

# TRANSCRIPT OF BUDGET 2014 DEBATE ROUND-UP SPEECH BY DEPUTY PRIME MINISTER AND MINISTER FOR FINANCE, MR THARMAN SHANMUGARATNAM ON 5 MARCH 2014

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## A. INTRODUCTION

- A1. Madam Speaker, I would first like to thank Members of the House for a very rich Debate over the last two and a half days. We have discussed a wide range of topics, but a few themes stick out in the Debate. Members agree with the need for us to transform our economy, and everyone agrees that we need to build a fair and equitable society. We are taking important steps forward.
- A2. The Pioneer Generation Package was spoken on by virtually every member of the House. You all lent strong support for the Government's plans to honour the Pioneer Generation. We heard many heart-warming stories that brought the spirit of our pioneers to life.
- A3. There were also many other, more specific issues which are going to be taken up in the Committee of Supply: issues such as the protection of low wage workers raised by Mr Zainal Bin Sapari; benefits for the self-employed by Mr Ang Hin Kee; some issues to do with the specifics about particular sectors – prefabrication in the construction industry, for instance, by Dr Teo Ho Pin; issues to do with arts and heritage by Ms Janice Koh; issues to do with the pre-school sector; work-life balance; green vehicle schemes and so on. Many specific issues have come up which I am sure will be taken up in the Committee of Supply debate.
- A4. What I would like to do is to concentrate on the three main themes that have come up in the debate. First, how we can move towards a higher productivity, higher income society – one with a productive and vibrant Small and Medium Enterprise (SME) sector, and with good jobs and futures for all Singaporeans.

Second, how we are honouring our Pioneer Generation, and beyond our Pioneer Generation, how we are building a system of quality and affordable healthcare for all Singaporeans. Third and importantly, I want to talk about how we will have to balance our Budget for the future as our infrastructural and social needs go up over time.

- A5. There are thus three important themes – the first is often thought of as economic, although at the heart it is also social; the second has to do with social spending, particularly healthcare; and the third has to do with how we balance our budget over the long-term.

## B. COSTS

- B1. Before we go into the first main theme – the economic challenge of restructuring – let me first deal with the issue of costs, which many MPs have rightly raised. First, the issue of cost of living. Second, the issue of business costs, particularly for our SME sector. I will speak about each of these in turn.
- B2. First, cost of living. Mr Nicholas Fang and Assoc Prof Eugene Tan, have mentioned the latest EIU report, which ranks Singapore the most expensive city in the world. I do not particularly want to focus on this report in its own right, but to explain a couple of very basic things about such reports that come out from time to time, whether it is the Economist Intelligence Unit (EIU) or Mercer ones, which are really aimed at measuring expatriates' cost of living in different parts of the world. They are useful tools for HR managers and corporate HQs as they decide where to place their people. When they are placing them in a particular place, they need to know how to compensate them adequately based on the cost of living. It is a useful tool.
- B3. They are basically aimed at comparing cost of living for expatriates in different cities or countries. Hence, there are two things that make these surveys quite different from the factors that affect the cost of living for Singaporeans.
- B4. First, exchange rates. An important reason why we have become an expensive place for expatriates is that the Singapore dollar has strengthened. Indeed, the EIU report points this out. The

Singapore dollar has strengthened over the years and this means that it is a more expensive place for someone who is paid in a foreign currency, or for a corporate HQ abroad whose earnings are in foreign currency. As the Singapore dollar strengthens, it becomes more expensive.

- B5. But the reverse is true for Singaporeans. The stronger Singapore dollar improves purchasing power for Singaporeans – in Singapore because imported goods become cheaper (and for us, food and everyday items are all largely imported). And it also improves purchasing power when Singaporeans go abroad – you can see that from the latest travel fair last week. The stronger Singapore dollar, through steady appreciation, has been good for Singaporeans but it does mean that Singapore becomes a more expensive place for expatriates on foreign currency earnings.
- B6. The second important difference has to do with what goods and services are being measured as part of the cost of living basket in these surveys. The EIU tries to put together a basket of what they think are expatriate costs, perhaps more on the higher end of expatriates. It is quite different from the goods and services consumed by ordinary Singaporeans, which our Consumer Price Index (CPI) basket measures.
- B7. For example, the EIU basket includes imported cheese, filet mignon, and Burberry-type raincoats, which are not very common in Singapore. It also includes the price of the four best seats in the theatre; and three-course dinners at high-end restaurants for four people. These items are in the EIU cost of living basket. Indeed for some of these items, Singapore is expensive. I do not think they

are irrelevant for an expatriate cost of living basket, but it is quite a different matter for a cost of living basket for Singaporeans.

- B8. Transport is also part of the cost of living basket for these expatriate indices. But they cover just cars and taxis, not mass public transport. Our public transport is significantly cheaper than most other cities – New York, London and Tokyo. We are comparable to Hong Kong but significantly cheaper than most other cities. Even our taxi fares are cheaper. But our cars are expensive because we are a small place. For an expatriate who wants to own a car, it is expensive in Singapore. But if you are talking about an average Singaporean taking public transport, costs are in fact much cheaper than many other cities.
- B9. So I highlight this just to point out the differences. It is not that these surveys are wrong, or that they are misguided. But they are measuring something quite different from the cost of living for an ordinary local in different cities around the world.
- B10. Now, there are unfortunately not many surveys that try to measure the cost of living of ordinary residents. But there was a good study done by the Asian Competitiveness Institute in 2012, which compared purchasing power in different cities. They specifically distinguished the cost of living for expatriates and the cost of living for a typical resident household. They looked at all sources of data, including the EIU studies and the World Bank's International Comparison Programme, and constructed separate consumption baskets for expatriates and for ordinary residents. They found that Singapore was indeed quite expensive for expatriates compared to other cities. At the time of their study, Singapore was ranked 5th

out of 109 cities in the index in terms of costs for expatriates. But costs for Singapore residents were very different. We were ranked 61st out of 109 cities when we compared the cost of living for residents. We were quite similar to other Asian cities like Hong Kong, which was ranked 58th, or Seoul which was ranked 60th.

- B11. That is the basic difference. From time to time, these surveys will come up, and people will give it a spin, but they are measuring something quite different from the cost of living for our residents. What is important for us is that Singaporeans, and particularly low- and middle-income Singaporeans, have incomes that grow faster than the cost of living. That is what is important and what we have fortunately been able to achieve.
- B12. In the last five years alone, if you take our median households, their incomes have gone up faster than the cost of living as measured by the CPI index. It has gone up by about 10% in real terms. There is a similar rate of growth for the low-income household. Indeed, for the low-income households, if you exclude from the CPI index the imputed rentals for those who own their homes (they do not actually have to pay rent), then the increase in real incomes of the 20th percentile household was 19% over the last five years.
- B13. There is thus significant improvement, and we keep our eyes focused on how the average Singaporean and the low-income Singaporean is doing with regard to their incomes, relative to the cost of living.

### Business costs and competitiveness

- B14. Let me move on now to the issue of business costs and competitiveness. We should keep our eyes on expatriate cost as it is also part of the overall business cost equation.
- B15. These are the key challenges we face, as Mr Inderjit Singh, Mr R Dhinakaran, Mr Teo Siong Seng, Mr Yeo Guat Kwang, Mr Ang Wei Neng had said just a short while ago, and several other MPs, including Ms Jessica Tan, had highlighted in their earlier speeches.
- B16. There is the challenge of business costs. It has gone up, fundamentally because we have not been doing poorly as an economy. The wages have therefore gone up. Wages will increase as long as there is a tight labour market and strong demand for labour. Rental costs have also gone up, because business demand for space has been very strong. Demand for industrial space, demand for retail space, demand for office space. As demand has exceeded supply, rental costs have gone up.
- B17. So demand in our economy has been strong, especially demand for manpower and space. That is the fundamental reason why costs have picked up.
- B18. The wrong strategy will be to weaken our economy, or make ours a less vibrant economy. You can think of many cities which are less vibrant. The cost of living is significantly lower because there are less wage pressures and rentals are cheap. But that is not the economy our business community wants, and that's not what Singaporeans want.



- B19. So we have to keep this as a vibrant place, keep a check on costs to make sure they don't persistently rise faster than business profits or wages. That is our strategy. But we have to accept that we are not going to be a cheap location for businesses.
- B20. How then do we address the challenge of business costs?
- B21. I would like to refer to Mr Yeo Guat Kwang's speech where he contrasted the situation in Hong Kong and Japan.
- B22. In Hong Kong, retail rentals have gone up very sharply, and much more so than in Singapore. In fact, the cost of land and the cost of all properties, including homes, have gone up very sharply.
- B23. Prime retail rentals in Hong Kong today are more than seven times higher than in Singapore. Their property cycles are sharper than ours, and cost of space has on a longer-term basis too, gone up much more than in Singapore.
- B24. In Hong Kong, they leave it mainly to the market to restructure itself. As rentals go up, business costs go up, businesses have to restructure. The example which Mr Yeo Guat Kwang gave us was about how retail businesses had shifted away from their traditional clientele and services towards catering to the high-end Chinese, and how some Hong Kong residents were not happy with this loss of services. But that has been how their businesses adjust.
- B25. Mr Yeo Guat Kwang contrasted the situation to Japan, where rents are cheaper. In Japan, strict rules on redevelopment and land uses have enabled many small, traditional businesses to survive. But that's not all. Wages have stagnated for a long time.

Opportunities for the young are limited, as Japan's economic growth has stagnated.

