

Supply Side Policies: policies aimed to increase the potential o/p and hence contribute to a sustained or faster EG.

Demand Management Policies

If... AD too low

If... AD too high

High UnE
Low Infn

Low UnE
High Infn

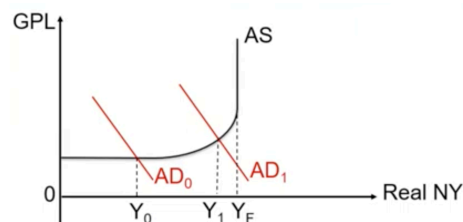
Expansionary
DD mgmt

Contractionary
DD mgmt

Tools:

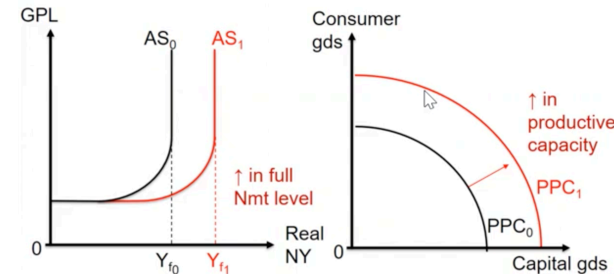
1. MP
2. ExΔ rate P
3. FP

Purpose:
↑ **AD**, ↑ **NY** by a
multiple
↑ **Employment Lvl**



Generally leads to
↑ **LRAS**, but may
lead to ↑ **SRAS**
instead in some
cases (e.g. tax
rebate due to
covid-19 → reduce
cost in ST)

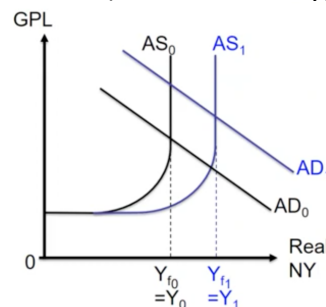
★ Means
Increase
qty, qly
and
mobility
of FOPs



If in SG context
to link to SG
examples. (1-2
lines). N.B.
PSG WSS most
common
policies cited.

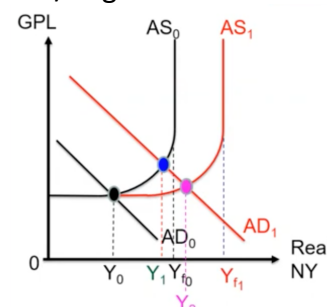
Purpose

1. Sustained (non-inflationary) EG



N.B. Sustained EG because w/o ↑ AS
there would be infln

2. Faster/ Higher EG



N.B. Faster EG because ↑ AS cause
NY ↑ more than it otherwise would
w/o ↑ AS

- In both cases, ↑ **NY**
- Can **dampen inflnry pa**
- Can **reduce UnE**
- SSP alone may not be useful in severe eco downturn (might lead to higher UnE), need to **complement with DD mgmt policy**

Mkt Oriented Policies

1. Cut in tax rate (PIT/ CIT)
2. Privatisation
3. Liberalisation and Deregulation
4. Labour Mkt Reforms

Interventionist Policies

1. Investment in human capital
2. Supporting I in R&D and adoption of new tech
3. Provision and Maintenance of infrastructure
4. Other business/ industrial policies

- **SSP can have effect on AD over ST (low taxes increase C and I)** → if recession, help close recessionary gap, but if infln destabilise economy and add to inflnry pa
- Interventionist policy allow govt to provide **targeted support** which free market might not be able to provide sufficiently + **support industries that offer greatest future possibility for growth**
- Market based policy decrease govt interference, **prevent ineff and resource misallocn** by relying on mkt, **prevent govt failure** due to political pressure and lack of info, **decrease govt expdt** → taxes no need to be as high less disincentive to work

Market Oriented Policies:

1. Cut in tax rate

Decrease PIT

Increase attractiveness for existing workforce to **work longer hours** as it **increases Yd + attract more people into workforce → increase labour SS** → increase qty of labour → productive capacity increase

Decrease CIT

Increases **after tax profit** → **more funds** for investment and to pursue technological innovation through R&D
Increase **after tax return on investment** → increase **reward to entrepreneurs for risk taking** → encourage **more I**
Taken together, → increase qty/ qly of capital → increase productive capacity

Limitations:

- No guarantee on whether ppl will work more (FP: **Y effect and subs effect**)
- Reduce CIT ≠ ↑I, cld pay out higher dividends
- Bleak economic outlook → I unlikely to increase
- N.B. Tax revenue may not fall if tax base increase due to increase in SS of labour

2. Privatisation

Improved mgmt and operation of privatised firm → increased **efficiency and allocation of resource** → can produce more with each ut of resource (this is like qly improve) → increase productive capacity of economy

Benefits:

- Firms more efficient
- Consumers enjoy better qly and more variety of g/s
- Govt gives out less subsidises, less expt

Limitations:

- Firms run by M or oli → no significant change to px, o/p, efficiency + may abuse monopoly power
- Consumers pay higher price for g/s + lose jobs
- Govt has to pay out more UnE ben
- Sell off of state assets is a one-time boost to govt revenue → deprive public sector of assets that cld have yielded govt revenue for future

3. Liberalisation and Deregulation

<p>Greater competition among firms → forces firms to reduce cost → greater efficiency in pdtn and improve allocation of resources as resources that were being used unproductively are released and put to more productive activities → can produce more with each ut of resource → allowing potential output to increase</p>	<p>Benefits:</p> <ul style="list-style-type: none"> - Could <u>increase qly of g/s pd</u> <p>Limitations:</p> <ul style="list-style-type: none"> - More competition → lower efficiency for some industries → EOS c/n be fully exploited → higher cost → reduce financial capability to engage in R&D for technological progress - Greater freedom for industry → <u>damage of evn and misallocation of resource</u> 	<p>Examples:</p> <ul style="list-style-type: none"> - Liberalisation of comm banking sector - Deregulation of telecom industry - Liberalisation of Postal Sector - Open Electricity Market
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4. Labour Mkt Reforms

<p>Make labour market more competitive → make jobs responsive to forces of SS and DD → lower labour cost → lower cop → increase profit → greater I by firms, increase R&D, → increase qty/ qly of capital → increase in potential o/p</p>	<p>Measures:</p> <ul style="list-style-type: none"> - Abolishing/ reducing minimum wage legislation - Weakening power of labour union - Reducing UnE Ben → reducing UnE benefit and the duration workers are entitled to these Ben → lower UnE by <u>encouraging UnE to look for work</u> → <u>increase SS labour</u> → <u>wages will fall</u> → <u>fall back to pervious explanation on LHS</u> 	<p>Limitations:</p> <ul style="list-style-type: none"> - Fall in wages of low Y contradict rationale to protect workers from exploitation and may lead to <u>inequity</u> 	<p>Examples:</p> <ul style="list-style-type: none"> - PWM for Singapore- cleaning, security, landscape, lift maintenance, bus maintenance
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Interventionist Policies:

1. Investment in human capital

<p>Training</p> <p>Raise employability and labour productivity → increase qty of employable workers + increase qly of workforce → improve potential o/p of economy</p>	<p>Limitations:</p> <ul style="list-style-type: none"> - Costly → fear losing workers after retraining/ upgrading → <u>employer reluctant to invest in training</u> - <u>Reluctance/ inability of workers to fund own training</u> <p>∴ Require govt intervention</p> <ul style="list-style-type: none"> - Effectiveness depend on willingness of workers to be trained, aptitude and attitude of workers - Time lag to source appropriate training programme and get workers trained → LT effects 	<p>Examples:</p> <ul style="list-style-type: none"> - Skills Future Credit <p>All SGreen aged 25 and above will receive initial credit of \$500 with the govt making periodic top ups. Can be used on top of existing govt course subsidies to pay for a wide range of approved skills related courses.</p> <ul style="list-style-type: none"> - Workfare Skills Support <p>To encourage older workers to attend training to improve their skills by providing them with training allowance \$6 for each hour of training, up to 180h per WSS eligibility year</p>
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2. Supporting I in R&D and adoption of new tech

<p>Sponsor R&D in specific fields and provide incentive for private sector firms to do so thru <u>tax incentives and IP protection</u></p> <p>→ increase qty and qly of capital in eco</p> <p>→ increase potential o/p of eco</p>	<p>Limitations:</p> <ul style="list-style-type: none"> - <u>Long gestation period</u> for R&D projects - Government may <u>lack required capabilities and information to determine correct industries to assist</u> - Could lead to <u>high structural UnE</u> → low skilled workers displaced by technology do not have relevant skills to take up jobs in other sectors - Funding support is given only for pre-scoped pdtvy solns and equipment with prequalified vendors → <u>reduce ability to creatively solve pdtvy problems</u> - Extent of the increase in pdtvy is uncertain as firms <u>might not know how to qualify and apply for grant</u> - Many SME find it expensive to adopt new tech as involves high initial capital outlay → <u>may not be eco viable</u> 	<p>Examples:</p> <ul style="list-style-type: none"> - Productivity solutions grant <p>Initiative to support companies keen on adopting IT soln and equipment to enhance business processes and improve pdtvy. Allows companies to make LT tech I with up to 70% funding support</p> <ul style="list-style-type: none"> - Foreign worker policy
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Tight foreign worker policy

