Low-Wage Work: Trends and Possibilities

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Abstract

Low-wage work in industrialised economies is increasingly at risk. Wages are depressed, and jobs are becoming more insecure with poor job conditions. Set in the context of rising worldwide income inequality and high inequality in Singapore, this paper discusses Singapore's labour market trends and policies in an international context. Noting the pros and cons of our "employment maximisation" and "growth oriented" context, it invites new possibilities for professionals and stakeholders working together to "make work pay".

Introduction

In the past decade, Singapore has enacted many policies and programmes to uplift the poor and tackle inequality, such as Workfare, ComCare, the Progressive Wage Model (PWM), and Silver Support. These have helped to mitigate the impacts of globalisation and skills-biased technological change on low-income households.

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However, inequality continues to be an increasing challenge, and, in this paper, I argue that low wages with poor job conditions are part of the root causes of poverty and inequality. I discuss three measures of economic inequality: the Gini Index, low-pay incidence, and the wage share of national income. I also discuss labour market trends and conditions and end with thoughts on the options for policy, business and community partnerships.

Gini Index Pre- and Post- Taxes-and-Transfers

Depending on the source, Singapore's income inequality before taxes-and-transfers is considered among the highest, or moderate, among developed economies. One source which shows Singapore's income inequality more favourably is the Standardized World Income Inequality Database by Frederick Solt. It shows that Singapore's 2015 Gini Index (a measure of inequality, where zero indicates no inequality and 100 indicates complete inequality) before taxes-and-transfers is lower (less unequal) than economies such as Hong Kong, the United States, United Kingdom, Germany and even Sweden (see Figure 1; in Ng, forthcoming). However, when taxes-and-transfers are factored in, Singapore's Gini Index becomes higher (more unequal) than all these economies except Hong Kong's (see Figure 2; in Ng forthcoming).

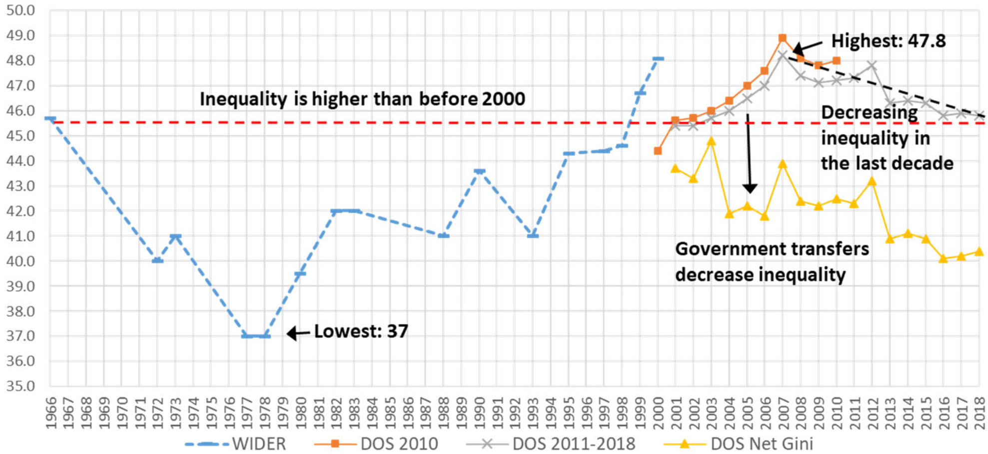
Time Trend of the Gini Index

While Solt's data makes Gini indices comparable across countries, it is less effective in showing changes through time. This is because of assumptions and smoothing to make data comparable. To study time trends, we now turn to the Gini Index reported by Singapore's Department of Statistics (DOS) and, for data from earlier years, those reported by the World Institute of Development Economics Research (WIDER).

First, looking at the latest time period from 2007 to 2017, income inequality has declined since 2007, when the Gini value was at its highest of 47.8 and when Workfare was introduced (Figure 1). However, if we track back two more decades, we find that the Gini Index rose 20% from 1980 to 2007 and decreased only 5% from 2007 to 2017. Thus, income inequality has declined in the last decade by only a quarter of its increase since 1980. The current level of income inequality is higher than that before the 2000s.

