Limits in linking productivity to wage increases

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T HE recent headlines from advanced economies revealed that the “wage shock” therapy was in fact a illusion from a deep-seated and long-standing problem: how to raise the incomes of low-wage workers.

That the problem of rising wage inequality, when unfamiliar to简短的 crossing-the-board wage raise may derail economic development, the Government fell back on the hard-to-refute economic maxim that links wage rises to productivity growth.

But that strategy has its own failures.

Other factors at play

FIRST, the “no productivity growth, no wage adjustment” approach assumes that low productivity growth is the only cause of the growth of last decade in the number of low-wage workers.

In reality, other factors may be at play.

For example, business costs may have gone up rapidly in recent years. Many found on retail outlets or multi-nationals are caused by the growth of hawker and stall activities. This hampers workers’ ability to raise the salaries of the large number of low-wage workers.

Secondly, increasing workforce productivity both of the salaried and low-skilled workers.

Multinational corporations in high value-added manufacturing operations can reap aggressive capital investments to raise productivity because of their high profit margins and economies of scale. Even if capital is plentiful, but labour and land are scarce, there is a limit to how much growth can be achieved even with more productive use of labour and land.

Further capital investments may even result in diminished marginal returns, in which case gains from productivity, if any, may accrue more to management than to workers.

Underpaid workers

ANOTHER limit in linking productivity to wage increases is that the concept of productivity tends to be cast to low-wage workers while overlooking those of the top managers.

In a tightly integrated value chain, the sum is usually more than the parts. Profitability takes into account the efforts of workers but to work longer hours to boost income? And for more members to join the workforce to boost household incomes?

This is because gains from productivity, if any, may accrue more to management than to individuals in the corporate hierarchy.

Elusive quest

THE elusive nature of productivity growth is hardly peculiar to Singapore. Other developed economies face the same problem. A developing economy like China has tremendous room for productivity growth because of market inefficiencies attributable to anti-competitive and rent-seeking actions and policies.

In a small, mature economy like Singapore’s, any such room for productivity growth has already been exploited. Research by McKinsey in 2004, for example, revealed that over a period of 30 years, Japan’s economic growth was driven by increased output in the number of hours worked and the amount of capital equipment used than by an increase in the workforce’s productivity.

A small, mature economy like Singapore faces constraints in boosting productivity. Simply put, there are limits to its factors.

Even if capital is plentiful, but labour and land are scarce, there is a limit to how much growth can be achieved even with more productive use of labour and land.

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In the end, productivity growth is hardly the panacea to the problem of rising inequality in income distribution: because other factors dampen wage growth; because productivity gains are hard to come by and may be severely limited in a small, mature economy like Singapore; and because gains from productivity, if any, may accrue more to management than to workers.

However, this entails enriching the deep-rooted vested interests of other stakeholders, and can only be effected by leaders who are willing to face the consequences. In short, simplifying the issue by falling back on an economic maxim about productivity and wages makes good economic sense, but may lose out in overall effectiveness.

The writer, who recently finished his PhD in world economics at Nanjing University, is an associate faculty member of NUSRED.

Financing the wage extra income

PRODUCTIVITY growth may allow incremental per increases to keep up with inflation, but can do little to narrow the noticeable income gap that already exists. Such fundamental adjustments can not only improve the economic pie but also provide a larger share of the economic gains to workers.

The entire capitalist system is built on rewarding capital owners who use money to make more money, while stealing workers who have to sweat and toil to barely earn a decent living. It is timely in Singapore for policymakers to re-valuate productivity growth for PMETs (professionals, managers, engineers and technicians) will outstrip that of un-skilled workers, broadening the wage gap.

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