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Budget 2018 and the evolving social compact

Budget will focus on needs of an ageing society and sustainability

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To be released today, significant changes to the overall tax policy will be closely watched in Budget 2018.

There is a certain air of inevitability to various taxes being raised and new taxes being implemented in the years ahead.

Budget 2018 will likely invest in long-term priorities, support the home front through greater social and healthcare spending, while emphasising fiscal prudence.

We can also expect sustained investments in human capital, knowledge and innovation to sharpen our individual and collective capabilities, enable businesses to move up the value chain and maintain our economic vitality and relevance.

Increased security spending has been flagged, reflecting the tenor of today's security climate and concern with terrorism.

Expect substantive investments in infrastructure to make Singapore highly liveable, a smart city and one that is also inclusive.

The Budget will sharpen the focus on the needs of an ageing society, sustainable consumption and sustained investments for the future and the young.

This has to be so.

A recent Institute of Policy Studies study found little consensus among Singaporeans on how higher social spending for the elderly should be funded.

Respondents had diverse views about paying more taxes or tapping on national reserves to fund the public coffers.

Hence, there must be a consensus on what needs to be done to buttress inter-generational equity.

The issue of sustainable Budgets will take on increasing importance in the years ahead.

We have to live within our means and save for a rainy day, even as demands on the Government's coffers continue to grow.

PAYING FOR INCREASED PUBLIC SPENDING

Government spending has significantly increased in the past decade.

In 2015, overall government spending was projected to reach 19 per cent to 19.5 per cent of gross domestic product (GDP) on average by 2020, about 1 per cent of GDP higher than government revenues in 2015.

"...the Budget should engender a far larger discussion of how changes to the tax regime will contribute to our social cohesion and an equal, fair and just society."

The net investment returns (NIR) framework allows the Government to spend up to 50 per cent of the expected long-term real returns on its net assets managed by the Monetary Authority of Singapore, GIC, and Temasek Holdings, and it has enhanced the Government's revenue stream.

Implemented in 2009, Temasek was included in the NIR framework in 2015.

Its inclusion enables the Government to spend based on Temasek's total expected returns, including realised and unrealised capital gains, and not just actual dividends paid by Temasek to the Government.

Naturally, legitimate questions arise such as the sustainability of such public spending and whether a fair balance between the needs of current and future generations has been struck.

TAX INCREASES AND THE SOCIAL COMPACT

It is widely anticipated that the goods and services tax (GST) will be increased.

GST was pegged at 3 per cent when it was first introduced in 1994. It was raised to 4 per cent in 2003, 5 per cent in 2004, then to the current 7 per cent in 2007.

In 2015, Deputy Prime Minister Tharman Shanmugaratnam said the revenue measures the Government had already undertaken would provide sufficiently for increased spending planned until 2020.

It will therefore be surprising if there are significant tax policy changes implemented between now and 2020.

Nevertheless, the recent discussion on tax increases by Prime Minister Lee Hsien Loong and Finance Minister Heng Swee Keat should spur the development of a consensus on the evolving social compact.

There is the patent need to revitalise the social compact in light of an ageing society, smaller families, growing aspirations and high costs of living.

The imperative for a comprehensive suite of redistributive policies is vital. Every Singaporean, rich or poor, benefits from an equal and fair society.

How the Government engages Singaporeans matters as much, if not more, in its bid to make a powerful case for the tax changes.

No matter how powerful an idea is, it is not necessarily determinative of its acceptance by Singaporeans.

Adequate time is also needed for people to digest the changes.

The process of engagement cannot be rushed and how Singaporeans are engaged will determine whether there will be adequate buy-in.

Singaporeans can probably trot out the Government's rationale for changes to the overall tax regime.

Although there will be differential impacts on Singaporeans, the debate must not revolve narrowly on tax hikes.

Instead, the Budget should engender a far larger discussion of how changes to the tax regime will contribute to our social cohesion and an equal, fair and just society.

A unified understanding and support for a rejuvenated social compact and how it contributes to the collective good: This grand narrative must resonate with Singaporeans.

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