BUDGET DEBATE ROUND-UP SPEECH 2009

PART II

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KEY ISSUES

1. Mr Speaker, Sir*, I thank all the MPs who have offered their views and ideas in what has been a very stimulating debate, and most of all for supporting this Budget.

2. I have listened to every speech; in the one instance which I missed, which is Ms Irene Ng's speech, I read it after. Members raised many issues and I would not be able to address all of them in this speech. This is the customary practice each year. Many Members have raised issues which rightfully belong to the Committee of Supply's debate and they will be taken up there. With regard to MOF, some issues like Government efficiency (which was raised by Mr Baey Yam Keng) and environment-related tax issues (which Mr Edwin Khew raised) will be taken up during the COS.

3. There were many issues raised but they are all ultimately about whether this is the right Budget for the times.

   In particular, whether the Budget is of the **right size** to address the crisis; second, whether it is directed at the **right objectives** and whether we have designed the measures right, for maximum impact, and they will therefore be effective in helping Singapore through the crisis; and third, whether the Government is making the **right move in tapping on past reserves** to fund part of the Package. I will respond to the various issues raised in the debate, under these three broad themes.

* Delivered in Parliament on 5 February 2009 by the Minister for Finance Mr Tharman Shanmugaratnam.

A. RIGHT SIZE: A FORCEFUL PACKAGE

A.1. First, is this the right size? All governments are now focused on fiscal policy interventions to try to support their economies. It is a severe recession, and we are seeing continuing momentum of the decline, week by week literally. So, there is a consensus internationally now that fiscal responses have to be **larger than in normal** cyclical downturns, and further, that they must be focused on **speedy** implementation so that a real impact can be felt in 2009. The package we are implementing is **large, timely** and **front-loaded** so as to have a significant impact this year. The basic deficit of 6% of GDP is a major injection of Government money into the economy. On top of this, the Special Risk-Sharing Initiative (SRI) will help sustain bank lending to our companies. The quantum of loans that we are extending is not included in the basic deficit of 6% of GDP. It is on top of that.

A.2. Our Resilience Package and the fiscal deficit resulting from it are in fact very large compared to most other countries. In the US, the Obama administration is seeking to get an $885 billion package approved by the Senate. However, in its current form, less than 30% of the package will be implemented within the first year. By some estimates, not much more than 20%. Its impact is therefore estimated at 1.8% of GDP for 2009. Germany's package amounts to 1.25% of GDP in 2009 and another 0.5% of GDP next year (in 2010). China's package of over four trillion yuan will be spread over a few years, and is therefore estimated to be about 2% to 3% of GDP for this year. The UK's £20 billion fiscal package amounts to 1% of GDP in 2009. Taiwan's NT$500 billion economic stimulus package, equivalent to about 4% of its GDP but implemented over four years, translates to about 1% of GDP each year.

A.3. The deficit we will run is not just large compared to others. What we are doing is also different from that in most other countries, because they will have to borrow to fund their deficits. Their taxpayers will have to bear the burden in future. Singapore does not have to borrow. As Prof. Koo Tsai Kee, Mr Gautam Banerjee, Mr Ong Ah Heng and Mr Christopher de Souza and others have all emphasised, this is our key advantage in Singapore. We have designed our package so that the measures could be rolled out quickly - in 2009 itself - to achieve broad-based impact across the economy.

A.4. In particular, the Jobs Credit was designed to put money in the hands of all businesses **quickly**, and to be **simple to administer**. We had, in fact, considered giving a rental credit in combination with the Jobs Credit. But it would have slowed implementation, because a rental credit would have required declarations by companies and subsequent verifications. It is much speedier to implement the Jobs Credit, and at very low administrative cost, because it is based on readily available CPF data. We therefore decided to do away with the rental credit, and increase the Jobs Credit to 12% of wages - so that the total impact and benefit to businesses would be roughly the same as if we gave both credits, but delivered much faster. Likewise, for GST credits and the WIS Special Payment, both are given out in the form of cash and put money quickly into the hands of every Singaporean. The first cash payments will be made in March this year.

A.5. So, when Members consider the other measures that they wanted the Government to have taken in this Budget, we first have to bear in mind that this is already a very large Budget, much larger, in fact, than most other countries are putting in place. Some of the suggestions proposed by the MPs do have merit. But we cannot implement every meritorious proposal without carefully considering what we are able to afford. For instance, if I were to take all of Mr Inderjit Singh's proposals, it would have cost an additional $5 billion. This is a ballpark estimate but probably not far off. It would increase our deficit by more than 50%, from $8.7 billion to about $14 billion. I am sure Mr Inderjit Singh does not expect us to take in all of his proposals, but I use this to illustrate the point.

A.6. With a basic deficit of 6% of GDP in FY2009, we believe that this is the right Budget for the times. To do more along the lines of some of the proposals, including some of the meritorious proposals, that have been raised in this House, would mean having to do less of some of the measures that we are implementing in this Budget. And that is the fundamental point in the design of any Budget.

A.7. Our package is a large intervention in one year. It already factors in a continuing decline in the global economy this year. We predicted growth of -2% to -5% for 2009 before this Budget, and that is still our projection for the year. Some MPs have asked for an off-budget package this year, even before this Resilience Package has been passed. Having just debated and not yet passed the Resilience Package, we should not be thinking of further measures in the near future. Of course, the Government will track events closely and, depending on how things develop, we are ready and able to do more over the course of the recession. Our mindset should be for a long campaign and not a quick downturn to be cured overnight.

B. RIGHT OBJECTIVES: DIRECTING RESOURCES FOR MAXIMUM EFFECT

B.1. So, that is the first theme - have we sized the Budget right? Is this the right impact, especially the right impact for this year? And it is. Second, are we focused on the right objectives? Are we directing resources for maximum effect? The key decisions we have had to make in this package are which objectives to focus on and where to put the most resources, so that we get the **maximum bang for the buck**. It is important for us to focus our resources on the key objectives, and design our policies such that the best multiplier for the economy can be achieved. This means that some areas have to get less. If you want your key objectives to be achieved, they have to be forceful. This means that other objectives, the secondary objectives, have to get less. Trying to be as comprehensive as possible will dilute the impact of the package, and those who need it the most, both amongst businesses and households, would get less.

Three Key Objectives

B.2. Ultimately, the Resilience Package is about Singaporeans - helping our people now, and securing the future for Singapore. We have shaped the Budget to focus on **three key objectives, aimed at helping Singaporeans where it matters most**. First, jobs for Singaporeans. This is the first and key objective and it is about **helping businesses** so that they can **preserve jobs** to the maximum extent possible in this recession.

The largest part of the package, therefore, comprises support for businesses through the Jobs Credit and SPUR, through the many tax measures, through the SRI to sustain bank lending to companies, and through our Government spending initiatives, which will create demand for our businesses. We are also creating jobs through substantially expanded Government hiring 18,000 jobs. That is the first objective. Ultimately, it is about jobs for Singaporeans, working primarily through support for the business sector.

Second objective - direct help for households. **We are helping households** directly, with something for everyone, but more for the lower and middle-income groups.

Third objective - confidence in the future. We are **preparing for recovery** and to **emerge more competitive** for our next phase of growth. When we come out of this crisis, Singaporeans will continue to have good jobs, and enjoy good income growth for the years ahead.

B.3. In each of these areas - preserving jobs for Singaporeans, providing direct help for households, and preparing for the future - we have chosen our measures to achieve maximum impact on the economy. In other words, we have chosen fiscal injections that have the best economic multiplier.

Support for All, but More for the Innovative and Dynamic

B.4. For the first and key objective of helping businesses so that they can help preserve jobs, we have taken a broad-based approach. Our aim is to help businesses in all sectors, both small and large companies, so that we maximise the support we provide for Singaporean employment.

B.5. Ideally, we should not be giving equal support to all businesses. Some MPs have argued that we should be giving less support to the profitable businesses, and more support to the weaker ones. This would not be the right approach. If we do this, we will only be weakening the ability of the business sector to create employment, not just now but in the future, and we will be weakening the strength of the recovery in the economy.

