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Productivity Lessons from Singapore

Improving productivity requires coordination between government and the private sector

On April 19, I attended the Annual Meeting of the Bretton Woods Committee, where the speakers included Tharman Shanmugaratnam, Deputy Prime Minister of Singapore, along with other luminaries like IMF Managing Director Christine Lagarde and former Federal Reserve Chairman Paul Volcker. Mr Shanmugaratnam had a number of novel insights for improving productivity, something that is a number one priority for countries around the world, Barbados and the Caribbean being no exception.

Mr Shanmugaratnam began with the observation that productivity in many countries varied widely between cities or regions within the same country. What accounts for the fact that productivity grows smartly in the Indian state of Tamil Nadu, and not in Bihar? One part of the answer is that cities, countries and regions show higher productivity when they encourage international companies to set up operations that feed into their offices in other countries. That is because the local workers benefit from training in international production processes, and acquire disciplines that keep them current with international best practice. There are a few companies in Barbados' international business sector that bear testament to the productivity benefits of having a local entity providing services for the firm's global market.

The strategies adopted by local authorities and by local communities can make a difference as well. Productivity improves where there are people eager to learn, and where parents are responsive to new and emerging opportunities in guiding their children's education. Barbados does not score well here; there remains a strong parental preference for traditional professions which are seriously overcrowded, while student performance in STEM disciplines is below par.

Knowledgeable regulators with an eye to the future play an important role in facilitating change, providing opportunities and incentives, and promoting support services. Conversely, ill-advised regulation may inhibit productivity by protecting the status quo, limiting or preventing inflows of finance, people and goods and services.

Open, well informed communications are another important element in a successful programme to increase productivity. In Mr Shanmugaratnam's words, "Transparency can be the new sunlight", opening up new vistas for entrepreneurs and inspiring young people to direct their energies towards the most promising areas of activity.

Mr Shanmugaratnam also stressed the importance of well thought out government policies, to ensure that local firms and communities were given incentives to adopt more efficient processes and to shift towards areas where productivity is high. Provisions for the importation of computers free of duty is an example of a productivity-enhancing policy.

Young people entering the job market often do not know where their best prospects lie. Governments need to play a role in signalling to young people, and to their parents, what are the most promising careers to pursue. In order to do so effectively, government must forge a working coalition with the

private sector. What is needed is an activist state, not a paternalistic one, a government that focusses on making markets work better.

Mr Shanmugaratnam summed up by pointing out that Singapore works because of the speed with which their educational systems adapt to new opportunities. Effective coordination between government and the private sector facilitates this process. Government also focusses on fixing things that go wrong in economic markets; things do go wrong, and success will not be achieved through market forces alone. In his words "it's not about picking winners, but about coordination".

A report on the Annual Meeting of the Bretton Woods Committee may be found at <http://www.brettonwoods.org/node/16294>. A video report on the panel in which Mr Shanmugaratnam participated is at <https://www.youtube.com/watch?v=6I7TSY1AIII&t=46s>.

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