

Working On The Rights Of Singapore's Working Poor



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The widening income gap in Singapore is a wake-up call for everyone, especially, says **Siew Kum Hong**, for the government that has to ensure that low-income citizens are also able to participate in the country's economic prosperity.

Over the past few years, the issue of Singapore's widening income gap has been very much in the headlines as well as being a key issue in the 2011 General Election.¹ In his New Year message at the start of 2011, Prime Minister Lee Hsien Loong highlighted it as one of the key challenges facing Singapore. He identified "the impact of globalisation, competition from emerging economies and new technology" as the main drivers for this problem.² It is therefore not surprising that

many other countries are also struggling with it.

In Singapore, there are additional reasons for the widening income gap. For instance, the last decade has seen an influx of low-cost foreign labour which most businesses have found extremely easy and profitable to take on in ever-increasing numbers. While precise annual figures are not available, the number of work permit holders, comprising unskilled and low-skilled labour, has, at the time of

writing, hit 871,000.³ This is likely to have suppressed wages at the bottom end of the workforce.

To its credit, the government has taken steps to mitigate the income gap. These measures include longstanding government initiatives on worker re-training, job re-design and productivity improvement, as well as special transfers (such as the Grow & Share Package) to Singaporeans that are weighted in favour of low-income earners.

The most notable recent policy innovation, the Workfare Income Supplement, was implemented as a permanent scheme in 2007. This followed the one-off Workfare Bonus Scheme in 2006. Workfare is essentially a wage supplement for low-wage earners (earning up to S\$1,700 per month), with the majority of the supplement (71%) paid into the workers' CPF accounts, and only 29% paid to workers in cash.⁴

Rationale for Intervention

In any market economy, the existence of an income gap is inevitable. However, the size of the gap, as well as its trend (i.e. whether it is increasing or decreasing), is not a foregone conclusion, and can therefore be influenced by policy measures.

So why is a large and/or widening income gap undesirable? A growing body of research and literature concludes that income inequality can be detrimental to people's subjective sense of well-being and satisfaction, although this may potentially be subject to cultural differences.⁵ Inequality has also been established to be associated with political instability.⁶

In addition, deep and entrenched inequality would—and should—strike at most people's innate sense of fairness and justice. I would therefore argue that society has an obligation to mitigate, if not reduce, the income gap as far as practicable, on both pragmatic and moral grounds.

A major cause of Singapore's widening income gap has been the stagnation of incomes at the lower-end of the scale. In his recent Budget statement, Finance Minister Tharman Shanmugaratnam noted that Singaporean workers, at the 20th percentile of incomes, saw their real incomes grow 5% over the last 10 years. He also observed that Singaporean households at the 20th percentile of incomes similarly

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saw real household income growth of 8% over the same period.⁷

While the Finance Minister had cited those figures to show that all Singaporeans have experienced income growth over the last decade, in effect, they also demonstrate how wages have stagnated at the lower-end of incomes when the GDP has grown by 72.2% over the same 10-year period.⁸ Put in annual terms, Singaporean workers at the 20th percentile of incomes experienced real income growth of only 0.5% per annum, while Singaporean households at the 20th percentile of incomes saw growth of 0.8% per annum when average GDP growth was 7.22 % over this period.

This then raises the question of whether these lowest-income households have managed to achieve what society would consider a reasonable minimum standard of living. According to Professor Kishore Mahbubani, Dean of the Lee Kuan Yew School of Public Policy, government surveys found that a household of four needs about S\$1,700 per month to cover the basic costs of living, such as food and utilities.⁹ With the bottom decile of resident employed¹⁰ households earning an average income of S\$1,400 per month in 2010, there is clearly a gap amongst the lowest-income Singaporeans.¹¹

Should society intervene to address this gap? This is a value judgement that Singaporeans have to make. The idea of a minimum wage has found at least substantial support amongst Singaporeans. In my view, Singaporeans do not support a minimum wage for its own sake; instead, they support the fundamental philosophy behind a minimum wage, which is the idea that everyone should be able to achieve a basic standard of living.

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I think this position is to our collective credit, speaking as it does to a shared commitment to a caring, compassionate society. I also think the majority of Singaporeans are likely to believe that society has a responsibility to intervene, and help the lowest-income Singaporeans achieve the basic standard of living that Professor Mahbubani refers to.

However, this statement by Finance Minister Tharman Shanmugaratnam in his 2011 Budget wrap-up speech should be noted:

“... what matters most is not income inequality itself, but whether we succeed in raising incomes and living standards for all Singaporeans, including and especially the lower income groups.

