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**T**HE issue of sustainability, particularly of social spending, was a dominant concern during the recently concluded Budget debate in Parliament, perhaps reflecting views from analysts and members of the public in the media.

Budget 2015 estimated a deficit of \$6.67 billion. It also included two new permanent schemes - Silver Support quarterly allowances for the low-income elderly and a SkillsFuture Credit for all Singaporeans aged 25 and above.

In my view, the concerns about fiscal sustainability are mostly misplaced. The main reason is that the Singapore Government presents its Budget position in a conservative way. Some revenues are excluded and some "expenditures" should not be wholly counted as spending in the current fiscal year. Consequently, Budget surpluses are understated and deficits overstated.

The overall Budget position - with its seemingly alarming deficit - is a poor indicator of the economic impact of the Government's fiscal stance and of longer-term sustainability.

First, on the revenue front, the most important exclusion is revenue from land sales. These are excluded because they are not available to the Government for current spending. But being excluded does not mean they do not have a macroeconomic impact.

From a Budget sustainability perspective, locking up almost all the revenues from land sales means that the country's reserves are, by design, still increasing substantially. This increases the amount of net investment returns (NIR) that are available to the Government for current spending.

Second, the Constitution already sets limits to what the Government can draw from past reserves, thus curtailing what it can draw to fund spending.

Hence, the hand-wringing over using more of the NIR for current spending is quite unnecessary. By design, the rules on the use of the reserves are quite conservative. Not only is the principal not touched (except in extreme circumstances, and even then it requires presidential approval), but

# Budget 2015: In deficit, yet very prudent at heart

Concerns about fiscal sustainability of social measures in Budget 2015 are misplaced, given the conservative way the Government sets aside money.



The cost of the Silver Support Scheme for the elderly is a drop in the ocean in terms of spending.  
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also only up to half of the expected long-term real returns are available to the Government for current spending. This is another reason our reserves would still be growing strongly.

In any case, any deficit incurred in one year has to be balanced over the course of a government's five-year term.

Third, on the spending front, the Singapore Government does not borrow for spending - not even capital spending. This is yet another example of Singapore's fiscal conservatism; it is like a household that buys a house without taking a bank loan.

In lieu of borrowing, the Government uses up to half the expected long-term returns from investing the reserves. The alternative to using more of these returns for current spending is to plough them back into our reserves for in-

vestment abroad. Given very low or even negative interest rates today, there is good reason to spend the returns on well-designed social programmes instead.

Fourth, still on the expenditure front, a large portion of what the Government considers "expenditure" consists of what others will consider capital transfers.

Each year, billions are salted away for the future, via top-ups to endowment and trust funds. These are actually capital transfers that do not reflect actual spending for that year. This year, \$6 billion went to such top-ups. Discounting this would virtually eliminate the deficit.

A more accurate representation of spending would be for the Government to estimate how much of the income from those funds would be spent over the fiscal year.

The Government also has a habit of accounting for large capital spending in one year, instead of spreading it out. This year's Budget includes \$3 billion set aside for the airport's development. Last year, \$9 billion was set aside for the Pioneer Generation Package although the subsidies in it may take two decades or more to pay out. This is akin to a company wanting to construct an expensive new building and setting aside the money in one year. It then takes the hit on its bottom line in that year, instead of amortising it.

To be fair, those overly concerned about fiscal sustainability are not entirely to be blamed. The Government's presentation of its fiscal position has tended to downplay just how much fiscal resources the State has at its disposal.

Why should this matter? Isn't it better for the Government to

fudge the full extent of its fiscal armoury, and for members of the public and Parliament to err on the side of excessive prudence and to worry about sustainability even if this is mostly unnecessary?

The short answer is no. Ignorance is seldom a good basis for informed debate. Too much opacity also breeds mistrust and cynicism. Eventually, if and when the Government faces genuine fiscal constraints, people may not believe.

The concern about sustainability expressed by many centred on the eye-catching Silver Support Scheme. But in fact, the scheme is a drop in the ocean in terms of spending - \$350 million, or just 0.1 per cent of GDP.

Although small, the new allowance attracted attention as it represents an important admission by the Government that a signifi-

cant minority of the population have not been able to save enough for retirement on their own.

Meanwhile, fewer MPs pointed to the SkillsFuture Credit as an example of possible profligacy although the spending here is larger: \$1 billion a year to be set aside from now to 2020.

This may be because people often assume that spending on skills and education represents a worthwhile investment while spending on the elderly represents consumption. But given how large the spending for the SkillsFuture Credit is (\$500 for every Singaporean aged 25 and above), and the possibility of subsidy-induced frivolous spending, the scope for wastage and misuse is significant.

This means that the Government ought to put more resources into monitoring how the SkillsFuture Credit is used than it does with the Silver Support Scheme.

Finally, there was an important missing element from the discussion on sustainability. When someone says that something cannot be financed sustainably by the Government, what is his alternative? If the social needs are real - say, a shortfall in retirement spending or health-care subsidies - then how are those needs to be met?

If the Government, with all its risk-pooling and demand aggregation ability, cannot finance that need sustainably, it is almost certainly impossible that households would be able to do so. The only serious alternative, therefore, is that those needs aren't financed at all - and that many Singaporeans' lives remain in misery as a result.

One cannot applaud higher social spending that meets real needs on the one hand, and criticise it for not being sustainable on the other. Such a critic has an obligation to explain how those needs can be met without State support, or take a stand to argue it should be cut back if he believes it is a luxury that those with lesser means should not spend on. Failing to do so is just as irresponsible and populist as the people who call for more spending without saying how it would be financed.

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