Tightening of foreign worker policies → increase foreign worker levy/ decrease dependency ratio ceiling/ tightening eligibility requirement for various employment passes → more difficult/ expensive to employ foreign workers → forces firms to focus on increase in productivity through R&D → increase qly/ qty of capital

(+) jobs redesign as workers switch from manual labour to usage of capital gds → increase labour productivity → increase qly labour

∴ Increase potential o/p

3. Provision and Maintenance of infrastructure

Well-developed infrastructure system

→ **lower operating cost** for biz + enhance efficiencies → encourage int companies to take longer term view of mkt by nestling their regional and international operations and capital-intensive hubs in the country → **higher level of I** → increase qty/ qly of capital → increase productive capacity of economy

4. Other business/ industrial policies

Measures:

1. Support for SMEs
2. Support for “infant industries”

Examples:

Enterprise development grant, Enhanced Startup SG Founder scheme, Pioneer Certificate Incentive

Support for SME

→ grants, low-interest loan, biz loans → **promote capital formation and efficiency** → increase qly and qty of capital → increases potential o/p

Support for “infant industries”

→ grants, subsidies, tax exemptions, tariffs that offer protection against import → **enables industry to grow** → increased **efficiency** → can produce more with each ut of resource → increase potential capacity of eco

Definitions:

- SSP are policies aimed to increase the potential o/p and hence contribute to a sustained or faster economic growth.
- Market Oriented policies focus on allowing markets to operate more freely with minimal government intervention to achieve growth in potential output.
- Interventionist policies are policies whereby the government plays an active role to encourage growth in potential o/p.
- Privatisation involves a transfer of ownership of a firm from the public to the private sector.
- Liberisation and deregulation involves the removal of barriers to entry into an industry and elimination or reduction of government regulation of private sector activities.
- Labour market reforms are sometimes referred to as increasing labour market flexibility or reducing labour market rigidities.
- A labour union is an organisation intended to represent the collective interests of workers in negotiations with employers over wages, hours and working conditions.
- UnE benefits are payments to workers who have lost their jobs.

Glossary of CSQ attempted

- Increase productivity (e.g. accumulation of physical and human capital) → FOP is more efficient (i.e. 1 unit of FOP can produce more g/s) → economy can produce more → productive capacity increase
- Inflexible labour mkt **limits** increase in (not decrease) LRAS
Regulations and requirement from trade union → firms less willing to increase pdtn and hire workers → lower level of I → hinder increase in qty/ qly of capital → limit increase in LRAS → impede economy from growing at higher rate

N.B. Inflexible labour market has effects on AD and SRAS also. Determine whether to discuss based on mark allocation.

Competitive position

- Can improve or deteriorate
- To describe relationship: positive or negative
Example: There is a negative relationship between competitiveness and unit labour cost.
- Causes
 - **Labour market reforms** → decrease labour cost → decrease cop → decrease price → increase price competitiveness
 - **Increase in pdtvy outweigh wage growth** → increase unit cop due to increase in wages less than decrease in unit cop due to increase in pdtvy → unit cop decrease → decrease price → increase price competitiveness
- **Increase productive capacity ≠ increase in competitiveness**- if due to increase in qty of FOP, depends on how efficient the additional unit of FOP is (assuming cp)

More on SG's FW policy...

Keeping proportion of FW stable:

Dependency ratio ceiling¹ → limit the number of foreign workers that firms can hire

Foreign worker levy² → increase cost of hiring FW → limit the number of FW that firms want to hire

Impacts of keeping proportion of FW stable:

<u>Increase productivity</u> (see pg 4)	<u>Increase wage of local wker</u> Increase DD for domestic labour → more local wker hired + increase wgs for local wkers (+) Jobs redesign → increase skill of local wkers → increase wgs since wkers can produce more	<u>Mitigate mkt failure</u> Restraint DD for infrastructure (e.g. transportation) → no need to increase frequency of public transportation services → less emissions and congestion → mitigate extent of mkt failure
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N.B. In the SR, this could increase cop, decrease SRAS, increase GPL, decrease NY and increase UnE.

Characteristics of changes to FW policy:

<u>Gradual</u> Firms have <u>time to make necessary adjustment</u> (e.g. improve pdtn technique through automation, redesign work procedures, train worker to increase pdtvty and find the optimal mix of labour and capital for their industry)	<u>Differ across industries</u> Certain industries have been relying on FW who are doing low skilled and repetitive jobs which can be easily replaced by automation → greater <u>room for pdtvty gains</u>	<u>Higher levy for low skilled wker</u> Higher skilled workers are more pdtv → can get the job done w/o greater strain on infrastructure → <u>encourages firms to employ higher skilled workers over lower skilled workers + send workers for training</u>
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¹ DRC sets out the maximum permitted ratio of FW to the total workforce that a company is allowed to hire.

² FWL is a tax imposed on the employer for each FW hired.