Low-wage Workers in Developed Countries; the Example of Singapore

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Abstract

In this paper, the P20 income framework is outlined as a measure adopted by Singapore to monitor the country's low-wage employment landscape. Given their higher tendency to be trapped in poor employment outcomes, the lower-wage workers could eventually end up in poverty if relevant policies are not put in place to help raise the incomes of these workers.

Keywords: poverty, income, development, low-wage, twentieth percentile income, Singapore

Introduction

Earning low wages is often a precurse to poverty. While there is currently no one internationally acceptable definition of low wages, it is generally considered that this term refers to wages below a threshold that is socially acceptable. Low-wage workers in this paper refers to full-time resident employees earning up to and including the 20th percentile income level for full-timers (denoted by P20).[1]

Over the years, supporting the low-wage workers has been an important priority for the Singapore Government. Analysing the number and incidence of low-wage workers earning up to the 20th percentile income allows policymakers to make more informed decisions concerning earners at the lower end of the income distribution. These individuals tend to be blindsided or overlooked when the nation's healthy economic growth is spotlighted. Identifying who and what constitutes the low-wage population in the country has enabled the Government to implement relevant policies aimed at uplifting their wages, without affecting the income outcomes of other middle or high income-earners. This is done so by supplementing the incomes of low-wage workers with Government payouts, or putting in place some form of Progressive Wages in all sectors of the economy through the implementation of a mandatory Progressive Wage Model (PWM). To improve their employment and economic outcomes, the Government must ensure that wage growth for low-wage workers continues to outpace median wage growth. This can be effectively fulfilled using the P20 income framework which has contributed to Singapore's stable progress in raising wages and supporting the livelihoods of low-wage workers, especially in the face of the recent COVID-19 pandemic.

As accentuated in this paper's abstract, the P20 income framework provides valuable insights on the low-wage employment landscape. These insights are translated into meaningful outcomes when they are analysed and strategically used for the purpose of shaping policies and programmes aimed at improving the economic, and consequently social, conditions of low-wage workers in developed countries such as Singapore.

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[1] An alternative definition adopted by the Organisation for Economic Cooperation and Development (OECD) would be to define low-wage workers as workers earning less than two-thirds of the median income for full-timers (denoted by 2/3M).

