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Looking at spending data relating to the 2011 Growth Dividend scheme offers clues as to the possible effects of the current Silver Support Scheme

Simulate and Stimulate

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In 2011, Singaporeans aged over 21 received a one-time payout ranging from $600 to $800 depending on their income and annual home value in what is called the Growth Dividend scheme (GDS).

This represented a significant income bonus corresponding to about 18 per cent of monthly median income in Singapore then.

A total of $1.5 billion was given out.

Six years have since passed and with the ongoing economic slowdown, various stimulus packages may be on the cards.

It is thus timely to examine how effective GDS was in stimulating the economy then and what we can learn from it policy-wise when developing another stimulus package such as the current Silver Support Scheme (SSS).

My research colleague and I at the National University of Singapore Business School studied 180,000 individuals whose credit and debit card expenses and other banking details are documented together with demographic information for analyses from August 2010 to November 2011 — six months prior to the announcement and six months after the disbursement.

To assess the effectiveness of this stimulus package that is available only to Singaporeans, we identified Singaporeans from foreigners in our database and formed two matched samples in terms of age, gender, property type and occupation for valid comparisons.

We found that for every $1 of growth dividend received, Singaporeans spent on average $0.08 more per month for the 10-month period after the announcement, working out to $0.80 per $1 received.

There was no significant change in foreigners' expenditure for the corresponding period. To be expected, for later months, the spending effect gets smaller. On the whole, this is good news as GDS motivated consumption which helps to stimulate the economy.

Almost two-thirds of such spending increase comes from credit card usage ($0.53 per $1 received), and close to one-third comes from debit card usage ($0.26 per $1 received).

What is interesting is how Singaporeans responded almost immediately upon hearing the announcement, even though they had not received the payout.

Singaporeans immediately spent $0.074 more per month for every $1 expected in the two-month announcement period, similar to the monthly expenditure of $0.081 more during the disbursement period.

As spending was made prior to the payout, it is not surprising that the increase in spending was primarily concentrated in credit cards ($0.061 per month for $1 expected).

There was no change in debit card spending during the announcement period.

In contrast, when the dividend was disbursed, debit card usage rose while credit card spending continued to be high.

Further, Singaporeans used that amount to spend primarily on discretionary items such as apparel and travel.

TAKEAWAYS

Giving cash disbursements to people seems to work in getting them to spend even when this is just a one-off payment. In fact, Singaporeans were very responsive — they started spending even before receiving the cash.

Will this scheme work just as well now? When GDS was launched, it was a time of economic growth. But that scenario has since changed.

With current job cuts, Singaporeans who are working may be more mindful of how they spend any handout they are given. It is quite unlikely that working Singaporeans will be as responsive now as they were then.

Instead, the Government has recently launched another payout scheme — SSS.

Similar to GDS in that it is a cash payout, there are some differences.

SSS is more targeted at the retirees in the lower 20 per cent bracket with the primary purpose of helping them cope with their daily expenses.

It may well be that SSS may have a secondary booster effect likening that of GDS. Because it is not a one-off but paid regularly every quarter, there is the assurance of sustainability that possibly encourages spending rather than hoarding.

Additionally, job loss stemming from the economic outlook is less relevant to the elderly.

After all, they are retired. Without this overhang, spending is less likely to be curbed.

While SSS is likely to generate more expenditure for better quality non-discretionary items such as fresher food rather than discretionary items like apparel and travel, as observed for GDS, it is additional consumption nonetheless.

A potential stumbling block to greater spending is when retirees are living with their working children who have been or at risk of being laid off.

In which case, it will not be surprising if the payout is saved for a rainy day.

It is also less evident whether retirees will begin to start spending now in anticipation of the forthcoming payout.

It is unlikely.

While GDS was for all Singaporeans, most of whom are working and drawing a monthly salary, there is no cash inflow for retirees until the payout is made.

Especially since the retirees are from the lower 20 per cent bracket, the lack of liquidity prior to the payout is likely to be a deterrent to bringing consumption forward.

Finally, retirees will have to manage how they spend the payment on a quarterly basis once the scheme starts.

It will be interesting to research whether they spend a larger portion of the payment at the beginning and curtail expenses near the end of the quarter.

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