

Social Dialogue and The Flexible Wage System in Singapore

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INTRODUCTION

This paper proposes to examine the viability of social dialogue, more specifically tripartism, as a satisfactory and fair means of determining wage levels. As wage levels establish the way life is lived for workers, wage determination is a crucial problem, especially in capitalist economies where the interests of capital differ radically from the interests of labour. Singapore is a good example where tripartism and social dialogue have been practised since the inception of industrialization. While authoritarianism was responsible for the initiation of the system, the relative success of Singapore's industrialization has prompted others to look at how the system has delivered a relatively high standard of living for its workers besides establishing a stable and rational society able to withstand crisis and erratic turns of capitalist business cycles. While it cannot be said that the relative success of Singapore is all due to the nature of its industrial system, it can be said that the tripartite character of its industrial system does play a major role in providing a comparatively predictable investment site for MNC-led development and long-term political and social stability.

Here, a specific aspect of Singapore's industrial relations system will be considered. The role of social dialogue in wage setting can be considered basic to the well-being of the national and household economy in Singapore. Singapore's peculiar conjunction of forces in history and subsequent development which accounts for its present political economy cannot be emulated in toto. Nonetheless, an investigation into how its tripartite system of industrial relations emerged and developed, more specifically, how social dialogue established and shaped its wage structure and guided the process of wage determination can provide lessons on how to negotiate the contrary interests of labour and capital to settle for a sustainable level of wages for the long term.

ILO AND WAGE DETERMINATION

Wages have the most direct impact on the everyday life of workers. “Since its early days, the question of decent wage levels and fair labour and remuneration practices has been at the centre of ILO’s action and the ILO has advocated labour standards seeking to guarantee and protect workers’ right in respect of wages” (ILO website on wages). The original Constitution of the ILO, which was established in 1919, referred to the “provision of an adequate living wage” as one of the improvements urgently required for the promotion of universal peace, and to combat social unrest, and the hardship and privation affecting large numbers of people. The origins of Convention No. 95 are to be found in ILO’s report on the “Future Policy, Programme and Status of the International Labour Organization” presented at the 1944 conference in which it was pointed out that “wage policy lies at the core of the preoccupations of the International Labour organization”.

The ILO’s stand on wages is consonant with the idea that the provision of an adequate living wage is a basic requirement for the building of world peace, harmonious societal relations and social stability. This is one area of improvement urgently required if we want to promote universal peace and ameliorate social unrest. The ILO has always stressed that its policies in regard to wages and earnings, hours and other conditions of work that ensure a just share of the fruits of progress to all and a minimum living wage to all employed and in need of such protection.

Additionally, one of the ILO principles adopted in 1944 by the International Labour Confederation held in Philadelphia says that “Labour is not a commodity”, for the simple reason that serious social conflicts will arise if market forces were allowed to completely take over the determination of wages. Implied herein is the reasoning that labour has to be removed from the market and that wages need to be regulated through long-term collective agreements endorsed by the state.

Unfortunately, we still see conventional theories on wages extolling the market as a useful mechanism for the efficient allocation of labour, and for directing labour to its most productive use (Polachek & Siebert, 1993). This approach ignores the different implications wages have for employers and workers. Whereas wages are a cost to employers and a tool for motivating workers to higher productivity, to employees wages represent their standard of living, self-fulfillment and an incentive to acquire skills for the market. The recognition of the contradiction in the interests of employers and workers with respect to wages is the first step to handling the question of wages in a sensitive and balanced manner.

Unfortunately, the price allocation approach tends to be normative. It overstresses coherence and underplays the role of conflict and scope for discretionary/amelioratory actions. Ignoring the contrasting interests of employers and employees is to

depoliticize changes in wage distribution by attributing fundamental wage movements to changes in productivity trends and not to changes in the balance of power within the labour market. There is a converging trend in globalization studies (Kurzer 1993, Katz & Darbishire 1999) that has argued that “globalization” — frequently understood in terms of capital mobility or the threat of exit — has shifted the balance of power decisively toward employers. Unions are seen as the main defenders of traditional practices, but their power to resist decentralization and deregulation is sapped by ongoing struggles with employers and, in many countries, also undermined by high unemployment” (Thelen & Kume 1999, 478). More importantly, the market approach discourages state intervention to mediate the harshness of market forces.

Recent evidence indicates that market-driven globalization has generated greater instability in wage structures as they are subject to a more diverse and unpredictable array of forces. Crucially, the disciplining effect of the changing external environment — the power of financial capital and the threat of withholding cross-border investments — has caused an epochal shift in the relative bargaining power of labour, capital and the state. One result is that pay determination is no longer constrained by social norms or accepted notions of a going rate or a living wage. The expanding power of international capital has also pushed for a particular pattern of deregulation which has in turn boosted the power of institutions such as the large multinational firm with a global reach. This could explain the higher volatility seen in recent wage movements as companies move to contingent practices such as part-time work, contract work and temporary work (Smith 1998). Compensation issues have figured prominently in research/debates relating to economic restructuring and unemployment.

A range of scholars hold that globalization threatens workers’ rights because it erodes the state’s inclination and capacity to guarantee them (Tilly 1995). However, this paper will argue with others (Regini 2000, Anderson-Connolly et al. 2002) that states should not be characterized as unitary nor self-evident determinate structures with fixed parameters of authority. Structures are emergent and inherently dual in that they both shape and are shaped by human agency. Besides, the multi-layered structures comprising local arenas of social action, culture and custom can all be claimed to be both uncertain and potentially transformative, apart from contributing to the reproduction of social life. Building strong institutions such as the state and international establishments such as the ILO will help empower workers’ demand for decent living and working conditions.

One way of living with capitalism is to use social dialogue to enhance accommodation and tolerance when diverse parties have to live and work with each other. The primary goal of social dialogue is to promote consensus building and democratic participation among the major parties involved. Once successfully established as a custom, social dialogue has the potential to amicably resolve major problems of production and

distribution and thus ensuring political/social stability and smooth functioning of the social and economic system despite batterings from both domestic and exogenous sources.

Social dialogue as defined by the ILO includes “all types of negotiation, consultation or simply exchange of information between, among, representatives of governments, employers and workers, on issues of common interest relating to economic and social policy” (ILO website). Social dialogue can be bipartite and confined only to employers and employees without government intervention. “Concertation can be informal and institutionalized”, taking place at the enterprise, national or regional level.

According to the ILO, the conditions that facilitate social dialogue include the presence of strong independent unions and employers’ organizations, the political will to engage in social dialogue on the part of all parties, and respect for freedom of association and collective bargaining. ILO standards concerning social dialogue include basic ILO conventions such as Freedom of Association and Promotion of the Right to Organize Convention, 1948 (No. 87) and Right to Organize and Collective Bargaining Convention, 1948 (No. 98) which are aimed to strengthen representation, capacity and services of the parties to social dialogue.

The role of the state, however, is crucial to the success of social dialogue even when the state does not play a dominant role, as in the case of Singapore. The state has the capacity to create a stable political/civil climate that will make social dialogue, and not conflict, could become the more attractive option for parties when manoeuvring their contrary interests. The state also guarantees the legal and institutional framework to ensure that agreements can be carried out.

The ILO has listed a variety of modes for implementing social dialogue. Amongst them are information sharing, consultation and in-depth exchange of views, tripartite negotiation, and collective bargaining (ILO website).

Tripartism is an important means of establishing social dialogue. Tripartite cooperation is defined refers “to all dealings between government and workers’ and employers’ organizations concerning the formulation and implementation of economic social policy”. The Tripartite Consultation(International Labour Standards) Convention, 1976 (No. 144) especially requires effective consultation between government, and employers’ and workers’ representatives at each stage of ILO standards-related activities. A number of other conventions such as those regarding minimum-wage fixing, and the worst forms of child labour also foresee consultation between government, and labour and employers’ organizations.

