

Much ado about minimum wage

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The Business Times, 5 September 2020

A global recession might not seem like the best time to discuss measures that could raise costs for firms. Yet calls for a minimum wage have resurfaced since the July 10 polls. What gives this perennial debate its staying power? And what, if anything, might satisfy its participants?

Over the last decade, the minimum wage debate has been revived with each General Election, as the idea features in several opposition parties' manifestos.

Yet this is not a partisan issue. Proponents of a minimum wage hail from across academia and policy circles, including founding chairman of the National Wages Council Lim Chong Yah, who called for a legislated minimum wage in 2012.

Though various government officials have, over the years, dismissed calls for a minimum wage, Deputy Prime Minister Heng Swee Keat struck a less absolute note in his speech during the debate on the President's Address on Aug 31.

The government "will keep an open mind" about various ideas to strengthen social safety nets, including the minimum wage, he said. But he cautioned: "Each of these ideas has its merits as well as unintended effects. We have to consider the trade-offs and be clear about what works for our context and our times."

Yet on Thursday, no fewer than six People's Action Party (PAP) Members of Parliament rose to debate Workers' Party (WP) MP Jamus Lim on the matter, after he mentioned the minimum wage in a broader speech about having greater compassion in policymaking. Minister of State for Manpower and Education Gan Siow Huang, for instance, warned that having a minimum wage would result in low-wage workers losing jobs instead.

Senior Minister Tharman Shanmugaratnam pointed to the existing Progressive Wage Model (PWM), with its differentiated approach that allows policymakers to set a "minimum rung" at an appropriate level for each sector.

Why is it so hard to lay the topic to rest? The main theoretical argument against a minimum wage is simple: if a minimum wage is set above the market-clearing wage - which it would have to be, to make a difference - then firms would hire fewer workers and unemployment would rise. But the devil is in the empirical details.

The unemployment argument assumes, for a start, that existing wage levels reflect how much employers can truly afford to pay. If employers have a lot of wage-setting power to begin with, this may not be true.

"Empirically, the literature has often found no or small disemployment effects of the minimum wage in various countries, although the consensus among various researchers is not very strong," says National University of Singapore assistant professor of economics Justin Leung. "This suggests that there is indeed some level of wage-setting power."

Institute of Policy Studies research associate Damien Huang agrees that recent papers suggest "a lack of evidence for the theoretical prediction that unemployment increases", except for youths who are unskilled or without tertiary education.

Of course, studies in other countries - with their own circumstances, demographics, and market structure - may not be applicable to Singapore. Yet the argument is not that the theoretical objection never holds, just that it may not necessarily do so. This leaves room to argue that Singapore might be able to make it work.

Steps and ladders

Granted, the unemployment objection is not the only one that has been raised. Since Singapore's PWM was announced in 2012 and implemented in the ensuing years, the government has pointed to it as a better alternative to a national minimum wage.

Shortly before the election, Mr Tharman himself made this point in a talk show. The PWM "can put everyone on a ladder of skills and wages", he said: "It is better than a minimum wage, which is only the first step."

In Parliament on Tuesday, Manpower Minister Josephine Teo framed the choice as one between expanding the PWM and shifting to a national minimum wage, adding: "This debate, however, is not new. We have considered it before." She, too, framed the PWM as allowing for features of a "minimum wage plus" in several sectors.

The PWM has been implemented for three sectors so far: cleaning, security, and landscape. Developed by tripartite committees for each sector, it sets out career ladders for workers, with corresponding wage floors for each rung. Compliance with the PWM is mandatory in each sector, enforced via registration or licensing requirements.

Mrs Teo noted that in the last five years, workers in the three PWM sectors saw cumulative wage growth of around 30 per cent, compared to 21 per cent for the median worker.

In setting out wage ladders rather than a single wage floor, the PWM by definition goes further than a standard minimum wage. Yet one obvious difference is its scope of coverage.

"The progressive wage model is essentially an inefficient and ineffective partial minimum wage system restricted to a few sectors of the economy," says labour economist Hui Weng Tat, on secondment from the Lee Kuan Yew School of Public Policy as Dean of Nazarbayev University's Graduate School of Public Policy in Kazakhstan.