- B26. Two quite different situations; and neither is ideal.
- B27. We should avoid either relying purely on market forces, or having government rules that prevent market adjustments and try to preserve prices as they are.
- B28. What we have done therefore is to try to mitigate the property cycles. When you look at either industrial or retail space, like the residential market, that is our approach. Supply is catching up quickly. As I mentioned in the Budget Speech, the amount of new supply of multiple-user factory space that is coming on stream in the next three years is going to be double the demand we saw in the last three years. Demand would not suddenly double, but supply will double, so I expect that what we are doing will have a moderating influence on rentals. We have already seen the industrial rentals fall by 1.4% in the fourth quarter of last year. Likewise for shop space. We are expecting a very substantial increase in supply of shop space.
- B29. We do not have perfect foresight, but when we see the market heating up, we take quick action to boost supply and find other ways to help businesses to mitigate costs. And one of the ways is what Ms Jessica Tan, Dr Teo Ho Pin and some others spoke about, which is to help companies to save costs through the sharing of services. We are doing it through JTC's cluster industrial spaces like the Food Hub and Tuas Biomedical Park. There will be an increase of such cluster concepts, which will enable companies and especially SMEs to share services. This

means reducing the upfront investment costs that they otherwise have to bear on their own. It also means lower maintenance costs over time.

B30. Ms Penny Low likewise spoke about having more clusters for start-ups, like Block 71, and I think that is a good idea. Mr Zaqy Mohamad spoke about retail malls, helping retail SMEs to share services amongst themselves.

B31. So these are useful ways in which we can mitigate the rise in business costs and help companies move to more efficient business models – more efficient ways of using their manpower and getting value out of the space they occupy.

B32. Transport costs are another important issue for businesses. That is why we had given road tax rebates last year, and also allowed for a further five-year Certificate of Entitlement (COE) extension for vehicles whose COEs had already been renewed once. The move was really to help our smaller businesses. This year, we enhanced the Early Turnover Scheme to lower replacement costs for old commercial diesel vehicles.

B33. These are each ways in which we can mitigate the business cost increases, and we are open to any other suggestion, any practical and effective ways in which we can help.

B34. Mr Inderjit Singh had asked for a permanent solution. The permanent solution to address rising business costs is to raise productivity. That is the only permanent solution. We have got to upgrade our economy fundamentally.

B35. As long as we remain vibrant as an economy, our costs will basically approach that of an advanced country. Higher in some areas, lower in other areas, but basically we will have costs similar to that of an advanced economy. And the only way for our businesses to survive in that environment is to have advanced country capabilities: in innovation, in the commercialisation of R&D, in managerial skills, in the way we invest in employees so that they develop deep skills. That is the only way.

B36. We summarise it with a measure called productivity, but that's the outcome. It is actually about skills, workplace culture, automation, and innovation.

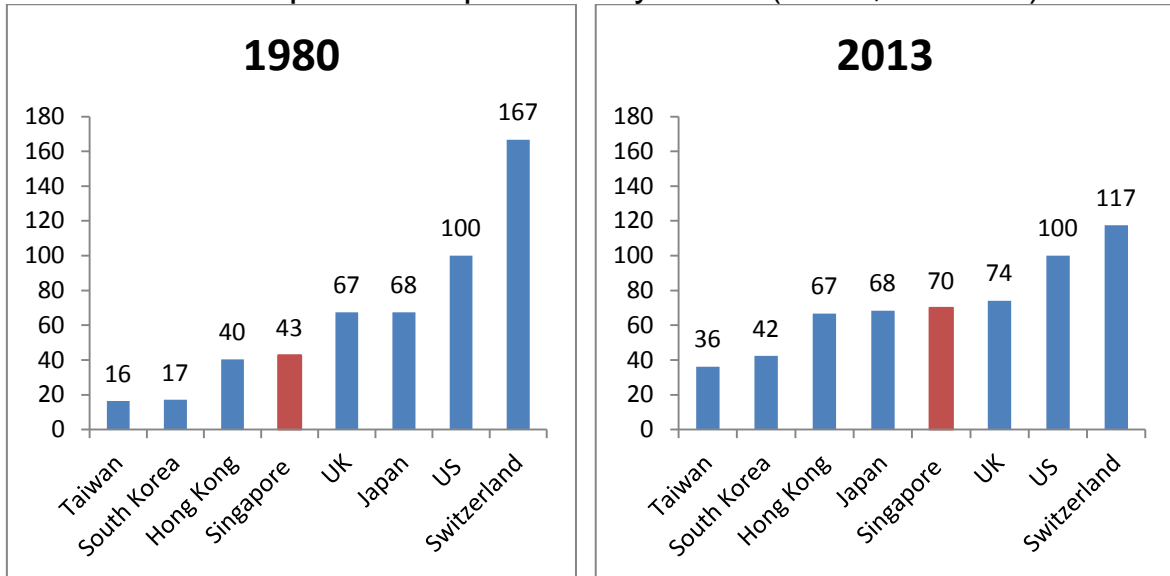
## **C. A HIGH PRODUCTIVITY ECONOMY: TRANSFORMING ENTERPRISE, JOBS & CULTURE**

C1. Which brings me now to the first main theme of the Budget as we look to the future – how can we achieve this higher productivity, a higher income economy.

C2. First, I think it is useful to take a step back. It is not as if we are a failing economy when it comes to productivity. It is useful to see where we have come from. I will show you a chart, on the journey we have traversed over the last 30 years.

**Singapore has been closing the productivity gap with the advanced countries over the decades**

International comparison of productivity levels (Index, US=100)



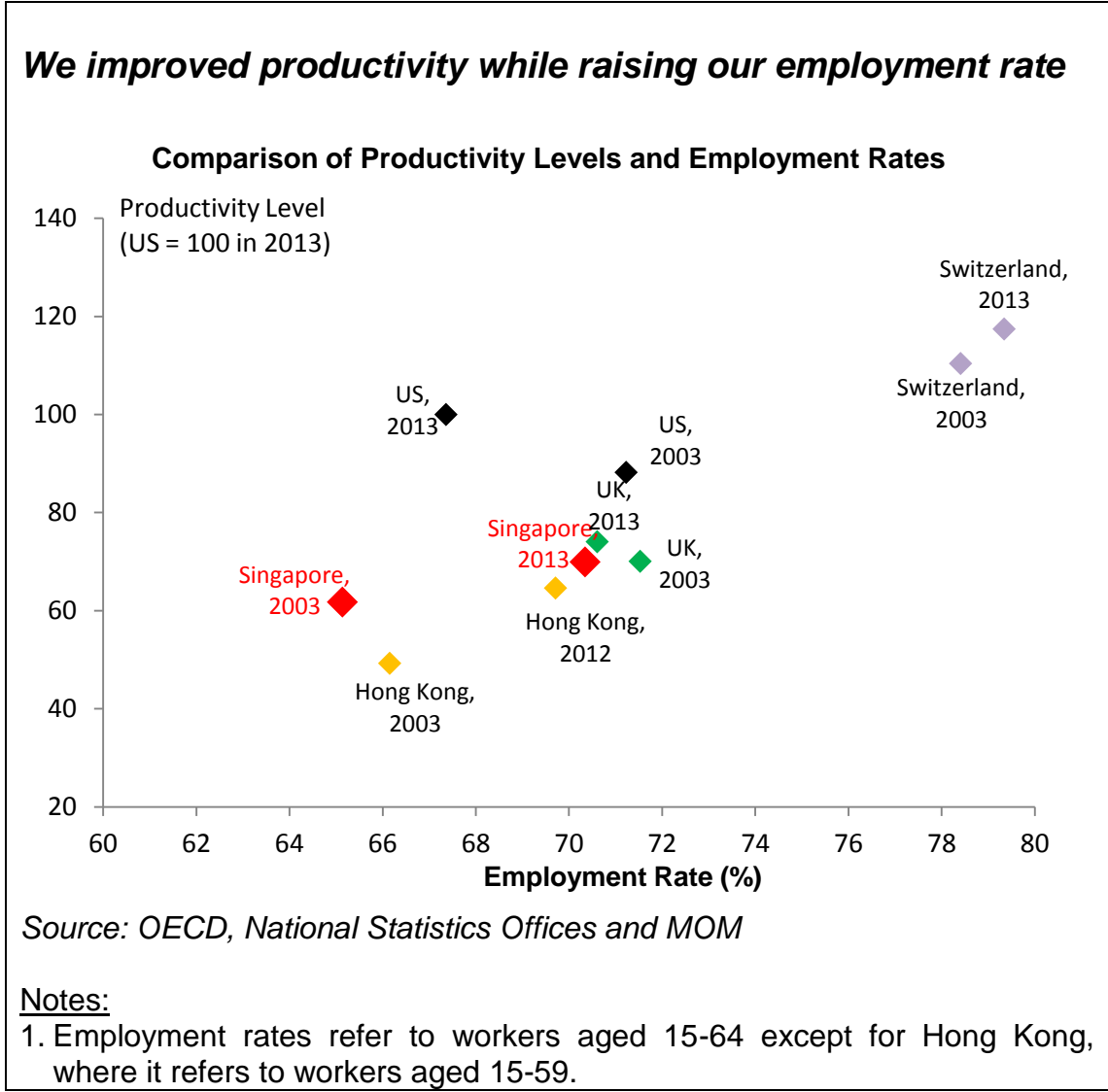
Source: IMF, The Conference Board and DOS

Note: Based on productivity levels at constant 2013 prices.

- C3. This is 1980. In 1980, it compares our level of productivity compared to the US. I am using the US here for simplicity as it is a major advanced country and in many aspects, a leader in productivity. If you take the US as 100, Singapore was basically at about 40% of US' productivity level in 1980, 30 years ago. So we were very much a developing country then, about 40% of US' productivity levels, and well below most developed countries.
- C4. Fast forward 30 years, where are we now? We are basically at about 70% of the level of the US. So it is quite a major shift in 30 years, from about 40% of the US' productivity levels to 70% of the US. We are almost at the UK's level of productivity, and in fact slightly higher compared to Japan (on account of its inefficient services economy). So it is not a bad achievement. Our SMEs, our

people, everyone has taken this journey, and we have come a far way in 30 years.

- C5. There is a second challenge, however, as we go forward. It is not just about productivity in itself. As Mr Yeo Guat Kwang emphasised, it is about raising productivity while maintaining full employment.
- C6. What is unique about Singapore, among many economies in the last ten years, is how we have increased our employment rates (those employed as a ratio of the working-age resident population). We have provided job opportunities for everyone.



2. 2013 employment rates for Switzerland and the UK were based on the first three quarters of 2013.