HISTORICAL BACKGROUND OF SOCIAL DIALOGUE IN SINGAPORE'S INDUSTRIAL RELATIONS SYSTEM

This paper argues that the accumulation of state power in Singapore stems from the conjunction of unique historical forces at the point of political independence in 1965. The capacity of the state to preserve its power lies in its long history of incorporating/engaging employers and labour in a broad-based alliance. Deploying an array of tools over time, the state has been able to maintain its dominance in this alliance to establish a stable investment climate resulting in more than four decades of high growth and improved lives for workers. During the initial phase of industrialization, the state's strategies had originally included massive coercive measures to build a disciplined and rational workforce. A switch to policies manufacturing consent was enforced when Singapore's competitive edge of low-waged labour was eroded. Singapore then urgently needed to extend education to the masses in order to cope with globalization and the transition to a knowledge-based economy. In this ongoing process of give and take, the state has unintentionally empowered labour for more critical feedback, whereas a more matured and rational workforce has accepted the need for subdued wages for long-term accommodation with capitalism.

The following is an analysis of a particular state initiative — a flexible wage system and the tripartite mechanism for its implementation — established with the aim of preserving wage stability and the long-term goal of full employment. The shift is not aimed to weaken labour but to preserve existing tripartite agreements of full employment in exchange for industrial peace and stability.

As part of British Malaya, Singapore shares with India a history of colonial rule and protracted struggle for political independence. The Malayan Communist Party was at the forefront of this struggle which culminated in the declaration of emergency rule in 1948. The Internal Security Ordinance was the most powerful deterrent under emergency regulations because it allowed detention without trial. It was the detention of left-wing trade unionists that threw the first prime minister of Singapore, Lee Kuan Yew, into contact with these militants in his role as legal adviser. With other British-trained elites who sought indigenization of the civil service, Lee Kuan Yew formed a group of social democrats willing to work with pro-communists to seize power from the colonial government.

The scene was set for an elite-trade union alliance as a form of post-independence rule, which was established in 1965. However, a contemporary state-labour alliance was realized only after a long-drawn-out process of wranglings and manoeuvrings, and not before the pro-communist unionists had been ousted from the alliance. The mass backing of left-wing trade unions had to be replaced by an alternative trade union structure organized by the state. Early acceptance of the rule of the newly created state-labour

alliance can be attributed to the combination of dire circumstances facing the nation that made it conducive for legitimating authoritarian centralized rule.

The first traumatic event was the expulsion of Singapore from Malaysia and the proclamation of its independence as a sovereign republic in August 1965. On top of this was the announcement in January 1968 that the British would pull out their military force by 1971. Faced with an unemployment rate of nearly 15 per cent, no natural resources and no domestic market to speak of, Singapore was confronted with a dismal economic situation and the urgent need to build a livelihood for its people. The time was ripe for rule by a strong leader. With a relatively uneducated population and a weak bourgeois class comprising mainly apolitical transient merchants, the British-educated elites led by Lee Kuan Yew easily filled the political vacuum left by the British.

The lack of a domestic market constrained Singapore's choice of development strategies. Despite the unpopularity of foreign direct investments and the adoption of English as the medium of business communication, Singapore had to opt for what was at that time considered politically incorrect strategies. Fortunately, as it turned out, staying different from others in the region proved to be advantageous for Singapore's economic development. Its anti-communist stance at the time when the US was bent on cultivating frontline states in East Asia also helped Singapore gain easy access to the US domestic market and US investments. Today, it can be said that nearly three-quarters of industrial assets are owned by foreigners.

Apart from the strong state apparatus left by the British, the labour movement was the only developed institution left at that time. The elimination of pro-communist forces from the politics of Singapore set the stage for the forging of an alliance between reformed labour and the state powerfully backed by the Internal Security Act (providing for detention without trial) inherited from the British. Injection of government personnel and funds into the labour movement thereafter ensured a less than equal labour-state alliance. Nonetheless, even under these circumstances of rapid growth, labour did enjoy one of the highest standards of living in Asia

NATIONAL POLICIES AND WAGE FIXATION IN SINGAPORE

Prior to the establishment of the tripartite body, the National Wage Council (NWC), wage negotiations in Singapore were often conducted in an atmosphere of relative freedom and in a rather haphazard manner. The long tradition of state-working class violence (Stenson 1970) was made worse by rivalry between union federations. Table 2 reflects Singapore's early history of turbulence in its industrial relations set-up. Even though labour at that time was surplus levels of unemployment were high, trade unions could continue pressing for better wages and fringe benefits for their members. Wage

increases were either ad hoc or largely determined by the bargaining strength of unions and management. Wage disputes and strikes were common, resulting in many lost man-days (see Table 2).

Prior to gaining political independence in the 1960s, Singapore's economy was largely based on entreport trade. It was a typical low-wage-surplus-labour developing economy with unemployment averaging 14 per cent and annual growth rates of 5 per cent between 1960 and 1964.

From 1965, with the switch from import substitution to export-oriented labour-intensive industrialization, a relatively low-skilled low-waged workforce came to be deployed in labour-intensive industries. Singapore was competing globally in terms of costs because of its situation of surplus labour. Nonetheless, this growth strategy was able to achieve annual growth rates averaging 9 per cent per annum which reduced unemployment to 8 per cent in 1967 and to 4.8 per cent by 1971. Concern that the high economic growth rates might lead to uncontrolled wage rise as industrial disputes became rampant, tough legislations were introduced in an attempt to control labour costs and rationalize the labour movement.

Regulating labour was not an easy task and there was a peaking of industrial unrest during this period in response to the introduction of strict labour legislations from 1959 to 1979. These legislative moves had the effect of:

1. Making it almost impossible for trade unions to go on strike The Industrial Relations Ordinance, 1960 was instituted to set out collective bargaining procedures through compulsory conciliation and arbitration. Strikes and lockouts were prohibited once an industrial dispute was referred to the industrial arbitration court;
2. Excluding from collective bargaining personnel issues such as transfer, promotion, termination of service due to reorganization, assignment of duties. The Industrial Relations [Amendment] Act, 1968 gave greater discretion to employers in the deployment of their workforce: decisions on promotions, internal transfer of employees, hiring and dismissals were left completely in the hands of the employer.
3. Limiting the sums payable on bonuses, annual paid leave, retrenchment and retirement benefits, and overtime (Employment Act of 1968);
4. Establishing the Tripartite National Wages Council in 1972 to ensure the establishment of 'orderly' wage regulation.

All these measures combined to serve as a deal for wage restraint packaged together to help make Singapore an attractive investment site. In the larger scheme of things, this can be said to be part of the initial attempts to rationalize the trade union

movement starting in 1968 (NTUC 1970) and made in parallel with the shift to rationalize the whole of Singapore society. The trade union movement was to subordinate its sectoral interests to the advancement of national interest. It was to be a party to consultation and not confrontation. It was envisaged that the educative and socializing role of trade unions would be rapidly expanded.

Moves to rationalize the economy were a preparation for the next investment-driven phase of Singapore's industrialization (1980s–1990s). By 1979, unemployment had declined to 3.3 per cent. Continuous and rapid expansion of the economy following economic recovery in 1976 had led to acute shortage while productivity remained low. This necessitated a shift from the existing labour-intensive growth to capital-intensive development. Thus, the high wage period of 1979–1981 reflected in part a new strategy of discouraging intensive use of labour and instead going in for higher levels of automation and mechanization to achieve higher value-added activity in capital-intensive production. With this in mind, a generalized skills development fund was set up to promote skills upgrading. Besides, the productivity movement was launched in 1981 to introduce the concept of productivity and to disseminate productivity techniques through cooperative efforts of tripartism.

Despite the efforts by the NWC to moderate wage increase, labour shortage continued to lead to high wage growth and increasing cost of doing business all round. The recession of 1985 led to the realization that a reassessment of the whole process of wage fixing and a change in the wage structure was called for in an era of fast-changing global competition. The NWC started by imposing severe wage restraint between 1986 and 1987. In examining the question of wage rigidity, it was decided that wages and performance must be closely linked if Singapore was to sustain long-term economic development and a stable income for its people. Towards this end, the idea of flexible wages was introduced and a subcommittee was set up to study the whole question of wage fixing for the next phase of growth which was to be based on innovation.

For innovation-led growth, Singapore had to be much more efficient in the use of its capital and human resources. It began emphasizing the use of total factor productivity (TFP) growth (changes in output generated per unit of input) figures which were employed by advanced industrialized economies as a major growth indicator during the innovation-driven phase of development. In the meantime, cost consciousness via the productivity-wage linkage continued to be focus upon and monitored constantly. The NWC used this two-pronged approach to ensure tripartite consensus in the orderly development of wages with a view to advancing economic growth.

