**Question 5**

**5a) Explain why low unemployment is one of the macroeconomic objectives for Singapore. [10]**

**Approach**

* Establish that government pursues healthy economic growth, price stability, low unemployment and healthy balance of payment as macroeconomic objectives so as to ensure continual improvement of standard of living in the country.
* Explain the positive effects of achieving low unemployment in the country, with references to how its achievement will help to keep growth sentiments positive.

**Introduction: Explaining the meaning of low unemployment**

* State what are the 4 macroeconomic objectives
* Explain what is meant by low unemployment:
	+ Unemployment rate refers to part of the labour force who are not working but actively looking for jobs. Low unemployment suggests a condition of full employment or very near to it.
	+ Low unemployment means labour resources are utilised and not left idle. Low unemployment does not mean zero unemployment but close to the natural rate of unemployment, which is the base level of unemployment that will always exist in the economy. Singapore is having low unemployment as the unemployment rate is at 1.9%.
* Identify that achieving low unemployment have positive effects on economic growth, standard of living and government budget.

**Key point 1: Low unemployment means maximisation of standard of living**

* Low unemployment ensures that scarce resources are fully utilized 🡪 the economy operates closer to the boundary of the PPC 🡪 AD is high enough relative to productive capacity.
* The achievement of full employment means that at current available resources and productive capacity, the country is producing the most output possible and income per capita would be at highest possible.
* With large part of labour force gainfully employed, households enjoy purchasing power for consumption.
* Singapore has been able to enjoy low unemployment and positive economic growth in recent years 🡪 2% growth in real GDP and 1.9 % unemployment in 2015
* Low unemployment prevents social unrest and depression which may reduce non-material SOL. High Unemployment rate in some European countries have increased from 34% in 2006-07 to 46% in 2011-12 and the number of strikes, street protest and demonstration has increased significantly. Depression and excessive worry due to inability in finding employment can increase stress levels in the society, leading to a lower non-material SOL.

**Key point 2: Low unemployment boosts domestic growth sentiments**

* Low unemployment tends to take place alongside positive GDP growth. This boosts economic confidence for consumption and investment – positive effects on AD and equilibrium national income.
* On the other hand, if a country faces high unemployment households will not be optimistic to spend and firms to invest. This will have spiralling downward effects on AD, national income and inflation rate.

**Key point 3: Low unemployment reduces strain on government budget**

* Low unemployment means greater tax revenue from income tax and consumption tax as well as decreased spending on social assistance. Although Singapore does not have unemployment benefits, households could seek financial assistance. Needy Singaporeans received about S$116 million of financial help between Apr 1, 2014 and Mar 31, 2015 from ComCare, the Government’s social assistance scheme. Low unemployment thus reduces the need for Singapore government to divert their budget spending on social assistance and allows for funds to be channelled for other productive uses e.g. improving infrastructure and retraining of workers to move up the value chain. This would allow potential economic growth in the long term – rightward shift of LRAS.
* With sustained low unemployment, a government does not much need to dip into the reserves to adopt a budget deficit, allowing the government to accumulate its reserves and use it when the economy faces problems

**Key point 4: Low unemployment prevents loss of labour skills and productive capacity**

* Individuals who are unemployed for prolonged periods of time could lose their skills. This is referred to as the hysteresis effect where cyclical unemployment may become structural unemployment. This loss in productivity could adversely affect the productive capacity by decreasing the LRAS in the long-run as quality of workers deteriorates.
* Workers who have been structurally unemployed for a long-time may become discouraged and leave the labour force too. Workers may leave the country in search for better jobs and results in brain drain. This results in a fall in productive capacity as the labour force is shrunk.

**Conclusion**

* Low unemployment will bring about benefits in term of other macroeconomic aims as well as improvement in SOL. Singapore is a small country with only labour as its only viable factor of productions hence it is important for Singapore achieve low unemployment.
* High unemployment is an economic problem that will lower current standard of living due to lack of job and earnings and if this is prolonged will also weaken the prospects for future economic growth.

**b) Assess whether the policies adopted by the Singapore government to maintain low rate of unemployment remain relevant in view of the challenges faced by the economy. [15]**

**Approach:**

* Identify the challenges faced by Singapore and how they may lead to an increase in unemployment rate.
* Pointing out the current policies adopted by the Singapore government to maintain low unemployment and assess whether they remain relevant using criteria such as effectiveness, sustainability and feasibility of the policies.

**Unpacking the context: What are the challenges faced by the Singapore economy?**

* Sluggish growth environment 🡪 Weak global economic growth as shown by the slowdown in the China, US and EU economy 🡪 Singapore as an open economy is hugely affected by the global economy 🡪 slowdown in AD due to fall in net export earnings and foreign direct investment 🡪 may result in some firms retrenching workers 🡪 threats of cyclical unemployment
* Economic restructuring 🡪 Singapore faces an ageing population and increase in competition due to globalization, especially on lower skill jobs hence there is need to focus on productivity growth to drive the economy forward 🡪 emphasis on automation and innovation to drive productivity and economic growth by moving up the value-added chain🡪 rising labour costs as Singapore government reduces the ease of employing foreign labour + threats of structural unemployment for labour who get displaced by automatic and technology.