Every crisis is an opportunity for the re-allocation of resources from weaker players to the stronger ones. It is an opportunity for the business sector to be restructured in favour of companies with the most viable business models, the most sustainable cost structures or products, which are growing in favour in the market place. We should allow this re-allocation, and not hold it back. It may even mean the movement of jobs from weaker players who are unable to sustain their jobs, to the stronger ones. That is how we emerge fitter as an economy, and better prepare for growth when the recovery in the global economy comes.

B.6. We would like to identify viable firms those that are most likely to keep their workers through the crisis and grow employment thereafter. We would like to identify viable firms and focus our support on them. However, there is no workable way to sift out such businesses under current circumstances. Even good businesses can make losses in the recession and, indeed, many are making losses in the recession. So, we cannot, for example, look at companies that are paying corporate tax to identify the viable and strong businesses, because even good companies can make losses in a recession and may not be paying corporate tax. The best approach therefore is to go for simplicity and provide broad-based support to all businesses, regardless of whether they are profitable or loss-making, through the Jobs Credit, SPUR and the tax measures that we are introducing, such as property tax rebate and the loss carry-back scheme.

Our approach, therefore, is to provide support to all businesses, including the stronger players because that is how we best enhance our chances of recovery. But we will also help loss-making enterprises so that those with viable businesses will be helped through their short-term cash flow difficulties and have a chance to turn around their businesses

B.7. The impact of the Jobs Credit and property tax rebates alone can be significant. We have looked at many real examples. We have sat down with the companies and actually looked at their projections for the year, following the measures that we have introduced. I will just give two quick examples, both small companies with about 15 to 20 staff. The first is in the packaging business.

It will get Jobs Credit and property tax rebates totalling about $70,000 this year, which will increase its profits by about 10% this year. These are the company's own projections.

The second example - and these are fairly typical examples - we chose a loss-making company. This is a real estate agency that is expecting losses this year. It will get a total of $97,000 this year, which it estimates will allow it to reduce its projected losses by 40%.

B.8. So, that is how the broad-based measures work for the profitable companies as well as companies that may be viable but are making losses this year. On top of these measures, however, we are providing further incentive for companies that are investing for the future, whichever the sector of business they are in.

We have allowed companies to accelerate write-downs of investments. We have made quite significant enhancements - we are more than doubling the capital allowance that the company gets in the first year after an investment - so the company can write off 75% in the first instance, up from 33% currently. In the case of service enterprises which are refurbishing their outlets, we are giving a 100% write-off in the first instance.

We had also just enhanced our R&D tax incentives last year, which makes Singapore now one of the most attractive places for companies big and small to invest in innovation. This is on top of the many schemes that the Government has to support start-ups, which includes grants, risk capital and generous tax allowances.

B.9. This way, we do not just preserve the status quo of our economy but we also give more support for the most dynamic and forward-looking companies.

As both Mr Zaqy Mohamad and Dr Muhammad Faishal Ibrahim have emphasised, we have to do more to foster a business culture that promotes innovation, even in the recession. We need this in every sector. Dr Lam Pin Min was just talking about assistive technologies for the aged and the disabled. I asked Mr Khaw Boon Wan, and he agrees that more has to be done by the Government working together with industry to develop these technologies. Mr Lim Boon Heng's Committee for the Aged is in fact looking at this. They have a sub-committee on the Silver Industry.

I agree too with Dr Faishal that we should consider how we can be even bolder in our incentives, given the challenges that our start-ups and growth enterprises face in the difficult environment that we will see in the few years ahead.

B.10. This is therefore our approach - **broad-based assistance for all companies, but additional support for those that are looking forward and are most likely to take Singapore through to the next upturn**.

Jobs Credit: A key fiscal intervention

B.11. The key support that we are providing to all companies, within the broad-based measures, is the Jobs Credit. Almost all MPs have expressed their strong support for the scheme as a way of reducing job losses in the recession. Mr Low Thia Khiang and Mr Siew Kum Hong were the only ones who disagreed. Mr Low in particular felt that the Jobs Credit should not be given to profitable companies. Both he and Mr Siew felt that the 12% grant on wages will not help to prevent retrenchment.

Their views are not shared by the vast majority of our businesses, especially our SMEs. Many have given feedback that the Jobs Credit would make a difference to what may otherwise have had to be a significant plan for retrenchment in this recession. The companies that are still profitable and preparing for growth are also thinking of hiring more workers. As Dr Ong Seh Hong said, this is why we must give the Jobs Credit now to profitable companies. Our labour MPs and union leaders have also strongly endorsed the Jobs Credit. They call it a pro-worker move, because it provides the best chance of securing employment and the feedback that they are getting from the employers has also been positive.

B.12. Dr Lim Wee Kiak had asked why we had provided the Jobs Credit to companies instead of giving it to the employees directly, in other words by co-paying the employers' CPF contribution. Let me explain this issue.

B.13. We are giving a Jobs Credit to the employer directly. This means the employer pays the CPF, and the Government provides a cash grant to the employer through the Jobs Credit after the employer has paid CPF. In substance, the Jobs Credit is equivalent to the Government paying the employer's CPF contribution. As I explained in the Budget Speech, the 12% Jobs Credit has the same impact for the employer as the alternative approach which would be for the Government to cut the employer's CPF contribution rate by 9%, and the Government then top up the employee's CPF account. Same impact. Both approaches keep workers' wages and CPF intact. There is absolutely no difference for the workers' CPF accounts. Both approaches help employers with their wage costs. For the employer, in cash terms, the amount of relief is the same, which he is then able to use wherever needed.

B.14. However, the Jobs Credit approach has some important advantages: first, it provides greater benefit for lower and middle income workers' employability. The Jobs Credit of 12% up to $2,500, which is the median wage (the 50th percentile), is structured to give employers more incentive to retain lower income workers - which is where the threat of retrenchment is also higher on average. For a worker earning $2,500 or less, the Jobs Credit would effectively mean **a CPF employer's contribution cut of 12%**, from 14.5% down to a mere 2.5%. That is the effective impact of the Jobs Credit for the low income workers - for anyone below $2,500 in wages. So, that is the first advantage - it gives more to the low and middle income workers.

Secondly, the Jobs Credit has much greater simplicity. Unlike CPF contributions, which are tiered by age and wage, the Jobs Credit gives the employers the full 12% of wages for all workers on the CPF payroll.

Thirdly, for the same reason, the Jobs Credit also provides older workers in particular with much greater support in terms of their employability, compared to if the Government had instead paid for the employer's CPF contribution. This is because the employer contribution rates for workers aged 50 and above are below 12%. For older workers in the lower-income group, especially, it is well below 12%. For example, for a worker between 55 and 60, and earning $900, the employer's contribution rate is 5.3%. This means that if we chose the approach of the Government paying for the employer's CPF rate, the Government putting money directly into an employee's account, the employer would receive **only 5.3%**. With the Jobs Credit, on the other hand, the employer receives the **full 12%** of the older worker's wage. This provides a better incentive for employers to retain and hire older Singaporeans. By doing this outside the CPF contributions scheme, we are also making clear that this is a temporary scheme to address the crisis, and can be lifted once the global economy picks up and business confidence is restored.

B.15. Mr Low Thia Khiang and Mr Siew Kum Hong had in particular questioned the effectiveness of the Jobs Credit.

B.16. The Jobs Credit is a large fiscal intervention in the economy. It is first and foremost a large fiscal intervention in the economy. At $4.5 billion, it is almost 2% of GDP, which means that the Jobs Credit alone is larger than the total fiscal injections made by most of the other countries that are tackling this crisis. The Jobs Credit alone is a larger fiscal intervention - more Government money being put in the economy than what most other countries are doing for their entire fiscal packages. The Jobs Credit is also equivalent to a 50% reduction in total corporate taxes. For the SMEs, because their effective corporate tax rate is actually well below 17%, in fact 8 to 10% typically, receiving the Jobs Credit effectively means the profitable SMEs are paying zero taxes for this year; and for the unprofitable SMEs, they get their credit anyway. What we are essentially doing is injecting $4.5 billion into the economy, in a way that will not only have a significant multiplier effect but will help preserve the interest of Singapore workers.

