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Headlines: Measuring Its Effectivemess
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JOBS CREDIT SCHEME

Measuring its effectiveness

By Tilak Abeysinghe
& Gu Jiaying
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THE most innovative feature of this year's Budget is the Jobs Credit scheme that Finance Minister Tharman Shanmugaratnam announced.

Instead of cuts to employers' CPF contributions as in previous economic downturns, this time employers are going to receive from the Government a 12 per cent cash grant on the first $2,500 of monthly wages of each local employee on their CPF payroll.

We sought to come up with a simulation-based assessment of the scheme as an approximate indication of its effectiveness in saving jobs.

For the simulation, we used the macro-econometric model of the Singapore economy that we maintain in the Department of Economics at the National University of Singapore. The model consists of 62 equations that provide simulated solutions to 62 interdependent variables in response to some exogenous shocks.

For this particular simulation, we manipulated three key external demand variables in the model – foreign GDP, global chip sales and visitor arrivals – to create two scenarios for Singapore's GDP: a mild contraction of 2 per cent this year and a severe contraction of 5 per cent. This is the range that the Government has forecast.

Under these two scenarios, we first assessed job losses without any policy interventions. Then we introduced into the model the 12 per cent reduction in the wage cost to employers to determine demand for labour and then we assessed how many jobs would be saved as a result of the Jobs Credit scheme.

It should be noted that we assessed the scheme completely in isolation from a whole set of other measures contained in the 2009 Budget that will reduce the non-labour cost of companies.

Moreover, due to the limitations of the model, our assessment applied to total employment, including foreign workers. We, therefore, cannot account for the substitution that may take place between local and foreign workers as a result of the scheme.

The impact of the Budget's Special Risk-sharing Initiative was indirectly taken into account because the model equations are based on the assumption of no credit constraints, something that the risk-sharing measure will help ensure.

In the table here we present the employment results for three years – 2009, 2010 and 2011 – that we obtained from the simulation. It should be noted that although the external demand variables were set to contract only over four quarters in our simulation and then return to zero growth subsequently, Singapore's GDP contraction will continue beyond four quarters due to lag effects created by job losses.

The results of our simulation lead to the following observations:

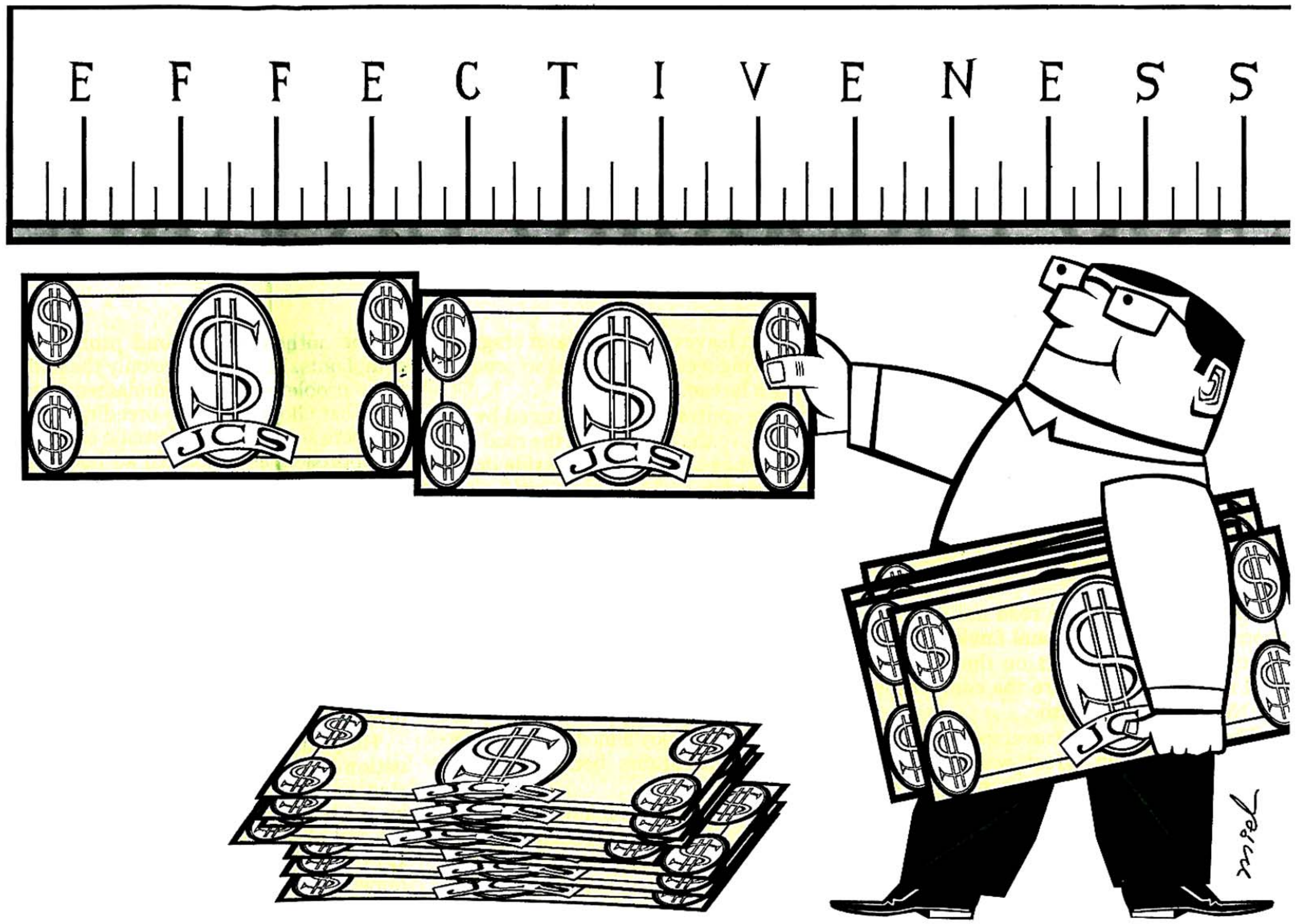
■ First, as expected, the Jobs Credit scheme will not alter the expected range of GDP contraction by much. The improvement of GDP growth will not exceed 0.2 percentage point over the projected numbers. This highlights the critical role that external demand will play in turning the Singapore economy back to positive growth. In other words, Budget measures like the scheme will help keep the boat afloat till the storm passes.

■ Second, the impact of the jobs saved under the Jobs Credit scheme will extend beyond a year even if the scheme were to end after four quarters.

Employment is a highly persistent variable. Without the Jobs Credit scheme, GDP contraction and the slow downward adjustment of wages would have led to job losses over a longer period. The scheme, however, will lower the wage cost to employers and slow the process of job losses. When jobs are saved thus in 2009, the positive effect will continue into 2010 and 2011, even if the scheme comes to an end after a year, as expected.

So although only about 30,000 jobs are going to be saved this year while the scheme is in operation, more than 120,000 jobs are likely to be saved over three years because of the scheme.

■ Third, the number of jobs the scheme will save will be the same whether the recession is mild or severe. The Jobs Credit scheme is designed as a pre-emptive strike but it is not tied to the severity of the recession.



■ ESTIMATED EFFECT OF THE JOBS CREDIT SCHEME ON JOBS (IN THOUSANDS)

Year	2% contraction of GDP 2009				5% contraction of GDP in 2009			
	Without Jobs Credit		With Jobs Credit		Without Jobs Credit		With Jobs Credit	
	GDP growth	Jobs lost	Jobs lost	Total saved	GDP growth	Jobs lost	Jobs lost	Total saved
2009	-2%	-53	-23	30	-5%	-131	-102	29
2010	-0.8%	-66	-18	48	-2.2%	-168	-121	47
2011	-0.3%	-23	22*	45	-1.2%	-61	-16	45
Total	-	-142	-19	123	-	-360	-239	121

* Jobs saved

If the recession is severe, the job losses will be staggeringly high unless other Budget measures are adopted – a possibility that government leaders, including Minister Mentor Lee Kuan Yew, have left open.

Although the scheme is aimed specifically at helping Singaporeans and permanent residents, even they may suffer heavy losses if the recession turns severe. Some over-employment in the public sector until the storm is over would be one way to deal with this problem.

Tilak Abeysinghe is the deputy director of the Singapore Centre for Applied and Policy Economics, Department of Economics, National University of Singapore. Gu Jiaying is a research fellow at the centre.