

**Volume 79
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**Wednesday
2nd March, 2005**

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PARLIAMENTARY DEBATES SINGAPORE

OFFICIAL REPORT

TENTH PARLIAMENT

PART I OF SECOND SESSION

VOLUME 79

Wednesday, 2nd March, 2005

The House met at 12.00 noon

PRESENT:

Mr SPEAKER (Mr Abdullah Tarmugi (East Coast)).

Mr Ahmad Khalis Bin Abdul Ghani (Hong Kah).

Dr Ahmad Mohd Magad (Pasir Ris-Punggol).

Mr Ang Mong Seng (Hong Kah).

Dr Balaji Sadasivan (Ang Mo Kio), Senior Minister of State, Ministry of Information, Communications and the Arts and Ministry of Health.

Mr Alexander Chan Meng Wah (Nominated Member).

Mr Chan Soo Sen (Joo Chiat), Minister of State, Ministry of Education.

Mr Chay Wai Chuen (Tanjong Pagar).

Mr Chew Heng Ching (East Coast), Deputy Speaker.

Mr Steve Chia Kiah Hong (Non-Constituency Member).

Mr Chiam See Tong (Potong Pasir).

Assoc. Prof. Chin Tet Yung (Sembawang).

Mr Charles Chong (Pasir Ris-Punggol).

Dr Chong Weng Chiew (Tanjong Pagar).

Mr Davinder Singh (Bishan-Toa Payoh).

Mr Arthur Fong (West Coast).

Mr Cedric Foo Chee Keng (West Coast), Minister of State, Ministry of Defence and Ministry of National Development.

Mr Gan Kim Yong (Holland-Bukit Panjang).

Mr Andy Gan Lai Chiang (Marine Parade).

Dr Geh Min (Nominated Member).

Mr Goh Chok Tong (Marine Parade), Senior Minister, Prime Minister's Office.

Mdm Halimah Yacob (Jurong).

Mr Hawazi Daipi (Sembawang), Senior Parliamentary Secretary to the Minister for Education and Minister for Manpower.

Mr Heng Chee How (Jalan Besar), Minister of State, Ministry of Trade and Industry.

Mdm Ho Geok Choo (West Coast).

Assoc. Prof. Ho Peng Kee (Nee Soon East), Senior Minister of State, Ministry of Law and Ministry of Home Affairs.

Mr Inderjit Singh (Ang Mo Kio), Deputy Government Whip.

Ms Indranee Rajah (Tanjong Pagar).

Prof. S Jayakumar (East Coast), Deputy Prime Minister and Minister for Law.

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[Mr LEE HSIEN LOONG]

criminate social spending because, as Prof. Tan also points out, such expenditures “once incurred, are recurring and difficult to retract”.

Efficient and effective Government

Maintaining fiscal discipline and balancing the Budget amidst growing spending pressures means that we have to keep the Government lean and trim. Some MPs, like Prof. Ivan Png, have applauded the Government’s efforts to outsource or, more accurately, to best source. On the other hand, Mr Teo Yock Ngee and Mdm Halimah have expressed their concerns about the job security of employees in the public sector.

We have to strike a balance. On the one hand, we want the public sector to be as lean as possible, so that it will function efficiently and minimise the burden on taxpayers. On the other hand, we must treat public sector employees fairly, especially as many of them have put in years of dedicated service.

Public sector agencies often do not have a bottom line to measure, and therefore do not on their own face the same pressures as the private sector. If you are running the Ministry of Defence, how do I measure the results? Not from the size of the army or air force, not from the battles won, but from the peace assured. But, if you have peace, you never know whether that is because you had a good SAF or whether you did not need such a strong SAF. It is intangible, but it is critical. So, you have to find other ways, proxies for the bottom line, and the way we are trying to do it is by trimming the budget and by best sourcing to apply the pressure to drive down costs and to spur greater productivity.

Mdm Halimah expressed concern that we are outsourcing too many activities

and that this will lead to a loss of core skills in the public sector. But I think she does not have to worry because we are outsourcing only non-core functions and, in fact, we are only going to market-test 20% of the non-core functions. These are not skills that are core to the functioning of Government Ministries. These are ancillary activities which the Ministries have to carry out and which really distract them from their main mission and which we are market-testing in order to see whether the private sector can do them better.