B.17. We are quite realistic about this. **It will not be possible to avoid retrenchments** and an increase in retrenchments in this recession. The Jobs Credit and SPUR cannot prevent an increase in retrenchments this year. But this significant injection - 2% of GDP or 50% of total corporate taxes paid - being put into the economy and given in a way that is tied to Singaporean jobs, will make a difference to the pace and scale of job losses.

B.18. How will businesses use the Jobs Credit, and how does it help Singaporeans? The Jobs Credit is earned through employing Singaporean workers. This means that if the workers are retrenched, the businesses would not benefit further Jobs Credit for those workers. If the workers are kept, the Jobs Credit will continue to be earned.

But the Jobs Credit, once a business earns them, is a resource that they can deploy flexibly. We should not introduce rules to circumscribe how the businesses use the funds. The flexibility of the scheme is in fact its key advantage because it allows businesses to use the funds where they are most needed to help them survive and grow.

Businesses can use it in many ways. For example, they can use the money to:

i. avoid wage cuts for their workers;

ii. invest in training their people;

iii. hire new workers. As Dr Loo Choon Yong told us, this is how Raffles Medical intends to use the Jobs Credit;

iv. pass on the savings to consumers so that they can improve their sales;

v. pay suppliers on time - which will in turn help these suppliers keep their workers; and

vi. keep it as working capital or as a buffer against a decline in revenue, so that they can avoid having to cut jobs down the road.

We have to let the businesses decide depending on their own circumstances. **Whichever way the businesses spend the Jobs Credit** - either directly on their workers, or to keep up payments to their suppliers, or through other ways to support the business - **the money will have a multiplier effect on the economy and go towards supporting jobs**. As Mrs Josephine Teo said, there are two priorities that matter most for the vast majority of workers - **saving jobs and minimising the impact of the recession on wages**. The Jobs Credit will make a real difference to all Singaporean workers on both fronts - jobs and wages. As Minister Lim Swee Say explained yesterday, it also protects their **full CPF contribution**. So to say as Mr Siew Kum Hong did, that $4.5 billion is a very expensive way of saving, let us say, 100,000 jobs, he said, or $45,000 for each job saved, is really missing the point. The Jobs Credit is a macro-economic injection to support the Singapore economy, but designed in a way that preserves the interests of all Singaporean workers - by supporting their jobs, their wages, and keeping their full CPF contribution intact. The benefit is not just felt by those who would otherwise have been retrenched, but by all Singaporean workers.

B.19. Ms Denise Phua and Ms Cham Hui Fong asked for the Jobs Credit to be tilted more in favour of lower income or older workers. We should keep the Jobs Credit Scheme as simple as possible. It has only one slant - it provides more credit to the employer for workers with median wages or below. But it applies to all firms equally. We have other schemes that provide further support for lower income and older workers - the Workfare Income Supplement (WIS) scheme and the restructured CPF contribution rates that were implemented with Workfare.

And as I have just explained, the design of the Jobs Credit Scheme in effect gives older workers an advantage because the employer gets the full 12% of their wages despite having a CPF contribution rate that is much lower than for younger workers.

B.20. Let me just very quickly address an issue which Mr Inderjit Singh raised about the Obama Administration's earlier proposal. I think some time in January, they mooted a proposal for a Jobs Tax Credit Scheme, which they subsequently dropped. Dr Amy Khor touched on this yesterday as well. This was a different proposal. The proposal that the new US Administration had raised involved a tax credit for businesses for each new job that was created and it was dropped because it would have been extremely difficult to implement. There was no way of telling which was a new job, as distinct from a job created after retrenching someone and getting rid of an old job.

Second, if the US were to do something as broad-based as our Jobs Credit, which applies not just to new jobs but to all existing jobs, it would also have cost them a whole lot more. In fact, it would have taken up a very significant share of the package that they are planning.

Direct Help to Households

B.21. Next, the second objective - direct help to households. Some members, including Mdm Cynthia Phua, Mr Zainal Abidin Rasheed and Mr Lim Biow Chuan, asked if we could provide more direct support to households. Mdm Ho Geok Choo further suggested that the doubling the amount of the GST Credits is too timid and pr oposed quadrupling the amount.

B.22. The main support that we are really providing to Singaporeans this year is in the broader measures in the Resilience Package that will support the economy, help them secure their jobs and wages, and keep their full CPF contributions. The direct support we are providing to households is also necessary, because this will be a difficult year for most. But this is only a complementary strategy; a strategy that is complementary to the Jobs Credit and other broader measures we are taking to support the economy. Nevertheless, we are providing a sizeable $2.6 billion package of relief for households in the Resilience Package.

B.23. We have also weighted the transfers within this $2.6 billion, in favour of the middle and lower-income groups. They have less to fall back on in difficult times. The bottom 60% of households will receive benefits worth 6% of their incomes on average.

B.24. We have calibrated our measures. We have calibrated each of the direct measures we are taking to help households so as to provide meaningful support in a difficult year. But we are also mindful of the need to avoid entrenching a system of providing significant benefits to households every year. As Mr Chiam See Tong rightly warned yesterday, we must avoid an inadvertent drift towards a welfare society.

Personal income tax

B.25. Personal income tax came up at many points of the debate. Several Members including Ms Lee Bee Wah and Senior Minister of State Zainul Abidin Rasheed have asked for a larger Personal Income Tax (PIT) rebate, through an increase in the cap from the current $2,000. Those who argued for this felt that it would help to boost demand.

B.26. There are two reasons why we capped the 20% PIT rebate at $2,000.

First, increasing the cap would only benefit a small proportion of the population but at a high cost to revenues. Only the top 5% of our resident labour force is affected by the cap on the PIT rebate of $2,000. The middle class, in fact even the upper-middle class, is not affected by this cap. Removing the cap would be costly to revenues. Even just raising it from $2,000 to $3,000 would have cost us an additional $100 million. And if we had no cap, as Mr Inderjit Singh proposed, it would have more than doubled the cost from about $500 million to $1.1 billion. That means we would have had to either significantly reduce some of the other measures in the Budget package, or we would have to reduce the income tax rebate percentage. If we lifted the cap completely and wanted to stay within the budget of about $0.5 billion, it would have meant reducing the PIT rebate percentage from 20% to 8% for all taxpayers. This would have meant less for the middle and upper-middle income groups in order to give more to the top most brackets.

So that is the first reason - it would have benefited the very small proportion of taxpayers and have had a significant impact on revenues, and something would have had to give.

The second reason is that a larger PIT rebate would not give us as much bang-for-the-buck as a measure to boost demand. Unlike the lower and middle income groups, the top income groups tend to save most of the benefits they receive. This is one of the least contested economic facts all over the world. The marginal propensity to consume amongst the rich is low, and conversely, it is very high amongst the lower income groups. The lower income groups tend to be cash constrained and they spend most of the additional benefits that we hand out.

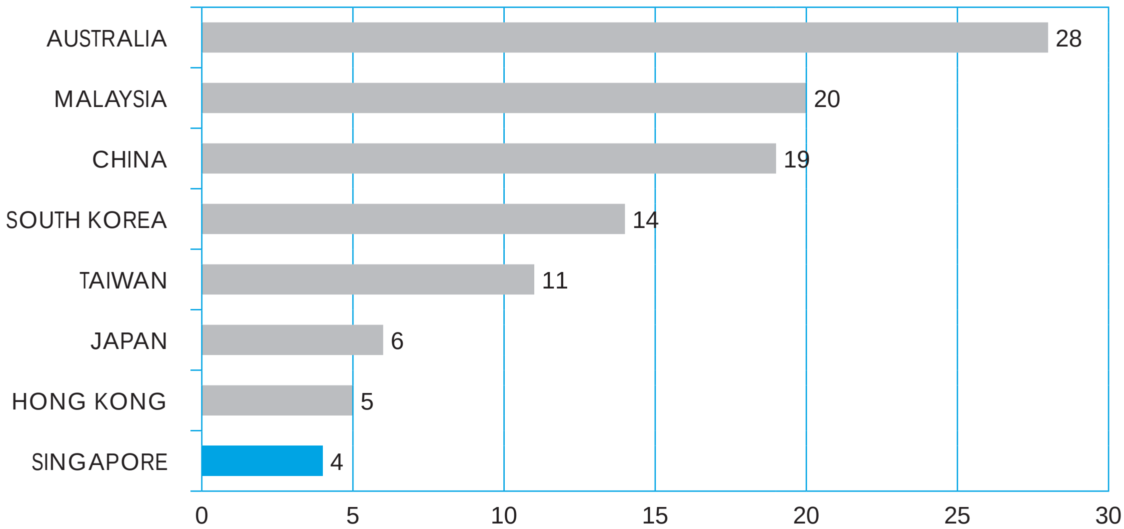
In fact in the US, last year's PIT rebates were an important fiscal initiative. They were hoping to stimulate the economy in the third quarter and they were hoping that the PIT rebate they gave would lead to a "kick" in consumption in the third quarter. They eventually found that only 15% of the rebates were eventually spent by consumers, and amongst the higher income groups, this percentage was even lower.

