

## **Implementing minimum wage may lead to lower employment: Josephine Teo**

**Amir Yusof**

**Channel NewsAsia**, 26 October 2018

SINGAPORE: Implementing a minimum wage in Singapore to address concerns about inequality could ultimately lead to lower levels of employment and workers turning to illegal jobs, Manpower Minister Josephine Teo said on Friday (Oct 26).

Speaking about class disparities at a dialogue organised by the Institute of Policy Studies (IPS), Mrs Teo said that one "big worry" about inequality is the risk of disadvantage becoming entrenched in poorer households in Singapore.

To address such concerns, there have been calls to implement a minimum wage "to uplift disadvantaged workers", she said.

But Mrs Teo, who is also Second Minister for Home Affairs, said a minimum wage may force employers to "pay more than the market rate for some types of labour". This will result in a "tax" effect, with lowest-waged workers attracting the highest "tax".

"Not all employers would want to employ workers at this rate, which could lead to lower levels of employment. To secure jobs, some workers may choose to work illegally below the minimum wage, which makes them even more vulnerable," she said in her opening remarks of the dialogue.

She noted that the Government has instead implemented measures such as the Workfare Income Supplement, a scheme that tops up the income of low-wage workers, "thereby achieving the same uplift as a minimum wage".

"But there's a crucial difference - the cost is borne by the Government, with no risk of inducing unemployment or illegal employment of such workers."

The Progressive Wage Model (PWM) could also be a better solution to increasing wages sustainably, she said.

"Unlike minimum wage which specifies a floor, PWM specifies a ladder. In fact, there are four inter-linked ladders for skills, jobs, productivity and wages.

"Under PWM, a worker can be paid a higher wage on the basis of his improved skills, enlarged job or heightened productivity. The rungs of the ladder provide an upward path, so the worker is not stuck earning minimum wages," she added.

### **Government "not ideologically opposed to minimum wage"**

During the dialogue session, IPS' special adviser Professor Tommy Koh, who was in the audience, pointed out how Japan, South Korea, Taiwan and Hong Kong implemented a minimum wage without the consequences of unemployment or workers turning to illegal jobs.

In addressing this point, Mrs Teo recalled that during her visit to Hong Kong, soon after a minimum wage was implemented, she learnt of an elderly condominium security officer who was displaced by a younger person. The building management had “expressed a preference” for the younger employee for the same minimum wage, she said.

But Mrs Teo stated that the Government is "not ideologically opposed" to a minimum wage and that in certain areas where the labour market is tight, "there is room for us to do something".

Nominated Member of Parliament Walter Theseira, who was also on stage for the dialogue, said that the effect of a minimum wage across different economies was mixed.

“I think it’s obviously true if you have very large and binding minimum wage that introduces undesirable rigidity into the labour market, that will have undesirable consequences ... (and) create some deadweight losses,” said the Singapore University of Social Sciences professor.

“But at the same time, it’s possible for calibrated minimum wages to fulfil a similar role in the market as strong unions might.

“It helps to address basic asymmetry that exists in many labour markets between workers and employers. I think the reality is many workers are not aware of their rights if they are not operating in solidarity and they have little bargaining power and they are often in a take-it-or-leave-it position,” Associate Professor Theseira added.

Prof Koh also asked a question about why Singapore’s income profile today “looks more like a pear than an olive”, with a large number of people “at the bottom”.

Mrs Teo replied that this was “a problem of success”.

“It is because a system has been built up to enable large swathes of people to move up to middle or to upper middle ... and this group has expanded. With each successful cohort, the parents want to expand on that advantage. It’s something that is very difficult to overcome,” she said.

“I think the honest way of dealing with it is to say that the journey ahead is going to be harder than what it was in the past. If we fail to recognise that then I think we will never be able to find a way to bridge (the gap),” she added.

The dialogue at Marina Bay Sands was part of an event held by the IPS to mark its 30th anniversary.