

Time Not Right for Scrapping Basic Wage

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Every year the basic wage again becomes a point of contention between management and labor. Taiwan's basic wage had remained unchanged for three years, following the last hike in July 2007, when the monthly basic wage was raised by nine percent from NT\$15,480 to NT\$17,280 and the hourly basic wage was increased to NT\$95. But during these three years the island saw massive social changes. The rate of growth of real wages decreased during the past two years, because of an accelerated exodus of Taiwanese companies to China. Recently the Taiwan Confederation of Trade Unions and other labor groups demanded that the basic wage be raised to NT\$22,115 (popularly called 22K), based on the 13.71 percent economic growth rate that the Directorate General of Budget, Accounting and Statistics had announced for the 1st quarter of this year. This would equal the salary that the government offers university graduates who participate in job creation schemes. Eventually the basic wage was raised to NT\$17,880, a slight 3 percent increase, but the labor side was far from being satisfied.

The economic policy workgroup of Taiwan Brain Trust called a meeting over this contentious issue. Bor-yi Huang, professor at the Department of Finance Operations of Shih

Chien University, noted that the basic wage is equally applied to domestic and foreign workers. Should Taiwan rashly abolish its basic wage, management will import foreign labor on a large scale, which would harm the interests of domestic workers. Therefore the basic wage should not be scrapped hastily. But given that the unemployment rate remains hovering around five percent, great caution is asked for with regard to further wage hikes. Hsin Ping-lung, professor at the Graduate Institute of National Development of National Taiwan University, stated that the basic wage is meant to guarantee workers' livelihood. He also noted that so far there is no evidence that the basic wage substantively interferes with the labor market. Hsin argued that as long as there are no complementary measures, the basic wage should not be abolished, and that it could be moderately adjusted in line with the price level.

When discussing this problem we actually need to ask why a basic wage was determined. We believe that the most important objective of the basic wage is "to guarantee the basic livelihood of the employed." "Statistics show that some 300,000 people in Taiwan earn the basic wage. This is not a high share of the workforce, but the majority of this group are workers, who have difficulties increasing their

productivity through education and training, or single mothers. They count among the disadvantaged groups in our society, but they are also the breadwinners of their families and therefore need basic guarantees for their livelihoods. Since Taiwan's social welfare system is underdeveloped in comparison with other countries, the basic wage can be viewed straightforward as a part of social welfare for these disadvantaged groups. If the basic wage is seen as a manifestation of social welfare, we could not only guarantee working income, but also the livelihood of the disadvantaged by reducing necessary expenses for childcare and education. If the above mentioned services were subsidized for disadvantaged workers or turned into public services, necessary spending could be lowered.

Let us take industrialized nations as example. The U.S. Congress adopted the "Fair Labor Standards Act" as early as 1938, while Japan established the "Minimum Wage Law" in 1959. Both laws are best examples for setting a basic wage. Germany does not have a basic wage system, yet it has a developed social welfare system so that government benefits suffice to guarantee a minimum living standard for workers. The German experience has, nonetheless, come under fire and turned into a major election issue. Criticism is not only coming from the labor side, even among management some believe that as long as Germany does not have a basic

wage, the country's productivity and product quality will fall behind that of countries with a minimum wage.

Some of those who advocate that "the labor market and wages return to a free market mechanism" dismiss that argument. They believe that a wage hike would be counterproductive, creating unemployment among those workers whose productivity is in the minimum wage range. Moreover, they contend, if the basic wage is "social welfare" then why should management foot the bill? Regarding this argument, we believe that if a negative income tax as proposed by late U.S. economist Milton Friedman were introduced on top of the basic wage, the government would be put in charge of guaranteeing the livelihood of disadvantaged workers. Once the negative income tax is in place, time would be ripe to discuss the scrapping of the basic wage.

To sum things up, we believe that time is definitely not ripe now for the abolishment of the basic wage given the current overall social situation. But government, labor and industry should sit down for tripartite talks to clarify their respective responsibilities for the livelihood of disadvantaged workers as soon as possible. On top of the basic wage, the government should pay higher attention to the fact that atypical employment is rising in the wake of the basic wage hike and strengthen guarantees for atypical workers. **B**