The non-core functions make up only 16% of all Government functions. So we are going to market-test 20% of 16% which means about 3% of all Government functions. Although the idea is new and unsettling, the scale is modest. We are taking a gradual approach and there will be ample time for the public sector workers to make necessary adjustments.

But I can understand why the public sector workers are unsettled by this talk of market-testing and best sourcing. In the private sector, restructuring and job losses have always happened regularly. But in the public sector, they are something new. The public sector has an important role to play and we will always need good and hardworking civil servants to fulfil these roles. In fact, we need more good and hardworking civil servants to fulfil these roles. But, today, it is not always possible for the civil service to employ a person from school-leaving until retirement and, indeed, many civil servants on their part see a job in the public sector as only one stage in their working careers.

From time to time, restructuring or outsourcing becomes necessary. In such cases, the civil service will work closely with the unions to help the workers affected by the changes, whether these changes arise from job restructuring or from best sourcing. Where possible, we

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will redeploy the staff. If it is not feasible, then we will release the staff who are affected on fair and reasonable terms. There will also be training opportunities to help staff transit to other careers. Mr Teo Yock Ngee expressed his concerns about this. I share his concerns. I assure him and other Members that we will see to it that our public sector workers are treated with fairness and consideration. We owe it to them.

I give you an example of how changes which are necessary can be done skilfully. In February, IRAS released 120 officers as part of its overall restructuring exercise. I happen to know this because I used to be Chairman of IRAS. The 120 positions have become redundant because of computerisation and the increased use of e-filing. It used to be that IRAS actually had to hire temporary workers at tax collection time to open the envelopes, unfold the submissions, and feed them into the scanners. But now that we do it on the Internet, they do not need the staff anymore. So IRAS worked closely with the unions in order to treat the affected staff fairly and reasonably and, in fact, gave them one whole year's notice. And having identified the redundant positions, IRAS invited those who wished to leave with separation benefits, under the Special Resignation Scheme, to indicate their interest. More than 120 staff responded. So, in the end, some officers were disappointed not to have been chosen to be retrenched. Each affected officer was given a training allowance of up to \$2,000 for training and that would help increase their deployability. IRAS arranged for counselling for the staff and helped to facilitate their outplacement by having NTUC's Joblink briefed staff on the vacancies available.

I think, overall, our efforts to build a lean civil service are showing results. For example, last year, we introduced a Manpower Management Framework to reduce headcounts by 3% per year over

three years, or else to have Ministries pay a headcount surcharge of \$10,000 per head per year. The framework has made agencies more mindful about whether they needed to hire replacements when staff retired or left for another job. At this point, it looks like most Ministries have been able to meet the 3% cut in headcounts through natural attrition, resignations and normal retirements. Only a few Ministries will actually be paying the \$10,000 per head surcharge and it shows that the system is working because it has allowed the flexibility and in the cases where the Ministries did need the staff, they could do so and, if necessary, we can adjust their budgets to allow them to do so.

We have got to keep the Government lean and trim and subject it to the same rigours of the private sector. Other governments are having to do the same. The Americans are restructuring. They have an enormous bureaucracy. The British are restructuring. They are famous for their bureaucracy. You have watched "Yes, Minister". We also have to become efficient because only then will we be able to continue providing Singaporeans with the same level of public services while keeping the tax burden on businesses and the people light.

Fostering Economic Growth

There is a sentiment amongst Members of Parliament that this Budget should have done more to help businesses. But as I said earlier, we should view this year's budget not in isolation, but in the larger context of all that we have done in recent years to restructure the economy, grow our industries and boost our competitiveness. I have made a table (Table 1*) in the handout which lists the major tax changes that Government has introduced for businesses in the last five years, and the changes have saved businesses at least \$1.8 billion each year.

* Cols. 1291 – 1296.

