



# Pillars of S'pore Social Safety Net

- Singapore's 4 pillars of social security
  - ▶ Central Provident Fund (CPF) – compulsory savings for retirement
  - ▶ Public housing (HDB) – subsidised housing for majority of Singaporeans, for wealth accumulation
  - ▶ Healthcare (3Ms) - to meet primary healthcare needs and access to hospitalisation, for human capital development
  - ▶ Workfare Income Supplement Scheme (WIS) – wage supplement to encourage employment and increase retirement savings of older low-wage workers

# Current Realities of Labour Market

- Increased volatility and uncertainty in global economy - Singapore suffered four recessions in past 12 years
- Increased fragmentation and vulnerability of jobs from offshoring and rapid technological change
- Skills-biased technological change raising skilled labour demand relative to unskilled labour
- One of the fastest ageing populations in the world
- Very high rate of inflow of low skilled foreign labour with significant dampening of wages at low end of the wage distribution

# Rapidly Ageing Population

Year	Resident Population ('000)	Median Age	Resident TFR	Index of Ageing <sup>1</sup>	Support Ratio <sup>2</sup>
1960	1646.4	18.0	5.76	5.0	23.0
1970	2013.6	19.5	3.07	8.7	17.0
1980	2282.1	24.4	1.82	17.7	13.8
1990	2735.9	29.8	1.83	26.2	11.8
2000	3273.4	34.0	1.60	32.8	9.9
2009	3,733.9	36.9	1.22	35.5	8.3

Notes: .

1. Date for 1970 and from 1980 onwards refer to residents aged 65 years per 100 residents under 15 years. Prior to 1980 (except 1970) figures refer to total population. Data from 2003 onwards have been revised to exclude residents who are overseas for a continuous period of 12 months or longer as at the reference period.