Second ... whether we can keep providing opportunities—so that all Singaporeans regardless of their family background or starting points, have the chance to fulfil their potential and aspire to a better future.”¹²

This statement suggests that the government may see a widening income gap as an inevitable outcome of a modern globalised economy, and something that it may be prepared to live with provided the lowest-income also see an improvement in their lives. If so, and if that position leads to a reduction in efforts to reduce the widening income gap or to intervene to address its consequences for the lowest-income, then that would be a disturbing outcome.

Minimum Wage as a Potential Policy Response?

If society should indeed intervene to address the widening income gap, what would be the appropriate policy response? This article considers the two leading policy options that have been proposed for helping low-income workers. It is not the intent of this article, and, indeed, it is beyond its scope, to discuss the policy options for helping the unemployed and those who cannot work.

Late last year, some Singaporean intellectuals, including the highly respected Professor Tommy Koh, publicly called for the introduction of a minimum wage in Singapore, thus reviving an idea that had been suggested from time to time over the years.¹³ This may have been spurred by the passage of a minimum wage law in Hong Kong that came into force in May 2011.

The government spoke out against this idea, arguing that a minimum wage was likely to increase business costs and hence lead to a loss of jobs, with companies relocating operations to countries with cheaper manpower. The public debate culminated in a Parliamentary debate in January 2011 on the question of “inclusive growth,” with the proposed minimum wage taking a prominent place.¹⁴

While a few MPs called for the government to keep an open mind on the minimum wage, none unequivocally advocated for it. On the other hand, ministers repeated their opposition to the minimum wage, as well as their view that Workfare was a better way to help low-income Singaporeans.

My own starting point is that Singapore currently does not have a minimum wage, so we will need to carefully consider whether its introduction will clearly, or probably, lead to a better outcome for Singaporeans. I, myself, am not completely convinced that this is clearly the best way forward, for the following reasons:

- There is strong empirical evidence that the introduction of a minimum wage is likely to result in undesirable consequences, including a net increase in unemployment and earnings, and that it may be ineffective in reducing poverty.¹⁵
- The introduction of a minimum wage therefore does not clearly and inevitably result in a better outcome for Singapore. Even if one accepts that these findings may not apply to Singapore, the risk of these consequences should at least make us hesitate to make such a fundamental and sweeping change to the economy’s wage structure.

To be clear, my argument is not that a minimum wage would not work, but rather that the arguments are equivocal.

Workfare in its Current Form?

On the other hand, I would disagree with the Government’s assertions that Workfare, at least in its current incarnation, is an adequate, or even appropriate, response to the widening income gap.

A minimum wage policy aims to put more cash in the hands of low-wage workers, thereby helping them achieve a higher standard of living. It therefore directly addresses the present-day difficulties of the low-income earners.

In contrast, Workfare currently pays employees about 29% of each payment in cash, with the balance being paid into their Central Provident Fund (CPF) accounts. For self-employed persons and informal workers, the entire amount of Workfare is paid into their Medisave accounts.

The bulk of Workfare therefore seems to be primarily aimed at helping the low-income with their future retirement needs. Indeed, the CPF Board's website states:

"... we should not downplay the importance of building up CPF savings as many low-wage workers have difficulties saving enough for their retirement. The [Workfare] that is paid into CPF helps them do that."¹⁶

In other words, Workfare in its current form is effectively an investment by the government today, to reduce its potential future financial burden of caring for the elderly and ill. It is true that CPF payments can be used to pay for current housing loan repayments and hospital bills. But even taking this into account, Workfare clearly only offers minimal help to the low-income earners with their day-to-day challenges in making ends meet. Self-employed and informal workers—arguably the ones who most need help—do not even get this minimal help.

After all, the maximum amount of Workfare payable is S\$2,800 per year, and that is to a worker over 60 years old with an average monthly salary of S\$1,000. S\$800 of this amount is paid in cash, which translates into an average of S\$67 per month. Bearing in mind that a four-person household needs S\$1,700 a month just for the basic costs of living, S\$67 or less of Workfare each month is a mere fraction of the amount needed to bridge the gap between income and a basic standard of living.

I therefore believe that it is misconceived to frame the issue as a choice between a minimum wage and Workfare in its current form. They ultimately seek to solve different problems. This also explains why so many Singaporeans remain unconvinced by the government's argument that Workfare is adequate to address the widening income gap.