SOCIAL DIALOGUE AS A MECHANISM FOR PROMOTING SINGAPORE'S INDUSTRIAL DEVELOPMENT

Government initiatives to rationalize the economy after the first recession of 1973 were timely. For, by 1970, Southeast Asia had become an attractive location for investment capital fleeing the restructuring of the American economy. While this led to a fall in Singapore's unemployment rate (to 4.8 per cent by 1971) it also meant that if business costs were not moderated, other countries in the region would become more attractive as investment sites. Despite the government's many attempts to increase domestic sources of labour supply by encouraging women to work and by increasing the flow of migrant labour, the increasingly tight labour market conditions continued to drive wages upwards. It was then that the minister of finance came up with the NWC as a solution to the erratic movements of wages which could discourage the inflow of foreign investments rushing into the region at that time.

With hindsight, the careful and sustained cultivation of Singapore as an attractive profit centre and the fact that at that time it was generating the highest returns on investment worldwide for US manufacturing investment must have combined to encourage employer cooperation in early initiatives to institute tripartism as a major means of resolving industrial relations issues. The Association of Risk Analysts, New York (ST 9 April 1983) listed Singapore among the top five countries as a safe haven for investment because of its political stability. Such accolades have become normal characterizations of Singapore's political economy given by eminent ranking institutions such as the World Economic Forum (in the World Competitiveness Reports). Over the years, the Singapore government has built for itself a credible reputation as a trusted friend of international capital. Thus, its capacity to draw the cooperation of capital in policy crafting and implementation.

National Wages Council

Formed in February 1972, NWC is the chief plank of social dialogue and wage determination in contemporary Singapore. As a tripartite advisory body, it reviews wage rates and wage trends regularly (usually annually but more frequently during times of economic crisis) within the context of Singapore's economic performance cognizant of prospects for economic growth and the international competitiveness of Singapore's economy. It then submits its recommendations to the prime minister and the cabinet for approval. On acceptance, these recommendations become gazetted under Section 49 of the Employment Act (Chapter 91 of the 1985 revised edition). These recommendations serve as guidelines to both employers and workers in their wage settlements.

More specifically, the original terms of reference for the NWC included:

- Formulation of general guidelines on wage policy
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- Adjustments to wage structure with a view to developing a coherent wage system consistent with long-term economic development
- Advice on incentive system that promotes productivity and efficiency

From 1972, the Singapore economy underwent several rounds of restructuring and the NWC played a crucial role in helping to restabilize the economy. During the inflationary period of 1973-74, the NWC recommended for high wages but it also came up with a mechanism to ensure that the wage increase proposed would not erode the purchasing power of workers. Via this mechanism part of the wage increase was channelled into the compulsory pension fund to which both employers and employees contribute, the Central Provident Fund (CPF) (Lim and Chew 1998). The latter fund has been responsible for the over 80 per cent of home ownership in Singapore. The CPF can now also be drawn on for payment of medical expenses. Thus wage changes were carried out in an equitable and orderly manner.

Apart from ensuring that wages do not contribute to inflation, the NWC's deliberations took into account Singapore's priority for full employment. As a small and open economy, Singapore had to perforce keep a watchful eye on the threat of imported inflation. Guidelines for wage adjustments were therefore intentionally cognizant of "the need to maintain full employment" (Lim and Chew 1998, 6).

Deliberations of the NWC were carried out with a view that wage increase should not be delinked from growth in productivity. Towards this end, the NWC proposed the establishment of the Skills Development Fund, a payroll-based contribution, for a general and continuous system of education for workers.

The NWC diligently came up with recommendations, not only on wage adjustment, but also on a broad range of work-related issues such as job-hopping, CPF changes, and skills development for workers. By 1980, it was estimated that NWC recommendations had benefited more than 90 per cent of eligible employees. Since its establishment in 1972, nearly all recommendations of the NWC had been increases until the onset of the downturn with the 1997 financial crisis. The NWC guidelines have generally provided the basis for negotiations between labour and management and final settlements have tended not to differ much from the guidelines set.

Under a "neutral" chairmanship, the NWC now has 30 members with 10 each representing employers, the government and trade unions. Of the 10 employers' representatives, two each represent Japanese, German and American MNCs. The principle of equal representation is followed throughout, even for ad hoc committees such as the 13-member Subcommittee for the Flexible Wage System (FWC), with four members each representing the three interest groups (state, labour, capital) party to the social dialogue/industrial relations system. (See Table 1 for the make-up of the FWC).

According to Professor Lim CY, till recently the chairman of the NWC, "None of us associated with it expected it to have a life-span of more than two or three years. Disagreements and disputes among ourselves on contentious issues would have terminated the life of the Council in the interim" (NWC 1992, v). The unanimity principle and the Chatham House principle of non-attribution on deliberations, according to Professor Lim, could have contributed to the general acceptance of the recommendations of the council. "NWC would have broken down, had it started off without the adoption of this tough and time-consuming unanimity principle" (1992, v), As deliberations remain confidential, there is less danger of their becoming politicized.

The non-mandatory nature of NWC recommendations and the fact that flexibility of implementation (given more emphasis during the later stages of its development), which depends much more on the ability of employers to pay, also helps enhance their acceptability.

Despite strict adherence to these principles, there were times when the deadlock between the parties looked set to end in discord. Lim describes vividly how on one occasion he had to physically move between the rooms occupied by the two major proponents (labour and capital), desperately hoping to effect a conciliation. He expressed his great sense of relief when he went to the room occupied by the trade union for the ninth time and their spokesman said: "Professor Lim, actually we have found it impossible to agree with the employers, particularly on the inclusion of that clause. But out of sheer respect for you, since you have encouraged us to accept their amendments, we would give way, so that you can have a consensus" (Lim and Chew 1998, 17).

Even though one would generally think of tripartism as incorporating three chief parties, in reality one can also find a diversity of interests within each of the three main groups. For instance, the employers' group in Singapore is segmented along industry and nationality lines (60 per cent of Fortune 100 companies have operations here). Each of the smaller interest groups would tend to push for preferential treatment for their particular interest. Different ministries within the state sector have their own particular objectives; for example, the Ministry of Finance would be more concerned with the financial implications of the NWC recommendations as a public sector employer; while the Economic Development Board would be watching over how wage adjustment guidelines would affect the inflow of FDI; and the Ministry of Labour's interest lies in the impact of NWC recommendations on the maintenance of industrial harmony.

Hence, the first step in consensus building is the cementing of internal disagreements within each of the three major parties. This can only be achieved gradually because the majority view will act as a pressure for the others to fall in line. Sometimes the whole process of arriving at a decision regarding a particular issue can take years.

The chairman does not have a casting vote. Though the toughest part of implementation is the insistence on consensus, it is the persistence to achieve consensus that contributes to the success of implementation. Tripartite consensus itself serves to tie the parties into implementing the recommendations.

The NWC meets during the first half of each calendar year so its recommendations are applicable from July to June of the following year. As public sector pay increases are normally announced one or two months after the publication of the NWC guidelines, employers and unions do take public sector salary adjustment into consideration in their own wage settlement. Between 1988 and 1996, as the NWC moved towards more qualitative guidelines, public sector wage adjustments were made to become the quantitative guidelines for the private sector.

While the NWC recommendations are not mandatory, they serve as useful reference points for negotiating wage settlements. Besides, the recommendations are also used as tripartite wage guidelines to help dissolve disputes brought for arbitration before the Ministry of Labour. When wage disputes arise, they are first sent to the Ministry of Labour for mediation/conciliation and finally channelled to the Arbitration Court.

Currently, union density in Singapore hovers in the 17-23 per cent range, depending on the definition of what is a union. Wages are determined by collective bargaining for about 60 per cent of unionized workers. Wages are basically enterprise based, even for industrial unions. This is because, though branches are given some general guidelines by headquarters, they still do their own bargaining at the enterprise level. However, amendments to the law in October 2003 will gradually increase the number of workers covered by general unions as these unions can now negotiate with companies to represent workers on limited matters.

For non-unionized workers, employers are the sole authority in the determining of wages.

SOCIAL DIALOGUE UNDER MATURING CAPITALISM

Tripartism had actually worked quite well in Singapore, under normal circumstances. What saved the credibility of the NTUC was the rapid diffusion of development benefits to workers. As of today, more than 90 per cent of the population are staying (long-term lease) in public housing with 93 per cent ownership. The 2.5 infant mortality rate is more than comparable to that of the advanced developed economies. The continuous expansion of the economy has allowed for a high rate of upward social mobility. The past four decades have seen the Singapore economy maintaining almost full employment. It appears that the maintenance of industrial harmony has brought beneficial results for the majority of the population. Full employment has been the most crucial protective shield for workers.