B.27. Some MPs such as Ms Lee Bee Wah also felt that we should have cut PIT rates this year. With our current PIT rate and schedule, our personal income tax regime is already very competitive and highly progressive. Compared to Hong Kong, the vast majority of Singaporean tax payers pay lower taxes.

B.28. This chart **(Chart 1)** was put together by PWC, published in the Business Times on 23rd January. It shows the individual tax liability for a typical upper-middle income family; married man, non-working wife and two children. And as you can see, the effective tax rate for this family is significantly lower than for most other Asia-Pacific countries, and also lower than Hong Kong.

B.29. It is only at the very top end that the effective tax rates in Hong Kong are still lower than in Singapore. The Government will continue to assess the competitive landscape for talent and see whether we need to make changes down the road in our top PIT rates, while ensuring our overall fiscal position remains sustainable.

Chart 1: Comparison of Asia-Pacific individual tax liabilities
(Married man, 2 children, income of USD 75,000 earned in 2008)



Source: PWC, cited by "Lack of cut in tax rates a disappointment" BT 23 Jan 09.

Immediate Impact, Lasting Benefits

B.30. The third theme is about making sure that we are building confidence for the future. We want to achieve immediate impact for this Budget but we also want lasting benefits. I appreciate the comments made by several MPs - Mdm Halimah Yacob, Ms Jessica Tan, Mr Zaqy Mohamad and Mr Michael Palmer and others - that we should not lose our focus on Singapore's long-term future, even as we grapple with the problems of the short term. We have to set our sights on the recovery and the years beyond, and start preparing now for recovery and the next phase of growth.

B.31. The Resilience Package cannot merely be about survival. But our focus on preparing for recovery and the long term does not come at the expense of the short term. What we are in fact doing is to spend more and cut taxes **now**, not just to meet short-term needs, but also to strengthen the chances of recovery and strengthen Singapore for the long term. **This is a key point in how we have designed the Budget - make an impact in the short term with measures that prepare Singapore for the long term**. It is a key point in the design of this Budget.

B.32. Let me explain this with respect to the two main types of measures that we have undertaken for the long term: Government spending on infrastructure and capabilities; and the tax measures that we are implementing to encourage investment in the downturn and to enhance long-term competitiveness.

Government spending

B.33. We are spending wisely in the short term, to build up long-term infrastructure and capabilities. I agree with Mr Inderjit Singh's point about the need to diversify Government spending, and can assure him that this will, in fact, be the case. Our spending is across the whole range of sectors - transport, housing, education, healthcare and security. We are also continuing with IT projects, eg, MOH's electronic records project, MOE's IT Masterplan, the National Broadband, and so on. The Test Bedding Fund will also seed projects in a whole range of areas, eg, transport systems, etc.

Tax measures for long-term competitiveness

B.34. The corporate tax cut that we have introduced, plus the substantially enhanced reliefs for investments over the next two years, will provide strong encouragement for companies that seek prospects for growth. It is important to do it now, as companies are reconsidering where to base their operations for their next cycle of growth. It will also help in the short term by encouraging companies to keep their operations here and not downsize.

I can assure Mr Inderjit Singh, because he was concerned about whether this is taking up a significant part of this year's Budget at the expense of other measures, that the short-term revenue impact of the corporate tax rate cut is not significant. It will be about $70 million in this fiscal year, before building up over the long term. The real cost comes in a few years' time when the full impact of the 1% corporate tax rate cut is felt. We estimate about $400 to $500 million per year over the medium term. But that is also when we start deriving the long-term benefits for Singapore, arising from this enhanced competitiveness.

Dr Ahmad Magad and Ms Lee Bee Wah asked if we could apply the Corporate Income Tax (CIT) cut for Year of Assessment (YA) 2009, in other words - not for YA 2010 but applied for YA 2009 - which effectively means a retrospective application of the CIT cut for income earned last year. A retrospectively applied CIT cut is in fact equivalent to a tax rebate.

To put things in perspective, we are already providing substantial benefits to companies this year. As I mentioned earlier, the Jobs Credit alone is equivalent to a 50% CIT rebate. But, unlike a CIT rebate, the Jobs Credit has a better chance, is designed to have a better chance, of preserving Singaporean jobs. So, large benefits to companies, both through tax measures and Jobs Credit and other measures all making an impact this year.

A Resilience Package for Maximum Impact

B.35. The Resilience Package, therefore, delivers immediate impact but keeps our focus on measures that build up Singapore for the long term. It enables us to:

i. Do things decisively to provide the economy with quick support;

ii. Do things that at the same time, build up our infrastructure and competitive capabilities; and

iii. Do things which will see us through the current downturn, but also pay off for Singaporeans over the long-term.

C. DRAWING ON RESERVES: A ROBUST PROCESS

C.1. Let me now turn to the third key theme in the debate which has to do with the draw on past reserves. Many MPs have commented on this. In fact, most MPs - Mr Ong Kian Min, Mr Matthias Yao, Mrs Josephine Teo, Ms Penny Low, who spoke just before me - have provided strong support for the move to draw on past reserves to fund the two extraordinary measures within the Resilience Package. Ms Irene Ng had asked for assurance that the decision to draw from the reserves was made carefully and was not an over-reaction.

C.2. Several others, Mr Liang Eng Hwa, Dr Amy Khor, Ms Denise Phua, Dr Lim Wee Kiak and Mr Zainal Abidin Rasheed, have asked what benchmark is being set by this move for future governments by drawing on past reserves in this fashion now, and whether there are clear criteria as to when Government should be allowed to draw on the past reserves. Mr Low Thia Khiang and Mdm Halimah Yacob asked why we had sought the President's agreement to use the past reserves now, rather than exhaust our savings accumulated in the current term. Several Members - Mr Heng Chee How, Mr Low Thia Khiang and Mr Lim Biow Chuan - also asked for clarifications on the process by which the President's approval was sought to draw on past reserves, and the reasons why the President, in consultation with the CPA, agreed to the Government's proposal. Let me address each of these questions.

Tapping on our strategic asset

C.3. Many MPs appreciated that the current global crisis and its impact on Singapore is precisely the type of situation that our past reserves had been accumulated for. This is the sort of thing that we have anticipated many years ago. As then-Finance Minister Dr Richard Hu explained in Parliament in September 2001, "the reserves would be available for use if there should be a major economic dislocation in the world affecting us. The size of that is not something we can predetermine but it is a bulwark which we can fall back on. I can assure the Member that it is not the intention to lock up our reserves permanently but it should be used with discretion and care".

The Prime Minister also addressed this possibility in 2006 in the Debate on the President's Address, saying: "The reserves are something which we have built up for a rainy day because we are highly dependent on imports. We have no natural resources. That is all we have and we have to husband them carefully and use them only when we really need to". So this is our philosophy on reserves - accumulate in good times, manage and safeguard them well, for use only in extraordinary circumstances

C.4. A key question is why the Government sought the President's agreement to use the past reserves now, rather than wait till we have exhausted the savings that we have accumulated in the current term. As I stated in the Budget Speech, the Government does have sufficient accumulated savings within the current term to fund the FY2008 and FY2009 deficits without drawing on past reserves. But there are two reasons why we are doing so now.