- C7. 10 years ago, our employment rate was at about 65%. Since then, our productivity has improved a little but our employment rate has increased significantly, to slightly over 70%. It is not the highest internationally (especially for our women), but it has caught up with some of the advanced countries.
- C8. It is an important challenge: to raise productivity while providing jobs and opportunities for all our citizens. It is a more difficult challenge than raising productivity by shedding employment, which is what many countries have done. For example, in the United States, productivity has risen over the last 10 years but at the same time, employment rates have decreased significantly. Similarly in the United Kingdom – the employment rate has fallen while productivity has improved slightly. And typically, when employment rates fall, it is the lowest-skilled workers who get squeezed out of the workforce.
- C9. We have taken a more inclusive approach, which we will retain going forward – and this makes our restructuring efforts a special challenge. We do not want to do it the way that some other countries have done – where a segment of the workforce drops out, and there is higher productivity almost automatically. In our case, most of the lower-skilled workers who would be forced to drop out would be older workers. Our aim is to keep everyone in the workforce, and as Mr Lim Swee Say says, make every job better. This makes it a very difficult challenge, but one that we can achieve.

- C10. No one can be satisfied with the rate of productivity growth in the last few years – it has been dismal. There are some cyclical reasons for this, but the problems are more than cyclical.
- C11. What is the Government's approach? We have tightened foreign worker policies, and accompanied this with very substantial assistance for businesses to upgrade. This essentially means providing our SMEs in particular with assistance, because our schemes – whether it is the Productivity and Innovation Credit (PIC) or the Transition Support Package (TSP) – are tilted in favour of SMEs. We know that the SMEs are the ones who need the most assistance. Large firms are able to adapt to market forces much more easily because they have greater resources to invest in raising productivity.
- C12. We are now in the second year of the TSP, a three-year package estimated at \$7.3 billion, and 80% of it is going to SMEs. This works out to about \$5.8 billion, which is a very substantial amount of assistance. But this assistance is not spread equally across all SMEs – some are getting substantially more help, because they are taking the initiative to invest in productivity, to innovate, and to upgrade the skills of their employees.
- C13. But productivity cannot just be summoned up. We have tightened our labour market policies and we are providing strong support for businesses to upgrade, but productivity cannot be summoned up. It will require entrepreneurial energies, business leadership, and everyone striving to do better at their jobs.
- C14. On the Government's part, whenever we see an innovation working, we try to spread that innovation, help other firms in the



sector adopt it, and hence scale up the improvements. Fundamentally, however, businesses have to respond, and management has to respond. The Government will then find every way to spread innovation and improvements throughout the economy.

C15. We also have to let market forces do their work, which is the third dimension of this. Market forces will reward businesses that are more efficient and more innovative.

C16. The market needs time to work. Companies do not give up their business simply because they are doing poorly in one year. It takes time for the market to sort itself out, and for the better businesses to move ahead at the expense of the rest.

C17. The pace of our restructuring is therefore important. There have been two views in this Debate on this. Mrs Lina Chiam had wanted us to accelerate the shake-up of firms, and accelerate the consolidation of small firms. On the other hand, Mr Inderjit Singh, Mr R Dhinakaran and several others felt that we had been moving too quickly in our restructuring efforts, that we needed to pause.

C18. We have taken the middle path. First, we have avoided shock therapy. That can work in theory, but in practice there is high risk of good, viable firms being shaken out, as well as good jobs. However, we have got to be very clear in our direction and keep restructuring at a steady clip, so that there is pressure on firms to upgrade.

C19. All our measures have been introduced in phases, not suddenly. The most significant are the changes in the Dependency Ratio Ceilings (DRCs), which we announce two years before they take

full effect. This is why the full effect of the DRC cuts in the Service sector that were announced last year will only be seen this year and next year.

- C20. Second, we try to avoid a cookie cutter approach where there is only one formula for upgrading, or one scheme for all firms. Here, again, there are two contrasting views regarding our approach for government assistance. On the one hand, Ms Jessica Tan, Er Dr Lee Bee Wah and others spoke about the need to make it easier for firms to qualify and take advantage of our schemes; or as Er Dr Lee Bee Wah said, to provide the assistance faster.
- C21. Another view which Assoc Prof Eugene Tan and Mrs Lina Chiam and a few others expressed was a more cautious one – that we must require firms to demonstrate productivity improvements first, or mandate improvements that have to be made before assistance is committed. These are both meaningful views.
- C22. Through the range of our schemes, we in fact have both approaches. First, we provide broad-based support that is easy to qualify for, but we also have a second level of support that is more customised: where we work with the firms to ensure productivity improvements within a certain timeframe. We need both approaches. We cannot have just one approach where companies have to show proof of improvements before they get assistance; neither can it be an approach where the money is handed out liberally upfront with no questions asked. If we take the latter approach, there will be too much ‘deadweight funding’ – we will end up funding what the companies would have done anyway even if

there had been no assistance provided. We need both approaches, and that is what we have done.

C23. The PIC, in fact, leans towards the liberal approach. It is not “no questions asked”, but companies know that they qualify as long as their expenditures fall within the categories set out. But when it comes to the PIC cash payout scheme – where the money is paid much earlier and in cash rather than through tax savings later – we have had to put a check into the system, which is the “three-employee rule”. It is only for the PIC cash payout scheme, because it is more open to abuse, and not for the PIC scheme at large.

C24. These are some of the practical challenges that we face in designing government support. Do we want a system which allows liberal use of funds with no questions asked? Or do we place requirements that have to be satisfied and proved before assistance is provided? We try to find the right balance, and we will improve this as we go along.

### ***Three Priorities in the Next Phase of Restructuring***

C25. Let me now move on to talk about the next phase of restructuring. What are the priorities that have been expressed in this debate?

C26. First, we must transform our SMEs. Second, we must transform jobs and develop every talent. Third, we must transform our culture – social norms at the workplace and in our society.

C27. In short, we have to transform both our economy and our society as we make this restructuring journey, so that we achieve higher productivity and higher incomes. It is unrealistic to expect to

achieve this in a few years. It is going to take some time, but we must take a determined approach to the problems, support it with resources, and make sure we move at a steady, continuing clip.

C28. A decade from now, we will be in a different place. A place both where firms will be able to survive with good profit margins and workers will have higher incomes: because only higher productivity makes both possible.

### ***Transforming our SME Sector***

C29. The first priority is transforming SMEs, so that they can overcome the constraints of a tight labour market and high business costs.

C30. Our SMEs must remain at the core of our economy. Many MPs, Ms Denise Phua, for instance, spoke about this. We have to make sure that our traditional businesses remain a unique part of Singapore society. As Mr Teo Siong Seng said, there is no reason why traditional businesses, including many family-owned businesses, should not be dynamic players in the future Singapore economy; they can achieve this by applying new management concepts, and adopting strategies that have succeeded among other firms, including larger firms. Our traditional businesses do have a role to play in the future Singapore economy.

### ***Our SMEs have come a long way***

C75. And our SMEs have come a long way, even in the last ten years alone. For instance, if you look at broadband access. Ten years ago, 40% of SMEs had broadband access. Now it is 80%, and in

this year's Budget, we are going to help them move to high-speed broadband.

- C76. Second, they are far more internationalised than they were before. The Singapore Chinese Chamber of Commerce and Industry did a survey on SMEs and found that 60% of those surveyed were now venturing abroad.
- C77. Third, many more Singapore brands are now known abroad. It used to be SIA, Creative and Singtel. Now there are many other brands: Hyflux, Ezra Holdings in the Offshore and Marine sector, SC Auto in Manufacturing, Charles and Keith in the Retail sector, Eu Yan Sang in Healthcare, and many other names that you can think of, that are well-known in Asia especially.

#### Supporting SME transformation

- C78. The SME sector has made progress, but we have got to re-double our efforts in the next decade.
- C79. And I do not think it is just a matter of government support. The level of support we are providing is unmatched internationally. Whichever aspect you can think of – automation, commercialising R&D, design, training of employees – we are providing very substantial support. But we have got to give our SMEs time, keep a steady pace of restructuring and encourage the spread of innovation from early adopters to others.
- C80. The sector-wide approach is an important one. It was an emphasis in this year's Budget and we are focusing on sector-wide solutions as we go forward. I will give you just one example, which is in the Wholesale sector.

C81. We have an e-procurement hub for SME wholesalers. It has enabled about 200 SME wholesalers to transact electronically with their large retailers, thereby improving inventory management, while also providing a shared platform for accounting and business intelligence functions. It saves them costs and manpower. The interesting thing is that this was a solution developed by an SME, which IDA lent support for. Many other firms hopped onto this platform.

C82. We want our SMEs to be a vibrant part of the future Singapore economy, and we will provide as much support as it takes to help them to get there.

### ***Transforming Jobs and Developing Every Talent***

C83. We also need to transform jobs and to develop every talent, as Ms Jessica Tan had emphasised.

C84. It involves every job – as Mr Lim Swee Say said, every job can be and has to be professionalised. He cited the gardener in Japan, the cleaner in Germany, and the waiter in the US. It is not about preserving jobs the way they were in the past, but about making every job better for the worker, and thereby also helping every worker to contribute to upgrading.

C85. That is one challenge. We know what the existing jobs are, and how we have to make them better. But we also have to prepare for jobs of the future, many of which do not exist today, as several speakers pointed out, including Ms Irene Ng.

### **Equipping Singaporeans for Jobs of the Future**

- C86. Experts say that by the time today's primary school children enter the workforce, computers will be a hundred times cheaper, and a hundred times smarter. Based on current trends, it will mean a very different workplace, whether in Services or Manufacturing. Every area of economic activity will be different, because the digitalisation of the economy is proceeding apace, everywhere. It transforms not just businesses, but it transforms jobs.
- C87. Several MPs spoke, including Ms Tan Su Shan, about the challenges this could pose to middle-level jobs. You already see it in the United States. They call it job polarisation, where middle-level jobs are disappearing while those at the top and bottom ends are growing. We are seeing this in the United Kingdom, and we will face that challenge too in the future.
- C88. We have to prepare for that new world. It will not be a jobless world, particularly for Singapore, a small country with the world as its market. If we stay competitive, and if we get our fundamentals right, we can create jobs.
- C89. There will be many jobs that involve working with technology and using technology to gain a competitive advantage. Jobs in engineering, product and systems design, systems management, troubleshooting, and those that involve solving more complex problems. Jobs in programming, data analysis, ICT. And jobs in the creative industry, which Ms Janice Koh has spoken about.
- C90. There will also be many jobs that involve personalised service – in the Hospitality industry, in Healthcare, in Social Services, and in Education. The Social Sector is going to be a major area of job creation in the future.