"It is ineffective as strict enforcement and monitoring is required if the PWM is to bring about its intended result," says Prof Hui, who has preferred a minimum wage over the PWM since the latter was introduced.

Given the detailed wage ladders of each PWM, with qualifications and years of experience, much auditing would be needed to ensure that firms comply. The large amount of resources needed also makes it inefficient, adds Prof Hui.

Even if one rejects the charge of ineffectiveness, the larger point remains: that the PWM does not and may not be able to cover all sectors.

"Extending PWMs to more sectors requires more groundwork, like what was done in the three sectors, with training and certification programs ready and participation of all

employers in that sector," says Singapore Management University (SMU) associate professor of economics Ho Kong Weng. Existing licensing requirements are also a prerequisite if the PWM is to be enforced.

The simplicity of a national minimum wage is its greatest advantage, says Mr Huang: both in the ease of communicating it to the public, and in administering it.

And while a minimum wage can be based on considerations such as household spending needs, the specificity of the PWM requires wage levels to be set accurately, "without distorting market premiums for different job levels".

The sector-specific nature of the PWM also discourages job mobility, says Linda Lim, professor emerita at the University of Michigan's Stephen M. Ross School of Business.

"From a market economics point of view, it is best if the worker changes her job according to supply and demand, or market forces," she said in an Academia.sg interview in July. But a worker gains from the PWM only by staying with the same sector and employer, and doing "higher-value" work there.

There is also the danger that the PWM's detailed conditions could "turn into loopholes that employers use to retain workers on the lowest rung of wages", said the WP's Dr Lim in Parliament on Thursday.

Minimum reasons

Apart from its relative simplicity, the arguments in favour of a minimum wage are not too different from the arguments for the PWM itself.

First, a minimum wage spurs firms to improve productivity and take a labour-light approach.

"Wages in Singapore are currently too low to incentivise employer investments in productivity enhancement," Prof Lim tells The Business Times. A minimum wage provides bottom-line impetus for such moves.

As Prof Hui puts it: "The strongest reason (for a minimum wage) is to provide the much-needed incentive and impetus for companies to move away from the heavy dependence on large numbers of low wage foreign labour, and remove the inherent obstacles to a much-needed restructuring of the Singapore economy with greater dependence on advanced technological solutions for production and utilisation of services."

Second, from the social perspective, a minimum wage helps ensure basic living standards for those who cannot achieve this through full-time work and need social welfare subsidies.

Defenders of the status quo might point to the existing Workfare Income Supplement scheme, which tops up the earnings of low-wage workers.

But such a wage subsidy programme can certainly co-exist with a minimum wage, says Mr Huang: "Think of minimum wages and wage subsidies working together to push and pull them up respectively, meaning they are complementary and not substitutes."

SMU assistant professor of economics Giovanni Ko suggests one mode of co-existence: "There could be a minimum wage that guarantees a basic minimum for all workers regardless of sector or skill, and on top of that, for sectors where we feel the current wage

progression doesn't recognise and reward skills and experience, there could be additional salary requirements."

A minimum wage that applies to all workers, as is usually the case in other countries, can also discourage firms from relying on low-wage foreign labour. The PWM does not achieve this effect, as it applies only to citizens and permanent residents, notes Prof Lim.

Yet this apparent advantage might be an obstacle instead. Prof Leung views a "heavy reliance on foreign workers for low-wage jobs" as the strongest reason that a minimum wage might be unsuitable for Singapore.

If much of the benefits accrue to foreign workers, the associated costs might be harder to stomach.

"How much Singaporean employers and consumers are willing to pay - in the form of lower profits and higher prices - for the higher wages of non-Singaporean workers is a subjective question," he notes.

Though the welfare of low-wage migrant workers has gained attention and sympathy in recent years, it remains a contentious political issue.

Nor is the solution simply to exclude foreign workers from a national minimum wage. That would have distortionary effects, and possibly invite criticism. Says Prof Huang: "A disparity here between locals and foreign workers may raise questions on human rights and equality by international organisations such as the International Monetary Fund for its Article IV consultations and the United Nations in its periodic reviews."

