Headline: Lower-income may miss the boat
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BUDGET REACTIONS

Lower-income may miss the boat

Analysts not quite sure about Govt's strategy to lift the lot of those at the bottom rung

By Aaron Low & Elgin Toh

THE Budget is a step in the right direction but nagging questions remain about the plight of low-income Singaporeans, academics and experts say.

In particular, they questioned if those at the bottom of the income ladder would be able to benefit from the Government's aim to raise the real wages of Singaporeans by 30 per cent in the next 10 years.

Speaking at a seminar yesterday on the Budget statement, National University of Singapore economist Chia Ngee Choon said achieving the target required real incomes to grow by 2.66 per cent a year.

Based on her analysis of income growth rates between 1998 and 2008, she expressed concern that the target could be achieved only for the 77 per cent of Singaporeans living in four-room HDB flats and bigger homes.

Those living in smaller homes experienced income growth that was below 2.66 per cent a year – 1.43 per cent for three-roomers, and minus 1.24 to 1.8 per cent for one- and two-roomers.

"The question to ask, then, is: Does this tide of economic growth raise all boats? It may raise only those in the middle income and above," said Professor Chia.

She called for more to be done to improve social mobility, but said this was better carried out through changes in education policy, not fiscal.

Fellow panellist Manu Bhaskaran, chief executive of Centennial Asia Advisors, said the wealth-sharing measures in the Budget would be "reasonably effective". But he noted the urgency of building a more comprehensive safety net for the less fortunate, instead of relying on tax surpluses, which may not be available every year.

Speakers at the forum also queried the Productivity and Innovation Credit (PIC) scheme, which they said seemed to favour certain sectors.

Panellist Sum Yee Loong, a tax partner at Deloitte & Touche, noted that those in high-value sectors like pharmaceuticals would benefit more from the PIC, a tax rebate scheme to encourage companies to raise productivity.

Under the enhanced PIC, companies may claim 400 per cent in tax rebates if they invest in innovation, training or research and development.

"Those in the services industry may not always be able to do research and development; unlike pharmaceutical companies which are constantly doing research," he noted.

The higher foreign worker levy introduced in the Budget also came in for much discussion, with some questioning if it would work as intended.

Mr Sum was hopeful that the move would spur firms to hire local, rather than foreign, workers, but Prof Chia said the "substitution effect" would depend on other factors, like whether local workers are willing to work in the industries vacated by the foreign workers.

"Mindsets of workers need to be changed, as many of them shun certain industries," she said.

Mr Bhaskaran noted that the higher levy could end up adding to inflation, given the current tight labour market. "Firms may be able to pass on the wage cost increases to consumers, so inflation may take another hit."

The seminar was organised by the Singapore Centre for Applied and Policy Economics at NUS.

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