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[Mr LEE HSIEN LOONG]

We now have a tax structure that is one of the most competitive and pro-business in the world. And our policy approach is to ensure that our taxes are low and our costs reflect market conditions so that we do not distort the economy and incentivise people to do wrong things which are counter-productive. As Prof. Ivan Png said, we aim to keep our tax system as simple and as free of distortions as possible, though there are times when incentives and assistance schemes are not avoidable and are necessary. We have achieved the 20% target rate set by the ERC. But we will continue to monitor trends in tax rates in other countries and will make further adjustments if this becomes necessary and if our fiscal position allows.

I know that several Members have asked for even more Government help for businesses. But the fundamental question which we should ask ourselves is how best Government can help business and foster economic growth. Our basic approach is to pursue market-based policies, keep the corporate tax burden light and create an overall business-friendly environment. Our economy is open, we do not impose tariffs and we provide a level playing field for all companies.

The alternative to this is to protect our local companies, to give local businesses special grants or protect them from competition. It may benefit the companies in the short term, but in the long term, it will sap their vitality and dampen their entrepreneurial spirit. We will end up with uncompetitive local companies and an inhospitable environment for foreign companies to invest in Singapore. MNCs will be discouraged from putting their projects here and we will tarnish our reputation and our international image as a business-friendly centre. The experience of many countries which have tried to

protect local businesses in this way and failed should warn us about the dangers of going down this path. Having an open and competitive economy is the foundation of our success. It is a fundamental tenet which we must keep.

This commitment to free competition and open markets does not mean that the Government therefore cannot help local companies. We provide incentives and assistance schemes to reward promising profitable companies, not subsidies and grants which artificially lower costs for failing ones. If their businesses are no longer viable, it is better for them to exit than for the Government to keep them on life support or intensive care. The more protection the domestic enterprises receive, the less incentive they have to restructure, less competitive they will be, the greater the drag on the economy, and for those in the non-viable businesses, the longer the pain and struggle before they eventually fail.

Mr Gan Kim Yong and others feel that there is room for Government to do more to lower business costs. It is right that we should continually seek to reduce business costs. But we should do this by becoming more efficient, and by making our factor markets – land and labour, capital markets – more competitive and flexible so that they can respond quickly to changes in demand and supply. And we have evidence that we are succeeding.

Firstly, look at labour – wages. Labour cost per unit of output for the manufacturing sector has come down by 9% since 2003, and by 4% for the economy as a whole since 2003. This is the result of strong productivity growth, as well as the CPF cuts. Our wages are also now more flexible. MOM conducted a survey in June 2004 which showed that 80% of the workforce in large enterprises and 42% in small and medium enterprises already had some form of flexible wages.

SRS

On SRS, Dr Ong Seh Hong, Prof. Low Seow Chay and Dr Ahmad Magad have suggested raising the SRS caps, and not tying them to the CPF salary ceiling. We have simplified the rules on the SRS contribution caps. Instead of capping the amount which an individual can contribute at his income level, we will now apply a common absolute cap of 17 months of the prevailing CPF salary ceiling. The CPF salary ceiling has come down, but the change we are making to the SRS contribution caps go in the opposite direction, and will allow Singaporeans who earn below the CPF salary ceiling and the self-employed to contribute more to the SRS, without incurring more tax.

Estate duty

Mr Chiam See Tong and Dr Loo Choon Yong both suggested abolishing estate duty. Our exemption levels on estate duty are high – \$9 million for residential properties and \$600,000 for other assets. And the rates are low rates – the first \$12 million is taxed at 5% and subsequent assets are taxed at 10%. So estate duty affects primarily the wealthy families.

With personal income taxes coming down significantly in recent years, it is not unreasonable for the state to impose a modest estate duty – levied only on the wealthy. It ensures that our tax system is progressive and it gives a helpful signal of social equity because, in principle, we would like each person to start off life from the same starting point. In practice, it is not completely possible because they have their parents. They have wealth. They can give their children gifts while they are alive. They can leave a bequest to their children as an inheritance. But we would like to equalise at each generation as we go along, and the estate duty is a signal of this intention.

