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THE ETERNAL WAGE WAR

Last week, tens of thousands of employees of fast-food restaurants in at least 60 cities of the United States of America went on strike, demanding a minimum wage of $US15 (about $HK117) per hour.

The minimum hourly wage in the US, today, is $US7.25 (about $HK56.55).

The claim of the workers is that they want, what they claim is, *'a living wage'* – and $US7.25 per hour cannot, in the vernacular of the Americans, hack it.

The fast-food industry of the US is said to have aggregate revenues of not less than $US200 billion (about $HK1.56 trillion) per year; and, the industry gives employment to many millions of workers in the country.

The demands of the fast-food strikers, rightly or wrongly, is quite likely to light a flame to ignite other workers, not engaged in the fast-food industry in the country; and, this situation could well be exported abroad.

The **I**nternational **L**abour **O**rganisation (**ILO**), an agency of the United Nations, was founded in 1919 and its main aims are *'to promote rights at work, encourage decent employment opportunities, enhance social protection and strengthen dialogue on work-related issues.'*

Businessmen, throughout the world, have, as their creed: Maximise profits; and, minimise expenditures.

If operational costs rise, materially, too quickly, then businesses have a number of choices as to what action to take. Some of these choices include:

1. Pass on the additional costs of operations to customers by raising unit prices;
2. Introduce methods to streamline operations where practicable;
3. Reduce the number of workers by replacing some of them by introducing more and sophisticated computerisation of certain manual tasks, being performed by the businesses' existing labour forces;
4. Close down certain shaky operations; or,
5. Close down all operations.

The bugbear of all businesses in the West, is, and always has been, the matter of labour costs.

Salaries and wages are, without question, among the most-important, fundamental conditions in the employment of labour.

For most workers, throughout the world, wages are their only source of income.

At the same time, wages have, over the past century or so, become a potential source of conflict between labour and management as was made only too evident last week in some 60 cities of the US.

Discrimination in the workplace, only too often, can have its roots in the hourly wage that one group of workers has been able to obtain versus another group that has yet to achieve a similar wage goal.

Wages have, always, been a key determinant in labour costs; and, a company's competitiveness can be correlated, to some extent, by its wage costs as a percentage of the unit cost of the finished product or of the service that the company is manufacturing or offering.

But it is a fact that no matter how high wages might rise over a given period of time, it does not follow that productivity will increase, proportional to wage increases.

And more's the pity.

The Global Picture

In Asia, in the decade to 2011, real monthly average wages – wages that have been adjusted for inflation – rose by about 100 percent.

In the West, real monthly average wages increased by about five percent, during this decade.

In Eastern Europe and Central Asia, real monthly wages grew by nearly 300 percent, however, in Russia, the real value of wages fell by a little less than 40 percent, compared with their 1990 values.

In the People's Republic of China (PRC), the growth of real wages has increased to such an extent and in such a relatively short space of time that, in the Province of Guangdong, Dongguan (), which, only a short while ago was a thriving industrial city, one factory after another has been forced to close its doors – for good.

Today, parts of Dongguan have become a veritable industrial desert with some residents of Guangdong, being afraid to go too close to this former industrial hub for fear of the many criminal elements that are known to have taken up residence there.

This situation has affected the entire economy of the province: There is widespread discontent among many of the residents.

In the case of this part of the south of the PRC, owners of the factories that closed down were forced to do so because they could not produce goods for their overseas' customers at competitive prices, compared with many other parts of Asia, due, in large part, to the rapid increases in wages.

The increases in wages were forced upon factories by the PRC Government: It holds the whip hand.

Coupled with the situation of rapid wage increases was inflation that was running at such a high level that workers found it difficult to make ends meet – no matter how high had been the increases in their take-home pay.

As a result of the rapid increases in wages in the south of the PRC and having been informed of the dire situation by management of factories that sought to pass on additional manufacturing costs to its foreign buyers, international customers resorted to sourcing their requirements for manufactured goods in other Asia countries where wages were comparatively lower than those of the PRC and where most other infrastructural requirements in the manufacturing process were similar to those of the PRC.

In some cases, however, it was found that manufacturing at home bases – the US and certain parts of Europe, especially – had become, once again, a viable option to sourcing goods in Asia when customers factored into the Asian cost per unit such things as productivity levels, shipping, insurance, foreign-exchange translation, etc, etc, etc.

In the 1990s, it was the ability of parts of Asia – and the PRC, especially – to produce goods, within a certain price range and of a certain acceptable quality, that made it very attractive to US and certain European importers to move part of their production bases to Asian industrial hubs or, simply, to outsource their needs in Asia without the requirement of the establishment of their own factories.

That advantage, today, has been lost, completely, as far as many parts of the south of the PRC are concerned.

Taking the place of this part of Asia, underdeveloped parts of this region of the world have come into their own; their economies are starting to benefit from the losses that have been experienced in Dongguan.

Cost Versus Productivity

Minimum wages do not mean as much to many workers as people might, mistakenly, think because it has been seen that, by the time that new minimum wage levels are established, workers are, already, earning in excess of the minimum wages.

In the US, just last week, fast-food workers were not complaining that they were not getting their minimum wages, but because they wanted much more than the minimum wage level – more than double, in fact.

The marketplace has, always, been, and will, always, be the best controller of prices in a free-market economy, but, in the case of the PRC, the Government found it necessary to step in to impose higher minimum wage levels in order to appease lower wage-earners ... or suffer the potential consequences, such as widespread social unrest.

Rightly or wrongly, this PRC Government policy has had a detrimental affect in the south of the country, resulting in the displacement of many tens of thousands of migrant workers, who, originally, flocked to the south of the country in order to find employment in newly established factories.

While the number of migrant workers grew in provinces, such as Dongguan, and factories were able to meet the demands, placed upon them by foreign customers, lost in the shuffle was the matter of average, or below average, productivity levels.

Had some of the owners of those factories, that claimed that they had been forced to close down due to ever higher levels of real wages, put emphasis on trying to increase productivity by making more efficient use of labour forces, much of the increases in the hourly wage could have been absorbed – causing the factories to continue to be viable by being able to produce goods at competitive prices.

But raising productivity levels requires, inter alia, re-education of workers and an inducement in them to accept manufacturing transformation so that the factories can remain profitable, thus allowing owners to pay workers that which they demand.

Not all workers, however, are receptive to re-education in the workplace, while many of them are unable to understand the reason that productivity has to be increased, in the first place, while others may find it difficult to accept an increased pace for which they are unaccustomed.

It is, very often, difficult to make somebody change the way that he does something when he has been doing it the same way for a long period of time.

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