2. Low-wage Employment Landscape in Singapore

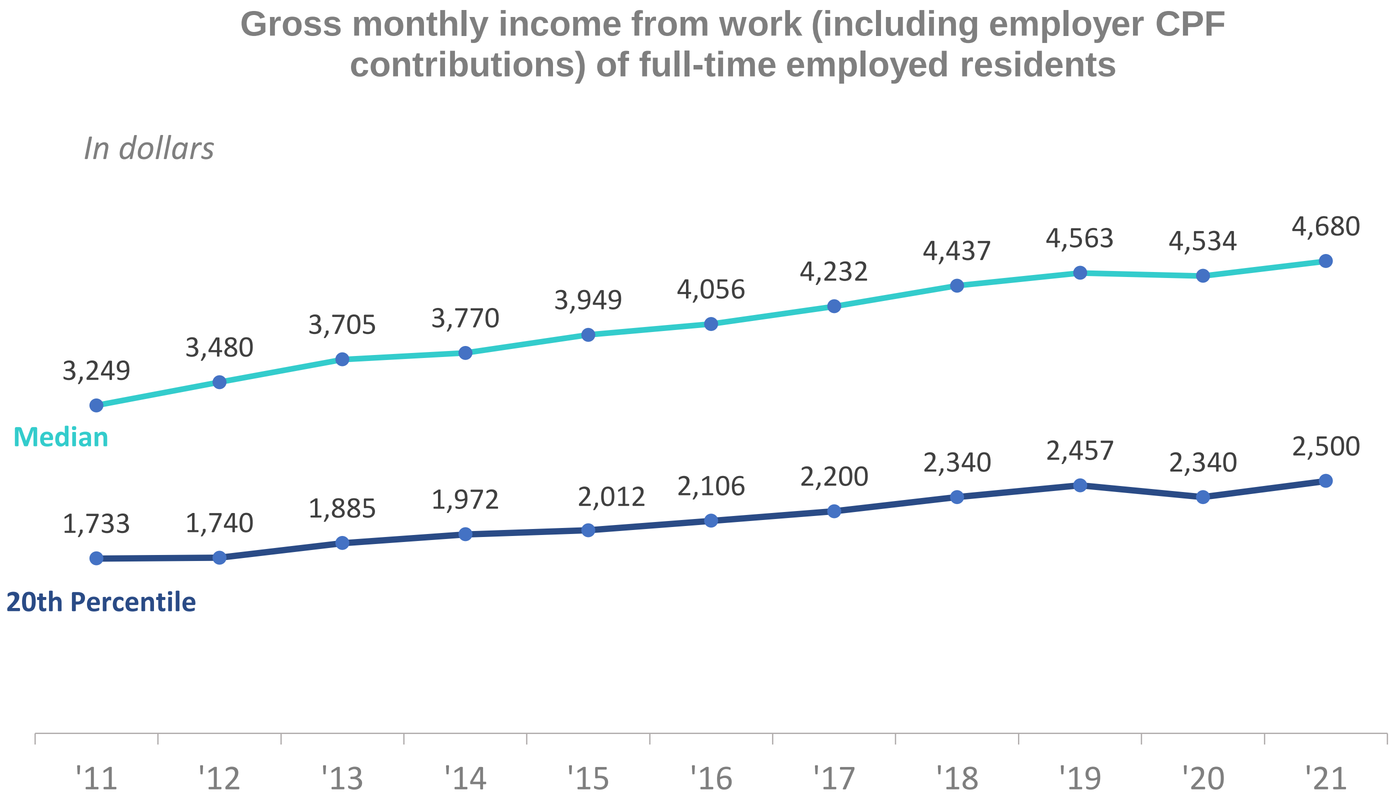
In Singapore today, low-wage workers refer to full-time residents earning a gross monthly income (excluding employer CPF contributions) at or below S$2,200[2] (USD 1,575). This is the 20th percentile gross monthly income of full-time employed residents. Many workers earning lower wages are engaged in job roles essential to our daily lives. They are commonly employed in *Transportation & Storage* (e.g. taxi drivers, private-hire car drivers), *Food & Beverages Services* (e.g. food & drink stall assistants, hawkers, waiters), *Administrative & Support Services* (e.g. cleaners, security officers), *Retail Trade* (e.g. shop sales assistants, cashiers), and *Manufacturing* (e.g. clerks). These workers help to keep our environment clean, safeguard our lives and properties, and ensure our society and economy function smoothly. In times of crisis, low-wage workers, who commonly work on the frontline, also bear the brunt of income losses. The recent COVID-19 pandemic has shone the spotlight on the essential nature of their work, as well as their precarity since the sectors they are employed in tend to be more directly impacted by disruptions to business activities brought about by the COVID-19 restrictions.

The profile of low-wage workers has always remained relatively consistent – they are typically older (aged 50 & over) and less educated (secondary or lower qualifications). With Singapore's retirement and re-employment ages being raised to 63 and 68 respectively since July 2022, coupled with the nation's growing aging population, we can expect low-wage workers to become progressively older. Being older and of a weaker educational profile, it is evidently more challenging for this population to upskill and seek better employment opportunities even when the job market is bustling. When the COVID-19 pandemic hit the market two years ago, the Government curated hundreds of jobs and skills opportunities to support local jobseekers. Career conversion programmes, company-hosted traineeships and attachment, as well as enhanced training programmes, are some examples of Government-led initiatives that have provided multiple pathways for jobseekers to enter or transit into new careers or sectors during the pandemic. However, as low-wage workers are significantly less likely to participate in training – when compared to the average worker – these schemes and opportunities, which are mostly voluntary in nature, will not be as effective in helping to improve their employment outcomes, and hence economic well-being.

[2] S$2,500 (USD 1,790) including employer CPF contributions.