C91. But no one knows for sure what jobs are going to be around in 20 or 30 years. And that is why we also have to focus on developing obsolescence-proof skills, as Ms Irene Ng put it – the skills that will apply regardless of the job. We know roughly what they are, but we have to keep sensing the skills that are in need in the future economy. Being inquisitive, thinking in original ways, being in the habit of continuous learning. And importantly, the ability to interact with and respect others. These are skills that MOE is focusing on, from the early years and all the way through the school system.

### Redefining education as continuous education

C92. We also have to redefine education. We have a world-class school system. Our challenge is to complement that with one of the best systems of life-long learning. It has to be a continuum – more than two quite separate and distinct phases of life. We have to conceive of education as life-long, with regular refreshing and infusions of knowledge and skills throughout life.

C93. We must invest in this. We are developing a whole new CET Master Plan, which we will announce later in the year. It will require resources, and it will be resources well spent.

C94. I want to emphasise two points. First, that quite apart from Government putting in resources, the business community plays a very important role. Every business has a role in investing in the skills of its employees. This means investing in people even if you are not sure they will be with you three or five years from now. If every business invests in every worker, everyone benefits. As the economists would put it, you have to invest in the commons. If everyone does so, we raise the human capital of Singapore's



society, and everyone benefits. Because in a small economy like ours, what goes around comes around. Every business benefits, and every Singaporean that we invest in benefits. Second, we will also help Singaporeans themselves to take charge of their learning and their development. This is a very important strategy going forward as well. It must start with strengthening career guidance, giving young people a feel for various careers from early on. There were some suggestions in the Debate about starting in secondary school. MOE is giving students work exposure through internships and attachments even when they are in secondary school. At the tertiary level, the ASPIRE Committee is developing a plan for meaningful work engagements for students, in particular, for our ITEs and Polytechnics.

C95. But beyond these early internships and attachments, it really has to be a continuous, life-long learning process. It must involve regular infusions of education at different times in our lives. We have to plan for a whole CET framework that enables us to do this. MOE, for instance, started a decade ago with a system where teachers and principals, after a period of years, can take time-off to learn. Some go on work attachments, some go abroad, some do something in another field of education before coming back to school.

C96. There are many possibilities and we have to study how we can have this regular infusion of skills and knowledge. We have to redefine education, and invest in this next lap in education, where we complement a world-class school system with one of the best systems of life-long learning.

## ***Transforming Culture and Social Norms***

C97. The third challenge is about transforming culture and social norms. Many MPs spoke passionately about this, Ms Foo Mee Har, Ms Penny Low, Mr Patrick Tay. It is a softer area, less tangible, but we all know it underpins everything else that we want to do. If we want to achieve the first two objectives – transforming our SME sector and transforming jobs – we also have to transform the workplace culture and our social culture – and we know that.

C98. The NPCEC, or the National Productivity and Continuing Education Council, will give this great attention in the next few years. It is something that is going to take time, but we are going to place special emphasis on this. It is not just the hard skills and technologies involved in upgrading, but helping companies upgrade management practices and helping them to reshape the workplace culture with the employees. We will be working together with the business chambers, companies and everyone to get ground-up ideas on how best we can transform our norms. It is a very important priority as we go forward.

### Embracing our senior workforce

C99. I will not go through the specifics again, as these have been very well discussed at the Debate. But I want to highlight a point which Dr Lam Pin Min, Mr David Ong and Mr Ang Wei Neng emphasised, which concerns how we include older workers in the workplace and in our economy. And the reason why companies do this has to be more than just a tight labour market where they have no choice but to employ older workers. It is also not just because we are trying to help older workers build up retirement savings,

and therefore we want them to work longer. Those are the economic and financial reasons. It is more fundamentally, as Mr David Ong says, about self-worth, dignity and productive ageing.

C100. When we think about this issue therefore, it's not just about the business and financial strategies. It's really about changing the way we think about every Singaporean – maximising the worth of our older workers, finding ways in which they can add value as part of the team. And this involves transforming mindsets, which is why I wanted to emphasise this particular point which came up very usefully in the debate.

C101. The government will play its role to support this in every way we can. It includes giving employers incentive, such as through the Special Employment Credit. The public sector is playing its role. For instance, MOE draws on many retired teachers and educators, involving them in a very meaningful way as we upgrade our education system.

C102. The business sector has to treat this as a strategic priority and a responsibility, because we can only create an inclusive society in the true sense, as Mr Yeo Guat Kwang said, if we give everyone a chance to have a job and a meaningful opportunity to contribute.

### Self-service as the default

C103. The second aspect of social norms that I want to mention briefly is the importance of moving to a system where self-service becomes the default option in many services, and something which customers even prefer. If you look at what's happened in the Finance industry, it's quite interesting. Not long ago, everyone

wanted to go to a bank branch, speak to the officer across the counter, and have the passbook updated in front of your eyes to make sure it's being updated. How many people still do that? Some of our older folks still want to do it, but for most Singaporeans, the ATM and Internet banking are the default options now.

C104. And we are going to go further, because by June this year, we will be introducing what is called the FAST System – the Fast and Secure Transfers System – which allows consumers and businesses to use electronic devices to transfer funds between banks almost immediately. Today, it takes two or three days to transfer funds between banks.

C105. I give you another example – Real Estate. In Australia, the majority of Real Estate transactions are exclusive agency arrangements – where you have a sole agent for each property. The agents are hence happy to put all the information about the property online or in newspaper ads. They leverage ICT so when you go and look at a house or property, you can look at the floor plans, look at the different rooms - take a virtual tour of the entire property. As a result, prospective buyers do a lot of self-service before contacting the agent. This is another example I'm giving, but it applies to many industries. In every industry, we can think of how self-service can, in fact, provide good service. It saves on manpower and takes us to a new and higher level.

C106. These three priorities in restructuring go together – transforming our enterprises, especially our SMEs; transforming

our jobs and developing every talent; and transforming our culture. We will not succeed unless we move on all three.

## **D. FINDING THE RIGHT BALANCE IN SOCIAL SPENDING**

### ***Pioneer Generation Package***

D1. Let me now move on to issues concerned with social spending.

#### *Strong Support for the Pioneer Generation Package*

D2. I will start with the Pioneer Generation Package, which Members have uniformly expressed strong support for. There has been strong support for the fact that the Package is focused on healthcare needs; that it is given to all pioneers regardless of income; and that we are setting aside the funding required for the Package now, with the advantage of having the means to do so because of our prudent fiscal policies. These were the three important and defining features of the Pioneer Generation Package which have received strong support in the House.

#### *Pioneer Generation Package Starts This Year*

D3. Some questions have been raised about the implementation of the Package.

D4. The first issue has to do with when the Package will be implemented. Dr Teo Ho Pin, in particular, had asked if we could bring forward the Community Health Assist Scheme (CHAS) benefits so that the Pioneer Generation can benefit earlier from the extra subsidies at our GPs. We have studied this very carefully – it is a major effort, involving close to 1,000 GPs and dental clinics,

with system changes required. We have decided to bring forward the Pioneer Generation CHAS benefits from January 2015 to September this year so that it will come into place at the same time as the enhanced subsidies in our Specialist Outpatient Clinics (SOCs). So from September, the Pioneer Generation will be able to get their enhanced subsidies across the outpatient sector – polyclinics, SOCs, and the GPs.

- D5. Before September, every member of the Pioneer Generation will get a Pioneer Generation card, which can be used at the GPs, dental clinics, the SOCs and the polyclinics. The card will be mailed to them by September.
- D6. Even earlier, however, we will make the first round of Medisave top-ups for the Pioneer Generation: in early July. The second top-up will be at the same time next year. This means that although MediShield Life will be implemented at the end of 2015, the Pioneer Generation is going to enjoy two years of Medisave top-ups, two years' worth of assistance to help them to pay for a significant part of their current MediShield premiums.
- D7. Ms Sylvia Lim had asked whether the MediShield Life premium subsidies for the Pioneer Generation will cover not just MediShield Life but also Medisave-approved private plans. The answer is yes. These Medisave-approved plans are Integrated Shield Plans and they include MediShield as a basic component. In future, the plans will include MediShield Life as a basic component. So, those on Integrated Shield Plans will receive the same dollar amount of subsidies as those on MediShield Life.

### Ensuring Effective Outreach

- D8. Next, the issue of outreach, which many MPs spoke about. This is a massive exercise that involves reaching out to 450,000 Singaporeans. It is a task that involves IT systems, many agencies and many points of contact, and we want to do this as well as we can.
- D9. The first thing that we have to assure members of the Pioneer Generation about is that the benefits will be provided automatically. The pioneers do not need to worry, even if they are unsure of their exact benefits. It is going to be provided automatically. The Pioneer Generation cards will enable them to easily identify themselves at the clinics to get the additional subsidies. Even if they forget to bring their card, it is there in the computer system.
- D10. They will get their Medisave accounts automatically topped up. They do not need to have worked earlier and have been CPF members. As long as they have signed up for Government schemes in the past, which almost all have – such as the GST Voucher and Growth Dividends - the CPF Board would have opened a Medisave account for them. In fact, over 430,000 of our Pioneer Generation already have Medisave accounts because of these schemes.
- D11. I think the bottom line is as Ms Irene Ng had put it, “don’t worry”. Whenever any member of the Pioneer Generation expresses some anxiety as to whether they are going to get benefits, tell them, “Don’t worry, you will get it automatically. There is nothing to be worried about.”

