

National Wages Council Wage Guidelines For 1996 - 1997

Economic Performance in 1995

1. The Singapore economy expanded by 8.9 % in 1995 after two years of double-digit growth. It benefited from strong regional growth and a favourable global electronics cycle.

The Labour Market

2. The labour market remained tight in 1995, with the average unemployment rate at 2 %. Net job creation rose from 71,200 in 1994 to 105,900 in 1995. However, workers were retrenched as the economy restructures towards high value-added activities and firms relocate their operations abroad. A survey of private sector establishments with at least 25 employees revealed that 8,788 workers were retrenched in 1995, down slightly from 9,444 in 1994.

Productivity and Competitiveness

3. Productivity grew at a more sustainable rate of 3.7 %, lower than the 5.4 % in 1994. As a result, the Unit Labour Cost index for the economy rose by 2.6 %, slightly higher than the 2.4 % increase in 1994. In the manufacturing sector, the Unit Business Cost index increased by 3.4 % in 1995 after declining in the previous two years. Of the 3.4 %, unit labour cost contributed 0.5 percentage points, business cost contributed 2.5 percentage points while the remaining 0.4 percentage points can be attributed to government rates and fees.

4. At the international level, our competitiveness as measured by the Relative Unit Labour Cost index, which takes into account changes in labour costs, productivity and exchange rates, deteriorated against the NIEs, Malaysia and Thailand. However, we remained attractive to investors largely because of our efficient infrastructure, productive workforce and conducive business and investment environment.

Wage Settlements in 1995

5. In line with the slower growth, total wage increase moderated to 6.9 % in 1995, down from 8.5 % in 1994. With an inflation rate of 1.7 %, workers' real total wages increased by 5.2 %. The NWC notes that in 1995, the real basic wage increase of 5.1% exceeded productivity growth of 3.7%. Workers received variable payments of 2.28 months' salary in 1995 compared with 2.27 months' salary a year ago.

6. In its discussions on the wage settlement in 1995, the NWC notes that the wage costs of managers, executives and rank-and-file employees constitute a significant proportion of the cost of doing business in Singapore.

Prospects for 1996

7. The external environment remains generally favourable. The OECD countries are expected to grow by 2.6 %, while the OECD growth forecast for US and Japan are 2.7 % and 2 % respectively. Regional growth is expected to be healthy but lower after the strong growth in recent years.

8. With slower growth in external demand and continued pressure on costs and competitiveness, the Singapore economy is likely to see slightly slower growth in 1996. The NWC notes that MTI's growth forecast for 1996 is 7-8 %, within the medium-term growth potential of 6-8 %.

9. The inflation rate for 1996 is expected to be around 1.5 - 2.0 %. The labour market would continue to remain tight.

NWC Recommendations for 1996

10. The NWC reiterates that for wage increase to be sustainable in the long run, Singapore must continue to achieve good productivity improvement and remain internationally competitive.

Principles of Wage Increase

11. To ensure our competitiveness and that workers are fairly rewarded for their contributions, the NWC recommends the following principles for wage negotiations:

- Total wage increase should reflect the performance of the economy.
- Built-in wage increase should lag behind productivity growth rates.
- Variable payments should reflect closely the performance of individual companies.

Variable Payments

12. In 1995, the variable payment (AWS and variable wage component) on average was 2.28 months of basic wage or 16% of total annual wage. The NWC continues to recommend that variable payments should constitute about 20 % of total annual wages. The NWC is encouraged to note that significant improvements have been made since 1987, when variable payments made up only 11% of total annual wages.

13. To reward employees for their contributions, companies whose performance is much better than expected should consider paying a one-off special bonus over and above the formula agreed upon between employers and workers.

Dollar Quantum in Wage Increase

14. To benefit lower-income employees, the NWC strongly recommends that instead of paying wage increase purely on a percentage basis, a dollar quantum should be included.

Maximum/Minimum Salary Ratio

15. The NWC recommends that companies and unions should reduce the maximum to minimum salary ratio for workers doing the same job to better reflect the value of the job. For this purpose, they should work towards achieving an average ratio of 1.5 times. Meanwhile, companies should consider rewarding long-service employees who have reached the maximum of their salary range appropriately for their contributions.

16. Once companies have achieved the desirable maximum to minimum ratio, they could implement appropriate wage systems to share productivity gains among workers, including those who have reached the maximum of their salary scales. One such system which could be studied by employers in consultation with the unions is the "base-up wage system" proposed by the NTUC.

Training and Skills Upgrading

17. The NWC notes that companies have set aside more resources for the training of their workers. The training investment has increased from 2% of the payroll in 1990 to an estimated 3.6% in 1995. However, while the larger companies with 500 employees and above have allocated more than 7% of their payroll for staff training, the small and medium-sized enterprises (SMEs) are lagging far behind and are spending only about 2% of their payroll on training.

18. Employers among the SMEs should therefore allocate more resources for the training and skills upgrading of their workers, especially the older ones and those who are more vulnerable to job losses. Workers, on their part, should respond positively to training and actively upgrade their skills so as to enhance their employability. The Government should continue to give incentives to companies and workers for training purposes. In this regard, the NWC is encouraged to note that the restructured Productivity and Standards Board (PSB) has launched various initiatives to help SMEs upgrade their operations and the skill levels of their workers, including the provision of financial incentives.

19. An effective way of providing training is through structured on-the-job training (OJT). Employers could pool resources to implement OJT on an industry-wide basis. The Government should continue to support employers in their OJT programmes.

20. The NWC observes that more companies have included a training clause in their collective agreements (CAs) to reflect their commitment towards workers' training. In view of the importance of training, employers who have yet to do so are strongly

encouraged to work with unions to include a training clause in their CAs. Such a clause can either be in qualitative or quantitative terms.

Co-payment of Medical Expenses

21. Medical cost will continue to rise. To help contain increasing healthcare costs, there is a need to promote personal responsibility among individuals for their own health. The NWC therefore supports the principle of co-payment of medical expenses as recommended by the Government's White Paper on Affordable Healthcare.

22. In implementing the co-payment of medical expenses, employers should not reduce their existing level of commitment on medical benefits. For medical co-payment to be implemented effectively, it should be applied to all employees, both bargainable and non-bargainable. Details of the implementation should be worked out between management and unions.

Promotion of Part-time and Flexible Work Arrangements

23. The NWC observes that Singapore is becoming increasingly reliant on foreign workers and this trend is not desirable. It is also noted that the labour force participation rates of our females above the age of 30 and older persons are significantly lower than that of the developed countries.

24. To help raise the participation rates of these two groups, the NWC is of the view that it is necessary to promote more part-time and flexible work arrangements. For this purpose, there should be a national approach, to formulate appropriate strategies and change the mindsets of employers and the potential workers in respect of part-time and flexible work arrangements.

Implementation

25. The NWC recommendations cover the period from 1 July 1996 to 30 June 1997. 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, unionised or non-unionised.

26. To facilitate wage negotiations, employers should provide the necessary information on company performance and business outlook to employees and their representatives.

27. The NWC urges all companies to apply its guidelines equitably to all group of staff including managerial, professional and executive staff.

Conclusion

28. Our harmonious industrial relations climate, achieved through close tripartite co-operation over the years, is an important contributing factor to our economic

development and social progress. Employers, trade unions and the Government should therefore continue to work closely together to preserve industrial harmony so that Singapore can remain an attractive place for investments. This will enable Singapore to enjoy continued economic growth for the benefit of all Singaporeans.

29. The NWC looks forward to the Government's acceptance of its recommendations.