C.5. First, signalling our intention to draw on past reserves reinforces confidence in Singapore's ability to deal with this crisis resolutely. Investors and citizens alike will know that we will use all resources at our disposal to weather this crisis, and emerge stronger. Markets too, including the currency markets, would know that unlike other countries, Singapore will do what it takes to address the crisis without borrowing.

C.6. Secondly, doing so now frees us to make a bold and forceful response to the crisis now, commensurate with the magnitude of the crisis. We can only implement these bold and forceful measures if we know we have the full resources available now for a decisive response - not just for this Budget, but to carry and sustain our fight beyond this Budget and this year if the crisis deepens and persists. Without the confidence of adequate resources, we would have had to reconsider our schemes, in particular, the Jobs Credit and the Special Risk-Sharing Initiative (SRI). It would have meant curtailing the scope and scale of our initiatives, and undermining their effectiveness. So without the confidence of adequate resources, we would have had to rethink the scope and scale of the measures we are putting in place in our Resilience Package. It would in fact be unwise for the Government to undertake the bold measures that we have set out in this Budget if we did not know we had the certainty of tapping on past reserves. Moving on a Big Bang measure now and leaving nothing to use subsequently, would be irresponsible. This is why it is the right move for the Government to tap on past reserves now, rather than use up all available savings first.

C.7. This does not mean that the Government intends to exhaust its current savings. We will still proceed prudently and only spend what the situation justifies. If we are lucky and the situation improves, we will naturally save our resources for another rainy day. But if things get worse, the Government now has at our disposal the resources to tackle the problems with all the vigour that is necessary.

C.8. As Prof. Koo Tsai Kee, Mr Arthur Fong, Dr Loo Choon Yong and Dr Fatimah Lateef have said, this crisis also shows why we were right in building up our reserves carefully, not tapping into it as many have urged in past years, and not run deficits in good years when we could afford it. Our reserves now will allow us to deal with this unquestionably severe crisis from a position of strength.

Considerations for drawing on past reserves

C.9. This draw on past reserves does set a precedent. It is therefore important that we are clear about the basis for the draw, which inevitably sets a benchmark for the principles that should apply in future.

C.10. The current circumstances and the measures for which we are drawing on past reserves are setting a high threshold for any future situation where such a draw is contemplated. It minimises the opportunity for future governments to call for unjustified use of the past reserves.

C.11. What should be the considerations for a draw on past reserves? Senior Minister Goh, speaking last Sunday, said he was in favour of putting up three "No" signs for drawing on past reserves. To summarise: first, no draw to support social assistance programmes. Second, no draw to fund permanent programmes, no matter how meritorious. Third, no draw except under dire circumstances that require one-off extraordinary measures to ward off catastrophe or prevent irreparable damage to the economy.

C.12. SM's three "No"s have been implicit in the Government's thinking on how we should conscribe the use of past reserves. When we sought the President's in-principle approval for the draw on past reserves for the current purposes, we set out similar considerations.

<u>First, a government should only draw on past reserves in very exceptional situations</u>, for example, when external events or crises pose a threat to Singapore's economy or society. The current severe global economic crisis is a clear example of this.

Second, the measures to be funded out of past reserves should be of a temporary nature and not built into continuing government programmes. The Jobs Credit and the Special Risk-Sharing Initiative for bank lending are distinguished from regular budgetary interventions during a typical downturn, such as tax rebates or increased social spending.

C.13. So those were the two considerations that we set out when we sought the President's in-principle approval for the draw on past reserves. We should not, however, prescribe strict quantitative rules or specific indicators of distress on when a draw on past reserves can be justified. It is not possible to define quantitative rules that meet all circumstances. For example, should the criteria be that the Government is incurring a deficit of at least 6% of GDP? That criterion can be met because a Government is profligate and can overspend to achieve the criteria. Similarly, there may be situations where a dire circumstance requires a targeted and justifiable intervention of a magnitude not as large as 6%. It is also not possible to anticipate the nature of the crisis that can hit us in the future, whether due to natural disaster, a health pandemic, major security threats or war. So we should avoid trying to define very specific quantitative rules or very specific indicators of distress to justify a future draw on past reserves.

NTU Professor Tan Khee Giap advocated the same view in the Straits Times on 3rd February. As he put it, "... specifying particular indicators of economic distress before the reserves can be tapped ... would put the Elected President on auto-pilot". He went on to say, "As future exceptional events are highly unpredictable, we must instead rely on citizens to vote in responsible governments to exercise sound judgement on how best to accumulate, manage and deploy our hard-earned reserves". That is indeed the basis of our two-key system. Its strength rests on the credibility of the Government and of the Elected President and his advisers on the Council of Presidential Advisers. The most effective safeguard for our reserves is in a system of robust checks and balances, by having the right people in charge, and the President exercising independent judgement on the government's proposals with the advice of the CPA.

Not depleting our past reserves

C.14. I have set out the reasons for drawing on past reserves, and why it is better to do so now, rather than to wait until we exhaust current savings. I have also set out the threshold and conditions that should be set for any future draw on past reserves, and to ensure that it is not detrimental to the long-term objective of preserving and enhancing the real value of our reserves.

C.15. Ms Irene Ng and Dr Ong Seh Hong asked how long it would take for us to restore the $4.9 billion in our past reserves. Dr Lim Wee Kiak was also concerned about whether we had ample reserves left. Let me put the $4.9 billion in perspective. For FY2008, the year that is ending soon, the Net Investment Income Contribution to the Budget is estimated to be $3.7 billion. This is based on **the actual interest and dividends** that were earned on our investments. This $3.7 billion was no more than 50% of the total investment income for FY2008.

C.16. The $4.9 billion that we are drawing from past reserves is a significant sum, but it will not be large compared to the amount of annual investment income that we can earn. It is also smaller than the total return, including capital gains/losses, that we can expect to make each year on average over the long term. As Members know, the NIR Contribution for FY2009, based on long-term, expected total returns, is $7.7 billion.

C.17. We are not killing the goose that lays the golden eggs. Our reserves are substantial, with assets far in excess of our liabilities. The reserves are well-diversified. The Government is confident that the prudent management of our reserves - with investments aimed at the long term - will continue to grow our reserves and yield us a steady stream of Net Investment Returns Contribution over time. We will continue to exercise fiscal prudence and accumulate our reserves in good times.

Robust process for obtaining President's approval

C.18. Let me now come to the issues of process which Dr Amy Khor, Mr Lim Biow Chuan, Mr Low Thia Khiang and others had asked questions about - the process by which we obtained the President's approval for the draw on past reserves. Did the President have the full opportunity to properly evaluate the proposal, or was it a fait accompli? We are glad that Mr Low Thia Khiang is concerned about the two-key system working well in protecting our reserves. I presume this means that he now accepts the need for the Elected President as the second key.

C.19. The Government followed full due process in obtaining the agreement of the President and the CPA on its proposal. The Government finalised the shape of its Budget, in particular, the proposed Jobs Credit and Special Risk Initiative (SRI), within the two weeks before Budget Day. Members would have to recognise that this year's Budget was brought forward by a month, resulting in a significantly compressed timeline for working out our measures.

C.20. The fact that the economic environment was also shifting in the weeks before the Budget meant that we had to refine the shape and size of our key proposals up until those final two weeks. The proposal to draw on past reserves to fund the Jobs Credit Scheme and the Special Risk Initiative (SRI) had first to be agreed by the Cabinet, before it could be formally put to the President. The Cabinet did so the week before the Budget. But before the Cabinet decided, the Prime Minister met the President informally to share with him the Government's thinking, to sound him out and to give him more time to think over the matter. After the Cabinet's decision, in the week before the Budget, MTI and MOF followed up with briefings to the President and the CPA.

