better for themselves, but by contributing to Singapore.