

Budget 2025

Is 'something for everyone' the right thing to do?

Subsidies are justifiable as corrections to market imperfections, but there are downsides to repeated 'handouts'.

Linda Lim and Pang Eng Fong

Commentators on Singapore's Budget 2025 have rightly hailed it as "inclusive" and "generous", with "something for everyone", as expected from a pre-election Budget. As economists who have studied Singapore's development for the past half-century, we consider how economics informs the Budget's contribution to solving Singapore's long-term development challenges.

The high cost of living affects all Singaporeans. Here the Budget delivers a range of vouchers, credits, tax rebates and top-ups aimed at mitigating the negative impact on different categories of beneficiaries.

Their form and scale may differ, but such subsidies have been a feature of all Singapore's recent Budgets.

To economists, subsidies are justifiable as corrections to market imperfections, where "externalities" exist. Here Budget 2025 conforms by providing subsidies for the arts and culture, for the energy transition, and for caregiving, among other activities where relying on market forces alone will lead to suboptimal production and consumption.

But the persistent need for subsidies for basic goods and services – like food, accommodation and utilities – in one of the world's richest countries indicates that prices are too high and wages too low to enable a substantial segment of Singaporeans to make ends meet. The market distortions which cause this result in part from state land, labour and exchange rate policies.

As owner of 90 per cent of Singapore's land, and builder of housing for over 80 per cent of the population, the Government determines both demand and supply, and hence the price, of land. High land and rental costs undermine the international competitiveness of what is already a high-cost economy. Yet the Budget does not provide rental relief to businesses or residents, other than government-run

hawker centres in HDB heartland estates, or indicate any change in HDB flat pricing, that could reduce this contributor to the high cost of living.

Government policies to attract foreign investment and talent also contribute to price pressures on extremely scarce land for commercial production and residential housing. For example, the family offices of ultra-rich foreigners and the many foreigners they employ create demand for private housing which cascades down into the HDB resale market.

At the same time, large numbers of foreign workers continue to be imported for construction and other low-wage occupations. This exerts downward pressure on the wages of lower-skilled Singaporeans, and discourages employers from investing in automation and skills upgrading – hence the need for the incentive provided by Budgetary rebates for training.

Most of what Singaporeans consume, including food, is imported, so those prices depend on the Singapore dollar exchange rate. This is "managed" by the Monetary Authority of Singapore (MAS) to generate large current account (goods and services trade) surpluses, meaning that the exchange rate is lower, and hence imports more expensive, than they would be under a floating exchange rate regime. Allowing the exchange rate to rise is MAS'

primary monetary policy tool to curb inflation, and not part of the Budget process.

So Budget 2025 does not deal with the fundamental causes of the high cost of living, but does provide short-term mitigation of its negative impact on consumer welfare.

From an economics perspective, however, it is not clear why the higher-income – like the 15 to 20 per cent living in private housing – should receive subsidies, when they are better able to afford higher prices, have more room to adjust consumption downwards, and have benefited from high land and housing prices. For both efficiency (in terms of consumer welfare) and equity, it would be better to target larger subsidies on fewer people – those most in need. Budget 2025 recognises this, by providing for higher-income beneficiaries to donate their CDC vouchers to charity. Those who are "asset-rich but cash-poor" should have ways of monetising their assets.

There are other downsides to relying on repeated "handouts" to deal with the cost of living. Wage subsidies and corporate tax rebates to employers will help keep many businesses operating, including those who are unable to survive without subsidies. This may discourage them from restructuring, relocating or closing, thus impeding the resource reallocation necessary to make the economy more efficient.

Labour hoarding and reluctance to invest in new technologies or processes will only perpetuate low productivity growth.

RISKS OF AN ENTITLEMENT CULTURE

Chronic dependence on "handouts" and "goodies" also risks creating a "welfarist" or "entitlement" culture, especially among recipients who do not need them to maintain a basic standard of living. "Giveaways" like those in Budget 2025 can lead to "gimme" expectations even when not warranted by individual or macroeconomic circumstances, with attendant risks to work effort and productivity.

More serious for longer-term economic development is the "rentier" mentality generated by an economy excessively focused on property market gains. People are understandably drawn by the lure of "easy money" promised by the ability to buy residential property to "flip" for capital appreciation – something that can be done twice in a lifetime, and with government subsidies, in the HDB sector.

This diverts scarce capital, talent and labour into the property market, and away from the much harder work of entrepreneurship and innovation to produce and market goods and services that add value in the productive sector. (This is one of the factors which brought about the economic decline of the mediaeval city-state of Venice after centuries of mercantile prosperity.)

A focus on enjoying monopoly rents from property encourages risk aversion and a preference for stability. It also ensures that property prices must always rise. With a shrinking local population, this requires a constant influx of foreign money and people, and hence a perpetually rising cost of living – and perpetual subsidies – in what is already one of the world's most expensive cities with

one of the world's highest population densities.

Budget 2025 will be popular because it does indeed give "something for everyone", including those who don't need it, and promises stability and state support, which Singaporeans value politically.

THE TRADE-OFFS

But in economics there are always opportunity costs and trade-offs. Richer property owners due to higher property prices mean a higher cost of living, which undermines international competitiveness. A weak currency helps make exports competitive, but raises the price of imported goods and services. A Budget surplus readily funds subsidies, but also means that the Government is taking in more from households and businesses than it is disbursing to them. This in turn means a larger state but smaller private sector. And a current account surplus – which is how reserves grow – is achieved by restraining current consumption and investment. In Germany this – together with risk aversion and insistence on clinging to an economic development model rapidly becoming obsolete in a changing world – is now being blamed for economic stagnation.

A single year's Budget cannot, of course, deal with all the contradictions in Singapore's economic development model. Budget 2025 does a good job of short-term mitigation of current problems. But it also entrenches attitudes and expectations that are not the most favourable for the economic restructuring needed to address long-term challenges.

Besides extreme and intertwined domestic land, labour and demographic constraints, there are unprecedented external challenges posed by climate change, technological disruption, and geopolitical risks. Fortunately, decades of high savings have given us the financial wherewithal to invest these challenges if we invest properly to deal with them.

Sixty years of political independence have seen Singapore transform into an affluent, educated and long-lived society. Today, "something for everyone" is neither necessary nor sufficient to move us forward together economically, in as yet uncharted waters. Instead, "everyone" should consider how their own aspirations and behaviour can affect our collective well-being, and what this might require in future Budgets and government policies, as we prepare ourselves for the massive changes ahead in the world, and hence local, economy.

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Budget 2025 does not deal with the fundamental causes of the high cost of living, but does provide short-term mitigation of its negative impact on consumer welfare, say the writers. ST PHOTO: KUA CHEE SIONG