

Boosting investment to increase wage levels

By Chen Been-lon 陳明郎



The minimum wage issue has caused much heated debate lately. Labor economics involves two elements: microeconomics and macroeconomics. Generally speaking, microeconomics is more concerned with the effects various labor policies have on the labor markets, whereas macroeconomics is more concerned with the bigger picture, extending the approach to the overall impact labor policies have on the work force, imports and exports, prices and economic growth.

However, the committee set up by the Council of Labor Affairs to review the minimum wage only employs microeconomists. The council should have included some macroeconomists to prevent the creation of one-sided policies that ignore the effect on the economy as a whole.

Most macro labor economists do not believe now is the time to increase the minimum wage. They reason that not only have domestic prices risen this year, but the economy is sluggish — with the economy flashing a “blue light,” signaling recession, for the ninth consecutive month in July. While we cannot call this “stagflation,” there are similarities.

When the economy goes through a downturn, everyone suffers, just as they do when prices increase. It is not just those on the minimum wage, or even those earning a little more than NT\$20,000 per month: It is people at all salary levels. This is because everyone's real wages decrease as a result of economic downturns and price hikes. Therefore, if price increases are to be used as the reason for raising the minimum wage, then salaries across the board, in both the private and public sectors, should be raised, too.

However, at the moment, it would seem the council is merely concerned with some wage earners, while overlooking the majority of other wage earners. This is not how the council and the academics invited to sit on the committee should be thinking.

In all fairness, the impact of the subprime mortgage crisis and the European sovereign debt crisis on Taiwan has been more serious than the Cabinet thought. Since the beginning of the year, public and private investments have fallen at rates rarely seen in previous years. The question is how can one increase investment so as to create job opportunities. When investment increases, demand for labor and, therefore, salary levels, will follow. The government should be more pro-active in this regard.

History can teach us a lot. During the oil crisis in the early 1970s, then-president Chiang Ching-kuo (蔣經國) adopted some radical reforms, implementing the Ten Major Construction Projects to boost domestic demand. These were rather successful. The recent global financial crisis has had a greater impact than the oil crisis 40 years ago and therefore the government must adopt stronger measures. The Cabinet should select at least five to 10 public investment projects it had originally planned to implement over the next 10 years, and start them now, to increase domestic demand.

I realize that there is a lot of red tape in place because of concerns over corruption. This has been holding up the contracting of public construction projects. The Cabinet should take a knife to this red tape and consult with the National Audit Office on how best to simplify the procedures and regulations.

If the government is investing, other investment would follow, including from Taiwanese businesspeople overseas. Moreover, if the minimum wage for locals no longer applies to foreign laborers, China-based Taiwanese businesspeople would have more incentive to invest here. When investment increases, unemployment will fall, and salaries would increase. Wage earners would no longer have to worry day-to-day how to make ends meet.

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Translated by Drew Cameron

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