- D12. There is a very small group, less than 3%, who do not have Medisave accounts because we have been unable to contact them over the years, despite considerable efforts by grassroots leaders and many others to contact them. Some have passed away overseas without their next-of-kin informing us. Some have NRIC addresses that are no longer valid. We will continue to work hard to reach out to find them, and reach out to them. It is a small group but we will have to keep working at this.
- D13. The outreach effort will have to involve many different approaches, many different media, and many different languages. MPs have all emphasised that, and the point is well taken. It is not just about printed brochures arriving in your letter box. It involves personal contacts, radio, TV and it involves languages that are most familiar to the Pioneer Generation.
- D14. It will not be just a top-down outreach effort. We will work with everyone on the ground, our grassroots leaders, our GPs, our polyclinics, outpatient clinics, and the staff in all our healthcare settings, where people come for treatment. We will also work with our VWOs because they too have a lot of contact with the Pioneer Generation.
- D15. There are online facilities that allow younger family members to help the elderly to look up details online. As I mentioned, the benefits will be provided automatically and there is nothing to worry about. If someone really needs to talk to a volunteer or officer to find out more, we already have today 26 CitizenConnect Centres across the island, where advice can be sought on the Pioneer Generation Package.



### Appeals for Eligibility

D16. Eligibility is the next issue. Mr Baey Yam Keng and Mr Lim Biow Chuan highlighted the case of individuals who have been living in Singapore and contributing since independence, but who were not able to get citizenship until later, after 1987. The appeals panel that we are setting up will be able to look into such cases. The panel will have diverse representation, comprising Singaporeans from a range of backgrounds. The panel will be set up by the end of April and we will provide more details later.

### Broader Recognition of Our Pioneer Generation and Seniors

D17. Many MPs spoke about the issue of broader recognition of the Pioneer Generation, beyond the Pioneer Generation Package that the Government is providing. They asked about what the community and businesses can do to recognise our pioneers and seniors. This will be a collective effort. As we approach Singapore's 50th birthday, we must give recognition to the role of our Pioneers, and all our seniors. The Ministerial Committee on Ageing has called for a special SG50 – Seniors Program to appreciate the role of our seniors in contributing to our nation. The Committee will engage business and organisations as part of the SG50 effort, to offer special privileges for seniors and discounts to places of recreation and leisure or other benefits. They will also find ways to engage our seniors actively, to help them to lead active and engaged lives. It is an important initiative, part of SG50. We will involve our businesses and the broader community in recognising and honouring the roles of our seniors.

## ***Keeping Healthcare Affordable***

- D18. Can I move on now, Madam Speaker, to a broader challenge which is that of healthcare financing? This is in fact a key fiscal challenge for the future in Singapore, as it is too for many maturing societies. It is the key fiscal challenge that we face and I want to spend a bit of time talking about the nature of this challenge, and how we should address the challenge.
- D19. Good quality and affordable healthcare has to be our priority. We are making a few shifts in that direction – in the last few years and in this year’s Budget.
- D20. First, we are increasing the role of risk-pooling through MediShield Life to provide all Singaporeans, including those with pre-existing illnesses, with protection against large hospitalisation bills.
- D21. Second, we are increasing the Government’s share of healthcare spending across healthcare settings – in hospitals as well as outside hospitals. The increased subsidies in this year’s Budget for SOCs, and the increased subsidies in recent years’ Budgets for intermediate and long-term care services, are an important shift. We have also introduced CHAS for primary care at our GPs.
- D22. Medifund is also being strengthened and we will keep it strong. So that is the second part – the Government is taking an increasing role in the financing of healthcare.
- D23. The third part is important, which is that we have to preserve the role of individual savings, through Medisave, as a key pillar of the system. Individual responsibility for health, and to save for healthcare needs, must remain a key pillar of our health care

system. But we are going to provide additional flexibility for older Singaporeans in their use of Medisave. The more flexible use of Medisave will help in reducing out-of-pocket payments in polyclinics, SOCs and CHAS GP clinics.

D24. This will be implemented in the first half of next year. Mr Gan Kim Yong will talk about this more in the COS.

D25. But the sum of these changes that we have made in the last few years is quite significant. We are providing much greater support in healthcare, not just for the low-income group, but also for the middle-income group, particularly in outpatient primary care and step-down care. It is quite an important shift.

D26. I will give you an example of a middle-income couple in their early 60s, who are not of the Pioneer Generation. They are at the median – the median household income per capita is about \$1,700 per month. This is a case where the husband receives day rehabilitative care two to three times a week. The wife also visits the polyclinic twice a year, and the SOC three times a year. Not an uncommon example. Over the past decade, the policy shifts that we have made to increase subsidies for the middle-income group, particularly outside hospitals, have meant that this couple would receive a quadrupling of healthcare benefits. Four times more than what was in place a decade ago.

D27. In addition, if the husband was to get home-based care instead, the household would see a 7.5 times increase in support compared to what we had in place a decade ago.

D28. As the couple gets older, they will be getting Medisave top-ups through the GST Voucher, which is not an insignificant sum. Each

of them will get GSTV – Medisave of \$250 each a year; in their mid-seventies, it will be \$350 each a year. Plus, the enhanced benefits of MediShield Life, which cuts down on the risk of large bills in hospitals that will come with further subsidies from the Government for the middle-income group. So I just want to highlight that we have been making significant shifts, not just for the Pioneer Generation, but for all Singaporeans as they get older.

### Managing the Total Healthcare Bill

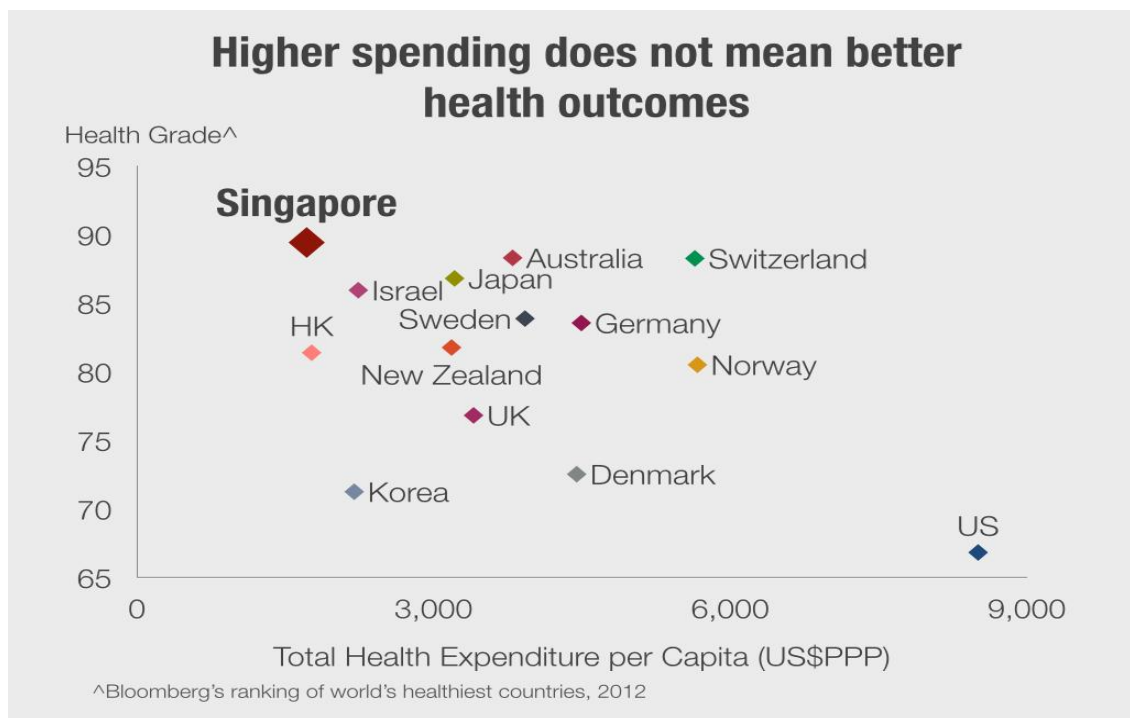
D29. But we have a larger challenge in the future. Beyond these shifts that we are making, we have to look to the future and address the larger challenge of healthcare costs. To put the scale of things in perspective, the Pioneer Generation is 450,000 Singaporeans. The next generation, or the baby boom generation, now aged 45 to 64, totals one million Singaporeans. They will be entering their retirement years ten to twenty years from now.

D30. We have to plan for this, so we can provide quality care in an affordable way. As we do so, two key points must be borne in mind.

D31. First, it is a misconception that countries that spend more are doing a better job in providing healthcare. Spending more does not mean better healthcare. The evidence is very clear on this internationally. Some countries have very high spending, but in fact have much weaker healthcare outcomes than others.

D32. I will show you a chart to illustrate this. This is a set of mainly advanced countries, plus Asian economies like Hong Kong, Korea, Japan and Singapore. I will have to explain the chart. The

horizontal axis is total healthcare expenditure per capita – national expenditures, i.e., what everyone is paying, including the government, employers or individuals. The vertical axis is the ‘health grade’ that comes from Bloomberg’s Rankings of the World’s Healthiest Countries. They look at life expectancy, percentage of underweight children, proportion of people with high cholesterol, and various other indicators.



D33. First thing you will notice is that Singapore is not doing badly on health grade. The Bloomberg ranking places us at the top. We can't say that for sure, but we are doing quite well in healthcare outcomes. We have been doing it with relatively lower expenditure compared to other countries. Part of this is because we are a little younger as a society compared to the European societies, but even if you adjust for that, we spend less on healthcare, but achieve good healthcare outcomes.

