**Question 2: Inflation and Labour Market Issues in the UK and Singapore**

**Table 2: Selected Indicators for the UK**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2013 | 2014 | 2015 | 2016 | 2017 |
| GDP annual growth rate (%) | 2.0 | 2.9 | 2.3 | 1.8 | 1.8 |
| Rate of unemployment (%) | 7.5 | 6.1 | 5.3 | 4.8 | 4.3 |
| Annual rate of inflation (%) | 2.3 | 1.5 | 0.4 | 1.0 | 2.6 |
| Nominal wage growth (%) | 4.1 | 3.3 | 3.6 | 3.3 | 3.9 |

Sources: World Bank, Office for National Statistics UK

**Table 3: Selected Indicators for Singapore**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2013 | 2014 | 2015 | 2016 | 2017 |
| GDP annual growth rate (%) | 4.8 | 4.0 | 2.9 | 3.0 | 3.7 |
| Rate of unemployment (%) | 3.9 | 3.7 | 3.8 | 4.1 | 3.9 |
| Annual rate of inflation (%) | 2.4 | 1.0 | -0.5 | -0.5 | 0.6 |
| Nominal wage growth (%) | 5.3 | 4.9 | 4.9 | 3.1 | 3.8 |

Sources: World Bank, Ministry of Manpower Singapore

**Extract 6: UK inflation rises to 1.8% spurred by weak pound and rising fuel costs**

The economy has grown over the last two years in response to a surge in consumer spending, fuelled largely by an increase in credit. However, a surge in fuel prices helped push inflation to its highest level for more than two years last month.

Economists said inflation would rise further this year. Fuelling the rise is the pound’s sharp fall since the Brexit vote, which makes imports to the UK more expensive, and also the rise in oil prices on the back of lower production. Data published alongside the inflation figures showed manufacturers’ fuel and material costs were rising at the fastest pace for more than eight years.

Economists have warned rising inflation this year risks squeezing household incomes if wages fail to keep pace. Figures due on Wednesday are forecast to show underlying earnings growth held at 2.7% in the three months to December. But firms may be unwilling to keep raising pay as they grapple with higher costs and uncertainty about the future as Brexit negotiations unfold.

Responding to news of another rise in inflation, a spokesman for the Treasury[[1]](#footnote-1) noted that earnings were still rising faster than inflation and had done so for more than two years. The government is also planning to cut taxes for millions of working people and freeze fuel duty, saving an average driver £130 a year.

Source: *The Guardian*, 15 Feb 2017

**Extract 7: UK wage growth hit by higher inflation**

Official figures show that the amount of money workers are taking home continues to fall as inflation takes its toll. Average earnings fell in real terms by 0.6% in the three months to April, compared with the same period last year.

Unemployment fell by 50,000 to 1.53 million in the three months to April - the lowest since records began in 1975. The number of people in work hit a new high of 74.8% - the best since records began in 1971. But the biggest issue will be the falling wages, especially since inflation rose to 2.9% in May.

Following traditional economic modelling, high levels of economic growth should, in ordinary times, lead to higher wages. However, these are not ordinary times. The workplace has changed, and high levels of hyper-flexible working have tended to depress some wages.

Add to that the UK's chronic productivity problem - many firms are just not very good at investing in improvements that increase levels of wealth creation - and this soft wage growth trend is to be expected.

Britain’s productivity crisis risks getting worse because the population is ageing steadily, leaving relatively fewer younger, more dynamic workers who typically innovate more. Unless drastic action is taken to boost skills and creativity, or to increase the number of young workers, growth will struggle to pick up, according to new economic research published in the journal of the National Institute of Economic and Social Research.

Sources: *BBC*, June 2017,

*and The Telegraph*, August 2017

**Extract 8: Bank of England poised to push interest rates back up to 0.5%**

The Bank of England is poised to raise interest rates for the first time in more than a decade, raising the cost of borrowing for British households already hurt by an earnings squeeze.

The government is expected to reverse emergency action taken following the EU referendum, when it cut rates from 0.5% to 0.25% to avert a recession. While a slump has not materialised, the British economy appears in worse health than most other major countries with potential to be blown further off course by faltering talks to leave the EU.

