

National Wages Council Wage Guidelines For 1999 - 2000

NWC Wage Guidelines In 1998

1. When the NWC met in April last year to deliberate on the wage guidelines for 1998-1999, Singapore was beginning to feel the impact of the regional financial turmoil. To cope with the expected slower growth, in May 1998, the NWC recommended wage restraint guidelines to help contain the cost of doing business and minimise unemployment in Singapore.

2. However, the external environment took a turn for the worse and Singapore's economy declined in the third quarter. The NWC was reconvened in a special session in September 1998 to address the economic difficulties. The NWC issued a second set of guidelines in November 1998 calling for a cut of 5% to 8% in total wages to achieve a reduction in overall wage costs of 15% (including a 10% point cut in the employers' CPF contributions) as recommended by the Committee on Singapore's Competitiveness. The objectives were to instil greater confidence among investors in the Singapore economy, help businesses to regain their cost competitiveness and preserve jobs for our workers.

Economic Performance in 1998

3. Singapore's GDP declined by 0.7% in the second half of 1998 as the impact of the crisis filtered through the economy. Although the overall growth for 1998 remained positive at 1.5%, this was a sharp reversal from 8% growth in 1997.

The Labour Market

4. The labour market slackened in 1998, as a result of the slowdown in the economy. The unemployment rate reached 4.4% by the end of 1998, significantly higher than 2.0% a year ago. Total employment shrank by 23,400, a sharp reversal from the increase of 120,300 in 1997. A survey of private sector establishments with at least 25 employees showed that 29,086 workers were retrenched in 1998, nearly three times the figure of 9,784 in 1997.

Productivity

5. Labour productivity declined by 1.3% in 1998, in line with the slowdown in the economy. Among the major sectors, construction, commerce and financial and business services recorded negative productivity growth.

Wages

6. Following the May 1998 NWC wage restraint guidelines, basic wages increased by 2.7%, down from 5.8% in 1997. Taking into consideration the reduction in annual bonuses, total wages declined by 0.4% for the whole of 1998.

Cost Competitiveness

7. Business costs moderated in line with the economic slowdown. The unit business cost (UBC) of the manufacturing sector fell by 1.3% in 1998 compared with an increase of 0.8% in 1997. The decline came from two of the three components in the UBC. The unit labour cost (ULC) fell by 0.9% in 1998. Government rates and fees fell by 25%. Services costs, however, rose marginally by 0.1%.

8. Nevertheless, Singapore's relative unit labour cost (RULC) of the manufacturing sector, which measures our relative competitiveness, continued to deteriorate against the other NIEs, Malaysia and Thailand. This was due essentially to the lower rate of depreciation of the Singapore dollar.

9. To restore Singapore's cost competitiveness and to minimise further job losses, the Government announced the \$10.5b cost cutting package in November 1998. This was accompanied by NWC's revised guidelines of total wage reduction.

Implementation of the 1998 NWC Revised Guidelines

10. With the implementation of the November 1998 NWC revised guidelines, total wages fell by a further 4.3% as at March 1999. The cut in overall wage costs, including the 10% point reduction in employers' CPF contribution from January 1999, amounted to 12.3%.

Forecast for 1999

11. The external environment has improved in the last few months while regional economies are showing signs of bottoming out. However, a number of uncertainties remain. These include the sustainability of strong US growth, the recovery of the Japanese economy, and the momentum of the recovery of regional economies. In particular, socio-political stresses in the regional countries could jeopardise the recovery process.

12. In Singapore, the economy grew by 1.2% in the first quarter, largely on the back of a strong pick-up in the manufacturing sector. The NWC notes that the Ministry of Trade and Industry has in May 1999 revised its growth forecast for the year upwards by one percentage point to 0% to 2%.

Wage Guidelines for 1999/2000

13. Although certain sectors of the economy are beginning to show signs of recovery, growth is not broad-based and performance across companies and sectors is very uneven. The outlook remains mixed. A full and sustained recovery of the economy depends very much on the performance of the developed economies and events taking place in the region. The NWC is of the view the 1999-2000 NWC Wage Guidelines should continue to achieve the following objectives:-

- (i) Instil confidence among global investors in the Singapore economy;
- (ii) Help companies regain their cost competitiveness; and
- (iii) Preserve jobs for workers and minimise unemployment.

14. To meet these objectives, we must press on with measures to enhance Singapore's overall competitiveness. We should continue to restrain wage costs, raise productivity, and upgrade the skills of our workforce to enhance their employability. In addition, we should also introduce even greater flexibility in the wage system in the private sector, to enhance companies' ability to deal with individual circumstances to contribute towards business viability.

NWC Recommendations For 1999-2000: Continue to Restrain Wages for a Full-Fledged Recovery of the Economy

15. To achieve a full economic recovery, the NWC recommends that we continue to restrain wages. At the same time, we should provide companies that perform well greater flexibility to reward their workers. Therefore the NWC makes the following recommendations for 1999-2000 :-

- (i) Companies with deteriorating performance and eroding prospects could continue to implement a reduction or freeze in total wages through the variable components. This is to help preserve jobs and regain competitiveness.
- (ii) Companies with satisfactory performance but uncertain prospects could consider rewarding their workers with a special payment which could be in the form of a mid-year bonus. This is to give workers a fair reward and strengthen company loyalty without eroding the competitiveness of these companies.
- (iii) Companies with improving performance and reasonably good prospects, could reward workers through a bonus, including a mid-year bonus payment, or a wage increase. Any wage increase should preferably be in the form of a monthly variable component. This will improve the flexibility of the wage system and motivate workers to contribute towards further enhancing their companies' performance.
- (iv) Companies that have performed well with promising prospects, including those doing exceptionally well, could reward workers through a bonus, including a mid-year bonus payment, and a wage increase. A large part of the wage increase should be in the form of a monthly variable component. This will further enhance the flexible wage system and increase the responsiveness of companies and the economy in dealing with changing business conditions in future.

