**Essay Question 4**

**"Our first priority is to keep the economy competitive and growing through continually upgrading and diversifying the economy to make ourselves more resilient to external shocks, strengthening ties with the vibrant Asian economies, and tapping new areas of growth.'**

 **Adapted from May Day Message 2008 by PM Lee Hsien Loong**

**Discuss whether economic growth should be the main objective of Singapore's macroeconomic policy. [25]**

Students are expected to explain the concept of economic growth along with its benefits & costs and thereafter discuss how the pursuit of long term economic growth can bring about achievement of oilier macroeconomic aims but recognize possible conflicts with oilier objectives. Finally, students should synthesize their arguments and come for a justified stand.

**Introduction**

Define growth as a rise in real GDP and potential capacity of production.

Distinguish between short term (actual) & long term (potential) growth:

- Short-term growth makes use of spare capacity represented by the rise in real GDP whereas long-term growth in potential capacity seen in term of the growth of resource capacity.

-Long-term economic growth: an expansion in the productive capacity of an economy, represented by the outward shifts of its production possibility curve or the rightward shifts of the aggregate supply curve. -Short-term growth: a movement from a point within the PPC to a point on the PPC, caused by an increase in AD in the short run in a less than fully employed economy.

Main Body

**1) Explain why economic growth should be the main aim of the government**

a) Economic growth can bring about a rise in the living standards, provided economic growth exceeds population growth, real GDP per capita will rise —\* a higher level of consumption of goods and services. This means greater quantity and better-quality goods & services such as better housing; more efficient better quality public transport; for the general population.

b) Growth brings about business confidence and raises employment through higher investments Jobs creation. In addition, a growing economy signifies a stable economy ->attracts greater inflow of FDI -> generate greater long-term growth

c) Rise of economies such as China and India posing as serious threats to the continued relevance and competitiveness of Singapore in global economy. Singapore's exports face intense competition and hence threatening potential growth of the economy. Our first priority is to keep the economy competitive. Increase in real GDP means more financial muscle to achieve with other objectives:

-Long term growth can bring about price stability through increases in AS: growth that is attained through AS growth can address demand pull inflation through reduction of supply bottlenecks

-Actual growth can bring economy closer to full employment to bring down unemployment

-Keeping our export competitive can ensure healthy balance of payment

d) Growth can bring about more equitable income distribution

Growth -> income rises, the govt. can redistribute income from the upper income group to the lower income group without the need to raise tax rates. In addition, economic growth ->firms' profit level rises ->pays more corporate tax -> a positive effect on government finances -> boosting tax revenues and providing the government with extra funds to spent on programs to alleviate poverty and close the income gap between the rich and poor.

e) Any other benefits such as concerns about environmental conditions and development of the art scene as a result of increasing affluence when the basic requirements for necessities have been met by a majority of the population.

**b) Why economic growth should not be considered as the main aim of the government?**

a) Widening Income gap

Some Singaporeans may find that their skills are no longer relevant. Structural unemployment affects the low skilled workers who are less well oil. Others may be forced to take up employment with lower pay.

-If the means to higher growth are greater incentives (such as higher cuts in income tax), then the rich might get richer with little benefits for the poor.

Apply to Sg Context: rising gini coefficient, payouts with more distributed to lower income households e.g. growth dividends

b) Environmental Costs

-Rising incomes make it possible for more people to own cars, but this could lead to problems of pollution and traffic congestion.

c) Lower quality of life

-Material S.O.L. may have improved but quality of life can deteriorate overall due to non-monetary factors e.g. higher stress

d) Possible Conflict between the pursuit of economic growth and stable prices

-Short term economic growth -» higher price levels due to rising AD -» reduce unemployment.

-Lower unemployment rate but inflation rate rises - reflected by the Phillips curve

-Explain how the intensity of the use of resources as a result of increasing AD—> higher output-\* higher GPL (inflation rate rises)—> overheating in the economy

* Evaluation:
* Sg has focused on long term growth through supply side policies e.g. education & training to raise productivity.

R&D, conducive investment climate

5. Possible Conflict between the pursuit of growth and external equilibrium

- As AD keeps rising -> short-term economic growth -> NY rises -> level of import rises (rise in consumer goods and/or imported resources such as fuel, raw materials and capital goods for domestic production).

-If exports do not rise sufficiently -> BOT deficit and a possible current account deficit -> BOP deficit (if the surplus in the capital account is not huge enough to off-set the deficit in the current account

* Evaluation: Is this of concern to Sg?

Other possible discussion points:

-Current Situation in Sg: any other overriding problems other than growth? Other objectives may be more important currently: price stability?

-Attainment of non-inflationary growth may be a more accurate objective through

Monetary policy centered on a strong S$ supported by fiscal prudence

* Helps prevent imported inflation - main source of inflation in Singapore and in turn maintain export competitiveness

Supply side policies (Continual upgrading)

* To improve productivity for sustained growth

Trade Policies

* Active establishment of bilateral free trade agreements to tap on growth opportunities through trade