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Businessman Ho Kwon Ping says wages of workers in the services sector lag behind others' because of Singapore's incomplete wage revolution. What will it take to complete it? And at what price?

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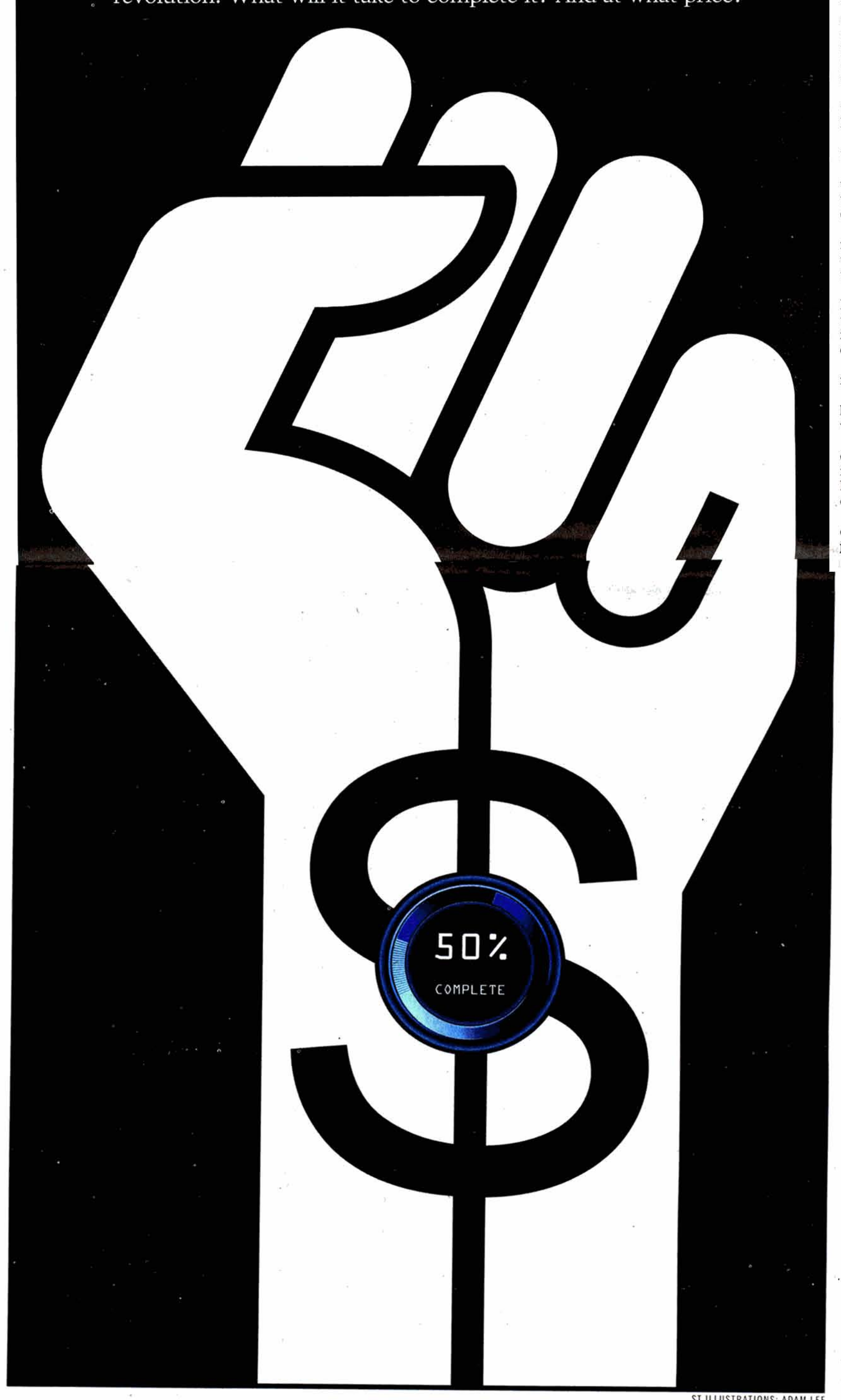

ST ILLUSTRATIONS: ADAM LEE

IN THE 1970s, Singapore's economy was more "assembly line" than "top of the line".

The symbol of industry was the flatted factory, in which rows of workers assembled electronic goods or sewed textiles.

But by the end of the decade, things were set to change.

Labour-intensive manufacturing faced a tightening labour market and low-cost competitors emerging in the region.

Policymakers had begun looking to technology and education, not employment, as the driver of growth.

And in 1979, a revolution happened.

It was not one led by workers, but a three-year wage restructuring exercise by the National Wages Council (NWC).

The NWC recommended wage increases of about 20 per cent each year.

Yet one sector of the economy was left behind: low-skilled domestic services.

This incomplete revolution was the theme of Banyan Tree Holdings executive chairman Ho Kwon Ping's speech at an Institute of Policy Studies (IPS) seminar this month.

Today, low wages and low-skilled labour still characterise industries such as construction and retail.

