

Why we shouldn't ask for Budget hongbao

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Over the Chinese New Year weekend, Finance Minister Heng Swee Keat remarked that “everyone has been asking me if there will be a hongbao”, or red packet, in this year’s Budget. This wish was promptly answered.

The 2018 Singapore Budget announced on Monday includes a one-off cash payment to every adult Singaporean of \$100 to \$300, known as the SG Bonus. This will no doubt be popular with citizens and will be especially appreciated by lower-income households.

In social policy analysis, these cash payments are viewed as

irregular transfers. They are irregular in that individual payments are one-off rather than routine or permanent, and are not regarded as part of the overall framework of social policy to address specific social needs.

They are also irregular because the way they are applied in Singapore is rarely seen anywhere else. Since the 2000s, there have been one-off transfers almost every year, either in cash or as various utility and conservancy fee rebates, Central Provident Fund top-ups and shares. Internationally, ad hoc transfers as economic stimulus tend to be introduced only in the wake of economic shocks.

As a policy strategy, irregular transfers offer several advantages. Many of these transfers have been more generous towards persons

with less financial means, as assessed through incomes or housing type. They are redistributive and help to protect the economically vulnerable. The SG Bonus, for example, pays \$300 to persons with an annual income of \$28,000 or less, and \$100 to those with incomes above \$100,000.

From a fiscal perspective, irregular transfers allow the Government to respond nimbly to social and economic conditions without incurring long-term spending commitments. In the past, they have often been introduced as wealth-sharing in windfall years, such as the Progress Package of 2006, or as social assistance when times are hard, such as the Resilience Package after the global financial crisis in 2009.

They even allow policymakers to trial new transfer schemes on a limited basis before deciding whether to institutionalise them as permanent programmes. The current GST Voucher scheme, for example, grew out of the GST Offset Package of 2007.

However, there are also risks to

overreliance on irregular transfers.

The first is that they have been extremely costly. In recent years, the spending on irregular transfers, including top-ups to endowment funds through which some of the transfers are financed, has frequently overtaken the total expenditure of the Ministry of Social and Family Development (MSF), as well as the Ministry of National Development (MND).

From 2010, the annual spending on irregular transfers, including the Pioneer Generation Package, which is also not permanent, has ranged from \$700 million to \$8.7 billion. During the same period, the annual expenditure was \$1.7 billion to \$3.1 billion at MSF, and \$1.6 billion to \$4.4 billion at MND.

Second, irregular transfers are not monitored in the way that regular policies are. Government ministries report their spending and achievement of policy goals annually as part of the Budget process. This promotes attention to policy impact and public accountability. One-off transfers, despite their cost, are not held to

these standards.

The third issue is that the repeated application of irregular transfers may create an implicit fiscal commitment in the form of public expectations, even if there are no actual fiscal commitments in principle. The questions about hongbao this year suggest that such expectations may already be taking root.

Fourth, even though there is now a clear historical pattern of issuing irregular transfers almost yearly, the schemes vary in terms of eligibility, coverage and generosity across years. This provides an uncertain basis for individual financial planning and does not contribute to a sense of income security.

Most importantly, irregular transfers on this scale draw resources and attention away from dealing with the challenges facing society in a more considered and purposeful way.

As the Prime Minister shared in his Chinese New Year message, “we should uphold our time-tested Asian values of thrift, self-reliance, and leaving something more for our

children”. He also said that “we must always think beyond the immediate and beyond ourselves, to look and plan over the horizon on behalf of future generations”.

This long-term thinking is reflected in parts of this year’s Budget, such as investment in infrastructure and education. These are better uses of resources than irregular transfers.

Citizens have a role to play in shaping the national Budget. Instead of asking for hongbao, ask for policies that will improve life opportunities for all children, offer better protection during economic transitions, give more assurance of quality care and income security in old age, and contribute to a fairer and more equal society. These are the things that will make life better for everyone now and for generations to come.

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