

4. In its report dated 1 February 2010, the Economic Strategies Sub-committee on Fostering Inclusive Growth stated that 'only productivity-driven growth can deliver sustainable and inclusive economic development'.

Assess the validity of this statement.

[25]

Suggested Approach for Q4

Setting the context (introduction)

- The statement by the Economic Strategies Sub-committee (ESS) on Fostering Economic Growth is all about growing the level of productivity in Singapore to drive growth forward. This is important given the smallness of our economy and hence our tight resource constraints.
- While a country can grow its national output by increasing quantity or quality of resources, the severe lack of natural resources in Singapore compels us to depend on productivity gains to sustain growth. This is a strong concern for the Singapore government, given the productivity declines in recent years (which compared with already slow gains averaging 1% in 2000-2010) due to heavier reliance on labour inputs (largely foreign) to generate economic growth.

UNPACKING KEY TERMS/ PHRASES

Productivity = efficiency with which inputs are converted into output. Expressed as output per unit of input.

Higher productivity → firms produce greater output for the same level of input (or same output with less input) → a fall in unit cost → can charge lower prices for its products → higher revenue (PED>1) and/or higher profits.

Productivity-driven growth = the case when a country's economic growth is achieved via an improvement in quality of resources rather than an increase in the quantity of resources.

Economic development covers both growth + welfare values.

Economic growth = increase in national output **but ...**

Economic development = economic growth + improvement in quality of life (usually measured by HDI); has direct relationship with environmental issues.

Economic devt. that is sustainable = economic growth that a country can maintain over an extended period of time, without creating other significant economic problems (e.g. depleted resources and environmental harm) for the future generations

Economic devt. that is inclusive = economic growth that is broad-based across economic sectors, creates productive employment opportunities for majority of the population, and higher SOL for all

Analysis

Thesis argument: Productivity gains can deliver sustainable and inclusive economic development ...

Counter argument 1: Productivity-driven growth does not always bring about sustainable and inclusive economic development ...

Counter argument 2: Although necessary, productivity gains alone will not be able to deliver sustainable and inclusive economic development ...

Synthesis: give overall judgement on whether it is a valid (sound or logical) claim that productivity growth alone can deliver sustainable and inclusive economic development

Expansion of ANALYSIS & SYNTHESIS

Thesis argument: Productivity-driven growth can deliver sustainable and inclusive economic development

The statement is valid because given the scarcity of resources, a country cannot continually grow its economy by using more resources. It must focus on increasing the efficiency of its scarce resources, i.e. make them more productive. *[Note: A global review by the International Labour Organisation in 2013 finds that labour productivity gains within economic sectors is the main driver of economic growth.]*

The statement is made even more pertinent given the context of Singapore economy which is at or near full employment, and is faced with demographic constraints, i.e. ageing population and falling birth rate. **Thus, to attain an economic development that is sustainable and inclusive, Singapore needs to raise its economic competitiveness, produce sustainable wage growth and improve the SOL for all Singaporeans.**

In other words, we need to adopt a holistic approach to grow firms which see innovation as a way of life, a workforce that is at the global skills frontier, and we must put in extra effort to ensure that economic growth uplifts and upgrades low-wage workers as well. The following are some examples of how productivity gains can be achieved in the three key areas so that we can have sustainable and inclusive economic development.

- a) **To build dynamic and innovative firms** that constantly seek to develop new and improved ways to do business (e.g. investing in technology), we can:
 - *Incentivise firms to invest in productivity enhancement and innovation, and to take these initiatives at a national and sectoral level to accelerate large-scale productivity transformation*
 - *Develop knowledge base for firms to tap on, e.g. setting up of Singapore Productivity and Innovation Centre to conduct applied research on productivity and innovation that firms can tap on (just like Japan, Korea and Hong Kong)*
 - *Develop productivity training for managers, line supervisors and workers to enable employees at all to learn skills and techniques critical for development and implementing productivity initiatives (e.g. demand forecasting, flexible scheduling, supply chain management, servicemen management)*
- b) **To raise the quality of our human capital** (both local and foreign) to support a productivity-driven economy, we can:
 - *Develop multiple skills pathways (establish a stronger focus on skills qualifications) to complement academic pathways, and create opportunities for different types of talent and industries to thrive in Singapore*
 - *Provide stronger and meaningful linkages between academic and skills pathways to facilitate upward mobility for workers and provide employers with greater clarity on how different qualifications relate to one another (e.g. mutual recognition between Workforce Skills Qualification and ITE Nitec)*
- c) **To strengthen the ability of our low-wage workers to upgrade their skills** so that they can move into better and more productive jobs over time, we can:
 - *Introduce a broad-based incentive scheme to encourage employers to send their low-wage workers for training and for these workers to commit to training (because low-wage workers face several barriers to upgrading, e.g. high opportunity costs and non-supportive employers)*
 - *Develop a structured programme to train and place low-wage workers in better jobs, e.g. customise to their needs and cover basic literacy skills, financial assistance to cover opportunity and other costs (training allowance, completion awards), modular classes to suit their rotating shifts, counselling, etc.*

To ensure sustainability of our productivity efforts, there should be a **closer linkage between productivity and wage growth** to motivate workers. This can be done through performance-based remuneration.

