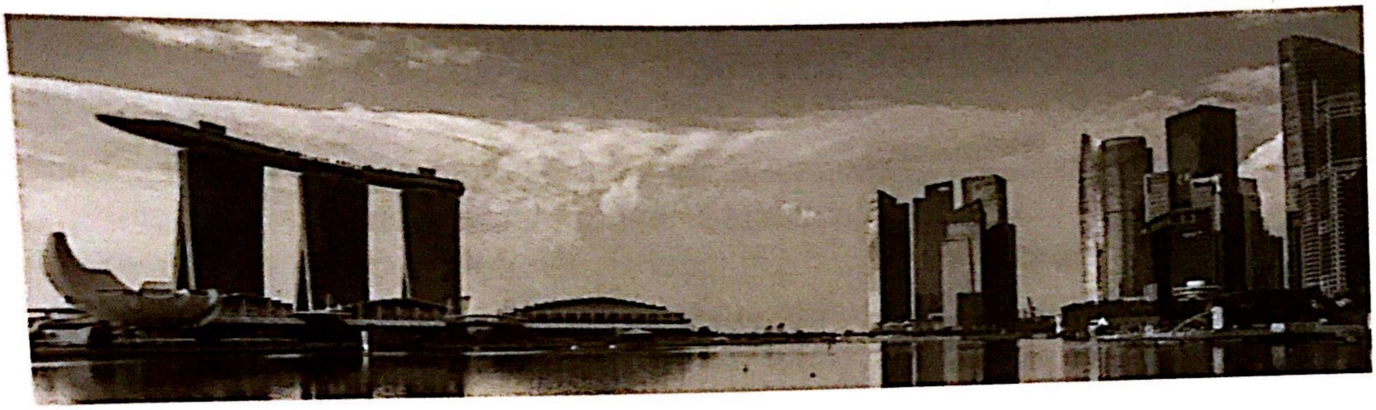
TITTLE: EVALUATE THE UMEMPLOYMENT IN SINGAPORE AND THE GOVERNMENT'S MACROECONOMIC POLICIES



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Introduction of Unemployment

Unemployment is a term referring to individuals who are employable and seeking a job but are unable to find a job. Furthermore, it is those people in the workforce or pool of people who are available for work that does not have an appropriate job. Usually measured by the unemployment rate, which is dividing the number of unemployed people by the total number of people in the workforce, unemployment serves as one of the indicators of an economy's status.

The definition of an unemployed person is someone of working age (16 and up), jobless, able and available to work, and actively looking for a job. This means anyone without a job who is reaching out to contacts about jobs or applying to positions.This definition of unemployment is specific and rigid—it doesn't just include "anyone who doesn't have a job."

The term "unemployment" can be tricky and often confusing, but it certainly includes people who are waiting to return to a job after being discharged. However, it does not anymore encompass individuals who have stopped looking for a job in the past four weeks due to various reasons such as leaving work to pursue higher education, retirement, disability, and personal issues. Even people who are not actively seeking a job anywhere but actually want to find one are not considered unemployed.

Interestingly, people who have not looked for a job in the past four weeks but have been actively seeking one in the last 12 months are put into a category called the "marginally attached to the labor force." Within this category is another category called "discouraged workers," which refers to people who have lost all their hope of finding a job.

Unemployment is a hot-button issue across many of the world's economies, and many governments use unemployment rates to determine everything from economic stability to citizen satisfaction.

On the other hand, an employed person is very simply defined as someone with a job. A job can include anything from doing full-time work to doing part-time work to being self-employed.Both unemployed and employed people make up the "labor force," or the subset of the population that is both able and interested in working. Not included in the labor force are citizens not looking for jobs—for example, a stay-at-home mom, a college student, or a "discouraged worker" (someone who has stopped looking for work because they believe no work is available).

Causes of Unemployment

Unemployment is caused by various reasons that come from both the demand side, or employer, and the supply side, or the worker.

From the demand side, it may be caused by high interest rates, global recession, and financial crisis. From the supply side, frictional unemployment and structural employment play a great role.