C.21. First, MTI and MAS briefed them in detail on the global economic and financial situation, and the implications for Singapore. MOF then briefed the

President and CPA comprehensively on the two proposed measures the Government intended to undertake as part of its response to the crisis and the reasons for the proposed draw to fund them. We addressed the President and CPA's questions and clarifications on all relevant matters. We also briefed the President and the CPA on the possible scenarios that might require our accumulated savings or past reserves in the next few years, and the contingency measures that might be necessary. One of the issues addressed was the justification for drawing on past reserves now, before exhausting the savings of the present government.

C.22. Following the briefings, once we had finalised the costs for the two schemes, once we had finalised the numbers, we sent a formal request to the President. The President and CPA were able to form their views in advance of this final submission because they had been thoroughly briefed. The President, in consultation with the CPA, accepted the Government's explanation that the crisis we are facing is of an exceptional nature, and the measures, being extraordinary and temporary in nature, can be justifiably funded from past reserves, and the President gave his in-principle approval to the Government's proposal.

Once Parliament approves the Supply Bill, we will seek the President's formal approval for the draw. Upon the President's approval for the draw, his decision will be gazetted, as required under the Constitution. I can assure members that the President and CPA were given full information to enable them to deliberate and make a decision, and in good time given the exigencies of the situation at hand.

C.23. We cannot rule out the possibility of another exceptional situation in our lifetimes that might require the Government of the day to draw on reserves to preserve Singapore's interests. In that scenario, the onus will once again be on the Government to justify its case to the President and the CPA, to seek Parliament's approval of the Supply Bill that contains the measures it is undertaking, and to explain to the public its reasons for doing so.

C.24. The draw on past reserves today sets an important benchmark. The crisis we face today is extraordinary, and the decisive but temporary measures we are undertaking in the Budget should rightly be funded out of past reserves. By doing this now, we are instilling confidence in Singapore's ability to see through the crisis and emerge stronger.

D. OTHER ISSUES

D.1. Let me now address three other important issues which have come up in the debate; first, getting credit to flow to businesses; second, schemes to help the unemployed; and third, whether we should have cut the GST.

Getting Credit to Flow

D.2. First, on credit. Several Members - Dr Loo Choon Yong, Mr Seah Kian Peng, Mr Teo Ser Luck and Mdm Cynthia Phua - asked whether the Special Risk-Sharing Initiative (SRI) would succeed in getting banks to start lending. Others such as Mr Inderjit Singh, Mr Sin Boon Ann, Mr Ang Mong Seng and Mr Edwin Khew suggested that Government do more to spur bank lending to our companies or implement alternative strategies such as setting up a new lending institution.

D.3. First, I have to emphasise that there is no strategy that is going to prevent a decline in the overall volume of credit in the course of the recession. The de-leveraging that is taking place in the major economies is severe and likely to continue for some time despite the efforts of their governments. This will affect the credit markets globally and have continuing impact on banking systems in every country. Companies themselves are, in many cases, trying to control or reduce their debts in the recession. Overall, the demand for credit goes down in every recession.

D.4. However, our situation is much less dire in Singapore than in the major economies. The structural reasons why banks are unable to lend in other countries do not apply in Singapore. Our banks have strong balance sheets that have not been weakened by bad assets, and are well-capitalised. Their credit ratings are high.

Risk-sharing approach is likely to work

D.5. There is therefore every reason to expect that the Government's initiatives to take over a substantial proportion of the risk of bank lending will help sustain the flow of credit to our companies. It will not reverse the overall trend of a decline in credit, but it can make a real difference for a significant group of companies.

D.6. The SRI as well as the other schemes being implemented by the Government to help companies to obtain credit were, in fact, formulated in close consultation with the banks. The move to raise the Government's share of risk from 50% to 80% through the SRI was what the banks felt would allow them to keep lending.

The banks felt the SRI will be especially important for the significant group of companies that are **essentially viable** and have business models that can allow them to succeed in the years to come but who face great uncertainty in their **short-term** revenues. A very significant group of companies, so-called grey area, mid-sized companies, some larger ones, some SMEs, who are good companies, viable companies for the long term, but who face short-term financial problems or uncertainty in their short-term financials.

The SRI will help because Government is going to take the bulk of the risk. Because Government is taking 80% of the risk, the interest rate margins that banks will earn under the scheme will, in most cases, **fully compensate for the risks faced by the banks themselves**

The top market players who account for more than 60% of the market have provided positive feedback on the scheme structure. Banks are already responding positively to the enhancements which were made last November, and we expect this to continue to pick up. The amount of loans that have been approved under all the financing schemes administered by SPRING went up significantly in January - more than 50% higher than the average of the previous two months. With the SRI, there is a good chance that this lending will be sustained, including to the mid-sized segment of the market. But this does not mean that we will leave the banks and customers entirely on their own to work things out.

The Government is engaged with both the banks and businesses. SPRING is closely monitoring the flow of loan applications, and is active in referring businesses to the Participating Financial Institutions. The Singapore Business Federation (SBF) and the five Enterprise Development Centres run by our other business groupings are also closely engaged with companies to help them with their loan applications. They have hired experienced ex-bankers to help out on this.

D.7. We can study alternative approaches for the future, including some of those suggested by Members. But let us focus on getting the SRI, which is just being introduced, to work. It is the fastest way in which we can get things moving on the ground, and has a good chance of succeeding despite the difficult climate. The Government and the Enterprise Development Centres (EDCs) are beefing up their resources and will work closely with the companies. The Government will continue to have regular exchanges with the banks and monitor the progress of their lending under the schemes.

Schemes to Help the Unemployed

D.8. Let me turn now to unemployment benefits. Some members have suggested putting in place a new system of unemployment benefits. Mr Sin Boon Ann and Mr Siew Kum Hong proposed a permanent system of unemployment insurance. Ms Sylvia Lim proposed a temporary “Job Seeker Allowance”. The scheme would be means-tested and provide benefits equal to half the last drawn salary, subject to a cap of

$500. The substance of the benefits that Ms Sylvia Lim has in mind in her scheme are, in fact, already being provided for Singaporeans who lose their jobs. In fact, they often obtain far more assistance than what she proposes. However, there is a fundamental difference between her proposal and what the Government is doing, which I will explain later. So the substance of the benefits that she wants to give the unemployed worker is already been given to them, sometimes far more. But there is a fundamental difference in approach. As Minister Lim Swee Say would probably put it, it is same-same but different.

D.9. What is the Government's approach to helping the unemployed? Our basic approach has four limbs.

First, we spare no effort to match you with available jobs. Second, if you need new skills, we will help you get it. We will heavily subsidise the cost of your training, and you can also get a training allowance under SPUR. Third, we provide you with short-term means-tested assistance through the Work Support scheme, administered by the CDCs. Fourth, if you face difficulties meeting your HDB payments, HDB will help you restructure your loan, or to downgrade to a smaller flat.

This four-pronged approach is over and on top of the significant assistance that we are providing to all families this year, and especially to the lower and middle income. These are the things that the Government would do to help you directly. But it is not just the Government that has a role to play, as several MPs have pointed out. The family, community groups and VWOs (Voluntary Welfare Organisations) all play key roles as part of the larger network of support for those in need. This is why the Government has topped up its grants for the community to help it to do so.

D.10. Let me go through each of the four-prongs of the Government's approach. First, matching people to jobs. Minister Lim Swee Say, Mdm Halimah Yacob and others have highlighted the fact that many jobs are still available in the economy, including new jobs that are being created. There will be at least 45,000 new jobs available over the next 2 years. This is only counting the new jobs that we already know of.

Minister Lim Swee Say has explained the efforts that are being taken to help match every individual to the jobs that are available, and to put each individual through the training he or she needs, everything from preparing you for an interview to helping you onto the retraining courses to pick up new skills. e2i is doing this. So are the CDCs, as Mayor Zainudin Nordin spoke about yesterday, and the career centres run by the self-help groups.

D.11. Second prong - Support for Training. This is a key component of our approach to helping the unemployed. I would not go through the details of SPUR again, but just to highlight: Apart from the heavy subsidies for the training courses, low-skilled unemployed workers can also get a training allowance to support their skills training. For longer programmes such as the PCP (Professionals Conversion Programme) which helps retrenched PMETs, the allowance can go up to $1,000 a month.

