

NOTES AND DEBATES

Economic growth and inequality in Singapore: The case for a minimum wage

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Abstract. *In the context of Singapore's ageing population, the employment of large numbers of low-skilled foreign workers is proving to be a major challenge to inclusive growth because of the stagnation of low-wage workers' incomes. In order to address this problem, the author makes the case for introducing a minimum wage to complement existing in-work benefit schemes. After addressing the commonly voiced objections to a minimum wage system, he suggests ways in which a minimum wage could be implemented in Singapore. New measures to enhance the social safety net and foster more sustainable economic growth are also proposed.*

Singapore has experienced phenomenal economic growth and prosperity in the past five decades. In 1960, a year after moving from British rule to self-government, real GDP per capita (at 2005 prices) stood at US\$1,362. By 2010, this had risen thirtyfold to US\$41,109¹ and was ranked third globally in terms of purchasing power parity (IMF, 2011). As one of the world's top three competitive nations (IMD, 2011; Schwab, 2012), Singapore also enjoyed a low inflation rate of 1.6 per cent and an unemployment rate of just 2.9 per cent for the period 2000–10.

Singapore's labour market, however, has been marked by increased volatility and uncertainty, as was clear in the four recessions of 1998, 2001, 2003 and 2009. There has been increased fragmentation and vulnerability of jobs as a

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¹ *SingStat Time Series, 2010*. Singapore Department of Statistics' online data retrieval system, available at: https://app.sts.singstat.gov.sg/Dots_index.asp [accessed 10 February 2013].

result of offshoring to lower-cost economies. Skill-biased technological change has also increased the demand for skilled labour, resulting in those having high-level skills or capital reaping substantial benefits compared to low-skilled workers. This has led to increasing income inequality in Singapore; the Gini coefficient rose from 0.44 to 0.48 between 2000 and 2010, while the ratio of top to bottom quintile average income among employed households increased from 10.1 to 12.9 over the same period (Department of Statistics, 2010).

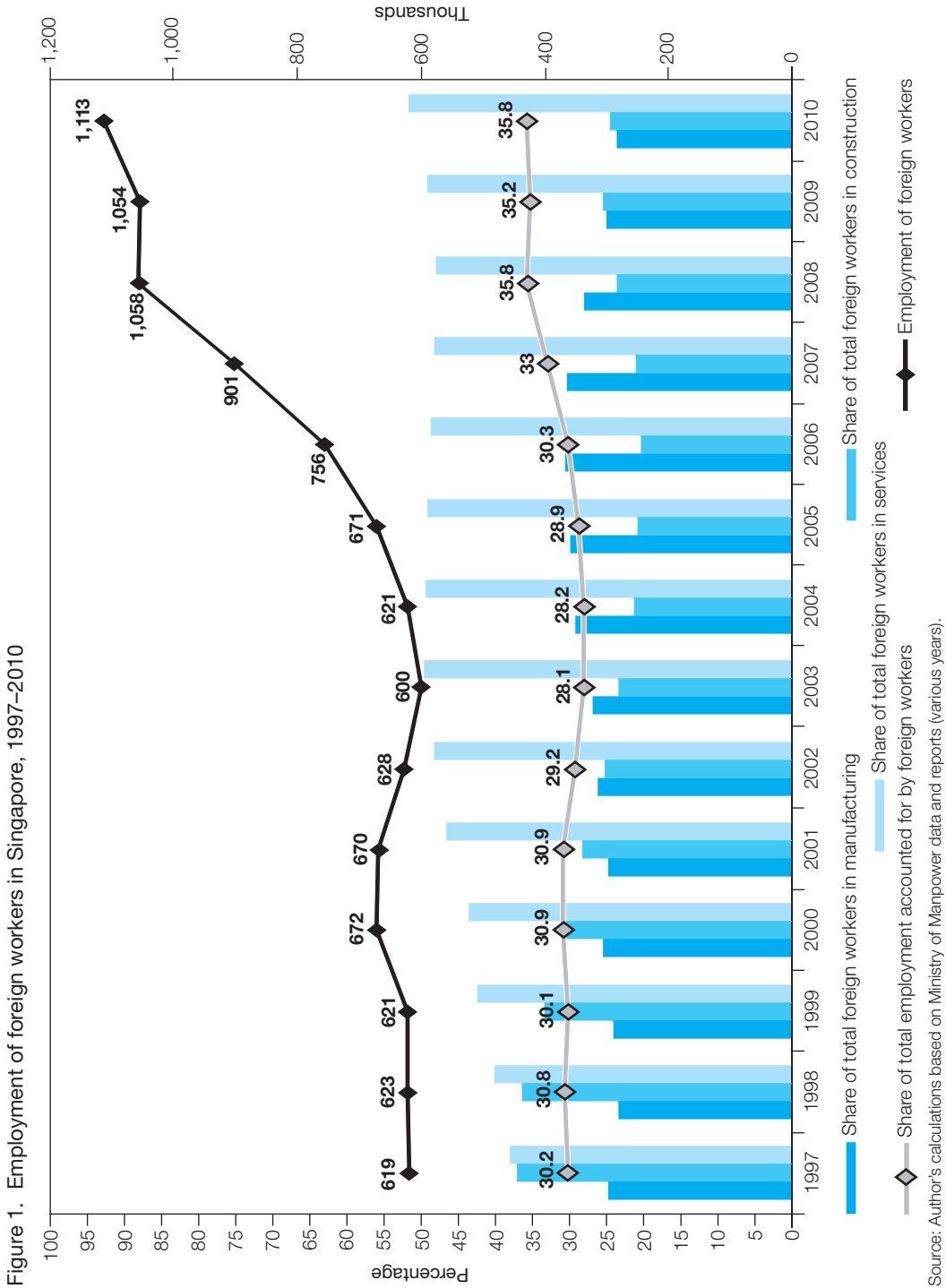
Demographically, Singapore has one of the fastest-ageing domestic populations in the world. Those who are not economically active are, increasingly, older persons with reduced employability, who need income support. Older workers are more prone to retrenchment and, once unemployed, find it more difficult to get another job, as reflected in the consistently lower re-employment rate among unemployed persons over 50 years of age in the past decade.