Mr Chiam expressed the concern that our estate duty is holding back the development of Singapore as a wealth management hub. I think this should not be a problem because estate duty is levied on foreigners only for immovable assets. All movable assets of foreigners are exempt from estate duty.

Prof. Ivan Png has suggested that we rebalance estate duty, because the exemption on the house is so much bigger than the exemption on other assets. He has a point. I agree that having different exemption limits for residential properties and all other assets could potentially distort people's investment choices towards residential property over other assets. But home ownership indeed was the purpose of this policy. We do not think there is a strong need now to increase the allowance for non-residential property assets and moveable assets. The \$9 million limit for residential properties is high, but it was set in 1996, at a time when property prices were rising sharply. And I think quite a number of families were afraid that if the home owner died and the estate had to pay duty on the home they were living in, this would impose hardship on the survivors. But since then, conditions have changed. So we will review it from time to time, just as we review other aspects of the estate duty rules and all our tax legislation.

Helping Singaporeans in need

Besides tax changes, this Budget also includes measures to help Singaporeans cope with changes in the economy, to encourage savings for retirement, to support families, and to promote community involvement and philanthropy. Members have generally welcomed the measures, but some have qualified their happiness with suggestions on where we can do more. I am heartened that Members have taken the time to study and think about how the Government's assistance could be more effectively

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delivered – and I am sure they will raise these issues during the Committee of Supply, particularly in the MCYS Head.

Mrs Yu-Foo Yee Shoon is heading the ComCare steering committee to examine how best to reach out to Singaporeans in need. While the ComCare Fund is managed by Government, the assistance measures that it supports should indeed be administered in a devolved and decentralised manner, as Dr Amy Khor and Mr Sin Boon Ann have suggested. So I am sure Mrs Yu-Foo Yee Shoon will welcome useful ideas and suggestions from Members. But, here, let me paint the broader considerations and principles that guide our policies on helping Singaporeans in need.

Helping the low-income and unemployed

Several Members, including Mr Ahmad Khalis, Prof. Ivan Png, Mr Zainudin Nordin and Mr Sin Boon Ann, have expressed concern about the difficulties of the low-income and the unemployed. Dr John Chen particularly has highlighted that the bottom 20% of households have not fared well.

Most Singapore households have seen their lives improve steadily. If we take it over a decade, household incomes have gone up across the board for all groups. But the years since the Asian crisis in 1997 have been tougher, especially for the lowest 20% of households. This lowest 20% includes households where the breadwinner has lost his job or suffered sharp reductions in wages. Although many of them have assets in the form of their HDB flats, they live day-to-day and often find it difficult to make ends meet.

Mr Zainudin Nordin was worried that an underclass is forming in Singapore now. Because he talked about MPs seeing

families which are chronically unable to look after themselves and their children. And in the last debate in January, Dr Tan Cheng Bock mentioned this too. It is true but so far, the numbers are small, but we have to watch this carefully because, potentially, it can be a serious problem.

This problem of a segment of the population being left behind is not unique to Singapore – other developed countries are also grappling with this. Globalisation has put many low value-added jobs at risk and driven down the wages of lower-skilled workers everywhere. The best way to help such lower-income households is to create job opportunities for the unemployed and educational opportunities for their children. Only then can they climb out of poverty, either in this generation or, if not, especially in the next generation.

For job opportunities, we have put a major effort to match people to jobs. The WDA has worked very hard to reach out to job seekers through the CDCs, job fairs and many means. They have used NTUC, grassroots organisations, and advisers have also helped. We have had some success, but the effort and the cost per job matched have been enormous. Because for every match we have, we have many people whom we try and try again, and somehow we are not able to get the right person linked up with the right job. Sir, we have got to keep on trying, and to find ways to do this better. Mr Ahmad Khalis and Mr Matthias Yao told us how small gestures, like having CDC officers accompany job applicants to the workplace, can go a long way. I hope to see more such efforts, and I think we can do better.

