

# Raising workers' dorm standards: who pays?

Many commentators agree that housing standards for migrant workers should be improved. But who pays for such improvements? Economic theory predicts that most times, workers bear the brunt of such changes.

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The Covid-19 pandemic has placed under close scrutiny the living arrangements of Singapore's migrant workers, who form an indispensable core in the construction, process, estate management and marine sectors.

Many people have called for a review of the housing standards for worker dormitories, such as doubling the minimum living space for each worker, and increasing other amenities such as bathrooms, kitchens and leisure spaces.

The two questions that divide commentators and observers are who pays and who should pay for mandated improvements in foreign workers' living conditions.

## Who pays

A crucial insight from economics is that the burden of taxes – or mandated housing benefits in this context – even if nominally paid for by employers, is actually shared between employers and workers.

If employers are required by law to foot the bill for the better housing, market forces are such that they will try to shift part of the higher costs to workers by

lowering their wages. Who actually bears the cost burden – either in lower wages or out-of-pocket expenses – depends largely on the relative bargaining power of employers versus workers. That is, do employers' demand for labour or workers' supply of labour respond more to a change in wages? The degree of responsiveness to wage changes is an indication of each party's ability to absorb the cost increase.

The textbook implication is that the group with lower bargaining power is less able to respond by changing employment when wages change, and will end up absorbing a larger share of the cost increase.

This rule dictating the tax burden on different economic agents has been shown empirically in a variety of settings, and the general consensus among economists is that payroll taxes – whether nominally paid for by employers or workers – are usually passed almost entirely to workers in the form of lower wages.

This arises because employers' demand for workers tends to be more responsive to changes in wages than workers' supply of labour. For example, when payroll taxes rise for one group of workers, employers can switch to hiring another group.

When workers' share of wages is cut due to a tax or cost increase, however, they find it harder to secure alternative employment



Amid the Covid-19 outbreak, many people have called for a review of the housing standards for worker dormitories, like doubling the minimum living space for each worker. The two questions that divide commentators and observers are who pays and who should pay for mandated improvements in foreign workers' living conditions. ST PHOTO: MARK CHEONG

and are more likely to just put up with the increase.

The fact that Singapore is surrounded by countries with large populations of workers willing to supply labour at quite low wages implies that these migrant workers tend to have low bargaining power.

Even though other countries also hire migrant workers, there are simply many more of these workers than there are overseas employers looking to hire. Also, compared to other potential destinations in the region, Singapore remains a desirable place to work for many workers, in part due to its strong currency which means higher wages when converted back to their home currencies.

Therefore, if employers are required to provide better housing conditions, it is quite likely that migrant workers will end up having to pay for the better amenities in the form of lower pay. Employers may pay for some of the benefits, too, but because they have more alternative options like hiring

foreign workers from new source countries or implementing productivity improving processes, market forces are such that the greater burden of the cost increase likely falls on workers.

Some commentators have argued that businesses can and should absorb the cost increases by reducing profits or passing the costs on to consumers. But companies are profit-seeking and consumers are price-sensitive; they do not behave according to commentators' moral dictates of how they should act.

Here again, the rule that the market participants with the least bargaining power bear the brunt of the increased costs applies – and it is likely that the foreign workers have less bargaining power than firms or their customers. Short of further intervening in the market through price regulation, there is simply no way of compelling employers to absorb the full extent of higher housing costs.

Some commentators have argued

that in the case of construction, land prices may fail to compensate for any increases in construction costs due to better housing for foreign workers. Economic models predict that this has to happen eventually – landowners have low bargaining power in the long term because their alternative is to let the land lie fallow.

But in the short term, landowners can still hold out for a better price while using the land for its current activity, and they are unlikely to bear the full cost of improved housing. In any case, there is little evidence on how long such adjustments take – the long run could span years or even decades.

This channel, however, will probably not have much impact on Housing Board build-to-order (BTO) flats since these are priced according to affordability. Any decline in land prices (when it happens) simply reduces the amount the state has to subsidise for BTO flats.

In the end, the bulk of the

cost burden will likely be on workers' wages.

## Who should pay

Of course, many would argue against making foreign workers pay for improved housing conditions.

One solution is to set some sort of a minimum wage for these workers that would in effect cover the higher accommodation costs, in this way forcing employers and consumers to bear the increased costs.

Studies in the United States and Britain have found that minimum wage hikes tend to increase the prices of goods. In cases where the environment is competitive, such as restaurants and grocery stores, some studies have found full pass-through, with prices rising as much as labour costs. While we should be careful in extrapolating these findings to the local context, the basic message is that we should expect some degree of price pass-through to consumers.

An alternative policy proposal that some have put forward is to use the tax revenue collected from foreign worker levies to subsidise the costs of providing better housing conditions. There is nothing wrong, in principle, with this suggestion.

If society places a value on this, our view is that this translates into a question of whether to allocate tax dollars to this particular social aim versus other competing social uses.

While the recent debate suggests that many people want foreign workers to have better living conditions, it remains unclear how much society is willing to bear the cost of this provision.

A survey conducted by the International Labour Organisation in 2019 on the attitudes of Singaporeans towards migrant workers found the majority to be sympathetic on several non-monetary issues like work conditions, yet believing that foreign workers are not entitled to the same wages as locals.

These findings raise questions about the extent to which Singaporeans are willing to bear any increased costs associated with providing better housing standards for migrant workers.

Ultimately, the question of who should pay will depend on society's preferences for redistribution, and its willingness to accept the associated costs of providing the social good. Economics provides an objective approach to understanding who pays, but finding a long-term solution to the issue of foreign worker housing requires Singaporeans to consider what we value as a society.

Do we want to be a society that takes care of our migrant workers and ensure they have the basic rights to comfortable and safe dwellings, and are we willing to bear the cost of doing so, simply because it is the right thing to do?

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