

To Evaluate the Impact of Expansionary Fiscal Policy in curbing the Impact of Unemployment in the Singaporean Economy During the COVID-19 Pandemic

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Abstract:

With the COVID-19 pandemic becoming increasingly prominent in early 2020 in Singapore, the amount of cases were on the rise. As shown in the Susceptible-Exposed-Infected-Recovered (SEIR) distribution chart, the number of people infected follows a hump-like pattern, indicating that it increased first and then fell subsequently. Given that this happened in a very short time frame, it is intriguing how the first wave of the COVID-19 pandemic and its subsequent economic consequences were dealt with incredibly well, only possible through economic policy-making, fiscal policy being primarily significant. Expansionary fiscal policy comprises policies of reduction in tax rate and increase in public expenditure undertaken by the government to increase the Aggregate Demand (AD) in the economy.

Keywords: Fiscal Policy, Indirect taxation, Public spending, Economic Downturn, Inflation, Unemployment, COVID-19

Introduction:

With the COVID-19 pandemic becoming increasingly prominent in early 2020 in Singapore, the amount of cases were on the rise. As shown in the SEIR distribution chart in Fig 1, the number of people infected follows a hump-like pattern, indicating that it increased first and then fell subsequently. Given that this happened in a very short time frame, it is intriguing how the first wave of the COVID-19 pandemic and its subsequent economic consequences were dealt with incredibly well, only possible through economic policy-making, fiscal policy being primarily significant. Expansionary fiscal policy comprises policies of reduction in tax rate and increase in public expenditure undertaken by the government to increase the Aggregate Demand (AD) in the economy.

Evaluation of the Problem:

Before getting into the fiscal policy employed by the government of Singapore, it is imperative to analyse the economic consequences the COVID-19 pandemic brought to the island nation. With more people getting infected in the early part of the hump in the SEIR distribution chart, their consumption on healthcare increased, whilst that on other goods and services fell, with the latter likely declining at a higher

rate. This led to consumption, as a whole, to fall in the economy, shifting the AD curve to the left, as consumption is a significant part of AD. With lesser consumption and AD, firms also produced less (contracting the Short Run Aggregate Supply (SRAS)), and thus shifting real output or real GDP leftward, as shown in the monetarist diagram.

Figure 1: SEIR Model for COVID-19 Community Cases in Singapore

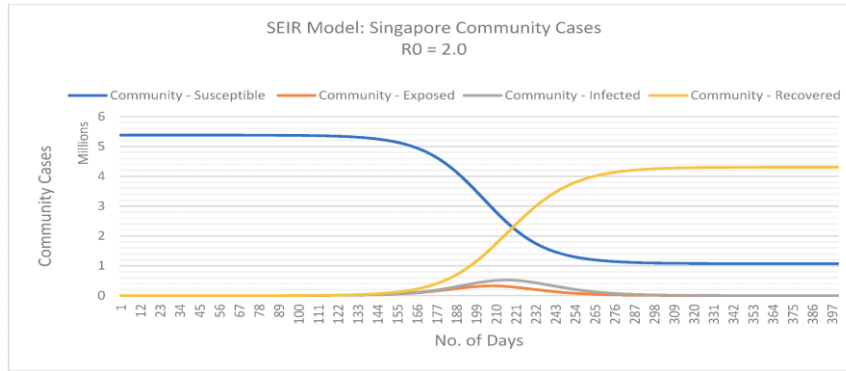
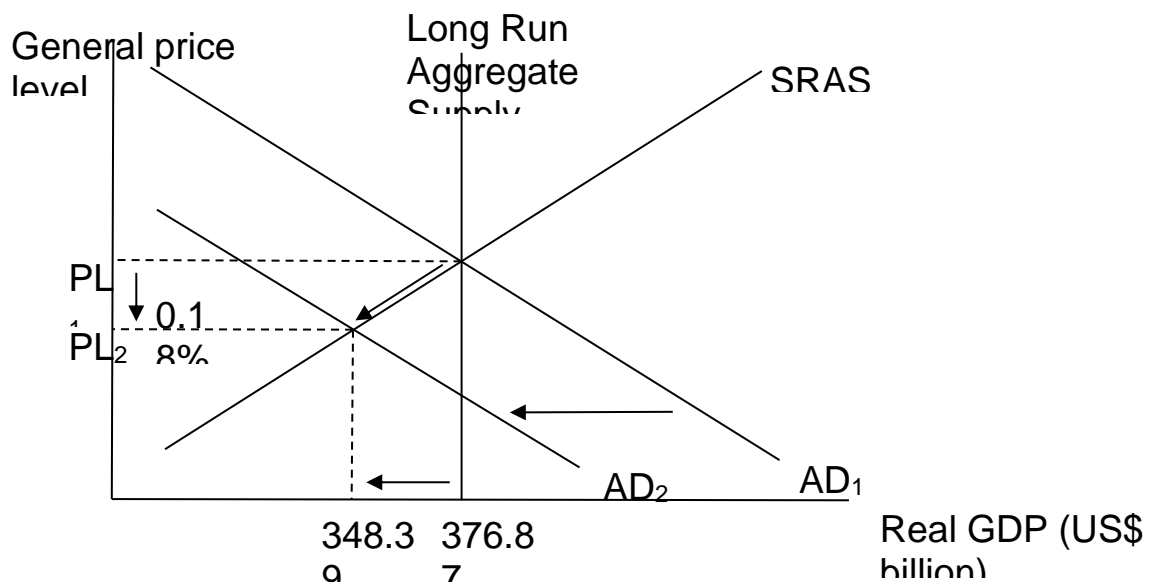


