

## **The Big Read: Budget 2019 — ask not what's in it for you, ask what's in it for the country**

**Janice Lim**

**TODAY**, 16 February 2019

Every year, around February or March, many Singaporeans will be glued to their television and phone screens to find out what hongbaos the Government will be handing out during its Budget statement.

This year will be no different, with Finance Minister Heng Swee Keat expected to unveil details of the Merdeka Generation Package — among a raft of other announcements — when he delivers the Budget 2019 statement on Monday (Feb 18).

But viewing the Budget through a “what's in it for me” lens would be missing the forest for the trees, analysts said.

“Budget is a very important statement. It's not just about giving money or redistribution of surpluses, although most Singaporeans look at it as, ‘Oh, how much money am I going to get’,” said Singapore Management University (SMU) sociology professor Paulin Straughan.

Mr Heng himself had previously stressed that the Budget is “not about giving out goodies”.

Speaking in January last year at a conference organised by the Institute of Policy Studies, he said: “It is not Santa Claus coming out around Christmas to give everybody something and making everybody feel good, or coming out to rob somebody. Neither am I pretending this is Robin Hood doing great things.”

Instead, the Budget statement is “a fairly serious set of plans for us to think about what is it that we as a country, as a people, want to do together going forward”, he added.

The analysts noted that Singaporeans are by no means the only ones who tend to be interested in how they stand to directly benefit from Budget measures — this mindset is prevalent in Hong Kong too, for example, said political scientist Woo Jun Jie, a Singaporean who is based at the Education University of Hong Kong.

Nevertheless, debates in places such as Hong Kong and the United States over government spending programmes tend to be more vociferous, both among the lawmakers as well as members of the public.

Singaporeans are “not used to” thinking about whether there is a need for certain spending programmes or whether the Government should be using the money in other ways, said economics professor Walter Theseira from the Singapore University of Social Sciences.

The Nominated Member of Parliament, who will be taking part in his maiden Budget debate as a lawmaker, added: “Perhaps for us, it's a bit more of a tendency to just look at programmes and see what are we getting out of it. Perhaps we don't see ourselves as having agency in the debate about whether the programme should or shouldn't exist at all.”

**A MAJOR NATIONAL EVENT**

The Singapore Budget has, over the decades, become one of the key events of the political calendar. While the National Day Rally by the Prime Minister is widely seen as the most important political speech of the year, the Budget statement carries important political messages in setting the direction of the country and laying out the plans to get there.

The analysts interviewed noted that the Budget is used as a means to introduce new policies, on top of showing how much government funds are allocated to the respective ministries.

And while it sets out the Government's resource allocation and priorities for the fiscal year, each Budget rides on the preceding one — a point that government leaders have been keen to stress.

During his Budget 2017 round-up speech in Parliament, Mr Heng stressed that "each Budget builds on past Budgets" as he talked about how the social security system in Singapore was built up over the years.

Writing on Facebook, he reiterated this point on Thursday: "While Budget 2019 looks into the future, no Budget stands on its own. Every Budget builds on past Budgets and on the wider foundation of the good work contributed by different public agencies."

Following the General Election in 2015, three Budgets have been unveiled so far under this term of Government.

Several common themes have emerged, the analysts said. These are: Economic transformation, tackling social inequality, and more recently, fiscal and environmental sustainability.

#### ECONOMIC TRANSFORMATION: AN URGENT TASK

Beginning with the introduction of the industry transformation programme in Budget 2016, a slew of programmes to encourage companies to digitalise their operations and innovate were also unveiled in the next two Budgets.

While there are social and environmental challenges that need to be addressed, some analysts expect economic imperatives — particularly economic restructuring — to remain the Government's first order of business for some time to come.

This is especially so given the "increasingly complex and competitive external economic environment", said Assistant Professor Woo.

"It will not be likely that these economic imperatives take a backseat to environmental or social policy needs. Over time, we may see shifts in the balance among the three imperatives, but economic imperatives will likely remain the top priority for the Government," he added.

