

Willingness to pay taxes key to dynamic and inclusive economy: MAS chief

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The key to sustaining a dynamic economy in the face of an ageing population is inclusivity - and this means having a society that is willing to pay the taxes needed to support those left behind by globalisation and technological advancements, said Monetary Authority of Singapore managing director Ravi Menon.

"Being inclusive... is the morally correct position to take," he said on Monday at the Singapore Perspectives 2018 conference organised by the Institute of Policy Studies (IPS).

"The ability of societies to sustain dynamism, continue to be open to globalisation and technology and deal with the dislocations is going to depend on the Government's fiscal resources to a great extent."

Add to that the effects of an ageing population, and the willingness of society to pay taxes - especially those who have gained from economic growth - to support the less well-off is quite critical, he added.

An IPS survey last week found that Singaporeans were divided on the issue of whether people should pay higher taxes to fund higher social spending on the elderly, or whether the national reserves should be tapped.

Two in five respondents - or 40 per cent - said they were not comfortable with higher taxes and would rather tap reserves, while a slightly lower proportion - 34 per cent - indicated the opposite. The remainder were neutral.

At a question-and-answer session at the conference, which was held at Fairmont Singapore hotel, Mr Menon noted that Singapore faces a demographic challenge, as the decline in fertility rate and an ageing population will mean slower economic growth in future.

But while Singapore must accept a lower rate of growth than before, as a global city, it cannot afford to grow too slowly either, he warned.

"Many leading global cities grow at about 2.5 to 3.5 per cent, faster than the national average of the countries that they are a part of. London has averaged 3.3 per cent annual growth since the financial crisis. Sydney, 2.9 per cent."

A city whose economic growth comes in under 2 per cent annually will be unattractive to investors and talent, including its own, he said.

"A reasonably good rate of growth helps to create opportunities and preserve a sense of progress and hope, particularly among the young. It will also facilitate upward social mobility."

Given this, it is important to maintain economic dynamism even in the face of demographic challenges, Mr Menon said.

"A dynamic economy is not necessarily inclusive, but to sustain that dynamism, to sustain openness and that go-getting spirit, we do need to be inclusive."

Another key to promoting inclusivity and sustaining economic vibrancy is improving productivity and efficiency in many domestic services jobs, Mr Menon added.

He said productivity improvements accounted for two-thirds of gross domestic product (GDP) growth in cities such as Hong Kong and London, while it accounts for only half of GDP growth in Singapore.

Taking four jobs as an example - plasterer, baker, childcare worker and security guard, he noted that in Singapore, the average pay of these four jobs is 30 per cent to 60 per cent of the local median wage. In Australia, the United States and Britain, these occupations command much higher wages, closer to the national median wage.

There is scope to further professionalise such jobs, increase skills, leverage technology, improve business processes and improve the quality of output, which will enhance productivity and support higher wages, Mr Menon said.

"In fact, professionalising much of the so-called rank-and-file jobs in Singapore will help to strengthen and broaden the middle class, which will make for a more equitable society," he added.

One success story in Singapore, he noted, are bus drivers. The introduction of the bus contracting model and foreign players here injected competition into the sector, which professionalised bus driving.

Workers were given more training and more women were drawn in with flexible work arrangements and maternity leave benefits. Dependence on foreign workers in the industry has fallen, productivity has risen and so have wages. Bus drivers in Singapore now earn salaries that are almost equal to the national median wage.

"Every job has dignity, and the more we recognise and practise that in our societies, in the way wages are determined, will go a long way towards creating an inclusive society," said Mr Menon.

He noted that Singapore has taken steps over the years that will put it in good stead in the years to come, even in the face of demographic challenges.

For example, Singapore has scope to reap dividends from the investments it has made in education and training in the past decades, he said.

He noted that as recently as 2000, 45 per cent of the resident workforce had below secondary education while 12 per cent had a university education. In just 15 years, the proportion of resident workers with below secondary education has dipped to below 30 per cent, while the proportion of university-educated workers has more than doubled to nearly 30 per cent.

"The effects of this transformation in human capital endowment will continue to be felt in the productive capacity of the workforce. With higher levels of education, the ability of the workforce to take on more complex tasks and leverage technology is substantially stronger."

Another encouraging trend is the fact that Singapore has become more selective about its foreign workforce, taking in a higher proportion of skilled professionals versus blue-collar workers over the past decade, Mr Menon said.

"This trend must continue as we restructure the economy towards higher-value, deeper skills and more pervasive digitalisation."

The issue of taxation has been in the news, with Prime Minister Lee Hsien Loong having signalled that taxes would need to rise to support growing infrastructure and social spending.

He did not give details about the taxes that will be raised and when it will happen, but many expect that this will be revealed in the Budget to be delivered on Feb 19.