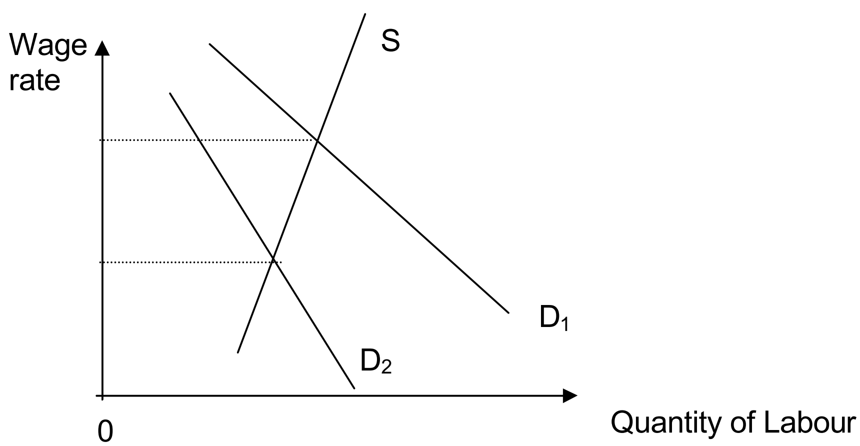
"Low pay is directly related to low productivity." Discuss.

Suggested answer :

Wages are the reward for labour and is determined by the Marginal Revenue Productivity Theory in a perfectly competitive labour market. According to the Marginal Revenue Productivity Theory, marginal revenue product is the product of the marginal physical product and the marginal revenue, i.e MRP = MPP x MR. In a perfectly competitive labour market, the marginal revenue productivity curve is downward sloping and relates the quantity of labour employed to its wages, hence it is also the demand curve for labour. As all firms are price takers, thus at equilibrium, according to the theory, profit-maximising firms will employ up to the point where MRP is equal to the wages paid (since marginal factor cost = average factor cost.)

Low pay is partly due to low productivity, but it can also be due to many other reasons, like the difference in the marginal revenue of the final good produced with labour, supply reasons or market imperfections. Hence low pay is related to low productivity but only partly and not all the time.

Generally, when demand is high (D_1), wages received are high (W_1) and when demand is low (D_2), wages are low (D_2) as shown below.



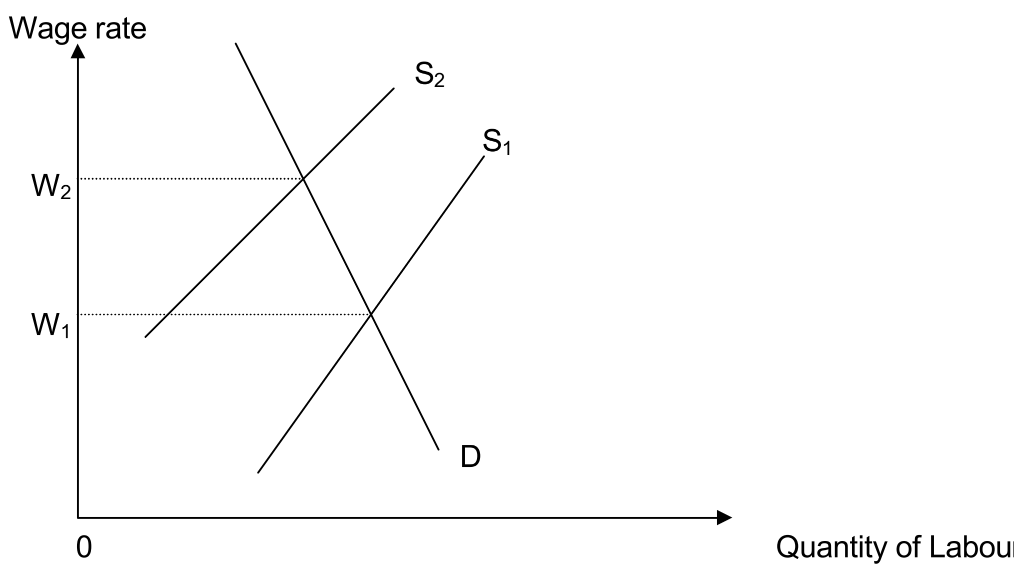
Hence, low wages can be due to low demand, (MRP) which in turn is due to low productivity (MPP) and/or low prices (MR) of the final product.