Figure 1

Singapore's Gini Index 1966–2018



Note. DOS revised its Gini measure in 2011, thus the slightly higher Gini numbers when using DOS 2010 compared to DOS 2011 onwards.
Sources: DOS, various years; WIDER (2019).

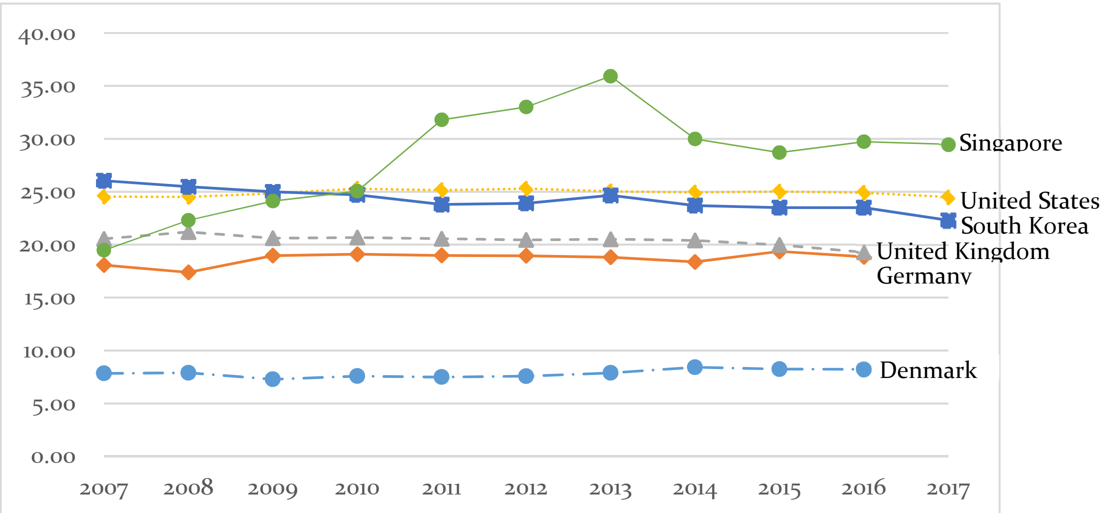
Combining the time and cross-country comparison in the last decade, while Singapore has partially reduced inequality, other developed countries have experienced increased income inequality. It is tempting to pat ourselves on the back that, in a decade of rising income inequality worldwide, we have reduced ours so that it is no longer the highest (in the UNDP's Human Development Report of 2009 we were second highest after Hong Kong). But our income inequality is at best moderate before taxes-and-transfers and remains among the highest post-taxes-and-transfers.

Wage Inequality and Job Conditions

Some have said that high income inequality is not a problem if the inequality is caused only by a greater concentration of the rich, and not of the poor. Unfortunately, the distribution of inequality in Singapore does disproportionately fall on the lower tail: there are more people earning low wages in Singapore than in member countries of the Organisation for Economic Co-operation and Development (OECD). This is seen in the low-pay incidence, which the OECD defines as the percentage of workers earning below two-thirds of the median wage. My computations for Singapore, though not quite comparable to the OECD rates, show that low-pay incidence is higher here than in the OECD countries: it has been above or about 30% since 2011, while the OECD average is only 16%. In the illustrative list of countries[1] in Figure 2, the nearest to Singapore is the United States, at 24.5%, and South Korea, at 22.3%, in 2017.

