

Will using more technology and local workers really raise productivity?



EYE ON
THE ECONOMY

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Foreign worker issues: Rethinking assumptions

PRODUCTIVITY is expected to be an issue that will feature prominently in this year's Budget statement to be delivered on Feb 23.

In Singapore, foreign worker policies impinge directly on the country's efforts to raise productivity. And here, it would appear that some assumptions behind foreign worker policies in Singapore bear rethinking.

In an earlier piece for *The Straits Times* ("Focus on welfare, not wages, of foreign workers"; Jan 23), I had suggested that foreign worker policies in Singapore be guided by three broad objectives.

The first is to encourage employers to substitute Singaporeans for foreign workers.

The second is to reduce the growth of the non-resident labour force in Singapore and, in so doing, encourage companies to increase the skills and technology content of their operations.

And the third is to improve the welfare of the foreign workers in our midst.

It is generally assumed that the first two objectives work in tandem to raise labour productivity. There is also an unspoken assumption that the last objective of improving the welfare of foreign workers reflects more a humanitarian desire rather than a hard-nosed economic strategy to raise productivity.

In the light of current struggles to raise productivity, these assumptions ought to be questioned. Doing so leads to some uncomfortable conclusions and policy implications.

S'porean workers may not be more productive

CONSIDER first the assumption that encouraging employers to replace their foreign workers with (more expensive) Singaporean ones would raise output per worker. A careful consideration suggests that this outcome is unlikely in the short to medium term.

It is entirely possible that the Singaporeans who are (re-)entering the workforce as a result of the labour crunch that companies now face are the less productive, "marginal" workers who were previously not in the labour force.

While lower and median incomes have increased in recent years, this could well be the result of employers responding to the tighter supply of foreign labour by increasing wages to attract Singaporeans. But unless labour-saving technologies are introduced or organisational processes and practices improved, it is quite unlikely that the mere substitution of Singaporean for foreign workers would increase labour productivity.

This does not mean that the Government should now reverse its course of trying to reduce the growth of the non-resident labour force in Singapore. Even if a tight-



er foreign worker policy does not increase productivity, reducing the economy's dependence on cheap foreign labour is a goal worth pursuing in its own right.

To the extent that current efforts increase labour force participation among older and female Singaporeans and raise their incomes, they support broader objectives of social inclusion and retirement security. Productivity growth is not, and should not be, the only goal of labour policies.

Automation, skills upgrading not enough

SECOND, consider the assumption that reducing the growth of low-skilled foreign labour in Singapore gives companies stronger incentives to introduce labour-saving technologies that require fewer, higher-skilled workers. This, in turn, raises labour productivity.

The Government has used tax policy – the Productivity and In-

novation Credit and higher foreign worker levies – to encourage employers to substitute technology for labour and more skilled workers for less skilled ones. For more than a decade, the state has also poured significant resources into upgrading less skilled workers.

But what if technology and the skills of workers are not the main determinants of company-level productivity? Given that the cost of labour in Singapore has been depressed for many years (because of liberal foreign worker policies) while the cost of capital has been set by the market, it is quite likely that company processes have become reliant on the continuing availability of cheap labour. So one driver of productivity is likely to be business process innovation.

Changing these entrenched practices will take time; restructuring is unlikely to be a frictionless process that can be easily engineered by the Government providing more tax giveaways to com-

panies or enrolling more workers in training programmes.

In a knowledge-based economy, worker motivation is probably another, if not the key, determinant of labour productivity.

Research from the behavioural sciences suggests that worker motivation may not be determined by performance-based incentives alone.

To the extent that workers view employment as a reciprocal, "social" relationship rather than an impersonal economic transaction, low worker identification with employers, low levels of worker empowerment, high pay disparities, and large power distances and steep hierarchies in organisations have been found to reduce worker motivation and performance.

An organisation's capacity is not just the sum of the skills of its members; it is also a function of the social capital they possess.

It is not immediately obvious what tax or expenditure measures

by the Government can alter organisational practices and norms. The Government's recent calls for employers to reduce the emphasis on paper grades is a step in the right direction. But it does not go far enough in reforming current workplace practices and norms.

A more radical approach would be to question the longstanding emphasis on attracting and rewarding top performers handsomely.

For a small country like Singapore, the emphasis should surely be on ensuring that everyone is developed and given the opportunities to contribute, rather than on developing and rewarding a thin layer of talent at the top.

Beyond government rhetoric, economic agencies should also abandon the assumption that there is a single model of the productive company – one using lots of technology and hiring skilled workers. Economic development is similar to biological evolution in many respects. Just as evolu-

tion is the result of two principles – variety and selection – so too in business: Development is the result of a high degree of variation and differentiation among companies and competition in the marketplace to weed out the weak.

The implication of this is that industrial policy in Singapore should not only aim to attract successful multinationals, but should also be aimed at ensuring a wide variety of local companies. At the same time, the companies that the state supports should be judged by the market, not bureaucrats.

Equalising standards for foreign workers

FINALLY, consider the assumption that efforts to raise the welfare of foreign workers here, while necessary, are pursued more for ethical rather than efficiency goals.

Like the above two assumptions, this mental model should be critically examined.

Take, for instance, the most obvious disparity: The fact that resident workers enjoy unfettered mobility between employers, while foreign workers are tied to specific employers. Increasing the mobility of foreign workers addresses, partially at least, the extremely low bargaining power that they have. This should, in turn, force employers to improve their workplace practices, health and safety standards, and possibly other non-wage conditions of employment to attract better foreign workers.

At the same time, improving the non-wage conditions of foreign workers – for example, housing conditions, access to health care and social protection – makes for a more productive foreign workforce in the same way that the provision of public housing, good health care and social security enhanced the productive capacity of Singaporeans. Equalising standards for foreign workers may well be an efficient, growth-enhancing strategy.

So why isn't the Government more vigorous in raising these standards? I suspect that the reason it is not able to do so is more organisational in nature. Meeting the needs of foreign workers is not an integral part of the mission of public agencies that deliver these public goods. So housing for foreign workers is not part of the mission of the Housing Board; providing them with good health care is not part of the Ministry of Health's mission, and so on.

Until this organisational bias is addressed, foreign workers here will continue to be a big part of the low-skills, low-wage and low-productivity equilibrium that characterises a significant segment of the Singapore economy.

Changing this equilibrium is critical in transforming Singapore into a productivity-driven economy. A good start to this change process is to question and, if necessary, jettison some of the mental models behind current labour policies.

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