

Pay a premium for a second car?

The divide between rich and poor is now front and centre in an ongoing review of car ownership policies

Goh Chin Lian

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They are two Singaporeans who would be affected by a recent suggestion to the Government that people who own one car should pay a surcharge to own a second, third or more cars. But they have sharply different views on it.

Mr Lewis Poon, 50, and Mr Soon Sze Meng, 35, belong to the 45 per cent of households here that own at least one car, and both fall into the high-income bracket.

Sales manager Mr Poon thinks the proposal highlighted by Transport Minister Lui Tuck Yew last month is unfair: "The rich work equally hard. Money doesn't drop from the sky for them."

Mr Soon, a director in a multinational corporation, believes it is fair. A wealthy person should pay more for the privilege of owning more than one car, given that he will deprive someone else of owning one family car, he maintains. "In principle, it is fair and just for the rich to contribute more to society that enables them to earn their wealth," adds the Stanford University graduate in public policy.

Their separate stances mirror a wider debate on what should drive car ownership in land-scarce Singapore: the free market, in which those who have the money deserve a car; or government policy with an eye on social equity, in which even those on lower incomes can afford a vehicle.

Until now, the Government has controlled the car population through a vehicle quota system where people bid for a certificate of entitlement (COE), but spiralling prices have put even small-engine capacity category vehicles out of the reach of many.

The Land Transport Authority is seeking public feedback on two proposals from the motoring industry and the public to improve the COE system, it announced yesterday.

Besides levying a surcharge for multiple cars owned by the same individual, another idea is to peg the car COE categories to engine power or make it an additional requirement on top of the existing criterion of engine capacity.

This is to address the influx of luxury models in the 1,600cc and below category, which is meant for buyers of smaller, budget cars.

The stakes are high, whether or not the system is changed. Failure to ensure free-market fairness may lead to economic inefficiencies and, in targeting wealthy folk who worked hard for their fortune, undermine Singapore's meritocratic system.

Failure to ensure fairness for all who want to own a car, however, may be socially divisive and cause instability.

So, just who has the "right" to own a car? How should the right be allocated, given Singapore's limited land for roads and cars? Should the rich pay more to own cars?

Not black and white

When COEs first came about in 1990, issues of fairness reared their head even then.

There were four specific categories for cars: small (below 1,000cc), medium-sized (1,000cc to 1,600cc), big (1,600cc to 2,000cc) and luxury (2,000cc and above).

Economists advocated a single category and leaving the market to allocate the cars, whatever their size, to those most willing and able to pay for them.

Politicians countered that if there was only a single category, owners of big cars who had deeper pockets would squeeze out owners of small cars with more modest budgets. They also feared that the car-owning aspirations of the middle and lower-middle classes would be thwarted.

As then MP for Thomson Leong Horn Kee, declared in a parliamentary debate on the COE: "The road should be accessible and used by all classes of people." His proposal for four car categories was adopted by the Government.

Said then Minister for Communications and Information Yeo Ning Hong: "The Government has chosen an approach that is of greater benefit to the lower- and middle-income owners."

However, by 1998, COE premiums of luxury and big cars had converged with, and on occasions fallen below, those of medium-sized and small cars.

In January that year, the COE premium for a big car fell to \$50 - against a small car's \$26,592 and medium-sized car's \$43,088.

In the 1999 review of the COE system, economists were back pressing for a single COE category. But they suggested making successful bidders pay more for cars with a larger engine capacity or higher open market value (OMV).

The Government took a different tack. It merged the four car categories into two - cars of 1,600cc and below, and large cars above 1,600cc - to remove distortions arising from the small quota in the former small-car and luxury-car categories.

A review committee, made up of MPs, said the vehicle quota system is "primarily a mechanism to allocate scarce resources, and is not intended to be a progressive tax measure".

It said vehicle taxes more adequately address social equity concerns: Luxury car owners already pay more additional registration fees. Cars with larger engine capacity attract higher road tax rates.

The changes appeared to have appeased concerns about fairness until a decade later, in 2009, when premium makes like Mercedes-Benz, BMW and Volvo started bringing in models of smaller engine capacities for environmental reasons.

The quota of COEs was also being reduced to curb vehicle growth. As a result, in January this year, COE premiums for cars 1,600cc and below skyrocketed to more than \$90,000, and those for larger cars were just a tad higher.