However, capitalist cycles of boom and bust have often put the system under strain. During periods of high growth, employer federations were often hard put to restrain individual companies from following the wage guidelines set by the NWC, whereas state-NTUC appointees pushed for wage expansion to compensate wage cuts instituted during previous downturns. However, due to years of cumulative goodwill, some kind of negotiated settlements emerged after social dialogue.

Below is a summarized highlight of past NWC recommendations for wage adjustment until its own review of 21 years of its establishment in 1992:

- Moderate wage increase 1972-1978
- High wage increase 1979-1984
- Wage restraint 1985-1987
- Qualitative wage increase 1988-1992

In its own review after 21 years of its operation, the NWC's summary of its performance indicated successful handling of wage regulation over the years (National Wages Council 1972). Early wage increase of 6-9 per cent were given to ensure steady wage increase and to share in and maintain economic growth. Singapore's manufacturing wages were three to five times lower than those in the industrialized economies. From 1979 to 1984, a high wage policy was followed to facilitate restructuring to more high-tech production. Part of this high wage was channelled into the CPF to avoid inflationary effects. A skills development fund was proposed to support the shift to a higher level of mechanization and automation. But due to rapid expansion of the economy, wages rose way beyond productivity due to acute labour shortage. The ultimate consequence was that Singapore's labour cost shot up to about 50 per cent above that of its Asean neighbours by 1985. The recession of 1985 was followed by a phase of wage restraint. The first recession that hit Singapore during the 1984 global downturn showed up the weakness of the tripartite edifice which appeared to have worked so smoothly up until then. It was in this context that the NWC undertook an in-depth study to see how companies could quickly respond to sudden economic crises by adjusting wages rather than downsizing or resorting to retrenchment.

WAGE SYSTEM IN SINGAPORE

Prior to the implementation of the Flexible Wage System (FWS), the basic features of the wage system were as follows:

1. Wages in the unionized private sector, governed by collective agreements (which last for two-three years) comprised:
 - Salary ranges/salary scales with predetermined end points and annual increments given automatically. Rates of increments were set out in the
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collective agreement. Between the late 1980s and the 1986 recession, most annual increments fell within 6–8 per cent range (NWCWR 1986, 4).

- Annual NWC wage adjustments. The NWC's guidelines were for wage increase every year.
 - Annual wage supplements (AWS) or bonus. The AWS was fixed by legislation and ranged from one to three months' basic wage. Most companies would pay an equivalent of one month's basic wage.
 - In addition to normal annual increments, merit increments may be granted to outstanding workers.
 - The annual increments, merit increments and NWC wage adjustments, once given, were regarded as part of the basic salary and continued to be given in subsequent years.
2. The salary ranges of the non-unionized private sector included annual increments which were not predetermined. Wage increases were decided annually, depending on market forces, NWC guidelines and norms set by the unionized sector. Seventy-five per cent of companies surveyed in 1986 April were paying AWS (NWCWR 1986, 6).
 3. In the public sector
 - Public officers (except those in the superscale category) were appointed to salary scales with preset annual increments, normally averaging 4 per cent of the basic wage. These were almost automatic. Salary scales could range from 8 to 15 point differences (for 48.2 per cent of the scales). The civil service at that time had 151 scales.
 - NWC recommendations were generally applied across the board.
 - Only one month's annual wage supplement was paid to all.
 - Since 1982, an incentive of about half month's salary was paid in July every year.
 4. Non-bargainable employees did not enjoy automatic annual increments which were decided annually, depending on the performance of the individual and the company and on market conditions. They could also be given a variable bonus payment (one-time payment).

RECESSION AND THE 1986 WAGE REFORM

The success of Singapore's foreign investment industrialization was able to support four decades of growth averaging 8 per cent per annum. Rapid expansion of the economy allowed the orderly yearly increase of wages which helped sustain industrial peace during that period.

However, the onset of the recession 1986 brought a realization that the rapid growth of the past decades would gradually slow down as Singapore transitioned from a manufacturing to a more service-oriented economy. The automatic wage increments built into long wage scales could no longer be supported by an ageing workforce, showing the limits of capitalist development. As a result of the declining rate of economic expansion, a way had to be devised to distribute the pie whose growth would now be in slow decline.

This logic was labelled as the problem of “rigidity”, meaning that the economy could no longer afford the steady improved living it had been giving to the people. In particular, specific features of the existing wage structure were highlighted by the NWC’s Subcommittee on Wage Reform for attention and improvement:

- High annual predetermined increments tied in by collective agreements that lasted for two-three years. While this provided for stability and security of income, it presented companies with formidable hurdles for readjustment when their performance deteriorated or when the economy was on a downturn.
- NWC guidelines were too broadsweeping, with too little attention to company/individual performance.
- Increments once granted, became permanent additions to basic salary.
- AWS based on quantum was frozen by law on 1 July 1972.
- The seniority system of the salary scale had a wide range of two-three times whereas in Japan and Europe it was around 1.8 and 1.3 respectively for male manual workers in the manufacturing sector.
- The above often resulted in retrenchment when companies made losses. Longer service workers were often the first to be retrenched.

FLEXIBLE WAGE SYSTEM (FWS)

In 1985, the Economic Committee identified high wage costs and the rigidities in the wage system as important causes for the loss of Singapore’s competitiveness and the 1985 economic recession. As a consequence, reform in the wage system became a major plank in the regulation of economic change for future stability. In 1986, Subcommittee on Wage Reform examined how wages should be regulated (NWCWR 1986) and recommended the flexible wage system.

A variable wage system was proposed which would link rewards with the company’s and the individual’s performance. The aim was to minimize retrenchment of workers during the downturn by adjusting wages downwards, while companies could reward workers during the good years.

Features of the FWS

The Wage Structure

1. *Basic wage* This reflects the value of the job and is a necessary component that serves to give some stability to the income of workers. In the extreme situation where further wage cuts are justified — for example, to stave off closure — a wage freeze may be instituted. The worse-case scenario is a wage cut.
2. *Variable wage component (VWC)* Based on company and individual performance of about two months' basic wage (can be paid annually or half-yearly), VWC represents the first target for cost cutting because of its obvious link to company profitability.
3. *Annual wage supplement (AWS)* One month's basic wage which forms the second target for cost cutting when business conditions worsens, AWS varies from one to three months.
4. *Annual wage increment* This is the small service increment of 2 per cent of basic wage which is included as part of flexi-wage to reflect a worker's service duration, loyalty and experience. The extent of reduction of this component depended on the severity of the downturn and the financial position of the company.
5. The two end points of a salary scheme for the same kind of job should be about 1.5.
6. Wage negotiations should be on the principle that wage increases lag behind productivity.
7. Wage review should be at not more than three years' interval preferably coinciding with renewal of collective agreements.
8. The AWS and VWC should constitute about 20 per cent of basic wage.
9. The profit-sharing model and the variable productivity payment model are specific examples of wage payment systems that satisfy the parameters of the flexible wage system envisaged.

Two Models for Basing the Variable Component of FWS

Two models of FWS were offered that could effectively link productivity with wages. That is, on top of the basic wage and the AWS of one month's wage, the variable component comes in two models as explained below:

1. *Profit sharing*, where the variable wage component (variable performance bonus) would be determined by a profit-sharing formula agreed upon by management and their union and spelt out in the collective agreement. For instance, the formula

could be x per cent of company profit, or, x per cent of company profit above a certain minimum.

2. *Variable productivity payment*, where total wage increase for the year minus the service increment is paid out as a variable wage component (the variable productivity payment) which could eventually build up to two months' basic wage. Wage increase for the year should lag behind company productivity (taking into consideration profitability). Where company productivity figures are not readily available, industry/national productivity/growth indicators could be used instead for determining the quantum of wage adjustment for the year. Where productivity figures varied too much from year to year, an average from three years could be used.

Preferably, the company and union should have a prior agreement on the formula to be used for settling the productivity payments.