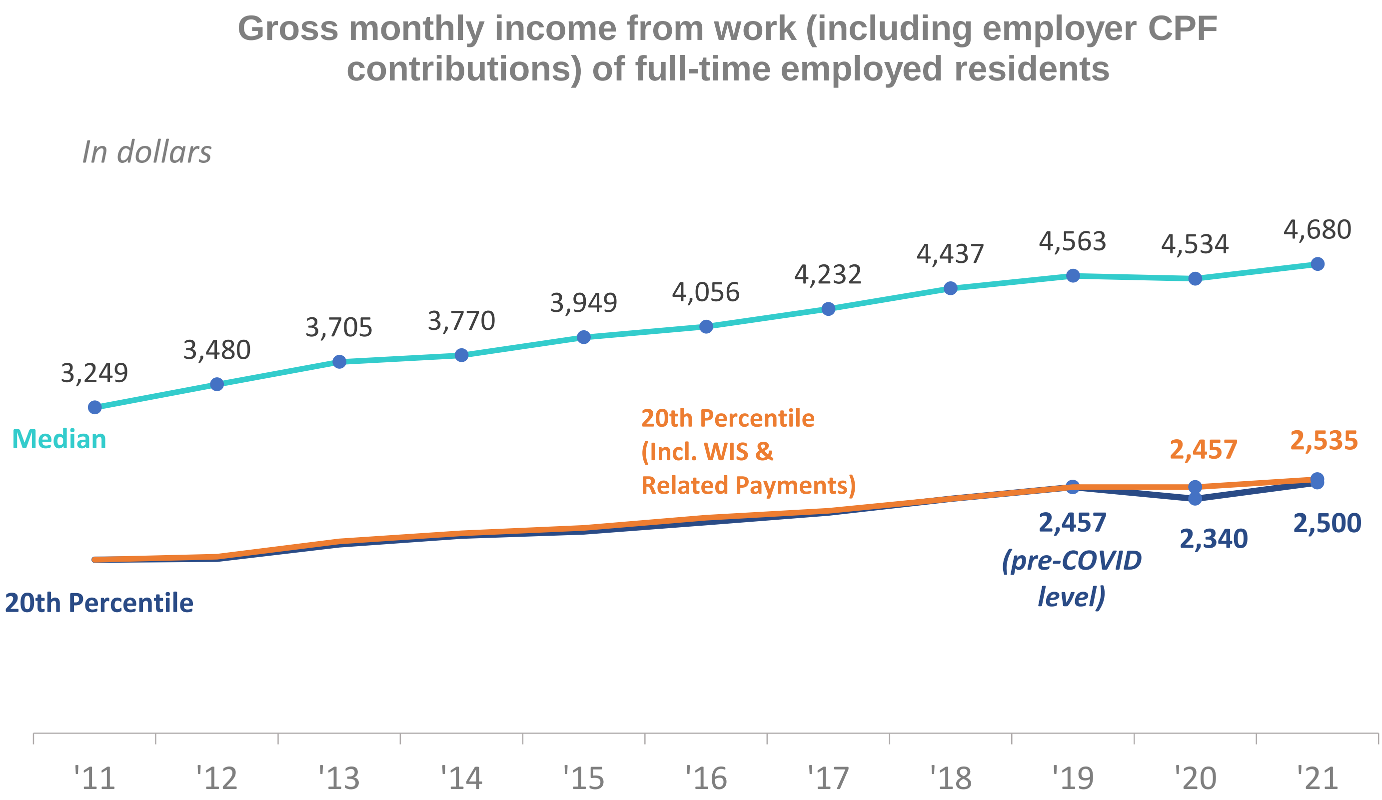
3. 20th Percentile Income Level (denoted by P20)

On the other hand, Government policies involving monetary payouts or sustained efforts to increase the wages of our low-wage workers such as through the Progressive Wage strategy, will more directly and effectively impact the economic, and consequently social, well-being of our low-wage population. This will in turn accord them progression and allow them to move forward with the rest of society. In fact, the incidence of low-wage workers in Singapore has remained relatively stable over the years, even after taking into consideration the consistent increase in the P20 income level. Real income of our local workers at the 20th percentile has risen by more than 40% between 2011 and 2021 – this is actually on par with, and even of a greater increase, than that of median income.



