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ByInvitation

Let's bite the bullet on taxes and manpower rules

The pandemic may not be over yet, but it is opportune to start building a more sustainable fiscal system, social support framework and workforce.

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For The Straits Times

Singapore is still emerging from the Covid-19 pandemic, the nation's greatest social and economic dislocation in the past half-century. So it may not seem the time to raise taxes or tighten foreign worker policies.

However, Budget 2022 – to be delivered on Feb 18 – is a timely opportunity to set in motion plans for the country's long-term future.

Notwithstanding the tribulations of the past two years, Singapore's economy and labour market have come through better than expected. After contracting by 5.4 per cent in 2020, the economy rebounded by 7.2 per cent last year, and is forecast to expand by 3-5 per cent this year.

The incidence of retrenchment in 2020 was lower than during the Sars outbreak and Global Financial Crisis (GFC) of 2008-09, while the quarterly resident unemployment rate remained below previous crisis peaks in 2003 and 2009.

The resident employment rate, meanwhile, has already risen above pre-pandemic levels.

Now that economic recovery is on a firmer footing, relief measures should be targeted at just the worst-hit sectors such as aviation and tourism.

Priority should go to building a more resilient and sustainable fiscal system, social support framework and workforce.

In doing so, the Government will need to carefully consider how to address the understandable concerns of households and businesses.

GST AND CARBON TAXES – EASING THE TRANSITION

Key announcements expected in Budget 2022 include details of the planned GST hike from 7 to 9 per cent, and the trajectory of carbon tax increases between 2024 and 2030. These are necessary moves for fiscal and environmental sustainability respectively.

The former is part of a broader effort to strengthen the Government's revenue base to fund growing operating expenses, particularly healthcare, as the population ages. The latter will give companies a stronger impetus to reduce emissions, helping Singapore to transition more quickly to a low-carbon economy.

A potential spanner in the works is the rise in inflation, propelled by a confluence of factors including global supply disruptions and robust demand. Some have called for the Government to defer the GST increase or exempt certain items so as to avoid adding to cost pressures faced by businesses and households.

However, there is urgency in rebuilding public finances within the current term of government. To contain inflation, the Monetary Authority of Singapore has already tightened monetary policy last month, and could take further action at its upcoming policy review in April if needed.

On the timing of the GST increase, a possible middle ground would be to implement the hike in two steps – perhaps a year apart – rather than in a single bound. This would diffuse the impact on consumer and business confidence, taking into consideration ongoing economic uncertainty and the risk of inflationary expectations.

For both tax increases, government support will be critical to ease the transition.

The impact of the carbon tax on industry can be offset by public grants for companies to invest in energy efficiency and low-carbon technologies. Lower and middle-income households are likely to receive additional utility rebates to help with higher electricity and gas prices.

One perception that needs addressing is that while revenue collection is permanent and comprehensive, flow-back and offsets to businesses and households are often short-lived and contingent.

So it is notable that the Government will be enhancing the GST Voucher scheme, a permanent GST offset package comprising cash, MediSave top-ups and utilities rebates for lower-income households.

Furthermore, the previously announced $6 billion Assurance Package will offset the impact of the GST increase on lower- and middle-income households for 10 and five years respectively.

However, as Straits Times editor-at-large Han Fook Kwang pointed out in his recent commentary (ST, Feb 6), offset measures will need to be comprehensive enough to cover all affected groups, and flexible enough to adjust to changing circumstances. Without this, fiscal resilience may come at the cost of social resilience.

STRENGTHENING SOCIAL SUPPORT

Strengthening the social support system is among the Budget priorities outlined by Finance Minister Lawrence Wong.

This would give Singaporeans greater assurance to deal with life's uncertainties, especially in view of economic volatility and the high cost of living in a global city.

Financial support for the unemployed has so far focused on the needy who have little savings and no other means of support.

However, a joint National Trades Union Congress and Singapore National Employers Federation taskforce on professionals, managers and executives (PMEs) has recommended providing supplementary income relief to those who are willing but unable to find employment.