2. Number of persons aged 15-64 years per elderly

# Countries with Highest Share & Fastest Growth of Older Population

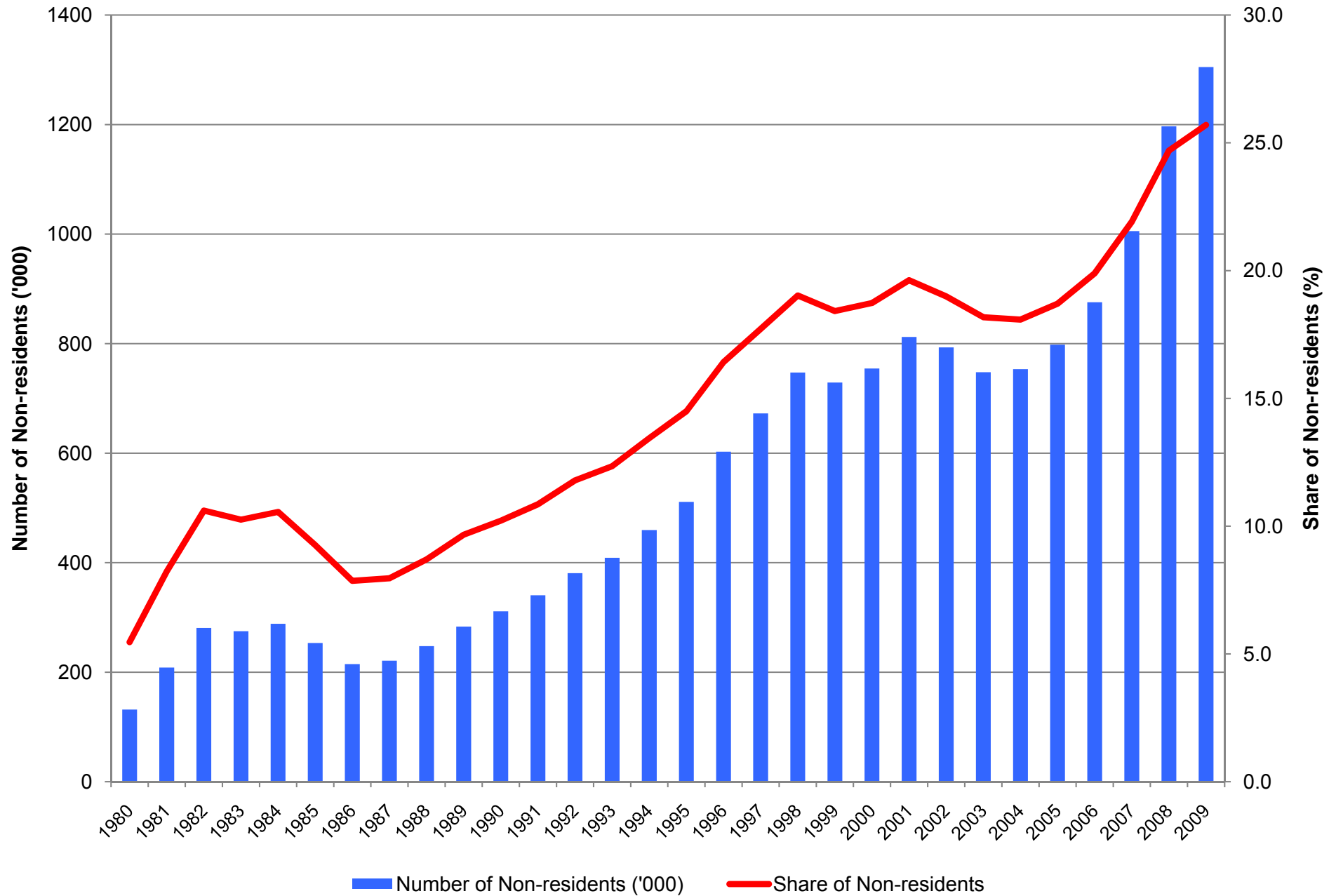
Percentage of 60+ in population in 2050		Percentage point increase in 60+ share 2000-2050	
Japan	44.0	South Korea	30.7
South Korea	42.2	<b>Singapore</b>	<b>29.3</b>
Slovenia	40.5	Cuba	24.5
Bulgaria	40.2	Poland	22.9
Singapore	39.8	Kuwait	22.3
Poland	39.6	Slovakia	22.2
Cuba	39.3	UAE	22.1
Romania	39.1	Slovenia	21.1
Spain	39.0	China	21.0
Czech Republic	38.6	Japan	20.7

Note: Calculations based on data in United Nations, World Population Prospects: The 2006 Revision.  
Source: Bloom et al. (2008)