Figure 2

Low-Pay Incidence, 2007–2017



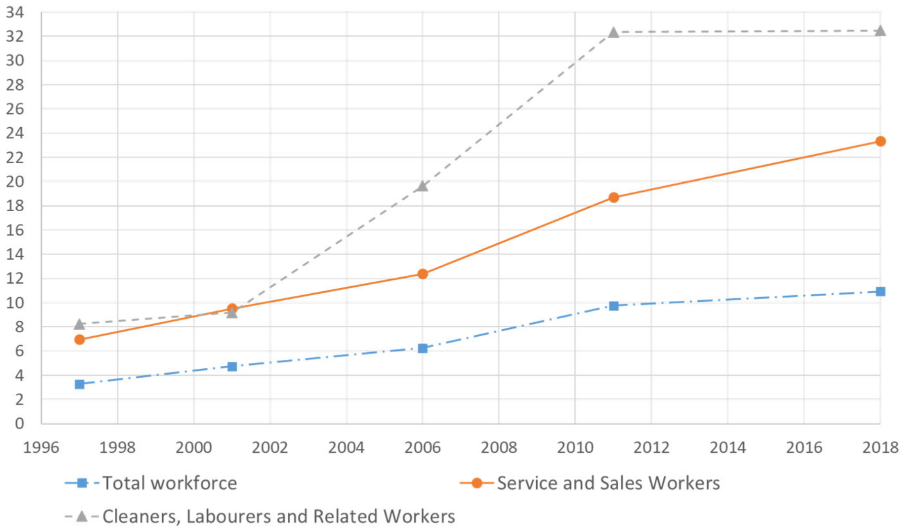
Note. Data for Singapore was extracted from median gross monthly income reported by Ministry of Manpower; it excludes employer Central Provident Fund (CPF) contributions but includes employee CPF contributions. Data for other countries was extracted from OECD (2019).
Sources: Ministry of Manpower (2006, 2011, 2012, 2013, 2014, 2015, 2016, 2017), Singapore Yearbook of Manpower Statistics; Ministry of Manpower (2010, 2011, 2012), Report on Labour Force in Singapore; Ministry of Manpower (2013, 2014, 2015, 2018), Labour Force in Singapore; OECD (2019).

This high rate of low-pay incidence computes only full-time pay. Part-time and contract work is disproportionately higher among low-wage jobs (see Figures 3 and 4), suggesting more workers earn low pay than what the

[1] The list of countries selected follows that reported in Gautié & Schmitt (2010), with the addition of South Korea, an Asian country. The countries selected also represent a range of welfare systems. Among the OECD countries, Latvia's low-pay incidence in 2017 was the highest, at 26%.

Figure 3

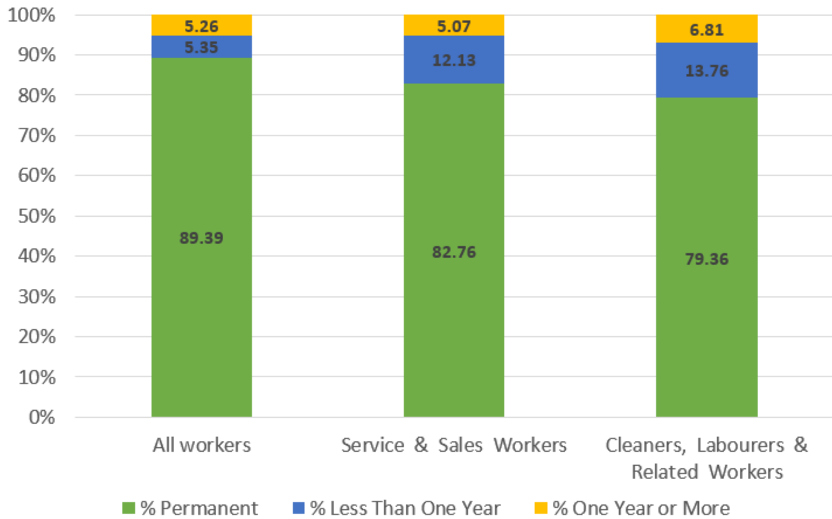
Part-time Employment by Occupation Group, 1997–2018



Sources: Ministry of Labour (1997), Ministry of Manpower (2001, 2006, 2011, 2015, 2018).

