3.7 Resisting Downward Wage Flexibility

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By serving as a floor wage, the national minimum wage is often used as a reference point for national wage policy. The increase of the minimum wage in Malta has not kept pace relative to the increase in the average wage. A Caritas report in 2012 argued that, to ensure a decent living to every citizen, the minimum wage has to be raised. Evidence however seems to point out that wage adjustments which can ensure the maintenance of the pay packet can be better achieved via collective bargaining than through national wage policy fixes. Trade unions have shown that they can resist downward wage flexibility.

Countries increasingly face a common set of problems in labour markets and seek institutional arrangements that best address these problems. One of these arrangements is wage setting which is often the source of bickering between the social partners.

Generally, governments are concerned about the potential macroeconomic consequences of wage setting which may cause a wage increase spiral that jeopardizes the competitiveness of the economy. In spite of these concerns, governments, through the enforcement of certain pay levels and/or supplementation of pay from public funds, intervene in wage setting in order to ensure that workers are able to meet their subsistence needs.

The setting up of a minimum wage which establishes a wage floor is one of these interventions. The legal minimum wage in Malta, introduced in 1974, must have helped in protecting the most vulnerable workers. How far this protection goes in ensuring a decent living to these workers was addressed by Caritas, which in 2012 conducted a study on this issue. On the basis of the findings of this study, Caritas in its report 'A Minimum Budget for a Decent Living', advocated raising the minimum wage by 13.8% (from €158.11 to €180 per week in 2012) in order to ensure a minimum level of well being to every citizen (Caritas, 2012, p. 45)

Thanks to the indexation system to which it is tied, the minimum wage in Malta has increased from €23.33 a week in 1974 to €162.19 in 2013. These increases have not, however, kept pace with the average wage. Indeed, between 1995 and 2006, the minimum wage in Malta in relation to the average wage registered a decrease of 1.4 per cent (Eurostat complemented by national statistics in Vaughan-Whitehead, 2010, p. 21). Although this is lower than the decrease registered in countries such as Greece (8.4%), Romania (6.4%), and Belgium (12.4%), it is to be noted that in most European states, between 1996 and 2008, a rise in the minimum wage relative to the average wage was registered (ibid.).

What this implies is that the mandatory annual wage increase - often defined as a Cost of Living Allowance (COLA) based on the Retail Price Index - has not caused a surge in wages in Malta. This condition sets Malta apart from other European countries. Indeed, Malta is one of the few European countries which has maintained the COLA system, even though the Maltese government has been advised by the EU Commission 'to review' (at first it was urged 'to change') this wage policy. The latest Eurostat figures about the hourly labour do not indicate a wage spiral in Malta compared with other European countries. Over the last four years the mean hourly labour cost in Malta has risen by 9.3% to €12.30. This rate is far below the mean hourly rate of €23 in the 27 EU member states and of €28 per hour in the Eurozone (Eurostat, 2013). Comparisons are of course odious as wages have to be assessed on the basis of their purchasing power.

The purchasing power of the pay packet is often taken as the indicator of the well being of a country's citizens. A decrease in the purchasing power of wages may not be simply due to the high rate of inflation which every vibrant economy has to cope with but also due to a downward push in wages in certain sectors of the labour market. The higher demand for skills and automated intermediate skilled jobs has created a congestion at the lower end of the labour market which has pushed down wages in those low skilled jobs that cannot be automated. In other words, the shift to a service economy has brought about a segmentation in the labour market which has generated outsize rewards to those workers able to take advantages of the new labour market values of work; while, at the other end, one finds low paid jobs where workers have to adjust to a downward wage spiral.

In the heyday of the manufacturing industry, a large number of early school leavers without any paper qualifications used to find work in various sectors of this industry, notably in the garment and textile sector. Most of these jobs were humdrum, repetitive and machine driven, requiring low skill levels. But, through their high unionisation, these workers' pay was above the minimum wage and their conditions of work were highly standardised. Though often defined as school drop-outs, most of these workshop-level workers adopted a very diligent approach to their work ethic. Their wage packet, often supplemented by bonuses or overtime pay, though by no means making them highly affluent, enabled them to advance beyond the basic and achieve a relative satisfactory level of gratification. These jobs are harder to come by now because the service industry, while tending to create highly lucrative jobs at one end, also creates very low paid jobs with poor conditions of work. A sizeable number of the early school leavers and the workers who lost their jobs as a result of factory closures and/or outward relocation of the manufacturing industry have thus had to content themselves with these precarious types of jobs.

The policy of outsourcing of public utilities which has become part of the privatisation policy, targeted at services which include low paid jobs such as cleaners, caretakers, care workers and security service providers, has exacerbated the plight of these workers. Outsourcing/ subcontracting is often associated with precarious jobs. Indeed the defining feature of this post-industrial society is the emergence of a market based system of employment relations characterised by outsourcing which has led to a growth of contingent labour. This type of labour is associated with jobs in which an individual does not have an explicit or implicit contract for long term employment or one in which the minimum hours of work are regulated and set in a systematic way. A report published by the European Foundation for the Improvement of Living and Working Conditions, based on the findings of a survey conducted in the EU member and candidate states, reveals that 27% of Maltese workers have no employment contract (European Foundation, 2012, p. 18). This can serve as an indication of the prevalence of contingent labour in Malta. Within the EU27, only in Cyprus (28%) and Greece (28%) does one find a higher percentage of this type of contingent work (ibid.).

Trade unions can resist this downward wage flexibility, as they have amply shown in the negotiations with firms in the manufacturing sector hit by the recession, through a meaningful dialogue with management and government. Organised workers may need less state intervention to maintain the purchasing power of their pay packet as they are in a better position, at least in the short term, to resist the downward wage pressure that is often found in non-unionised firms Thus unionisation can act as a very effective tool of equity in the labour market.

If the wage setting role of collective bargaining were to become more encompassing, the self administration of the labour market may give rise to a better redistribution of wealth. It has been already noted that the minimum wage in Malta is indexed to inflation rather than economic growth. This means that those workers who have had to content themselves with the minimum wage have not felt the trickle down effect of the increase in the Gross Domestic Product generated by the high value economic activities. Not all the workers on minimum wage may be in poverty, because some of them may be residing in multi-earner households.

What the foregoing implies is that wage share (which measures how economic growth is distributed between capital and labour by an evaluation of the growth of the average wage in relation to the growth of GDP per capita) can be more sensitive to collective bargaining than to minimum wage development. The ideal scenario would therefore be an all unionised workforce with a state overseeing the macro-economic consequences of collective bargaining in order to restrain the potential spiral trend of negotiated wage increases through the implementation of an income policy. In such a scenario, union negotiators acting in a socially responsible way would internalise the external (third party) effects of negotiated wage pressure by trying to mitigate the impact of the increase in the prices of goods produced and services provided by the company resulting from the wage increases negotiated by the union.

This may sound very much like a utopian dream or mere glib talk. There is no country which has managed to achieve this ideal, and probably there will never be one. Still, this ideal can provide us with a road map to see where we are heading.

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