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 PWMI 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 implement 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:

1. **PWMI 2.0 – as called for by the expanded initiative – will largely achieve what a minimum wage is intended to do.**

   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 expanded to cover up to 230,000 workers, including those from the waste management, retail and food services sectors. Among the remaining low-wage workers left uncovered is a sizable number who work as clerks and drivers for many different sectors. The challenge has been to find a feasible regulatory regime 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 view 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 52 per cent of lower-wage employees will be covered. This was, in a large sense, the PWMI 1.0 expansion.

   By maintaining S$9,000 lower-wage workers, about twice the number of 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 PWMs 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. In Singapore, there is still a sizable number of low-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 local workers would drive a wider 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 the smallest enterprises, and one that carries responsibility.

   **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 expose a needs-based minimum income approach, the Government prefers to link higher pay to improved skills and productivity.

   Here, the lefty 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 floors benefits all workers at the base, moving up the wage range has proved difficult for the many workers competing for limited supervisory positions.

   Hence, while the PWM stays down an aspirational, its full vision may not be easily realised. Fortunately, PWMI 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 to upskill workers, 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 lesser 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 network in the past 20 years. Workfare was introduced 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 to simply enact 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.

   Other labour market initiatives have worked in tandem with WIS and PWM to help workers progress. Since 2010, foreign workers have hired in substantially to help plug gaps at the lower end of the skills and income distribution.

   The Wage Credit Scheme has been used to give wage increments to employees, while the education and training programme provided funding support for companies that raised wages along with productivity. In its annual wage recommendations, the tripartite National Wages Consultation Panel has recommended proportionately higher increases 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, most in step 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 efficiency and better service, a whole host of factors is needed on the value of more acceptable, manageable income.

   This will necessarily mean decisions on spending, business tax, minimum wage, productivity, and government decisions that balance economic and social objectives. PWM represents a uniquely Singaporean approach that aims to link higher wages, productivity growth and skills acquisition.