Over the past two decades, policy-makers in Singapore have relentlessly pursued a policy of maximizing economic growth which, against a background of slower domestic population growth, has resulted in a persistent labour shortage. The shortfall in the domestic labour supply has been compensated by a high influx of foreign workers. Between 1990 and 2010, Singapore's total population increased by 69 per cent, from 3.05 million to 5.08 million. The number of "non-residents"² rose by 1 million to a total of 1.305 million, accounting for 26 per cent of the total population, compared to 10.2 per cent in 1990 and 5.5 per cent in 1980. The total number of non-resident workers rose from 619,000 in 1997 to 1.113 million in 2010 – i.e. from 30 per cent to nearly 36 per cent of total employment (figure 1) – the majority of whom were low-skilled temporary workers. The surge in the population of foreign workers has depressed wages at the lower end of the wage distribution, giving rise to public concern about rising income inequality and the problems faced by low-wage workers in coping with rising costs of living.

While Singapore will have to continue to rely on foreign labour if it is to sustain long-term economic growth in the face of its declining birth rates and rapidly ageing population, the issue of inclusive growth should be addressed by increasing the productivity and wages of low-wage workers. Singapore's experience, and the challenges it confronts, will be of interest to economies facing similar challenges – albeit to varying degrees – ranging from Japan, which has hitherto maintained a relatively tight lid on the influx of foreign workers in spite of its declining population, to the Gulf countries and the rapidly expanding cities in China, which rely to a considerable extent on migrant labour.

This paper considers the challenges to inclusive growth in Singapore. It examines the impact of the influx of foreign workers on wages and employment, discusses the labour market measures introduced in recent years and makes the case for the introduction of a minimum wage policy.

² The "resident" population, or local population, comprises Singapore citizens and permanent residents. The "non-resident" population comprises foreigners working, studying or living in Singapore but not granted permanent residence (Department of Statistics, Ministry of Trade and Industry: *Population Trends 2012*, available at: <http://www.singstat.gov.sg/pubn/popn/population2012b.pdf>).



Minimum wage debate

The minimum wage debate has traditionally focused on the potentially adverse effect of a minimum wage on employment (Neumark and Wascher, 2008). Proponents of a minimum wage have argued that any job losses would be small, and easily offset by the benefits experienced by those working at the higher wage. It can also be argued that a minimum wage could increase employment in a monopsonistic firm; indeed, a key issue in this debate has often been the extent to which the labour market is competitive or monopsonistic in nature.

In reality, there is often an imbalance of bargaining power between workers and employers. The factors that weaken workers' bargaining power include: overcrowding at the low-skill end of the labour market; lack of access to collective bargaining, whereas firms are able to manage competition through industry associations or employment agencies; employment laws and institutional constraints such as lack of unemployment benefits and welfare payments; and the presence of large numbers of unemployed persons (Kaufman, 1989). With the imbalance of bargaining power, competition at the bottom of the wage distribution can force workers to accept very low wages, unattractive terms and poor conditions of employment. Such low wages understate the full social cost of labour, which includes health-care and other subsistence costs required to maintain workers' productive capacity. This gives rise to an inefficient allocation of resources, on the one hand, and to unfair gains made by capital owners and consumers at the expense of low-cost labour, on the other, thus justifying minimum wage intervention on grounds of both efficiency and equity (Kaufman, 2009).

In the case of Singapore, the huge influx of low-skilled foreign workers is another significant factor contributing to the imbalance of bargaining power between workers and employers.

