**Inclusive Growth and Types of Growth**

**Explain how supply-side policies like manpower development will lead to both increase in AD and rightward shift of LRAS?**

Manpower development will provide more skilled labour and then expand the supply of resources in term of supply of labour which will contribute to the rightward shift of the LRAS. At the same time, the efficiency of the industries will be raised, and this will raise the productivity of work and lower average cost of production, contributing to the increase in AS.

Increase in aggregate demand where there is higher level of economic activities and this will lead to a rise in aggregate demand. This will cause a rise in real GDP via the multiplier effect and thus lead to increase in actual production, implying that there is actual growth.

## Other Economic conditions that will contribute to sustained economic growth

1) Government expenditure in the area of infrastructural development.

2) increase in investment

**Explanation on how slow growth will occur**

Meaning of slow growth

When slow growth occurs, it implies that the economy has attained small percentage rise in economic growth around the rate of zero to 2 percent. This happens when the economy is near full employment condition and the production capacity is limited, forbidding large increase in actual production. It can also be due to small percentage increase in aggregate demand as the economy is restricted by economic constraint like absence of affluence and high public debt.

For developed economy, the base year GDP is high and incremental increase in the year may be considered as small percentage of growth rate. These countries are also constrained by limited capacity of production and need for economic development as the economy has reached saturated pace of economic development.

**Diagram on slow growth**

Impact of slow growth

**Economic Growth**

**1. Why some countries are unable to sustain their economic growth? (4 points)**

* Meaning of sustained economic growth- It refers to the expansion of the actual production capacity without incurring excessive rise in cost condition.
* This is made possible by the increase in production capacity with corresponding expansion of the production capacity.

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- ineffective policy implementation

- small multiplier [e.g. small population size]

- inadequate natural resources

**2. Inclusive growth**

- meaning of inclusive growth

- how is inclusive growth achieved

🡪 taxation + income redistribution

🡪 manpower training [raise income level of low-skilled workers]

🡪 infrastructural development [raise quality of life]

- why it is economic growth important to Singapore

**3. Export-driven economic growth**

- meaning of export-driven growth

- benefits of export-driven growth

- hindrances that undermine export-driven growth

**4. Consumption-driven growth**

Meaning of consumption-driven growth

(Link to Us and developed nation)

- how is consumption driven growth attained

- factors that will affect the effectiveness of consumption driven growth

-benefits of consumption driven growth

- benefits of consumption driven growth

**1 Meaning of inclusive growth (definition)**

Inclusive growth is economic growth that is distributed fairly across society and creates opportunities for all.

**2 Means to measure inclusive growth**

**2.1 Gini-coefficient ratio-meaning**

The Gini index or Gini coefficient is a statistical measure of distribution of economic inequality, measuring income distribution or, less commonly, wealth distribution among a population. The coefficient ranges from 0 (or 0%) to 1 (or 100%), with 0 representing perfect equality and 1 representing perfect inequality.

**2.2 Employment**

The unemployment rate is another measure of inclusive growth. Inclusive growth requires the maintenance of full employment as the economy expands. If the economy grows while maintaining a high unemployment rate, it means that there is a widening income distribution as the high-income workers are receiving higher wages while the poor remain unemployed. As such, inclusive growth involves a reduction of the unemployment rate.

**2.3 Degree of economic diversification and integration**

We can also measure inclusive growth by the degree of the spectrum of industries in an economy. Inclusive growth involves developing a broad spectrum of industries, reducing the country’s dependence on one sector of the economy. Developing different industries also diversifies the structure of employment, provides more job opportunities for workers in the economy who have various skills suited for different industries.

Inclusive growth also involves deepening the depth of industries. A deeper depth of industries can also lead to a lower level of unemployment due to more job opportunities created in a single industry. For example, China has very large depth industries which provide many jobs in each industry. Around 100 million workers are employed in China’s manufacturing industry while its financial industry provides 2.28 million jobs. Having a deeper depth of industries will also increase the competitiveness of that industry.

A broad spectrum and large depth of industries increases the degree of economic distribution and incentive for growth, creating more employment in the economy.

**3 Significance of inclusive growth**

**3.1 Equal distribution of income**

Inclusive growth ensures that the fruits of economic growth are enjoyed not only by high-income workers but also low-income workers. As such, all workers in the society will experience a rise in their incomes, ensuring an equal distribution of income.