Figure 4

Type of Employment by Occupation Group, 2018



Source: Ministry of Manpower (2018).

full-time-only picture shows. Although much part-time and contract work is voluntary, the notion of volition is not clear cut. For example, many low earning individuals might choose part-time or contract work because of caregiving duties or health reasons and the low opportunity cost of forgoing low-pay work. In addition, it must be noted that Singapore's Gini Index and wage reports exclude foreign labour whereas many OECD countries include migrant workers in their computations.

The higher prevalence of part-time and contract employment among low-wage workers also signals the greater job insecurity and poorer job conditions experienced by them. My study with Yiying Ng and Poh Choo Lee (2018) of cleaners in the food and beverage (F&B) industry found various forms of poor job conditions and insecurity. For example, by law, employees are entitled to seven days of annual leave, with an additional day's leave for every additional year of service. However, one elderly cleaner had only seven days of leave although she had been working for the same company for six years. The company may have repeatedly given her one-year contracts.

Another example is in terms of medical leave and benefits. By law, employees are entitled to 14 days of medical leave and subsidised medical consultation if they have worked for more than six months. However, one cleaner respondent incurred a monetary penalty for taking medical leave, another said no reimbursement was given, and one part-time cleaner did not have medical benefits.

A final example is in relation to work-life balance. In the F&B industry, because the peak work hours are at lunch and dinner, with a lull in between, many restaurants give a break between the lunch and dinner shifts so as to keep the worker's work hours within eight hours a day and still have enough staff to serve the peak lunch and dinner crowds. For example, a worker might work from 10.30 am to 2.00 pm and then from 5.30 pm to 10.00 pm. The three-hour period in between, however, is too short to go home, thus many workers tend to rest in the restaurant or somewhere nearby. This is within labour legislation and makes business sense. However, it takes the worker away from home and family for more than 12 hours a day, including travel time.

The three examples above show how employers sidestep legislation to extract work and wages from staff as much as possible. To some, such practices may be so common that we think powerless low-wage workers can do nothing but accept such work conditions. However, labour laws (e.g., those stating leave entitlements, medical benefits, and maximum hours of work per day) are set precisely to protect the rights of workers, and thus such practices to sidestep the requirements should not be acceptable. While workers can report infringements, some are unaware of their rights and, even if they are aware, they are often reluctant to report for fear of getting into trouble with their employers.

The poorer job conditions of low-wage workers also highlight that the experience of poverty goes beyond income poverty; low-wage workers also experience employment poverty (in terms of poor job conditions) and time poverty.

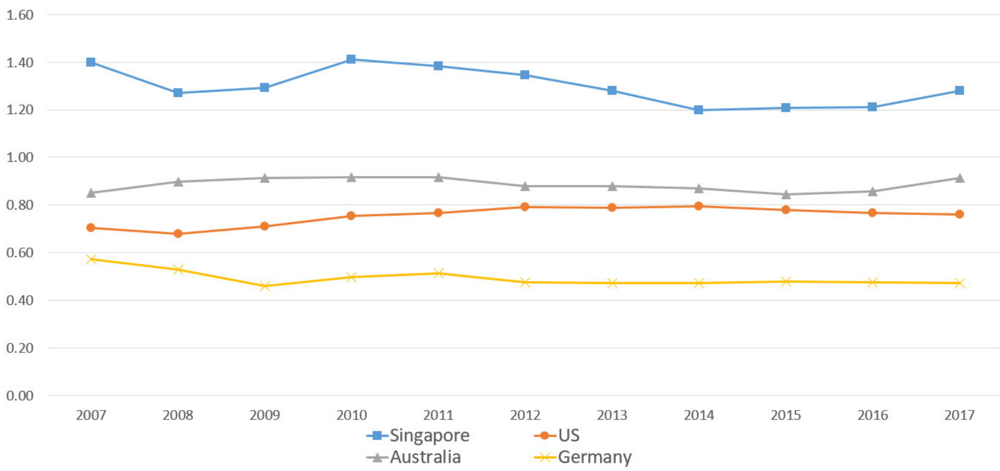
Distribution of National Income

The Gini Index and low-pay incidence compare only earned income by employees. They therefore do not give the full picture of inequality because many of the wealthy are not wage earners but business owners, who earn profits. One way to compare the relative shares of waged income and profits is to measure the distribution of the national income into its income components. In Singapore, the components of national income include compensation to employees, gross operating surplus and government taxes net of subsidies. Roughly speaking, the three components represent the share of the national income that constitute the wages of employees, profits of businesses, and net revenues to the government.