Influx of foreign workers and wage depression

Between 1998 and 2010 the number of foreign workers increased by 494,000, accounting for 47 per cent of all new jobs created over the period. The influx of low-skilled foreign workers – from Bangladesh, China, India, Indonesia, Myanmar, Pakistan, the Philippines, Sri Lanka and Thailand – has increased overall labour supply dramatically and depressed domestic wages at the bottom of the wage distribution. There is compelling evidence for this wage depression link. Over this period, the real wages of employed “residents” (i.e. Singapore citizens and permanent residents) in the bottom quintile of the wage distribution fell by about 8 per cent, while those in the top quintile experienced real growth of about 27 per cent (table 1). Similar evidence of stagnating real median wages and real household incomes among the bottom 30 per cent of households between 1998 and 2006 was found by Yeoh (2007). Employers of low-skilled foreign workers have to pay a levy for each worker and are subject to quotas, in the form of a “Dependency Ratio Ceiling” – the maximum permitted ratio of foreign workers to total workforce in the firm.

Table 1. Real wage growth, 1998–2010

	Percentage change	Average annual growth
First decile	-9.4	-0.8
Second decile	-7.1	-0.6
Third decile	-1.4	-0.1
Fourth decile	4.8	0.4
Fifth decile	8.1	0.6
Sixth decile	12.9	1.0
Seventh decile	20.1	1.5
Eighth decile	21.2	1.6
Ninth decile	26.1	2.0
Tenth decile	28.4	2.1

Source: Computed by author from various issues of *Report on Labour Force in Singapore*, Ministry of Manpower.

Statistically, two local part-time workers are considered to be equivalent to one full-time worker. To qualify as a part-time worker, an employee must be paid above a specified threshold; this threshold salary was raised from S\$650 to S\$850 per month by the Ministry of Manpower, with effect from July 2011, to discourage employers from recruiting local workers on token salaries in order to be able to employ more foreign workers. The fact that it was necessary to enforce, and raise, a threshold wage points to the significant dampening effect of unskilled foreign workers on local wages and employment.

As a result of depressed wages at the lower end of the wage distribution, some local workers withdrew from the labour market in order to pursue non-market activities, while others chose to work part time instead of full time. Between 1999 and 2010, for example, the number of non-labour-force participants increased by 167,400 to reach 1,044,300 (equivalent to 33.8 per cent of the working-age population). Female employment rates in Singapore are generally lower than those in developed countries such as Sweden, the Netherlands, the United Kingdom and the United States (Ministry of Manpower, 2009b). Of the 270,400 persons aged 25 to 54 who were not in the labour force in 2010 (87 per cent of whom were women), 75 per cent cited family responsibilities as the reason for non-participation (*idem*, 2010). Of the 171,900 who said they would rejoin the workforce within two years, 42 per cent said they would work part time. Bearing in mind the steady increase in part-time employment over the past decade (in 1999, part-time employment accounted for 5.1 per cent of total employment; by 2010 the figure had reached 9 per cent (*ibid.*)), it is reasonable to expect that higher wages would encourage more people to work full time.

While the influx of foreign domestic workers has enabled more married women to participate in the labour force, depressed wages in low-wage occupations have led to a lower overall rate of full-time employment among local workers. This amounts to under-utilization of scarce labour resources, which

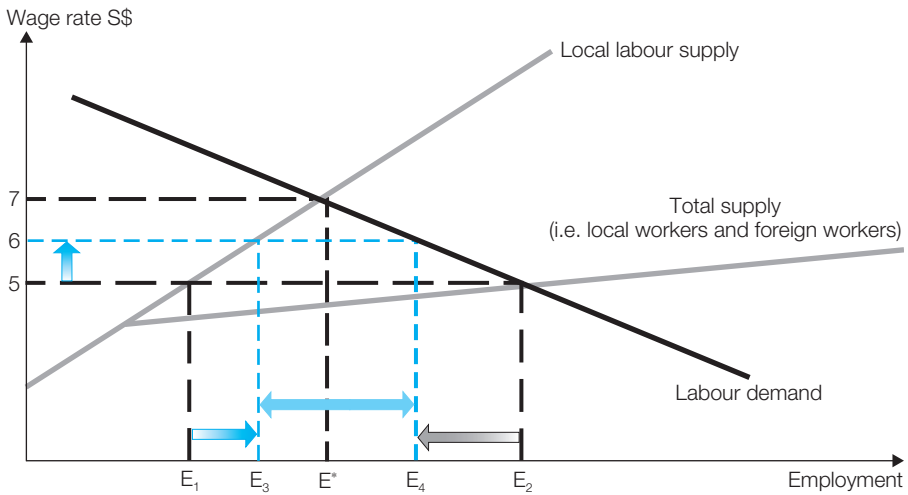
Singapore can ill afford.³ Wage depression could also have an adverse effect on workers' perceptions of fairness, which could in turn affect morale and productivity at the workplace, and potentially fracture social cohesion between locals and foreigners.