Wage Determination Process

The wage determination process under the flexi-wage system should comprise the following features:

1. To make for greater flexibility in the wage system, wage negotiations should be conducted annually between companies and unions as this would allow for timely adjustment to the company's economic situation and fluctuations in the economy, both national and global. This is to ensure that total annual wage increase did not overtake increments in productivity. Such annual negotiations make sense as product cycles have shortened considerably and global economic conditions have become much more volatile.
 2. A system should be established that links the variable wage component to changes in company profit or productivity to obviate the need for protracted negotiations when the need for wage adjustments arises.
 3. Salary levels should be reviewed periodically in terms of changes in labour market conditions, wage competitiveness, and the age profile of workers.
 4. Wage payments should be closely linked to individual performance. While large companies have established systems of performance appraisal, others are lacking in this area. There are many appraisal systems that could be adapted to local and company conditions.
 5. Smooth implementation of the new system is possible only if management willingly shares information with unions.
 6. A fair performance appraisal system is also needed to ensure a closer correspondence of individual productivity with reward.
-

As the change envisaged was considered radical, a five-year period was allowed for implementation of the FWS. To assist small and medium enterprises (SMEs) to implement the system, various workshops, clinics and seminars were conducted.

For instance, the National Productivity Board (NPB) conducted seminar for SMEs (Small and Medium Sized Enterprises) together with the Association of Small and Medium Enterprises on 15 April 1987. The idea of flexible wages is not unfamiliar to SMEs because they are liable to pay wages that correspond to company profitability while keeping an eye on what their competitors are paying. SMEs also do not systematically take into account the productivity of their company or vary wages according to the performance of workers. With this haphazard way of wage payment, SMEs are not effectively tapping the potential of the FWS as both a motivational tool for maximizing worker productivity as well as a strategic tool for maintaining company competitiveness.

Besides these familiarizing workshops, the NPB Management Guidance Clinics have consultants available to help advise local companies on the practical side of setting up the various components of the FWS eg performance appraisal system. Value added workshops are also available to help companies measure productivity and performance.

Review of the Implementation of the Flexible Wage System

In March 1993, the NWC appointed a tripartite review committee to look into the implementation of the FWS and recommend further refinements to the system. The changeover to a more flexible wage system was deemed successful as more than three-quarters of firms have switched to some kind of flexible system. Generally, the variable parts (VC and AWS) were then found to constitute 15.3 per cent of a worker's total wages. "Our workers now have a variable component to serve as a buffer against a business downturn (FWSR 1993, 8)" even though the recommended 20 per cent threshold for variable component of wages had yet to be achieved.

The committee reported that (by 1992), about 85 per cent of unionized companies had adopted the FWS. Though the non-unionized sector was slower to make the changeover, the overall rate of adoption was 71 per cent. Besides, the FWS was also found distributed across sectors of the economy with finance and commerce sectors taking the lead. Seventy-five per cent of firms in these sectors had already implemented the system. A far higher proportion of unionized firms had changed over compared to non-unionized firms. For instance, 92 per cent of unionized firms and 73 per cent of non-unionized firms in the finance sector were practising the FWS (FWSR 1993). (See Table 5 for a detailed picture of the progress made in implementation of the FWS during the initial years.)

Teething Problems

Moderation of Built-in Wage Increase Needed

Prior to implementation of the FWS in 1986, when wages were based primarily on seniority, the wage differential between the maximum and minimum points for workers doing the same job was about three times. The ratio was even higher in certain sectors. Conscious efforts by employers and unions to cap the maximum salary had some effect in reducing this ratio. The tight labour market of that time also helped as employers tended to pay higher salaries to entice younger recruits. (Table 6 shows the reduced maximum-minimum ratio of salaries in collective agreements for various jobs compared to the ratio of three prior to wage reform.)

Between 1981 and 1985, there was a nearly 11 per cent built-in wage increase whereas the comparative figure from 1987 to 1992 was 7 per cent. But the committee also noted that the decline of built-in wage increase was not good enough because it still exceeded the national productivity growth rate for the five years 1988 to 1992. This could spell trouble further down the road because “we could be in danger of losing our competitiveness” (FWSR 1993, 11). The committee reiterated that a reasonable ratio between starting and maximum wage should be between 1.5 and 2 times.

More to be done for AWS and VWC

As to AWS, the picture was not too encouraging. Although labour legislation was amended to allow for greater flexibility — for example, the Employment Act was amended allowing for downward adjustment of AWS when companies faced losses; or to allow companies paying more than one month’s AWS to incorporate the excess into basic wage so that the variable wage component was more closely linked to company performance — few companies actually took advantage of these revisions. Highly profitable sectors in the finance and petroleum sectors tended to give out large quantum of AWS.

For an effective FWS, there should be a close connection between the variable wage component and company performance. This will ensure that when companies are doing well, they reward workers with a one-off variable payment and not a high built-in wage increment, which, when given on a permanent basis, it may not be sustainable in the long term due to unpredictable fluctuations of business cycles. The committee recommended that the guideline of 20 per cent for the variable payment (variable component and AWS) initially given by the NWC was still valid.

Defining Productivity and Profit: A Problem for Negotiation

The review committee also found that 91 per cent of unionized companies that had adopted the FWS had opted for the profit-sharing model. However, only 33 per cent of

these worked out a profit-sharing formula with their unions. Others chose some performance indicators to decide on the quantum of bonus to be paid.

Differences over the definition of “profit” had emerged between employers and their workers. Should bonus payment be computed on profit before or after tax? Should extraordinary profit — for example, sale of assets — or loss be included in the computation? Profit reduction may be deemed as loss for employers but not for workers.

In the case of MNCs where transfer pricing is a regular practice, profitability model would be grossly inappropriate because profits are more or less guaranteed (Lee 1987).

Attend more to Individual Performance

The committee found that while companies were successful in linking bonus payment to enterprise performance, they had not paid sufficient attention to the results of teamwork and individual performance. The committee drew recommended that companies set up systematic appraisal systems for this aspect of performance measurement.

Employers Hesitant to Share Information

The Review Committee pointed to the need for companies to be more forthcoming in disclosing and sharing relevant information with unions to facilitate wage negotiations to lend credibility to the FWS.

Assistant Secretary-General of the National Trade Union Congress (NTUC) Lim B H, during a seminar on wage reform alleged that “for a flexible wage system to work, employees need to be assured that they are being treated fairly. To do this, they need access to information, particularly of their company’s performance” (1987, 5). In fact, the Singapore National Employers’ Federation (SNEF) even published a model for financial information sharing. Its editorial reinforced the view that information was necessary for the building of trust in the FWS: “As wage increases are linked to a company’s productivity and/or profitability, the necessity to share information, especially financial information, is magnified. Indeed, the success of wage reform could hinge on this issue.”

Scope for Wage Negotiation Enlarged

Since the linking of wage increase with performance constituted the core of the FWS, the scope of wage negotiation of necessity had to be enlarged. Negotiations could no longer be centred only on the narrow concern about the quantum of wage increase but had also to institute measures to improve productivity at the individual and

company levels. Properly implemented, the FWS, would actually focus attention on individual, team and enterprise performance alongside have the effect of enhancing the competitiveness of the national economy. In this respect, the FWS can be said to be a tool for thorough rationalization of the national production apparatus.

Unions and companies could now work on enhancing the skills of their labour force; pay more attention to investment in productivity-enhancing technology, improved use of human resources and tapping unused labour such as women and older workers.

Fine Tuning the Flexible Wage System

By 1998 October, more than 90 per cent of unionized companies and 70 per cent of non-unionized companies had implemented some form of a flexi-wage system comprising the basic wage, service increments (annual wage supplement and variable bonus) constituting some 16 per cent of total annual wages (Ministry of Manpower 1998). In the unionized sector, the variable component even reached the “ideal” of 20 per cent. However, during the Asian financial crisis up to the current economic recession, it was found that while the wage system was flexible in linking performance with rewards, it was not flexible enough to allow firms to make quick wage adjustments when faced with a sudden dip in markets or sharp business downturn. “To further enhance the flexibility of our wage system, the NWC recommended that a monthly variable component be introduced” (Ministry of Manpower Procedure and Guidelines).

Monthly Variable Component

The MVC, mooted in 1998, is a mechanism that allows companies to reduce wage costs quickly during economic downturns so that they can remain viable and jobs can be saved. The MVC should come from part of the future wage increase. The percentage to be set aside should be mutually agreed upon between employers and unions. It was hoped that the MVC could be built up progressively to form about 10 per cent of total wages in the private sector. Over time, the current 80:20 flexible wage structure could evolve into a wage structure of 70:10:20 representing basic wage, monthly variable and annual variable components respectively (*Manpower News*, 5 October 1998).

