

## **National Wages Council Wage Guidelines For 1991 – 1992**

### **Economic Performance in 1990**

1. The Singapore economy grew by 8.3% in 1990. Although this was the fourth consecutive year where growth exceeded 8%, it was lower than the 9 –10% per annum growth achieved in the previous two years.
2. Our inflation rate, as measured by the Consumer Price Index (CPI) rose to 3.4% in 1990 compared with 2.4% in 1989. Of the 3.4% increase, 2.7% points were due to domestic factors and 0.7% points were attributable to external factors.
3. With strong economic growth in the last four years, the labour market tightened further in 1990. The unemployment rate fell to 2.0% in June.

### **Wage Settlement in 1990**

4. A survey by the Ministry of Labour showed that total wages (excluding the increase in employers' CPF contributions) went up to 9.8 % in 1990, similar to the increase in 1989. After discounting for inflation, real total wage costs (including employers' CPF contributions) increased by 7.8% in 1990 compared with 10.3% in 1989.
5. More of the total wage increase went into basic wages, which went up by 9.3%, an increase of 1.3 percentage points compared with 8.0% in 1989. Just under one-fifth of the wage increase in 1990 was given in the form of variable payments, compared with one-third in 1989.
6. Good progress has been made in implementing flexible wage systems. More than three-quarters of the unionised companies now have a flexible wage system. In the non-unionised sector, many companies also have some form of informal flexible wage systems. For the nation as a whole, 15.6% of annual remuneration are now variable including the AWS payment.

### **CPF Contributions**

7. The NWC supports the Government's decision to restore the employers' CPF contribution rate by 1% point and to decrease the employees' CPF rate by 0.5% point with effect from 1 Jul 1991.

### **Profitability and Cost Competitiveness**

8. Our profitability levels are still healthy. Our gross rate of return (GRR) to manufacturing has grown steadily from the recession trough of 16% in 1985 to

28% in 1988 before declining marginally to 27% in 1989. The differential between Singapore's GRR and the average GRR of the US, Japan and West Germany has widened since the 1985 recession.

9. Our Relative Unit Labour Cost (RULC) Index showed that we are still competitive compared with the other NIEs although the gap has narrowed. Compared with the emerging Asian NIEs (Thailand and Malaysia), our competitive position has worsened in 1990.
10. Our tight labour market has led to wage increases exceeding productivity growth for the third successive year. The cost of doing business has also increased as shown by manufacturing Unit Business Cost (UBC) Index. Its level in 1990 was just marginally below that in 1984/85 level. We need to monitor these trends closely to ensure that we remain competitive internationally.

### **Outlook for 1991**

11. Although optimism has returned with the quick end to the Gulf conflict, the world economy is expected to experience slower growth. Prospects for the regional economies, however, are good. Singapore's growth for the whole of 1991 is forecast to be between 6 – 8%. The recovery in the US economy, our main export market, is still uncertain. Singapore's growth for 1991 is therefore likely to be lower than last year's 8.3%. Inflation is likely to be between 2.5 to 3.5%. This is in line with lower oil prices, the cumulative effects of a stronger Singapore dollar and less buoyant economic growth.

### **Wage Increase Guidelines for 1991**

12. Wage cost increases have exceeded productivity growth for the third successive year. The wage-productivity gap has also widened. At the same time, the cost of doing business has gone up. To maintain our competitive position, there is a need to moderate the cost of doing business in Singapore, including wage cost. In particular, built-in wage increases should not exceed productivity growth. Other components of business cost in Singapore should also be moderated.
13. On the 1991 wage guidelines, the NWC therefore recommends that:
  - a. total wage increase for 1991 should generally be lower than that of last year, in line with the expected slower economic growth;
  - b. built-in wage increases (annual increments plus wage adjustments) should lag behind productivity growth rates;
  - c. companies should pay as much of the wage increase as possible into the variable component. Those which have done exceptionally well should pay special bonuses; and

- d. the 1% point restoration in employers' CPF contribution rate should be taken into account in wage negotiations as such contributions are part of wages.
14. Ultimately it is the individual company's profitability, productivity and prospects that will determine wage settlements. Companies and unions could bear in mind that productivity grew by 3.4% in 1990 and the long term productivity growth rate is 3 – 4%.
15. Flexibility should continue to be built into wage settlements. Although 15.6% of total remuneration is now variable, the build-up has slowed down in 1990. We need to preserve the wage reform and have more of the total wage increase paid into the variable component. Those companies which have not establish flexi-wage systems should do so without further delay.
16. Companies which have implemented flexi-wage systems should pay according to their agreed formula. Where adjustments are necessary, they should, as far as possible, be paid in the form of a variable component.

### **Using Labour More Effectively**

17. The labour market is expected to remain tight in 1991. While some of the labour demand can be met by foreign workers, this cannot continue indefinitely. We therefore need to preserve with efforts to maximize the use of local manpower.
18. The NWC notes that since its call in 1988 for employers to voluntarily raise the retirement age from the customary 55 years to 60 years or above, good progress has been made in the unionised sector. About two out of three new collective agreements now provide for a retirement age of 60 years or above.
19. Regrettably, the non-unionised sector which has the larger number of employers has responded dismally. Only 6% of such companies have raised their retirement age to 60 years or above.
20. The NWC strongly urges companies to raise their retirement age without further delay. They should not wait for the government to introduce legislation as they would then not be able to design retirement schemes to suit their own needs. The Ministry of Labour has indicated that it would consider special provisions to accommodate those that have gone ahead to raise their retirement age if legislation is unavoidable.
21. The NWC notes that the level of part-time employment in Singapore is still low in contrast with the 10% or more in developed countries. Part-time workers make up only 3.1% of our labour force. To ease our labour shortage, employers should actively explore more ways of employing part-time workers.

22. While the Singapore worker has achieved the No. 1 spot under BERI's (Business Environment Risk Intelligence) Labour Force Evaluation Measure (LFEM), a closer analysis showed that we were placed third in worker's attitude and fourteenth in technical skills. We need to redouble our tripartite efforts to improve on these two attributes.
23. More specifically, employers should continue to take the lead in investing more in worker training with the co-operation of unions, employees and the support of Government. Skills upgrading is necessary to facilitate economic restructuring and to enhance our international competitiveness. Local workers will have to attain the skills required for the increasingly higher value-added and higher technology activities in our economy. Employers should intensify their training efforts. Our long term target is to spend 4% of company payroll on the training of workers.

### **Implementation**

24. The NWC encourages all companies to apply the NWC's guidelines equitably to all groups of staff including managerial, professional and executive staff.
25. To facilitate wage negotiations, employers should share information on company performance and business prospects with the employees and their representatives.

### **Conclusion**

26. Our harmonious industrial relations are due to the excellent tripartite co-operation built up over the years. As a result, employers, employees and unions have been able to implement qualitative NWC guidelines smoothly. Employers and employees should continue to build on this firm foundation, particularly at the company level. This would help to ensure that we will continue to preserve our harmonious industrial relations climate and achieve economic progress.
27. The NWC looks forward to the Government's acceptance of its recommendations.