Minimum wage and labour market participation

The common argument that a minimum wage would result in job losses and higher local unemployment does not apply in Singapore, because of the large population of foreign workers relative to local workers. Figure 2 shows how the influx of foreign labour causes the supply curve to shift and become more elastic as the large pool of foreign workers is more responsive to even minor wage increases. Some businesses will find it profitable to expand in order to take advantage of cheaper foreign labour. The influx of foreigners will depress the equilibrium wage from, say, S\$7 to S\$5. Employment will increase to E_2 . Meanwhile, because of the lower wages, some locals will prefer to exit the market, causing employment of locals to fall from E^* to E_1 . The "shortage" of workers (E_1E_2) at the lower wage of \$5 is made up by the import of foreign workers.

However, if a minimum wage were to be pegged at S\$6, some businesses that depended on cheap foreign labour might scale down or close. Total employment would fall from E_2 to E_4 . At the same time, some locals who previously chose not to work at a lower wage would be enticed back to work,

Figure 2. Impact of minimum wage on employment of foreign workers



³ In some cases, however, it may admittedly take more than higher wages to encourage local workers to take up full-time employment, including policies that provide support with household work, childcare and elder care. In the absence of such services, any reduction in the number of migrants could actually make it more difficult for women to work outside their home.

thereby raising local employment from E_1 to E_3 . Therefore, a minimum wage would not increase the unemployment of local workers. On the contrary, the introduction of a minimum wage would not only increase local labour force participation but lead to a net increase in local employment. Higher minimum wages would therefore also help to moderate the future influx of foreign labour, thereby easing demand on public services in the already densely populated city-State.

Minimum wage, foreign workers and productivity

Although some may argue that introducing a minimum wage goes against the ethos of a free market, there is nothing new about state intervention in the Singapore labour market. Employers of foreign workers earning less than S\$3,000 a month must pay a foreign worker levy, which was first introduced in 1980. The levy is designed to raise the cost of employing foreign labour and reduce dependence on foreign workers. In response to public unease about the size of the foreign workforce, and in a renewed drive by policy-makers to increase long-term labour productivity, foreign worker levies were raised across the board from 2010. The levy amount is set to increase again by July 2013 to between S\$300 and \$600 for the construction and services sectors and between S\$250 and S\$550 for the manufacturing sector. The reason for increasing the levy is to provide a strong, clear incentive for businesses to upgrade their operations, invest in productivity-enhancing changes in the workplace, train workers and reduce dependence on low-skilled workers. It is also hoped that such changes could lead to a relative increase in demand for local workers, thus pushing their wages up.

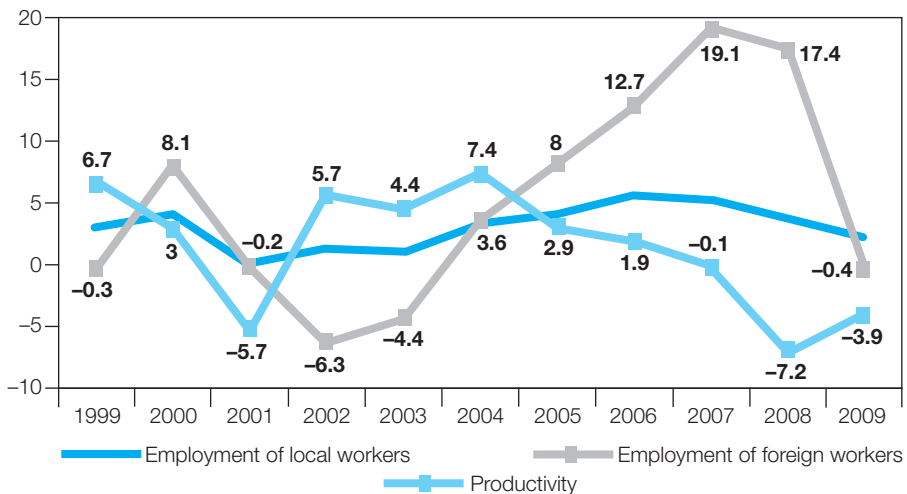
It could be argued that increasing the amount of the foreign worker levy would achieve the same result in practice as a minimum wage. However, there is a clear difference between the productivity-enhancing effects of a minimum wage and the dubious policy of increasing the foreign worker levy. A higher levy will not drive productivity increases if the resulting higher labour costs faced by employers are passed on to the foreign workers in the form of lower wages. Employers' resourcefulness and ability to offset such higher costs should not be underestimated. In many instances, foreign workers are not directly recruited by businesses but are "sourced" through employment agencies that compete against each other in lowering labour costs for their business clients by intensifying or expanding the recruitment of more cheaply sourced workers at the expense of other, more qualitative considerations. The lower productivity of foreign workers that results from the higher levy is indeed a critical consideration, and one that policy-makers have overlooked. The ability of businesses to neutralize levy increases will perpetuate a labour-intensive system of cost minimization instead of the alternative high-productivity system of competition based on quality, service, innovation and more technologically efficient methods of production (McLaughlin, 2009).

