Boosting wages to boost productivity

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A MYSTIC wage restructuring exercise took place in the 1970s (the so-called “high wage policy”), while another one is now occurring but there are key differences.

This year, in the recent Budget proposal, a new wage restructuring scheme, for the period 2013-2015, the Worker’s Compensation and Wage Credit Scheme (WCSC) involves the Government’s coverage of 40 per cent of the pay increases of Singaporean workers who earn a gross monthly salary of up to $4,000 over the next three years...

Labour chief Lim Swee Say said last Saturday that the pace of wage restructuring under the Scheme will be pivotal to the success of the overall Budget proposal to build a more inclusive society...

Economic theory, underlined by efficiency wage models, offers several explanations for the wage-productivity nexus:

First, in the high wage policy implemented over 1979-1981, the National Wages Council recommended a 20 per cent across-the-board wage increase per annum, including contributions to Central Provident Fund accounts and to the Skills Development Fund...

Secondly, in line with the Government’s objective in the recent Budget proposal to build a more inclusive society, the 2013-2015 wage restructuring exercise underlines an important redistributive element in the Budget. This should help to narrow the income gap between the rich and poor in Singapore’s society...

Thirdly, the current economic environment is radically different from that which prevailed during 1979-1981...

The sub-par economic growth will help build firms’ reserves and profits, thereby enhancing their ability to afford substantial wage increases. Taking these three differences into consideration, the pace of wage restructuring this time round is expected to be mildly sluggish, unlike the accelerated wage increases seen following the implementation of the 1979-1981 high-wage policy. With this, households will have more income for consumption and savings, which will help to narrow the income gap between the rich and poor in Singapore’s society...

On a positive note, the more targeted approach to the wage restructuring exercise is expected to move workers to the private sector where, at the margin, how much more they are able to pay their workers is in line with productivity improvements. This is preferable to a direct wage increase subsidy to workers who earn above $4,000, compared to those earning below $4,000.

The fact that the Government’s co-payment of 40 per cent of the wage increases of Singaporean workers earning below $4,000 is funded using tax revenue also reflects the redistributive element of the Budget. This should help to narrow the income gap between the rich and poor in Singapore’s society...

Over the 1979-1981 period, the Singaporean economy grew at an annual rate of 10 per cent. In contrast, the ongoing euro zone debt problems and sluggish growth in the United States economy reflect the redistributive element in the Budget.

On the other hand, firms which hire Singaporean whose incomes are above $4,000 do not enjoy any government wage subsidies. Hence, employers have less incentive to give wage increases to their higher skilled and more productive workers...

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