Three principles to ensure intergenerational fairness in Budgets

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Each Budget has implications for all generations of Singaporeans. What the Government decides to spend on today or not, what it decides to tax or not, and how much of the returns from reserves it decides to utilise – all have implications for Singaporeans across generations.

So how should we assess if Budget 2019 is fair to all generations?

RECIPROCITY

One parameter to consider is that spending by today's generations should not deplete the resources available for future generations.

This concept of reciprocity requires each generation to pass on to the next what it had received from the previous.

Among Singapore's critical resources are its national reserves. Under the Net Investment Returns Contribution (NIRC) framework, up to half of each year's projected long-term real returns from the reserves can be transferred to the year's Budget.

This year, the amount is projected to be $17.2 billion, and it continues to be the largest single source of revenue for the Government. The $6.1 billion Merdeka Generation Package (MGP) was made possible because of this.

It is important for the national reserves to be protected such that future generations can continue to tap them. The Singapore Constitution ensures that the principal amount of the reserves is not utilised, except in special circumstances, with the approval of the elected president.

Moreover, funds for long-term commitments, most notably the MGP and subsidies for CareShield Life from this year's Budget, have been set aside using revenues from the current term of government. Thus, future generations would not be saddled with the burden of funding such programmes.

ENABLE EACH GENERATION TO THRIVE

Second, the Budget should help to provide the necessary conditions for each generation to thrive.

On this measure, the MGP is helpful, at least in the area of healthcare spending, in supporting the generation born in the 1950s. Older generations of Singaporeans tend to have enjoyed less of the fruits of Singapore's success, as the country was poorer and wages lower then. Other generations of Singaporeans have not been neglected in this year's Budget. There were other social-policy announcements targeted at improving the lives of lower-income Singaporeans, regardless of their generational cohort.

Some examples: subsidies for common illnesses extended to Chas Orange cardholders; $3.1 billion set aside to fund CareShield Life subsidies; and an increase in the qualifying income cap and the maximum annual payout for the Workfare Income Supplement. ComCare Long-Term Assistance cash payout rates will be raised as well.

There is also substantial spending for social development (on education, health, social and family development and others) in this year's Budget amounting to $32.7 billion, more than half of the Government's operating expenditure, and larger than that on economic development and security and national defence combined. Spending on education and family development would tend to favour younger cohorts.

The MGP is also helpful to the families of recipients as their health and long-term care costs rise. The impact is highest among lower-income families who are least able to look after their older dependants. Climate change, an important issue raised in Budget 2019, can also threaten the ability to provide basic minimum conditions for Singaporeans to thrive across generations and into the future. To this end, a restructuring of diesel taxes to encourage the shift to more environmentally friendly vehicles was announced. Singapore is also investing more in infrastructure to mitigate climate change.

'BENEFITER PAYS'

Third, the concept of "benefiter-pays", or "payers-receive", calls for each generation to pay for what it benefits from, and receive benefit for what it has paid. In this year's Budget address, Finance Minister Heng Swee Keat made two key points that are in line with the "benefiter-pays" concept.

Recurrent spending – for example, on education – should be financed through recurrent revenues. This ensures it is the current generation who benefits from such spending that pays for it.

The Government's borrowing to finance large, long-term infrastructure projects was also explained on this principle: As the benefits of such projects would accrue to future generations, it makes sense for those generations to "pay" for such benefits by servicing the debt.

The three principles above provide some clarity over how different kinds of government spending might be financed.

Taxation and the Government's other regular income streams, including the NIRC, should cover recurrent spending on the needs of current generations, young and old. This means that, for fiscal year 2019/2020, $92.1 billion of recurrent expenditure can be funded (from $74.9 billion of operating revenue and $17.2 billion of NIRC).

Long-term projects that mainly benefit future generations can be financed by varying levels of government borrowing, depending on how much of the benefits accrues in the distant future.

Importantly, from this perspective, there might be scope to propose that the balance of the other 50 per cent of investment returns can be used to finance long-term projects which yield socio-economic returns that benefit future generations.

These funds are, at present, reinvested to grow the reserves. But the principles of reciprocity and of minimum conditions to thrive would not be contradicted if these amounts are instead invested in projects that generate returns in excess of that generated by Singapore's sovereign wealth funds, particularly if those investments had a strong nation-building element to them.

There is also no tension with the concept of "payers-receive" as it is practised now, as the funds are in any case ring-fenced for the future.

This last proposal would require a constitutional amendment, but would be consistent with the principles of generational fairness set out here.

No Budget can hope to address all of Singapore's various needs, especially in a volatile and complex environment. Some needs have to be prioritised over others, and the choices made are ultimately the subject of political debate and contest. But these political choices over public expenditure should be coherent with underlying concepts and principles of fairness, between groups and across generations, even to those not yet born.

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Taxation and the Government's other regular income streams, including the Net Investment Returns Contribution, should cover recurrent spending on the needs of current generations, young and old. ST PHOTO: JASMINE CHOONG

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