The constraints of the existing work permit system in Singapore, which ties foreign workers to specific employers, can also have an adverse effect on

productivity. The system often leaves foreign workers powerless to deal with situations where wages actually paid are lower than expected. The prospect of mandatory employer and low wages further deters qualified and experienced foreign workers from seeking work in Singapore, since they are able to command higher wages elsewhere. Consequently, it is only the less qualified foreign workers who are attracted to the Singapore labour market, which has a detrimental effect on labour productivity.⁴ The impact of the employment of foreign workers on productivity is illustrated by the relationship between the two variables in figure 3; in the years when there was a hike in the employment of foreign workers one can see a corresponding drop in productivity.

The potential role of high wages in attracting more highly qualified foreign workers is already recognized in the existing work permit (“employment pass”) regulations governing the hiring of mid-level and highly skilled foreign professionals in Singapore. These foreign professionals, who accounted for some 289,000 of the 1.198 million foreigners employed in 2011, are issued with category P, Q or S work permits, which require minimum qualifying salaries of S\$4,500, 3,000 and 2,000, respectively (see table 2). If, as opponents of a minimum wage have argued, the pressures of global competition would result in an exodus of jobs to cheaper overseas locations if a minimum wage were introduced, it is not clear why the same argument would not apply to graduate and

Figure 3. Percentage growth in the employment of foreign workers and in labour productivity



Source: Ministry of Manpower, *Labour Market 2009*, and *Yearbook of Statistics Singapore*, various issues.

⁴ For example, domestic workers from the Philippines and Indonesia, who are more proficient in English or have better educational qualifications or work experience, typically prefer to work in Hong Kong (China) or other countries with high minimum wages. In Hong Kong, for example, the minimum wage is HK\$3,580 (US\$460) compared to the S\$350–450 (US\$284–365) paid in Singapore. The additional levy paid by Singapore employers is S\$170 or 265 (US\$138 or 215).

Table 2. Eligibility criteria for work permits in Singapore

Work permit ("employment pass") category	Intended for	Eligibility criteria
P1	Professionals, managers, executives or specialists	<ul style="list-style-type: none"> • Fixed monthly salary¹ of at least S\$8,000
P2	Professionals, managers, executives or specialists	<ul style="list-style-type: none"> • Fixed monthly salary of at least S\$4,500 • Possesses recognized qualifications
Q1	Professionals, managers, executives or specialists	<ul style="list-style-type: none"> • Fixed monthly salary of at least S\$3,000 • Possesses recognized qualifications • In lieu of recognized qualifications, compensatory factors such as skills and years of experience may also be considered (a minimum of five years relevant work experience is recommended)
S	Professionals, specialists or technicians	<ul style="list-style-type: none"> • Fixed monthly salary of at least S\$2,000 • Possesses relevant degree, diploma, technical certificate or qualifications • Relevant work experience

¹ Fixed monthly salary refers to the total regular monthly payments to a foreign employee, including basic salary. It does not include: additional payment of overtime, bonus or commission; reimbursements or in-kind payments; any sum paid to an employee or contract worker owing to the special, unusual or hazardous nature of the employment; productivity incentive payments; variable allowances; contributions paid by the employer or employee to any pension or provident fund; or gratuity payable on discharge or retirement.

Source: Ministry of Manpower, available at: <http://www.mom.gov.sg/foreign-manpower/passes-visas/employment-pass/before-you-apply/Pages/default.aspx> [accessed 30 July 2012].

professional jobs in Singapore. If minimum qualifying salaries are necessary to ensure that employers recruit only suitably qualified foreign professionals, thus protecting the educational investment in local graduates, the same argument could be made for the significant investment made in the retraining of lower-skilled local workers. It is also important to ensure to a greater extent that the bulk of the 900,000 lower-skilled foreign workers holding category R work permits – who are not subject to any minimum wage requirement – are suitably qualified to support the national productivity drive. With a minimum wage in place, employers would expect higher levels of performance from these foreign workers, and employment agencies would be able to meet more exacting hiring standards, since higher wages would attract more qualified and productive foreign workers to Singapore. The higher minimum wage would boost the morale and motivation of workers, who would consider themselves to be treated more fairly by their employers. It would also lead to better job matches with longer employment tenure and thus contribute to higher overall productivity and competitiveness.

Minimum wage and workfare

A common argument put forward by the Government and union leaders opposed to the introduction of a minimum wage in Singapore is that the Workfare Income Supplement (WIS) scheme does a better job of lifting wages for those at the lower end of the scale than a minimum wage would.

The WIS scheme was first introduced in 2006 as a wage bonus scheme and became permanently entrenched as the fourth pillar of Singapore's social protection system in 2007. It cost S\$1.2 billion in its initial four years, from 2006 to 2010. One of the key objectives of introducing the WIS scheme was to increase the participation rate of local workers, especially older low-wage workers who were vulnerable to wage stagnation. Under the scheme, Singaporeans over the age of 35 earning an average monthly income of S\$1,700 or less over a period of at least three months are entitled to annual income supplements ranging from S\$150 (for workers aged between 35 and 44 earning S\$1,600 per month) to S\$2,800 (for workers aged 60 and over earning S\$1,000 per month) depending on their age, monthly income and employment duration in the reference year.⁵

The structure of WIS payouts is modelled on earned income tax credit schemes in order to minimize disincentives to engage in productive work. However, unlike other workfare schemes, which require welfare recipients to undertake mandatory work in order to qualify for continued welfare payments, the WIS is designed to encourage individuals who did not previously work – who are most likely not welfare recipients – to work and receive additional payouts from the Government. Eligibility for WIS payouts is also conditional on the recipient's wage and not on household income. In essence, it amounts to a kind of subsidy for employers of low-wage workers.