Thus, the profit-to-wage ratio shows the distributional weight of national income to profits and wages, and Singapore's ratio has been high relative to other countries at similar stages of development. Figure 5 illustrates this by comparing Singapore's profit-to-wage ratio to a few other illustrative countries. Strikingly, Singapore is the only country where the share that goes to profits is greater than the share that goes to wages (i.e., the ratio is greater than 1).

Figure 5

Profit-to-wage Ratio of National Income Share, 2007–2017



Sources: DOS (2019); Bureau of Economic Analysis, USA (2018); Australian Bureau of Statistics (2019); GENESIS Online Database, Germany (2019).

In addition, Singapore's profit-to-wage ratio has increased, from 1.11 in 1998 (DOS, 1998) to 1.20 in the last decade. This parallels a global trend of rising profit shares (Manyika et al., 2019). The nature of Singapore's economy explains Singapore's persistently high share of profits. For example, Singapore's open economy necessitates high profits to prevent easy business relocation. Also, the development of capital-intensive sectors requires high returns to attract investments in these sectors (Ministry of Trade and Industry, 2013). Indeed, the DOS report of 1998 states that Singapore's high profit-to-wage ratio shows that Singapore's economy is "competitive, and provides adequate returns to corporations operating in Singapore". That is, Singapore's wages are low and therefore cost competitive. However, the report also adds that "as countries become more developed and shift to higher value-added production, remuneration share tends to increase and consequently, profits share tends to decline" (p. 9). Unfortunately, although Singapore has become one of the most developed economies in the world, the profit-to-wage ratio has not decreased. The high profit-to-wage ratio is incongruent with Singapore's current stage of development, but the global headwinds might have prevented serious commitment to rebalance the distribution of national income.

Discussion

I have used three different measures to show that economic inequality in Singapore is high. First, the Gini Index shows that, for household income, income inequality has improved but remains high, compared to before 2000 and internationally. This is more so when we look at income inequality after accounting for taxes and transfers.

What the post-taxes-and-transfers Gini Index indicates is that policy matters. Liberal-oriented welfare systems such as Singapore's, with low taxes and means-tested and conditional welfare provision, distribute less and have higher inequality. We may be more efficient in distribution, or in delivering social outcomes such as housing, healthcare and education. Still, our system leads to greater inequality than other systems, and the post-taxes-and-transfers inequality is evidence of this. What this means is that if we are to seriously tackle inequality, the welfare system—in terms of the tax structure, more universal provision of welfare, and the delivery of health, housing and education— has to become more equitable and redistributive.

Ultimately, however, insufficient wages to sustain their livelihoods is the root reason low-wage workers have to seek welfare assistance. There is a limit to how much welfare payouts can keep making up for insufficient wages. Poor wages is a root problem that needs to be addressed. This is where the second and third measures of inequality come in.

The high rate of low-pay incidence shows that income inequality in Singapore is not just due to the rich getting richer faster than the rest of the country's income earners, but that low-wage earners continue to fall behind. In addition, low pay is accompanied by poor work conditions and time poverty. Compounding low pay and poor job conditions is the trend that the wage share of national income is kept low such that businesses extract higher profits than in other advanced economies. These profits are accumulated among the wealthy and not redistributed to low-wage workers through higher taxes on wealth gains.

The high rate of low-pay incidence and low-wage share of national income reflect a development model that has been based on keeping costs low to attract businesses, motivated by the concern that Singapore's economic survival depends on such a model as a small economy without natural resources. Complementing this model is a wage setting practice that aims at employment- rather than wage-maximisation (Chew & Chew, 1995). Arguably, this keeps unemployment low, unlike in western economies with strong unions, where wages set above market levels lead to high unemployment and black markets for non-unionised workers.

