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COMMENTARY

Budget 2023 and its call for solidarity amid global uncertainty

By Eugene K B Tan

FOR three fiscal years, the global pandemic was writ large in Singapore's Budgets, with the actual drawdowns on past reserves amounting S$40 billion to cope with the Covid-19 pandemic which precipitated the "crisis of a generation".

Tuesday (Feb 14)'s Budget statement, with hardly any significant pandemic-related fiscal allocation, suggests that Singapore is now in a post-pandemic normal.

"Drawer plans" are in place to deal with any challenges, whether zoonotic diseases and geopolitical uncertainties, even as the Government moves to amend the Constitution to enable the Contingencies Fund balance to be reduced from S$16 billion to S$6 billion.

For all its offerings, Budget 2023 has a distinctively Singaporean welfarist approach to governance. PHOTO: YEN MENG JIIN, BT

Social expenditures to the fore

The accent on social expenditures in Budget 2023 is hard to miss and deserves the label of a "People's Budget". Pro-family measures – including enhanced baby bonuses, additional paternity leave and public housing priority for first-time buyers – are generous. They signal that population issues have returned to the fore for policymakers, as the nation's fertility rates remain persistently stagnant.

Will the new suite of incentives, which certainly seek to assuage concerns of the high costs of raising family in Singapore and, more critically, move the needle on birth rates?

Money alone is not enough, but it appears that policymakers remain hopeful that regular beefing up of financial incentives can engender the necessary attitudinal shifts towards procreation.

The accent on young families and their pain points is also underscored with the generous housing grants, and giving first-time buyers of HDB apartments an additional ballot, to acquire a roof over their heads. Implicit in this is the hope that young couples having their own pad in a timely manner will lengthen the runway for child-bearing.

Refreshing institutions and policies

The Budget provides an invaluable opportunity to refresh long-standing public institutions and policies. They have served Singapore and Singaporeans well since independence, but have to be continually revitalised to ensure that they are fit for purpose.

To this end, the incremental increase in Central Provident Fund (CPF) salary ceiling to S$8,000 by 2026, and the upward adjustments in the employer and employee CPF contributions for workers aged 55 and above, are welcome.

Much as it is necessary to roll back previous changes, the question of whether they are sufficient to assure middle-income Singaporeans of retirement adequacy will be the litmus test.

Nevertheless, these changes can be bolder and faster in light of the continued labour crunch, higher retirement age, and the imperative for companies to recognise and appreciate what older workers who are better educated and experienced can bring to the table.

Moreover, if public policy is consciously developing a more systematic lifelong learning programme and encouraging Singaporeans to inculcate a craftsman's attitude to work, then these contributions – which are seen to reflect the "worth" of an older worker – do not adequately appreciate the contributions of these workers.

For example, under the revised contribution rates from 2024, the combined CPF contributions for a worker at age 65 is only 22 per cent, up from the current 20.5 per cent.

This compares with a worker at 54 who has 37 per cent combined CPF contributions, before seeing the dip in overall contributions on his 55th birthday. So long as ageist mindsets remain – and which CPF policies might unwittingly sustain – then a precious pool of human resource remains not fully tapped.

Having accepted the Advisory Committee recommendations last year, platform workers will receive additional help as their CPF contribution rates are raised over a five-year period. The aim is for their CPF contribution rates to be aligned with those of regular employees and employers, enabling the former to save for their retirement.

Much has been made of the extra support to help Singaporeans cope with inflation and the hike in goods and services tax (GST). The permanent GST Voucher scheme, which seeks to defray GST expenses for lower to middle-income Singaporeans, will increase from S$500 to S$700 this year and to S$850 from 2024. This permanent scheme will cost the Government S$1.7 billion from 2024.

The Assurance Package (AP), which is meant to offset at least five years of additional GST expenses for most households, is being topped up by S$3 billion to S$9.6 billion. This 45 per cent boost to the AP's quantum reflects Singapore's fiscal largesse and prowess.

Social compact still in flux

However, this top-up raises pertinent questions of its sustainability, should Singaporeans become overly reliant on the state for their living expenses. Wong himself cautioned that it was "not fiscally sustainable to rely so heavily on Government support year after year to cope with inflation".

While Wong was mindful to reiterate the refreshing of the social compact, the Budget speech was decidedly strong on the vertical relationship between the state/government and the people. The hope is that the eventual refreshed, co-created social compact will have an equal emphasis on the horizontal ties that bind society – among people in Singapore, and between businesses and people here.

The role of businesses in strengthening the social compact cannot be underestimated.

Budget 2023's generosity in helping Singaporeans manage the inflationary environment perhaps overshadows the significant policy announcements on strengthening the skills and training ecosystem, to enable the Singaporean workforce to readily access more training support throughout their careers.

In a major move, the Government will create Jobs-Skills Integrators, which are institutions meant to ensure that training will improve employment and earning potential.

Stakeholders such as businesses, training and job placement partners will be involved. The details remain to be fleshed out, and all eyes will be on the debate on the Education Ministry's budget estimates in Parliament soon.

With the mantra on lifelong learning and employment resilience, it is timely to shift the focus to genuinely accessible training opportunities, the purposeful training of workers and for training that leads to recognised, verifiable credentials.

Mere tweaks to the tax system

No Budget is complete without the Finance Minister elaborating on the revenue streams. This year's Budget highlighted the fiscal implications of Singapore's medium-term challenges of growing government spending, which the Finance Ministry has projected will increase to a fifth of gross domestic product (GDP) in the FY2026 to 2030 period, and possibly exceeding 20 per cent of GDP by FY2030.

The government's recurrent and growing commitments to healthcare expenditure, uplifting lower-wage workers and improving early childhood education means the demands on the public coffers have grown in recent years. Budget 2023 is no different.

Perhaps taking into account that economic recovery will be uncertain, the Budget was decidedly light on tax changes. Wong raised Buyer's Stamp Duties on higher-end residential and non-residential properties, even more tax on higher-end cars, and higher excise duty on tobacco products.

Tuesday's announcement will add an estimated S$0.8 billion to the public coffers. While every bit counts, the tax tweaks are inadequate in the long term, and we still await a major revamp of the tax system.

Wong also announced that Singapore would from 2025 make the effective tax rate 15 per cent for overseas subsidiaries of Singapore companies and multinational enterprises operating here. This is in accord with the Base Erosion and Profit Shifting initiative.

While there are concerns that Singapore's competitiveness will be eroded, they do not adequately recognise the significant non-tax benefits of doing business in Singapore, such as the quality of the workforce, the infrastructure, the connectivity, living environment, and rule of law, which are not so easily quantifiable in monetary terms.

For all its offerings, Budget 2023 has a distinctively Singaporean welfarist approach to governance. This is not to be confused with a welfare state, which in the main principle is characterised by income transfers to individuals, social assistance and social insurance as of right, and requiring high taxation of individuals and even budget deficits.

In contrast, under a welfarist approach, fiscal spending and tax policy are geared towards strengthening individual and societal well-being balanced against the imperatives of a balanced budget, equitable distribution of the nation's wealth, self-reliance, family responsibility and gainful employment.

In other words, social policies and spending are fundamentally supportive of economic policies, and are also seen as long-term investments rather than recurrent expenditures.

We can expect the fiscal dimension of governance to further evolve in the years ahead, with the fourth-generation leaders in charge.

As the external environment is evolving rapidly and societal attitudes and expectations changing, building social consensus on how the nation keeps its Budgets balanced remains a critical conversation to have in the years ahead.

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