Apart from reshaping industries, economic transformation also involves upgrading the skills of Singaporean workers. To achieve this, a range of programmes such as the Adapt and Grow initiative, the National Robotics Programme and the Capability Transfer Programme were launched during the past few Budgets.

The changing external economic environment, analysts say, is partly brought on by challenges that have emerged as a result of the fourth Industrial Revolution, which essentially refers to the

disruption brought about by technological breakthroughs in the areas of artificial intelligence, robotics and the Internet of Things, among others.

Since there is no way to prevent such technologies from significantly altering the global economy, Prof Straughan said that Singapore, being at “the nexus of global trends”, would have to “ride the trend or get left behind”.

“So there is urgency there... While we may not be able to stop the change, we can certainly be part of the innovative thrust,” she said.

In order to get industries to transform, governments have to start the ball rolling, said Associate Professor Tan Khee Giap at the Lee Kuan Yew School of Public Policy. Otherwise, it is “very painful” to leave the process of creative destruction to the market, he said.

“You cannot wait for market to make it happen because market sometimes fail. What the Government needs to do is to be a market enabler,” he added.

Since 2016, industry transformation maps (ITMs) have been rolled out for 23 sectors, ranging from marine and offshore to retail.

These ITMs, along with other SkillsFuture initiatives to upskill Singaporeans, would be “crucial for pre-empting economic risks and disruption”, said Asst Prof Woo.

#### ADDRESSING SOCIAL NEEDS: TIGHT-FISTED NO MORE

In what now seems to be the distant past, the Government was perceived as tight-fisted when it came to social spending, and welfarism was seen as a dirty word.

Today, the overriding concern is how to find the revenue to sustain rising social spending.

Over the past decade or so, the Government has devoted more resources to addressing social issues, such as reducing inequality between the haves and have-nots by providing more funds for vulnerable groups, including the seniors and those from the lower-income bracket.

Schemes that had been launched within the last few years include the Fresh Start Housing Scheme, which helps second-timer families with young children living in rental flats to buy a home, and the Community Networks for Seniors, which is aimed at getting elders to take part in activities in their neighbourhoods.

Based on statistics from the Ministry of Finance (MOF), the Government has been spending more on education and healthcare, with social spending making up an estimated 37.2 per cent of ministries’ expenditure in financial year (FY) 2018, compared with 34.5 per cent in FY2007.

Mr Heng had said in previous Budgets that Singapore’s social spending would need to increase as the country grapples with an ageing population, smaller families and increasingly complex social needs.

Rising social spending, however, was not always the norm in a city-state that had long eschewed cradle-to-grave welfarism, the analysts noted.

National University of Singapore (NUS) sociology professor Tan Ern Ser said that social policies in recent years, such as Workfare which started in 2007 and the Silver Support Scheme in 2015, could be described as “cautiously welfarist and somewhat left-leaning”.

While the Government over the years has always been interested in addressing inequality, Assoc Prof Theseira pointed out that the methods used in the early years after Singapore gained independence and in the 2000s would logically be drastically different.

Social policies have become more important as Singapore not only has the resources to afford them now, he noted, but also because there are still segments of the population who have not benefited from the earlier economic-focused policies that had contributed to the country’s growth.

Social inequality was further exacerbated after 2000 when Singapore transformed to a services economy reliant on the technology and financial services sectors, said Asst Prof Woo, as these industries tended to reward economic benefits to certain segments of the population — those with a finance or a computer science degree.

Notwithstanding that the Government has been doing more to bridge the inequality gap in Singapore, some analysts believe that economic imperatives will always take precedence, given the country’s vulnerabilities.

While there have been greater calls from Singaporeans for the Government to do more to help the disadvantaged, Assoc Prof Theseira said public support for providing more benefits should not be taken for granted, especially if an economic crisis were to hit the city-state.

However, other analysts noted that both economic and social programmes are not mutually exclusive, and that this is something that the Government has come to recognise.

SMU law professor Eugene Tan said the authorities have tried to “delicately balance” economic imperatives and social challenges, and attaining an equilibrium between the two is always a “work in progress”.

