



Insight

CHATROOM IVAN PNG; Better to tax than curb car loans

Goh Chin Lian

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Economics don also feels recent policy 'backtracking' is not a good precedent

FIVE weeks after the Government imposed restrictions on car loans, certificate of entitlement (COE) premiums are heading south, with those for small cars falling to a nine-month low of \$61,029 this week.

But last week, the Government also took the surprising step of temporarily suspending some of those loan curbs. The move came after lobbying by second-hand car dealers, whose pool of buyers had suddenly dried up.

Former Nominated MP Ivan Png, 56, who is the Lim Kim San Professor at NUS Business School, believes this "backtracking", in this case, on second-hand car loans, is not a good precedent.

He thinks there is a better, less interventionist solution to cooling COE prices than to limit car loans to 50 or 60 per cent of the purchase price and halving loan tenure from 10 to five years.

The economics and information systems don co-wrote a paper last month on consumer psychology in Singapore's car policy, studying the unintended effects of high COE prices.

* What do you think of the curbs on car loans?

It seems we're trying to have it both ways: We don't want to add too many cars on the road and we want COEs to be priced low.

That is almost a contradiction unless we think COE prices are artificial because of the low interest rate environment.

Our interest rates have been low since the financial crisis. Government policy is to manage exchange rates, so our interest rates get determined automatically.

With a slowly appreciating Singapore dollar, we had very low interest rates that have fed back into demand for cars in two ways.

Banks get deposits at low interest rates. They can make a lot of money lending to car buyers.

The other thing with low interest rates is people's value of houses has gone up. When they feel wealthier, they go and buy things.

Since we don't want to fix our exchange rate policy, we have to use all these other measures to dampen demand. For the housing market, we have additional stamp duty. For the car market, we are going after the bank loans.

From the economic point of view, that is the second best way of addressing low interest rates.

But restricting the loans will definitely help to reduce inflation.

* Why are you confident that the loan curbs will reduce COE prices? Wouldn't the rich still buy cars and fuel demand?

COEs are auctioned in a way that the marginal bidder - the person with the lowest ability to pay - sets the premium or price.

The marginal bidder is someone who is highly leveraged, not the District 9 millionaire buying another Porsche.

With restrictions on car loans, the people dropping out of the demand will be those with less spare cash - younger people, and yes, poorer people. The rich will continue to buy, but the number of cars will continue to be strictly limited by the supply of COEs.

* If curbing loans is a second best option, what's the best?

The Monetary Authority of Singapore cannot raise interest rates - that would affect the Singapore dollar exchange rate and attract more "hot money" into Singapore. It is using administrative measures to curb borrowing.

A better and more transparent way to curb borrowing is to use the price system, by setting a tax on lending or borrowing. The MAS could charge an extra 1 to 2 per cent on every car loan.

Administrative measures such as minimum down payments and limits on length of loan are more appropriate to curb imprudent lending. I haven't seen any comment that financial institutions here are making imprudent loans.

In the long term, the Government must implement more measures to directly discourage driving: improve public transport, expand the Electronic Road Pricing (ERP) system and set proper prices for parking.

* Should policymakers determine the amount of loans?

Economics predicts that intervention will be inefficient and cause distortions because the Government, as regulator, doesn't really know how the nitty-gritty of the economy works.

The people who know best are the people on the ground - the businessmen, the consumers.

The Government should focus on giving general price signals, for instance, through taxes and subsidies, and then let businesses and consumers adjust, rather than dictating to them how to make loans.

* The Government tweaked its policy twice in just over a month. What do you think?

It's good to be responsive to people's concerns, but it opens the doors to influence-peddling and lobbying.

The Straits Times reported that one used-car dealer said he lost \$300,000 on selling cars. This guy must be kicking himself because if he had waited till now, he would have lost less.

If the Government reverses itself like this too often, then in future, when it changes a policy, people are going to wait or complain to their MP and hope for some change. The economic effects of the policy will be delayed and possibly weakened.

I don't think it's a good idea to backtrack. They should have done the sounding-out and got the ground feel beforehand, not afterwards. I thought they would plan more carefully, implement the policy and keep to it.

* How much has confidence in the COE system been shaken, given the perception that it works only for top earners?

I don't think that confidence in the COE system "has been shaken". It is doing exactly what the Government intended - to ration the number of cars and let those willing to pay the most get them.

* What did your research on Singapore's car policy find?

We studied the driving pattern in 6,500 cars bought between 2001 and 2011. We looked at the effect of COE prices on driving.

The purpose of high COE prices is to limit the number of cars, and hopefully limit driving, and therefore reduce congestion.

But we found an unintended consequence. When people pay a lot for their cars, they think: "I paid so much for my car, I ought to use it more."

There isn't any way to blunt this effect. The way is to tweak the set of policy instruments: Rely less on COEs to regulate congestion and more on direct measures like ERP, parking charges and public transport.

chinlian@sph.com.sg

Dr Ivan Png's research on the impact of Singapore's car policy has found that when buyers pay a lot for their cars because of high COE prices, they believe they should use them more. -- ST PHOTO: SEAH KWANG PENG

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