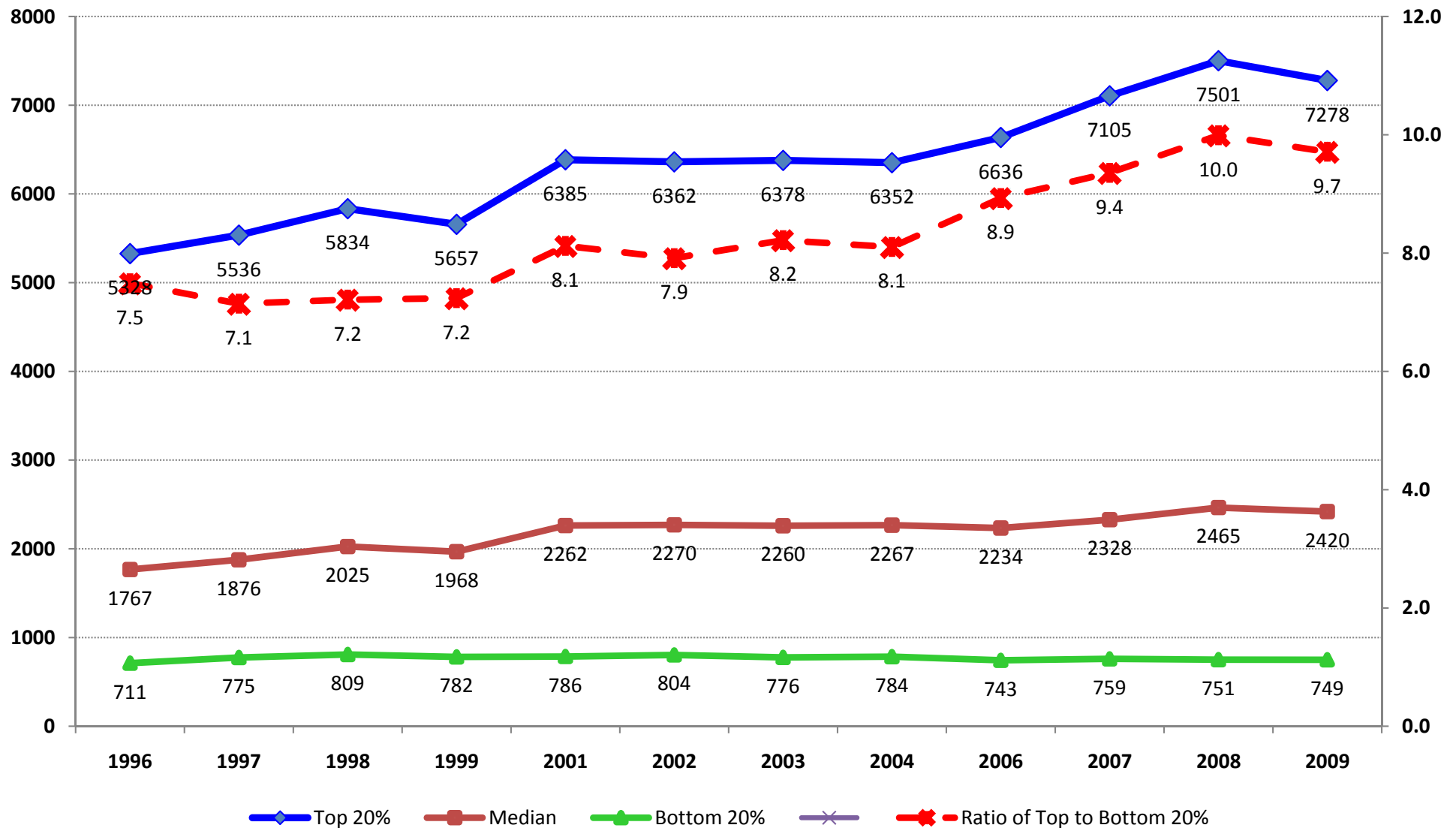
# Labour Market Implications

- Increasing number of older persons who are economically inactive
- Issues of employability of older workers
- Liberalisation of immigration policies to augment domestic labour supply
- Singapore's total population has increased by 69% from 3 million in 1990 to 5.08 million in 2010
- Between 1998 & 2008 foreigners employed increased by 438,000 or 48 % of total new employment
- Highest growth between 2006 and 2008, spurred by rise in non-citizen population. In 2009, Singapore's permanent resident grew by 11.5% compared to citizen population growth of 1.1%.