It could be argued that the WIS scheme increases wages without the negative effects on employment that a minimum wage might have by increasing wages at the expense of profit. However, this is a simplistic, short-term view. As a direct wage subsidy paid by the Government, the WIS could be said to encourage firms to perpetuate low wages, sub-standard employment terms and sub-optimal production methods. Another disadvantage is that it could encourage the self-employed to underdeclare their earnings in order to qualify for WIS payouts; similarly, employers could collude with workers to falsify their employment status in order to receive WIS payouts. This would raise dependency on government handouts, hamper the cultivation of a strong work ethic and increase the budgetary burden on the State in the long term.

⁵ The wage supplement is paid to Singapore citizens in the form of cash and contributions to the Central Provident Fund (CPF – the social security savings plan for senior citizens), at the rate of 1:2.5, in order to augment both their take-home pay and their retirement funds. The monthly cash component of the supplement varies from S\$3.58 to 66.70. In order to enable low-wage workers to benefit from the strong economic recovery in 2010, the Government has announced one-off Workfare Special Bonus (WSB) payments over and above the regular Workfare Income Supplement, amounting to 50 per cent of WIS for work done in 2010, and 25 per cent of WIS each year for work done in 2011 and 2012.

The policy debate on the minimum wage in Singapore – including in parliamentary debate on the Government’s commitment to inclusive growth (Hansard, 2011) – has unfortunately been pitched as a zero-sum choice of either keeping the WIS scheme or adopting a minimum wage system. This is potentially misleading and contrary to sound policy-making. There is, in fact, no fundamental conflict between a minimum wage system and the WIS scheme; they should be seen as complementing one another, not as mutually exclusive. Together, they would ensure that the burden of assisting low-wage workers is distributed between taxpayers and businesses. To place the full burden of helping low-wage workers on the WIS scheme would not only significantly increase government expenditure, it would also fail to provide an incentive to improve productivity. A minimum wage would not only motivate firms to seek productivity gains that would sustain the higher wage level, it would also help to engender a stronger sense of dignity, respect and pride among employees towards their work and increase their loyalty to their employers, thus reducing labour turnover.

Minimum wage vs voluntary wage increases

Attempts have also been made to raise wages of low-wage workers in Singapore through voluntary best-sourcing practices and company accreditation schemes. In particular, government departments, as service buyers, are persuaded to outsource responsibly by selecting accredited service providers bidding for contracts with low-wage jobs – such as in landscaping, cleaning and building maintenance – on the basis of quality, performance and good terms of employment. It can be argued that such practices, which are based on moral suasion, are unsustainable, especially when accredited service providers have to compete with non-accredited competitors in order to be selected by service buyers who are principally concerned with bottom-line savings. Although resorting to moral suasion or temporary incentives to encourage payment of fair wages to workers is laudable, this approach is dependent on the goodwill of companies and is unlikely to be adopted on a widespread basis. In addition, such practices may unravel, in that service providers who do not pay fair wages may cause those who do to succumb to competitive pressure and rescind their fair wage practices. A statutory minimum wage, by contrast, ensures an even playing field for such providers, which is to the workers’ advantage. The failure of attempts to have firms adopt voluntary wage increases in Hong Kong (China) before the introduction of the minimum wage in 2011 is most instructive in this regard.

Objections to a minimum wage

Interestingly, some of the strongest objections to a minimum wage in Singapore have come from trade union leaders. Unsurprisingly, the objections echo those of the Government. The National Trade Union Congress (NTUC) is the

only federation of trade unions in Singapore, representing over 98 per cent of all trade union members; since 1980, the Secretary-General of NTUC, who is its Chief Executive, has also been a Cabinet Minister. Some Members of Parliament from the ruling political party are also in the NTUC Central Executive Committee, while others – including Cabinet Ministers – are advisers to unions. The objections raised by union leaders include unsubstantiated arguments that a minimum wage system is designed to meet the needs of a “by-gone era”; that it is “an easy solution” to the problem of low-wage employment and has no place in Singapore because it would “not work” and would end up as a “maximum wage” or “sticky wage”.⁶ They believe that a better approach would be to help workers acquire “minimum skills” through skills upgrading.

Their objections are not shared by employers, however. In a survey about the perceived impact of a minimum wage, a surprising 34 per cent of the 151 employers polled thought that a minimum wage would benefit low-wage workers, while another 41 per cent were unsure. Only 15 per cent of the firms polled held the conventional view that a minimum wage would reduce the low-wage employment rate (Kan, 2011).

