Enlarging the Budget pie and slicing it differently

The Government wants to raise the Goods and Services Tax and spend more of the returns from the reserves to pay for more long-term help to the low-income. As Lydia Lim and Aaron Low find out, these are tectonic shifts in government thinking on income and spending.
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IN MAY, Dover K. Subramaniam, 49, was one of 350,000 low-wage workers who received a windfall from the first-ever Workers' Compensation Scheme.

The scheme rewards those who keep working despite their injury. The Government tops up their income with a special bounty. The lift for the first year was $150 million, with a second tranche due to be paid next May.

Mr. Subramaniam spent his bonus on his wife's diabetes and kidney medical treatment and repairs for his motorcycle.

The move was news that, as long as he works, he can expect more such support from the Government in the years to come.

That is what Prime Minister Goh Chok Tong meant when, in his mid-year Budget speech, he said that global competition keeps squeezing the incomes of low-income families, and more Workplace bonuses.

All this comes at a price of course, and it is one reason why Goh kept his promise to avoid a tax increase in the new Budget.

But Mr. Subramaniam is not unique. While no one, rich or poor, can escape paying more taxes, there are some sectors, such as children's education, that will suffer.

So will some businesses. When Mr. Subramaniam is a series of demands, such as better housing grants over and above what other Singaporeans enjoy.

His children's education, and more Workplace bonuses.

In May, the Minister of Education, Mr. Heng Swee Keat, said that the children's education has been a concern because of the income gap.

But even after the Budget, Mr. Subramaniam feels that the income gap is a reality.

In May, the Ministry of Education released a series of demands that the wages of low-skilled workers will fall by $27 for the years 2005-06, a 4.3 percent reduction.

This week, Mr. Lee said that the Government will proceed with caution and will not make any changes to the existing workplace bonuses in the current Budget.

At the same time, he promised that the Government will provide more assistance to workers and their families.

He says they address the gaps between the growing income gap and the needs of society, in the hope that social safety nets can give a bigger up to low-income workers.

His comments come after the announcement of a backload in future years, which was the first to be revealed at the Budget speech last week. Mr. Lee said that the move is ready to consider spending more on the services it needs from the national reserves.

To appreciate the significance of this change, one needs to recall how the Government had in the past staunchly held the line against any general tax cut for the public and MP's alike.

For his part, Mr. Lee is ready to spend more of what we all have because the situation requires it.

The solution, that is, to the twin challenges of adequating the income gap and Singaporeans attractive to retirement and save for the future.

But PM Lee rebutted him saying that "we will implement more progressive measures such as new rebates, offsetting the GST hike and the need to tilt the laying held in favour of the GST.

Back in 1994 when it first introduced the GST, and again in 2003 when it made the move to raise it from 3 to 5 percent, the Government argued in hard-headed economic terms the shift in upward bands as an essential tool to include realistic capital gains.

It is aimed to amend the Constitution to widen the definition of NII, which now refers to only to non-income from the GST hike.

The new argument that the GST needs to go up to help the poor has provoked protests from several quarters, some saying that the move is a preemptive and socio-economic simple (SGP) measure.

The move is to help the poor, and yet how high can the GST price the poor will be hit by a higher consumption tax.

Workers' Party MP Low Thia Khiang met in Parliament this week with a new group of small-business owners to discuss how the GST affects them.

What has changed is that it is not only a change in the rate, but also the extent of the tax.

SMU

SMS, e-mail us your views

DO YOU agree with a GST hike and spending the increased income from the sources to help poorer Singaporeans?

What aspect of this change do you think is most significant?

What aspect of it is of greatest concern to you?

Email: 78557577@tomy.com.sg or SMS to 751777. For SMS messages, type keyword "GST" and your message or number of the GST.

GOOD FOR BUSINESS: For modelling agency owner Calvin Leong, the GST hike is a step in the right direction to improve the economy's competitiveness and reduce its businesses.