

PJC 2017 H2 Prelim Exam Paper 2

Question 5:

In the US, Japan, UK and much of Europe, there has been no increase in real incomes over the last decade for the median household. This reflects both the intense global competition and the forces of technology that are challenging a growing range of jobs. Singapore faces the same global realities and challenges.

Source: Singapore Budget 2015

- a) Explain the impact of global competition and technological advancement on a country's aim in achieving inclusive growth. [10]
- b) Assess the use of fiscal policy by the Singapore government to achieve inclusive and sustainable growth. [15]

- a) Explain the impact of global competition and technological advancement on a country's aim in achieving inclusive growth. [10]**

Inclusive Growth		
Growth that takes into account income distribution		
Global competition	Global competition	Technological advancement
Results in a loss of CA for declining industries → DD for workers in these declining industries fall → wages fall → if these workers do not fall the relevant skills to move to other growing industries → rising structural unemployment → affects ability of country to achieve inclusive growth	Countries that are less competitive due to higher cost and lower productivity will experience fall in exports and investment → economic growth falls → less tax revenue for government to redistribute income → affects aim of achieving inclusive growth	Results in unskilled workers being made redundant → if these workers cannot upgrade their skills → will not be able to work in the new industries created by the new technology → rise in structural unemployment of the less skilled → affects ability of country to achieve inclusive growth

Question:

In the US, Japan, UK and much of Europe, there has been no increase in real incomes over the last decade for the median household. This reflects both the intense global competition and the forces of technology that are challenging a growing range of jobs. Singapore faces the same global realities and challenges.

Source: Singapore Budget 2015

(b) Assess the use of fiscal policy by the Singapore government to achieve inclusive and sustainable growth.

[15]

Fiscal policy can be used to achieve inclusive growth and sustainable growth

- Inclusive growth indicates a rate of growth that is sustained over a period of time, is broad-based across economic sectors, and creates productive employment opportunities for the majority of the country's population. In the case of Singapore, inclusive growth implies economic growth that takes income distribution into consideration and does not contribute to worsening income inequality.
- Sustainable growth indicates a rate of growth that can be maintained without creating other significant economic problems (such as depleted resources and environmental problems), particularly for future generations. It implies a positive and stable growth rate over an extended period of time. This will involve a country pursuing not only actual but potential growth taking into consideration the impact on environment as well.

<u>Examples of FP</u>	<u>Support</u>	<u>Question</u>
Progressive tax system – higher income earners pay a proportionately higher tax, with the current highest personal income tax rate at 22%	Through a progressive tax system, income is being redistributed from the higher income workers to lower income workers. The tax revenue collected is used to help the lower income people through schemes such Pioneer Generation Package, Wage Credit Scheme etc.	If the tax system is too progressive, it can affect incentive to work and result in brain drain, which will affect our AS and ability to sustain growth.
Low/competitive corporate tax rate – maintains a low corporate tax rate of 17%	Through adopting a low and competitive corporate tax rate, this will increase the expected returns of investment and hence leads to a higher level of investment in Singapore. This will bring about higher AD and AS leading to sustained economic growth necessary for a sustainable growth.	This is only one factor affecting investment. We will also have to ensure other factors affecting investment are present, e.g. competitive wage cost, low business cost such as rentals and utilities, ease of access to the rest of the world
Government spending on R&D E.g. Research Innovation Enterprise 2020 Plan	Spending on R&D promotes innovation which is important to increase our export competitiveness and	Costly and uncertain results. Government needs to ensure that the money is well spent to result in higher

<p>(RIE2020) seeks to support and translate research into solutions that address national challenges, build up innovation and technology adoption in companies, and drive economic growth through value creation.</p>	<p>increase our export earnings, thus leading to higher AD and economic growth.</p> <p>Spending on R&D e.g. to promote renewable energy helps to reduce environmental problem so that we can achieve sustainable growth</p>	<p>productivity</p>
<p>Government spending on retraining e.g. SkillsFuture which aims to ensure a competitive and career resilient workforce. It enables working adults, regardless of their starting qualifications, to continue to build and deepen their skills and competencies, throughout their lives.</p>	<p>This reduces occupational immobility and helps workers to stay relevant in view of changing demands in the job markets. As a result, it allows workers in all sectors to remain relevant and generate stable incomes and promote productivity growth which is essential for inclusive growth.</p>	<p>Subject to receptiveness of workers to go for the retraining schemes.</p> <p>Employers must also be open to employing older workers who undergo retraining.</p>
<p style="text-align: center;">Evaluation</p> <p style="text-align: center;">FP in Singapore important in achieving both inclusive and sustainable growth</p> <p style="text-align: center;">But be complemented with other policies such as exchange rate policies, free trade agreements, wage policies etc.</p>		