NUS National University of Singapore

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Nail down also how productivity funds change behaviour

By **TEH SHI NING**

WHILE Budget 2011's measures show a positive commitment to long-term economic restructuring and raising real wages, panellists at a forum yesterday voiced concern over how some businesses may feel more pain, and some individuals less gain, from these measures.

Further hikes in foreign worker levies have not been popular but are right and "send the signal that higher business costs are here to stay, higher productivity is needed", said economist Manu Bhaskaran, CEO of Centennial Asia Advisors Singapore. At the session organised by the Singapore Centre for Applied and Policy Economics at the National University of Singapore, Mr Bhaskaran said that a closer look at where the pain falls is needed.

"The policy changes unintentionally disfavour local companies, which tend to be in businesses that are harder to automate," he said. "Such adjustment is necessary, no doubt about it. But can we not do something more to help those who stand to lose the most from these changes, especially if they are home-grown companies run by Singaporeans?"

And while the doubling of the National Productivity Fund to $2 billion and substantial enhancements to the Productivity and Innovation Credit scheme are good, Mr Bhaskaran suggests that a review be started to answer the "nagging question" of how much these funds spark actual changes in economic behaviour, and how much merely subsidises investments that companies would have made with or without incentives.

Another key theme of Budget 2011 was redistribution for inclusive growth, panellists noted. But they think that a more structured, long-term approach that goes beyond fiscal measures is needed.

"Perhaps a more comprehensive framework is needed to address key gaps in social safety net provision, such as in the areas of retirement funding, healthcare capacity and social mobility via education," said Mr Bhaskaran.

Chia Ngee Choon, deputy head of NUS's Economic Department, said that ad-hoc transfers may not achieve the social mobility and higher incomes that an education system which evens out the playing field (unlike at present) might.

"Will the rising tide of economic growth really lift all boats?" she asked. Her estimates, based on historical income growth rates, show that the current goal of 30 per cent real wage growth over the next decade is attainable on average, but may not be so for the lower income group living in three-room or smaller HDB flats.

The more progressive income tax structure will help growth trickle down, she said, adding that the latest changes to the CPF contribution rate and salary ceiling would benefit middle income earners more than the lower income ones.