If Singapore continues on this track, it will be "an increasingly rich and unequal society with growing dependence on an underclass of lowly paid foreign workers", warned Mr Ho.

Insight takes a look at why the high-wage wave passed some industries by, and what it might take to complete the revolution.

An incomplete revolution

THE Government's high-wage policy from 1979 to 1981 meant that low-skilled, labour-intensive industries had to upgrade, move away, or simply close shop.

To help firms make the shift, the Economic Development Board (EDB) promoted automation, mechanisation and computerisation.

It also courted multinational companies in new, high value-added industries and invited them to invest in Singapore.

The strategy worked, said Mr Ho. "Today's life sciences, pharmaceuticals and other high-tech manufacturing industries testify to the correctness of that vision."

Yet the domestic service sector – including retail, hospitality, and construction – failed to similarly reinvent itself.

It was not that the Government targeted only manufacturing firms, says Professor Lim Chong Yah, who helmed the NWC from its inception in 1972 till 2001.

"At the time, when we were restructuring the economy, the labour-intensive industries were ubiquitous." Domestic service industries were among the many labour-intensive ones.

Rather than having been neglected, domestic service industries may have failed to board the high-wage, high-skilled train because they did not feel the pressure to do so, say economists.

Wage restructuring succeeded in manufacturing because firms faced global competition, says Singapore Management University (SMU) economist Davin Chor.

"It was a case of 'upgrade or fall behind to foreign competitors'."

Firms which could not move up the value chain had to exit. But it is "harder for this same logic to play out for the services sector", adds Dr Chor.

Industries such as retail or food and beverage are non-tradable, and do not face direct global competition.

"It is unlike manufacturing where if you're uncompetitive, you lose your supply orders to an alternative producer who might be based in another country."

Data on wages seems to bear out Mr Ho's thesis of an incomplete wage revolution.

Citing Central Provident Fund (CPF) data on incomes, National Trades Union Congress (NTUC) deputy secretary-general Ong Ye Kung says: "It would appear that manufacturing wages are higher, based on published statistics."

In manufacturing, the average monthly income – including both white-collar and rank-and-file workers – more than tripled from $1,240 in 1989 to $4,260 in 2010.

In construction, incomes grew more slowly, from $1,130 in 1989 to $3,110 in 2010. As for the hotels and restaurants sector, incomes did not even double during that period. They went from $830 in 1989 to just $1,510 in 2010.

The dual economy

SINGAPORE'S incomplete wage revolution has given rise to a "dual-income economy", argued Mr Ho.

Alongside an internationally competitive, well-paid economy is the low-cost, low-skilled domestic service economy.

The fortunes of employees in both sectors differ greatly, and to a greater extent than in other countries.

Data which Mr Ho obtained from the IPS showed that the income gap between professionals and low-skilled workers is much larger in Singapore than in eight other developed countries.

In Singapore, construction workers earn less than a tenth of a doctor's pay. In the other countries, they earn about a third of what a doctor does, and up to half in Germany and Australia.

The stark difference remains even in comparison with Hong Kong, a fellow small city-state.

Doctors in both territories earn similar salaries, the study said.

Yet a construction worker in Hong Kong earns a quarter of a doctor's salary.

Mr Ho surmised that the difference was because Singapore's construction industry uses more low-cost, unskilled foreign workers, which keeps wages low for Singaporeans in the same jobs.

The wage gap between professionals and lower-skilled workers has existed for a long time, says Associate Professor Tilak Abeysinghe of the National University of Singapore (NUS), who conducted a similar study in the 1990s.

Then, Singapore had the widest wage gap of 10 cities studied. Prof Abeysinghe attributed this to labour market openness, and a high proportion of low-skilled workers in the labour force.

Associate Professor Hui Weng Tat of NUS observes that Hong Kong has "stricter control over the import of lower-skilled foreign labour". Hong Kong admits only a few thousand foreign workers to lower-skilled jobs each year. Before turning to foreign labour, Hong Kong firms must first source for local workers through the Labour Department's job-matching service. They must also offer a wage no less than the median wage of comparable local workers in similar jobs, he says.

In contrast, Singapore's foreign labour policy between 2005 and 2008 was "much more liberal but clearly unsustainable", with lower-skilled workers admitted in the tens or hundreds of thousands.

The ready availability of foreign workers has contributed to a vicious circle of wage-dampening, in which Singaporeans avoid certain low-paying jobs, causing firms to resort to yet more cheap foreign labour.

Prof Hui says: "As long as companies can pay low wages to their workers, there will be less motivation for them to engage in skills upgrading of the low-wage workers or actively seek improvement in their work processes."

No pain, no gain

THERE is broad agreement with Mr Ho that the effects of Singapore's incomplete wage revolution are "no longer sustainable".

Economic efficiency is one concern. Low-cost labour facilitates growth, but "at the cost of stagnant productivity".

Mr Ho also worried about the creation of a low-income "underclass" stuck in low-skilled jobs, an underclass of "low-income foreigners living in enclaves", and resulting social tensions.