Would-be buyers decry that those with deeper pockets are outbidding them for premium brands in the smaller car category. The premium made up more than one-third of the registrations, up from less than 7 per cent in 2010.

Some now want to peg COE categories to a car's OMV or its engine power, or a new COE category to be created for families who need a car.

Some suggest an extra tax of 50 per cent of OMV on a second car, and 100 per cent for the third. Some want more COEs to be released for bidding.

The chairman of the Government Parliamentary Committee for Transport, Mr Cedric Foo, prefers to allocate more COEs to the 1,600cc and below category, but keep constant the total number of COEs for all categories, to control the car population. He says: "We should not willy-nilly give up (this goal). Instead of helping one group, we congest up all the roads and you have a giant carpark."

The MP for Pioneer belongs more to the camp that says fairness in car ownership is to make it accessible to all.

"I don't think policy should be painted purely black or white.

"As it is, it's already grey," he quips, referring to the separate COE categories for different engine capacities.

But car owner Mr Poon thinks such categories are inherently unfair: "Why pay more for a higher-litre car and less for a smaller-litre car, when they are occupying the same space?"

Who really needs a car?

Some see a car as a luxury, not as an essential as in the sense of education, health care and basic housing. Fairness in car ownership is about getting what one can pay for.

Others view a car as a necessity for work, or to ferry an elderly parent or a child. To them, fairness lies in keeping car ownership accessible to all.

IT specialist May Chia, in her 40s, worries that her teenage son, who is autistic, would cause a fuss on public transport: "A car is a mobile shelter for us."

But still others see a car as somewhere between being a luxury and an essential. This is because public transport - an essential good - is not as reliable, comprehensive and universal in serving the old, disabled and children like Madam Chia's son, as many would want it to be.

One argument is that if public transport here was excellent in these respects, Singapore as a society could treat the car more as a pure luxury good primarily for rich folk. Debates on who has the right to own a car would then become moot.

Narrowing the convenience gap between public and private transport, however, will take time, despite efforts to ramp up MRT and bus services.

Says senior research fellow Gillian Koh of the Institute of Policy Studies: "This is just not fast enough and comfortable enough from the public's perception to make people either swop out of cars, or make it less sexy to be the one person driving one car to work."

"Many have families and the practicality of going out together in one car or making the multiple journeys each day with the car is just irresistible."

Dr Koh suggests boosting the scheme for off-peak cars on top of waiting for more buses to be put on the road under a \$1.1 billion programme announced last year.

A next step is to tax, progressively upwards, the second, third and fourth car.

This would apply to cars registered to the same address, to target households that have more prospect of car-pooling, instead of individuals, Dr Koh notes.

Her suggestion will affect the 8 to 9 per cent of households here which have more than one car.

However, economist Anthony Chin of the National University of Singapore thinks taxing people for additional cars will not solve the problem of car ownership because the rich will be able to pay the tax and still buy the additional cars.

Implementation is tricky, too. People could bypass the rules by registering their additional car in a relative's name at another address. The cost of policing and administration, like making checks on people's homes, will be astronomical.

Taxing additional cars may be symbolically satisfying for those who feel they are unfairly squeezed out of owning a car. But as Associate Professor Chin notes, "eventually what is on paper and in practice is different".

He offers another view of fairness in car ownership - not from the benefit to the individual, but in terms of how much that person can contribute to the Singapore economy.

Which is fairer, he asks: to allocate the car to a businessman who can cut million-dollar deals, or to a poor worker who contributes less to the economy?

Tax the rich more?

One fear is that ensuring cars are accessible to all as a matter of "fairness" will also fuel anti-wealth sentiment. Mr Lui has also raised this concern.

This runs up against another aspect of "fairness" - that those who have the money deserve the car.

Mr Seah Kian Peng, an MP for Marine Parade GRC, is mindful of the need to balance both perspectives. He is well ahead of the current debate: He proposed a surcharge on a second or third car in the 2008 and 2011 Budget debates in Parliament.

He tells Insight he was worried about how car growth outstripped road growth, which spelt more congestion; as well as fairness - or the perceived lack of it.

"We don't want a case of having the super, super rich and a big group of people lagging behind. That's not good for the Singapore community," he says.