In its guidelines, the Ministry of Manpower cited that an effective MVC scheme should be cognizant of the following principles:

- *Buffer of adequate size*

As far as possible, the MVC should constitute a significant part of the monthly wage for it to contribute to the flexibility of the annual variable component. Companies should try to work towards the recommended wage ratio of 70:10:20 unless the nature of jobs makes it difficult for the MVC to be implemented.

To date, some 300 companies have implemented the MVC. The average amount set aside is about 2 per cent of the monthly wages

- *Simple to administer*

Ideally, it would be better to build up the MVC for all employees at the same time. In this way, companies could make an across-the-board reduction in wage costs whilst also providing a sense of equity to its employees. The MVC would then not further complicate the existing wage structure

- *Responsive*

The criteria for the MVC should be predetermined so that adjustments can be quickly carried out during a crisis.

- *Applies to all employees*

For its acceptance and in the interest of fairness, the MVC should apply to all levels of employees — management, executives and rank and file whether unionized or not.

- *Not to add to wage costs and erode competitiveness*

The MVC should be built up from wage increases affordable by companies in terms to their performance and productivity.

- *Management leads by example*

This could mean earlier or bigger cuts in their MVC/basic wage. In the 1998 recession, where it was found that management had led by example, it was far easier for companies to implement a wage reduction.

The *Manpower News* reported that 34 per cent of firms in the unionized sector had implemented the MVC in 2001. However, implementation has been more gradual in the non-unionized sector with only 3.4 per cent having implemented the MVC during the same period. The take-up rate was also patchy. The financial sector had more firms adopting the MVC followed by firms in the manufacturing sector. Firms which gave 3 per cent of basic wage increase had set aside 1.21 per cent as the MVC while firms with more than 3 per cent basic wage increase had set aside 2.5 percent, much below the 10 per cent target set by the NWC. Lack of wage increase was therefore one important barrier to implementation of the MVC.

Though 85 per cent of companies have adopted some form of flexible wages and the wage gap has narrowed to 1.7 today, Acting Manpower Minister Ng E H in his 2003 May Day speech said that more can be done to change wage structures so companies can stay viable and jobs can be saved. During the current downturn which was prolonged by the SARS outbreak, it was found that adoption of the new flexible wage system was

far from satisfactory. The NWC in its most recent recommendation (July 2003 to June 30, 2004) has bemoaned that Singaporean wages are still not competitive enough in view of growing competition from regional economies such as China (See Table 3 for competitive position of Singaporean wages). The NWC has even called for more than 2 per cent of workers' basic salary to be put in the MVC (*Straits Times* 22 May, 2003 1). It has also recommended that the minimum-maximum ratio of salary scales should average 1.5 or less.

In fact, remuneration expert Lee P (managing consultant at Remuneration Data Specialist) said that in this storm, "the labour landscape will be changed and wage systems will have to be fine-tuned to be linked to productivity" (23 May, 2003). The current downturn has been seen as the a stimulant for companies and workers to bite the bullet and change over to a new wage system. Since retrenchment figures are expected to inch upwards to a historic high of 5.5 per cent, workers are ready to accept the harsh reality implied by wage reform. The problem has been seen as serious enough for the NWC to set up a tripartite task force to report in six months on measures to drive wage reform.

Realizing the difficulty workers will face in accepting the need to recalibrate expectations of growing affluence from the capitalist economy, top management has to lead by example. In the last two years, 400 top-level officers of the civil service were served pay cuts of up to 24-29 per cent — albeit their salaries are one of the highest worldwide.

On the ground level, however, there is still ambivalence about redesigning expectations built up over years of growing affluence. For instance, 48-year-old clerical worker Tay from RHB Bank alleged that with the old seniority wage system, he would be now earning over \$3000 per month (US\$1 = S\$1.74) . Unfortunately, with the switchover, his pay has remained frozen at \$1960 over the past three years only because it is the maximum point in his pay scale and not due to any other factor:

"I am told that this maximum cap helps narrow the pay difference between senior employees like myself and the younger ones who do the same work This maximum cap is supposed to help save my job. Yes, I know that, but sometimes it seems unfair. I feel caught between the devil and the deep blue sea — no pay increment and the fear of being retrenched. . . . but as an older worker, I am realistic. Having a job is better than no job, and I don't think I'll be able to find a job elsewhere that will pay me the same salary.

A long time ago, in my earlier years at the bank, the difference between the maximum and the minimum salary for the job was 3.3 times. This means, based on the minimum salary of \$950, my maximum ceiling was \$3,135. So under this old system, my pay would have been going up to reach that amount eventually. But now, the ratio has been trimmed to about 1.7 because the maximum pay is frozen, while the minimum pay has been gradually going up. . . . At times, you

feel that the company doesn't seem to appreciate your loyalty and hard work for the past 28 years, but I prefer not to dwell on it. . .

My motto is to continually upgrade my skills and make myself more relevant to the company. But it's very difficult for me to move to the next grade because it's an executive's job. This is why I will keep on wishing the cap on my basic pay can still be moved upwards. Who doesn't need more money. (*Straits Times*, 23 May 2003)

Tripartism, the Flexible Wage System and its Transferability

The tripartite body, the National Wage Council, was established with the objective of ordering wage movements and related issues with the view of maintaining full employment, credible savings rate, low domestic inflation, steady exchange rate and international competitiveness. The FWS was introduced by the NWC after the traumatic experience of the 1987 crisis, primarily to save jobs and to maintain Singapore's competitiveness in the global market.

The NWC guidelines have helped reduce wage disputes which in the past were a constant source of discord between labour and employers. Now, the Ministry of Labour and the Arbitration Court can use the NWC guidelines in decision-making. Lim C Y, the academician who until recently chaired the NWC, cited the frequent assurances given him by Director Ong Y H of the Labour Relations Department that the NWC had indeed helped to reduce wage disputes (Lim and Chew 1998, 28). In the absence of the NWC guidelines which are published for everyone to see (thus ensuring transparency), the Ministry of Labour, the Arbitration Court, unions and employers will have to come up with their own guidelines for negotiation which may not be acceptable to all the parties to a dispute. The stable industrial relations climate since Singapore's industrialization is definitely a plus in Singapore's successful drive to attract foreign investments.

NWC guidelines very wisely include a certain flexibility to cope with the complexity of the needs of major parties and their sub-constituents. Recommendations have changed according to economic circumstances in view of the need to maintain the coherence of the economy as a whole. Yet, because NWC recommendations are non-mandatory, companies are not locked into following these recommendations exactly, especially when the recommendations are not the best practical thing given their individual circumstances. Studies show that the association between performance and HR practices is often complicated. For instance, studies on wage structures have shown that the link between wage structures and performance is indeed a contingent one (Beaumont and Harris 2003). A one-size fits-all solution can only bring grief.

Other evidence against the one-size-fits-all solution comes from Singaporean firms' responses to recent recommendations (July 2003-30 June 2004) the NWC. The NWC

called on SARS-affected companies (comprising 12 per cent of the workforce who work primarily in the tourism and transport-related sectors) to trim their wages to save jobs. Employers in the two sectors (including eight hotels and the National Association of Travel Agents Singapore[Natas]) responded that they had already done so during the peak of the SARS outbreak so there was no need for further cuts. Chief Executive R Khoo of Natas clarified that since early last month when salaries were cut by 20-50 per cent, the situation had stabilized. "Whatever the agencies need to do, they have done. At the beginning of this month [May 2003], business travel is already picking up." Travel agencies like Chan Brothers which earlier retrenched some workers, had all their counter staff back and working full hours to cope with rising sales. Larger hoteliers said they had avoided and were likely to avoid layoffs as the room discounts they had given to Singaporeans were paying off. General manager A. Ross of the Sentosa Resort and Spa responded that with the upturn in mind, "we need happy, motivated, and fairly rewarded employees to deliver the guest experience".

In this instance, then, does it then appear that the NWC recommendations are redundant? The view of companies, as expressed by general manager D. Puri of Holiday Inn Park View, is that it is good that the NWC has given the nod to wage cuts if they save jobs "what's encouraging is that the NWC is preparing people for the worst".