Dr Chor says raising wages in the service sector is "absolutely crucial... if we are to address the widening wage gap and concerns over decreasing social mobility that have come to dominate the political discourse especially since the last general election".

NTUC's Mr Ong says "there is a need to raise the income of the lower rungs to hold our society together".

But the question remains – how best to complete the wage revolution?

Some like Prof Hui advocate minimum wage legislation, which he believes is "certainly viable, as has been shown to be the case in other advanced economies".

Dr Chor disagrees. He says legislation may boost wages in the short term, but will not compel firms to improve productivity.

In his speech, Mr Ho noted that low-wage domestic services have kept the cost of business low, helping export industries to be cost-competitive. This edge will be lost if wages rise.

It has also helped to keep costs down for consumers.

The good lives of Singaporeans today have been built on the back of foreign workers, observed Mr Ho.

"Middle-class Singaporeans didn't complain that the cost of their hawker food was kept reasonable because of low-paid hawker assistants from China or Indonesia," he said.

Are Singaporeans prepared to pay higher prices so workers at the bottom can enjoy higher wages?

Or will they, as Mr Ho put it, "complain if costs rise because of higher wages"?

Mr Ong says that as a society, "it is not tenable for us to demand higher wages for the lower-income, yet refuse to accept higher costs".

The sustainable way to raise wages in the domestic services is by raising productivity, he says. That means innovation, new products and services, new markets and new and smarter ways of doing things.

"Education, skills training, encouraging IT and automation, breaking into new markets – all these are critical things to do," he adds.

But parts of the process will be painful because, as Mr Ong notes, it is "not the natural state of things" for management and workers to come together to raise productivity.

That is why there is a need to restrict the inflow of foreign workers, so businesses do not have that option to fall back on.

That in turn means some businesses which cannot compete without easy access to cheap foreign labour will have to close.

Costs for both businesses and consumers will also go up.

But that, in Mr Ong's view, is a necessary part of economic development. He points out that no country brings about better lives for its people by lowering consumer costs, otherwise known as deflation.

"Things may become cheaper and people may be happy, for a while. But with lower prices, businesses start to hold back investments, since their expected revenue will also drop. Consumers start to hold back spending, since things will be cheaper tomorrow or next year. Activities go down in a spiral, incomes drop, and life actually gets worse despite cheaper prices," he says.

"A healthy economy will have some inflation, not too high, that encourages investments, spending, that brings about even higher wage increases for the people."

There will be those who cannot cope because their wages do not keep up with inflation. Mr Ong says the Government will have to step in to help them through targeted subsidies and other forms of aid, including education and training to help these low-wage workers and their children move up.

DBS economist Irvin Seah offers a different perspective. He believes that in trying to raise wages at the bottom, Singapore must take care not to tilt the balance too much in the other direction.

He notes that only about 20 to 25 per cent of Singaporean and permanent resident workers are in direct competition with low-wage foreign workers. Yet "in a

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Productivity must go up, mindsets must change

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bid to raise the well-being of this group, we essentially increase the burden on the rest of the population".

If anything, the Government may have moved too quickly, says Mr Seah, who thinks that the supply of work permits for lower-skilled workers has been too drastically tightened.

A more calibrated approach will avoid "abruptly adding to the cost burden of companies" and of consumers, he says.

It can be complemented by enhancements to the Workfare Income Supplement scheme, through which the Government tops up the wages of low-income workers, he adds.

A way forward

THERE remains an uncomfortable possibility: that many Singaporeans are content with the status quo.

For one thing, higher wages may not suffice to attract Singaporeans to certain jobs.

It will be easier to reduce dependence on foreign labour if local workers can pick up the slack. But that is far from guaranteed when it comes to being a construction worker, waiter or nurse.

"Bear in mind that these are jobs that Singaporeans shunned in the first place," says Mr Seah. Getting Singaporeans into such jobs will require a shift in mindset, not just monetary incentives.

In his speech, Mr Ho called for just that: "We must create a culture which respects quality plumbers, builders, food service staff – and the entrepreneurs who will be self-employed in providing these services."

Still, even if Singaporeans continue to shun such jobs, improvements in productivity could help lower dependence on foreign labour. Fewer foreign workers will be needed if one who is higher-skilled is able to do the work of several lower-skilled ones.

The bitter pill of higher consumer prices might be easier to swallow if sweetened by improvements in quality.

"Singaporeans may be less averse to paying slightly more for services if they recognise that they are paying for genuine improvements" such as better or more efficient service, says Dr Chor.

But it remains to be seen if this basic hurdle of political buy-in can be crossed.

Closing his speech, Mr Ho spoke of the need to create a social ethos to underlie the restructured economy.

"The supposed social compact between the Government and its people must be underpinned by a consensus about the nature of Singapore society itself," he concluded.

If Singaporeans want a country where the fruits of wealth are shared more equally, then they must also be willing to share in the costs of realising that vision.

That is the key to completing the wage revolution.

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