- D34. At the other end of the spectrum, the United States. People often refer to it, and wonder why we are not spending as much. The United States spends a lot of money, but it has very weak healthcare outcomes. In fact, much weaker than most other advanced countries. And if you look at various countries in the middle, there is very little correlation between how much you spend and your healthcare outcomes.
- D35. Why is it that some countries are spending far more and yet not getting better outcomes? There are basically three reasons.
- D36. First, particularly in the United States, the costs are much higher for any particular treatment. For example, the cost of a knee replacement in the United States is about four times the cost in Singapore. Prices are just much higher in the United States than in other advanced countries. So that is the first reason.
- D37. The second reason is very important because it applies to many countries, which is that incentives have led to over-prescription and over-utilisation of healthcare services. This means spending a lot more without commensurate improvement in healthcare outcomes. This is in fact a very serious issue in countries with a fee-for-service model, where as long as the doctors are prescribing new services, new treatments, their fees increase, their incomes increase. In the United States, in particular, their incomes can increase very significantly for prescribing additional services. This is the second reason. Over-prescription and over-utilisation which does not lead to better healthcare outcomes.
- D38. The third reason, which is also very important, has to do with healthcare systems that provide universal subsidies for everyone

across-the-board. The poor, the middle-income and the rich. In fact, many advanced countries do that. They provide universal subsidies across-the-board. It may make healthcare look very cheap for everyone at the point of consumption. However, it leads to much higher usage because it looks cheap, and people do not realise that they are actually paying for it in another way, through higher taxes. So, it is a system where everyone benefits from universal subsidies, leading to a high utilisation of healthcare, but is in fact paid through higher taxes, higher insurance premiums and other means.

- D39. Besides the US, Japan is a good example. In Japan, health insurance covers a very wide range of services, with very little control over access to treatment. As a result, the Japanese see physicians three times as often compared to other developed countries, and they stay in hospitals two to three times longer than in other developed countries. It has nothing to do with demographics, and nothing to do with their medical condition. It is all a matter of incentives.
- D40. The costs that you saw in that chart are not the end of it. In the next ten to twenty years, the costs are going to increase very considerably in these societies because of the incentives towards over-utilisation and over-prescription. So that is the first point – more spending does not mean better healthcare outcomes.
- D41. The second key point I want to make is that there is in fact no free or cheap healthcare anywhere in the world. It can look cheap or free at the point of obtaining the service because your insurance pays for it or the government has subsidised it. But the public is

ultimately paying for it either through taxes or hefty insurance premiums. It is not as if someone else is paying for it.

D42. Take Germany, for example, where individual co-payments at the point of treatment are very low. It is very cheap when you go to hospitals or even in the outpatient setting. But the reason why co-payments are low is that people have already made substantial contributions through payroll tax to a “sickness fund”. The employer and employee contribute 15.5% in payroll tax that goes into a “sickness fund”.

D43. And when you think of an employer paying, it is ultimately out of the employee’s wages – what would have gone into wages goes into payments into the “sickness fund”. When you finally go to the hospital or clinic, you think it is very cheap but actually you paid for it. It is actually pre-paid health care with very few limits on how you use it. So this is a fundamental point that we have to understand. There is no cheap or free healthcare although it sometimes looks like that.

D44. We will have to spend more on healthcare in future as our society ages, as medical treatments improve and quality of life improves. But it is important that we do so in a cost-effective way so as to prevent the total healthcare bill from spiralling upwards, because everyone will have to pay for it.

D45. We have two key strategies to achieve this. First, to rebalance the structure of our healthcare system and second, to ensure that we have the right incentives for everyone.

D46. The first strategy of rebalancing the structure of our healthcare system has been spoken about in the Debate by Dr Lam Pin Min



and a few others. We have to place much greater emphasis on primary care, through our GPs especially, and on community care through our rehabilitative centres, home-based care, nursing homes and other community facilities.

D47. In the near- to medium-term, we will still need to expand capacity in acute hospitals. But in the longer-term, expanding our capacity in primary care and community care is essential, so that we deliver quality care, in a humane way, while preventing the total healthcare bill from spiralling out of control.

D48. We have to rebalance our system away from an over-concentration on acute hospitals over the long term. This is why we have CHAS, and also why we have stepped up our subsidies for intermediate and long-term care to encourage people to get treatment and care nearer to home, or in their homes. This is a very important shift for the future, and Mr Gan Kim Yong will provide more details at the Committee of Supply.

D49. The second strategy for managing the total healthcare bill is to ensure the right incentives – for healthcare providers, doctors and other professionals, as well as for individuals. We have to make sure that we avoid the problem of over-prescription seen in many countries; the US is an extreme example, but there are many others. We have to ensure that treatments which are subsidised are clinically necessary and cost-effective.

D50. There are some interesting lessons we can learn from other countries in this regard. Countries such as the United Kingdom, France and Germany have set up institutions that provide evidence-based research on effective treatments and technologies

for various illnesses, and when specialist referrals should be made. We can learn from some of these systems and develop our own.

D51. Second, we have to promote more team-based care, in particular, one that allows our nurses and our allied health professionals to play larger roles alongside our doctors. Here, too, there are very good examples, in Australia and elsewhere, where nurses play a larger role.

D52. Third, we have to ensure that our healthcare clusters are encouraged to play a key role in managing the overall quality of care in and outside of hospitals. The Government will support new approaches such as tele-health. The Khoo Teck Puat Hospital, for instance, has a tele-health system that involves nursing homes, which allows patients and nurses in the nursing homes to communicate directly with the geriatricians at the hospital. We will incentivise such schemes, and other ways to provide quality care cost-effectively.

D53. Finally, we all have to take responsibility for maintaining healthy lifestyles. Many MPs spoke about the importance of healthy lifestyles, including Mr Gan Thiam Poh and Dr Intan Mokhtar. The Government will spare no effort, through the Health Promotion Board in particular, to promote healthy lifestyles and early screening for all Singaporeans.

D54. I have spoken about healthcare spending at some length, because this is a key fiscal challenge for our future – controlling total healthcare spending, as well as finding a fair balance between the individual, the Government and the employer, in paying for the

total bill. This will be an important priority for the Ministry of Health and the Ministry of Finance over the next few years.

## **E. A SUSTAINABLE FUTURE: PLANNING FOR HIGHER INFRASTRUCTURE AND SOCIAL SPENDING**

- E1. The third theme for this Round Up Speech is the need to balance our budget as spending increases in the future.
- E2. Our expenditures will go up. We expect our expenditures to increase by another two percentage points of GDP by 2020. Beyond 2020, it will increase by at least another 1% of GDP in a decade. In total, the increase is likely to be 3% of GDP by 2030. This increase will be driven by two key components – infrastructural spending and social spending, especially in healthcare.
- E3. We have a lot more to do in infrastructural investments. We are investing heavily in our rail lines. Over the next ten years, we will expand our rail network by about 100km – more than any other ten-year period in our history. By 2030, we will be doubling our entire rail capacity to 360km. This will be a massive investment.
- E4. The expansion of Changi Airport will be another important investment – Terminal 5, in order to cater to many more passengers. The airport is a key industry in its own right – staying relevant and competitive in the aviation space is an important economic strategy for us. It is also an important infrastructure for supporting our wider economy.

- E5. Next, housing. We are expanding public housing supply with about 100,000 new flats over the next few years. But by 2020, about two-thirds of our HDB flats will be 30 years or older. Hence, estate renewal and rejuvenation will be a very important priority as we go forward, in the next decade and beyond. We will have to steadily upgrade and renew our HDB estates. This too will be a source of increased spending.
- E6. Social spending will increase, and in particular healthcare expenditures as I have explained. Quite apart from subsidies and operating expenditures, there is a large infrastructural bill. We are increasing public hospital capacity by 50% – Ng Teng Fong General Hospital, Sengkang General Hospital, Woodlands General Hospital. We are increasing intermediate and long-term care facilities, such as nursing homes and community hospitals – an 80% increase in capacity by 2020.
- E7. In Budget 2012, we had projected yearly total healthcare spending to double from \$4 billion to \$8 billion by 2016. We are in fact likely to reach the \$8 billion figure, which is close to 2% of GDP, a year earlier in 2015. Beyond that, healthcare spending will continue to grow. We expect it to reach about \$12 billion by 2020 from \$4 billion in 2011. This is therefore a three-fold increase from 2011 to 2020. The bill will grow further as our baby-boomer generation moves into their senior years.
- E8. So we will have to spend more as our society gets older, but we are not spending less in other areas. If you look at it demographically, you may think that as our society gets older, you

spend more on healthcare and less on the young because younger cohorts are getting smaller.

E9. In fact, despite smaller cohorts, we are not spending less on education because we are spending a lot more per student at every level – at pre-school, school, and tertiary levels. We are expanding opportunities in the tertiary sector, including university enrolment, which is going up to 40% of each cohort. We have to keep investing in our young.

E10. How do we manage this increase in spending and stick to prudent fiscal planning?

E11. Our first strategy has to do with spending itself. We have to ensure that all spending is judicious. We have to achieve value-for-money in every programme. Be obsessed with achieving value-for-money in every programme.

E12. We must also continue to target social subsidies at those who need them most. For most of our schemes, this means more for the lower-income group, and also some support for our middle-income group. We should avoid universal subsidies, as Mr Ang Wei Neng has also just said. The Pioneer Generation is the exception because we are honouring a whole generation for what they have done for Singapore.

E13. That is our first strategy, to do with spending.

### ***Revenues: Starting From a Position of Strength***

E14. Second, we need to raise revenues over time to ensure that we can meet our future needs without the risk of persistent deficits.

We are starting from a position of strength. We have a healthy fiscal position today, because we made timely changes over the years to strengthen the resilience of our revenue base.

- E15. We increased the GST in 2007, while providing a significant package of offsets to help the lower- and middle-income groups. The GST Voucher for the lower-income group is now permanent. We also put in place the Net Investment Returns (NIR) framework in 2008, which has been a major addition to our revenues, and had provided greater resilience in our revenues as well. Net Investment Returns Contribution (NIRC) provides 2% of GDP each year in our budget, or about \$8 billion.
- E16. To illustrate how significant that is, just think of the many other countries which are in exactly the reverse situation. Instead of bringing 2% of GDP each year in net investment returns onto their budget, they have to do the opposite. They have to find tax revenues to service debts, with 2% of GDP being the lower end of the scale. In many of the advanced economies, it is about 3-4% of GDP each year that has to be found in revenues to service the debt.
- E17. So this is a real strength for Singapore, and it comes about because we have maintained prudent fiscal policies over the years. We built up our reserves, and we are now able to use the investment returns on our reserves to fund budgetary spending each year.
- E18. Our strong fiscal position has allowed us, in the current term, to set aside resources to meet future priority needs. This is a prudent way of managing the budget. While you have the strength, set

some aside because you know there are needs in the future. We've set aside money for the Community Silver Trust, for R&D, and most significantly now, for our Pioneer Generation.

