

Consider having modest minimum wage: MAS chief

It can complement Progressive Wage Model, help lift wages of those at bottom, he says

Grace Ho
Senior Political Correspondent

The head of the central bank here has suggested that Singapore may want to seriously study a modest minimum wage as a complement to the existing Progressive Wage Model (PWM).

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 added.

He was speaking yesterday 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.

While there is a large body of empirical evidence across countries that finds zero or minimal adverse effects on employment from increasing the minimum wage, Mr Menon said the issue is not straightforward. For any form of minimum wage to work, governments need to simultaneously raise the price of hiring foreigners relative to locals, he noted.

"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 the level at which a minimum wage should be set.

Citing an example of a minimum wage of \$1,200 per month, Mr Menon 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?"

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. The model features a wage ladder implemented in the cleaning, security and landscape sectors, where workers earn higher wages as they upgrade their skills.

But he added that 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.

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

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.

The tools are: two safety nets to provide a basic level of support, a trampoline to help people bounce back if they fall, and four 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 service 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.

Mr Menon said 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 re-training into the new jobs of the future.

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

"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.

"Ultimately, a truly inclusive society requires a value system that places the welfare of our fellow human beings alongside our own," said Mr Menon.

graceho@sph.com.sg

Wealth tax ‘may be needed to tackle inequality’ in S’pore

The chief of Singapore’s central bank said there may be a need for a property gains tax or an inheritance tax to address wealth inequality in the Republic, which he noted will worsen over time if price increases in private housing consistently outstrip those in public housing.

To promote an inclusive society, it might make sense to shift the balance in Singapore’s tax structure away from taxing income towards taxing wealth, said Monetary Authority of Singapore managing director Ravi Menon yesterday at an Institute of Policy Studies lecture.

He said the widening wealth gap across the world has historically been driven most strongly by property investments.

Those with higher incomes can afford larger investments in real estate, and the substantial value appreciation they enjoy over time is not available to those with lower incomes and smaller outlays for housing.

Singapore has data in relation to employment income. However, as Mr Menon noted, it does not have good data on wealth.

But it would appear that the wealth gap is widening here to some extent, although the heavy subsidisation of public housing and high rate of home ownership would have mitigated some of the divergence in housing wealth.

“In very few countries do most citizens have the opportunity to enjoy capital appreciation in housing assets as we do in Singapore.

“But if price increases in private housing consistently outstrip those in public housing, wealth inequality will worsen over time,

even if not to the same extent as in many other countries.”

While Singapore’s wealth taxation has become more significant and progressive over the last 10 years, he said, there is probably room to go further in that direction to promote an inclusive society.

He added that a wealth tax could take the form of either a property gains tax or an inheritance tax. Both are currently not imposed here.

However, Mr Menon cautioned, taxing wealth has not worked well in many countries.

Citing the example of 12 European countries that levied an annual tax on net wealth in 1990, he said that by 2018, eight out of these 12 countries had abandoned the tax, citing high administrative costs, risk of capital flight and, ironically, failure to meet redistributive goals.

“This is not necessarily a reason for not imposing a wealth tax but a strong caution that designing a good wealth tax is not a trivial exercise,” he said.

Grace Ho

CAPITAL APPRECIATION

In very few countries do most citizens have the opportunity to enjoy capital appreciation in housing assets as we do in Singapore.



**MONETARY AUTHORITY OF
SINGAPORE MANAGING DIRECTOR
RAVI MENON**