Walking a tightrope on foreign workers

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The primary thrust of Budget 2012 is addressing manpower, productivity and wage relativities in conjunction with a series of measures initiated in the aftermath of the 2009 recession. Singapore’s Budgets have never been shy about venturing into the bedroom or the boardroom, but the range of economic measures in this one will affect both businesses and workers in ways that we will see the impact of at the places we work, eat, shop and live.

On manpower, this Budget is the fourth successive one to raise levies on foreign workers, and the measures in question suggest that their dependence ratio ceilings have become more inflexible. By setting a target to slow foreign manpower inflows significantly by 2020, the Government was already committed to imposing further tightening measures. On the other side of the productivity and innovation equation, it is the fourth successive year that refinements are being introduced to the Productivity and Innovation Credit scheme to improve its accessibility.

The graduated increases in levies on foreign workers since July 2010 are not something one should expect businesses to welcome, but there can be no mistaking the direction or the need to prepare for the new landscape. Appreciated or not, the policymakers are merely doing what no one else can in a free-market economy. The levy increases price in the future limits to manpower growth that businesses will ultimately have to control. By doing so, the hiring appetite of companies will be better than if they left it to be taken by such.

The approach of this Budget is palpably different from those of previous Budgets. The measures are stronger and more immediate. The deadline is also clearer: The reductions in use of low-wage foreign manpower have to be achieved within the next three years. This clarity will be helpful for businesses in planning their adjustment strategies.

Nonetheless, the tone of this Budget betrays some inappropriateness. The hiring appetite of businesses has probably doubled the pace of change in areas such as lower-wage employment since the previous Budget, but the Government is still holding back on quantitative and price restrictions.

If there are concerns with the Budget, it is that the changes should not be precipitous. There is a fear that businesses will quickly produce the out-turns wished for, and that policy action alone does not easily lead to job creation, or to productivity gains. One only has to look at many of the developed economies to see that policy action alone does not easily lead to job creation, or to productivity gains. Our concern is that business will ultimately view the price restrictions as too onerous. By setting a target to slow foreign manpower inflows significantly by 2020, the Government was already committed to imposing further tightening measures.

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