The assertion that a minimum wage system is irrelevant in a modern economy runs counter to recent developments in this area.⁷ The argument that a minimum wage would turn into a “maximum wage” for workers, since employers would pay the minimum wage and no more, could have some traction in a labour-surplus economy. However, the competition for workers in Singapore’s consistently tight labour market, which enjoys almost full employment, would ensure that good workers with desirable skills and abilities were paid over and above the minimum wage. If it is true that employers would not go beyond the minimum wage, were such a system to be introduced, then there is no reason to expect them to behave any differently where there is no minimum wage system. In such circumstances, training and skills upgrading would also be ineffective in raising workers’ incomes.

Minimum wage and skills upgrading

The argument that workers’ skills can be upgraded to enable them to earn higher pay is premised on existing skills training opportunities being matched by actual demand for them. Since the introduction of the Skills Redevelop-

⁶ “S’pore should not set a minimum wage for low-income workers”, Channel News Asia, 15 September 2010, <http://www.channelnewsasia.com/stories/singaporelocalnews/view/1081457/1.html> [30 October 2010]; “Set minimum skills standard, not minimum wage”, *Business Times*, Singapore, 1 October 2010; and “Minimum wage policy won’t work: Employers, labour chief”, *Straits Times*, Singapore, 13 October 2010.

⁷ The United Kingdom reintroduced a minimum wage in 1999, while in the United States, 670 academic economists from leading universities, including six Nobel Laureates, endorsed a call to increase the minimum wage in 2006. In addition, the ILO has reported that “minimum wages are a nearly universal policy instrument ... applied in more than 90 per cent of ILO member States ... in more than 100 countries, whose populations represent about 90 per cent of the world’s total population” (ILO, 2008, p. 34).

ment Programme in 1996, and the subsequent establishment of the Lifelong Learning Endowment Fund in 2000, a plethora of general, job-specific, professional and executive training courses have been implemented in Singapore to enhance workers' employability and skills. The Government funds these training schemes through substantial Absentee Payroll funding,⁸ plus subsidies of up to 95 per cent of the training fees. While the massive infusion of resources to develop an extensive national system of Continuing Education and Training (CET) for human capital development is primarily a supply-side policy, the value and effectiveness of any CET system is ultimately determined by the willingness of employers to send their workers for training. Without a minimum wage, employers may not bother to train their low-wage workers, despite available opportunities. If a minimum wage system were to be introduced, however, it would motivate employers to seek to improve workers' skills and productivity in line with the higher wages paid, and thus increase the demand for training.

A minimum wage could therefore provide the necessary impetus for the start of a positive, ongoing cycle of skills upgrading and wage increases, enabling workers to reach their full potential.

Minimum wage implementation

Studies of best practices in minimum wage implementation worldwide show that the most common system is the introduction of a single wage rate that applies to all with minimal exceptions (Eyraud and Saget, 2005). Workers' needs, increased productivity and the goal of maintaining high levels of employment should also be taken into account. The minimum wage should be supported by systematic monitoring, effective enforcement and regular review, in order to avoid sudden or large-scale changes. Importantly, the process of deciding on the minimum wage should involve tripartite partnership. Fortunately, tripartism is well established in Singapore and is widely held to constitute a key competitive advantage. Since its establishment in 1972, the tripartite National Wages Council (NWC) has met annually to consider national wage recommendations; its experience in formulating guidelines for rational wage increases that are consistent with domestic growth performance and prospects, productivity improvement and international competitiveness, makes it the obvious channel for deliberating and deciding on minimum wage issues in Singapore.

Based on the 2011 median monthly wage of S\$2,925 for resident full-time workers (Ministry of Manpower, 2012), a minimum wage pegged at between 35 per cent and 50 per cent of the median wage would thus be between S\$1,020 and 1,460 per month. The key challenge to the introduction of a minimum wage is that of applying it to the 900,000 low-skilled foreign workers, many of whom are currently earning below those levels. While it is important that minimum wages should apply to foreign workers in order to support the

⁸ A government grant to employers to cover workers' training hours.

national push for higher productivity growth, the introduction of a minimum wage would require a corresponding adjustment to the foreign worker levies paid by employers. The total levy collected is substantial, estimated at approximately S\$2 billion in 2010.⁹ The foreign worker levy system should not be dismantled, as it can continue to provide a policy lever to moderate the influx of foreign workers; the levy should be reduced, however, in order to offset the higher wage bill that employers would incur. The full minimum wage should be phased in gradually for foreign workers, so that employers can make the necessary changes to the quantity and quality of their existing foreign workforce.

Enhancing the social safety net

The minimum wage is not a panacea for all the problems faced by low-wage workers. Nor should it be considered as a substitute for collective bargaining, which covers other aspects of employment, such as working conditions. The minimum wage is, rather, one of a series of measures designed to address the multidimensional nature of low pay, income inequality and other social deprivations, and it should be implemented alongside other social security measures such as the Workfare Income Supplement scheme.