- E19. But what do we expect going forward? Beyond this term of government, it's going to be different. Our revenues are not expected to increase as a percentage of GDP. In fact, revenue growth could moderate. Asset markets are likely to moderate, and we are not going to get the same amount of asset market-based taxes as we have done in the last few years.
- E20. Our foreign worker levy collections should also taper, as the foreign workforce growth slows down. Overall, therefore, we cannot expect revenues to increase as a percentage of GDP. But spending will go up as a percentage of GDP. Our current fiscal advantage will not last. And at some point, therefore, our revenues will fall short of expenditures.
- E21. Hong Kong, which is a very similar society to us in terms of its demographics, faces the same problem. They have the same ageing profile, and have projected that within the next 7-10 years, they are likely to face structural deficits.
- E22. Their Finance Secretary, Mr John Tsang, has acknowledged this. In last year's Budget he acknowledged that the growth of government revenue will drop substantially if the tax regime remains unchanged. Like them, we will run into structural deficits if we do not raise revenues in the next decade. We must be prepared for the years ahead and build up our revenues for the spending needs of the next decade and beyond.

## ***Approach to Taxes and Transfers***

E23. How do we do it? Our approach has to be based on three principles.

E24. First, whatever our tax and revenue strategies, we have to sustain a vibrant economy. Second, we have to maintain a progressive fiscal system – a fair and equitable system of taxes and transfers. And third, we have to keep the tax burden on the middle income low.

## **Keeping the Economy Vibrant**

E25. The first principle is important. Mr Alvin Yeo and Dr Janil Puthuchery spoke about it. Keeping our economy vibrant is central to our social strategies, because an inclusive society is a hollow concept if we do not have fruits to redistribute and share. Keeping our economy vibrant has allowed Singaporeans' lives to improve.

E26. Global economic competition is intensifying. The United Kingdom is bringing down corporate income taxes to 20% by next year. Taiwan has reduced its corporate incomes taxes to 17%, which is the same as Singapore's.

E27. More importantly, quite apart from taxes, the world of technology and globalisation is reshaping the way business is being done. Re-shoring back to the advanced economies has begun, particularly in the United States. It is driven partly by cheaper energy costs because of the shale oil and gas revolution. Advances in robotics and additive manufacturing also allow cost-effective manufacturing to be done much nearer to major consumer markets. They allow



for rapid prototyping and mass customisation, close to the market. It used to be expensive to do it in the United States, but it is now increasingly possible because of advances in technology.

E28. To be sure, economic competitiveness is not just about taxes. It is about a quality workforce, excellent infrastructure, rule of law, and our whole system of governance. It is about how as Singaporeans we make our system work well. Taxes are not the only factor.

E29. But the reality is, we are a small country without a natural hinterland. Businesses are mobile and do not need to be located here. Ms Jessica Tan made this point; that knowledge-based or creative activities can now be done anywhere in the world. They need not be here.

E30. We have to remain competitive so that we continue to attract investments and grow talents. And that also involves retaining our own talents – Singaporeans who are well-qualified, well-educated, and mobile.

E31. It does not mean that we keep taxes unchanged, however. For example, we made property taxes more progressive last year, and there is room over time to enhance our asset taxes. We have to keep all options open.

### **A Fair and Equitable System of Tax and Benefits**

E32. Our second principle is to have a fair and equitable system of taxes and benefits.

E33. It means, first, that everyone has to pay some tax, and everyone is hence contributing. The majority of Singaporeans do not pay

income tax, but they pay GST. Everyone pays something for a better Singapore. But those who are better off should contribute more to society. And the lower-income and others in need should receive the bulk of the benefits. Taxes and transfers have to help us level up society.

E34. That is our system. Everyone contributes something but those who are better off contribute far more, and those in need receive more benefits than the taxes they pay.

E35. Not every tax in a progressive system needs to be a progressive tax. In fact, that would not be an efficient system. But the system as a whole must be progressive. The GST is a good example because the GST in its own right is a regressive tax. But together with the increase in the GST, we have made major changes in other social policies – Workfare, housing grants, education subsidies – changes that far more than offset the impact of a higher GST on our lower-income group.

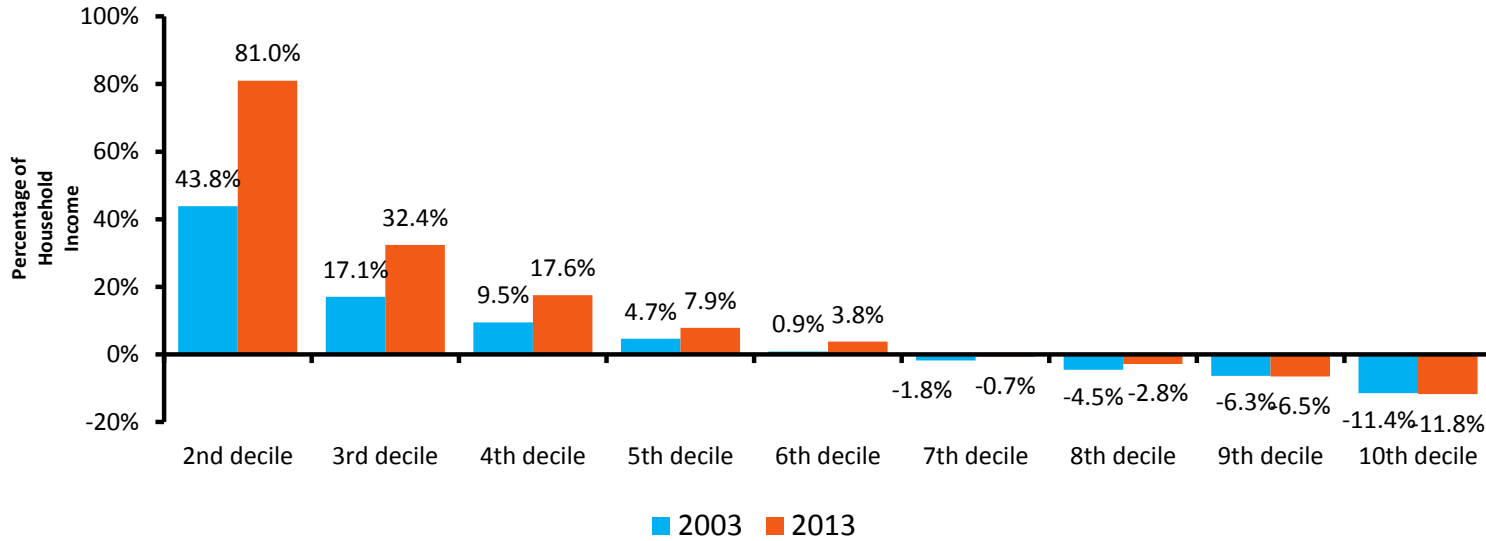
E36. It is not just about the GST Voucher. The GST Voucher is one part of the permanent offsets for the GST. It is part of a larger system of means-tested benefits that ensures that our lower-income group gets back far more benefits than the taxes they pay. In fact, for every dollar of tax they pay, they get at least \$5 back, through benefits at each stage of life – from child care through to retirement needs.

E37. In my Budget speech, I gave the example of a low-income couple and the amount of benefits they get over a lifetime. I will not go to the details again. But it is a very progressive system of taxes and subsidies. If you look at the tax system alone, it is more

progressive than in advanced countries like the United Kingdom, for instance, despite much higher top marginal tax rates in the UK. The top 20% pays 44% of all taxes in the UK. If you add Value Added Tax, income tax and other taxes together, they pay 44% of all taxes. In Singapore, the top 20% pays about 52% of total taxes paid.

E38. Next, I will show you how things add up across the system, when we take taxes and transfers together. It shows a system where those who are better off pay more taxes than the benefits that they receive and those who are less well-off get more benefits than the taxes they pay.

**Transfers (After Paying Taxes): A More Progressive Distribution**



Source: MOF estimates.

**Notes:**

1. Net transfers comprise Government transfers to Singaporean households, net of all taxes paid. The deciles are ranked by household income from work (including employer CPF contributions) per household member.
2. The first decile has been excluded from the chart because (a) About 70% of households in the first decile are retiree households that comprise solely of non-working persons aged 60 years and above; (b) Although many households in the first decile are no longer earning an income, they are not poor – 16% of them live in private properties, 13% in HDB 5-room and Executive flats, 14% own cars, and 8% employ a maid.

- E39. I should first explain that this chart shows the net benefits after you pay your taxes. The bottom 50% in the income ladder receives significantly more transfers than the taxes they pay and those at the higher end are paying more taxes compared to the transfers they receive. This is expressed as a percentage of the household income. If I express it in dollar terms, those on the high end would be paying a large amount of dollars in net taxes, but as a percentage of income, it is lower.
- E40. Now I should mention also that I have left out the first decile here – which is the bottom 10%. Two-thirds of the bottom 10% are retiree households who are no longer earning incomes from work. However, a fair number of them are in fact not poor. 16% of those in the bottom 10% live in private properties; another 13% live in HDB 5-room and Executive flats; and a fair number own cars and hire maids. The bottom 10% includes any household which is not earning an income, although some are quite well-off. In any event, because they do not have income from work, the benefits they received cannot be expressed on the chart, which shows benefits as a percentage of income.
- E41. The basic point is clear. If we look at the second decile, which is our low-income households, they get significantly more in benefits today (after netting off taxes) compared to what they received a decade ago. Compare the bars in 2003 and 2013. It is a significant shift towards progressivity in our fiscal system.
- E42. And we are doing more. In this year's Budget, we introduced increased subsidies for pre-school, and increased subsidies for tertiary education. I want to mention one further fact, which is a