Point to note: To ensure an economic development that is productivity-driven does not mean that we should do away with a foreign workforce because this is not practical at all. Instead, we need to ensure that the growth in foreign workforce is sustainable in the long-run, i.e. a slow growth to maintain a balance between the foreign and local workforce, and to compel firms to continue improving productivity.



Counter argument 1: Productivity-driven growth does not always bring about sustainable and inclusive economic development (points in brief ...)

- Productivity gains may hinder the attainment of inclusive economic development e.g. innovations tied to investment in technology or increased usage of capital inputs which may displace low-skilled workers.
- Efforts to innovate and improve productivity incur high fixed costs. Employers may use this to justify small or delays in wage increments, even after the efforts have delivered results.
- Some innovative efforts and practices may not be environmentally-friendly since the aim is merely to improve competitiveness and profit margins.
- Productivity gains which lead to stronger economic growth and jobs creation across the sectors may not necessarily bring about an improvement in overall quality of life – material vs. non-material SOL.
- Aligning academic and skills pathways is a necessary but time-consuming and very challenging as industry needs are dynamic. *How successful?*
- A significant budget is required to fund an effective broad-based incentive scheme to encourage employers to send their low-wage workers for training, and for these workers to commit to training. The same goes for developing a structured training and jobs-placement programme for low-wage workers. *How sustainable is it?*

Counter argument 2: Although necessary, productivity-driven growth alone will not be able to deliver sustainable and inclusive economic development

- Efforts to grow productivity are largely focused on improving supply-side conditions. Without corresponding and continual growth in aggregate demand, economic development can neither be sustainable nor inclusive.
- Given Singapore's small domestic demand, it is essential that have a healthy global economic climate to accompany our productivity-driven growth.
- With the government pushing firms to the frontline of productivity efforts, there is a need for Singapore to beef up its our pro-investment programme to compete (with our Asian neighbours) for the investment dollar.



Synthesis:

- The statement that 'only productivity-driven growth can deliver sustainable and inclusive growth' is valid to a limited extent.
- A sustainable and inclusive economic development encompasses social and economic progress that must first require the achievement of economic growth – this can be derived by expanding both the country's aggregate demand and aggregate supply concurrently.
- While productivity-driven growth is vital and necessary to deliver sustainable and inclusive economic development, it cannot do the job alone. This is because economic progress does not always bring about a corresponding social progress, which looks at the overall quality of life for the country's citizens.
- While the country strives for productivity-driven growth to deliver economic development, its government must still put in place a range of policies to ensure that this economic development will be sustainable and inclusive. This would include policies to maintain price stability (i.e. there must be potential growth along with actual growth), curb environmental degradation and improve income distribution in the country.



Level	Knowledge, Analysis, Application	Marks
High L3	<ul style="list-style-type: none"> Developed and balanced discussion of why productivity-driven growth <ul style="list-style-type: none"> may not always, or is not sufficient to deliver economic development that is BOTH sustainable and inclusive Strong economic analysis, with almost no conceptual inaccuracies Well-substantiated by examples that are contextualized to Singapore, i.e. slowing productivity, efforts to boost productivity 	18-20
Low L3	<ul style="list-style-type: none"> Developed and balanced discussion of why productivity-driven growth alone may not deliver sustainable and inclusive economic development BUT answer could be more coherent and detailed Strong economic analysis, with perhaps some minor conceptual inaccuracies Well-substantiated by examples, but may not be the best examples relating to Singapore 	15-17
High L2	<ul style="list-style-type: none"> Balanced but undeveloped answer, e.g. <ul style="list-style-type: none"> statement is valid to a certain extent, with scope on both aspects of sustainability and inclusivity but not well elaborated on Developed but one-sided answer, e.g. <ul style="list-style-type: none"> statement is valid or not valid, but analysis has depth statement is valid to a certain extent, but focuses on either sustainability or inclusivity only Discussion is solely focused on economic growth, NOT economic development, i.e. total omission of discussion on quality of life Uses economic analysis but may contain some conceptual inaccuracies Answer contains some examples, but not consistent or well-contextualized to Singapore 	12-14
Low L2	<ul style="list-style-type: none"> Same as first 3 points for high-L2 but answer is a little skimpy Fair attempt to apply economic concepts to the question but appears technical and theoretical Answer contains few examples but are general and not so appropriate 	9-11
High L1	<ul style="list-style-type: none"> Unable to demonstrate an accurate understanding of the question Some knowledge of sustainable and inclusive growth Answer may contain conceptual errors about the different terms and phrases, i.e. productivity, sustainability, inclusivity, economic development Points made appear incidental and does not address the question 	5-8
Low L1	<ul style="list-style-type: none"> Unable to demonstrate an accurate understanding of the question Very scanty knowledge shown in the unpacking of key terms Mere listing of points without economic analysis and depth Significant conceptual errors Points made appear incidental and does not address the question 	1-4
L3	<ul style="list-style-type: none"> Validity of the statement is well discussed and justified Able to synthesise economic arguments to arrive at well-reasoned judgements in a good summative conclusion that is well-applied to Singapore. 	4-5
L2	<ul style="list-style-type: none"> Some attempt to evaluate validity of the statement or provide a synthesis Relevant judgement but insufficient elaboration 	2-3
L1	<ul style="list-style-type: none"> Unsupported evaluation statement or judgment 	1