There are four main types of unemployment in an economy:

(1) Frictional unemployment

(2) Structural unemployment

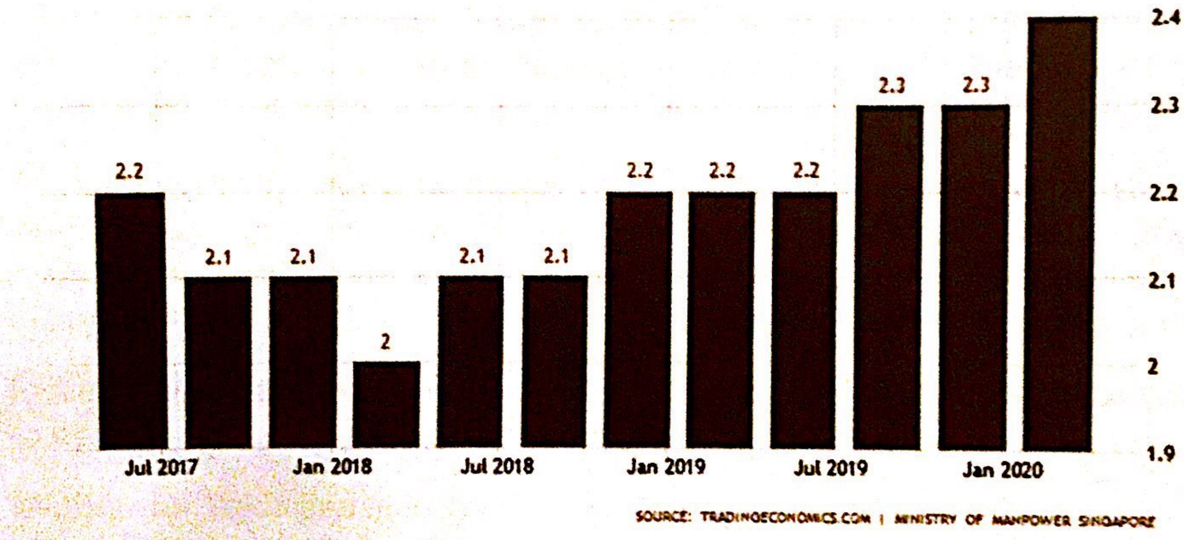
(3) Cyclical unemployment

(4) Seasonal unemployment

1. **Frictional unemployment.** Frictional unemployment is caused by temporary transitions in workers' lives, such as when a worker moves to a new city and has to find a new job. Frictional unemployment also includes people just entering the labor force, such as freshly graduated college students. It is the most common cause of unemployment, and it is always in effect in an economy.
2. **Structural unemployment**. Structural unemployment is caused by a mismatch in the demographics of workers and the types of jobs available, either when there are jobs available that workers don't have the skills for, or when there are workers available but no jobs to fill. Structural unemployment is most obvious in industries undergoing technological advancements. For example, in the farming industry, much of the work is becoming mechanized, which means that fewer farmers are needed and many are let go. When these farmers go to cities to find work, they may find no other similar jobs in which to apply their skills.
3. **Cyclical unemployment**. Cyclical unemployment is caused by declining demand: when there is not enough demand in an economy for goods and services, businesses cannot offer jobs. According to Keynesian economics, cyclical unemployment is a natural result of the business cycle in times of recession: if all consumers become fearful at once, consumers will attempt to increase their savings at the same time, which means there will be a decrease in spending, and businesses will not be able to employ all employable workers.
4. **Seasonal unemployment.** Seasonal unemployment is caused by different industries or parts of the labor market being available during different seasons. For instance, unemployment goes up in the winter months, because many agricultural jobs end once crops are harvested in the fall, and those workers are left to find new jobs.

Unemployment Rate in Singapore

Singapore's seasonally adjusted inched higher to 2.4 percent in the first quarter 2020 from 2.3 percent in the previous period and in line with the preliminary estimate. This was the highest jobless rate since the September quarter of 2009, amid worsening labor market conditions due to the coronavirus pandemic. The jobless rate rose for both residents (3.3% vs 3.2% in Q4) and citizens (3.5% vs 3.3%). Total employment fell by 25,600 in the March quarter, the sharpest quarterly contraction on record due to a significant fall in foreign employment. The number of retrenchments rose to 3,220 in the first quarter from 2,670 in the December quarter, largely due to sectoral downturn or poor business.



When there are not enough workers, firms are forced to hire anyone who is available. This means that employers may not select the best applicants but rather anyone who applies. This leads to lower productivity, because workers are not finding the job for which they are best suited. Companies may also have to offer wages that are so high that they also lead to a rise in prices and thus, to a higher inflation.

Singapore has a small, open economy. It has the highest gross domestic product (GDP) per capita in the region, indicating that it is an advanced economy. This is largely due to the small population, which is almost entirely urban. As such, its workforce may be better matched to employer needs, which would reduce the natural level of unemployment.