Transparency of NWC recommendations makes its logic easy to follow. Since the NWC's guidelines are based on a thorough audit of the state of the economy, the recommendations on wages parallel the development of the economy. Thus, the rapid expansion of the Singapore economy over the past four decades has indeed been faithfully reflected in real wage increases for workers. According to Lim (Lim and Chew 1998, 31), "that Singapore worker can have each year an average compound rate of real wage increase of 4.9 per cent per year for 25 years is thus a remarkable achievement". This has enhanced to the credibility of the NWC recommendations, especially when compared to income growth in countries like the US where real wages went down by 2 per cent per year in the last two decades (Bergsten 1996), a trend confirmed in Thurow (1966,6) where the US was shown to have experienced "a less than 1 per cent year decline in the real wages of non-supervisory workers for more than 20 years".

Important to emphasize too is the fact that, despite these decades of continuous wage improvements, the economy remains sound and stable. Other than imported inflation from the global oil and food crisis in 1973-74, in other years Singapore has witnessed relatively low rates of inflation. For instance, during the period 1987-1996, the inflation rate was a global low of 2.2 per cent. Unemployment averaging 2.5 per cent prior to the Asian financial crisis was almost non-existent (Lim and Chew 1998, 33). Additionally, due to its high growth rate, Singapore has experienced a high savings rate, which reached 49.7 per cent of the GDP in 1996 from only 24.5 per cent in 1972.

Wages regulation could not have succeeded without a slew of other measures to support it. Significant is Singapore's policy towards skills development, especially in consideration of the rapid restructuring of firms over the past five years. Overall investment in employees' training by companies came up to 3 per cent of payroll (Ministry of Manpower 1998). Today, one in eight older workers has received training compared to one in 25 in 1988. Joint tripartite efforts have played a part in mobilizing older workers to retrain so that their employability can be enhanced in a market characterized by high rates of skill obsolescence. The Skills Redevelopment Programme (SRP) run by the NTUC since 1996 reached 5,000 workers in 76 companies. The government has given a grant of \$50 million to expand the SRP.

Transferability of Systems

Tripartism in Singapore cannot be totally transferred to another social context as the inception, evolution and subsequent success of tripartism there came about through the historical conjunction of a multiple diversity of forces.

As a small society without a rural economy, Singapore is characterized by a simple class structure relatively free from strong cross-class pressures. Thus bureaucrats who built up its system of governance were also relatively free from having to contend with the backward class of the traditional bourgeoisie. About three-quarters of the land in Singapore being state held, state elites had to deal only with the strong pro-communist unions which were disarmed through alliance and other historical circumstances difficult to repeat.

The important lesson learnt here is that for any system of tripartism to work, it has to be credible to both employers and labour. The rapid and sustained expansion of the Singapore economy over the past decades has seen the visible expansion of the middle classes which provided the upward thrust underlining aspirations and hopes that the fruits of economic development to trickle down to the rest of the working population. Despite attaining one of the highest salaries worldwide for civil servants, Singapore's state elites cannot be compared to predatory elite classes of surrounding countries who control over national resources.

Additionally, Singapore embarked on the building up of a relatively non-corrupt state apparatus from the early inception of the civil service. Up until today, this aspect of Singapore's economy has been a plus in terms of attracting investment draw legitimation for authoritarian rule. The Asia Pacific Management Forum and Transparency International have both rated Singapore as the least corrupt among Asian countries (Asia Pacific Management News, 1999 online). On top of that, Singapore has consistently attained high scores in the World Competitiveness Report. The World Economic Forum ranked Singapore fourth in the Growth Competitiveness Index Ranking (Global Competitiveness Report 2001-2002, online).

Since respect and trust are important for tripartism to work, schemes must be implemented with patience, sincerity and openness. Employers themselves recognize this. How A, a senior consultant with the Hay Group (US compensation consultancy), observed that, "Communication to employees is critical in order to ensure buy in and understanding the MVC." Comments the managing director of Systron Power Systems, workers will have to get used to the MVC concept (*Streets* 23 May 2003, 2). That firms have not gone immediately and enthusiastically into the flexi-wage system attests to the resilience of traditional institutions built up over years. But, more importantly (often unrecognized), it is employers' heightened reliance on predictable relations with labour at the enterprise level in view of JIT practices and networks (Streeck 1987) that makes them hesitate to make wholesale changes. Time must be given to iron out the glitches.

The nature of the NWC itself is important. Principles of consensus, confidentiality in discussions, acceptance by the government: all these add to the credibility and general acceptance of its recommendations. Even though the recommendations do not have the force of law, they are generally followed by major parties in the industrial system. That the recommendations are not mandatory actually provide the necessary flexibility for initiatives suited to individual firms.

CONCLUSION

Wages are fundamental to the well-being of workers and their families. As employees constitute a substantial majority of any society (wages comprise about 45 per cent of Singapore's GDP), the manner in which wages are set is crucial for social stability and harmonious living.

While societies have to grapple with intensified market forces to ensure that their workforce are not treated as mere commodities, it is not easy to tread the fine line between market and social justice. Social dialogue and tripartism are significant modes of accommodation that have been devised to cope with the harshness of living with capitalism. As a result of devising the NWC as a mode of accommodation of the contrary interests of labour, capital and the state, Singapore has up till now succeeded in avoiding the instability of capitalist economies. Lim and Chew (1998, 5) quote a consultant to the Asian Development Bank and the International Bank for Reconstruction and Developments, Root H. "The tripartism fostered by the NWC has allowed Singapore to become a showcase of successful human resource management. . . . The success of the Council is a strong argument for more direct involvement of governments and donors in the process of institutional innovation."

However, as Singapore's system of social dialogue and tripartite arrangements for settling wage and other employment issues has arisen from a set of unique historical circumstances, its transferability is not direct and simple. First, due to the simplicity of

Singapore's class structure and its small physical size, the pioneers of Singapore's system of tripartism could enforce accommodation amongst the three major parties in industrial relations with relative ease.

Nonetheless, that the system could be sustained by general acceptance is on account of several important factors. Workers have learnt that, while authoritarian, the system delivers continuous improvements in their standard of living. If its elites have also rewarded themselves handsomely, they cannot be compared to predatory leaders from the surrounding region. Professor Lim, chairman of the NWC since its inception until 2001, in rebutting the labour market as a fish or cattle market, commented that, "It is a labour market, where fellow human beings are directly involved. If the stock market can have regulators in order to ensure fair and orderly trading, should a market dealing with human beings and our fellow citizens be completely laissez-faire and Darwinian, with survival of the strongest as its only mission and aim?" (Lim and Chew 1998, 45)

The flexi-wage system was implemented with the base-up system (which attempts to reduce the minimum/maximum points of a salary range) which has tended to erode the hope and aspirations for a better future. Studies have also found that while payment by results is "positively associated with good establishment performance, both as measured by labour productivity increases and as measured by financial performance" (Heywood et al. 1997, 19), good industrial relations and consultation can also contribute to productivity and financial performance of firms in the absence of payment by incentive schemes.

At the time of writing, ravaged by threats of job loss as unemployment figures head for the historic high of 5 per cent, workers may be pushed to accept the MVC rather than lose their jobs. The immediate reason for acquiescence, the current serious downturn, is the push needed to get reform the wage structure to the norm. The Ministry of Manpower's survey (3,500 companies) in early 2002 found that close to two-thirds had no wish to implement the MVC. The three reasons given were that the wage structure would become too complex, employees may not be receptive, and difficulty of knowing when the MVC might be restored or cut (*Straits Times*, 13 December 2002). The challenge to the flexible wage system is to remain transparent and fair in its implementation: cuts during bad times and restoration during good times. More crucial is the fact that tripartism as a system cannot be taken for granted. The trials and tribulations brought on by capitalist cycles will put it under constant stress. If the principles of fairness and tolerance are observed, the system will be strengthened with each negotiation which can be turned into an opportunity for building rather than a chance for the exercise of power.