A right time for everything?

If neither the unemployment argument nor the PWM's existence suffices to end the debate, there is still an argument in favour of shelving the discussion for now: the fact that Singapore is in the throes of what might be a prolonged recession.

Given a minimum wage that prevents employers from cutting wages below that level, employers might prefer to lay workers off to weather the recession, if they are free to do so, says Prof Ko.

With wages already declining during a recession, a minimum wage would become "more binding and more likely to generate disemployment effects", says Prof Leung, noting that some studies do suggest that a minimum wage has a larger disemployment effect in a recession.

"Nonetheless, a good minimum wage that balances both sides should vary according to economic conditions," he adds.

"The minimum wage is meant to be a structural feature of the labour market that exists regardless of the point of the business cycle one is in," says Prof Lim. Some countries might, for instance, delay an increase in an existing minimum wage during a recession.

But a recession is not, in itself, a reason for not having a minimum wage - though it may affect the level at which the wage is set, and the timing of any increase, she adds.

In other words, the question of timing - while relevant in terms of implementation - might be beside the point. The fundamental reasons for having or not having a minimum wage ought to hold true throughout the economic cycle.

As the WP's Dr Lim said in response to his PAP interlocutors, it is possible to discuss and agree upon the principle of having a minimum wage, which might then be rolled out "after the storm has passed", if the current moment is not ideal.

"One could say there is no good time to implement such a policy," says Mr Huang.

"However, we need to remember that the rationale for the minimum wage is also linked to the concept of defining poverty and minimum income standards."

Social welfare and security are themselves part of a circular economy, he adds. "Job security without income security leaves gaps that eventually still have to be filled."

Prof Ko puts it most bluntly: "The central question that underpins a single minimum wage for all workers is a fundamentally moral one: what's the minimum that a worker should be paid for their labour?"

"But since there are consequences to having a minimum wage, the question really is, how high a cost, in terms of employment, profits, prices, are we prepared to pay to guarantee an ethically acceptable minimum wage for every worker?"

As CIMB Private Banking economist Song Seng Wun observes, Singapore's wage share of gross domestic product is small relative to the profit share - implying room for profits to be squeezed, if costs are not passed on to consumers.

Singapore Business Federation (SBF) chief executive officer Ho Meng Kit noted on Friday that the business community is likely to remain divided on the issue; that some companies will support it, as they are also in other markets with minimum wage requirements, while others will be alarmed.

Ultimately, whether to have a minimum wage is not "a technical question to be answered by economists" but "a moral trade-off to be considered by everyone", concludes Prof Ko.

The PWM, for its part, seems to be premised upon an idea of "fairness" in relation to skills, he added: Everyone is paid a minimum, but if you have more skills, you should be paid more.

"It's a mix of a moral imperative and a desire to recognise and incentivise skill." In this, the PWM embodies that familiar Singaporean value of meritocracy, he adds.

If anything, the current Covid-19 recession might strengthen the moral imperative of fair wages, argues Prof Hui: "The experience of the pandemic has helped us realise the importance and true social value of some of the low-paid jobs in essential services."

The low wages of these jobs should be increased to reflect their contribution and value to society, and narrow existing inequalities, he adds.

With the current economic disruption pushing companies to innovate and restructure, a minimum wage could itself be "a safer and fairer post-pandemic world that provides decent living standards for all employees".

SBF's Mr Ho said: "We believe the discussion on minimum wage should not just be a cost and benefit issue for businesses. It should also be approached if companies have a sense of social justice how to reward their workers for decent work. If we pursue this approach of developing and enabling strong corporate values, then the changes that we want in society will be more lasting and sustainable as we would have businesses motivated to act appropriately not because it is the lawful thing to do but it is the right thing to do."

As Singaporeans have been consistently reminded, there can be no return to a pre-Covid-19 world.

Perhaps the post-Covid-19 world that is now being imagined could spare some space for an idea that, despite being shot down time and time again, continues to resurface in both policy papers and the popular imagination.

There will be no quick or easy answers to the minimum wage question, but the new norm should bring an openness to a constructive debate.