Table 1: Economic Indicators for 2019-2021

Year	Real GDP (US\$ billion)	Inflation Rate (%)	Unemployment Rate (%)
2019	376.87	0.57	3.1
2020	349.39	-0.18	4.1
2021	423.80	2.31	3.54

The above data is pictured in the next graph.

Figure 2: Monetarist Diagram representing Economic Downturn due to COVID-19



The diagram assumes that in the pre-COVID era, Singapore was producing at optimal output. The fall in real GDP from US\$ 376.87 to 348.39 billion indicates that there was a rise in cyclical unemployment. This can be further verified by the fact that the rate of unemployment increased from 3.1% to 4.1% from 2019 to 2020 when it was continuously falling between 2017 and 2019. The shift in AD also conveys that there was a fall in the general price level, as is confirmed by the fact that the inflation rate in 2020 in Singapore was -0.18%, i.e. there was deflation (a fall in the general price level).

Taxation Policy

The very first policy that comes to mind when thinking of fiscal policy is that of taxation, in which the government may change its direct or indirect rates of taxation to influence AD. The reason this works effectively is that the rate of taxation is inversely related to the consumption (C) in the economy, a component of AD, i.e. the higher the rate of tax, the lower the consumption or C and thus lower the AD.

In the case of Singapore, the government had a plan in place to increase the Goods and Service Tax (GST) from 7% to 9% taking effect in 2021. Though, due to the onset of the pandemic in 2020, the Singapore government decided to delay this increase in GST. In one form, this is expansionary fiscal policy as the GST would be relatively lower than what it originally would have been. Thus, the amount of disposable income available to the consumers in the Singaporean economy would not decrease, and thus the rate of consumption (C) would also remain constant. This prevents a leftward shift of the AD curve, which helps Singapore combat the problem of economic downturn, averting the recession and reversing the fall in GDP as of Fig 2.

Public Expenditure

Expansionary fiscal policy, as aforementioned, has 2 components, decrease in tax and increase in public spending. Having evaluated the decrease in tax already, we must look at the increase in public spending, which is the expenditure of the public sector (owned and controlled by the government) on acquiring goods and providing services like healthcare.