The overall unemployment rate in Singapore rose to a decade high of 2.4% in Q1 2020 as total employment, excluding foreign domestic workers, shrank by 25,600 in the first quarter, the largest quarterly contraction on record.

According to the Ministry of Manpower's (MOM) latest labour market report, 1,537 local employees were affected by business closures in Q1 2020, which is more than double the 628 from the previous quarter. In April alone, about 3,800 companies were forced to close down in Singapore because of the COVID-19 pandemic.

An additional 4,190 employees were placed on shorter work hours or furloughs, which represented a five-fold increase from the 840 in the preceding quarter.

Retrenchments increased from 2,670 to 3,220 in the first quarter, with the unemployment rate among Singapore citizens rising from 3.3 to 3.5%. Among residents, or Singapore citizens and permanent residents, the figure rose from 2.3 to 2.4%.

The construction, trade and tourism-related industries were among those most impacted by reductions in employment, while the number of people employed in F&B, construction and retail trade saw the sharpest employment declines, falling by 8,300, 5,800 and 5,400 respectively in the January to March period.

Earlier, the Singapore government had pledged to create 100,000 jobs in 2021 to help Singaporeans cope with the impact of the COVID-19 pandemic.

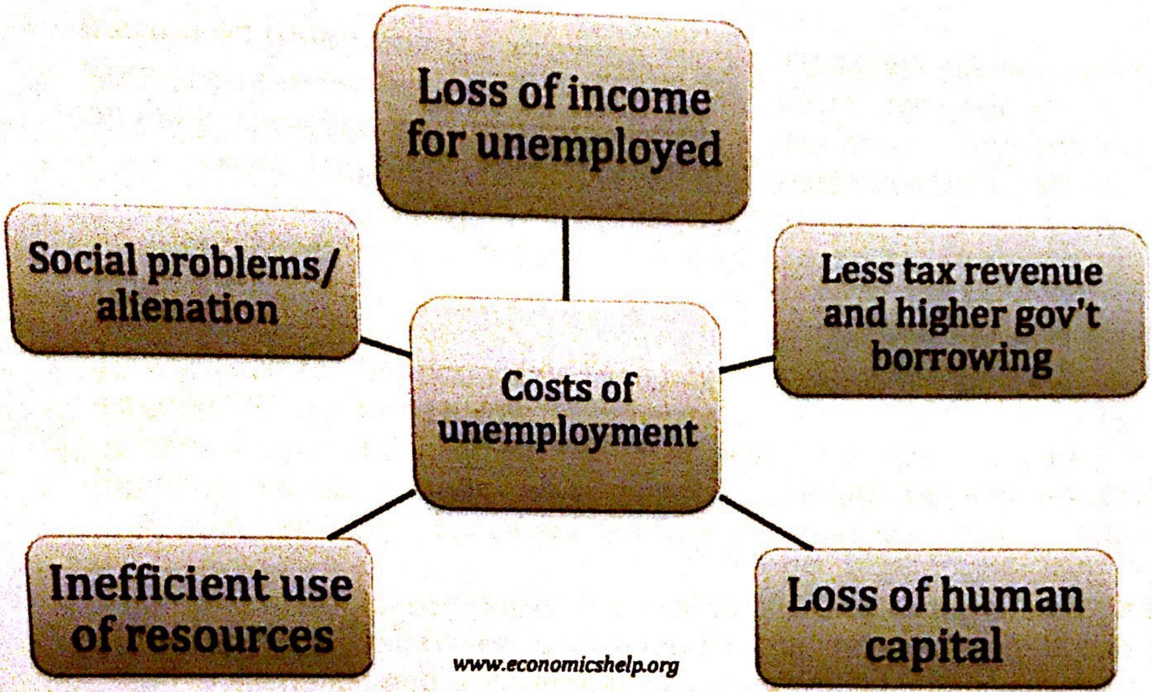
Minister for Trade and Industry Chan Chun Sing, said, "We will work hard to make sure everyone who wants a job can get a job. So long as you are able and willing, we will support you."

That would mean making up the current shortfall in available jobs, where there are only seven openings for every 10 unemployed people. 46,300 job vacancies were available in March 2020, compared to 52,700 in December 2019.

Among the industries that have registered employment growth in Q1 2020 include public administration and education, as well as professional and financial services, amongst others.

To date, Singapore's COVID-19 support measures have amounted to nearly S$100 billion, including the $33 billion Fortitude Budget introduced in May, which focuses on keeping workers employed and creating new jobs.