D.12. Third prong - Work Support Scheme. The Work Support Scheme provides assistance to job-seekers on a means-tested basis. There are already 2,400 people today on Work Support administered by the CDCs. They will receive a comprehensive range of assistance, from cash grants to medical, educational and household assistance such as the utilities bills. We are, in fact, enhancing the Work Support Scheme in Budget 2009. Minister Vivian Balakrishnan will elaborate on this during the MCYS' COS debate.

D.13. Fourth prong - HDB Loan Restructuring. Mr Hri Kumar, Ms Eunice Olsen, Mdm Ho Geok Choo and Mr Yeo Guat Kwang has asked for the Government to provide help to those who need help on their HDB loans. HDB will address the problems faced by the unemployed on their housing loans. Where there is a genuine need, HDB will temporarily reduce or defer monthly payments for up to six months. But it is important that we help households move to a sustainable solution. Some may be able to sublet a room. For those who are unemployed for a longer period, many will need to downgrade to a smaller, more affordable flat. HDB will help by providing an additional loan to facilitate their downgrading. Mr Mah Bow Tan and MND will be providing more details on the assistance measures during its COS.

D.14. When you add up the assistance we are providing through these various prongs - the four prongs - it is significant. But the approach is to provide assistance on a discretionary basis. At each step, an assessment has to be made as to whether every effort is being put in by the unemployed person to get a job and attend training where needed.

D.15. This is the **fundamental difference** between what the Government is already doing, and what Ms Sylvia Lim has proposed - which will provide automatically $500 of assistance to anyone who say he is looking for a job. As Senior Parliamentary Secretary Mr Hawazi Daipi just mentioned this afternoon, automatic financial assistance in this form will be unwise. Our **discretionary approach** of helping the unemployed is the best way of ensuring that those who are unfortunate to lose their jobs do not stay out of a job for long. As Mr Zainudin Nordin, speaking as Mayor, said yesterday, "It's about having the right attitude and having the skills that employers want." As he pointed out, unfortunately, every CDC gets a large number of unemployed people who want financial assistance but reject perfectly good job offers.

So, for any individual who is willing to adapt, be flexible, and do what it takes to get a new job, **we will help him**. As Ms Irene Ng said, if you need help, you will get it. We will provide you with financial assistance and we will help you get new skills so that you can get a job.

D.16. I want to give two examples to illustrate the benefits. First example is Ms Winnie Gong, a PMET, a professional, in fact a senior professional, who lost her job in January this year. She was working in the semi-conductor industry for the last 16 years, went up to the position of Senior Engineer. She lives with her elderly mother and her younger brother in a 5-room flat - upper middle-income family. She recently decided to take up a PCP programme to make a career shift to the pharmaceutical industry. Under SPUR, Ms Winnie Gong pays $600 out of the $6,000 course fees, which means the Government subsidises the balance of $5,400. For her course, she receives $2,000 in training allowance. That is cash. This is on top of the household benefits of $2,600 that she and her family - this is a family of three - will receive as part of the Resilience Package this year. The total benefits therefore amount to $4,600 in direct benefits (including the training allowance), and another $5,400 in course fee subsidy from the Government. So that is the first example of a professional who is using the opportunity we are providing to retrain and make a move in her career. It is a very significant amount of assistance.

D.17. A second example is Mr Tay, a rank-and-file worker. He was the sole breadwinner in a family of five till he lost his job last year. He sought help from the CDC, and was assisted under the Work Support Scheme. From September to November last year, he received under the Work Support Scheme $510 a month in cash and utilities vouchers for three months, making a total of $1,530. After three months of assistance, he found work again as a cleaner. And in his new job as a cleaner, he is entitled to a Workfare Income Supplement (WIS) payout of $2,200 for the year. He is a person with a strong will and attitude, he wanted to find a new job. But if he had not found the job, he would have received assistance for training, to ensure that he did find a job. I have therefore not included therefore training allowances in this example. His youngest child is now being given childcare subsidies of $200 a month under the CFAC scheme which comes up to $2,400 a year. This year, his family will also receive household benefits, including our GST Credits, worth $2,100. So the total benefits from the Government amount to $8,230. A case of someone who went to the CDC and is put on the Work Support Scheme, received assistance, found a new job, therefore did not require a training allowance - $8,230.

D.18. Our approach of discretionary assistance is working. It is better than the alternative proposed by Mr Siew Kum Hong and Mr Sin Boon Ann of a system of unemployment insurance. **We must be careful not to move towards a system of automatic broad-based unemployment benefits**. The weight of evidence clearly shows that such schemes ultimately lead to a rise in the number of unemployed and also to the unemployed staying out of a job for longer. That is the weight of evidence from a whole range of countries. The reason why this is the case is that an automatic system of unemployment benefits, which is an entitlement, reduces the incentive to find a job. An OECD study in fact found that a 10% increase in unemployment benefits leads to a 7% reduction in the number of unemployed persons who return to work.

D.19. We should therefore continue with our approach, and keep on improving it.We provide **real support where it is needed, help individuals and families to get back on their feet**, and help us stay as a society with self-reliance at its core.

GST Cut: Not a Solution

D.20. Let me move on now to the issue of GST and why a cut in the GST is not a solution for us in this crisis. Mr Inderjit Singh, Ms Eunice Olsen, Mr Michael Palmer and Ms Sylvia Lim proposed that we cut the GST temporarily to 5%. Mr Inderjit Singh saw this mainly as a way to reduce costs for businesses, but also as a way to boost consumer demand. The other three Members also wanted the cut in GST to stimulate demand.

D.21. The Government considered a GST cut amongst all the options that we were looking at to address this crisis. We decided against it, not as a matter of philosophy, but because it would not have had the desired impact on demand and the economy; and also because the GST cut would have left the lower and middle-income groups worse off compared to the alternative strategies that we are taking in this Budget. It would not have had the impact on demand that is hoped for and it would have left the lower and middle-income groups worse off compared to the alternative strategies we have taken in this Budget.

D.22. There are three reasons for this: First, a GST cut from 7% to 5% will not help business costs to any significant degree. While the GST cut will mean that businesses pay less GST on their inputs, it will not in fact change their margins: The GST that businesses pay on their inputs is claimed back from the Government. At the end of the day, the impact of the GST has always been an impact that is faced by the consumer. It is finally prices that adjust. But business margins are unchanged. However, what businesses would face is the cost of changing the systems for a new GST rate on all their goods and services now, and again when the GST cut is restored. This is why in the UK, which is an example which Mr Inderjit Singh and Ms Eunice Olsen cited, many businesses have been concerned about the 2.5% cut in VAT that the government has introduced till the end of this year. Retailers have estimated that they will have to spend £300 million to cover the expenses involved in making the price changes. So that is the first reason. It will not help business costs to any significant degree.

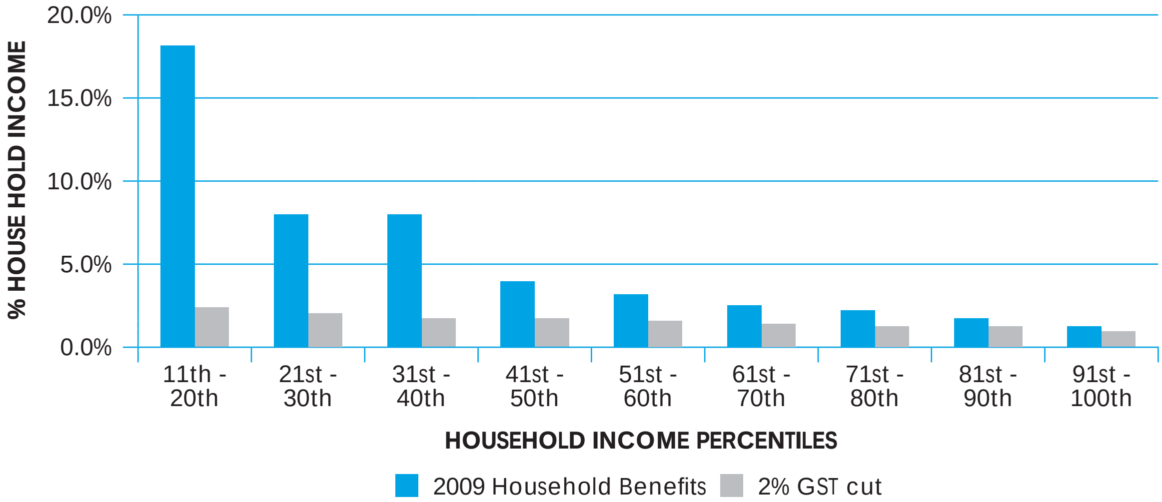
D.23. Secondly, the GST cut will not lead to any significant increase in spending. In the UK, the hoped-for impact on consumer spending arising from the VAT cut during the Christmas and New Year period did not materialise. In fact, they timed it in advance of Christmas and New Year, made a big announcement in the hope that it will spur consumer spending. It did not happen. All the major retailers have commented that it did not make and will not make a difference to their sales. An IMF study also commented, looking at the UK example, that it was "questionable whether decreases in the VAT of a few percentage points are salient enough to lead consumers to shift the timing of their purchases".

