

The 22nd Singapore Economic Roundtable

By *IPS Economics and Business Cluster*

The 22nd Singapore Economic Roundtable ([SER](#)) took place on 4 November 2014 to assess Singapore's monetary and fiscal policies and longer-term structural challenges facing the economy. Three economists from the Monetary Authority of Singapore and the private sector analysed recent economic developments, provided a macroeconomic outlook and shared implications for policymaking in Singapore. In addition, a public policy professor, a consultant who specialises in public infrastructure and a public transport practitioner discussed the sustainable delivery of public goods. The presentations were followed by discussions among the participants.

Proceedings from the 22nd SER, which was conducted under Chatham House rules, will be documented in an Institute of Policy Studies (IPS) publication. Here is a brief summary of the issues surfaced during the meeting:

SESSION 1: ECONOMIC OUTLOOK AND IMPLICATIONS FOR POLICY

Singapore Faces Challenges in the Global Economy

Global growth in the first half of 2014 was uneven. While growth in US and Asia (excluding Japan) accelerated, there continues to be rising concern about developed economies like Japan and the Eurozone facing a prolonged period of slow growth. Higher structural unemployment in the Eurozone has heightened the risk of hysteresis in the labour markets.

However, Asia's medium-term outlook remains positive, with reforms in China and India likely to have a positive impact on potential growth. ASEAN's longer-term prospects also remain favourable; the region is reaping a demographic dividend, and is also well-positioned to benefit from the ongoing shift of labour-intensive production out of China.

Three key long-term challenges that confront global policymakers are:

- 1) Tackling economic stagnation to achieve growth and jobs needed for prosperity and social harmony.
- 2) Maintaining stability and avoiding fragility in a world with increasing global financial linkages, by adjusting monetary policy and using macro-prudential measures to balance between economic and financial risk-taking.

- 3) Fostering solidarity through strengthening cooperation and multilateralism between countries. In order to achieve this goal, issues like fiscal regimes, monetary regimes and taxation — all of which have transnational implications — need to be discussed on the international level.

Notwithstanding a substantial rebuilding of financial position by banks both in the US and Europe, there remains fragility in the global financial system. In order to be better positioned to support economic recovery through lending, banks — in particular those in Europe — need to restructure their business model.

Another implication of increased regulatory burden on banks is the shift of financial intermediation to shadow banking. As banks pull away from market-making activities, market depth is reduced. In addition, the concentration of investment held by mutual funds, retail investors, Exchange Traded Funds — all of which are more prone to redemption — increases, causing some level of liquidity mismatch. As a result, market reactions to global developments could be exacerbated, and would have global spillovers that may be quite marked for emerging markets in particular.

Singapore's strong fiscal position and the availability of monetary policy tools would help it cope with the external risks of a surge in global financial volatility, reversal of capital flows and abrupt changes in asset prices caused by a faltering global recovery or disorderly unwinding of imbalances in China.

While Singapore's potential growth is expected to moderate to 4%, it is still one of the highest among advanced economies. In order to offset the effects of lower labour force growth on potential Gross Domestic Product (GDP) growth, it is critical to maintain capital deepening and increasing productivity. As such, the ability to sustain long-term growth is predicated on the success of structural reforms.

Nonetheless, efforts to strengthen the social safety net should continue. Government policies have helped reduce inequality here, but Singapore's ageing population will challenge ongoing structural reforms.

Cyclical Prospects

Manufacturing companies will continue to respond to resource constraints by diversifying into higher-value production and services, which is reflected in the increase in capital and skill intensity in the export basket.

Singapore continues to hold competitive advantage in exportable services and is ranked favourably amongst regional competitors in services exports. In particular, growth in financial and information and communication technology (ICT) exports has exceeded that of Taiwan, South Korea and Hong Kong. Meanwhile, firm underlying demand will provide support to domestic-oriented sectors.

Employment growth slowed as inflows of foreign labour eased. The persistent tightness in the labour market has led to sustained wage pressures and the continued pass-through of costs to consumer prices. Looking ahead, the labour market should remain tight in part due

to ongoing infrastructure development and investment in social services. This will support wage growth, especially in the non-tradable industries. However, cost pass-through could remain constrained for items with demand conditions that are less favourable.