Effect of Unemployment



- **Loss of earnings to the unemployed.** Prolonged periods of unemployment can push households into debt and increase rates of relative poverty.

- **Potential homelessness.** Loss of income can leave people without sufficient income to meet housing costs. Rises in unemployment often exacerbate the rates of homelessness.

- **Harms future prospects.** Those who are unemployed will find it more difficult to get work in the future (this is known as the hysteresis effect)

- **Lost human capital.** If people are out of work, they miss out on 'on the job training' This is a vital component of human capital and labour skills; high rates of unemployment can reduce labour productivity. If someone is out of work for two years, they miss out on the latest working practices and trends. Being unemployed can also affect the confidence of the unemployed and they become less employable in the future.

- **Stress and health problems of being unemployed.** Amongst studies of unemployed men, signs of depression, mental anxiety, and health problems are noticeably higher. (Effects of unemployment on health (US Library of Health) According to a study by Gallup, "About one in five who have been unemployed for a year or more say they currently have or are being treated for depression — almost double the rate among those who have been unemployed for five weeks or less."

- Another study found that common outcomes of unemployment include depression, substance abuse, admissions to psychiatric hospitals, death by suicide, and violence.

- **Increased government borrowing.** Higher unemployment will cause a fall in tax revenue because there are fewer people paying income tax and also spending less (hence lower VAT). Also, the government will have to spend more on unemployment and related benefits. The government doesn't just pay unemployment benefit, but a family who has unemployment will be more likely to receive housing benefit and income support.

- **Lower GDP for the economy.** High unemployment indicates the economy is operating below full capacity and is inefficient; this will lead to lower output and incomes. The unemployed are also unable to purchase as many goods, so will contribute to lower spending and lower output. A rise in unemployment can cause a negative multiplier effect.

- **Increase in social problems.** Areas of high unemployment (especially youth unemployment) tend to have more crime and vandalism. It can lead to alienation and difficulties in integrating young unemployed people into society.

- **Political instability.** The period of mass unemployment in the 1930s led to social unrest. In Germany, an unemployment rate of 6 million was an important factor in the rise of Hitler and the Nazi party.

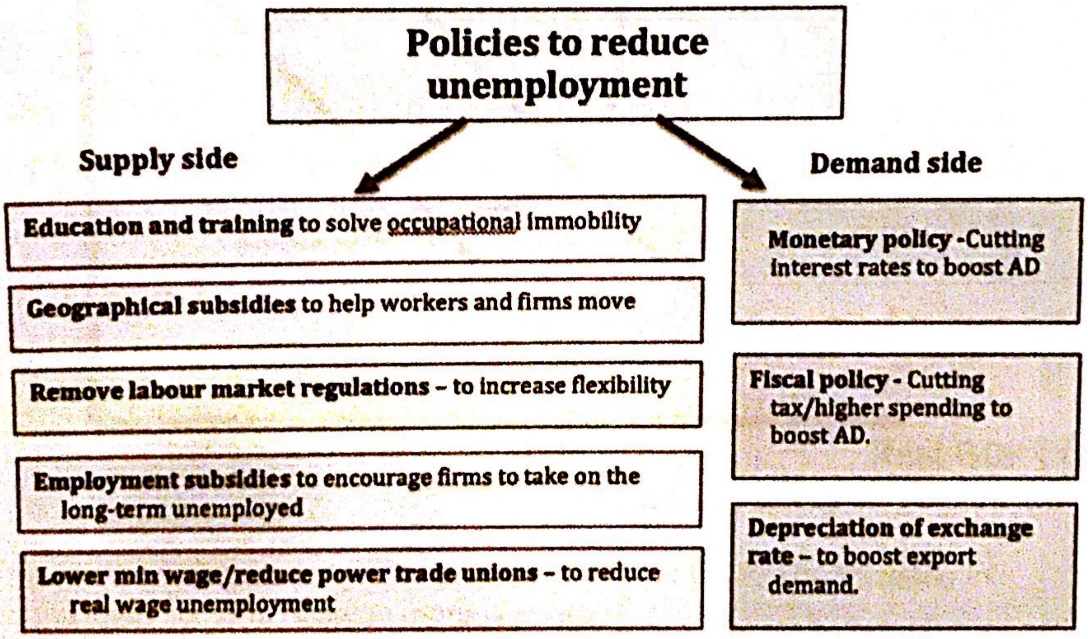
Policies to reduce Unemployment

There are two main strategies for reducing unemployment –

- Demand side policies to reduce demand-deficient unemployment (unemployment caused by recession)
- Supply side policies to reduce structural unemployment / (the natural rate of unemployment)

A quick list of policies to reduce unemployment

1. Monetary policy – cutting interest rates to boost aggregate demand (AD)
2. Fiscal policy – cutting taxes to boost AD.
3. Education and training to help reduce structural unemployment.
4. Geographical subsidies to encourage firms to invest in depressed areas.
5. Lower minimum wage to reduce real wage unemployment.
6. More flexible labour markets, to make it easier to hire and fire workers.



