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Progressive Wage Model 2.0: A step closer to a more inclusive society

The latest expansion – covering an estimated 82 per cent of lower-wage employees – far exceeds the scope of PWM 1.0. But this also means higher costs for businesses and consumers. Their buy-in is crucial.

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For the Straits Times

At the National Day Rally on Sunday, Prime Minister Lee Hsien Loong announced that the Government would accept the recommendations of the Tripartite Workgroup on Lower-Wage Workers. The centrepiece is the expansion of the Progressive Wage Model (PWM) to cover more than eight in 10 lower-wage local workers.

What will this mean for lower-wage workers, businesses and society at large? Here are three key takeaways:

First, PWM 2.0 – as I call the expanded initiative – will largely achieve what a minimum wage is intended to do.

Second, it will be challenging to implement PWM as it was originally envisaged.

Third, its success will require broad stakeholder consensus on transforming Singapore into a more inclusive society.

PWM 1.0: ADDRESSING 'CHEAP SOURCING'

The PWM, introduced in 2012, has emerged as a key prong in the national strategy to raise wages. It had a much narrower aim at the outset – to tackle the problem of "cheap sourcing" in the cleaning sector.

Cleaning companies would submit low bids to win contracts and then rehire existing cleaners at lower wages. This kept cleaners' wages stagnant for many years in the 2000s.

Initially voluntary, PWM became mandatory for all licensed cleaning firms from September 2015. The scheme was later widened to include the security and landscaping sectors, which were similarly prone to "cheap sourcing", and more recently, the lift and escalator maintenance sector.

While the PWM can be considered a sectoral minimum wage, it does not just set a wage floor but also a wage ladder corresponding to different levels of skill and responsibility. The link to skills reflects the Government's intent to have wages rise in line with, and not ahead of, productivity.

The real median wages of local workers in the PWM sectors rose on average by a cumulative 31 per cent between 2014 and 2019, compared with a 21 per cent increase at the median for all sectors. This was, to a large extent, catch-up wage growth for these workers after years of stagnating pay.

However, PWM 1.0 covered only about a tenth of the approximately 283,000 workers in the bottom 20 per cent of the wage distribution. The limited scope of the PWM and pace of implementation prompted calls for Singapore to enact a statutory minimum wage. Proponents argue that this would provide an immediate wage floor for all workers, complementing the PWM.

PWM 2.0: A MINIMUM WAGE BY ANY OTHER NAME

The Government's approach to help lower-wage workers has been to build on Workfare and PWM instead. It was announced in March this year that PWM would be extended to cover up to 218,000 workers, including those from the waste management, retail and food services sectors. Among the remaining low-wage workers left uncovered: a sizeable number who work as clerks and drivers in many different sectors.

The challenge has been to find a suitable regulatory lever to implement PWM in these sectors and occupations, especially where there are no existing licensing requirements and the Government is not a major service buyer.

The lever that the tripartite workgroup settled on is a familiar one: foreign worker access. As many firms – micro enterprises excepted – hire foreign workers, this provides the Government with the means of implementing PWM widely.

For sectors and occupations that have yet to develop tripartite-backed wage ladders, imposing a wage floor – the local qualifying salary (LQS) – for all local workers as a prerequisite for foreign worker access is a practical way forward.

It is estimated that 82 per cent of lower-wage employees will be covered under the PWM's latest expansion.

Of the remaining 50,000 lower-wage workers, about two-thirds work in companies eligible for the new Progressive Wage Mark, which the public sector will require its suppliers to adopt. According to the Ministry of Manpower, this could raise coverage of the PWM to 94 per cent, with the balance likely to benefit from spillover effects through market forces.

The upshot is that the objective of a minimum wage will be all but met.

Why not enact a minimum wage then?

While there is no longer a presumption among economists that minimum wages lead to significant aggregate job losses, the employment impact on vulnerable groups may be stronger, depending on the wage level set. In Singapore, there is still a sizeable number of less-educated seniors whose employability may be affected.