Within the increase in public spending adopted by the government of Singapore, was the use of transfer payments, which can be defined as sums of money provided to citizens to boost consumption. Singapore introduced a \$1.5 Billion relief package and gave a one-off handout of S\$500 and a three month handout of S\$800 per month to its citizens, starting April 2020, when the effects of COVID had become rampant. Money handouts created the implication that there is more disposable income for the people to spend and thus they are likely to spend more. Thus, there is an increase in C, and hence also in AD, shifting it rightward from its position in Fig 2.

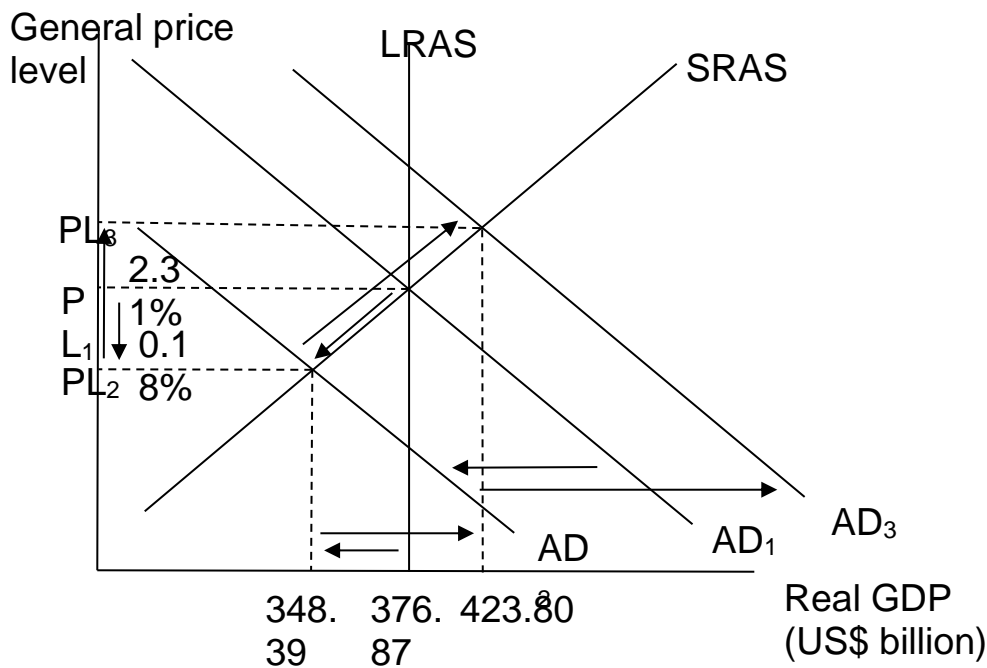
Moreover, another method of public spending is the direct provision of COVID-19 vaccines done by the Singapore government. Not only did this have the impact of a decrease in the number of those susceptible (refer to SEIR diagram), it also enabled workers to return back to the workforce and jobs faster, while also improving the quality and productivity of labour. This would have had a positive effect on the supply side in the short and thus in the long run as well due to herd immunity and overall health of the community improving. Not only this, their spending on healthcare would significantly reduce, freeing up their disposable income for other goods and services, on which they may spend more. Thus, there is a rise in C, and thus AD. Thus, the economy can recover well and quickly from the downturn caused by COVID-19.

Furthermore, public spending in the healthcare sector was boosted drastically by US\$ 574.73 million in the Budget 2020 speech. Although this was an expansionary fiscal policy designed to have similar effects as that of direct provision of vaccines and boost AD, it also had significant supply-side effects as it served as an interventionist supply-side policy (non-market based policy used to affect Long Run Aggregate Supply and shift it rightward).

Conclusion:

To sum up, the government of Singapore employed expansionary fiscal policy as one of its main economic policies in order to combat the economic downturn the country was facing during the onset of the COVID-19 pandemic. Within this policy, they included the tools of increase in public spending (via those in healthcare infrastructure, direct provision of vaccines and transfer payments) along with a reduction in indirect taxes (GST), thus leading to an economic recovery. This can be charted through the inflation, real GDP and unemployment figures of 2021, as would be characterised by the shift of AD to the right.

Figure 3: Monetarist Diagram representing effect on the Economy of the Fiscal Policy



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