Headline: Budget should benefit less well-off
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Budget should benefit less well-off

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WITH the Singapore economy having recovered well last year, there are clear indications that, in addition to addressing concerns about inflation, the coming Budget will focus significantly on promoting "inclusive growth" – ensuring that as far as possible the benefits of growth are widely distributed among all sections of the population, including the less well-off.

In this connexion, three issues deserve further consideration:

■ First, there needs to be almost a "paradigm shift" as far as society's priorities are concerned. Social betterment needs to be treated with the same sense of urgency as economic development has always been.

The "many helping hands" approach has its merits, but a significant possible drawback is that it may not be conducive to the development of a comprehensive approach to the problems of the disadvantaged. For example, providing pocket money to poor schoolchildren is laudable, but the reasons their families are poor also need to be addressed. Dysfunctional family units may well be confronted with a myriad of problems – marital breakdown, recidivism, gambling and alcohol addiction, and so on – not simply a shortage of finance. Proper counselling and targeted interventions are thus necessary.

Whether the existing network of Family Service Centres and related agencies is adequate for these purposes should be evaluated. If not, a greater commitment of resources to the social sector – including improved training and remuneration for social workers, and an increase in resources at their disposal – is necessary.

Besides social services, economic programmes such as Workfare also need to be re-assessed, especially as regards the quantum disbursed and whether more can be disbursed as cash rather than as Central Provident Fund contributions.

Quite apart from the significant social benefits of such steps, there are likely to be economic benefits as well. The bottom 20 per cent of society should not be viewed simply as a responsibility – or worse, a burden – that the rest of society has to shoulder. If the dysfunctionalities confronting them can be ameliorated – and more support and training opportunities provided, as they are now with Continuing Education and Training programmes – their productive capabilities can be significantly enhanced, and they can become a valuable resource to society.

■ Second, there needs to be a significantly increased commitment of resources to the education system. In particular, the issue of class sizes needs to be re-examined.

It is said that the empirical evidence as to the efficacy of reducing class sizes is mixed, or inconclusive. This may be the case if "efficacy" is measured by performance in standardised tests. However, in the competitive environment of today, the creative spark in every student needs to be nurtured, and this requires individualised attention, which is simply impossible in large classes.

■ Third, consideration needs to be given to marginal personal income tax rates at the top end of the tax scale. Currently, the highest marginal tax rate (MTR) is 20 per cent on taxable incomes in excess of $320,000. A high-flying civil servant – for example, in his early or mid-30s – thus pays the same, rather low, MTR as a banker or lawyer earning eight to 10 times his salary, not a particularly progressive state of affairs.

Contrast this with the situation even in the modern world's bastion of capitalism, the United States, where the (federal) MTR rises gradually to a maximum of 35 per cent on taxable incomes in excess of US$373,650 (S$478,000).

The reduction in our highest MTR from 28 per cent in 2002 to 20 per cent in 2007 has been a contributory factor to the rise in Singapore's Gini coefficient (a measure of income inequality) from 0.428 to 0.471 over these years. (These figures were provided, after accounting for government benefits and taxes, in a 2010 Department of Statistics report. The preliminary estimate for 2009 was 0.453.)

In my view, consideration should be given to some increase in the MTR at very high income levels – for example, to 22 per cent on taxable incomes in excess of $500,000, and 24 per cent on taxable incomes above $1 million. The very well-off in society should – as many of them recognise they do – have an obligation to contribute a reasonable amount of taxes to the society which has given them a conducive environment to do well in.

Indeed, I would argue that this is the true significance of the term "social cohesion". Relying on voluntary philanthropic contributions by the wealthy runs the risk of not eliciting sufficient contributions from the "free riders" among them.

Modest increases in the MTR along these lines are not likely to impair Singapore's attractiveness vis-a-vis, say, Hong Kong, when "quality of life" and other considerations are taken into account.

I further suggest that those having to pay these higher MTRs be given the option of channelling the additional tax payments to either general government revenues, or a newly set up "Inclusive Growth Fund", to finance upliftment and/or enrichment programmes for the bottom 20 per cent of Singapore families. This should further enhance the acceptability of such tax increases.

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