Also needed are other labour market policy measures to protect workers from the increased risk of unemployment associated with the volatility of the labour market. Of particular concern are older, low-income, poorly educated resident workers, who make up a large proportion of the 300,000 low-skilled and low-wage workers, defined as those earning below the 20th income percentile, i.e. S\$1,200 or less in gross monthly income (see Ministry of Manpower, 2006 and 2009a). Poorly educated resident workers are vulnerable to job loss, given the anticipated increase in cyclical volatility and the rapid pace of economic restructuring. With their low incomes, they will face clear challenges in terms of social protection as they move through their working life and into retirement. Increased protection could be introduced without the moral hazard problems associated with typical unemployment benefit schemes. Some promising labour market measures that have been suggested include the introduction of an unemployment credit scheme and a wage insurance scheme (Hui, 2010).¹⁰

The existing social safety net in Singapore provides no protection against unemployment. A proposed unemployment credit scheme will, if adopted, enable persons who are involuntarily unemployed to withdraw an amount corresponding to half their last wage, subject to a cap, from their Central Provident Fund (CPF) accounts. The scheme, which is designed to optimize job-search

⁹ Based on the estimated distribution of the 871,000 work permit holders over the manufacturing, construction, home services and other service industries multiplied by the respective average levy rates applicable for these industries.

¹⁰ The main ideas outlined in this section arose from the discussion and recommendations of the REACH Manpower Policy Study Group of the Singapore Ministry of Community Development, Youth and Sports, of which the author was a member.

conditions, would cover up to six months of involuntary unemployment and will be funded by workers' contributions, matched by the Government. The amount withdrawn will be paid back into the account when the person is re-employed, with the interest-bearing account balance being returned to the worker on retirement. The individual contributions serve to reduce any potential moral hazard, and the flexibility of extending withdrawals in times of recession will act as an automatic countercyclical stabilizer.

Under a proposed wage insurance scheme, involuntarily unemployed persons finding a new job could be compensated for loss of earnings if the new job pays less than the previous one. The proposed scheme provides for payouts equal to half the wage difference, subject to a monthly cap, and a maximum payout period of 12 months. By smoothing the incomes of re-employed workers earning less than before, the scheme not only encourages the involuntarily unemployed to seek re-employment as soon as possible, rather than holding out for a better-paying job, but also increases labour mobility by motivating workers to broaden their job search and consider different jobs or sectors of employment. The wage insurance scheme may also be regarded by employers as a form of subsidy for staff retraining, thus increasing the incidence of training and reducing wage losses from structural unemployment. By pooling the social insurance risk, the scheme would help to reduce the public cost of providing assistance to the more vulnerable lower income groups.

Conclusion

The major challenge to inclusive growth in Singapore is that of finding sustainable and effective solutions to help low-wage workers adjust to the new economic and labour market landscape and benefit from the continued growth of the economy. Minimum qualifying salaries have been relatively successful in attracting foreign skilled professionals into Singapore's skilled workforce, in order to sustain strong economic growth. For almost three decades, quotas and levies have been used to discourage the employment of low-skilled foreign workers. Significant resources have also been ploughed into subsidized job upgrading and training schemes for locals since the late 1990s. Despite this, depressed wages have plagued those at the lower end of the wage distribution because of the huge influx of foreign labour, which has contributed to worsening income inequality. Increased economic volatility and the widening income gap may well be part of the price to pay for maintaining a highly open and globalized economy. However, rising income inequality, if ignored, could lead to formation of an impoverished underclass alienated from the benefits of globalization, which could heighten social instability and increase political pressure to adopt inward-looking protectionist economic policies.

The context of the Singapore labour market provides a strong case for the introduction of a statutory minimum wage. A minimum wage would have positive effects on labour force participation, reduce the dependence on low-wage foreign labour and ease the future budgetary burden of government

assistance to low-wage workers. More importantly, a minimum wage would help improve workforce productivity by reducing labour exploitation, increasing demand for training and attracting better qualified and more productive workers into the economy, thereby enhancing Singapore's international reputation. The key role played by a minimum wage in increasing productivity is especially important for countries and cities with a significant migrant workforce, where economic growth and welfare are ultimately dependent on qualitative enhancement rather than quantitative expansion.

The minimum wage is not a panacea for all the problems faced by low-wage workers, but should be an important component of a coordinated policy package that provides the necessary incentives for businesses to focus on utilizing skills more effectively and on a high-productivity system of competition based on quality, service, innovation and more technologically efficient methods of production in order to ensure long-term growth of the economy. Policy-makers will also have to seriously consider how the social security system can be enhanced to provide workers with better protection in the context of a greater risk of labour market volatility and adjustment pains. An effective social safety net can be a potential new source of competitive advantage, and can facilitate social acceptance of the economic restructuring required to sustain long-term growth. Singapore is in a unique position to implement these policies owing to its favourable fiscal situation, the strong work ethic of its labour force and the harmonious industrial relations between its tripartite partners.

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