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DOES COMPETITION KILL OR CREATE JOBS?

Contribution from Singapore

-- Session I --

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JOBS CREDIT SCHEME IN SINGAPORE

-- Singapore --

1. Introduction

1. During economic recessions, a common policy response by policymakers is the erection of barriers to external competition so as to preserve domestic jobs. However, this may be counterproductive as the reduction of competitive pressures slows down economic recovery making it harder to protect employment in the longer term. A push to strengthen competition in the domestic market may in fact be a better response in times of economic crisis, as it aids economic recovery.

2. To this end, Singapore Government has introduced broad-based macroeconomic initiatives to address employment concerns during recent economic recessions which in turn allowed the Competition Commission of Singapore (“CCS”) to remain unwavering in its competition enforcement work in an economic downturn. One notable point is that in designing these macroeconomic policies, the Singapore Government has adhered to basic competition principle of non-discrimination to minimise any distortion within the economy. The rest of this paper discusses about a particular policy initiative called the Jobs Credit Scheme introduced by the Singapore Government and its results to date.

2. Jobs Credit Scheme in Singapore

3. During the 2008-2009 global financial crisis, the Singapore economy contracted by 0.6 per cent in 2009, following weak growth of 1.8 per cent in 2008. Nonetheless, Singapore managed an exceptionally strong rebound, expanding by 15.2 per cent in 2010.

4. The Jobs Credit Scheme (JCS) was introduced in Singapore in 2009 to incentivise companies to retain existing workers or employ new local workers during the economic recession. It provided businesses with a cash grant based on the wages of Singapore and PR employees, set at 12 per cent on up to the first S\$2,500 of wages per month (Ministry of Finance, 2009).

5. Studies have found that the JCS was effective in maintaining business confidence and reducing job losses in Singapore during the economic crisis.

6. Using a macro-econometric model to simulate the impact of the scheme, Abeysinghe & Gu (2009) from the National University of Singapore found that the JCS would effectively lower the wage cost to employers, and slow down the process of job losses.¹ The authors estimated that the JCS would

¹ The objective of the study was to perform a pre-evaluation of the potential effectiveness of the JCS. The authors assessed the impact of the JCS on employment based on two possible scenarios: (i) a two per cent contraction of the GDP in 2009 and; (ii) a five per cent contraction of the GDP in 2009.

save about 30,000 jobs in 2009 and over 120,000 jobs in three years. The authors also found that the number of jobs saved as a result of JCS would be the same regardless of the severity of the recession in the simulation. This is because the JCS was designed as a pre-emptive strike but it was not tied to the severity of the recession (Abesinghe & Gu, 2009).

7. A post-recession study by the Ministry of Trade and Industry of Singapore (MTI) also highlighted that Singapore experienced a rapid recovery in employment following measures to support the labour market such as the Job Credit Scheme.² Compared to previous recessions in 1984 and 2001, the employment decline during the 2008-2009 crisis was uncharacteristically small and the turnaround unusually fast (Ministry of Trade and Industry, 2009).

8. In the design of the JCS, it was also competition neutral in that JCS was non-discriminatory as the scheme applied to all companies based in Singapore. This preserved the competition dynamics in Singapore's industries, which facilitated the steady recovery of Singapore's economy. Moreover, the JCS had a definite duration of one year articulated upfront, with a possibility of limited extensions.³ This helped the companies ride out temporary drops in demand, but yet retained the firms' long term incentives to restructure and innovate so as to adapt to changing economic conditions.

3. Competition, productivity and jobs

9. Since the exit from recession in 2010, concerns on job losses have lessened given the tight labour market in Singapore. Increasingly, the policy focus has moved towards raising the productivity of companies to ease the manpower crunch in Singapore.

10. In Singapore, a recent study found that there is a stark difference between the productivity growth in export-oriented sectors and domestic sectors.⁴ Export-oriented sectors are found to be more productive as they are exposed to global competition and have to regularly transform and adjust processes in order to compete (Ministry of Trade and Industry, 2014). This supports the view that competition helps to drive productivity.

11. For domestically-oriented sectors that are less exposed to competitive pressure, and currently struggling with Singapore's policy of tightening manpower supply, the Singapore government has put in place several policy initiatives to help with their transformation and raise their productivity level. In addition, the government has launched the Skills Future Initiative in 2014 to help each individual

² Other notable measures in the Singapore Budget 2009 included (i) the Skills Programme for Upgrading and Resilience (SPUR) to help Singaporeans upgrade their skills so that they can stay employed or seek re-employment; (ii) the Special Risk-Sharing Initiative to ensure that viable companies continue to have access to credit to sustain operations and keep jobs; (iii) property tax and rental rebates to ease cashflow and reductions in corporate tax rates to stimulate investments; and (iv) expanding government hiring.

³ The JCS was extended for a further six months with stepped-down payments in March and June 2010.

⁴ Ministry of Trade and Industry. (2014). A Sectoral Examination of Singapore's Productivity Growth. Singapore: Economic Survey of Singapore.

continuously learn and develop relevant skills throughout his or her work life.⁵ This combination of government initiatives is to raise Singapore's overall productivity despite a shrinking labour market so that wages can increase in line with increased productivity in the domestic-oriented sector, at the same time re-skilling workers for higher value jobs in the export-oriented sectors.

4. Conclusion

12. Government policies aimed at spurring economic growth or improving employment during economic crises can achieve better outcomes through the preservation of competition dynamics in Singapore's industries. The JCS implemented during the global financial crisis illustrated that policies aimed at preserving employment and improving labour market outcomes need not restrict competition between firms, or restrict firms' incentives to adapt to changes in economic conditions.

13. The experience in Singapore has shown that competition is also important in raising productivity and sustaining the long term economic viability of the country.

⁵ The Skills Future Initiative aims to develop an integrated system of education, training and career progression for all Singaporeans, promote industry support for individuals to advance based on skills, and foster a culture of lifelong learning.

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