

Middle class wage stagnation could lead to social instability

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SINGAPORE: Middle class wages have been stagnant in the past 5 years, according to economists, and this could lead to social instability.

These concerns were shared at the annual Institute of Policy Studies Singapore Perspectives conference.

Economists believe a US economy slowdown in business and consumer spending may cause problems for Singapore, but as Singapore is tops in the ASEAN resilience index, it should be able to weather external shocks, thanks to a diversified economy and strong Asian demand.

They predict that growth going forward will be 3 to 5 percent.

The long-term growth limits for a mature economy was previously in the 3 to 5 percent range.

However, economists are asking who this growth is for. The income of the bottom 30 percent of the population has fallen. What is more worrying is the fact that the majority of Singaporeans in the middle class has only seen about a 1 percent increase in nominal income in the last 5 years.

It is not just Singapore - economists say stagnant wages is a global problem, and the chief reason for this is globalisation.

India and China are introducing a large pool of skilled and unskilled labour to compete with the labour forces of industrialised countries.

Singapore is susceptible to this because of its open economy.

123,000 jobs were created last year and economists estimate some 70 percent of these jobs went to foreigners.

"With the rate of immigration, even among unskilled and semi skilled labour at a rate twice of what we experienced in the 90s, at a rate fastest in the developed world, the question is - does this dampen our real wages as we grow? Does the strategy itself dampen real wages and depress real wages at the low and middle end of the spectrums? They are sacred cows but we should step

back and think about them," said Yeoh Lam Keong, Vice President, Economic Society of Singapore.

Another reason cited for middle class wage stagnation is the move by the government to cut CPF employer contribution rates for older workers by 4 percentage points over the last 2 years.

"So if you were a worker in the 50-55 age group, you could have seen your wages fall as much as 10 percent over the last 3 or 4 years. Now with the economy improving, the government could bring that back, the increase is 1 or 2 percent. I'm in support of CPF tinkering but probably it happens far too often, but I think there's probably some justification to look back and think that the restructuring was a bit too aggressive on the CPF side and it has contributed somewhat to a very sandwiched middle class," said Chua Hak Bin, Director, Asia Pacific Econ & Market Analysis, Citigroup Global Markets Singapore.

The government is looking at increasing CPF by 1 to 2 percentage points in 2007.

Economists say workfare should become a more permanent pillar of the economy so as to cushion growing inequality.

Adding that long term middle class wage stagnation could lead to social instability.