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Two ways to stimulate employment

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LAST Saturday's newspaper headlines were uniformly grim. The Financial Times declared somberly: 'US loses most jobs since 1945.' The Times of London said: 'Surprise rise in US jobless raises spectre of Great Depression.' The Straits Times announced: 'Fresh grads in for hard times.'

The Saturday papers must have been especially disheartening for final-year university and polytechnic students here. In less than six months, they will enter the workforce. It must seem to them that 16 years of primary, secondary and tertiary education may have been dissolved in the wake of lousy mortgages in the United States.

Many economic studies have shown that university graduates who enter the workforce during recessions earn substantially less than those who start work when the economy is growing. Researchers Philip Oreopoulos, Till von Wachter and Andrew Heisz - of the University of Toronto, Columbia University and Statistics Canada, respectively - studied Canadian university graduates between 1982 and 1999. Graduates entering the labour market during recessions started with lower earnings and caught up only after eight to 10 years.

In Singapore, the experience of young people graduating during recessions has been relatively easier because of rapid economic growth. A friend who graduated in accountancy during the 1985 recession, for example, remarked that her cohort was set back initially, with the luckiest getting jobs at a mere \$600 a month. But they quickly caught up when the economy recovered. Today, many are well-paid chief financial officers.

However, the picture may not be quite so rosy in the future. As Singapore's economy matures, its long-term rate of economic growth will decline. From 1980 to 2007, Singapore's average growth rate was 7 per cent per annum. The official forecast is for future growth rates to average from 3 to 5 per cent per annum.

With lower overall economic growth, the prospects for graduating university and polytechnic students are distinctly worrying - and not just in the short term.

What should we do? Our greatest challenge now is to provide jobs. Policymakers and economists all over the world are debating how to stave off recession and provide employment: Would lower interest rates do the trick or bank guarantees? Spending on infrastructure or tax cuts?

My suggestion is to focus on directly stimulating employment rather than doing so indirectly through monetary or fiscal policy. In particular, I would like to offer two suggestions to Minister for Finance Tharman Shanmugaratnam for the Jan 22 Budget.

The first is to allow employers a double tax deduction on the wages and salaries of all fresh graduates for two years. The Government already allows double tax deduction for research and development expenditure, market development expenditure and charitable donations. The purpose of these incentives is to nudge businesses in particular directions. So if employment of fresh graduates is going to be a pressing problem, let us offer employers this additional double tax deduction.

I do not suggest extending the double tax deduction to all new employees. Businesses might then be perversely encouraged to re-shuffle their staff - dismissing existing employees to hire new staff and get the tax benefit. I also do not suggest extending the double tax deduction to all employees, as this would cause too much revenue loss.

My second suggestion is to turn adversity into opportunity and seize the opportunity to address two persistent gripes of Singapore employers. One is that our tertiary graduates are not ready for work and the other is that they are unwilling to go regional.

In a fast-changing world, the role of universities today is to prepare graduates for a lifetime of learning. This may sound like a cliché, but it is true. Given the limited classroom hours, something must give - and it is usually training for the current workplace.

So the Government might offer a one-year post-graduate industry apprenticeship to students in the 2009 and 2010 cohorts. The apprenticeships would combine academic studies and practical on-the-job training. During the apprenticeship, the Government could match the allowances that employers pay to the apprentices on a dollar-for-dollar basis.

The apprentices would not be employees, and their allowances would not be subject to Central Provident Fund contributions. It is necessary to include an academic component so that businesses would not abuse this apprenticeship as a form of cheap employment.

The other oft-heard complaint is that our graduates are too comfortable at home and cannot or will not venture abroad. It is very obvious that Singapore must extend its external wings to achieve faster economic growth in the future. As we know too well from our own experience, it is much easier to grow faster from a lower base. We should take advantage of our regional base.

So the Government might also offer apprenticeships for overseas learning and training. The terms would be the same as for the local apprenticeship, except for an adjustment for the additional cost of living overseas. And needless to say, the apprenticeships as well as the double tax deductions should apply only to Singapore citizens.

Both these measures would go a long way to addressing a key challenge in these dire times, while strengthening the foundation for our future growth.

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