I agree with Dr Warren Lee and Mr Ong Ah Heng that sometimes, lower-skilled workers turn down jobs because they feel that after deducting for CPF and transport costs, they have almost nothing left. Therefore, we should strengthen

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bear these higher risks? How do we design a scheme that allows Singaporeans to benefit from the potential upside without too much risk from the downside? We had studied Private Pension Plans and, eventually, we came to the conclusion that they would not be viable. Now, we are studying other possibilities to increase returns for CPF savings without raising the risk unduly for individual members. I know Members have an interest in this. I heard Miss Penny Low just now speaking and she knows a lot about this subject. I think it is something which we will have to study in detail.

For the upper and middle income groups who have savings over and above the CPF, what Miss Low described to have a CPF, to have the SRS, to have some other schemes, I think she called it Section 5, these are possible ways a prudent professional can plan for retirement. But for the lower end of the population, many of whom have the CPF as their main savings and very little discretionary saving over that. We have to work within the CPF limit. Because it is not possible to put aside another 5% or 10% of your income, put it in this account, and we have some investment schemes or some tax arrangements and, therefore, you will have more for old age. Because they have to balance between what they need now and what they need in old age. And they have to work within this 33% because that is what the employers are able to afford if you are hiring workers. Otherwise, it will be non-competitive compared to foreign workers or workers elsewhere. Within this limit, we have got to find the best scheme and deploy the money in the best way, so by the time he retires, it will last him for as long as possible. Even then, not completely, because we have to depend on his HDB flat being worth something, we have to depend on his family chipping

in to help him to look after himself or herself.

The third point on provision for the elderly is that families have a responsibility to care for their elderly dependants. This is particularly a challenge for those families who have old people to look after and also young children to look after, as Ms Irene Ng, Mdm Ho Geok Choo and Prof. Ong Soh Khim all have drawn attention to. The Government appreciates the difficulties faced by this “sandwich” generation of Singaporeans, and we will continue to provide support to them.

It is not true that Government provides more support for childcare than for eldercare. The public, and Prof. Ong, may not be aware, but the Government subsidises 90% of the development costs of VWOs providing eldercare services. It also grants other subsidies to VWOs and needy Singaporeans to further defray the cost of eldercare. The Government also provides tax relief and foreign maid levy concessions for looking after elderly parents to families and also to singles.

Low-income elderly Singaporeans can also turn to Medifund for additional support. In FY 2003, close to 220,000 applications were considered, and virtually all the applications were approved from Medifund, and the funds disbursed amounted to \$34 million. So, we do many things to help the elderly, but this is a big subject. We will have to continue to revisit it regularly because, as our population ages, we will have to make many adjustments to our society and our economy in order to make the whole fit together and work.

Balancing between being inclusive and being targeted

Finally, Members, including Ms Irene Ng, Prof. Ivan Png and Mr Ong Kian Min, felt that our top-ups and assistance

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measures are currently spread too widely and thinly and, in their words, it is said "not targeted enough". I agree that, for targeted incentives, we should target the assistance better, in order to direct our limited resources to meet specific needs, and to get them to reach those who need them most. And that is why we need to think of extending means-testing in healthcare, and setting the right cost recovery rates in higher education. But working out the best way to implement these principles is not easy, and we will proceed carefully. We have said this many times, but I will say this again. No citizen will be deprived of basic healthcare or tertiary education for lack of means.

When our aim is to help those in need, then we should target the assistance better, so that it reaches those who need it the most. It is not easy to do precisely, because every household has different circumstances, and we cannot examine the finances or the spending habits of each household to decide who is in need and who deserves help. It is not only intrusive, but it is just not practicable. So, we have used proxies, like HDB flat size or sometimes with your CPF balances, although this is not ideal. But we will bear in mind the MPs' comments, and we will try to develop better ways of targeting and identifying who needs the help. Then we can do it more effectively and equitably in future.

However, we need to balance between being inclusive and being targeted. When our economy has done well, and we have achieved good surpluses, it is only fair that some of it is distributed to all Singaporeans, including the higher-income groups who pay the bulk of income taxes. Some groups have complained that they do not receive much from this Budget, and that the Government has not put any real cash into their hands. They may have forgotten that Singaporeans have just received the third tranche of Economic Restructuring

Shares just a month ago. In fact, one of the reasons why Chinatown was booming this year is because of the ERS. And 1.3 million Singaporeans have already withdrawn more than half a billion dollars of their ERS in cash. But, alas, the Minister for Finance is not the *cai shen ye* or God of Fortune, with *ang paws* for everyone every year.

