Three principles to ensure intergenerational fairness in Budgets

Christopher Gee and Drew Shih

For The Straits Times

Each Budget has implications for all generations of Singaporeans. What the Government decides to spend 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?

RECIPIENCY

One parameter to consider is that spending today’s generations should not deprive 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 one. 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 S$2.2 billion, and it continues to be the largest single source of revenue for the Government. The $2.2 billion Merdeka Generation Package (MGP) was made possible because of this.

It is important for national reserves to be protected such that future generations can continue to tap on them. The Singapore Constitution ensures that the principal amount of the reserves is nominally, except to social circumstances, with the approval of the electorate and the President.

Moreover, funds for long-term commitments, mostly 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 1960s. 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 diseases extended to CareOne cardholders, S$1.3 billion set aside under the CareShield Life subsidies, and an increase in the qualifying income cap and the maximum annual payout for the Workfare Income Supplement. ComeCare Long-Term Assurance (LTA) payment rates will also be raised.

There is also substantial spending for social development (e.g., education, health, social and family development and others) in this year’s Budget amounting to S$27.7 billion, more than half of the Government’s operating expenditure, and larger than the growth of economic development and security and national defence combined. Spending on education and family development would tend to benefit 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 fiscal taxes to encourage the shift to more environmentally friendly vehicles was announced. Singapore is in investing more in infrastructure to mitigate climate change.

‘BENEFIT PAYS’

Third, the concept of “benefit pays”, or “pays-receives”, calls for each generation to pay for what the benefits from, and receives 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 “benefit-pays” concept.

Recurrent spending — for example, on education — should be financed through recurrent revenues. This means that the current generation who receives benefit from such spending pays for it.

The Government is investing in future, long-term infrastructure projects, which is a concept explained in this principle. As the benefits of such projects would accrue to future generations, it makes sense for these generations to “pay” for such benefits by servicing their debt.

The three principles above provide some clarity over how differentials 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.