# Singapore's Non-Resident Population



# Real Median Monthly Income of Employed Resident 1996 – 2009



Source: Report on Labour Force in Singapore, various issues, MOM

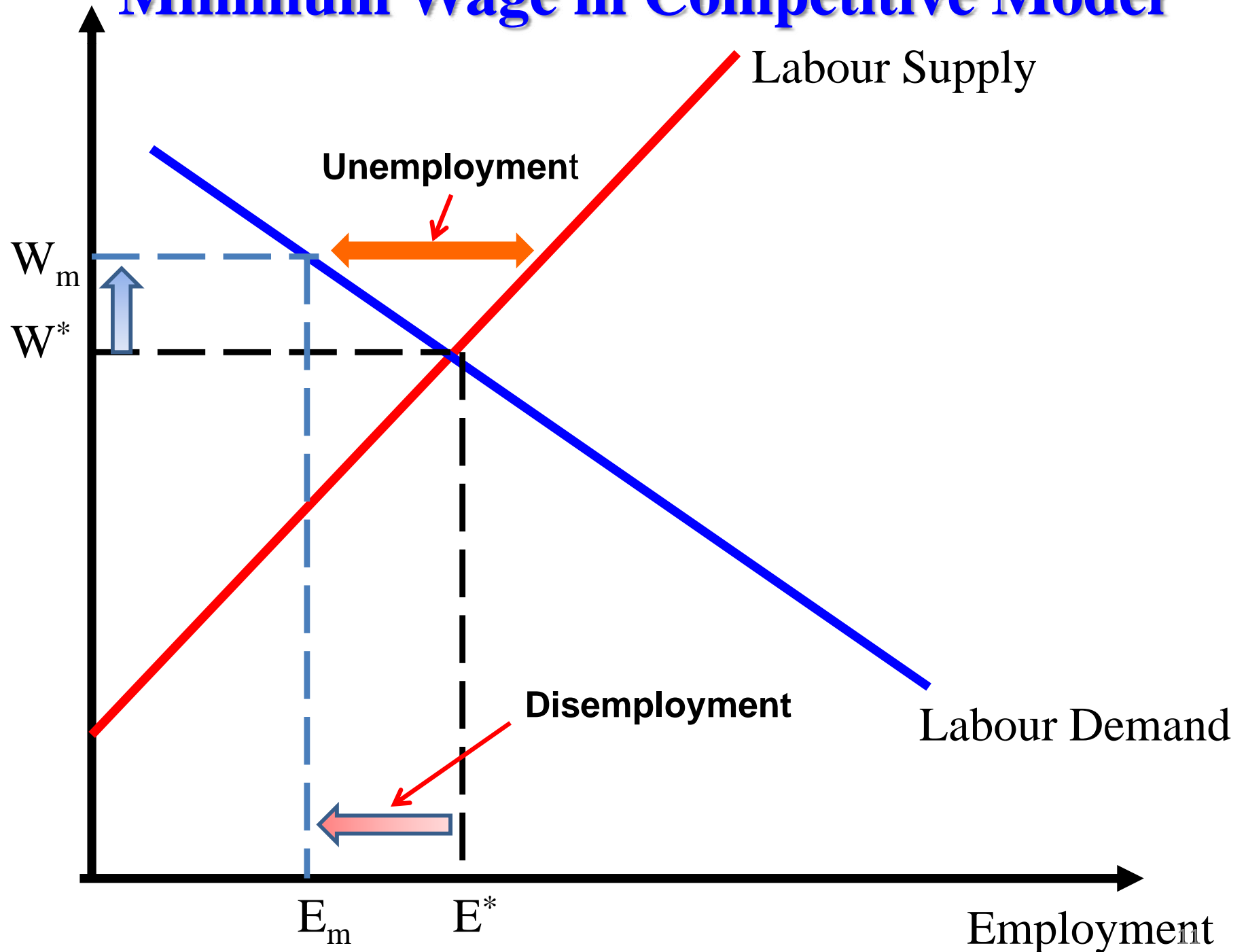
# Implications of Wage Depression

- Withdrawal of local workers from the labour market in favour of non-labour market activities. Others prefer to work part-time instead of full-time
- Lower full-time employment rate of local workers leading to underutilisation of scarce labour resources
- Need for WIS to prop up wages. WIS scheme costs \$1.2 billion thus far and expected to cost \$400m in 2010
- Group of vulnerable workers remain. Other costly social support schemes may also increase
- Adverse impact on worker's perception of fairness affecting morale and productivity improvement
- Could potentially fracture social cohesion and assimilation of foreign worker at workplace when income gaps are attributed to presence of foreign workers

# Impact of Minimum Wage

- Textbook economic analysis – regulation vs efficiency
- If market is competitive, minimum wage leads to employment displacement of the low skilled, higher unemployment and inefficiency
- If high skilled and low skilled workers are substitutes, employment of high skilled workers may increase
- If employer has monopsonistic power i.e. ability to influence wages paid, then higher wages could lead to higher employment

