Budget 2012: Good for older workers, the poor, less so for businesses

By Melissa Tan, Magdalen Ng

The Budget was a step in the right direction but could have done more to address challenges in areas including Singapore's productivity drive, experts said in panel discussions on Monday.

They also expressed concerns that the latest Budget, released last Friday, offered little to business at a time of global economic uncertainty.

At one session held by the Economic Society of Singapore (ESS), speakers noted that the Budget would help groups such as older Singaporean workers and the poor. It would also, in the long run, hopefully wean Singapore off its dependence on foreign labour.

At another, organised by the Singapore Centre for Applied and Policy Economics (Scape), speakers agreed that Budget 2012 demonstrated the Government's determination to ramp up productivity.

In opening remarks at the ESS panel, Nanyang Technological University (NTU) economics professor Lim Chong Yah said the Budget set out in great detail measures to overcome difficulties such as the 'increasing overdependence on foreign workers' here.

NTU economics professor Chew Soon Beng also noted the social policy aspects: 'This is a very friendly Budget for older workers and the poor.

'But there is no free lunch - it is a very difficult Budget for businesses'.

ESS vice-president Manu Bhaskaran added that in terms of improving social safety nets 'there's been a lot of progress, in particular in health-care spending... (which) addresses a particularly painful problem for Singaporeans'.

But he echoed Professor Chew, suggesting that the tightening of the foreign worker restrictions could provide more difficulties for business at a time of global economic uncertainty.

'That will reduce its resilience in facing the exogenous shocks... The Budget is actually more contractionary in its fiscal stance than it was last year... (it) doesn't seem to help very much'.

Mr Bhaskaran added that 'the drive to increase productivity clearly is not gaining traction and there is a need for review and rethinking of the fundamental approach'.

He noted that the current approach to improving productivity was 'basically continuing the strategy we were employing in the past, which is trying to use a price and quantity measure to jack up the cost of foreign workers... and schemes like the PIC.'

The PIC - Productivity and Innovation Credit scheme - is aimed at encouraging firms to become more productive. It allows deductions of 400 per cent on up to $400,000 of a firm's annual expenditure on each of six qualifying activities.

But Mr Bhaskaran said he was 'not sure whether these are really working. Clearly businesses will respond to price signals but it will take some time'.

He noted that in other countries such as Germany, small companies - which account for the bulk of employment - are linked by networks to large companies.
That means that 'when big companies move up the value chain, small companies naturally follow along'.

'But the difference for Singapore is that we are so dominated by multinational companies that they have their own supply chains, and that means we have not built the kind of networks that link small companies to big companies'.

This was one reason why 'in the last 15 years we've found it difficult to push up productivity'.

At the Scape discussion, associate economics professor Chia Ngee Choon argued there may be a drawback with the 'Silver Housing' policy.

Under the policy, a Silver Housing Bonus of $20,000 will be given to older Singaporeans wishing to sell their existing flats and buy three-room or smaller HDB flats.

She said that the policy may not benefit the very groups it should help - the elderly who live in rental flats, or in one- to two-room flats.

This is because some are unable to downgrade further, and others may have to use the sale proceeds to top up the minimum sum in their CPF accounts.

'The scheme may not help people at the lower rungs, and a more in-depth study will have to be done on how much money is actually unlocked for the elderly.'

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