

National Wages Council Wage Guidelines For 1995 – 1996

Singapore's Economic Performance in 1994

1. The Singapore economy grew by a strong 10.1% in 1994, the second consecutive year in which it registered double-digit growth. The economy was boosted by strong external demand arising from sustained economic recovery in the key export markets as well as strong regional growth. Growth was also broad based.

The Labour Market

2. The labour market remained tight in 1994, with the average unemployment rate at 2 %. Net job creation increased from 70,800 in 1993 to 71,200 in 1994. However, more workers were retrenched as a result of firms restructuring their operations to higher value-added activities or relocating overseas to take advantage of lower operating costs. The number of workers retrenched increased from 6,487 in 1993 to 9,444 in 1994.

Wage Settlements in 1994

3. Total wage increase was 8.5% in 1994, higher than the 7.6% in 1993. With an inflation rate of 3.6% (based on the 1987/88 basket of goods and services), workers' real total wages went up by 4.9%. Workers also received higher variable payments of 2.27 months' salary compared with 2.20 months' salary in 1993.

Productivity and Competitiveness

4. Productivity growth in 1994 was 5.3%, lower than the 6.7% in 1993. Real wage increase lagged behind productivity growth for the second year, although the differential had narrowed. The slower productivity growth and higher wage increase pushed up the Unit Labour Cost (ULC) index by 1.9% in 1994, compared to a 0.2% decline in 1993.
5. At the international level, our competitiveness as measured by the Relative Unit Labour Cost (RULC) index of manufacturing, which takes into account changes in labour costs and productivity, and exchange rate movements, also deteriorated slightly against the other Asian NIEs due mainly to the appreciating Singapore dollar. However, the index improved marginally against Malaysia and Thailand.
6. In the manufacturing sector, the Unit Business Cost (UBC) index which takes into account labour and other costs of doing business, fell by 0.6% in 1994, due mainly to strong productivity growth outstripping wage growth. However, the other two components, namely, service charges and government rates and fees rose.

7. Various international surveys continued to rank Singapore favourably in terms of competitiveness and attractiveness as a center for direct foreign investment.

Prospects For 1995

Global Environment

8. The global environment remains generally positive. The OECD countries are expected to grow by 3%, while the forecast for the US and Japan is at 3.2% and 2.2%, respectively. The European Union countries are expected to consolidate recovery, with a projected growth of 2.9%. The High Performing Asian Economies (the Asian NIEs, China, Malaysia, Thailand and Indonesia) are also expected to continue to perform very well in 1995.

Outlook for Singapore

9. Domestically, leading indicators continue to point to favourable conditions ahead. Business confidence remains positive. However, after two years of double-digit growth, cost pressures are increasing. The Unit Business Cost Index for manufacturing went up in the third and fourth quarters of 1994, after declining for six consecutive quarters previously. The Unit Labour Cost also went up after a decline in 1993. Domestic cost pressures would slow down the rate of economic growth for 1995.
10. Although the international business outlook is generally favourable, there are areas of concern like increasing competition from lower cost economies in East Asia, the turmoil in the world currency markets and the possibility of trade conflicts arising from balance of payments disequilibria.
11. After reviewing both the external and domestic factors, the NWC expects that growth in 1995 would be around 8%, lower than the double-digit rates registered in 1993 and 1994.

NWC Recommendations For 1995

12. To ensure that our wage increases are sustainable in the long run, we must continue to achieve good productivity improvements so that our international competitiveness would not be eroded. In wage negotiations, employers, unions and workers should bear in mind that our long-term productivity is expected to grow by 3-4% per annum.

Principles of Wage Increase

13. For the last five years, built-in wage increases have been between 7% and 9%. The NWC is concerned that unless the built-in wage increases are matched by productivity growth, our international competitiveness will be eroded. Companies

which are doing well should instead reward their workers by paying higher bonuses. All companies should continue to strive for productivity improvement to ensure that we continue to remain internationally competitive.