# Minimum Wage in Competitive Model



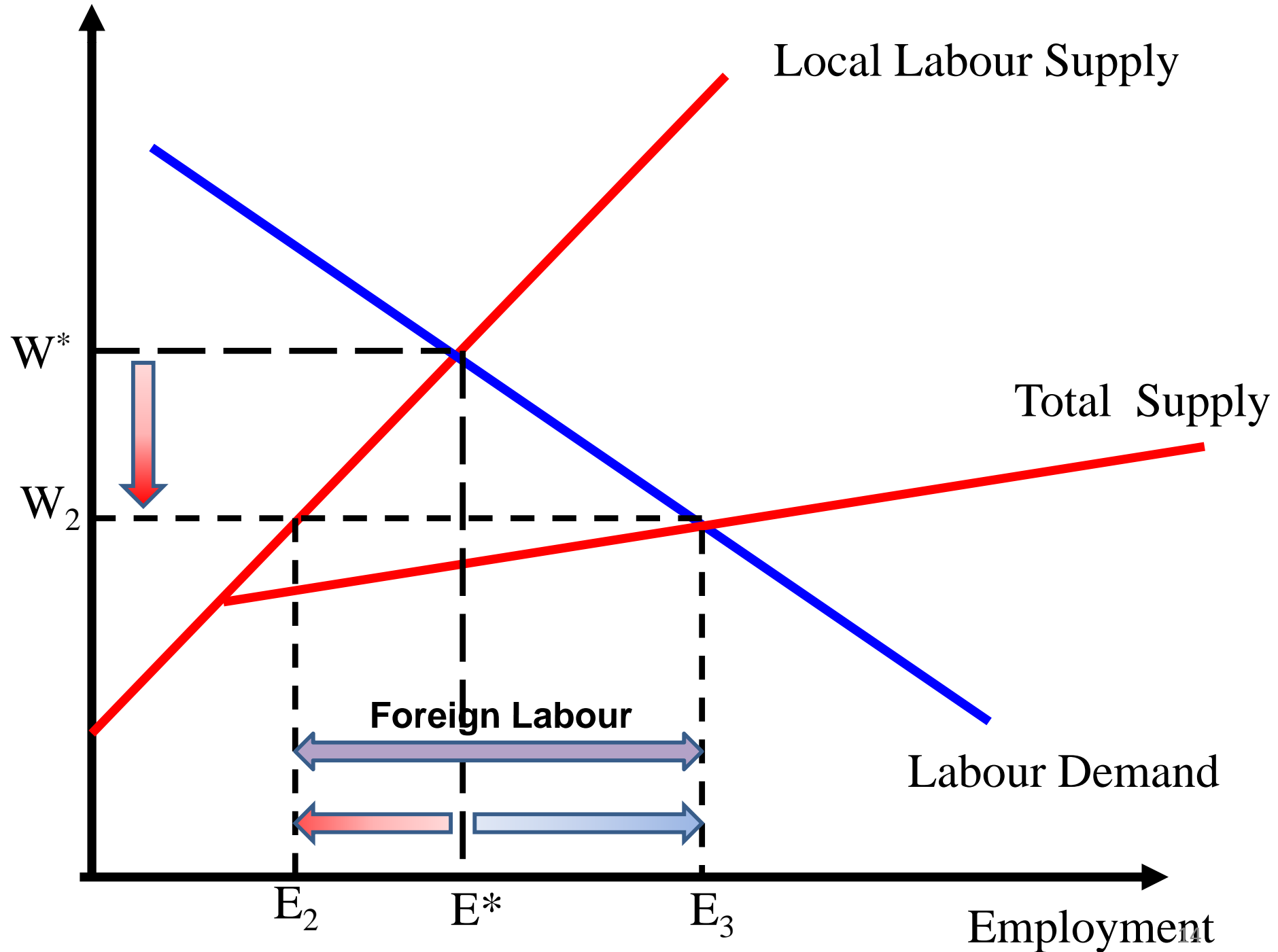
# Challenge to Competitive Model

- Strong exceptions to predictions of competitive model
- Imbalance in bargaining power argument
- Wage determined by bargaining power of worker and employer
- Reserve resources of low-skilled are thinner compared to deeper financial resources of company
- Such workers are more desperate to accept job with lower wage

