The Straits Times
www.straitstimes.com
Published on Apr 30, 2013

Fairer way of reducing car-loan demand

MR PAUL Chan Poh Hoi ("Current curbs more effective than taxing car loans"; last Friday) contends that the Government's recent measures to restrict car loans are effective, and disagrees with my counter-proposal for a tax on car loans ("Better to tax than curb car loans"; April 13).

I advocate a tax as it is a simpler, fairer and more transparent way of reducing the demand for car loans.

The Government's concern, as recently articulated by Deputy Prime Minister Tharman Shanmugaratnam, is with inflation in certificate of entitlement (COE) prices ("Cars: Loan curbs not first recourse"; April 19).

So the Government has introduced administrative measures - limiting the percentage that can be borrowed and the length of car loans - to curb the demand for car loans. With fewer car loans, the demand for new cars will fall, and COE prices would fall in tandem.

These administrative measures are simply a form of rationing - and the rationing selectively favours the well-off.

One of my colleagues recently expressed delight with the new restrictions on car loans. This was because his family is cash-rich and will definitely benefit from lower COE prices.

Consider, by contrast, a salesman who is just starting his career. He needs a car to do his job but does not have $50,000 for the down payment. So he must rely on taxis (good luck to him on a rainy day) or find another job.

Moreover, rationing is a hidden way of raising prices - hidden because it is not explicit. The effect of the car loan curbs is to make buying a car more expensive - but only for those who need to borrow.

So why not be transparent about it, and levy a tax?

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