

ASK: NUS ECONOMISTS

Savings fund won't help foreign workers

By **IVAN PNG**
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■ *Should the Government convert the foreign worker levy into a savings fund for these workers?*

AS OF June last year, there were 1.34 million foreigners in Singapore, constituting 38 per cent of our total workforce.

The overwhelming majority of the foreigners are the 1.05 million working under S-passes or work permits. The Government regulates the employment of foreign workers under S-passes and work permits in two ways.

Each employer gets a foreign worker quota as a multiple of the number of Singapore workers. In addition, employers must pay the Government a foreign worker levy ranging between \$250 and \$950 a month.

Concerned for the welfare of foreign workers, business leader Ho Kwon Ping called for the levy to be channelled to a personal savings fund for them. If such a fund is set up for foreign workers, they would benefit from the savings when they leave Singapore.

Mr Ho's scheme is seemingly attractive. It would not add to employers' costs (indeed, as I explain below, it might reduce employers' costs). The fund would present the foreign workers with a nice farewell gift, leaving them with fond memories of Singapore when they return home. (Only the Government would lose, as the several billion dollars in levies are redirected to the savings fund.)

But, will Mr Ho's scheme actually work – in the sense of improving the welfare of foreign workers? Not likely. Essentially because the supply of workers from foreign countries to Singapore vastly exceeds the demand. How do we know that?

In a lecture at the National University of Singapore, non-governmental organisation Transient Workers Count Too (TWC2) vice-president Alex Au explained that “a price mechanism kicks in. Instead of employers paying to get workers, workers pay to get jobs”. Among Bangladeshi construction workers surveyed by TWC2, the average fee was \$7,256.

Mr Ho's scheme would simply add more millions to the millions of foreign workers already keen to work in Singapore. So, the excess of the supply over the demand from Singapore employers would be even larger.

How would the market equilibrate? Which of the millions of foreign workers would get those jobs in Singapore which would become even more attractive? Very likely through workers paying more in placement fees to intermediaries and employers reducing wages. The workers themselves might not benefit at all.

While well intended, conversion of the foreign worker levy to a savings fund would not benefit workers by very much.

The essential reasons are twofold. One, the foreign workers are willing to work for much less than the prevailing wage for foreign workers in Singapore. So, any increase in foreign worker pay would attract a greater supply of workers. The other reason is that the foreign workers have little bargaining power. Hence, agents and brokers who provide access to Singapore jobs can extract any additional pay in higher fees and commissions. Alternatively, given that workers get more through the savings fund, employers may cut the wages that they pay.

The same analysis applies to any scheme to increase the pay of foreign workers, whether directly or indirectly. The scheme would mainly benefit agents, brokers and employers, whom I suspect no Singaporean feels any need to enrich.

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