**3.2 Price stability**

Inclusive growth involves an increase in the productive potential of the economy, through manpower development or technological improvements. As such, this ensures that the price level does not inflate even as aggregate demand rises, ensuring price stability and sustained economic growth.

**3.3 Low unemployment**

Sustained economic growth stimulates the demand for labour, leading to the creation of jobs and reducing unemployment in the economy.

**3.4 Creation of an affluent consumer base**

Inclusive growth creates a large and affluent consumer base. When higher incomes are generated, consumers purchasing power will increase, causing an increase in consumption spending. This leads to consumption-led growth for the economy.

**3.5 Sustain competitiveness**

Inclusive growth can also help a country to sustain competitiveness in the international market. Having a wide spectrum of industries will enable a country to compete in a variety of markets. This can help the country to sustain its competitiveness in a developing world and ensures that the country is not limited to one industry only.

**3.6 Improved SOL (material and non-material)**

Inclusive growth can also lead to improvements in the country’s standard of living in both material and non-material aspects. With higher incomes, consumers are able to spend more on goods and services to improve their material SOL. Governments are also able to collect higher tax revenues and use the revenue to improve public provision of merit goods such as education and healthcare, and also improve public infrastructure. This will improve the non-material SOL where people are able to enjoy a more comfortable lifestyle with better public facilities.

**4 Measures to achieve inclusive growth**

**4.1 progressive tax plus subsidies**

To achieve inclusive growth, the government can introduce a progressive tax and subsidies for the lower-income group. A progressive tax is a tax that imposes a lower tax rate on low-income earners compared to those with a higher income, making it based on the taxpayer's ability to pay. The government can then use this tax revenue earned to give as subsidies to the lower-income group. This will help to distribute the economic benefits from economic growth and tackle the unequal distribution of income.

**4.2 expansionary FP/MP to raise employment**

Expansionary fiscal policy and monetary policy can also be introduced to raise employment. Expansionary fiscal policy involves an increase in government expenditure to increase aggregate expenditure directly through infrastructure development and provision of public services. Expansionary fiscal policy can also involve a tax reduction which increases disposable income and purchasing power, thereby increasing consumption spending and AD. Tax reduction also increases return to investment as there is lower tax on corporate earnings, which prompts businesses to increase their investment spending and increase AD.

An expansionary monetary policy on the private sector can also be implemented. This involves cutting interest rates in the economy which makes it cheaper to borrow. This encourages firms to invest and consumers to spend, which increases the overall demand in the economy.

These increases in AD will lead to the creation of more jobs and an increase in employment in the economy.

**4.3 supply-side policies focusing on infrastructural development (non-material SOL) /manpower development**

Supply-side policies concerning infrastructure and manpower development can also be introduced to enable economic distribution of wealth. The government can introduce supply side policies such as skills retraining and education to help to cultivate a more knowledgeable and skilled workforce. Skills development of workers overcomes the skill incompatibility and displacement of workers which helps low-income workers to break out of the cycle of low-paying jobs.

Infrastructure development involves building up new facilities will attract more investment and raise the productivity of the economy. When infrastructure is developed, it can reduce the immobility of resources which will increase the efficiency of industries and lead to economic growth and higher incomes. With better infrastructure, there is also an improvement in the non-material SOL due to increased convenience of life.

4.4 trade diversification for SG → overcome limitations of market dd → policy to focus high-valued employment → high wage → increase SOL

The Singapore government can adopt trade diversification to overcome the problem of limited market demand.

**4.5 investment-driven policies → increase AD/AS**

Investment-driven policies can be adopted to achieve sustainable growth by increasing AD and AS.



As seen from the diagram, sustained growth is achieved when there is an increase in aggregate demand with an expansion of the aggregate supply. This leads to an increase in the real GDP from Y0 to Y1 while the price level decreases from P0 to P1 as the expansion of resource capacity has lowered down the cost of production. This ensures that the economy achieves price stability while experiencing economic growth.

To increase AD, the government can raise investment by reducing the amount of taxes. This increases the return to investment as there is lower tax on corporate earnings which will prompt businesses to increase their investment spending. When investment increases, AD increases, which is reflected by the upward shift of the AD curve.

To create an expansion in the aggregate supply, the government can pursue manpower and infrastructure development policies. Manpower development helps to raise the productivity of the workers with skills development through a constructive and efficient training system. Infrastructure development will build up facilities to attract more investment and raise the productivity of the economy. This will lead the expansion of the PPC which is reflected by a rightward shift of the AS curve.