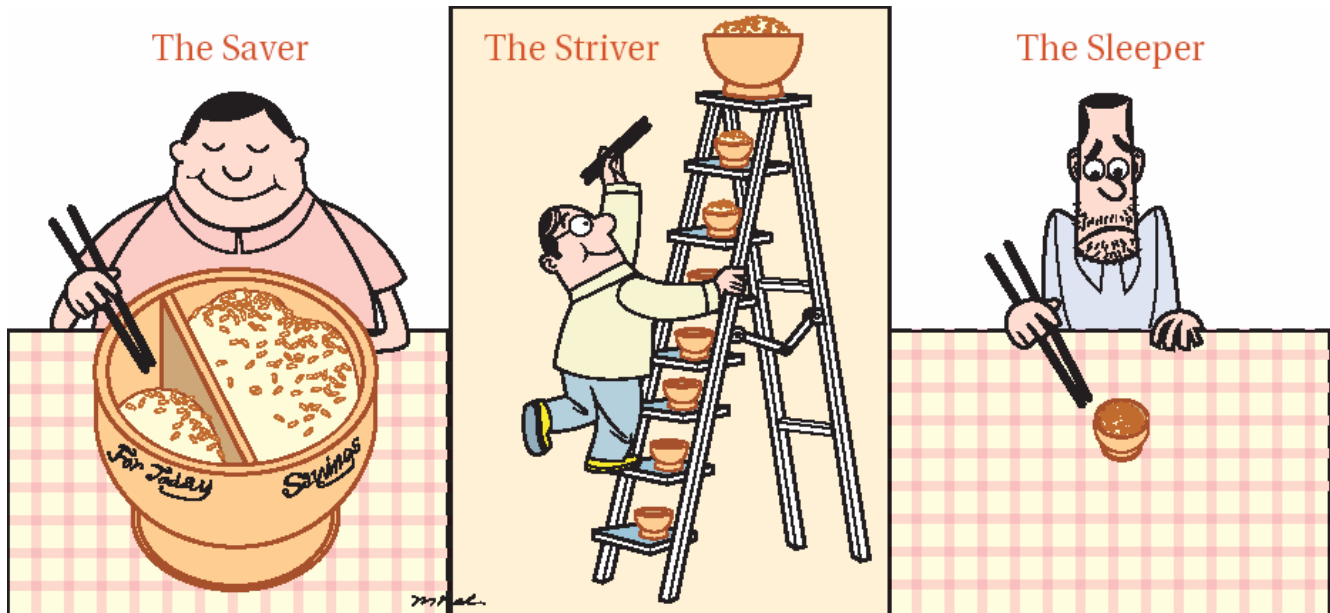


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What's eating the middle class?

Earnings of middle-incomers are growing slower than those at the top, and they are also feeling insecure about their jobs. How can the Govt and those affected best respond? Lydia Lim reports

AMID the anxieties about globalisation's impact on the lowest segments of society, another group seems to be calling out for help.

It is the broad middle swathe of workers.

It is well known that the wages of their low-income counterparts have stagnated or fallen.

It is equally well known that those at the top-end are riding the tide of globalisation as their skills are in demand around the globe.

And the broad middle?

The latest data suggests that their incomes have actually taken a hit. They are still growing in real terms, that is, after adjusting for inflation, but they are no longer keeping pace with incomes at the top.

Middle-incomers are not a homogenous group. While lower-middle-income households worry about rising costs and making ends meet, the anxieties of those at the upper reaches of the middle class are likely to be aspirational in nature, revolving round the affordability of luxuries they desire.

In Parliament this week, several MPs focused the spotlight on the middle class. While there was considerable attention paid to the plight of the group known as the PMETs - or professionals, managers, executives and technicians - losing out on the jobs front, they were also concerned about lower-middle- income households at or near the middle of the income distribution.

The monthly household incomes for this group would be around \$4,500.

Many of them are dual-income families where the husband earns about \$2,500 a month and the wife slightly less, with children and old folk to support.

