

## **National Wages Council Revised Wage Guidelines For 1998 - 1999**

- 1) In view of the deteriorating economic crisis in the region and Singapore's declining economic performance, the government decided that the NWC be reconvened to review the wage restraint guidelines issued in May 98 and to consider issuing new wage guidelines to tackle the current economic difficulties.
- 2) The NWC met in September and October 1998 and proposed the following recommendations to the government for consideration.

### **The need for wage reduction**

#### **Worsening Economic Performance**

- 3) The NWC recommendations on wage guidelines for 1998-99 issued in May 98 called for wage restraint and non-wage cost cutting measures. The wage guidelines were formulated against the backdrop of the regional economic turmoil and MTI's growth forecast for the year of between 2.5% and 4.5%. Since then, the regional economic crisis has deteriorated. MTI's growth forecast for the year was revised downwards in June 98 to between 0.5% and 1.5%.
- 4) After a strong 6.2% growth in the first quarter, the second quarter growth moderated to 1.8%. The economy continued to deteriorate in the third quarter, with a decline of 0.7%, the first quarterly shrinkage since the recession in 1985. The probability of the fourth quarter of 1998 and first half of 1999 showing negative rates is high.
- 5) The external environment since May 1998 had worsened further. A number of Asian economies such as Japan, Malaysia, Hong Kong, Thailand and Indonesia have gone, in varying degrees of severity, into recession while growth in the developed economies has moderated somewhat as the economic crisis spread to Russia and Latin America. There is therefore a need to revise the NWC wage guidelines in the light of the prevailing economic climate.

#### **Falling Exports**

- 6) Singapore's total exports fell by 1.3% in the second quarter of 1998, down from 9.7% growth in the previous quarter. It continued to decline by 1% in the third quarter.
- 7) The labour market continued to slacken in the third quarter of 1998. Total employment declined by 17,900, the second consecutive contraction since the last economic recession. The seasonally adjusted unemployment rate edged up to 4.5% in September 98, substantially higher than the 2.2% in March this year. For the first 9 months, retrenchments exceeded 20,000, more than double the 9,784 workers laid off for the whole of last year. Unless appropriate measures are taken now, MOM foresees a worsening of the unemployment level in the months ahead.

- 8) Productivity declined by 2.5% in the third quarter, down further from - 2.3% in the second quarter. All sectors, except for transport and communications, posted negative productivity growth.
- 9) Inflation moderated due partly to the strong Singapore dollar against regional currencies. Consumer prices rose by 0.2% in the first nine months of 1998, down from 2% in 1997. It has been on a declining trend since June 1998, namely, -0.2% in June, -0.4% in July, -0.8% in August and -1.4% in September 1998. MTI expects inflation for the whole year to be close to 0%.
- 10) In response to the NWC's call for wage restraint, the total built-in wage increase fell from 4.6% in January 1998 to 2.5% in September 1998, with a weighted average increase of 3.2%. This was significantly lower than the increase of 5.8% registered in 1997.
- 11) The unit business cost (UBC) index of the manufacturing sector fell by 0.9% in the third quarter compared with an increase of 1.5% in the second quarter of 1998. Unit labour cost (ULC) rose by 1.4% in the third quarter while services cost declined by 0.4% due to the drop in service charges like rentals. Government rates and fees fell by 39% due to the decline in property prices and hence property tax payments.
- 12) Our relative unit labour cost (RULC) has been rising gradually but steadily over the years, compared to our competitors. Since July 1997, the currencies of other regional economies have depreciated sharply against the Singapore dollar, but their nominal wages have not risen to the same extent. This has eroded our cost competitiveness further. Coupled with the deterioration in external demand, many businesses have slowed down and retrenchments have increased. As an export-oriented economy with external demand accounting for about 70% of total demand, preserving our cost-competitiveness is crucial for economic growth.
- 13) When our economy was being carried along by the regional boom, our rising RULC was not a problem. Now the conditions have completely changed. We need to reduce our cost quickly to tide over the difficult period, preserve jobs and strengthen our competitiveness.
- 14) As stated earlier, the Singapore economy is expected to deteriorate further in the fourth quarter of 1998, continuing into 1999. MTI estimates that we need to reduce overall wage costs from the 1997 level by 15% to bring our RULC back to the 1994 level in order to substantially improve our international competitiveness.
- 15) Containing wage costs alone will not be enough. We must adopt a strategy to substantially reduce our total business costs, including non-wage costs so that existing businesses can stay viable and job losses can be minimised. At the same

time, it will give global investors the added confidence in Singapore and put us in a better position to attract new investments and create more jobs.

### **Revised NWC Wage Guidelines**

16) In formulating the revised guidelines, the NWC aims to achieve the following objectives:

- instil greater confidence among global investors in the Singapore economy, help companies regain their cost-competitiveness,
- preserve jobs for workers and minimise unemployment.

17) To meet these objectives, the NWC makes the following recommendations.