Conclusion

Mr Speaker, Sir, this Budget is based on a vision of what Singapore can be, and how the Government and people, working together in tandem, can bring about this vision. The Government will continue to provide the fundamentals for this vision: security and stability – strong defence, good governance, sound regulations, prudent fiscal position, low inflation, safe streets.

Beyond these fundamentals, Singapore must also represent opportunity. The Government will create opportunity by making available quality education, affordable healthcare and good housing. It will also provide a conducive climate for individuals to be the best they can be and for businesses to grow and succeed.

But Opportunity is ultimately a matter for individual confidence, competence and commitment. It is the effort, the determination and the spirit of the people – individually and collectively – that opens up Opportunity and brings success.

And for Singapore to be truly home, we must also build Community. This means standing together in times of crises, supporting those who have difficulty keeping up with the pace of change, caring for those in need, sharing the fruits of success, leaving no one behind.

The vision is Opportunity with Community, resting on a foundation of Security and Stability. So, let us together

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secure that vision. Let us have strong bodies to persevere and to weather the changes that come our way. Let us have willing hands to help one another and to seize the opportunities that are out there. Let us have tough minds to face the challenges ahead with courage and conviction and to make the right decisions. And let us have warm hearts to care for one another and to beat for Singapore as our nation and our home. [Applause.]

Mr Low Thia Khiang (Hougang): May I have your permission to clarify, Sir?

Mr Speaker: Yes.

Mr Low Thia Khiang: Sir, I wish to clarify. In my speech, I did mention that I am fully aware of the pitfalls of a welfare state. But looking at the situation of our economic volatility over the years, I do not think that there is a way out for people who really cannot get jobs. And I think it is fundamental for the Government to provide basic support for people who cannot get jobs.

Secondly, I think it is the fundamental duty of the Government to provide things like basic healthcare. Whether you want to call it welfare state or whatever you call it, I note that some of the Government schemes of help provided to the low-income families are, in fact, welfare. But you do not call it "welfare", you call it "assistance".

Sir, there are cases where people who wanted to look for a job could not get one. They tried the CDC, WDA, etc, went for interview, but eventually still could not get a job. I have a constituent who was a truck driver with ENV. But because they outsourced and were privatised, he lost his job. He tried getting a job but could not. Now, he cannot pay his bills. He is facing financial difficulty. Which scheme

would the Government use to help people like him? Yes, we want to teach people how to fish. But there has to be fish for people to fish. You teach them how to fish, but there is no fish. That is why I think that it is the fundamental duty of the Government to provide help and, I believe, direct help. You can call it welfare or whatever, but financial help for those who really cannot find a job to tide them over. And that has to be made explicit, so that these people have the confidence to know that if they really cannot get a job and are facing financial difficulty, at least help is at hand.

Sir, the Minister for Finance also asked me where the money is going to come from and what taxes to raise. I wish to clarify that, from the Budget, I noted that, based on operating revenue, we do not take into account investment income and also some capital receipts as part of the revenue of the total Budget. I also noted that, in the past few years, investment income revenue has been quite stable, at about \$6 billion. I am not sure whether that is all or part of the investment income of the reserve or inclusive of reserve which forms part of the NII, and of which \$1.82 billion was taken in this Budget. I think the Constitution allows up to 50% of investment income to be used. So, I think if we can take in, say, another \$1 billion from our investment income, perhaps we can provide more help and support to those who are in need.

Mr Lee Hsien Loong: Mr Speaker, Sir, I will take the Member's second point first.

We are already taking in investment income contribution into our Budget for our total revenue in order to spend, according to the limits of what is allowed in the Constitution. So, when I say we have \$210-\$220 million of surplus next year, I mean, including investment income. If we did not have investment income, that would be negative, and we will be running a deficit. So, there is no