In the last 10 years (1997-2006), households in the 31st to 40th percentiles saw real average growth in their average monthly income from work per household member of 1.5 per cent a year.

These are households that earn more than the bottom 30 per cent but less than the top 60 per cent.

Households in the 41st to 50th percentiles saw income growth of 1.7 per cent a year.

» LAG IN MIDDLE-INCOME GROWTH		
Average monthly income from work per household member among employed households in 2006		Real average annual change (1997-2006) (%)
31st to 40th percentiles	\$960	1.5
41st to 50th percentiles	\$1,180	1.7
81st to 90th percentiles	\$3,190	4.3
91st to 100th percentiles	\$6,990	5.2

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FEELING SQUEEZED

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TAXI DRIVER L.H. CHUA, 52, who used to earn up to \$6,000 a month as a manager until the firm he worked for folded four years ago. Now, he takes home \$2,000 a month

DON'T REST ON LAURELS

"In the event of an economic downturn and a subsequent squeeze in the labour market, high value would be an edge above the rest."

MS ANNIE YAP, chief executive of recruitment firm GMP, who said continuous education and skills upgrading are essential

Compare that to the 4.3 per cent growth a year for households in the 81st to 90th percentiles, and 5.2 per cent for the top end of households.

This stretching out of incomes between the middle and the top seems to be a relatively new phenomenon.

The Department of Statistics says there are no comparable figures for the 1980s and early 1990s, as it measured income growth for those years differently.

Still, data that is available suggests that there was no such lag in income growth of households in the middle as compared to those at the top in the 15 years from 1980 to 1994.

Then, lower-middle-income households enjoyed income growth of between 7.7 and 8.4 per cent a year, not factoring in inflation.

This was comparable to the 8 to 9 per cent growth enjoyed by the top 20 per cent of households.

So what changed? What happened in the intervening years to cause income growth in the middle to weaken relative to that at the top?

Technology and globalisation are once again the most likely causes.

These forces have opened the floodgates to semi-skilled and skilled labour from low-wage countries, against whom local middle-income workers have to compete now.

This has already had a profound impact on the American middle class.

In a June 2006 article on income inequality, The Economist journal noted that since 2000, productivity gains in the world's largest economy "seems to be lifting fewer boats".

The wages of the typical American worker - the one at the middle of the income distribution - rose by less than 1 per cent in real terms in the five years to 2005.

In the previous five years, they rose by over 6 per cent.

The Economist's conclusion: The distribution of the fruits of America's productivity gains had been skewed to the highest earners and companies, whose profits had reached record levels as a share of gross domestic product (GDP).

Could the same happen here? Some economists worry that it might.

At a recent seminar to discuss the impact of the new economy, organised by the Institute of Policy Studies, its economics adviser Yeoh Lam Keong warned that a

persistent trend of stagnating incomes for the majority middle class could lead to the formation of an underclass, and social and political instability.

"Median-wage stagnation, median-wage decline, low-income stagnation, low-income decline are poisonous in this environment," he warned.

He added that the issue of social welfare transfers to redistribute the benefits of high growth to the middle and lower classes was thus "very important".

Three trends

THREE trends have also eaten into the job security of middle-incomers.

They are white-collar layoffs, outsourcing and contract employment.

As these trends become more widespread, a rising number of workers who once considered themselves comfortably middle class now feel squeezed.

Take taxi driver L.H. Chua, 52. He used to earn \$5,000 to \$6,000 a month as a manager until the construction firm he worked for folded four years ago.

Now, the father of three is at the wheel 15 hours a day in search of fares and takes home \$2,000 a month.

"My take-home pay is barely enough to cover household expenses, plus health costs for my aged mum, who is 82 and lives with us," he says.

After Mr Victor Lee, 45, was retrenched from his marketing manager job, he became a remisier. But he earned less than \$1,000 monthly in his first year and had to dip into his savings to support his family.