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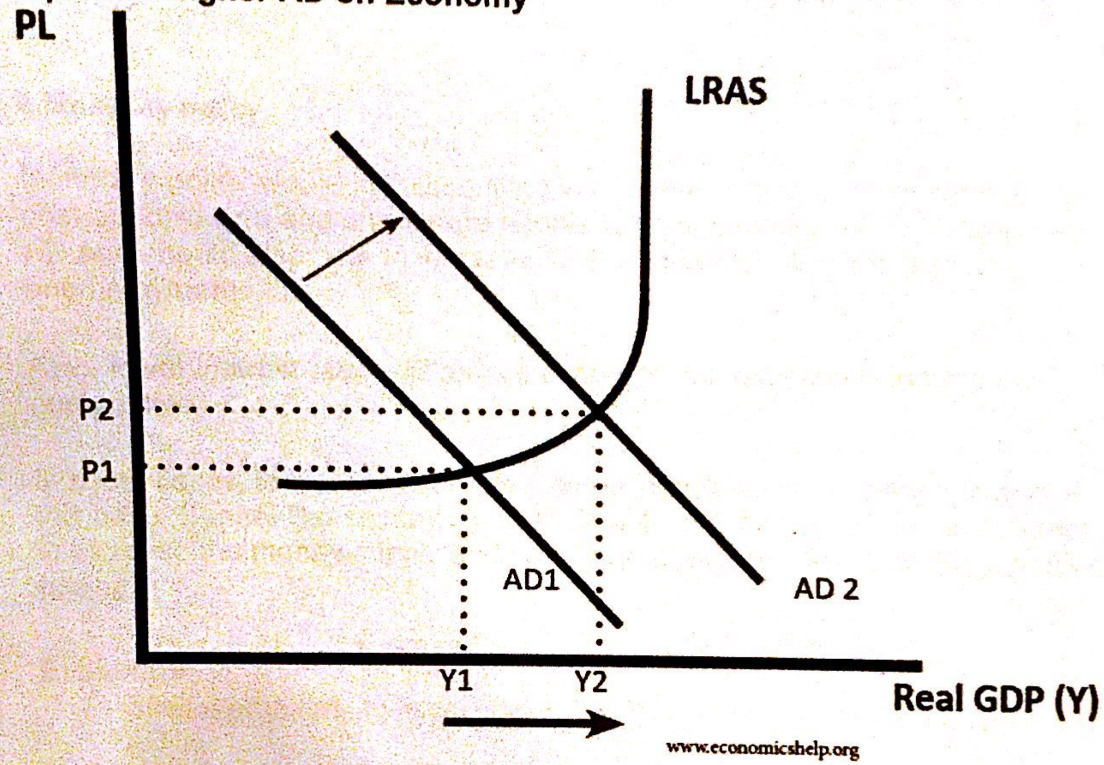
1. Fiscal Policy

Fiscal policy can decrease unemployment by helping to increase aggregate demand and the rate of economic growth. The government will need to pursue expansionary fiscal policy; this involves cutting taxes and increasing government spending. Lower taxes increase disposable income (e.g. VAT cut to 15% in 2008) and therefore help to increase consumption, leading to higher aggregate demand (AD).

With an increase in AD, there will be an increase in Real GDP (as long as there is spare capacity in the economy.) If firms produce more, there will be an increase in demand for workers and therefore lower demand-deficient unemployment. Also, with higher aggregate demand and strong economic growth, fewer firms will go bankrupt meaning fewer job losses.

Keynes was an active advocate of expansionary fiscal policy during a prolonged recession. He argues that in a recession, resources (both capital and labour) are idle. Therefore the government should intervene and create additional demand to reduce unemployment.

Impact of Higher AD on Economy



This shows an increase in AD causing higher real GDP. The increase in output leads to firms needing more workers.

