

## INTRODUCTION

As an open and trade-dependent city-state, Singapore was among the first to feel the impact of the 2008 Global Financial Crisis (GFC) that began in the US. Singapore's economy experienced a steep decline of 17% in the fourth quarter of 2008. In response, the Singapore government acted swiftly to forestall further economic decline by unveiling a SGD 20.5 billion economic stimulus package in its 2009 Budget. Reflecting

the severity of the crisis, the 2009 Budget Speech by Finance Minister Tharman Shanmugaratnam was shifted forward from February to January. The stimulus package contributed to Singapore's swift recovery, with annual GDP growth reaching 14.8% in 2010. The 2009 stimulus package thus provides a useful example of innovative policy design within the constraints of a financial crisis.

## A JOBS-ORIENTED STIMULUS PACKAGE

While most other nations have typically focused on social welfare and tax relief, Singapore's stimulus package was geared towards maintaining employment and lowering labour costs through a host of measures. First, employers were granted a subsidy on the wages of Singapore and Permanent Resident workers. Permanent Residents are expatriates who are allowed to live and work in Singapore for at least 5 years. This was complemented by "workfare" payments given out to low-income workers, contingent upon employment. A skills training program was also initiated to upgrade the skills of both employed and unemployed workers. This employment focus ran against the grain of conventional wisdom by focusing on workfare rather than welfare.

Given its lack of unemployment benefits and limited social welfare, the Singapore government is particularly averse to any crisis-driven bouts of unemployment. This means strong state intervention in the labour market in order to maintain employment during financial crises. Past efforts at maintaining employment typically involved cuts in social security contribution rates and wage freezes. An important governance mechanism that underpins Singapore's employment-focused stimulus packages is the National Wages Council which is a tripartite wage-setting arrangement between the government, employers and trade unions. However, the scale and magnitude of the GFC meant that the level of reductions in social security contribution rates needed to mitigate the effects of the crisis would have meant drastic reductions in household

incomes and defaults in mortgage payments. The risk of mortgage default is particularly high, since Singaporeans are allowed to use their social security contributions to pay off their mortgage loans. The 2009 stimulus package thus broke with precedent by drawing on past reserves to subsidize wage costs, rather than requiring wage freezes or social security contribution rate cuts. This reflects a process of policy learning and innovation that involved adapting past policies to new circumstances.

While the stimulus package presents a plausible policy alternative for countries facing financial crises, its enmeshment within Singapore's unique socio-political context suggests caution in its direct application to other national contexts. First, reducing labour costs through wage freezes and social security contributions rate cuts is only feasible in countries that do not feature strong opposition in the form of consolidated labour unions. Second, funding labour cost reductions through state spending is a possible policy alternative provided policymakers have access to strong reserves and ample fiscal space.

## MAINTAINING NORMALCY IN THE CITY

The stimulus package allowed Singapore to function economically and socially as a city. Given that employment was maintained and household incomes were not affected, there were few signs of recession in the city. Job loss was at a minimum, with unemployment peaking at 3% in 2009. This stood in

contrast to higher rates of unemployment experienced in Hong Kong (5.2%), Malaysia (3.7%), Indonesia (7.9%) and the US (9.3%). A poll of business leaders carried out by a local newspaper during the crisis also showed that businesses were relatively upbeat on Singapore's medium to long-term prospects. Although the financial services sector faced a decline in trust from citizens and the tourism industry faced a decline in visitor arrivals, the city did not see a decline in business activity. The stimulus package also included other measures that sought to mitigate the impacts of the crisis on households. These included income and property tax rebates, value added tax credits, bonus payouts to senior citizens, and rebates on rental, utilities, and service and conservancy charges for Singaporeans staying in public housing. Although 80% of Singapore's population stay in public housing, household income levels vary across different public housing types. More rebates were thus given to lower income households living in one-room to two-room flats, as compared to households living in three-room to five-room flats. These measures allowed households to maintain a minimum quality of life and ensured social order in the city.



**3% of unemployment peaking in 2009**



**80% of Singapore's population stay in public housing**

## CONCLUSION

The 2009 economic stimulus package served to mitigate the impacts of the GFC on the city by maintaining employment, facilitating business operations, and supporting households. This means that it was "business as usual" in the city.

