

Reflections on Budget 2011

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Expectations were high leading up to this past Friday's budget speech. In 2010, strong economic growth boosted government revenues. So there was naturally a strong expectation (perhaps too strong) that this year's budget would contain goodies for the general public, particularly to help address the threat of inflation for lower-income households. Given these high expectations, how did the budget measure up? Here are some of my own thoughts.

First, for private sector firms and businesses, I would describe this budget as one of "give-and-take". On the "give" side, some very strong tax incentives have been put in place to encourage firms to invest in innovation and productivity improvements. However, on the "take" side, employer CPF contributions are set to increase, while foreign worker levies will also go up progressively. On the whole, the message to businesses is a clear one: "Let's become an economy where growth is driven by productivity gains, rather than by simply expanding the workforce with foreign labor." These new budget measures provide a strong inducement to firms to restructure themselves, to rely less on foreign unskilled workers and instead invest in labor-saving productivity enhancements.

If these measures are successful, it would truly set the stage for Singapore to transform itself into a first-rate modern economy in all industries, becoming one where workers can reap the benefits of steadily rising real wages through a constant flow of productivity improvements. Of course, whether this materializes will depend on the details of the implementation. Productivity improvements don't simply drop from the sky, and we will need to do a lot to develop a culture of innovation in the workplace. Some firms, particularly SMEs, may also struggle in the interim to cope with some of these rising costs. But this year is probably as good a time as any to start this long-term process, from a position of economic strength after a good year of growth.

Second, for Singaporean households, this budget did not disappoint. The total amount of funds that will be put back into the public's hands is one of the largest on record, and there was "something for everyone". The budget featured a balanced mix of short-term transfers and medium-to-long term measures. The short-term measures – such as the Workfare Special Bonus, Growth Dividends, and public utilities rebates – will help Singaporeans, especially in the lower and lower-middle income groups to cope with the challenge posed by inflation this year. On the other hand, the middle and higher-income households can look forward to the income tax rebates for this year. There were also measures with a longer-term outlook, such as the Child Development Credits, higher education bursary funds, and top-ups to various education-related and eldercare-related funds. These may in time actually prove to be more important because of the key investments that they help us make in the human capital and social infrastructure of our country.

While I would thus give the “Grow and Share” package an overall thumbs-up, might there be some areas where more could have been done? I still have some concerns for lower-income households. While they will receive a generous boost over the next three years from the Workfare bonus, these are ultimately one-off payments that may not help to solve the difficulties they might face with recurring expenses, such as HDB loans and childcare/eldercare costs. It is always a tightrope for the government to walk between trying to give a helping hand, while avoiding a dependency culture. And we should of course be realistic about how much the annual budget for any single year can do to systematically assist lower-income Singaporeans. Suffice to say however that the government will have to continue to be vigilant about the needs of this group of Singaporeans in future years.

Last but not least, I especially liked the decision to put back into our official reserves the S\$4 billion that had been drawn down to tide Singaporeans over the global financial crisis. This clearly reaffirms the government’s commitment to long-term fiscal prudence. And it sets an important precedent for future leaders to follow with regard to the use of our hard-earned reserves. Let us hope that ordinary Singaporeans will be just as prudent with how they use the additional transfers and top-ups that we will receive in the year ahead.