**Unpacking the context: What are the policies adopted by the Singapore government to maintain low rate of unemployment?**

* Fiscal policy 🡪 The Singapore government adopts a counter-cyclical budget policy for the purpose of demand management and the need for fiscal prudence. During times of recession where unemployment rate is high, the Singapore government would adopt a budget deficit to stimulate the economy.
* Exchange rate policy 🡪 modest and gradual appreciation at most times to achieve price stability so as to maintain export competitiveness and attract FDI.
* Strong focus on supply side policies which promote efficiency and international competitiveness of domestic producers, such as pro-competition policy, continuing education and skills upgrading as part of labour culture, various support programmes to develop the capacity of SMEs.

**Determining evaluation criteria: How to assess the relevance of the policies adopted by the Singapore government to maintain low rate of unemployment?**

* To assess the relevance of the current policies, it depends on whether the policies can withstand the shocks from the fluctuations of the external economy and whether the policies will improve workers mobility/employability throughout ongoing structural adjustments which various industries go through in the course of shaping up to the demands of international competition.

**Argument 1: Assessing the relevance of fiscal policy in maintaining low cyclical unemployment in Singapore**

* Although the multiplier effect in Singapore is small due to high leakages from imports and savings, expansionary fiscal policy is used whenever the economy was threatened by recession and rising unemployment.
* During the recession in 2009, Singapore government implemented the resilience package totalling $20.5 billion to help stimulate the economy. This was funded by tapping on past reserves build from past budget surpluses. The resilience package includes expanding public sector hiring and bringing forward public infrastructure projects, creating more jobs for the economy and reducing cyclical unemployment. The Jobs Credit scheme was introduced then, a short term policy, for the government to subsidise labour costs and prevent retrenchments.
* Fiscal policy remains relevant in maintaining low unemployment in view of the weak global demand. Although the government did not adopt a deficit budget this year (2016) although the economy has been weakening, this must have been considered against the rate of the slowdown. Overall, the use of fiscal policy will still be needed if the economy turns worse.

**Argument 2: Assessing the relevance of exchange rate policy in maintaining low unemployment in Singapore**

* Singapore has adopted a modest and gradual appreciation of the Sing Dollar to keep imported inflation low. This is important as Singapore is small country with no natural resources and hence it needs to import raw material for its re-exports as well as for domestic production and consumption.
* Stability of costs and wages is needed to keep unit labour costs in Singapore stable and competitive against other countries.
* Amidst the weak global economy, the Monetary Authority of Singapore has eased its monetary policy by adopting a ‘zero appreciation’ stance; not allowing the Sing Dollar to appreciate. Although this may result in higher cost of imported goods, this keeps Singapore’s export more price competitive in the global market, especially in this weak global environment. This then allows external demand to remain high and prevent cyclical unemployment.
* The exchange rate policy is relevant to Singapore as it is a small and open economy, with total trade amounting to almost thrice its GDP.
* It should be noted that the adjustment of the policy stance based on Singapore’s economic conditions suggests that the policy is still relevant. This policy provides MAS with the flexibility to adjust its monetary stance according to the challenges the economy is facing. If global demand picks up in the future, the MAS will revert back to its modest and gradual appreciation stance of the Sing Dollar.
* However, exchange rate policy alone is not enough to keep unemployment rate low in Singapore as it does not tackle structural unemployment where there is a mismatch of skills and jobs. Nonetheless, it remains largely relevant due to the import-dependence of the economy.

**Argument 3: Assessing the relevance of supply side policy in maintaining low unemployment in Singapore**

* Supply side policy can improve the match between jobs and skills, since Singapore is moving towards innovation-based growth to drive the economy forward.
* The Singapore government has tried to improve productivity growth by encouraging firms to rely on technology and automation instead of foreign manpower. Initiatives include the Productivity and Innovation Credits (PIC) scheme help firms, especially small and medium enterprises (SMEs), with their cash-flow needs for expenditure on innovation and productivity initiatives. Less workers would then be needed in these labour intensive industries such as food and beverages and these workers may not have the appropriate skills to work in other sectors which are booming such as the biomedical and financial industries.
* One key labour initiative is Skills Future, which every Singaporean aged 25 and above would receive $500 credit to enrol in government approved courses. Education policies are also constantly reviewed to meet the changing nature of jobs available in the economy. For example, Singapore University of Technology and Design was set up to equip undergraduates the skills to innovate so as to increase productivity level. New innovation could also help to boost Singapore’s international competitive as new innovative products could be exported out and boost Singapore’s AD, creating more jobs in the economy, especially in view of the sluggish growth environment.
* Overall, supply side policy is largely relevant (or the most relevant) in maintaining low unemployment in Singapore as it can tackle problems brought by both economic restructuring and weak growth environment. Structural unemployment also appears to be more significant than cyclical unemployment as Singapore is still experiencing economic growth.
* However, supply side policies are considered as an ongoing approach which supports the economy in the long term. These policies are not meant to be counter-cyclical like the budget and exchange rate policies.

**Conclusion**

* Singapore has adopted a policy mix to maintain the low unemployment in the economy. This is an economically sound approach in view of the challenges of economic restructuring and sluggish growth environment which could bring about both cyclical and structural unemployment. The policies have remained relevant, and it appears that the government has given much more emphasis on supply side measures to boost labour ongoing employability and technology.
* Singapore could refine its policies to enhance their effectiveness in maintaining low unemployment in the economy. Retraining of workers could be more targeted at industries affected most by the economic restructuring. More efforts could also be aimed at changing the mind set of workers by providing more information of the benefits of retraining as well as preparing the workforce to deal with future challenges brought by globalization and increase in competition.