

National Wages Council Wage Guidelines For 1992 – 1993

Economic Performance in 1991

1. The Singapore economy grew by 6.7% in 1991. This was the third consecutive year where growth had slowed down.
2. Our inflation rate, as measured by the Consumer Price Index (CPI) remained at 3.4% in 1991, the same as that in 1990. Of the 3.4% increase, 3.0% was due to domestic factors and 0.4% was attributable to external factors.
3. In spite of the slower growth of the economy, the labour market continued to be tight. The unemployment rate rose only slightly to 1.9% in 1991, compared with 1.7% in 1990.

Wage Settlement in 1991

4. A survey by the Ministry of Labour showed that total wages (excluding the increase in employers' CPF contributions) went up to 8.1% in 1991, lower than the 9.8% increase in 1990. The basic wage increase remained high at 8.6% due to the tight labour market, although it was lower than 9.3% increase recorded in 1990. The proportion of total wages in the form of variable payment declined slightly from 15.6% in 1990 to 15.2% in 1991.
5. Further progress was made in implementing the flexible wage system. More than 81% of the unionised companies now have some form of flexible wage systems. This is higher than the 76.4% in 1990 and 73.4% in 1989. In the non-unionised sector, 69% of companies now link rewards for workers with company performance.

Profitability and Cost Competitiveness

6. Our profitability levels are still healthy. Eighty-three percent of companies surveyed by the Ministry of Labour were profitable in 1991, compared to 84% in 1990. Our gross rate of return (GRR) to manufacturing declined marginally from 28% in 1988 to 27% in 1989 and 1990. However, the growth rate in the manufacturing sector has declined from a high of 9.8% in 1989 to 5.3% in 1991. For 1992, the expected manufacturing growth rate is still a low of 3 to 4%.
7. Our Relative Unit Labour Cost (RULC) Index shows that, compared with the other Asian NIEs, our competitive position has declined in the last two years. Compared with the emerging Asian NIEs (Thailand and Malaysia), our competitive position has also deteriorated since 1988.

8. The cost of doing business has also increased as shown by the manufacturing Unit Business Cost (UBC) Index. In 1991, it rose by 4.9%, bringing the index to 108.1, above the peak of 104 in 1984/85. Labour cost increases accounted for two-thirds of the rise in UBC in 1991. We need to monitor these trends closely to ensure that we remain internationally competitive.

Prospects for 1992

Global Environment

9. The US economy remains weak. There are, however, some tentative signs of a pickup. Retail sales, housing and industrial production have started expanding. The US economy is expected to grow by 1.6% in 1992. The slowdown in the Japanese economy became more apparent at the beginning of 1992. Industrial production has dropped and the property market is in a downturn. The recent stock market fall has created further uncertainties. Growth in 1992 is expected to be 2.2%.
10. In Europe, the German economy is expected to remain weak, with overall growth in 1992 expected to be no more than 2%. The UK economy is expected to grow by about 1% in 1992.
11. Prospects for the Asian economies are still good. Taiwan and South Korea are expected to slow down slightly around 7% each in 1992 while Hong Kong is expected to grow at around 5.8%. Other regional economies are likely to maintain their strong growth in 1992. Malaysia is expected to grow at 7.8%, Indonesia at 5.0% and Thailand at 7.7%.

Outlook for Singapore

12. Singapore's growth for the whole of 1992 is expected to slow down to within the long-term sustainable growth rate of 4 – 6 %. Singapore's composite leading index, which predicts economic activity 6 – 12 months ahead, picked up in the last quarter of 1991. Nonetheless, much will depend on growth in the economies of our major trading partners. Inflation, however, is likely to moderate to about 2.5% in 1992, lower than the 3.4% in 1991. The tight labour market is expected to ease in 1992. Total employment for the first quarter of this year increased by 11,200 compared with 24,100 in the same period last year.

Wage Increase Guidelines for 1992

13. Wage increase continued to be high at 8.1% last year as a result of the tight labour market. Real wage cost increases have exceeded productivity growth for the fourth successive year. The gap between wages and productivity has widened. Given the expected lower economic growth and the uncertain environment, there

is a need to moderate wage increases and other costs of doing business, to ensure that they do not reach levels which we cannot sustain.

14. On the 1992 wage guidelines, the NWC therefore recommends that:
- a. The total wage increase for the country as a whole for 1992 should be moderated in line with the expected slower economic growth.
 - b. Built-in wage increases should lag behind productivity growth rates. Companies should pay as much of the wage increases as possible in the form of the variable component.
 - c. In accordance with the principles underlying the flexible wage system, total wage increases should be based on the individual company's performance.
 - d. The 0.5% point restoration in employers' CPF contribution should be taken into account in wage negotiations as such contributions are part of wages.

The above guidelines should be more strictly adhered to than they have been in the past.

15. Employers and employees should bear in mind that productivity grew by 1.5% in 1991, and the long-term productivity growth rate is 3-4%. Ultimately it is the individual company's profitability, productivity and prospects that should determine wage settlements.
16. We need to preserve the wage reform and pay more of the total wage increase in the form of the variable component. Companies which have not established flexi-wage systems should do so without further delay.
17. 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

18. We have, in the past, managed to overcome our labour constraint by admitting foreign workers. However, there is a limit to the number we can take in before other problems, social or otherwise, arise.
19. An alternative to this would be for existing workers to remain economically active for a longer period. Progress in raising the retirement age to 60 years has been slow. Only 10% or 1270 companies with at least 10 employees have fixed their retirement age at 60 years or above. The majority of these are unionised

companies. The NWC notes that the Government is reviewing the matter and considering whether legislation is necessary.

20. The NWC strongly urges companies to raise their retirement age to 60 or above, if they have not already done so.
21. The NWC notes that the level of part-time employment in Singapore still low in contrast with the 10% or more in developed countries. Part-time workers make up only 3.1% of our labour force.
22. The NWC recommends that employers should actively explore more ways and means of attracting the still large reservoir of economically inactive persons to take up part-time employment.

Improving Productivity

23. Singapore's average productivity growth rates in the 1970s and 1980s were 4.3% and 4.7% per annum respectively. Although there has been an improvement, productivity growth accounts for a smaller share of growth in Singapore than in most developed countries. In absolute terms, Singapore's productivity level in the major sectors is about one-third that of the more productive countries in the OECD. It is estimated that it will take us some 15 years to catch up with those countries even if they stand still at current levels while our productivity grows at the average rates seen in the 1980s. Tripartite efforts must, therefore, continue to be made to push for productivity improvements as the only sure way of raising our standard of living.
24. Employers should continue to take the lead in investing more in worker training with the cooperation of unions and employees and the support of the government. Increasingly, our competitiveness will depend on the skills and knowledge of our workers, especially their ability to master new and more sophisticated technology.
25. The NWC urges companies which have not done so to work towards the longer term target of setting aside at least 4% of their payroll for training. Particular effort should be made to train workers.

Implementation

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

Conclusion

28. The NWC notes the good record of cooperation between employers and employees in the conduct of industrial relations. Continued cooperation will ensure many more years of harmonious relations and will enable us to maintain our relative competitiveness in an uncertain world economy.
29. The NWC looks forward to the Government's acceptance of its recommendations.