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Minimum wages, collective bargaining and economic development in Asia and Europe

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National and international debates concerning the establishment of a Statutory Minimum Wage (SMW) have hitherto tended to polarise around what we might term the 'social justice' arguments for a wage floor to tackle poverty level wages on one hand, and on the other, the 'economic imperative' to ensure a SMW does not depress demand in certain labour markets. Lately, as low or declining rates of economic growth have gripped many developed and developing nations, the negative macro-economic effects of low pay have begun to receive long overdue attention. As a result, the need to address low pay has increasingly been articulated as a labour market recalibration that combines both social justice and economic imperatives. Crudely speaking, where levels of household debt are already unsustainably high, possibly the quickest way to increase consumer demand is through wage growth. Moreover, improving life at the bottom of the national wage distribution has further attractions, not least for politicians under pressure to reduce income inequality. This fusion of social and economic interests has rejuvenated the interest of governmental policy makers in Europe in the setting of national minimum wages and, in some cases, has even prompted them to consider 'living wages' higher than minimum wages as a means of arresting increases in income inequality.

Income inequality and economic performance

Evidence of the negative economic effects of rising income inequality has grown considerably in recent years. OECD reports, for example, confirm the sizeable negative impact that income inequality has on a country's economic and social performance. They point out that *increasing* inequality is notably problematic. In both Europe and the United States the most significant constraint on growth stemmed from the fact that the bottom 40% of families had lost ground. The OECD even concluded that reducing income disparities at the bottom would have a greater positive impact on economic performance than if the focus were on reducing inequality at the top (Cingano 2014:21). Furthermore, an International Monetary Fund (IMF) study, covering 159 economies from 1980 to 2012, showed that where the share of income increased to the top 20% of the income distribution, GDP growth in the following five years was lower (Dabla-Norris et al 2015:7).

A recent comparative study (Van Klaveren et al 2015) examining minimum wage setting, income inequality and collective bargaining in sixteen Asian and European countries and regions, has also pointed out that export-led growth strategies, if anything, have exacerbated the problems of rising income inequality since they inevitably rely on low pay and a 'race to the bottom' approach to wage determination. By contrast, Van Klaveren et al stress the economic recovery potential that can arise from a dynamic interplay of minimum wages, collective bargaining and economic development. The limits and major disadvantages of current export-led strategies, it is argued, can plainly be seen in Asia where the dominant export-led growth model is at a crossroads. The point where agriculture can no longer deliver surplus labour at low wage rates is already very close, thus undermining the basis of the export-led growth model. For instance, even before the decrease in its growth rate, various experts had predicted that this point was less than a decade away for China.

Collective bargaining and minimum wages: the Asian experience

Against this backdrop, Professor Hu, the author of the chapter on China in the aforesaid study, argues that the country urgently needs to upgrade its industry and undertake major innovation and education. He argues that the minimum wage can play an important role in boosting domestic demand and reducing large current income inequalities.

To some extent, Chinese policymakers have already accepted this point. Wage inequality, for instance, would have widened further were it not for the fact that real minimum wages were allowed to grow more strongly than real average wages from 2003 onwards. Nonetheless, weak collective bargaining remains China's Achilles heel. Thus the development of an effective system of collective wage bargaining, with a strong trade union movement capable of bargaining on behalf of its membership, is seen as crucial for sustainable economic development. Hu argues that it "will present significant opportunities for China to transform from its current export-led growth model into a model of wage-led growth" (Hu 2015:32). Similarly, countries as diverse as

Vietnam, South Korea and Thailand are facing up to the simultaneous challenges of rising inequality alongside continued constraints on the exercise of freedom of association and collective bargaining rights.

The detailed information provided by Van Klaveren et al on the deterioration in income distribution in Asian countries between 1990 and 2012 shows that the decline of wage share as a proportion of the national income accruing to labour has been a common experience. As with other recent studies, the authors link this trend to the growing power of multinationals and to 'financialisation' – the seemingly overwhelming role of finance motives and financial actors in globalisation processes – alongside the near-universal weakening of labour's bargaining power and, in Asia, the lack of broad social protection. Looking at statutory minimum wage setting as a potential countervailing force in Asia further uncovers the widespread fragility of collective bargaining, irrespective of the mechanisms deployed. Minimum wage setting commonly shows up as the cornerstone of wage-bargaining, with attendant risks for the trade union movement. For example, minimum wages in Indonesia have become the effective wages for 60% to 80% of formal, private sector workers. With such 'maxi minimum wages', it is a balancing act for unionists to maintain meaningful collective bargaining without undermining minimum wage fixing. The evidence from Pakistan and India indicates that trade unions in these countries face similar challenges.

Collective bargaining and minimum wages: the European experience

The position of labour across most EU states, as could be expected, is for the most part not as dire as that observed in Asian countries. However, rising income inequality is a feature of much of the European Union (EU) as are falling wage shares. Even where the wage share stabilised, as in most EU countries after 2008, the distribution of personal incomes became more unequal in about half of all EU countries in recent years (Eurofound 2015). As with Asia, Europe has seen the human cost of the economic crisis since 2008, measured by rising unemployment (particularly youth unemployment), more precarious and 'casualised' employment, decreasing wages, reduced benefits and purchasing power, and mounting threats of social exclusion.

It is timely then for trade unions in Europe to mobilise for substantial wage increases, especially in countries where export-led strategies have accumulated large current account surpluses. This is particularly the case for Germany and the Netherlands. Restoring the connection between productivity and wage growth and revitalising collective bargaining can contribute both to reducing inequality and to addressing the shortfall in global demand. This is particularly the case for multi-employer bargaining where a floor on wages and conditions can be set in key sectoral labour markets. Unions and other progressive forces within the EU could make a start by launching a campaign for a European minimum wage norm corresponding to at least 60% of the national median wage. The implementation of such a norm would, it has been estimated, benefit about 10% of all European workers (based on Eurofound 2014). It should be noted though that such a strategic revitalisation is directly opposed by the actual policies of the European Commission. The 2012 recommendations from its Directorate General for Economic and Financial Affairs foreshadowed an assault on collective bargaining in the EU (Schulten 2013). The Commission's aim is to continue the decentralisation of wage-setting to achieve "an overall reduction in the wage-setting power of trade unions". Plainly, this should be resisted not simply for reasons of redistributive social justice (crucial though this may be) but also to restore forms of wage-led economic growth that will enable the disastrous hold of austerity and financialisation to be broken.

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