

G/H/S/6/1

SPEECH BY DR. AUGUSTINE H.H. TAN, M.P. FOR
WHAMPOA AND POLITICAL SECRETARY TO THE PRIME
MINISTER IN PARLIAMENT ON 8 MARCH 1973

I rise to add my congratulations to the Finance Minister for his lucid presentation of the Budget. The growth rate of 13% in our GNP has been greeted with applause especially in the context of a turbulent world economy. Government's financial position is excellent and a boom psychology prevails in banking, the property market, and, until recently, the Stock Market.

Close examination of the financial statistics, however, reveals evidence of distortions in the economy which are hidden in exciting growth rates. Instead of euphoria, we need to pay close attention to a number of potentially disruptive factors.

Inflation

First, as the Minister rightly pointed out, is the problem of inflation.

(a) The International Monetary Crisis

The turmoil in the international monetary system is one major factor to contend with. Unless we can apply proper monetary and exchange controls we shall continue to import inflation in two ways:

- (i) via higher import prices, because of inflation in the advanced countries, affecting our cost of living and costs of production, and
- (ii) via uncontrolled speculative short-term capital which swamp our property market and the Stock Exchange. Every time the US \$ is devalued and other currencies upvalued we have to decide on our exchange rate, keeping in mind four factors :
 - (1) to preserve our competitive edge in the major trading blocs;
 - (2) To keep the cost of living from being pushed up by higher import prices;

- (3) to maintain full employment at a good rate of growth; and
- (4) to ensure a healthy balance of payments.

In an unsettled international monetary arena, a small country like ours must apply exchange controls on the import of short term speculative capital or else we shall be overwhelmed by excess liquidity and unhealthy inflation. It would not be necessary to control export of capital as long as our economy remains vibrant. Besides this would be unwise as it would be a deterrent to inflow of productive long-term investment. The recent move by the Monetary Authority of Singapore to increase reserve requirements of banks to 9% is a necessary one to check excessive growth of money supply and corresponding inflation. However, I fear the measure will be ineffective and is discriminatory. Foreign banks are still free to bring in funds from abroad - this will place local banks at a disadvantage. We should stipulate the absolute levels of foreign funds held by banks as well as maintain the higher reserve ratio.

Paradoxically, we seem to have better control over our hawkers than over our bankers and stock brokers.

(b) Inflation in Property Market

The second major factor that would need to be considered in checking inflation is the property market. The boom is induced in part by the general level of economic activity but is greatly exacerbated by speculation, fueled particularly by the inflow of hot money.

The unhealthy boom in the property market has severely penalized the middle and lower-middle income groups - the executive and professional people. It has also contributed significantly to the Stock Market boom as shares were re-valued in the light of higher property prices.

I believe Government should restrict ownership of residential properties to Singapore citizens and permanent residents except for designated enclaves. Proxies may still be used but severe penalties could be laid down. Countries like Switzerland have such restrictions. In addition, all property transactions should be allowed no more than a rate of return of 15% a year (with some flexibility for escalation of building costs). In this way investment in properties would not be unduly profitable, speculation dampened and legitimate home-owners given the chance to be owners of property.

(c) Inflation in the Stock Market

The third area where inflation needs to be checked is the Stock Market. I welcome the Securities Industries Bill and the accompanying controls on Stock Market activities. As the Prime Minister pointed out, the get-rich-quick mentality will prove detrimental to our productivity and work-ethos. The regulations must be designed in such a way as to control speculation, which hurts the small investor while providing a smooth capital market for long-term investment.

Wage Policy

This year inflation will hit the lower income groups through the increase in import prices and cost of services. I believe the National Wages Council should build in a component of cost-of-living adjustment particularly for the lower-wage earners. We can well afford the adjustment provided the rate of inflation is higher in the advanced countries.

Social Services

I applaud the substantial allocation to Social Services - an increase of almost 50%. In particular, the accelerated HDB programme would benefit the lower-income group. Housing constitutes a major pillar of social stability. Improved housing conditions and recreational facilities for the working class will contribute substantially to their productivity.

Tax Reliefs

I welcome the move by Government to provide tax reliefs for the support of parents and grandparents. However, I feel the relief should be extended to include those parents and grandparents who are not living with the claimant. Extended families living under one roof have become impractical in one and two-room flats.

The Longer Term

Looking ahead, in the longer run, 3 major areas need attention.

(a) Middle Technology

Real development would require that our industries upgrade or acquire higher technology. On the one hand, with rising wage costs and the increasing drive of other developing countries to industrialize, our low technology industries will face stiff competition. On the other hand, it is difficult to induce middle-and higher-technology industries to come out here as these are not so pressed by escalating production costs in their own countries. I note with concern the figures quoted by the Minister. As he stated, manufacturing investment commitments fell from \$716 million in 1971 to \$252 million last year. This reflects the difficulties I mentioned.

(b) Skills and Re-Training

I welcome the setting up of the Industrial Training Board. Together with its activities to encourage the formation and transmission of skills for our workers, enabling them to be more productive with a higher standard of living. Government should also look closely at the training of executive, managerial and marketing personnel in foreign firms. Without the development of skills and organizational know-how, we shall never achieve real development. Rapid development also makes skills obsolete fast; hence re-training programmes would be required.

(c) Cottage Industries

As we develop rapidly we shall have to face problems of phasing out cottage-type industries. As long as land is available these can be, and are re-sited. However, the process must end inevitably for we have limited space. Government would need to study the problems of these industries, balancing equity with the efficiency needs of our country. Perhaps a system of outright subsidy can be implemented to encourage change to more desirable trades.

Mr. Speaker, Sir, with these observations, I give my full support to the Government's financial policy as outlined by the Minister for Finance.