### **Wage Reduction Guidelines**

18) The NWC agrees with MTI's assessment of the need to reduce overall wage costs (including CPF) by 15% from the 1997 level. It also notes that the Committee on Singapore's Competitiveness (CSC) is recommending a 10% point reduction in employers' CPF contribution rate. This CPF cut represents some 8% of overall wages. To achieve a reduction of 15% in overall wage costs, the NWC recommends that in addition to the CPF cut, total wages for 1998 be cut by 5%-8% as compared to 1997. Companies which perform exceptionally well or very poorly may deviate from this general guideline.

19) Many companies completed their wage negotiations and granted wage increases in the earlier part of the year, when the economic outlook was less gloomy than now. The NWC is of the view that in implementing the revised guidelines, these companies should take this into account and where necessary make larger reductions in the variable component, including the Annual Wage Supplement (AWS) to offset the higher increases granted earlier. Alternatively, these increases could be taken into consideration in their wage negotiations for 1999.

### **Wage Reduction through the Flexible Wage System**

20) The reduction in wage cost refers to a reduction in the "total wages" which comprises basic wage, annual increment and variable component and in the case of the civil service the monthly Non-Pensionable Variable Payment (NPVP). This variable component includes the bonuses, cumulative variable payments, AWS or the 13th month payment, and other forms of variable payments. The variable component should be the main instrument to achieve this wage reduction.

21) In adopting the "total wages" approach, companies should make full use of the flexible wage system to achieve the reduction of the total wages. Companies which have not introduced the flexible wage system or built up a variable component which is insufficient to enable them to substantially reduce their wage costs should cut the basic wage. As part of the cut in total wages, companies could also consider reducing or removing existing fringe benefits such as holiday subsidies and acting allowance.

- 22) Companies whose annual increments are stipulated in employment contracts or in Collective Agreements which are still in force could re-negotiate for appropriate adjustments.
- 23) Any across the board cut in wages would affect the lower income employees more severely than the higher income group. The NWC urges employers to consider moderating the wage cut for lower income employees by implementing a deeper cut for the higher income executives to effect the desired extent of reduction in total wages.
- 24) The government, as a major employer in Singapore, should take the lead in implementing the revised wage recommendations.

#### **Reduction in Non-Wage Costs**

- 25) To reduce the cost of doing business in Singapore, the NWC strongly urges the government to substantially reduce the non-wage costs such as rentals, telecommunication and utility charges, foreign worker levy, transport costs and government fees. The NWC also urges the government to increase the productive capacity of the nation during this lull period through more government development spending and through more investment in human capital.

#### **Upward Adjustment of CPF Rate on Recovery**

- 26) Cost-cutting by reduction in wages alone will not be sufficient to help companies improve their cost competitiveness. The NWC therefore supports the CSCOs recommendation to reduce the employers' CPF contribution rate by 10% point. The NWC strongly recommends that when the economy recovers, the rate of employers' contribution should be adjusted upwards.
- 27) The NWC makes further recommendations as follows:
  - a) In the spirit of tripartite co-operation, employers should discuss with the unions on the quantum of the cut and how a cut in total wages could be equitably implemented. In this regard, the NWC urges employers to share relevant and timely information with the unions for the purpose of implementing the revised wage guidelines.
  - b) In wage negotiations and wage adjustments, the CPF cut should not be used to offset any cut in total wages, as both remedial measures are mutually exclusive.
  - c) Companies, which have yet to implement the Flexible Wage System, should do so at the earliest opportunity as it has been clearly shown that such a system will enable companies to adjust wage costs quickly in response to changing business conditions, thereby minimising the need to cut basic wage.

d) Companies which have attained high productivity improvement and higher profitability should reward their employees with a one-off special bonus over and above the variable payment stipulated in the formula agreed between employers and their employees.

e) The NWC strongly urges employers with excess manpower to consider implementing shorter work-week, temporary lay-offs and other work arrangements as alternatives to retrenchments. Retrenchments should be carried out only as a last resort.

f) Wage reduction must apply to non-unionised as well as unionised companies. It would defeat the national objective of an overall business cost reduction to restore national competitiveness and would be inequitable to the labour movement if it were otherwise.

28) These wage reduction guidelines supersede the wage restraint guidelines issued by the NWC in May 98 and are valid till 30 June 99. The May 98 guidelines on productivity enhancement, employability training, implementation of Base-Up Wage System and the medical co-payment scheme should continue to apply. The NWC will meet again in April/May 1999 to review and update the wage guidelines.

29) Building on the excellent labour management relationship established over the years, the NWC calls on employers, trade unions and workers to continue to work together to strengthen our competitiveness, preserve jobs and enhance the workers' employability. This will enable the Singapore economy to emerge stronger, more robust, and more resilient. It will also help minimise unemployment in the short term and maximise our growth potential in the long term. With the concerted measures taken, Singaporeans can enjoy sustainable wage increases and higher bonuses in the years ahead.