“They are beginning to regard them as two sides of the same coin and to appreciate that you can't have a vibrant economy if society lacks safety nets,” he added.

#### FISCAL SUSTAINABILITY: BEING PRUDENT

With the anticipation of higher social spending, Mr Heng had also addressed the importance of ensuring that the Government has enough money to fund such expenditures.

Government expenditures had increased from S\$33 billion to an estimated S\$80 billion from FY2007 to FY2018, a 59 per cent jump.

Over the same period, revenues had increased by a smaller percentage of 52 per cent.

Apart from social services, more money had also been allocated for infrastructure projects in Budget 2018. In addition to mega construction projects such as the building of a fifth terminal for Changi Airport and the Tuas Mega Port, the funding was also for the upgrading of domestic rail operating assets.

According to MOF, its revenue base is diversified, with significant contributions from Singapore's reserves. It is also taking steps to manage expenditure growth and strengthen its revenue position.

Apart from several tax schemes, another contributor to the Government's revenue — the biggest one — is the returns contribution from the reserves, called the net investment returns contribution (NIRC). This made up about 17.9 per cent of all revenue in FY2018, said the MOF.

Before the introduction of the net investment returns (NIR) framework in FY2009, the returns contribution from the reserves only consisted of the net investment income (NII) and made up 5.6 per cent of all revenue in FY2007.

The NII refers to income derived from investing Singapore's reserves, while the NIR consists of net assets invested by sovereign wealth fund GIC, central bank Monetary Authority of Singapore and state investment firm Temasek Holdings.

Experts had previously warned that it may not be tenable for the Government to be heavily dependent on NIRC due to uncertainties brought about by market volatility.

As Assoc Prof Tan of Lee Kuan Yew School of Public Policy put it: "If Temasek and GIC don't make money, then how?"

During Budget last year, the Government announced that it plans to increase the Goods and Services Tax (GST) from the current 7 per cent to 9 per cent some time between 2021 and 2025.

Some analysts had previously pointed out that part of the reason behind the move was to lower the Government's reliance on NIRC as a revenue source.

Assoc Prof Tan noted that taxation, especially of the rich, and cutting expenditures are not long-term strategies.

Instead, building more international partnerships through free trade agreements, helping Singapore companies to internationalise, and tapping opportunities arising out of India and China's urbanisation are among the strategies which the Government could pursue, in order to boost Singapore's coffers, he suggested.

SMU's Assoc Prof Tan noted that the Government's emphasis in the last few Budgets on the importance of balancing the books is "fundamentally about managing people's expectations".

"On the one hand, you have a wealthy country and, on the other hand, the concern that fiscal imprudence is the sure road to an impoverished future," he said. "So even as the Government is spending on social needs, it is seized by the imperative to remind Singaporeans that the Budget is not a bottomless pit and that balancing the books remains a virtue."

## ENVIRONMENTAL SUSTAINABILITY: A NEW AREA OF FOCUS

Apart from economic and social policies, the analysts said that environmental sustainability is a key focus area that has emerged in the last few Budgets.

Among a range of initiatives targeting the environment, the most prominent one would be the imposition of a carbon tax first announced in Budget 2017, before details were unveiled in the Budget the following year.

Apart from being particularly vulnerable to rising sea levels as a low-lying island, Singapore has to introduce measures to address climate change “as a responsible member of the international community”, Mr Heng said during Budget 2018.

The analysts noted that announcing environmental-related policies in the Budget sends a signal to the public on the importance of environmental sustainability and also the Government’s commitment to its international obligations, such as the Paris Agreement.

One of the ways to meet these obligations is to reduce carbon emissions via a carbon tax.

Policies such as a carbon tax are meant to address market failure, said Mr Marc Allen, technical director of Engeco, a consultancy specialising in climate change strategy.

“Market failure is when something like (carbon) emissions or these externalities are not properly costed. These policies are designed to address that. Price the externalities and hopefully encourage businesses and households to do the right thing,” he added.