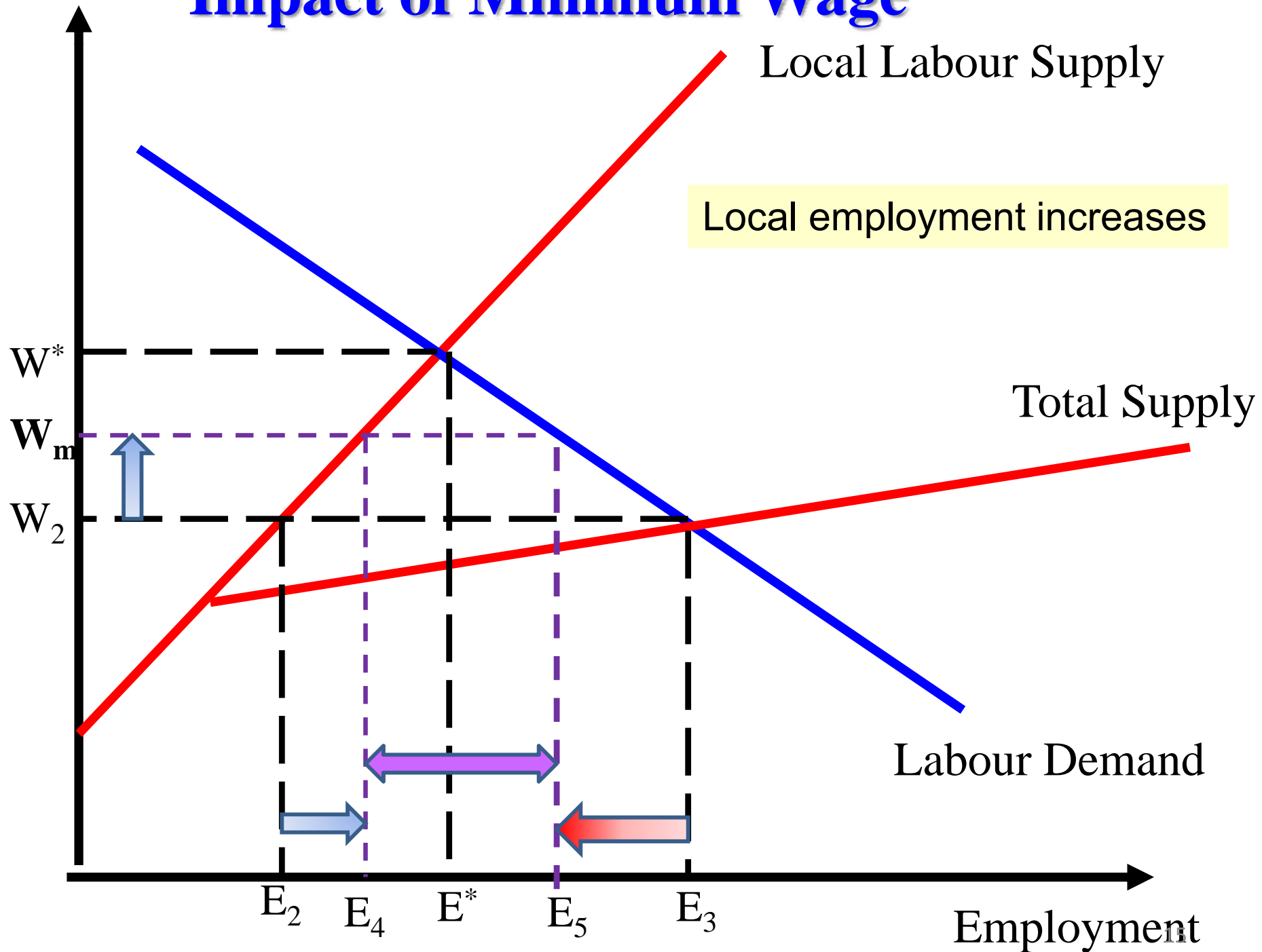
# Challenge to Competitive Model

- Other factors that weaken worker's bargaining power:
  - ▶ Discrimination leading to overcrowding at low-end of labour market
  - ▶ Employment laws and institutional arrangements
  - ▶ Lack of social safety nets – unemployment benefits and welfare payments
  - ▶ Substantial inflow of migrant workers
- Outcome - destructive competition at bottom end where workers accept very low wages, unattractive terms & conditions of employment
- Wages paid do not cover full social cost of labour – misallocation of resources

