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Balancing short-term concerns, long-term goals

BY

EUGENE K B TAN

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To be delivered almost a month later than usual, this year's Budget will be closely watched for Singapore's strategy on economic growth, income redistribution, reducing societal inequality and the government's role in seeking a national consensus on these key issues.

Economic growth has been sluggish in the past few years, below the 3-5 per cent annual growth rate target for 2010 to 2020 as set out by the Economic Strategies Committee in 2010. Further, the current economic uncertainty, which may be the lull before a severe downturn, will test Singapore's resilience at a critical juncture — when economic restructuring meets social reforms to strengthen safety nets.

Buoyed by the ruling party's strong mandate in last September's General Election, there will be strong expectations that the Budget will ease nervous economic sentiments as well as spread the wealth among Singaporeans.

Finance Minister Heng Swee Keat, who will deliver his first Budget Statement on March 24, has indicated that economic restructuring and transformation is top of the government's agenda in the coming financial year. Measures to be announced in the Budget, he said, would be aimed at not just helping firms cope with short-term challenges, but at finding medium-term growth opportunities too.

Notwithstanding likely financial aid for businesses, Mr Heng — who also helms the Committee on the Future Economy — also tempered expectations that the public purse will be directed at staving off the inevitability of painful and urgent restructuring.

Given the "very significant changes that are going on around us in the global economy, especially the regional economy", he said, "the more ready we are to change, adapt and respond to these very significant shifts around us, I think the better we will be, and we will be in a stronger position".

All eyes will be on the Budget for the changes needed in the next phase of economic growth, and the strategy to strike the balance between short-term concerns and long-term objectives. A short-term cyclical downturn will no doubt affect viable businesses, especially small and medium enterprises. But it is critical that the cushioning measures do not have the unintended consequence of compromising the economy's ability to transform itself for the future.

While there will be strong focus on the economy, the Budget, ultimately, is about the well-being of society. Even if they were not asserted as strongly and clearly as they ought to be, normative moral sentiments of the type of society we want to be can be found in almost every Budget Statement since 1966.

A strong signal came from Prime Minister Lee Hsien Loong just after the 2006 General Election. Stressing that a revitalised social compact was a priority for his then newly-elected government, he said: "It is essential for us to tilt the balance in favour of lower-income Singaporeans, because globalisation is going to strain our social compact."

Since 2006, the PAP government has tilted the balance with the one-off Progress Package but, more concertedly, through long-term programmes such as Workfare, and more recently, the Silver Support Scheme, Pioneer Generation Package and SkillsFuture.

These schemes have been well received, and could provide the impetus for a stronger accent on redistribution and a more progressive tax and benefits system, which were the hallmarks of the Budgets of Deputy Prime Minister Tharman Shanmugaratnam, Mr Heng's predecessor.

MORE FOR THE MIDDLE CLASS

Will this year's Budget continue that momentum and offer more social policies that will lift the plight of the poor and needy, as well as address concerns of a growing income gap?

Mr Heng has assured that the Budget would continue to have a focus on social measures, especially targeted help for vulnerable groups.

With the most vulnerable in our society having a stronger framework of support, middle-class growth should be in the cross-hairs of Budgets in the years ahead. Government policies will have to resolutely tackle the concerns of the broad swathe of middle-class Singaporeans — generally, the 31st to 70th percentile of households whose monthly income from work per household member ranges from $1,857 to $3,409 in 2015. Increasing their household income and wealth ought to be a policy goal.

For this group, the recurrent threat to jobs and wages — manifested in stagnant wages — are key concerns. While rebates, subsidies, grants and Central Provident Fund top-ups are helpful, they do not necessarily increase people's wealth.

Thus, besides ensuring that wages keep pace with increased costs of living, perhaps the government can introduce additional inflation-indexed savings schemes to enable accumulation of savings. If wages and savings are not eroded by inflation, concerns over daily expenditures, saving for a rainy day, and retirement adequacy would also be reduced.

As this is the first Budget since last September's election, to what extent will the government capitalise on the political goodwill to effect further tax changes to fund increased public spending for new social measures?

Top marginal rates for personal income tax were earlier increased from Year of Assessment 2017. Singapore's property tax regime has become more progressive, with significantly increased tax rates for high-value residential properties, offsetting reduced tax rates for lower-value homes.

In anticipation of the increased spending for the rest of this decade and beyond, Parliament in July 2015 made the necessary constitutional amendments to effect the inclusion of Temasek Holdings in the government's Net Investment Returns (NIR) framework from 2016 onwards.

These changes are likely to be sufficient for now, and the Government has indicated that the Goods and Services Tax will not be raised. But the search of adequate financial resources to meet growing demands continues.

Over the past decade, the Budgets have steadfastly maintained the conception of shared economic growth and inclusiveness. But the emphasis has shifted from equality to equity in the sharing of the benefits. This means that those more in need will receive more, while those who pay the most taxes do not get as much in terms of direct benefits from the Budget.

This fundamental philosophy is even more important in light of the concern over social mobility, wealth and income disparities, with the latter moderated slightly by growing income transfers from the government's coffers. The Budget is an important driver of the evolving social compact. While inequality is inevitable in any society, redistributive policies and a focus on social mobility can help reduce inequality . The barometer is the well-being and success of the sandwiched middle-class in the unsettling economic times ahead.

This is where the Budget must act jointly on increasing sustainable economic growth and reducing income and wealth inequalities.

About the author: Eugene KB Tan is associate professor of law at the School of Law, Singapore Management University.