Structural Budget deficit unlikely
*The deliberate policy of reducing the size of the public sector was re-emphasised in the Budget*

By TAN KHEE GIAP

IT is useful to begin with some idea of the size of Singapore's public sector from an international perspective. A simple way is to compare the percentage of total government expenditure, and of tax revenue, to GDP for a sample of Asian and western industrialised countries.

Our study revealed that the size of the government in Singapore, measured by government expenditure as a percentage of GDP, was slightly below that predicted for a country of Singapore's level of per capita income in 1980.

By 2000, public expenditure fell to a level significantly lower than that predicted on the basis of per capita income.

The same trend is noted in the share of tax revenue in GDP. The cost of government as measured by the ratio of operating expenditure to GDP has hovered around 10 per cent since the 1990s, down from 15 per cent in the 1980s. Tax revenue to GDP has been capped at 8 per cent throughout the 1980s and 1990s, and it looks set to dip below 8 per cent beyond the new millennium.

The reduced size of Singapore's public sector is the outcome of deliberate policy over the decades, and rightly so. It was again re-emphasised in yesterday's Budget statement.

This long-term task is even more relevant in an environment when government revenues have been increasingly constrained by growth volatility since 1997, in contrast to the era of continued growth prosperity between 1987 and 1997.

Yet, government expenditures, and social expenditure in particular (which constituted 43 per cent of the total in FY2004), are likely to impose further burdens due to the Republic's ageing population and especially in terms of healthcare and old-age related welfare costs.

Development expenditures, whether to enhance our human resources through education, or physical infrastructure development to sustain competitiveness, or spending on security and defence to ensure peace, will weigh on the government's burden further.

In a medium-term business perspective that is relatively less robust, the only businesslike thing to do is to trim size and cut costs; this is more so for government ministries and agencies. Ultimately, the cost of running an oversized government must
ultimately come through higher taxes or through more government debt, privatising public sector further or dipping into accumulated surpluses.

For the new millennium and beyond, with constrained government revenues and the increased burden on government expenditures, the government will be hard put to maintain small surpluses over the business cycles.

So here comes the ample warning to all government ministries yesterday - a 2 per cent budgetary cut across the board for both the 2004 and 2005 fiscal years, with the exception of the Ministry of Defence. Generally, in most countries, a gulf in perception exists between the government and the public-at-large pertaining to the need for prudent budgeting and for budgetary surpluses, especially so in countries like Singapore that have accumulated 'large' surpluses over past decades.

With the reiteration of the long-standing prudent budgetary philosophy, and despite the proposed budgetary deficit for fiscal year 2004 of $1.3 billion or about 1.1 per cent of GDP, Singapore is unlikely to get caught in a structural budgetary deficit like the one currently being experienced in Hong Kong.

The further reduction in Singapore's corporate tax by two percentage points to 20 per cent should be viewed as part of an ongoing exercise to restructure Singapore's tax structure of shifting from the indirect to the direct approach.

The postponement of a widely expected reduction in personal income tax is understandable as the revenue impact of GST raised in stages from 3 per cent to 5 per cent over the past years have been more than offset by handouts in the form of rebates and subsidies.

**Welcome aid**

DPM Lee's mention of the more focused approach to help those who really need help is to be welcomed.

The past practice of across-the-board distribution approach is thus likely to be replaced and extended with mean-tested social assistance schemes.

There are no further specific proposals or incentives to address the falling fertility trend in this Budget as it is to be worked out in later months. Instead of financial fiscal incentives to individuals to encourage more births, which tend to be 'quality-blind' in nature, it would be more effective to curb the rising cost of living, ensuring cheaper childcare and by providing better opportunities for education.

In conclusion, unlike the underestimation of the Budget deficit in the last fiscal year due largely to the Sars crisis, actual budgetary performance for fiscal year 2004 is likely to be better than projected or at least be in line with the projection of $1.3 billion. This is because transportation-related revenues are likely to rise in an improving economy and given the robust GDP growth potential for 2004 and 2005 that is likely to be at around the 5 per cent level.
The principle of achieving a Budget surplus over business cycles must be maintained. How the nature of public services evolves and how public sector employment could be affected require careful analysis. Putting statutory boards’ mega surpluses under the microscope, imposing controls and reviewing surplus retention ratio are vital.

Taking it all together, it would be quite safe to say that Singapore would not in any way be near a structural Budget deficit in the medium term at least.

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