# Foreign Workers and Wage Depression



# Impact of Minimum Wage



# Minimum Wage and Foreign Labour

- FWL intended to increase cost of employing foreign worker relative to local but in practice employers can offset the increase in FWL by sourcing for cheaper sources
- Impact of cheaper sources on productivity is a serious and critical consideration
- Experience of employment of foreign domestic helper provides good indicator of likely responses to FWL increase
- Foreign labour a major component of the workforce. Productivity performance will affect overall productivity
- If minimum salary levels for P, Q and S employment pass holders, why not for Cat R employment permit holders ?
- Minimum wage will help to attract more productive workers and increase the returns on our training investment dollars

# Workfare Income Supplement Scheme

- Launched in 2007 to help low wage workers (both employed and self-employed)
- WIS is based on individual wage
- Low wage workers above 35 years of age and earning a monthly income of below \$1,700 can qualify for the scheme
- Objective is to encourage low wage workers to seek and continue employment and enhance their retirement adequacy.
- Unlike workfare schemes elsewhere which evolved out of welfare reform to induce non-working welfare recipients to seek productive work
- WIS also includes additional incentives to help low wage workers improve their skills through the Workfare Training Support Scheme (WTS)

# Workfare and Minimum Wage

- WIS augments incomes from government revenue (taxpayers) while minimum wage does so at expense of employers' profits
- WIS raises incomes without negative employment effects but may encourage firms to continue low wages and sub-standard terms of employment – increasing budgetary burden on state
- Risk of fraud in WIS payments
- By establishing a floor, minimum wage prevents low-wage employers from competing on the basis of wage costs with other firms willing to pay above the minimum wage
- WIS and minimum wage complement each other
- WIS should be linked to household income

# Minimum Wage Issues

- **Is minimum wage relevant for present or ‘bygone era’ ?**
  - ▶ UK reintroduced the minimum wage in 1999
  - ▶ In 2006, 670 USA academic economists endorsed a call to increase the minimum wage -include 6 Nobel Laureates and top economists from leading universities
  - ▶ “Minimum wages are a nearly universal policy instrument ... applied in more than 90 per cent of ILO member States.... more than 100 countries, whose populations represent about 90 per cent of the world’s total population... trends reveal that in recent years, minimum wages have enjoyed .. a revival ” ILO Global Wage Report 08/09
- **Will introduction of minimum wage lead to an increase in unemployment ?**
  - ▶ Disemployment inevitable – removes subsidy to inefficient firms

# Minimum Wage Issues (cont'd)

- Minimum wages already exist for holders of P, Q and S employment pass
- If controlled wages leads to relocation of jobs overseas, would this not apply to graduates and professional jobs ?
- **Is minimum wage and 'minimum skills' fundamentally incompatible?**
- Realisation of skills acquisition depends on demand and supply factors
- Minimum wage will provide impetus for maximum skills
- **Will employers be not be contented with just paying minimum wages and no more ?**
- **Will minimum wage lead to higher inflation?**
- **Is it the easy way out or difficult to implement ?**

# How Should Minimum Wage be Set ?

- Minimum wages should not be regarded as replacement for collective bargaining (CB)
- CB should go beyond wage negotiations to secure good working conditions and other aspects of employment
- Best practices:
  - ▶ Kept as simple wage floor that applies nationally with minor exceptions
  - ▶ Take account of needs of workers, productivity and need to maintain high levels of employment
  - ▶ Determined through research and supported by systematic monitoring & effective enforcement
  - ▶ Should be reviewed regularly to avoid large shocks
  - ▶ Minimum wage decisions should involve tripartite dialogue

