

In the cleaning industry, the Progressive Wage Model (PWM) applies only to workers employed by licensed firms. Companies that directly employ in-house cleaners are not required to be licensed. These cleaners can thus be paid less than the minimum basic monthly salary specified by the PWM.
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concentration; a highly concentrated market is one with relatively few employers. But even in markets with many employers, employer power may exist due to labour market frictions, for example, workers may have limited information about other job opportunities.

How are wages set?

The marginal productivity theory says that a worker's wage should be set at a level that matches the additional revenue that can be earned from hiring that worker.

But in labour markets with employer power, wages may not reflect workers' productivity.

The imbalance in bargaining power between employers and workers implies that there is a role for the Government. Introducing a wage floor – either through the PWM or a minimum wage – will nudge wages upwards to more closely reflect workers' productivity. As long as the employer's revenue from hiring a worker exceeds the wage, the employer will continue hiring the worker.

In short, a wage floor will increase wages without necessarily increasing unemployment.

But raising wages is likely to result in employers passing on at least part of the cost to consumers. The next question then is, are Singaporeans ready to pay more for goods and services to boost the wages of low-wage workers?

The coronavirus pandemic has changed many people's perceptions of low-wage workers, many of whom were classified as "essential workers" during the circuit breaker. A *Straits Times* survey last June indicated that eight in 10 Singaporeans are willing to pay up to 20 per cent more for essential services such as cleaning or security if the extra amount goes directly to the workers.

We do not have to choose between the PWM and minimum wage. The PWM's multi-pronged, multi-tiered approach may be "minimum wage plus", but it is neither a minimum wage nor a plus for the many low-wage workers not covered by the PWM. A blanket minimum wage can potentially uplift these workers.

Essentially, the PWM and minimum wage can complement each other – like kaya toast and soft-boiled eggs.

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This is a monthly series by the NUS Department of Economics.

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Ask NUS Economists

Progressive Wage Model v minimum wage: Why not both?

The two policies need not be mutually exclusive. Rather, they complement each other as they serve different purposes.

Ong Ee Cheng and Jennifer Yao Chenyin

For *The Straits Times*

Q What are the pros and cons of the Progressive Wage Model (PWM)?

A Singapore is one of the few developed countries without a minimum wage policy. In its stead is the Progressive Wage Model (PWM), also termed "minimum wage plus".

According to the Ministry of Manpower, the PWM "helps to increase wages of workers through upgrading skills and improving productivity". Wage ladders in each sector mandate a minimum

basic monthly salary tied to the job responsibilities assigned to the worker as well as the training received by the worker.

The PWM is implemented in the cleaning, security and landscape sectors. There are tripartite committee plans to extend the PWM to other sectors such as the lift and escalator maintenance sector in the next year.

Given the Government's intention to expand "minimum wage plus", why not consider a blanket minimum wage on top of the PWM?

Choosing between the PWM and minimum wage is a false dichotomy. The two policies need not be mutually exclusive. In fact, they complement each other as they serve different purposes.

The PWM promises a career

pathway where wages are pegged to training and productivity improvements. This has obvious merit.

SLOW IMPLEMENTATION AND UNEVEN COVERAGE

However, the PWM has two main shortcomings – coverage and speed of implementation – which a minimum wage policy can help to address.

First, on coverage, the PWM is sector-specific and applies to three sectors representing 15 per cent of workers in the bottom quintile of the wage distribution. In other words, 85 per cent of workers in the bottom quintile are not covered by the PWM.

Even within a covered sector, not all low-wage workers are under the PWM as compliance is enforced through measures such as licensing. For example, in the cleaning industry, the PWM applies only to workers employed by licensed firms in outsourced cleaning jobs. Firms that directly

employ in-house cleaners are not required to be licensed. These cleaners can thus be paid less than the minimum basic monthly salary specified by the PWM.

A minimum wage will help to ensure that workers who fall through the cracks of the PWM are paid a living wage.

Second, the implementation of the PWM has been slow, possibly because reaching a collective decision requires extensive communication among stakeholders. The PWM was introduced in June 2012; almost nine years later, only 85,000 workers are currently covered by it. There are plans to expand the PWM to the food services and retail sectors, which will cover an additional 80,000 workers.

The problem? The roll-out is projected to take two to three years. In contrast to the protracted roll-out of the PWM, a minimum wage can be introduced fairly quickly. Determining a single minimum wage level should be more straightforward than

constructing multiple wage ladders for each sector. Moreover, a minimum wage would be administratively less costly.

OBJECTIONS TO MINIMUM WAGE

So why the resistance against a minimum wage? One reason is the fear that introducing it will lead to retrenchment – workers going from low wage to no wage.

This is the prediction of a classic demand-and-supply model in a perfectly competitive market, where buyers and sellers are so numerous that every buyer and every seller is a price-taker.

In many low-wage sectors, workers (or sellers of labour) are indeed numerous and have no power to set wages (the price of labour). The pool of low-wage workers is augmented by foreign workers.

But in many sectors – not just low-wage sectors – employers (or buyers of labour) have the power to set wages. One source of employer power is market