

## **National Wages Council Wage Guidelines For 1997 - 1998**

### **Economic Performance in 1996**

1. The Singapore economy grew by 7.0% in 1996, down from 8.8% in 1995. The manufacturing sector was affected by the downturn in global electronics demand. Slower regional growth also affected hub-related services like entrepot trade and shipping services.

### **The Labour Market**

2. The labour market remained tight in 1996, with the average unemployment rate at 2%. Total employment grew by 102,600, slightly lower than the increase of 109,000 in the previous year. More workers were retrenched in 1996, due mainly to the restructuring of the economy towards higher value-added activities, high costs and the slowdown in economic growth.

A survey of private sector establishments with at least 25 employees showed that about 11,000 workers were retrenched in 1996, up from 8,800 in 1995. The NWC however notes that the average time taken for the retrenched workers to secure alternative employment was only 1.6 months after retrenchment.

### **Productivity and Competitiveness**

3. Productivity growth moderated in line with the slowdown in the economy. Overall productivity growth was 0.7% in 1996, substantially lower than the 3.6% in 1995. The low productivity growth was partly due to the negative productivity growth of 5.7% in the construction sector.
4. In the manufacturing sector, the Unit Business Cost index increased by 2.2% in 1996, compared to an increase of 2.1% in 1995. The Unit Labour Cost index for the economy rose by 3.5% compared with 1.6% in 1995.
5. Singapore's Relative Unit Labour Cost (RULC) index of the manufacturing sector, a measure of our relative competitiveness, deteriorated against the other Asian NIEs. Nevertheless, we remained attractive to investors due to our efficient infrastructure, productive workforce, harmonious industrial relations and conducive business and investment environment.

### **Wage Settlements in 1996**

6. The total nominal wage increase moderated from 6.9% in 1995 to 6.7% in 1996, in tandem with slower economic growth. With an inflation rate of 1.4%, workers' real total wages increased by 5.3% in 1996. Real basic wages also rose by 5.3%. The real basic wage increase therefore outstripped productivity growth by 4.6%. Workers received an average of variable payments of 2.32

months in 1996, which was marginally lower than the 2.33 months received in 1995.

7. The total wage increases in the last 3 years were 8.5% in 1994, 6.9% in 1995 and 6.7% in 1996. In other words, total wage increases over the last 3 years have moderated in line with the slower economic growth of 10.5% in 1994, 8.8% in 1995 and 7.0% in 1996. Wage moderation is therefore in line with the NWC's recommendation that wage increases should reflect the performance of the economy, in order that our business competitiveness will not be eroded and workers' job security jeopardized. Based on a 3-year moving average (1994-96), the real basic wage increase was 5.2%. As productivity growth using a 3-year moving average was 3.3%, the wage-productivity gap narrowed to 1.9 percentage points, compared to 4.6 percentage points for the single year of 1996.

### **Prospects for 1997**

8. The external environment remains generally favourable. The OECD countries are expected to grow by 2.4%, same as in 1996. The EU economy is expected to pick up while Japan is likely to experience slow growth. The regional countries are expected to continue enjoying healthy but slower growth in 1997. Recent indications from the US electronics industry suggest some improvement ahead but the pace of recovery remains uncertain.
9. The NWC notes that MTI's growth forecast for 1997 is 5% to 7%, close to the medium-term growth potential of 6% to 8%. The inflation rate for 1997 is expected to be around 2.0% to 2.5%. The labour market would continue to remain tight.

### **NWC Recommendation for 1997**

10. The NWC is of the view that in determining wage increases for this year, employers and unions should take into account the intense global competition and the projected slower economic growth for this year. The wage increase for this year should be moderated.
11. In tandem with moderation in wage increases, we must at the same time continue to strive for high productivity growth, so that workers can enjoy good wage increases without outstripping productivity growth in the long run. This will motivate workers to give of their best.

### **Principles of Wage Increase**

12. The NWC therefore recommends that the following principles be adopted for wage negotiations:

- i. Total wage increase should reflect the performance of the economy;
- ii. Built-in wage increases should lag behind productivity growth rates; and
- iii. Variable payments should reflect closely the performance of individual companies.

### **Variable Payments**

13. In 1996, the variable payment (AWS and variable bonus), on average was 2.32 months of basic wage or 16% of total annual wages. This is significantly higher than the 11% of total annual wages given in the form of variable payment in 1987 when the flexible wage system was introduced. As variable payment will enable companies to link employees' reward more closely with company performance, and to be more responsive to changing market conditions, the *NWC continues to recommend that companies should reward their employees more in the form of variable payments*. The variable payments could constitute some 20% of total annual wages so that companies could make quick adjustments in their wage costs in line with changing business conditions.
14. To reward employees for their contributions, as in previous years, the NWC recommends that companies whose performance is much better than expected should consider granting a one-off special bonus over and above the variable payment stipulated in the formula agreed between employers and workers.

### **Dollar Quantum in Wage Increase**

15. To benefit the lower-income employees and to narrow the wage gap, the *NWC*, as in previous years, *recommends that instead of granting wage increases on a percentage basis, a dollar quantum should be included*.