The high proportion of foreigners in the workforce poses another conundrum. Extending the minimum wage to foreign workers with much lower reservation wages would raise wage costs considerably – on the other hand, limiting the minimum wage to locals would drive a further wedge between the cost of hiring locals and foreigners.

While similar concerns apply to the PWM, the tripartite consensus (where applicable) among Government, employers and unions, along with customisation at the sector/occupation level, affords some assurance against local job losses.

For the remaining sectors and occupations, the LQS will be a modest de facto minimum wage for all but the smallest enterprises, and one that can be raised periodically.

NOT JUST A MATTER OF MONEY

There is also an important philosophical dimension that sets the PWM apart, which is the emphasis on skills and career progression pathways. Rather than espouse a needs-based minimum income approach, the Government prefers to link higher pay to improved skills and productivity.

Here, the lofty ideals of PWM must confront ground realities. Tying wage increments strictly to productivity is not always feasible, as scope for productivity improvement may be constrained in some job roles or run into diminishing returns over time.

This has been recognised by the tripartite workgroup. While the yearly increase in PWM wage floors benefits all workers at the base, moving up the wage rungs has proved difficult for the many workers competing for limited supervisory positions.

Hence, while the PWM lays down an aspirational marker, its full vision may not be easily realised. Fortunately, PWM 2.0 does not operate alone. It builds on many years of thought and effort directed towards improving the livelihoods of lower-income Singaporeans. Interventions span upstream education and training, to downstream social support and redistribution.

The labour market, of course, plays a central role in the overall scheme – the better the outcomes from the labour market, particularly income growth and security, the less the need for downstream intervention.

In supporting lower-wage workers, PWM is complemented by Workfare, arguably the most significant enhancement to Singapore's social security framework in the past 20 years.

Workfare was motivated by concern that the "working poor" was a structural rather than a cyclical problem. This became evident when the economy and broader job market began to improve from 2004 without a concurrent rise in real wages for the lower-income.

Rather than try to insulate Singaporeans from global competition by protecting jobs or enacting a minimum wage, the Government sought a structural solution that would prevent a sharp rise in applications for state assistance.

Implemented in 2007, the Workfare Income Supplement (WIS) tops up the wages and Central Provident Fund savings of the bottom 20 per cent of wage earners aged 35 and above – now to be extended to those aged between 30 and 34, as announced at the National Day Rally – while the Workfare Skills Support Scheme provides additional training subsidies for lower-wage workers.

The Progressive Wage Model became mandatory for all licensed cleaning firms from September 2015. It was later widened to include the security and landscaping sectors, and more recently, the lift and escalator maintenance sector. ST FILE PHOTO

Other labour market initiatives have worked in tandem with WIS and PWM to boost local wages. Since 2010, foreign workforce tightening measures have helped to push up wages at the lower end of the skills and income distribution.

The Wage Credit Scheme incentivised firms to give wage increments to employees, while the Inclusive Growth Programme provided funding support for company projects that raised wages along with productivity. In its annual wage recommendations, the tripartite National Wages Council has regularly specified proportionately higher wage increments for lower-income workers.

With the wage disparity across occupations still relatively high in Singapore, more remains to be done. Efforts in training, productivity and job redesign, along with calibration of the foreign worker inflow, must continue in parallel with PWM and WIS, if Singapore is to succeed in improving wage outcomes for the lower-income without jeopardising business competitiveness.

SOCIETY'S CONSENSUS NEEDED

Success in this endeavour will require more than just manpower rules and attendant policy levers. Higher wages will in most instances lead to higher costs, which businesses will pass on, at least in part, to consumers.

While the impact can be mitigated by higher productivity and better service, a whole-of-society consensus is needed on the value of a more equitable and inclusive society. This will permeate consumer decisions on spending, business decisions on hiring and people development, and government decisions that balance economic and social objectives.

PWM represents a uniquely Singaporean approach that aims to link higher wages to productivity growth and skills acquisition. While some may prefer simpler solutions such as ring-fencing certain jobs for locals or implementing a flat minimum wage, there may be value in the painstaking process of forging stakeholder consensus around a shared goal – that of inclusive progress, the foundation for a fair and cohesive society.

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