14. To ensure that we remain competitive and that workers are fairly rewarded for their contributions, the NWC recommends the following principles for wage negotiations:

- (1) Total wage increase should reflect the performance of the economy.
- (2) Built-in wage increase should lag behind productivity growth.
- (3) Companies should pay as much as possible of their wage increase in the form of a variable component.
- (4) The variable component should reflect the performance of the company.

Variable Payments

15. The NWC notes that in 1994, the variable wage component (including the AWS) is 2.27 months' salary on the average, or 15.9% of total annual wages. The NWC continues to recommend that the variable wage component should constitute about 20% of total annual wages.

16. On the payment of the variable wage component, the NWC recommends that:

- (1) Companies could consider paying in advance part of the total annual variable payment based on their performance.
- (2) Companies that have done exceptionally well should consider paying a one-off special bonus to reward their employees.

17. Paying part of the variable payment in advance would help to reduce pressure on companies to give higher built-in wage increase during the course of the year.

Dollar Quantum Inclusion

18. To benefit the lower income employees, companies should consider, in the payment of their wage increase, the inclusion of a dollar quantum instead of purely on a percentage basis.

Minimum/Maximum Salaries

19. As part of wage reform, the NWC recommended that wages should reflect the value of the job and that the ratio of the maximum and minimum salary of the same job should be between 1.5 and 2 times depending on the importance of

experience on the job, the prospects for promotion, and whether the job has a long learning curve. To better reflect the value of the job, companies should work towards implementing this ratio.

20. For long service employees who have reached the maximum of their salary range, companies could consider rewarding them appropriately for their contributions.

Training and Upgrading

21. Accompanying the strong growth in 1994 was an increase in the number of workers retrenched to 9,444. About two-thirds of the workers were retrenched due to company restructuring or re-locations. Among the retrenched workers, many were older workers with lower education and skills.
22. In the increasingly competitive global business environment, companies need to restructure their operations to stay competitive or to seize new market opportunities. The opening up of economies with abundant labour resources in the region also accelerates company restructuring.
23. The key to maintaining Singapore's long-term competitiveness is the quality of our human resources. With rapid changes in technology and keener global competition, workers need to adapt to new work methods and learn new skills to ensure life-long employability.
24. The NWC was encouraged by the rise in training investment from 2.1% of payroll in 1993 to 3.1% in 1994. However, it also noted that SMEs spent less than 2% of their payroll on training.
25. The NWC encourages the Government, employers and trade unions to place even greater priority on training, in particular to reach out to older, less skilled and retrenched workers. The NWC notes that NPB and SDF have introduced new initiatives to help such workers and urges that they do even more to help these workers. There should be concerted national effort to identify current and future training needs, and formulate strategies to satisfy these needs.
26. To reflect the joint commitment to training, employers and unions are encouraged to include a training clause in their collective agreements. Such a clause need not be in quantitative terms.

Medical Costs

27. Expenditure on health care in Singapore is going up. A Ministry of Labour survey showed that the average annual medical cost per employee for 1993, the latest figure available, was \$393, a 7.7% increase over the corresponding figure in 1992 (\$365). Health care expenditure is expected to increase as the population ages and with the increasing use of new technologies in modern medicine.

28. All employees should take responsibility for their own health. To promote personal responsibility for one's health and to help contain rising medical cost, the NWC encourages employers and unions to implement the principle of co-payment of medical expenses, as recommended by the Government's White Paper on Affordable Health Care. The Government has introduced the co-payment of medical expenses for civil servants since 1994. In implementing co-payment schemes, the amount and level of existing medical benefits should not be reduced. The principle of cost sharing must also apply to all workers, both bargainable and non-bargainable alike. Details of the implementation should be worked out between management and their unions.

Implementation

29. The NWC recommendations cover the period from 1 July 1995 to 30 June 1996. As in past years, the recommendations of the NWC are national in scope. They apply to both the public and private sectors and to all companies, big or small, unionized or non-unionised.
30. To facilitate wage negotiations, employers should disclose information on company performance and business prospects to employees and their representatives.
31. The NWC urges all companies to apply its guidelines equitably to all groups of staff including managerial, professionals and executive staff.
32. The NWC looks forward to the Government's acceptance of its recommendations.