### CREDITS AND LINKS

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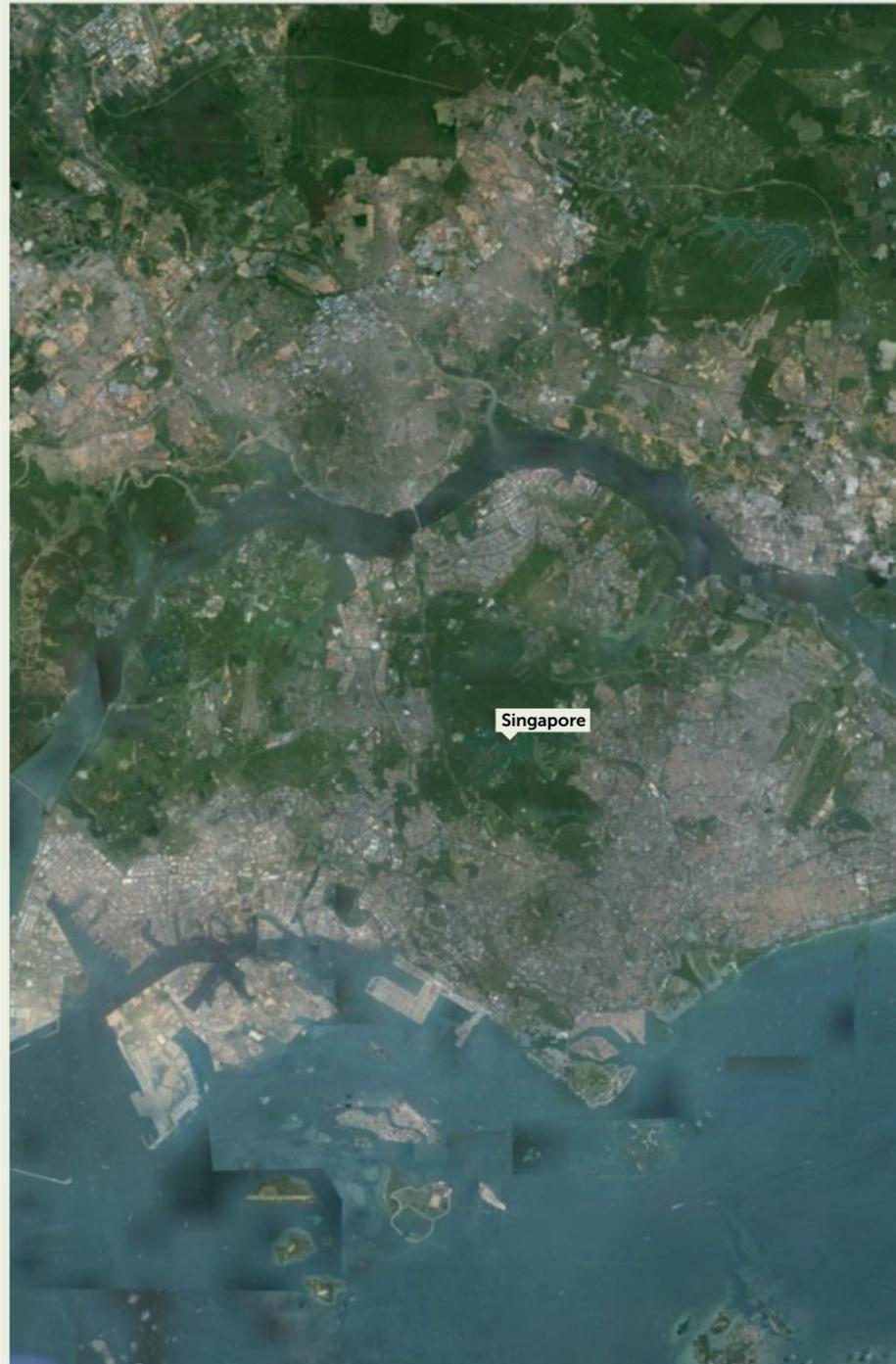
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**SINGAPORE**



Singapore

COORDINATES  
**1°17'N 103°50'E**  
 AREA  
**274 sq mi**  
 POPULATION  
**5,312,400**  
 DENSITY  
**18,943/sq mi**  
 GDP total  
**\$327.557 billion**  
 GDP per capita  
**\$61,046**



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1. Morning rush to work during the 2008 Crisis  
 2. A busy shopping mall during the height of the financial crisis

Chart. Singapore's economic growth rates plunged with the onset of the financial crisis. (Monetary Authority of Singapore Annual Report 2008/2009)



2

The stimulus package allowed Singapore to function economically and socially as a city.

**SOURCES**

chart (Monetary Authority of Singapore Annual Report 2008/2009) 1 Flickr User David Teo 2 Flickr User Cris Campos

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SINGAPORE,  
 Republic of Singapore

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