# Minimum Wage for Singapore

- Strong case for statutory minimum wage
- Raises the incentive to work
- Reduces the cost of future market interventions
- Moderates excessive inflow of low wage foreign labour
- Boosts worker's morale and productivity
- Attracts better qualified, more productive foreign workers to Singapore
- Improves overall productivity in line with Economic Strategy Committee recommendations
- Enhances Singapore's international reputation

# Enhancing Social Safety Net

- Main ideas arising from discussion among members of the MCYS REACH Manpower Policy Study (MPS) Social Safety Net Subgroup
- MPS Subgroup Members
  - Yeoh Lam Keong      Davin Chor
  - Hui Weng Tat        Soh Tze Min
  - Donald Low          Charmaine Tan
- How to provide greater protection against unemployment risks without creating the moral hazard problems associated with unemployment benefits ?
- How to help workers transit between jobs/sectors as the pace of restructuring intensifies ?
- Proposal: Unemployment Credit and Wage Insurance Scheme (UWIS)

# Unemployment Credit Scheme

- Current social security system provides no protection against involuntary unemployment
- **Features of Unemployment Credit Scheme:**
  - ▶ Individual Unemployment Credit account in CPF
  - ▶ Can draw 50% of salary for 3 months for involuntary unemployment (cap of \$2250 per month)
  - ▶ To pay back to account when employed, earns interest when unused
  - ▶ On retirement, account balance goes to worker
  - ▶ Withdrawals can be extended to 6 mths in recessions
  - ▶ Individual can draw down of up to maximum of 6 months of salary

# Unemployment Credit Scheme

- **Progressive Contribution Funding Structure**
  - ▶ **An example:** Individual contributions: 0.5% for those earning below \$1250 pm, 1% for above \$1250 to max of \$4500 pm
  - ▶ Govt contributions: 2-3% for those below \$1250 pm, 1% for those between \$1250 - \$4500pm
- **Key advantages**
  - ▶ Fills key gap in smoothing unemployment adjustment and labour re-allocation
  - ▶ Short credit period facilitates optimal job search
  - ▶ Individual account minimises moral hazard
  - ▶ Extension in times of recession a new counter cyclical automatic stabilizer
  - ▶ Reasonable public costs: \$620m or 0.2 - 0.3% of GDP

# Wage Insurance Scheme

- Encourage workers to be reemployed as soon as possible rather than hold out for a better-paying job
- Motivate workers to consider different jobs/sectors of employment, to broaden their job search
- **Features of Wage Insurance Scheme**
  - ▶ Payout on re-employment to lower paying new job after involuntary unemployment
  - ▶ Amount paid equal to 50% of wage gap between new and previous job subject to max of \$1000 per month
  - ▶ Fixed payout period of 12 months
  - ▶ Individual contribution of 1% of monthly pay of above \$1500 to \$6000 pm max

# Wage Insurance Scheme

## ▪ Advantages

- ▶ Reduces reservation wage to reemployment
- ▶ Reduce wage losses from structural unemployment
- ▶ Increase labour market mobility
- ▶ Social insurance funding reduces public costs
- ▶ Public funding makes it viable for lower, more vulnerable income groups
- ▶ Example: with worst case 180,000 or 10% of eligible claimants per year,  
Estimated public cost : \$690m or 0.2 - 0.3% of GDP

# Concluding Remarks

- Singapore economy experiencing wider wage/income inequalities and greater economic volatility – price of highly open, globalised economy
- Need to enhance social safety nets to provide better protection against volatility risks and adjustment pains
- Low wage decline should be addressed in manner consistent with emphasis on productivity enhancement
- Effective social safety net can be a potential new source of competitive advantage, facilitates social acceptance of economic change
- Singapore in a unique situation to design and fund effective social security systems due to favourable fiscal situation and strong work ethic of labour force
- Reasonable cost

**Thank you**