

## **Why Workfare works better for Singapore than a minimum wage**

By Chew Soon Beng and Linda Low

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In recent months, there has been some discussion on whether Singapore should have a minimum wage and whether that would be better than the current Progressive Wage Model and the Workfare scheme.

Here, we will explain why Workfare is still a better scheme than a minimum wage.

As pure market forces will determine the prices of private goods and services as well as wages, government intervention in the labour market to set a minimum wage is usually deemed necessary only when there is some market failure.

Indeed, pricing labour has other socio-political implications, such as on equity.

The current debate on minimum wage centres around concerns for low-wage workers — both foreign and Singaporean.

Despite schemes such as SkillsFuture under the Ministry of Education and training grants by Workforce Singapore, some Singaporeans who cannot upgrade their skills in a timely manner remain caught in the low-wage trap.

With the high cost of living in Singapore, these local workers may harbour some ill feelings toward the presence of foreign workers who command lower wages.

Yet, Singapore needs over one million low-wage foreign workers to do the jobs that many Singaporeans would not do.

If the goal of a minimum wage is to help all low-wage workers in Singapore, then surely such a policy should also apply to these foreign workers holding Work Permits.

But can Singapore's economy afford this? And wouldn't it defeat the purpose of getting these foreign workers to work in Singapore in the first place?

Yet, if Singaporeans have a minimum wage, but not blue-collar foreign workers, then it can be argued that this could lead to greater unemployment of Singaporean workers since they will now cost much more than foreign workers.

In this regard, Workfare works better because it helps Singaporean workers upgrade to better-skilled jobs with higher pay rather than compete with foreign workers.

The Government launched the Workfare Income Supplement (WIS) scheme in 2008 as a form of wage subsidy for Singaporean workers above 35 earning less than S\$2,000 a month.

Another related initiative — Workfare Training Support Scheme — provides funding support for these workers to go for training to improve their skills.

According to the Ministry of Manpower, WIS encourages eligible workers to work and build up their Central Provident Fund savings for their retirement, housing and healthcare needs, by supplementing their income and retirement savings through cash payments and CPF contributions.

Yet, some Singapore economists think that a minimum wage would be better than Workfare because the latter is costing the Government too much money.

They point to the fact that over the past decade, the Government has disbursed S\$5.5 billion in WIS payouts to some 830,000 Singaporeans.

What they did not say is that the Government's revenue from Foreign Worker Levy exceeds its expenditure on Workfare.

In 2016, the Government spent S\$667 million on Workfare.

While the Ministry of Manpower does not publish figures on the total collection for Foreign Worker Levy, then Acting Minister Tan Chuan-Jin said in 2012 in response to a parliamentary question that the amount of foreign worker levy collected in Financial Year 2011 was S\$2.5 billion.

Of course, the Foreign Worker Levy is not intended purely to generate revenue for the Government, but more to regulate the number of foreign workers and to reduce companies' dependency on them.

Second, those who favour a minimum wage also argue that its introduction can increase consumer expenditure, as found in two studies in China and Germany.

But these cases in China and Germany may not apply to Singapore, where there is so far no indication that the introduction of Workfare has increased consumer expenditure.

Furthermore, almost all countries with a minimum wage also have unemployment benefits. This is not surprising as a minimum wage can result in retrenchments.

Are we ready to discuss having unemployment benefits here too? No, as the saying goes, instead of giving a person a fish each day, it is better to teaching the person to fish.

Singapore's long-standing policy preference for retraining for reemployment instead of offering unemployment benefits for the work-shy unemployed is still sound.

The experiences of other developed countries show that unemployment benefits schemes encourage people to stay out of jobs till the benefits run out. This shows that, to a certain extent, unemployment is voluntary.

The best way to boost employment and wages is to offer effective training schemes for job seekers to get skills and be employed fast.

Indeed, the safest and best option for Singapore is to promote training and retraining of our workforce at all levels.

With many opportunities for training — especially for low-wage workers with schemes such as Workfare Training Support Scheme and SkillsFuture — we should embrace individual empowerment where each citizen takes personal responsibility for their own training and reskilling opportunities.

We bring in foreign labour to complement and supplement local workforce to attract foreign investment for economic development.

Notwithstanding a suggestion this week by Labour Member of Parliament Zainal Sapari for the age criteria and cash portion of WIS to be changed, wage subsidy for Singaporeans through Workfare is the best solution given the current circumstances of the political economy.

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