In the same breath, he makes it clear that he is not against wealth or meritocracy: "I'm all for meritocracy. I'm all for people who can achieve economic success and become wealthy. I see this as half-full and not half-empty, as they being able to contribute more and give back to society in higher taxes."

This is a hard argument to make, however, if one takes the position that the COE is a congestion-control mechanism, and not a revenue-raising exercise.

In this context, how much more the wealthy contribute is not as important as the signal being sent that policies are not tilted towards the rich, but to those with lower incomes.

But would talented, highly mobile people move away if anti-wealth pressures held sway?

Or are pull factors like Singapore's rule of law, safety and cleanliness so strong that there is no need to worry?

Significantly, while Mr Seah's proposals were rejected in the past, they are now back on the table.

The rationale is that in exchange for the privilege of owning several cars, these owners should pay proportionately more by way of levies, Mr Lui has said.

But he drew the line at an outright ban on multiple-car ownership and at calls to spread car ownership more evenly.

"As a car is not a basic necessity, we should not prevent Singaporeans who can afford and wish to do so, to own more than one car," he said. "It is also extremely difficult for the Government to exercise social equity considerations from the perspective of deciding who should be allowed to own cars and how many cars".

He added: "The COE system should therefore remain market-based."

But why this change of heart, in considering the proposal?

Observers see a confluence of factors.

Public transport infrastructure did not keep up with the influx of foreign workers, resulting in packed travel even as the ageing MRT system broke down more frequently.

Then, at the General Election in May 2011, policies of the ruling People's Action Party took a beating.

Once seen as primarily market-driven in its policies, the Government now wants to make clear that social equity is a priority as well, including middle-class concerns about living costs and competition for jobs.

Exacerbating this is the politics of envy. It is not helped by some of the new rich appearing to be "more in your face" in displaying their wealth by racing flashy cars on the road or expecting others to give way to them.

Dr Koh identifies the politics of envy as a challenge for politicians: "Do we cut the tall poppy when these represent the wealth creators of our economy, or if they move here as tycoons, then they are folks who are served by the wealth managers who in turn are the bright young PMETs (professionals, managers, executives and technicians)?"

For now, until public transport becomes a viable alternative to the car, the divergent definitions of fairness in car ownership will continue to be a policy road bump.

In the larger context of the widening income gap and whether the middle class is being looked after, any misstep in political calculations will see a blowback at the polls.

Going by the current climate, the decision may well be in line with the record of the past 20 years: Something that caters to those who feel fairness is about making car ownership accessible to all - or at least, the middle-income bracket.

Find 'fairer way' to give everyone a chance to own a car

Admin executive Kwan Jin Peng, 25, believes the well-off in Singapore should pay more for their second car.

He also supports suggestions to re-categorise car COEs so that luxury cars are better segregated from cheaper ones.

This would help address the aggrieved feelings of middle-income Singaporeans who want a car but find the COE premiums beyond their reach.

He says: "The Government should come up with a fairer way to let Singaporeans get a chance to own a car."

Mr Kwan, who is single and lives with his parents in a five-room flat in Woodlands, has no immediate plans to buy a car but hopes to have his own set of wheels in five years or so.

He reckons that nearly half of his friends have aspirations to own a car.

He says: "I don't need a car to be fulfilled. If it's within my means, I will try to own one."

Owning a car is a luxury, not a necessity

Oil trader David Goh, 52, supports the idea of making people pay more for a second or third car to give some sense of fairness, but he is not doing so in support of middle-class aspirations to own a car.

He actually thinks a car is a luxury - although it is one he himself can afford.

He points out that, by his estimates, car owners fork out \$1,500 a month on petrol, road tax, Electronic Road Pricing charges, carpark fees and insurance.

He adds: "People say, have a special COE category for those who need one. But how do you justify who is needy?"

" Some people earning \$3,000-\$4,000 a month want to buy a car because they need it to transport their children to school. But it's a burden to buy one. How do you draw the line?"

He drives a three-year-old Mercedes-Benz E200, which he bought for \$210,000, and lives in a corner terrace house in the Holland Road area with his wife, 49, and children aged 16 and 18.

He says: "If you own more cars, you bear an additional burden. And an average-income family has to think twice about the economics before plunging into (owning a car). Sometimes, it's better to look at car sharing."