Now, his income has risen to \$4,000 but he still worries about cost increases, especially with the goods and services tax (GST) set to rise from 5 to 7 per cent on July 1.

While some white-collar layoffs have been due to business closures - which have slowed now that the economy is growing strongly - others are due to the automation of business processes.

Human resource experts say that many jobs that used to be done manually can now be done by computers running specialised software programs.

At the same time, companies are cutting costs by streamlining and outsourcing non-core functions.

Employees whose jobs are outsourced could end up retrenched or re-hired by the company that takes over the work but on different terms.

Ms Annie Yap, chief executive of recruitment firm GMP, says both trends affect employees in the rank-and-file positions, executives, supervisors and junior managers - that is, middle-incomers.

"Most of them have a basic tertiary education but have not undergone upgrading, rendering themselves less value-added against competition and more susceptible to company streamlining," she says.

The third spectre haunting the middle class is contract hiring, which is on the rise.

The Manpower Ministry estimated that as of June last year, 172,000 Singaporeans and permanent residents were contract employees.

Nominated MP Cham Hui Fong, NTUC's director of industrial relations, estimates that between 40 and 50 per cent of these workers could be middle-incomers.

Today, even jobs such as polytechnic lecturers are filled by contract hires, she says. Employers prefer it because they want maximum flexibility in their staffing decisions to accommodate ever-shifting demand for goods and services.

Workers lose out in terms of job stability.

"If someone is on a two-year contract, they tend not to feel as secure as when they are hired on a permanent basis," she says.

No more coasting

TAKEN together, these new income and employment trends mean that middle-incomers can no longer afford to sit back and relax, in the expectation that their earnings will go up year on year because of seniority and economic growth.

Human resource experts warn that the current boom could in fact lull middle-incomers into believing that happy times are back again, and muffle the upgrading message that the Government and unions have been trying to plug to workers.

The present tight labour market means that even if middle-income workers are retrenched, they tend to find new employment quickly.

Ms Yap warns workers against resting on their laurels as continuous education and skills upgrading remain essential.

"Workers must be active in that sense to make sure they do not get left behind.

"In the event of an economic downturn and a subsequent squeeze in the labour market, high value would be an edge above the rest," she says.

One key question is how to push middle-incomers into making lifelong learning a habit.

That is where Tampines GRC MP Sin Boon Ann thinks there is a gap in the current system.

"Right now, unless you have self-motivation, there is very little incentive or compulsion for you to undergo training."

He sees a need for a more systematic and concerted approach in drawing up a framework within which workers can keep on learning.

Indeed, Second Finance Minister Tharman Shanmugaratnam said on Thursday that a comprehensive review of lifelong learning programmes was on the cards.

Mr David Ang, executive director of the Singapore Human Resources Institute, says there is also a need for middle-incomers to moderate their expectations.

He observes that this is one change that can come about only through education to raise their awareness about the new realities out there.

"You can't regulate things like keeping up with the Joneses. There is nothing wrong with wanting to move up, except one has to temper this with the reality that you can fall back," he say.

Middle-incomers could choose to respond in different ways to the changing environment.

While self-motivated strivers dive head-on into upgrading and take advantage of the buffet of government help schemes available or go back to school, savers may instead choose to further tighten their belts and build up their savings against any workplace shocks.

But the group MPs and human resource experts are most concerned about are the sleepers. They have yet to wake up to the reality of competition from their counterparts in low-wage countries.

Still, if middle-income workers are expected to scale up their skills while scaling back their expectations, it should come as no surprise that some will react in resentment against an economic system that once assured their prosperity but which now seems to have morphed into the source of much uncertainty.

They now find themselves having to make a huge adjustment in their work attitudes and lifestyle, for which they received little warning.

This is the challenge facing developed societies worldwide - how to help middle-incomers navigate the obstacle course of global competition in a way that makes them feel they still have a fair share of the fruits of economic growth.

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ADDITIONAL REPORTING BY ZAKIR HUSSAIN