Productivity differs for different workers due to differences in education, training, skills, job experience and work attitudes. Generally, workers in lower- skilled industries, like the garment industry, are less productive than workers in high-technology, high value-added, industries like aerospace and biotechnology. Thus, the former group of workers is in lower demand than the latter and hence receive lower wages.

Also, the lower skilled workers will also tend to be less educated and less responsive to changes in technology and work requirements. They also tend to possess poorer work attitudes as they do not receive as high wages as those more highly-skilled workers whose greater productivity are recognised through greater monetary rewards. Hence, they tend to be less productive and thus in lower demand, receiving wages. In this case, low wages are directly related to low productivity.

However, demand for labour also depends on the marginal revenue (prices) of the final product with the use of labour. In a progressive economy, new and expanding industries (the sunrise industries) emerge frequently while sunset industries decline, due to changes in consumer tastes, emerging new substitutes, changing population structure and government policies. Those sunrise industries, for example, pharmaceutical industry, face increasing demand and are able to command a higher price for its products, compared with electronic industry, which faces declining consumer demand. Hence, the pharmaceutical industry can afford to pay its workers higher wages than the electronic industry. Thus, a worker in electronic industry would receive l ower wages but this is not due to him being unproductive. Thus, low pay, in this instance, is not related to low productivity.

Supply conditions also affect wages of labour. When supply is high (S_1), wages are high (W_1) and vice versa. Hence, when sup ply of labour is high, wages would be low as illustrated in the figure below.



Supply of labour is in turn affected by the occupational mobility of labour. For example, workers in the electronic industry are less skilled than workers in the pharmaceutical industry which require higher technical know-how and skills. Hence, the former is in greater supply than the latter. This in turn would lead to lower wage rates for the former. In this case, low wages are not directly related to low productivity.

Also geographical immobility can also account for wage differentials between workers in the same industry. For example in Singapore, there is a large number of vacancies available in a new outlying industrial area in Tuas. However, workers are reluctant to move from the old established factory areas in Kallang due to inconveniences of transport, unfamiliarity with the environment in Tuas and for other reasons. Hence, the supply of workers in the old established factory areas in Kallang w ould receive lower wages than those in Tuas. Hence, it can be seen that, in this case, low pay is not directly related to low productivity.

Some jobs being pleasant, with congenial working environment and greater job security and prestige also tend to a ttract a greater supply of labour compared to other jobs that are dirty, risky and with irregular hours. For example, many students take up Business Administrative courses as they felt that administrative jobs were easy, cosy and stable. Hence, there was a large supply of Business Administrative graduates, which depressed the wage rate offered. These graduates are highly productive, yet they received lower starting wages as the supply of such labour was high. Hence, low wages are not necessarily directly related to low productivity.

Highly skilled personnel, e.g surgeons spend a long time training and such years spent training represents an opportunity cost due to the years of lost earnings. Hence, such people are in low supply compared with general practitioners. The latter group thus receive lower wages.

Market imperfections can also account for wage differentials among workers. Trade unions, for example, can influence the wage rate through collective bargaining. Trade unions can bargain fro their members a higher wage rate above the competitive wage rate. Hence, a worker in a highly competitive industry with no union intervention, would receive low wages than those in an unionised industry. This low wages is not due to their lower productivity.

Females also tend to receive lower wages than males due to real or imaginary differences. Some employers pay female less as they perceive them to be less efficient, more emotional and less logical. This is an imaginary difference. These low wages pay to f emale workers are due to discrimination by gender and not due to their low productivity.

Low wages can also be caused by imperfect knowledge in the labour market. If workers in low paying jobs do not know of the availability of similar, higher-paying jobs elsewhere, they would not switch jobs and will continue with their low-paying jobs. Low wages in this case would be due to imperfect knowledge.

Thus, low wages can be due to low productivity but there are many other reasons that could also contribute to a worker receiving low wages. Hence, the statement that “low wages are directly related to low productivity’ is not necessarily true in all cases.