Reliefs, not goodies, needed in Budget

WITH the Singapore Budget due tomorrow, it is widely believed that this will not be a year for short-term goodies or counter-cyclical policies. The expectations are that this is likely to be a Budget for the longer term, focused on strengthening social and economic foundations. While nobody can argue with the merits of these goals, two points are worth making: one is that short-term issues should not be sidelined, and second, special attention needs to be paid to the design of certain structural policies.

Regarding the first issue, it’s worth noting that the global economy is still rife with uncertainties. There is a real possibility of significant financial stress, arising from problems in the eurozone, which are far from resolved, and which in turn have a knock-on effect on credit conditions. While it is hard to make a case yet for drastic measures (such as the Jobs Credit scheme, which was an appropriate response to the 2009 global financial crisis), it should be recognised that companies – especially SMEs that require trade financing and do business with Europe – will face difficult credit conditions. If they are not being financed already, they will need to find ways to overcome the barriers to finance. While some companies have large cash and local and foreign resources are now about as pessimistic about business prospects as they were in the first quarter of 2009, according to the latest BT-UniSIM business climate survey. There may thus be a need to help companies to cope through the provision of loan guarantee facilities.

Companies are also hurting from higher costs, partly the result of inflation – which by Singapore standards remains elevated, at more than 5 per cent, but for high rental and transport costs – but also higher foreign worker levies. While the latter may be a necessary step to incentivise productivity boosting measures, the pain from higher labour costs comes first and the benefits of higher productivity only later (sometimes much later, if at all). To manage the transition, companies need assistance, whether in the form of more tax breaks or more generous incentives to boost productivity.

On paper, such incentives look generous enough, the existing Productivity and Innovation Credit (PIC) scheme, for example, provides for up to 400 per cent tax deduction for qualifying activities. However, the anecdotal evidence is that PIC has not met with a great response. The scheme needs to be fine-tuned to address these issues.

On the social front, an avowed aim of the government is to build a more inclusive society. One way to do this is to expand social safety nets. It would be appropriate to do this through institutionalised measures, such as expanding the Workfare scheme and making it more automatic and less discretionary than through ad-hoc measures like one-off transfers. Tax reliefs such as the raising of tax thresholds, targeted at the so-called sandwich class – who don’t need public assistance but who feel squeezed by rising living costs and stagnant real wages – would also be widely welcomed.

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