Flexible Wage System

16. Under the current flexible wage system introduced in 1987, most companies pay variable components including the Annual Wage Supplement (AWS) at the end of the year. Hence, other than resorting to cutting basic salaries, companies have to wait till the end of the year to reduce or remove these payments if they need to reduce wage costs.

17. The current economic recession has shown that while our wage system is flexible in allowing companies to link performance to rewards, it is not flexible enough to enable them to make quick adjustments to their wage costs in the event of sudden and severe business downturns. As a result, many companies had to resort to retrenching workers. To companies, this has meant losing experienced workers and having to re-hire new ones when business conditions improve. To workers, this has meant losing jobs and regular incomes, and facing the trauma of looking for alternative employment.

Monthly Variable Component (MVC)

18. To further enhance the flexibility of our wage system, the NWC recommends that a Monthly Variable Component (MVC) be introduced. The MVC would give companies the flexibility of adjusting wage costs downwards more responsively in the event of an economic recession or sharp business downturn. Such a component is already in existence in the public sector wage structure.

19. The MVC should come from part of wage increases. The percentage of the wage increase to be set aside as MVC could be determined by employers in consultation with unions. To be an effective mechanism for wage adjustment in a sudden business downturn, the MVC could be built up progressively to form about 10% of total wages in the private sector. Over time the present 80:20 flexible wage system could evolve into a wage structure of 70:10:20 representing basic wage, monthly variable and annual variable components respectively.

20. With the MVC in place, companies will be able to adjust wage costs to remain viable and save jobs for workers in times of sudden business downturns when companies' viability are severely undermined. It also means that we could minimise the need to cut CPF contributions which workers depend on to service mortgage repayments, as well as medical and old age needs.

Other Recommendations

21. To reduce the cost of doing business in Singapore, the NWC recommends that the government continue to moderate non-wage costs such as rentals, telecommunication and utility charges, transport costs and government fees.

22. In the spirit of co-operation, employers should discuss with unions on how the NWC guidelines could be equitably implemented. For this purpose, it is essential for management to share information on company performance, business costs and wage data. The NWC noted that companies that were more willing to share information were

able to implement the revised guidelines expeditiously. Therefore the NWC strongly urges employers to share relevant and timely information with the unions and their employees to facilitate the smooth implementation of the NWC guidelines and to forge greater cohesiveness in their companies.

23. The NWC calls on employers and unions to accelerate the implementation of the Base-Up Wage System and Medical Co-payment Scheme. The Base-Up Wage System ensures that wages truly reflect the value of jobs and reward workers based on their contributions. Under such a system, wage increase is closely linked with productivity growth. At the same time, the Medical Co-Payment Scheme helps to contain increasing healthcare costs, and encourages individuals to take personal responsibility for their own health.

24. Productivity growth has dropped from 6.4% in 1994 to 1.8% in 1997 and even further to -1.3% in 1998. One contributing factor is the declining productivity in the construction sector. The NWC notes the efforts of the Construction 21 committee to achieve a productivity breakthrough and reduce our reliance on unskilled foreign workers. Overall, we need to step up efforts to improve productivity and migrate to higher value-added activities. Workers must continuously pick up new skills for new value creation and to remain employable as we transit to a Knowledge Economy. In this respect, the NWC encourages employers, unions and workers, with the support of the government, to work closely together to enhance the productivity and innovation capacity of Singapore's workforce through skills upgrading and lifelong learning.

25. The NWC notes the Manpower 21 Vision for Singapore to become a Talent Capital. This will require a new manpower paradigm where every worker can contribute and add value. With the critical need for skilled and knowledge-based manpower, Singaporeans must be willing to engage in lifelong learning and continuous upgrading. In addition, companies must engage in good human resource practices and people development to contribute to a conducive workplace environment. Manpower 21 is aligned with the Singapore 21 Vision of a future where opportunities abound for all and where every Singaporean matters. The successful implementation of the Manpower 21 blueprint will require the partnership of the public, private and people sectors.

Implementation

26. As in the previous NWC wage guidelines, these recommendations are applicable to all employees—management, executives and rank and file employees, unionised and non-unionised employees and in both the private and public sectors.

27. The above recommendations shall apply for the period from 1 July 1999 to 30 June 2000.

Conclusion

28. The NWC is pleased to note that employers, workers and the government have been able to work hand-in-hand to implement the package of cost-cutting measures. In particular, the NWC would like to commend workers and unions for accepting the 10% point CPF cut, as well as the wage cuts recommended by the NWC in November 1998. The strong co-operation among the tripartite partners is helping Singapore regain its cost competitiveness and weather the economic crisis. This will pave the way for a full-fledged economic recovery which will ultimately benefit all Singaporeans.