4. Workfare Income Supplement (WIS)

Over the past decade, the Singapore Government has implemented several initiatives to further boost the wages and support the livelihoods of our low-wage workers. This includes the Workfare Income Supplement (WIS), introduced in 2007 to encourage low-wage workers to work hard and build up their savings for retirement, housing, and healthcare needs. Under this scheme, the Government tops up the incomes of low-wage workers in cash and Central Provident Fund (CPF)[3] payouts. The WIS could potentially boost the incomes of low-wage workers by up to 30% annually. Additionally, when the pandemic hit in 2020, a separate Workfare Special Payment (WSP) encompassing a cash payout of S$3,000 (USD 2,137) was introduced to provide additional care and support to low-wage workers during this challenging period. When these Government payouts are taken into consideration, the P20 income, which declined in 2020 following a decade of steady increase, actually surpassed its pre-COVID level by 3%, hence reflecting the stronger income gains enjoyed by our low-wage workers even amidst unprecedented times. The WIS and WSP were also effective in helping to stabilise the ratio of income at the median to P20 in the last two years during the pandemic.



[3] The Central Provident Fund (CPF) is a mandatory social security savings scheme funded by contributions from employers and employees. It is a key pillar of Singapore's social security system and helps Singapore Citizens and Permanent Residents set aside funds to build a strong foundation for retirement.

In fact, the WIS can be perceived as a meaningful policy employing a two-pronged approach. Apart from directly supplementing the incomes of our low-wage workers, a less apparent effect of the WIS would be its capacity to chiefly incentivize low-wage workers to work, and work regularly, rather than rely on welfare measures, since they will only benefit from these payouts if they are working and earning an income. This will in turn raise employment rates to a healthy level. This positive knock-on effect is also highlighted in evaluations of similar workfare schemes, like the Earned Income Tax Credit (EITC) in the United States (US) and the Working Families' Tax Credit (WFTC) in the United Kingdom (UK). These schemes have generally been successful in attracting more workers into the workforce. For example, Eissa and Liebman (1996) found that the expansion of the EITC scheme in 1986 increased the employment rate of single mothers in the US by up to 2.8%-points. Similarly, in an evaluation of the UK's WFTC, Blundell, Brewer and Shephard (2005) estimated that the employment rate of single mothers rose by 3.6%-points between 1996 and 2002. According to the Ministry of Trade and Industry (2014), when the WIS was first implemented, in its pioneer years, it did successfully incentivise less-educated Singaporeans to work. Over the period from 2007 to 2010, WIS led to an increase of up to 7.3%-points in the employment rate of WIS-eligible Singaporeans. By encouraging a wider pool of workers to enter the workforce, regardless of their employability potential, it is a first step to ensuring that more individuals will grow to be better able to financially support themselves, therefore making them less vulnerable to unfavourable economic and social conditions.

5. Progressive Wage Model (PWM)

To further support low-wage workers, the Progressive Wage Model (PWM) was introduced in 2014 (Cleaning sector) and 2016 (Security and Landscape sectors), with the aim of enhancing the livelihoods of our low-wage workers. The PWM benefits low-wage workers by mapping out a clear career pathway for their wages to rise at a sustainable and meaningful pace, along with mandatory training, and improvements in job productivity and standards. Under the PWM, a transparent wage ladder is outlined to ensure sustained wage growth for local workers in selected sectors over the subsequent few years. By doing so, low-wage workers will be granted the assurance of greater financial security and stability. Such a strategy also ensures that the wage increments enjoyed by our low-wage workers will not affect the income outcomes of other middle or high income-earners. Instead, it allows our low-wage workers to gradually gain ground with other workers and progress with the rest of society. The Government is constantly reviewing and enhancing the PWM framework and aims to ensure that progressive wages will cover up to 94% of the nation's full-time low-wage workers in time to come.

6. Conclusion

Ultimately, the initiatives introduced by the Singapore Government have certainly been effective in uplifting the wages of our low-wage workers. With higher wages, they can then benefit from improved living standards and be more financially able to care for and support themselves even upon retirement. Notwithstanding, the gulf between the wages of workers at the 20th percentile and those of median income earners remains relatively wide when compared to that of other developed countries. According to the Tripartite Workgroup on Lower-wage Workers' report released in August 2021, the ratio of the income at the 20th percentile to median full-timers in Singapore is 0.54. This lags that of countries such as Finland: 0.77, South Korea: 0.69, and US: 0.62. This trend is a resulting effect of Singapore's robust median income growth over the past decade. To remedy this situation, the Government is committed to redoubling their efforts in uplifting wages at the bottom and helping low-wage workers to achieve a decent economic outlook which will ensure that they are never deprived of the resources required in maintaining a desirable standard of living.

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