Institute of Policy Studies

Highlights from the 17th Singapore Economic Roundtable

28 May 2012

By IPS Economics and Business Cluster

Background on the Singapore Economic Roundtable

Started in 2003, the Singapore Economic Roundtable (SER) has successfully brought together a selected group of economists, academics, business leaders and policy-makers twice-yearly to discuss pertinent issues facing Singapore's position in the global economy. The SER assesses current monetary and fiscal policy in the light of changing economic conditions and also features a special topical session which looks at longer term structural challenges facing Singapore. Conducted along Chatham House rules of confidentiality, the SER provides a forum for experts to articulate their views and recommendations, and is intended to generate a frank and open exchange of ideas and concerns.

The 17th SER was convened on 28 May 2012 and featured four economists from the Monetary Authority of Singapore and the private sector among its panel of speakers to share their research and analysis of recent economic developments, macroeconomic outlook, and implications for policy-making in Singapore. The special focus session featured two academics invited to examine Singapore's urban transport framework. The presentations were followed by a series of fruitful discussions among the forty participants present.

Proceedings from the 17th SER will be documented in an IPS publication released later this year. A brief summary of key issues of interest surfaced during the 17th SER are provided here:

Several private sector economists want a shift in our monetary policy regime towards an interest rate based regime and towards a more transparent communications strategy.

1. The arguments for a change are:

   a. <u>Structural changes in the economy weaken the case for an exchange rate based regime:</u> There is a rising ratio of non-tradable prices to tradable prices, the weight of non-tradables in GDP is rising and non-tradable prices rather than tradable prices are now the primary drivers of inflation, compared to the past.

   b. <u>There is rising risk of a wage-price spiral that the current regime cannot manage:</u> A labour supply shock combined with rising government spending and massive excess global liquidity will further raise inflationary pressures. An exchange rate based regime is less effective in combating this inflation as it will work indirectly and involve more costs. Tightening monetary conditions via an appreciating exchange rate will only cause negative real interest rates, which will fuel asset inflation in the property sector. Macro-prudential measures to counter the constraints of the exchange rate policy regime were not seen as sufficiently effective.

c. Shift towards interest rate policy but with complementary strategies: Interest rate policy would have a stronger influence on reducing inflationary pressures. The move has to be complemented with policies to improve productivity, reduce the cost of non-tradables, greater integration with neighbouring countries, and addressing disproportionate profit margins with more aggressive competition policies.

2. Several participants disagreed with this view, arguing that:

   a. Supply shocks are temporary and will be resolved in coming years: Current inflation is primarily driven by bottlenecks in housing and private transport which are being addressed. It is thus premature to say that the existing regime is not working.

   b. Costs of a switch will be high: Moreover, a switch to an interest rate based regime may well entail a damaging rate of currency appreciation. Capital controls might be necessary in order to make it practicable to control interest rates and this could hurt the financial centre. Others argued that the risks of a wage-price spiral were exaggerated since the poor outlook for global demand would help reduce the output gap while adjustments in the corporate sector needed to accommodate higher wages and other costs would also be disinflationary in the longer term.

3. Central Bank communication is essential for policy effectiveness: Clearer communication enhances the effectiveness of monetary policy: policy decisions become more predictable and this helps ensure that inflation expectations react appropriately, leading to better management of inflation in the long run.

The hard-nosed bargain underpinning management of our urban transport system needs to be changed.

4. The presenters found several weaknesses in the current urban transport framework: The "hard-nosed bargain" of restricting vehicle ownership and pricing road usage in exchange for smoother traffic and less congestion is facing tensions. An excessive focus on speed comes at the expense of other important objectives such as space efficiency, the safety of walking or cycling, attractiveness of public transportation and the sanctity of streets as places. Moreover, there has been an excessive focus on the mass rapid transit (MRT) system as the key competitor to private car ownership. On its own, even a massively expanded MRT will have trouble competing with the car-owning lifestyle.

5. Traffic flows should be seen as a means and not as an end in itself: The main objective of traffic flows must be to allow motorists and commuters to travel with ease and to allow them easy access to their destinations.

6. There should be a new and more positive bargain: First, we need to transcend our speed focus, accepting that speed can be sacrificed for other compelling objectives. Second, the aim of public transport policy should be to ensure that not owning a car remains an excellent mobility choice. An ambitious strategy of enhancing 'connectivity' in public

transport is needed. Building bus-stops closer to connecting junctions coupled with an increase in bus frequencies plying the main routes will provide commuters with the ease of transfers, and reduce waiting time. This would increase the demand for public transport. Third, we need to make car ownership less special.

7. Choice architecture should be used to guide people to make better choices: Behavioural economics suggests that commuters' decision-making processes are complex and not entirely rational. An improved "choice architecture" would take into account the way information is designed and the context in which it is conveyed as factors that can alter the perception of individuals. Better use should be made of mechanisms such as traveller information services, environmental cost education, smart meters and road pricing.

8. Alternatives to reduce traffic congestion: School and working hours could be varied to alleviate peak hour congestion. Having smaller schools near specific neighbourhoods would also reduce the need to travel far. An alternative to electronic road pricing (ERP) could be a system that allocates "travel credits" measuring the usage of cars by distance, which could provide a more equitable option. Discounts for commuters who travel before or after peak hours are another example of how rewards can be monetised to incentivise commuter behaviour.

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If you have comments or feedback, please email ips.enews@nus.edu.sg

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