Workfare Plus

But I do believe that a radically revamped Workfare scheme, which I would call "Workfare Plus," can be effective in helping the low-income earner reach a basic standard of living. The economic principles underlying Workfare are sound; a worker's work ethic is largely preserved, while there is no risk of businesses reducing their workforce because of increased labour costs.

The key here is that the cost of helping the low-income earner achieve a basic standard of living is borne by the government, and not by private sector employers.

As mentioned above, the bottom decile of employed

households earned an average of S\$1,400 per month in 2010. Assuming for the moment that there are no CPF contributions and that each household comprises four persons,¹⁷ there is a gap of S\$300 per month in cash (since the basic costs of living are \$1,700).

We can therefore structure Workfare Plus as an additional cash-only payment that is layered over the existing Workfare payments for the bottom decile of employed households. The quantum of this additional cash-only payment would be calculated based on what is needed to close the gap with the basic costs of living, or S\$300 per month on average.

With an estimated 110,000 employed households in the bottom decile of employed households,¹⁸ the cost of increasing the monthly cash component of Workfare by this sum would be about S\$33 million per month, or S\$396 million per year.

Fiscal implications of Workfare Plus

The current incarnation of Workfare costs about S\$400 million, which constitutes 0.8% of the Government's estimated expenditure of S\$46.4 billion in 2010. Doubling this amount through Workfare Plus would successfully close the income gap for the bottom decile of employed households.

Of course, the amount payable to each household would need to be carefully calibrated and graduated to minimise the disincentives to work. To be clear, this should not be an unconditional payment. It would be necessary to prescribe rules to ensure that workers continue to work as a condition for qualifying for Workfare Plus payments. One simple approach would be to use Workfare's eligibility requirements for Workfare Plus.

Some would argue that this could open the floodgates to open-ended spending on a social welfare net, or that the doubling in Workfare expenditure is somehow irresponsible and profligate. My answer to such critics is that Workfare Plus should be funded by way of an endowment fund.

Let's assume that an endowment fund can generate a long-term real rate of return, in excess of inflation, of 4% per annum.¹⁹ As this is the real rate of return, meaning the capital sum would remain intact, all of the returns can be used to fund Workfare Plus. For simplicity's sake, let's also assume that the number of employed households and the gap between average household income and basic cost of living both remain constant. A S\$10 billion endowment would then be required to fund all of Workfare Plus on an ongoing basis. This is a very sizeable figure, to say the least.

But the Workfare Plus fund can be built up over time. A good comparison is the National Research Foundation, which was assigned a budget of S\$5 billion over five years in 2006. Similarly, the Workfare Plus fund could be established with an initial funding of S\$3 to 5 billion, with the government

committed to topping up the fund by S\$1 billion every year (or every year where the government has sufficient budget surplus) until it hits S\$10 billion.

In the meantime, the Workfare Plus payments can be funded on a pro-rated basis until the endowment fund reaches the target amount. This is admittedly not ideal and would continue to leave the income of the lowest-income households less than what is needed to cover the basic costs of living. But on the other hand, it would nevertheless substantially reduce the gap and hence mitigate and reduce the hardship experienced by these households. Most importantly, this approach will, over time, result in a long-term, self-sustaining and fiscally responsible solution to the widening income gap.

Who Should Bear The Cost?

I have shown that Workfare Plus can be a viable solution to the question of how low-income households can meet the basic costs of living, in the face of a widening income gap. I have also concluded that the choice between a minimum wage and the current implementation of Workfare is a false one. That leaves the question of whether, and why, Workfare Plus should be preferable to the minimum wage.

Workfare Plus would be funded by the Government, which is why it does not face the main risk posed by a minimum wage, viz. the risk of businesses cutting back on hiring workers due to increased labour costs. This then leads to a fundamental philosophical question: Should the cost of ensuring that Singaporeans have an acceptable minimum standard of living be socialised and borne by the government (and hence society) via a scheme like Workfare Plus, or privatised and borne by private enterprise via a minimum wage?

In other words, if we are to help the low-income, should that be the responsibility of all of us, or just a select few?

I do not think that there is necessarily a single, objectively "correct" answer to that question, being as it is about one's subjective value judgments. However, I would like to make the following points:

- The challenges faced by low-income earners in making ends meet stem from the double-whammy of the widening income gap and rising prices. Even as incomes stagnate, the cost of living is generally rising across the board for all households.
- An important consequence of the widening income gap is that the benefits of Singapore's economic growth are not being enjoyed by all sections of society.