Long-Term Domestic Challenges Remain a Concern

The financial sector has become Singapore's engine of growth in the new millennium. There are views that Singapore's financialisation is more geared towards the boom-bust profile of Hong Kong and New York rather than Switzerland's model of financial-centred activity, in part because Singapore lacks the thorough social security umbrella and network that continental European countries have. Hence, the focus for Singapore should be more on diversifying the economy away from excessive reliance on financialisation than on curtailing foreign labour inflows.

The global GDP growth of more than 4% in the pre-financial crisis years is considered unsustainable, and if global growth comes in below this number, Singapore's growth would invariably be affected. Instead of chasing after high economic growth, Singapore should focus on addressing inequality and maintaining social cohesion.

Pushing for Productivity Growth

The end goal of productivity growth is welfare growth. However, productivity growth is mediated by both cyclical and structural factors and the effects will only become more apparent over time. In particular, certain structures inherent to service industries — like the need for human touch — slow down the process of increasing productivity.

Productivity growth could be achieved either through the substitution of capital for labour or via the acquisition of skills by workers. The former would destroy jobs, decrease wages, and exacerbate inequality but human capital development would improve the bargaining position of workers and help raise their wage and welfare. The way productivity is measured should also be reviewed. The current standard, labour productivity, measures the output per worker. But it does not control for other factors that affect output like cyclical demand and changes in product quality. Policymakers should engage the public, especially businesses, to identify other forms of indicators that could be used to measure productivity.

SESSION TWO: SUSTAINABLE MODEL FOR PUBLIC GOODS

The Symbiotic Role of Governments and Markets

There is a strong case for "hybrid" tools combining markets and governments, because keeping them separate could lead to problems that necessitate corrective measures. A mix of pragmatism and innovative policymaking is recommended. Astute governments employ a combination of the two with the explicit purpose of offsetting their respective disadvantages while accentuating their advantages.

However, numerous factors affect the ability to experiment with different policy mixes.

For instance, policy options on public good provision are often curtailed by budget constraints. Singapore's large fiscal surpluses grant it the ability to invest in transport infrastructure, and hence it can try different policy choices and mixes.

The social compact between government and the citizen is also important for facilitating policy innovation. The wide-ranging influence of Singapore's government — a result of the social compact — in public infrastructure decisions enables it to sidestep many legal inconveniences, making policy innovation easier to implement.

In addition, the separation of politics and policymaking also improves the agility and adaptability to react to emerging challenges in the provision of public goods.

Challenges in Singapore's Healthcare

Singapore has a good healthcare system, with low costs and effective outcomes. This is a result of practical innovations combining both government and market tools in healthcare in Singapore.

However, this system may not be equipped to deal with impending challenges. The policy mix in the healthcare system is focused on the "public" component, and this has led to a fragmented healthcare system as private providers are not subject to the controls directed at public providers of healthcare. In addition, the reluctance expressed towards more comprehensive insurance and the heavy reliance on out-of-pocket payments undermine protection for the citizens.

The priorities of the system between cost effectiveness, quality and equity, have to be reviewed on a regular basis, reflecting the dynamic nature of optimal policy mix in the provision of public goods.

Delivery of Public Transportation in Singapore

In terms of delivering an overall public transportation system, Singapore has yet to achieve optimal policy mixes. However, the government's approach is pragmatic, using a push-pull policy approach to address the challenges of transport demand management. Without policy measures aimed at controlling car ownership and usage, the development of public transport system alone will not provide sufficient incentives for car users to switch to public transport. Vice versa, any system that places restrictions on mobility by private vehicles needs to offer acceptable alternatives.

Two measures, road pricing under the Electronic Road Pricing (ERP) system and the control of car ownership via the vehicle quota system, are employed to change consumer behaviour. At the same time, vast improvements to public transport have also been made. However, a proper balance between the two policies — push and pull — has yet to be attained.

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