Singapore is unlikely to go as far as the Nordic countries in providing universal welfare support, as this is typically financed by substantial taxes on the middle class, which Singapore has tried to avoid.

Still, the growing aspiration for higher wages and stronger social support will lead to higher costs that society will have to shoulder.

WEALTH TAXES – A MATTER OF EQUITY

For reasons of equity, the better-off will have to do their part.

Wealth taxes can help to temper inequality, particularly as asset prices have soared in Singapore and around the world. Prime Minister Lee Hsien Loong has said that the Government supports wealth taxes in principle, while noting that they are not easy to implement.

So far, Singapore has focused on taxing property rather than other forms of wealth, given the potential for tax avoidance and capital flight. The Government could consider adjusting the existing framework of property taxes and stamp duties, such as by making them more progressive, or introducing taxes on other assets and transactions if ways can be found to mitigate the downside risks.

Such taxes ought to target the highly affluent while minimising the incidence on the broad middle class, even if the amount of revenue that can be raised this way is constrained by the comparative ease with which the rich can move capital from one country to another.

It is worth noting that fiscal sustainability requires both robust revenue streams as well as efficient public spending.

The Singapore Government prides itself on the latter, but it is still possible to do better, particularly in managing expenditure on big ticket items such as infrastructure and IT system development.

FOREIGN MANPOWER INTAKE SHOULD BE SELECTIVE AND SUSTAINABLE

Changes to foreign manpower policies may also be on the cards in Budget 2022.

Comprising about a third of Singapore's workforce, foreigners across the skills spectrum play a critical role in sustaining a diversified and competitive economy.

However, their numbers cannot increase indefinitely, even as manpower demand grows and local workforce growth tapers off. Relying too heavily on foreign workers also blunts incentives to improve productivity and develop the local workforce, hampering job and workforce transformation.

Restrictions on travel have seen foreign employment plunge over the past two years, but this can quickly reverse as borders reopen and economic growth picks up.

It may seem an odd time to prioritise policy tightening when many businesses are still crying out for manpower. However, the experience of the past two decades suggest the need to act pre-emptively.

In the four years between 2005 and 2009, the number of foreigners in the population jumped by 57 per cent as the economy recovered from a period of slow growth in the early 2000s. This resulted in a slew of policy measures to moderate the inflow of foreign workers, beginning in 2010. Despite yearly updates to foreign worker levies, quotas and qualifying salaries, it took several years to rein in foreign worker growth.

As Singapore emerges from the Covid-19 pandemic, there may well be another surge in foreign manpower demand.

Social and economic needs are fast expanding, and Singapore remains attractive as a business and talent hub for reasons of connectivity, stability and liveability.

Greater effort to localise jobs will be critical for long-term workforce resilience. So it is timely to update policies to ensure that the intake of foreign workers is sustainable and complements the local workforce.

The Government has already telegraphed in Parliamentary speeches last year that updates to Employment Pass (EP) and S Pass policies are in the works. This could mean using existing policy levers, or refining the policy framework itself.

A potential change to the EP framework could entail adopting a points-based system, as suggested by the PME task force. This would allow other factors besides salary to be taken into account in determining EP eligibility, such as the diversity of a company's workforce or whether a worker possesses specific skills that are in short supply here.

There may also be merit in considering a worker's years of experience in Singapore, which would help firms retain long-serving employees who might otherwise be forced to leave as salary thresholds are periodically raised.

While a points-based system would enable greater selectivity of EP holders, it should be kept as simple and transparent as possible. Otherwise, it could complicate companies' workforce planning and reduce the ease of doing business here.

In updating foreign manpower policies, the Government must continue to emphasise that Singapore is not turning insular, as remaining open to international talent, innovation and capital will be critical for the nation's long-term competitiveness.

It will take a judicious balance between addressing immediate needs and long-term priorities if Singapore is to succeed in building a post-pandemic future with confidence and solidarity. With so much at stake, Budget 2022 is poised to be a watershed in the nation's progress.

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