Singapore's conciliatory approach to industrial relations that is based on tripartite negotiations between the government, employers' associations and the National Trades Union Congress (NTUC) leads to peaceful labour negotiations, with minimum disruption to businesses and employment. The resulting nonconflictual employer–employee relationship makes for a favourable business destination for corporations and a stable work environment for employees. However, ultimately, workers are the weaker party in the tripartite relationship and risk being sacrificed for the benefits of employers and the nation as a whole. The low-pay incidence and national wage share reflect this state of affairs. International research also demonstrates the association between union strength, wages and intergenerational mobility (Gautié & Schmitt, 2010; Causa, Dantan, & Johansson, 2009).

NTUC has championed several important initiatives to improve wages and job conditions, for example, PWM, Work Right, and Industry 4.0. In the tripartite model, NTUC can run only as fast as policy-makers and employers are willing to act. Policymakers often suggest that employers are not ready for change. But, on the other hand, employers have also pointed to the need for strong legislation before businesses can react. For example, one employer in my study shared his view that although guidelines have been around for years to encourage businesses to send their workers for training and increase wages, it was not until PWM became law and licensing required compliance with PWM that businesses complied. This is because, in the absence of legislation, companies that do not improve wages and conditions will under- and out-bid companies that do. Thus, it may be time for the government to institute bolder policies that good employers will support.

Another sticking point is the argument that productivity needs to rise before wages improve. Contrary to this view, I would like to propose that increasing wages can improve productivity through three channels. First, higher wages compel investments in productivity improvements. In Ng, Ng and Lee (2018), we found that the passage of PWM and the resulting higher cost led several restaurant owners to redesign jobs and invest in labour-saving technology. Second, the efficiency wage theory suggests that when employees are paid higher wages, they are more motivated and loyal, leading to productivity gains and other cost savings such as low turnover and retraining costs.

The third channel applies to low-wage workers in particular and is derived from poverty research showing that living in financial scarcity leads to cognitive impairment. This means that if individuals living in poverty can be relieved of their financial distress by being paid wages to sustain livelihoods, their mental functioning can improve. Indeed, in our own study, Qiyan Ong, Walter Theseira, and I (2019) found that the debt relief provided by the Methodist Welfare Services improved the cognitive and psychological functioning of beneficiaries. While one implication of our findings is on the benefits and design of social assistance, at the end of the day, beneficiaries are in poverty, debt and suboptimal functioning because of low wages. Thus, addressing wages is a more sustainable solution that tackles the root cause of low productivity.

Therefore, instead of requiring productivity gains before wage increases, the above three channels demonstrate the case for wage improvements leading to productivity increases. In fact, Singapore's history has also shown that our reliance on low-cost foreign labour in construction and services, for example, has led to dismal productivity in these sectors.

Conclusion

While we have done much to boost disadvantaged households and narrow inequality in the past few years, we need to accelerate the current important initiatives and do even more if Singapore is to discard our reliance on low wage costs and "make work pay". Policymakers can take bold steps to rebalance the disproportionate distribution of Singapore's wealth. Businesses can collectively commit to paying higher wages alongside the industry transformations that are being developed, targeting industries that disproportionately hire low-wage workers. There are programmes being developed in other parts of the world where individuals with low income or mental disorders are being placed in competitive jobs paying family-sustaining wages (Riccio & Babcock, 2014; Suijkerbuijk et al., 2017; Riccio et. al., 2019). These programmes require tight collaboration between policy, social services and employers. Although they are more expensive than other counselling or social assistance programmes, they are found to be cost effective. Agencies in the social services sector, such as voluntary welfare organisations (VWOs), social service offices (SSOs) and employment centres (such as WSG and E2i), can reach out to work with employers on such competitive employment arrangements and also proactively advocate for better pay and job conditions. They can add their collective voice to the causes championed by NTUC.

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