### **Base-Up Wage System**

16. The NWC notes that our existing wage system is still very much seniority-based and that it does not truly reflect the value of the job. Such a wage structure is unnecessarily rigid. It does not reward a worker according to his or her contribution, and is not consistent with the principle that wage increase should be closely linked with productivity growth.
17. The NWC is pleased to note that the NTUC has proposed the Base-Up Wage System with the following principles as one of the alternatives to the existing seniority-based wage system:
  - i. Wages should reflect the value of the job and the desirable maximum/minimum salary ratio should on average be about 1.5;

- ii. Wage increase should be linked to productivity growth with appropriate recognition given to experience gained in service; and
  - iii. Productivity gains should be shared by all employees.
18. As these principles are sound, the NWC encourages employers and trade unions to study this Base-Up Wage System with a view to implementing it.

### **Training Investment**

19. The NWC is encouraged to note that in line with our national efforts to improve the quality of our workforce and to achieve higher productivity, companies have set aside more resources for the training of their workers. In this regard, the Productivity and Standards Board (PSB), with the concerted efforts of the tripartite partners, has launched various initiatives and provided financial incentives to help companies upgrade their operations and the skills of their workers. This has resulted in the increase in training investments from 2% of the payroll in 1990 to 3.6% in 1995, and in 1 out of 3 workers being trained annually.
20. Notwithstanding this progress, the NWC notes that while the larger companies with 500 employees and above have allocated 6.3% of their payroll for staff training, the small and medium-sized enterprises (SMEs) are lagging behind, spending only 2% - 3% of their payroll on training. In addition, only 1 in 8 matured workers were trained in FY 96 which is far below the national average of 1 in 3.
21. The NWC is however pleased to note that the NTUC with the support of EDB, PSB and ITE, has launched a pilot Skills Redevelopment Programme (SRP) to help workers, particularly the older ones, to acquire the relevant skills in order to enhance their employability. The Programme, which helps workers to upgrade their skills and enable their skills to be certified, has received encouraging support from companies and their workers. To date, a total of 27 companies involving more than 3000 workers have agreed to participate in the Programme. The NWC is of the view the NTUC's SRP is a good programme. The Programme helps workers who are vulnerable to job losses caused by economic restructuring, to be better prepared in order that they could remain relevant to the changing needs of our industries. The NWC recommends that the NTUC's Skills Redevelopment Programme should be expanded and promoted as a national programme to benefit more workers.
22. The NWC is also pleased to note that SNEF is initiating a programme to help SMEs step up training of their workers. As SMEs are still lagging behind the larger companies in the investment of training of their workers, such a move by SNEF is timely and will help in assisting SMEs to identify their training needs and formulate relevant training programmes. The NWC encourages

employers' organizations, particularly those representing SMEs, to work closely with SNEF and PSB, to step up training of their workers.

### **Manpower Utilization**

23. Singapore's workforce is ageing rapidly. The ratio of working persons to older persons above 60 was 8:1 in 1993. This ratio will decrease to 4:1 in 2010 and 2.5:1 by the year 2030. Hence, the NWC welcomes the government's decision to raise the retirement age beyond the age of 60 to enable older workers to continue working and to contribute to the economy. The NWC also notes that the labour force participation rate of our females aged 30 to 54 is significantly lower than that of the developed countries. If suitable work arrangements, particularly part-time and flexible work, could be provided through job restructuring, many of the housewives and older persons would be encouraged to return to the workforce. This will not only enlarge our indigenous workforce to meet our manpower needs, but will also help moderate our reliance on foreign workers. To tap this pool of potential employees and to better utilize our manpower resources, the NWC supports the Ministry of Labour's "Back to Work" Programme for the economically inactive housewives and older persons to return to the workforce. This programme was launched in conjunction with the PSB, the NTUC, and the SNEF.

### **Co-payment of Medical Expenses**

24. The NWC notes that the co-payment of medical expenses is not commonly practised in the private sector. To help contain increasing healthcare costs, the NWC encourages medical co-payment schemes to be implemented. Sharing of medical costs between employers and employees would also encourage individuals to take personal responsibility for their own health. The NWC notes that this issue is being addressed by the Tripartite Committee on the Extension of Retirement Age, together with other issues related to the extension of the retirement age.

### **Implementation**

25. The NWC recommendations cover the period from 1 July 1997 to 30 June 1998. As in previous years, the recommendations of the NWC are national in scope and should apply to both the public and private sectors and to unionized and non-unionized companies.

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

27. In determining wage increases for their staff, companies should apply the

NWC guidelines equitably to all groups of employees including managerial, professional and executive staff.

### **Conclusion**

28. Singapore must continue to promote a harmonious industrial relations climate through close tripartite co-operation between the government, employers and trade unions. Close labour management cooperation is an important contributing factor to our economic development and social progress. The three social partners 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 and further improve the well being of all Singaporeans.
  
29. The NWC looks forward to the Government's acceptance of its recommendations.