Such policies also give Singapore “moral weight” in the international arena on climate change issues, noted Assoc Prof Theseira.

“For Singapore, if we’re going to say, ‘Hey, we are a coastal city-state. Global warming, rising sea levels are going to affect us severely, maybe we can do something about it internationally’, we need to have our words to carry moral weight. It’s important that our policy reflects that,” he said.

Unlike many other items in the Budget which involve the dispensing of money, NUS Energy Studies Institute’s researcher Melissa Low said that environment-related items are taxable.

“(Policymakers) want to change behaviours... Nudging behaviours through Budget has been a fairly well-used exercise,” she added.

However, she also noted that the Budget is not the only avenue where important matters are being discussed or addressed.

Over the last few years, environmental policies have been tightened through the Carbon Pricing Act and Energy Conservation Act.

SMU’s Prof Tan said: “The thinking is clear that economic policy cannot ignore the environmental concerns and challenges. We ignore them at our collective peril.”

However, the key challenge is how to marry both economic and environmental needs, rather than trading one against the other, he said.

Mr Allen pointed out that the current carbon tax costs the Government more in the short term, since more money is being spent to help affected companies adapt. The tensions between the economy and environment will be resolved but not in the short term, he added.

“The cost of rapid decarbonisation later in the century will be greater than the cost of the decarbonisation now,” he said. “For the Government, it is about articulating that difference in terms of 'action now' versus 'action later'... Ultimately, we will see that there is an opportunity to continue to have economic growth while doing things cleanly.”

#### COST OF LIVING: A MAJOR BREAD-AND-BUTTER CONCERN

Analysts interviewed expect that this year’s Budget will continue with the same strategic thrusts as the previous Budgets.

Details of the Merdeka Generation Package, first announced by Prime Minister Lee Hsien Loong at the National Day Rally last year, are also expected to be unveiled.

On Feb 2, Mr Lee said that the Merdeka package would be “substantial” and go some way in helping with the healthcare needs of Singaporeans born in the 1950s.

He added that Mr Heng and Health Minister Gan Kim Yong will reveal more in Parliament later this month.

Schemes that could help lessen the cost of living would be one area that NUS sociologist Assoc Prof Tan would like to see more of in Budget 2019.

While GST vouchers, tax rebates and service and conservancy charges rebates have been offered yearly and are expected to continue, these measures are more targeted for the lower-income households, he noted.

“Cost of living has been a hot-button issue since the 2011 election and it continues to matter to people,” Assoc Prof Tan said.

Based on the latest annual Key Household Income Trends report released by the Department of Statistics earlier this week, real income — which takes into account inflation — increased last year.

Nevertheless, to the man-in-the-street, “(the price of) everything seems to be going up”, Assoc Prof Tan noted.

“Maybe it’s just an impression but certainly it’s an impression that matters politically,” he added.

With talk of a looming General Election (GE) in the air, Institute of Policy Studies deputy director Gillian Koh said that Budget 2019 will be watched “for how it is used to sweeten the ground”.

But she pointed out: “I do not think that the Government would like it to be viewed that way. It shuns the notion that they are populist and prefer it to be known that they design the Budget with strategic, longer-term national objectives and interests in mind.”

The next GE is due by early 2021 but there has been speculation that it could be held as early as this year.

Assoc Prof Tan, the NUS sociologist, noted that the ground “hasn’t been very sweet” for the Government.

"They need to address something close to the people's hearts," he said, citing the cost-of-living issue.

Despite the domestic challenges and global uncertainty, Mr Heng noted in his Facebook post on Thursday that Singaporeans have much to be optimistic about.

"And the picture is positive. We have achieved good progress across our economic and social fronts," he wrote. "GDP growth rate is healthy, productivity levels have improved, and Singaporeans are seeing higher real income. Singaporeans enjoy access to affordable and quality healthcare system, education and housing."

With the entire nation's eyes on the Budget on Monday — and pricking their ears for any hongbaos from the Government — policymakers will be hoping they see the bigger picture.