

## **Consider minimum wage as a complement to progressive wage model: MAS chief**

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***The Straits Times***, 22<sup>nd</sup> July 2021

SINGAPORE - The Republic may want to seriously study a modest minimum wage as a complement to the existing progressive wage model (PWM), said Singapore's central bank chief on Thursday (July 22).

However, Mr Ravi Menon, managing director of the Monetary Authority of Singapore, cautioned against exaggerating the benefits of a minimum wage, saying it will not make a discernible dent in 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.

"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 said.

He was speaking on the topic "An Inclusive Society" at the Institute of Policy Studies (IPS) at the Lee Kuan Yew School of Public Policy.

Mr Menon said that if a national minimum wage is seen as too big a step, the Government could more decisively use the Local Qualifying Salary (LQS) as a de facto minimum wage.

The LQS, currently at least \$1,400 a month, is the minimum wage that must be paid to resident workers, so that they can count towards the firm's total workforce when determining its Work Permit and S Pass quota entitlement.

"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," said Mr Menon.

### **Minimum wage**

He said there is a large body of empirical evidence across countries that finds zero or minimal adverse effects on employment from increasing the minimum wage.

But the issue is not straightforward. For any form of minimum wage to work, governments need to simultaneously raise the price of foreigners relative to locals, he said.

"While one way to do it would be to raise foreign worker levies, the levy increase could simply be passed down to the foreign worker in terms of wage reductions, leading to a reduction in labour quality."

A key consideration is what level a minimum wage should be set at.

Citing an example of a minimum wage of \$1,200 per month, he posed these questions: "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?"

The PWM - a wage ladder implemented in the cleaning, security, and landscape sectors, where workers earn higher wages as they upgrade their skills - has been the subject of some debate in Parliament.

It was announced earlier this month that local escalator maintenance workers will also be covered under the PWM from 2022, along with those maintaining lifts.

Mr Menon noted that the sector-based PWM is more effective than a national minimum wage at improving the wage prospects of most low-wage workers.

But it is not clear whether the PWM can be extended to all occupations below the 30th percentile, how long it will take, and whether it will work as well, he added.

Hence, the minimum wage and progressive wage need not be alternatives, but complements.

### **Social inclusion: two safety nets, one trampoline, and four escalators**

In his speech, Mr Menon said Singapore's social inclusion agenda must be centred on jobs and wages.

This means raising the wages of low-wage workers, sustaining median wage growth, and promoting income mobility through a comprehensive range of tools.

He described the tools as safety nets to provide a basic level of support; trampolines to help people bounce back if they fall; and escalators to help people move up along progressively higher wages.

The two safety nets are a minimum wage and an enhanced Workfare Income Supplement.

The trampoline is re-employment support, and the four escalators are progressive wages, reclaimed jobs, professionalised jobs, and life-long learning.

He noted that a study by MAS found that an increase in the LQS raises the effective minimum wage for resident workers in a "good proportion" of firms in the services sector.

While an increase in the LQS has some negative effects on employment, the negative impact is greater on foreign employment than on resident employment, he said.

A more dynamic and flexible labour market is needed to deal with technological disruption but Mr Menon said this requires more security for workers than what Singapore currently has.

He added that some form of temporary unemployment benefit or insurance is required to ease the transition of workers from redundant jobs to skills training, before they can take on new jobs.

"Re-employment support will help minimise underemployment and enhance the skills and adaptability of structurally unemployed workers. It will help them take the risks of transiting to new growth areas. It could also serve as a small automatic stabiliser during economic downturns by supporting domestic consumption."

He added that without a mechanism to save workers, the authorities are forced to save jobs, which may not always be a good idea. Rather, they should focus efforts on training and moving workers into higher-paying jobs.

The current approach of supporting workers - by subsidising their existing jobs through transfers to firms - may have to gradually pivot to directly supporting workers and their retraining into the new jobs of the future, such as by scaling up existing subsidised attach-and-train schemes, he said.

But this has to be designed as re-employment facilitation, rather than as unemployment benefits.

"Providing assistance without a deliberate link to employment search and active upskilling leads to poor outcomes, as shown by the experience in many countries. A well-designed re-employment support programme should be time-bound."

Citing the examples of Canada and Poland, Mr Menon observed that both countries have set the maximum duration of support depending on the business cycle, with a

longer duration when the unemployment rate is higher and the probability of finding a job, lower.

Ultimately, he said, Singaporeans must ask themselves how much they are willing to pay for an inclusive society.

"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.

"I do not want to trivialise these costs. But it is a test of how earnestly we want to be an inclusive society - are we willing to share the burden? Are we willing to pay the price?

"Ultimately, a truly inclusive society requires a value system that places the welfare of our fellow human beings alongside our own. We can be an inspiring nation, driven by purpose and based on values," said Mr Menon.