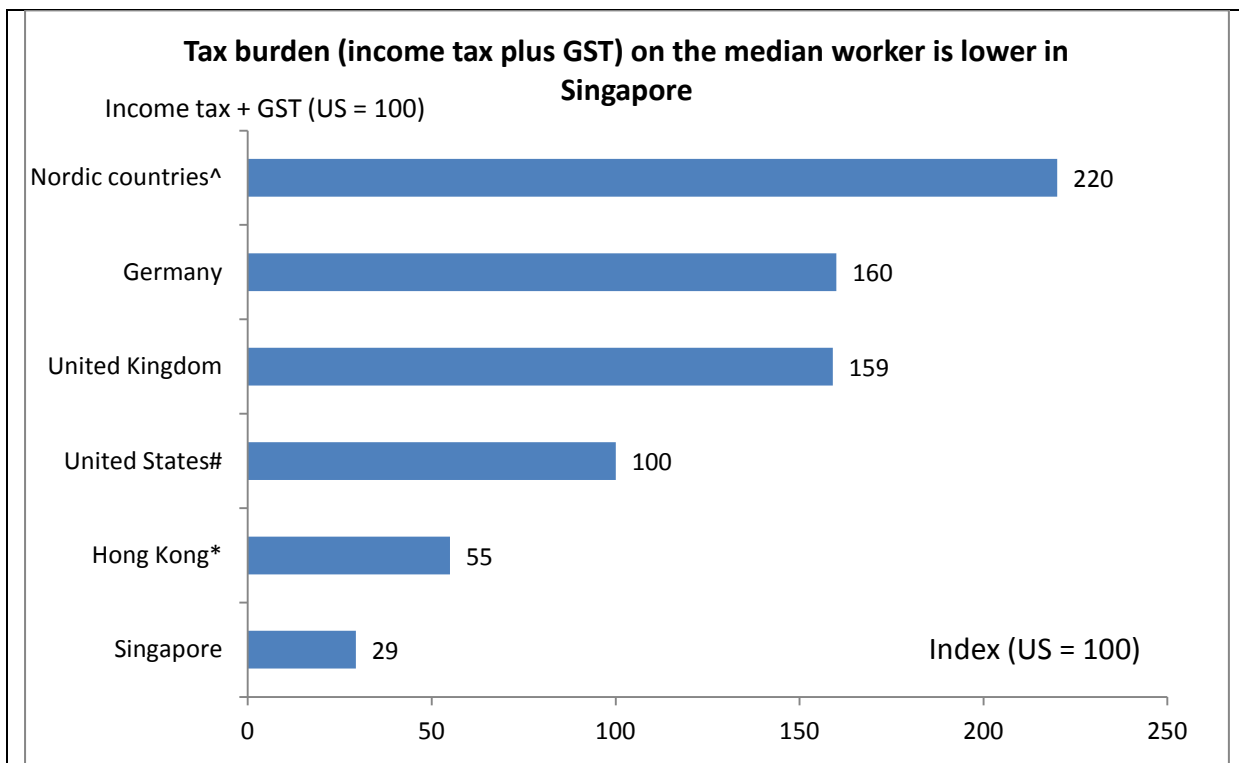
continuing story in the education system – how we are doing more in the school system, to help children who have difficulties in basic skills - literacy, numeracy and other areas.

E43. We are already spending 20% more for a child who is weak in literacy and numeracy, throughout the course of their primary education, compared to the average pupil. And over the next few years, by 2017, this will increase to 40%. We will be spending 40% more on children with weaknesses compared to the average being spent on all pupils. It's an important MOE initiative.

E44. Whatever we do to raise revenues in future, we have to retain this fair and progressive system of taxes and transfers.

#### Keeping tax burden on middle-income low

E45. Our third priority is to keep the tax burden on the middle-income low. It is an important objective of our system, and Singaporeans want it to remain that way.



Source: OECD, National Statistical Offices, KPMG, and MOF estimates.

**Notes:**

Figures in chart refer to Income Tax and Goods & Services Tax (GST) that would have been paid by a median wage earner, expressed as a percentage of employee compensation (including social security contributions and payroll taxes where applicable. For Hong Kong and Singapore, provident fund contributions are included).

^ Nordic countries refer to average of Denmark, Finland, Norway and Sweden.

# The US does not have GST, but many states have sales taxes (of up to 10%, not included in this chart).

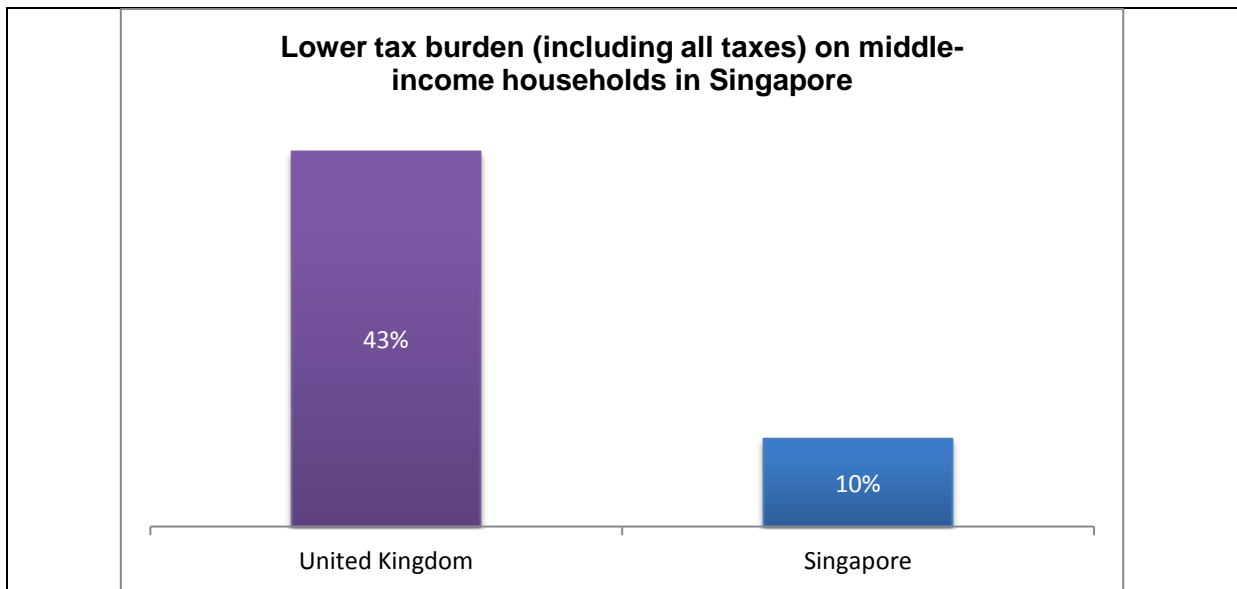
\* The estimates for Hong Kong do not include tax allowances.

E46. This chart shows the average tax paid by the median worker in Singapore. The average tax paid by the median worker – this is just income tax and GST – is significantly lower than in other countries.

E47. In fact, it is lower even than in Hong Kong because income tax is paid by many more people in Hong Kong. In our system, most people do not pay income tax, but they pay GST. So the average tax on the median Singaporean worker is low by international

standards. And even if you include all other taxes – foreign maid levies, taxes on cars – we still remain a relatively low-cost country with low taxes for the middle-income group.

E48. This chart compares the tax burden on the middle quintile, which refers to the 40th to 60th percentile, in Singapore and the United Kingdom. Data shows that the effective tax rate, which is the total taxes as a percentage of their incomes, is about 10%. Well below the taxes paid by the middle-income in the UK. For those who own a car, it will be somewhat higher. Those who do not own a car, it is lower at about 7%.



Source: UK Office of National Statistics, MOF estimates.

**Notes:**

1. Figures refer to all taxes (i.e., including income tax, GST, property taxes and other taxes) paid by on middle quintile (i.e., 40<sup>th</sup> to 60<sup>th</sup> percentile) households, expressed as a percentage of household income from work.
2. Singapore and UK data are based on 2013 and 2012 respectively.
3. For the UK, National Insurance contributions are not included.
4. For Singapore, 42% of middle quintile households own cars. Among the middle quintile, the households that own cars would have a higher average effective tax rate of 15%, while households that do not own cars would have a lower average effective tax rate of 7%.



E49. We have to keep that tax burden on the middle-income low, so that they get to keep as much as they earn. That has to be our principle. Help their incomes go up, and help them to keep as much as they earn. It is the higher-income group that pays significant net taxes into the system, which enables the lower-income group in turn to get significantly more benefits than the taxes they pay.

### ***A Robust and Equitable Approach***

E50. So we have to keep these approaches in mind in future years. We have a strong revenue position for now. But in the decade ahead and beyond, we are going to need more revenue to meet our infrastructure and our social needs.

E51. Keeping our economy vibrant, a fair and progressive tax system, and a low tax burden on the middle-income group are principles that will enable us to keep Singapore a nation of opportunities, and one that is fair and equitable to its citizens.

E52. And as Mr Seng Han Thong has said, it is a very unusual situation. We have a system where we have the heart as well as the strength. You used a common Chinese saying for this. There are many other countries that have the heart, but they leave it to future governments to pay for the bill.

E53. We are able to do things with a heart, provide quality care, provide services in a humane way, and sustain what we do because we have prudent fiscal policies. And we must stick to that system of having the heart and having the strength.

## F. CONCLUSION

- F1. So let me conclude very briefly, Madam Speaker.
- F2. We had a very good Debate with very strong support for the restructuring of our economy and raising of our productivity, including transforming our SMEs, transforming our jobs and transforming our social culture.
- F3. Strong support for the steps we are taking to build a fair and equitable society. And strong support for a prudent fiscal policy which has allowed us to set aside a package to honour our Pioneer Generation, for the full life of that package.
- F4. But it is worth emphasising a point which Ms Penny Low made, which has to remain our key focus for the future. She made a very good point I think, which is about what has mattered most to the Pioneer Generation. What has always mattered most to them is that the next generation does better than them. We all know it. We know it from every meal time, and we know it from every conversation we have in the community. That that is what they are like. They want their children, they want the next generation to do better than them.
- F5. And because they are like that, Singapore is like that. We are like that. We want our children to do better. So every Budget must be focused on our future – investing in our young, opening up opportunities and helping them to create a better Singapore.
- F6. Madam Speaker, thank you.