The UK is growing at half the rate recorded in the US for the year to September, at 1.5%, while growth is expected to trail Italy, France and Germany next year.

While increasing borrowing costs could hurt squeezed households, it will support the strength of the pound and help to cut inflation, which reached 3% in September and is expected to rise further still, driven by the higher cost of importing food and fuel.

Source: *The Guardian*, October 2017

**Extract 9: Singapore faces double whammy in labour supply**

Singapore has the most to fear from an ageing population among Asia-Pacific nations, according to a new study. It noted yesterday that the country faces a double whammy: a shrinking workforce coupled with slower progress than its Asian neighbours in getting more people into the labour market.

**[Turn over**

The report by Oxford Economics said Singapore's labour supply will shrink by 1.7 percentage points in the 10 years through 2026, and by 2.5 percentage points in the following decade. The report said almost all Asian nations will face demographic challenges over the next two decades, and policy measures or efforts to boost labour participation rates - such as by drawing more women or the elderly into the workforce - will only partially limit the impact.

The report added that the massive decline expected in Singapore's working-age population growth from 2027 will be due in part to less immigration after a recent policy shift.

Singapore's ageing population has long been flagged as a major challenge to the economy. It means higher healthcare expenditure and a decline in the domestic labour force, which will affect growth.

However, economists believe Singapore remains attractive as a destination for human capital and businesses, given its status as an international hub for finance, shipping and other activities. It also helps that Singapore has more flexibility in terms of immigration policy compared with other countries in the region.

Source: The Straits Times, September 2017

**Extract 10:** **Singapore's ageing population a ticking 'time bomb'**

Singapore’s population will reach a critical juncture next year, as the number of people above 65 will equal those under 15 for the first time in history. Economists warn that the situation is a ticking ‘demographic time bomb’, with implications on costs, taxes, labour and productivity.

Economists interviewed said that unless the government loosens its grip on immigration, taxes would have to be raised in the near future as a result of the rapidly greying population. The ageing population could prompt the government to look at imposing new taxes on e-commerce transactions for example, and raise the goods and services tax (GST) from the current 7 percent to 9 percent in 2019. The government could also prioritise spending in various areas in order to manage its growing expenditure.

Economists argued that loosening the immigration policy is necessary to cushion the adverse effects of a greying population. Raising the intake of working-age foreigners will help increase growth and fiscal revenue, and reduce the tax burden on younger Singaporeans.

However, after years of surging foreign manpower growth, the Singapore government has — since 2011 — moved to tighten the inflow of immigrants in its bid to reduce reliance on low-cost foreign labour. This ensures continued productivity growth in the economy. The government has made clear on several occasions that it will not perform a U-turn on its stance.

Still, some economists have said it may be time to re-look these policies, although they have cautioned that this must be done in a politically sensitive manner. Singaporeans will have to make the choice – they either pay higher taxes if they want a smaller pool of immigrants or pay lower taxes and open the doors to immigrants.

Source: *Today Online*, February 2017

**Questions**

**(a)** Describe the trend in Singapore’s general price level from 2013 to 2017. [2]

**(b) (i)** Account for the change in UK’s inflation rate from 2015 to 2017. [4]

 **(ii)** Comment on the impact that higher inflation rates may have on the standard of living of UK citizens. [6]

**(c) (i)** Compare the change in nominal wage growth for the UK and for Singapore from 2013 to 2017. [2]

 **(ii)** Extract 7 states that ‘high levels of economic growth should, in ordinary times, lead to higher wages’.

Using a demand and supply diagram, explain this statement. [4]

**(d)** With reference to Extract 8, explain why the UK government is ‘poised to raise interest rates’ and comment on whether the outcome will be desirable. [9]

**(e) (i)** Using AD and AS analysis, explain how an ageing population may harm Singapore’s economic growth in the short and long run. [6]

 **(ii)** Discuss if loosening immigration policy is the best approach to deal with the challenges arising from an ageing population. [12]

[Total: 45]

1. The Treasury is the British government department responsible for developing and executing the government's public finance policy and economic policy. [↑](#footnote-ref-1)