

## **S'pore should seriously study minimum wage as complement to PWM, says MAS chief**

**Increase in Local Qualifying Salary has more negative impacts on foreign employment than resident employment**

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***The Online Citizen***, 23<sup>rd</sup> July 2021

Singapore may seriously consider studying a modest minimum wage as a complement to the current Progressive Wage Model (PWM) said Mr Ravi Menon, Managing Director of the Monetary Authority of Singapore.

Speaking at the Institute of Policy Studies (IPS) at the Lee Kuan Yew School of Public Policy on Thursday (22 July) on the topic "An Inclusive Society", Mr Menon also cautioned against exaggerating the benefits of a minimum wage, saying that it may not have an obvious impact of income inequality.

"If we have a minimum wage, we must be clear of its rationale: It is to help lift the wages of those at the bottom of the income distribution," he explained.

Mr Menon added: "A minimum wage also signifies a societal value: That no one should be paid less than this amount for his or her labour. It is not unlike setting minimum standards for workplace safety and humane conditions of work."

He went on to say that if a minimum wage seems like too much of a big step, the government could instead use the Local Qualifying Salary (LQS) as a de facto minimum wage.

The LQS is the minimum wage that has to be paid to resident workers in order for them to count towards a company's total workforce when determining work permit and S Pass quota entitlements. Currently, the LQS is S\$1,4000 a month.

Mr Menon said, "We could consider steadily increasing the LQS over time... For the last few years, it has been going up by \$100 every year. We could continue doing so or even step up the increases."

The Managing Director cautioned that implementing a minimum wage is not as straightforward as it seems even though empirical evidence from many other countries has shown little to no adverse effects on employment when increasing the minimum wage.

For this to work, he noted, the government has to raise the price of hiring foreigners relative to locals at the same time.

One way to do this, he suggested, is increasing foreign worker levies. However, the increase could simply be passed down to the worker directly via wage reductions, which would lead to a reduction in labour quality, he explained.

Mr Menon stressed that a key thing to consider would be the level at which the minimum wage ought to be set.

Taking the example of a minimum wage of S\$1,200 a month, Mr Menon asked: “What are the likely effects on wages, employment and prices in different industries?”

“What is the wage distribution of workers earning below the \$1,200 level? If most of them are bunched close to \$1,200, there is a good chance the positive wage effect could be sizeable while the negative employment effect is trivial. But if most of these workers are well below \$1,200, there is a chance that many of them may become unemployed.

“Is there scope to move them to other jobs?”

He said that the PWM, which is sector-based, is more effective at improving the wage prospects of low-wage workers compared to a national minimum wage as it features a wage ladder, where workers can earn higher wages as they upgrade their skills.

However, he also said that it is unclear if the PWM could be extended to all occupations below the 30th percentile, nor how long it would take or whether it would even work.

Currently, the PWM is applied in the cleaning, security and landscape sectors.

As such, Mr Menon explained that a minimum wage could complement the PWM instead of serving as an alternative.

In his speech, Mr Menon stated that the country must be centred on jobs and wages in its social inclusion agenda. This would mean increasing the wages of low-wage workers, sustaining the median wage growth while also promoting incoming mobility via several tools.

These include two safety nets in the form of a minimum wage and an enhanced Workfare Income Supplement, as well as a “trampoline” in the form of re-employment support. The remaining four tools to help people move up the wage ladder include progressive wages, reclaimed jobs, professionalised jobs and life-long learning, he said.

Mr Menon then cited a study by the MAS which found that an increase in the LQS leads to a rise in the effective minimum wage for resident workers in a “good proportion” of companies within the service sector.

He added that while the increase in LQS does come with some negative effects on employment, these negative impacts are higher on foreign employment than resident employment.

He went on to say that the current approach of supporting workers by subsidising their existing jobs through transfers to firms might have to be slowly channelled towards direct support to workers and retraining them for new jobs.

However, this should be designed as re-employment facilitation rather than unemployment benefits, he added.

“We have a sizeable part of the economy based on cheap labour, local and foreign, and quite often proposals to raise local wages or improve conditions for foreign workers is met with resistance – that it will put these businesses out, lead to lay-offs of local employees, or lead to higher costs for Singaporeans,” said Mr Menon.

“Ultimately, a truly inclusive society requires a value system that places the welfare of our fellow human beings alongside our own.”

Following reports on Mr Menon’s remarks, former-People’s Action Party (PAP) MP Inderjit Singh said that he was “glad” someone in the government had finally arrived at this opinion regarding minimum wage.

In [Facebook](#) post on Friday (23 July), Mr Singh wrote: “While we may not be able to completely fix income inequality with a minimum wage we can at least assure a minimum quality of life in expensive Singapore.”

### ***Workers’ Party MP Jamus Lim on minimum wage***

The push for a minimum wage is one that alternative political parties in Singapore have been calling for a long time.

For example, the Workers’ Party (WP) had included, the implementation of a minimum take-home wage of S\$1,300 per month for full-time work and pro-rated for part-time work as a key suggestion in the party’s manifesto for the General Election 2020.

During a [debate](#) in Parliament in October 2020, National Trades Union Congress’ (NTUC) deputy secretary-general Koh Poh Koon has said that the WP’s proposal could lead to a worse situation for business and workers and also become a politicised issue.

Another of Mr Koh's arguments was that WP's minimum wage proposal could lead to unemployment. He argued that the tripartite partners already look at data in their discussions, but the practical considerations of implementing minimum wage may be challenging.

WP's Sengkang GRC MP Jamus Lim countered that the issue of politicisation can be solved by calling for an independent wage board to fix the minimum wage.

He also noted that WP's proposal is based on studies that show that a minimum wage does not lead to an increase in unemployment, and is not based on "folksy wisdom and beliefs of labour union leaders".

"With all due respect, as much as it will be lovely to always rely on folksy wisdom and beliefs by labour union leaders, at the same time, it's important to realise that when we talk about studies that show that the minimum wage does not lead to any appreciable increase in unemployment, this is based on careful consideration and not just beliefs."

Despite all the criticism upon Asst Prof Lim's points about minimum wage by the PAP Members of Parliament during that debate, the MAS chief's statement seems to suggest that his points were indeed valid.