However,

1. It depends on other components of AD. e.g. if confidence is low, cutting taxes may not increase consumer spending because people prefer to save. Also, people may not spend tax cuts, if they will soon be reversed.
2. Fiscal policy may have time lags. E.g., a decision to increase government spending may take a long time to affect aggregated demand (AD).

3. If the economy is close to full capacity, an increase in AD will only cause inflation. Expansionary fiscal policy will only reduce unemployment if there is an output gap.
4. Expansionary fiscal policy will require higher government borrowing – this may not be possible for countries with high levels of debt, and rising bond yields.
5. In the long run, expansionary fiscal policy may cause crowding out, i.e. the government increase spending but because they borrow from the private sector, they have less to spend, and therefore AD doesn't increase. However, Keynesians argue crowding out will not occur in a liquidity trap.

2. Monetary policy

Monetary policy would involve cutting interest rates. Lower rates decrease the cost of borrowing and encourage people to spend and invest. This increases AD and should also help to increase GDP and reduce demand deficient unemployment.

Also, lower interest rates will reduce exchange rate and make exports more competitive.

In some cases, lower interest rates may be ineffective in boosting demand. In this case, Central Banks may resort to Quantitative easing. This is an attempt to increase the money supply and boost aggregate demand. See: Quantitative easing.

Evaluation

- Similar problems to fiscal policy. e.g. it depends on other components of AD.
- Lower interest rates may not help boost spending if banks are still reluctant to lend.
- Demand side policies can contribute to reducing demand deficient unemployment e.g. in a recession. However, they cannot reduce supply side unemployment. Therefore, their effectiveness depends on the type of unemployment that occurs.

Supply side policies for reducing unemployment

Supply side policies deal with more micro-economic issues. They don't aim to boost overall aggregate demand but seek to overcome imperfections in the labour market and reduce unemployment caused by supply side factors. Supply side unemployment includes:

- Frictional

- *Structural*
- *Classical* (real wage)

Policies to reduce supply side unemployment

1. Education and training. The aim is to give the long-term unemployed new skills which enable them to find jobs in developing industries, e.g. retrain unemployed steel workers to have basic I.T. skills which help them find work in the service sector. – However, despite providing education and training schemes, the unemployed may be unable or unwilling to learn new skills. At best it will take several years to reduce unemployment.

2. Reduce the power of trades unions. If unions can bargain for wages above the market clearing level, they will cause real wage unemployment. In this case reducing the influence of trades unions (or reducing Minimum wages) will help solve this real wage unemployment.

3. Employment subsidies. Firms could be given tax breaks or subsidies for taking on long-term unemployed. This helps give them new confidence and on the job training. However, it will be quite expensive, and it may encourage firms to just replace current workers with the long-term unemployment to benefit from the tax breaks.

4. Improve labour market flexibility. It is argued that higher structural rates of unemployment in Europe is due to restrictive labour markets which discourage firms from employing workers in the first place. For example, abolishing maximum working weeks and making it easier to hire and fire workers may encourage more job creation. However, increased labour market flexibility could cause a rise in temporary employment and greater job insecurity.

5. Stricter benefit requirements. Governments could take a more pro-active role in making the unemployed accept a job or risk losing benefits. After a certain period, the government could guarantee a public sector job (e.g. cleaning streets). This could significantly reduce unemployment. However, it may mean the government end up employing thousands of people in unproductive tasks which is very expensive. Also, if you make it difficult to claim benefits, you may reduce the claimant count, but not the International Labour force survey. See: measures of unemployment

6. Improved geographical mobility. Often unemployed is more concentrated in certain regions. To overcome this geographical unemployment, the government could give tax breaks to firms who set up in depressed areas. Alternatively, they can provide financial assistance to unemployed workers who move to areas with high employment. (e.g. help with renting in London)

7. Maximum working week. It has been suggested a maximum working week of (for example 35 hours) would lead to firms needing to hire more workers and reduce unemployment.

- However, a maximum working week may increase a firms costs and therefore they are not willing to hire more. Also, there is no certainty a firm will respond to a cut in hours by employing more – they may try to increase productivity. Those with wrong skills will still face same problem.

Conclusion

Unemployment is a popular problem in every town and city. Fortunately until now, Singapore still maintain in a good and stable condition. However, still have a portion of people which is in difficult condition still did not get a job. So, the government should continue to make some measures and change some policies to reduce the unemployment rate of Singapore. Everyone has the right to be treated fairly, whether it is an elderly person or a teenager.

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