Our own experience in Singapore when we raised the GST is similar. There was no reduction in consumption when we increased the GST from 5% to 7% in 2007 and accompanied it with a package of offsets for all households, with more for those in the lower and middle-income groups. Consumption grew by 5% in 2007, no different from the growth in employment income. Both Mr Inderjit Singh and Ms Sylvia Lim also made reference to Dr Basant Kapur's argument in the Straits Times. His main argument was that by reducing prices by 2%, the real value of people's bank balances or any nominal wealth accounts such as bank balances, would increase because prices have come down by 2%. The real value of the bank balances goes up by 2%. So people feel wealthier and they would want to spend more. It is what the economic theorists call a real balance effect.

There is, unfortunately, little evidence of this effect having been observed internationally. It has not happened in the UK and Singapore, as I have just explained. It also did not happen during another major recent episode which is Japan's period of deflation in the 1990s. Japan faced declining prices. So, in theory, people must have felt that the real value of their bank balances and of all nominal balances would have gone up, but they did not spend more. Many economists question whether consumers would at all be concerned about the real value of their bank balances at a time of recession, when their real concerns are over the possibility of losing their jobs or earning lower incomes.

D.24. The third reason why we did not pursue the strategy is that the 7% GST is a valuable source of revenue that allows us to fund additional social supports in this crisis. Today, we already use the revenues from GST to help pay for programmes for the lower income groups, especially the Workfare Income Supplement Scheme. What we are doing instead in the crisis, is to give additional GST Credits to everyone, which they get immediately. Lower and middle income households receive more in GST Credits than what they would have saved from a 2% GST cut. Our approach, therefore, provides money quickly in the hands of households and gives more to those who need it the most **(Chart 2)**.

Chart 2: Comparison of 2009 transfers with a 2% GST cut



- Household income percentiles refer to income from work for resident households ranked by household income: MOF's estimates
- Data for the first decile has been excluded because they consist mainly of retiree households with no income from work

D.25. Overall, households will get back much more in all the benefits we are giving this year than what they would have saved if we were to cut GST by 2%. The chart shows this. It is arranged by percentiles of incomes - the highest income groups are on the right hand side of the chart and the lowest income groups are on the left.

D.26. If Members look especially at the lower income group, the chart shows how much benefits they get, compared to what they would have obtained in savings if we had cut the GST by 2%. So if we look at the chart, households in the second decile, from the 11th to the 20th percentile, will receive total benefits amounting to 18% of household income this year. If we were to cut GST by 2%, these households would save about 2% of household income. That is the difference.

D.27. This approach in distributing the GST credits is also more likely to lead to increased spending because more GST credits are given to the lower and middle income groups, who have a higher propensity to consume. The 2% of GST contributes $1.8 billion to our revenues. We are putting it back into the system, and back to where it will help most. *Business Times* on 2nd February quoted Mr Terry Connor. He is the CEO of Courts and President of the British Chamber of Commerce, and Courts, as Members know, is a major retailer. They quoted him on the Government's approach of keeping the GST at 7% and instead providing GST Credits and other benefits to households. I quote him, "**This is a well thought-out response to the call to lower GST as it has the same or greater impact, while keeping on track the longer term goal of competitive corporate and personal taxation and re-distribution to the most needy**."

Resilience Package provides a significant boost to demand

D.28. Some Members were concerned about whether enough is being done in this Budget for the demand side of the economy. This is a Budget with a basic deficit amounting to 6% of GDP. It provides a significant boost to all segments of the economy. Our main approach has been to help the economy through the supply side - by helping businesses so that they can help preserve jobs. What this does is to support both business demand - the demand that businesses create from each other, one supplier to another - as well as to support consumer confidence, which is the confidence that workers get because their jobs and incomes are more secured. So that is our main approach.

Secondly, as Ms Indranee Rajah has pointed out, our Government spending programmes and the additional investments that we are making in the range of sectors, especially on infrastructure, also add to demand. Together, these approaches, helping the businesses and Government spending, will get the most bang-for-the-buck for the money we are spending. In other words, the injection of Government money this way will have a larger multiplier for the economy, compared to direct efforts to boost consumer spending. It is the best way to sustain confidence in a crisis, amongst both businesses and consumers.

Budget Book Estimates for Political Appointments

D.29. Before I conclude, let me quickly clarify the issue which Mr Low Thia Khiang had raised, on the difference between the salary adjustments for political appointees, as announced by Minister Teo Chee Hean and the Budget Book estimates for FY 2009. Let me assure Members that the payouts for salaries of political appointees would be determined by the Government policy as announced by Minister Teo. The estimates in the Budget Book for expenditures on political appointments within each Ministry were, unfortunately, not updated in time. The actual expenditures will, of course, be reflected in revised budgetary estimates in the course of the year.

E. RESILIENCE: OUR COLLECTIVE APPROACH

E.1. Mr Speaker, Sir, the Resilience Package is not just about $20.5 billion. It is not just about fiscal firepower, as Dr Amy Khor puts it. It is not just about the fact that we are running a highly expansionary Budget this year. This Package, and whether it succeeds, is ultimately about how we respond collectively to this crisis as Singaporeans. Many MPs have made this point during the debate - Mdm Ho Geok Choo, Mr Ong Ah Heng, Ms Ellen Lee, Mr Wee Siew Kim and others. We cannot change the global circumstances that we are faced with. But as several MPs pointed out - Mr Heng Chee How, Dr Lily Neo, Mr Matthias Yao, Mr Arthur Fong and others - we must rely on our character, fortitude and perseverance that we have as a nation to get us through this crisis. We cannot change global circumstances but we do have real assets, in our character, our fortitude and our will to survive and to bounce back up, that will take us through this crisis.

E.2. As Mr Sam Tan said yesterday, the Resilience Package is about everyone closing ranks and working together. Everyone has a part to play. The Government has provided substantial support to help businesses and households, and stands ready to do whatever it takes to overcome this crisis. Businesses must play their role:

i. retain jobs wherever possible, and create new ones;

ii. maximise use of SPUR and other training initiatives;

iii. banks should continue lending to all viable companies to help them see through this storm; and

iv. landlords should pass down property tax rebates, and do more where possible;

For the community sector - our VWOs, community leaders, good-hearted volunteers from all walks of life, and our philanthropists - the crisis is a time to do more for those in need. The crisis will also be a test of our adaptability as individuals. All over the world, people are going to have to make adjustments to cope with this crisis - people of all ranks. We can do this better in Singapore by being willing to work in different jobs and learn new skills, either with the same employer or in order to secure a new job, and by being prepared to help our family members, and the poor and vulnerable in our community.

E.3. This collective approach, with everyone - Government, businesses, the community sector and every individual - pulling together and playing our roles, is what the Resilience Package is really about. It is what will help Team Singapore, as Mr Seng Han Thong urged, press on against the tides in the year of the Ox. It is what will get us out of this crisis a more resilient society and a stronger country.