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Table 1a: Flexible Wage System Review Committee

Members	Institutional Affiliation
Chair	Economics Professor
Employers' Representatives 4	Singapore National Employers' Federation 2 American Business Council 1 1 Pte Ltd
Workers' Representatives 4	National Trade Union Congress 3 1 Sector Workers' Union
Government Representatives 4 Ministry of Finance 1 Ministry of Trade & Industry 1	Ministry of Labour 2
Secretary	Ministry of Labour 1

Table 1b: National Wages Council 2003-2004

Members	Institutional Affiliation
Chairman	University Professor
Employers' Group 5	<p>Singapore Business Federation, Chair</p> <p>Singapore National Employers Federation, President 1</p> <p>Singapore Business Federation, Vice Chair 1</p> <p>Japanese Chamber of Commerce & Industry, Singapore, Councillor 1</p> <p>German Business Association. Vice President, 1</p> <p>The American Chamber of Commerce in Singapore, Chair 1</p>
Employees Group 5	<p>National Trade Union Congress (NTUC), Chair, Central Committee 1 (also SG from Singapore Manual & Mercantile Workers' Union) 1</p> <p>NTUC Central Committee (also President Health Corporation Singapore Staff Union) 1</p> <p>Amalgamated Union of Public Employees, GS 1</p> <p>Singapore Industrial & Services Employees' Union GS 1</p>
Government 4	<p>Prime Minister's Office (Public Service Division), Permanent Secretary 1</p> <p>Ministry of Trade & Industry, Permanent Secretary 1</p> <p>Ministry of Manpower, Permanent Secretary 1</p> <p>Economic Development Board, Managing Director 1</p>

Source: Ministry of Manpower

Table 2: No of Stoppages (Strikes and/or Lockouts), Workers Involved and Man-Days Lost

Year	No. of stoppages	Workers involved	Man-days lost
1946	47	50,325	845,637
1947	45	24,561	492,708
1948	21	20,586	128,657
1949	3	935	6,618
1950	1	87	4,692
1951	4	1,185	20,640
1952	5	10,067	40,105
1953	4	8,870	47,361
1954	8	11,191	135,206
1955	275	57,433	946,354
1956	29	12,373	454,455
1957	27	8,233	109,349
1958	22	2,679	78,166
1959	40	1,939	26,587
1960	45	5,9939	152,005
1961	116	43,584	410,889
1962	88	6,647	165,124
1963*	47	33,004	388,219
1964	30	2,535	35,908
1965	30	3,374	45,800
1966	14	1,288	44,762
1967	10	4,491	41,322
1968	4	172	11,447
1969	—	—	8,512
1970	5	1,749	2,514
1971	2	1,380	5,449
1972	10	3,168	18,233
1973	5	1,312	2,295
1974	10	1,901	5,380

1975	7	1,865	4,853
1976	4	1,576	3,193
1977	1	406	1,011
1978	—	—	—
1979	—	—	—
1980	—	—	—
to	—	—	—
1986	—	61	122
1987	1	—	—

*Two-day general strike in October involving approximately 19,700 workers and 34,300 man-days lost

Source: Ministry of Labour

Table 3: Selective Inter-Country Comparisons of Productivity Level and Hourly Compensation Cost for Manufacturing Workers, 1998

Country	Productivity (va per worker) US\$	Compensation (cost per worker) US\$	Productivity (va per worker)	Compensation (cost per hour)
Norway	83,595	22.28	165	304
Switzerland	82,336	24.22	162	331
USA	70,357	18.24	139	249
Japan	69,315	20.66	137	282
Hong Kong	67,197	5.42	132	74
Singapore	50,722	7.32	100	100
Taiwan	25,306	5.07	50	69
South Korea	24,155	4.89	48	67
Malaysia	15,234	2.59	30	35
Thailand*	9,211	0.76	18	10
Indonesia	5,447	0.09	11	1
China	2,866	2.11	6	29

Source: *The World Competitiveness Yearbook 1999*

* Compensation cost is for 1997

Table 4: Companies Practising Flexible Wage System by Union Status

Union Status	1988	1989	1990	1991
Unionized	58.1	73.4	76.4	81.7
Non-Unionized	22.7	35.9	66.0	69.1

Source: Ministry of Labour

Table 5: Basic Wage Increase, Productivity Growth and Inflation 1986–1992

Wage/Year	1986	1987	1988	1989	1990	1991	1992
Total wage increase	1.6	4.1	8.2	9.8	9.8	8.1	8.1
Basic wage increase	1.7	3.0	6.4	8.0	9.3	8.6	7.7
Inflation rate	-1.4	0.5	1.5	2.4	3.4	3.4	2.3
Real basic wage increase	3.1	2.5	4.9	5.6	5.9	5.2	5.4
Productivity growth	6.3	4.8	4.5	4.8	3.5	1.5	3.1
Gap: Basic wage increase and productivity growth	3.2	2.3	-0.4	-0.8	-2.4	-3.7	-2.3

Table 6: Maximum/Minimum Salary Ratio of Selected Occupations in Collective Agreements

Occupation	Maximum/Minimum salary ratio
Production operators	1.5:1.7
Machine operators	1.5:1.6
Technicians and related occupations	1.7:2.0
Room stewards/Chambermaids	2.0
Waiters/Waitresses	2.0
Office clerks and other clerical workers	2.1
Sales assistants	1.7
Foremen/Supervisors	1.7:2.0

2.1 Summary of NWC Wage Increase Guidelines, 1991-2001

Year	Guidelines
1991	<ul style="list-style-type: none"> • Total wage increase should be lower than that in 1990, in line with the expected slower economic growth; and • Built-in wage increase should lag behind productivity growth. Companies performing well should, however, reward employees with higher variable bonus.
1992	<ul style="list-style-type: none"> • Total wage increase should be moderated in line with the expected slower economic growth; and • Built-in wage increase should lag behind productivity growth. Companies should pay as much of the wage increase as possible in the form of variable component.
1993	<ul style="list-style-type: none"> • Built-in basic wage increase should lag behind productivity growth. Total wage increase can, however, reflect the expected improved economic and business performance; and • Companies should pay as much of the total wage increase in the form of variable component. Those companies that have done exceptionally well should pay special bonus.
1994	<ul style="list-style-type: none"> • Built-in wage increase should lag behind productivity growth rates. Total wage increase should reflect the favourable performance of the economy; • Variable payment should reflect closely the performance of the company. For companies that have done exceptionally well, their variable bonus need not be rigidly capped at the existing agreed quantum. They should consider paying a one-off special bonus; and • Companies may wish to consider, in the payment of their wage increase, the inclusion of a dollar quantum instead of increase purely on a percentage basis.
1995-1997	<ul style="list-style-type: none"> • Total wage increase should reflect the performance of the economy; • Built-in wage increase should lag behind productivity growth rates; • Companies should pay as much as possible of their wage increase in the form of variable component; • Variable component should reflect the performance of the company; and • Companies should consider, in the payment of their wage increase, the inclusion of a dollar quantum instead of increase purely on a percentage basis.

Year	Guidelines
May 2001	<ul style="list-style-type: none"> As most companies are likely to grant wage increases to their workers in view of the economic recovery, the NWC strongly recommends the immediate implementation of the MVC, specifically that: <ol style="list-style-type: none"> Companies that grant wage increases of more than 3 per cent should set aside at least 3 per cent of wages as the MVC. Companies that grant wage increases of up to 3 per cent should set aside the entire wage increase as MVC. As the economy picks up, the NWC recommends speedier restoration of CPF cuts. A cautious approach should be adopted in dealing with the issue of wage cost in 2001. Companies should also take into consideration the restoration of the 4 percentage points in employers' CPF contribution in January 2001 when determining wage increase for 2001. Companies, particularly those in the non-unionized sector, are strongly urged to implement the MVC as soon as possible. Companies granting wage increase this year should set aside a substantial part or entire wage increase as MVC. The NWC strongly urges employers to take advantage of the training programmes and schemes the government has introduced and invest more in human capital as their competitive advantage.
December 2001 (Revised Guidelines—Wage Reduction)	<ul style="list-style-type: none"> The NWC notes that some companies have found it necessary to retrench their workers. However, the NWC is of the view that companies should consider retrenchment only as a last resort. The NWC recommends that for the majority of companies whose business profitability or prospects are adversely affected by the severe economic downturn, they may, in consultation with their unions/workers, implement a wage freeze or cut commensurate with their performance and prospects. Where companies have to freeze or cut wages, the NWC urges the management to lead by example in wage freeze/cuts. Companies that continue to perform well should reward their workers with appropriate wage increase. Such wage increase should preferably be in the form of MVC or as special payments. To achieve constructive wage negotiations, companies should share relevant information on company performance and business prospects with employees and their representatives.