- It is generally accepted that a key plank of the social compact in Singapore is the idea of inclusiveness, viz. that all Singaporeans should be able to share in the fruits of progress.
- The social compact represents an implicit contract between members of a society, regarding the terms on which that society is to be organised. Accordingly, if one of the main aims of the social compact in Singapore is not being met, then surely the burden of rectifying that failure should fall on Singaporean society as a whole.

It is on this basis that I conclude that Workfare Plus, and not a minimum wage, should be the preferred policy solution to the problem of the widening income gap. Society as a whole has the moral and social obligation to help our less fortunate brethren who have not benefited from the country's economic growth.

A minimum wage, on the other hand, places that burden squarely on the shoulders of only a specific sector of society, namely private enterprise. That alone makes it a less fair option. When the very real risk of jobs being lost is considered as well, the preferred option is clearly Workfare Plus.

Conclusion

I firmly believe that we can help low-income workers achieve an income level that allows them to meet the basic costs of living in a way that does not disincentivise them from working hard, increase business costs or cause businesses to reduce hiring. Yes, it will not come cheap, nor will it be accomplished overnight. But we can make an immediate difference to the lives of low-income earners at a price that we can definitely afford, and in a way that we can achieve the target over the course of a few more years.

The persistent support for a minimum wage shows that many Singaporeans agree that society should step in to help the low-income. These Singaporeans have their hearts in the right place, and my only disagreement with them is over how to achieve our common objective.

On the other hand, I am disappointed at the continued failure of avowed supporters of Workfare to acknowledge the fundamental inability of its current incarnation to help low-income households meet the basic costs of living, as defined by the government itself.

Minimum wage and today's Workfare are not the only options open to Singapore. There is a third way, which is Workfare Plus as I've proposed in these pages. I believe it is viable, and I hope that I've managed to generate more interest and debate on this subject.



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3. "Budget 2011: Mixed reaction to foreign-worker levy hikes," *my paper*, 22 February 2011.
4. For more details on Workfare, see the Central Provident Fund Board website http://mycpf.cpf.gov.sg/Members/Gen-Info/WIS/WIS_Scheme.htm.
5. Simon Chapple, Michael Forster and John P. Martin, "Inequality and Well-Being in OECD Countries: What do we know?" 3rd OECD World Forum on "Statistics, Knowledge and Policy," 27-30 October, 2009. <http://www.oecd.org/dataoecd/31/53/44109816.pdf>.
6. Pushan Dutt and Devashish Mitra, "Inequality and the Instability of Polity and Policy" (28 March 2006), <http://faculty.insead.edu/dutt/research/instability-dutt.pdf>.
7. Finance Minister Tharman Shanmugaratnam, "Budget Speech 2011" at paras.C6 and C10 http://www.singaporebudget.gov.sg/budget_2011/pc.html.
8. Department of Statistics Singapore, "Time Series on Annual GDP at Current Market Prices," <http://www.singstat.gov.sg/stats/themes/economy/hist/gdp1.html>.
9. Professor Kishore Mahbubani, "Why Singaporean Leaders Believe in Government Action," *The Straits Times*, 1 December 2010.
10. A term used by the Department of Statistics in Singapore to refer to "households headed by a Singapore citizen or permanent resident with at least one working person."
11. Department of Statistics Singapore, "Time Series: Household Income from Work," <http://www.singstat.gov.sg/stats/themes/people/hist/hhinc1.pdf>.
12. Singapore Parliament Session No. 11, "Debate on Annual Budget Statement" (Sitting Date 2 Mar 2011, Vol.87) (http://160.96.186.99/parlweb/get_highlighted_content.jsp?docID=735522&hlLevel=Terms&links=BUDGET,THARMAN,SHANMUGARATNAM,THARMAN&hlWords=%20%20&hlTitle=budget&queryOption=1&ref=http://www.parliament.gov.sg:80/reports/public/hansard/full/20110302/20110302_HR.html#1).
13. Assoc Professor Hui Weng Tat, "Minimum Wage Law Works," *The Straits Times*, 2 September 2011 and Zakir Hussein, "Basic Pay: Tommy Koh weighs in," *The Straits Times*, 15 September 2010.
14. Singapore Parliament Session No. 11, "Inclusive Growth (Motion)" (Sitting Date 12 Jan 2011, Vol.87), http://160.96.186.99/parlweb/get_highlighted_content.jsp?docID=704090&hlLevel=Terms&links=INCLUS,GROWTH&hlWords=%20%20&hlTitle=inclusive%20growth&queryOption=1&ref=http://www.parliament.gov.sg:80/reports./public/hansard/section/20110112/20110112_S0003.html#1.
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