

Minimum Wage: Understanding the issues

*This paper summarises key findings by Social & Economic Research Initiative, on March 2022
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The Covid-19 pandemic has led to an economic slowdown, resulting in worldwide job losses and pay cuts especially for low-wage workers. While inflation and living costs have soared in Malaysia, the average monthly wage has fallen. All over the world, there have been many calls to increase minimum wages. To help Malaysian workers cope with the challenges of the pandemic, the government is expected to implement a minimum wage of around RM 1,500 a month by the end of 2022.

Analysis

- The economic slowdown has resulted in massive job losses and pay cuts.
 - These have disproportionately affected lower-income workers.
- Living costs have risen due to supply chain disruptions increasing the prices of goods and services.
- The current minimum wage is much lower than the living wage (the level of income needed to afford a minimum acceptable living standard) in Kuala Lumpur.
- Low wages reduce the spending power of Malaysians, impeding economic growth.
- There have been calls to increase the minimum wage sooner instead of at the end of 2022, due to rising living costs. These can only be adjusted based on location.
- However, there has been resistance to increasing the minimum wage from businesses, who are concerned at the potential increase in business cost.
- The current minimum wage is still below the living wage in Kuala Lumpur. Living wage is defined by Bank Negara Malaysia (BNM) as the level of income needed for a household to afford a minimum acceptable standard of living.



The landscape of minimum wages in Malaysia

What is minimum wage?

A minimum wage is the least possible amount of money that an employer is legally obliged to pay their employee for work performed during a given period.

What is the current minimum wage in Malaysia?

The current minimum wage is RM1,200 a month in major urban areas and RM1,100 in semi-urban/rural areas.

Who qualifies for the minimum wage?

- The minimum wage applies to employees covered in the Employment Act 1955, Sabah Labour Ordinance and Sarawak Labour Ordinance.
- However, gig workers, the self-employed, and independent contractors are not covered, as they are not recognised as employees.

Why is the minimum wage being revised?

- Average monthly wages have fallen for many Malaysians, who are struggling to cope with the pandemic.
 - As of 2021, the average monthly wages received by Malaysian employees have fallen 9% from 2020 to 2021.
 - A minimum wage would ensure that they have a basic floor to stand on.
- Living costs have increased, especially food and property prices relative to wages.
- Inflation rates have increased, reducing spending power.
- Despite rising living costs, the minimum wage has not been increased for two years.

How is the minimum wage determined?

- The National Wage Consultative Council consults with the public, collects and analyses data, and conducts and disseminates research on wages and socioeconomic indicators.
- The National Wage Consultative Council advises and makes recommendations to the government to make minimum wage orders according to sectors, types of employment and regional areas.
- The minimum wage order provides the minimum wages, and must be reviewed every two years.

Who would benefit from an increased minimum wage?

When the minimum wage policy was first introduced, Bank Negara Malaysia (BNM) estimated that it would benefit one-third of the workforce. Lower-income workers stand to benefit the most, especially foreign workers who often earn less than Malaysians.

Limitations of the new increased minimum wage

- Gig workers are not covered by minimum wage requirements, which are limited to employees.
 - The gig economy has expanded to a quarter of the labour force and continues to grow.
 - Gig workers are not formally recognised as employees under the Labour Act 1955, which protects the rights of employees.
 - Many gig workers often lack the social protection given to regular employees.

- The current minimum wage is still below the living wage in Kuala Lumpur.
 - BNM defines the living wage as the level of income needed for a household to afford a minimum acceptable standard of living.
 - More than 25% of households in Kuala Lumpur earn below the living wage.
- Many Malaysian employees won't benefit from the new minimum wage as most already earn above the relatively low minimum wage.
- Trust deficit among employers:
 - According to the Malaysian Employers' Federation (MEF), increasing the minimum wage will increase the cost of business, impeding economic recovery.
 - Among employers, areas of concern are:
 - The increased costs will result in price increases, decreasing consumer spending.
 - There is concern that increased business costs may hinder job creation as businesses cannot afford to employ more people.
 - Many businesses with low productivity levels are unable to afford higher wages and may be forced to shut down
 - However, research by Nobel Prize winner in Economics, David Card, has shown that increasing the minimum wage does not reduce employment levels.

Recommendations

Empower state and local governments to determine respective local minimum wages

- Although living costs differ depending on location, there is a national minimum wage.

To ensure that wages are proportionate to living costs, local minimum wages would be more suitable.

Make minimum wages inclusive to more people beyond full-time employees

- Classify gig workers as employees so that they qualify for the minimum wage.

In a landmark case, the UK Supreme Court ruled that Uber drivers must be classified as employees and are entitled to workers' rights such as the minimum wage.

Invest in promoting business productivity levels to align with higher wages

- Incentivise investments in automation and other technologies to boost business productivity
 - Offer tax incentives to business which adopt automation
- Promote sectoral training funds (STFs) to upskill the workforce and promote productivity, especially among SMEs
 - Sectoral training can equip workers with up-to-date industry-wide skills, enable knowledge sharing and increase business productivity.
 - In Belgium, Denmark, and the Netherlands, employers and workers establish sectoral training funds (STFs) which cover the cost of training workers in each sector.

- STFs establish training initiatives based on the needs of employers and the labour market.
- The government can mediate collective labour agreements between employers and employees to determine strategic goals and skillsets required.
- Establish a temporary guaranteed minimum income
 - A guaranteed minimum income is a minimum amount of money guaranteed to all citizens
 - A guaranteed minimum income can include wages, welfare and other support.
 - To give businesses time to transition to a higher minimum wage, the government can give citizens earning below the minimum wage additional assistance in order to provide them with a minimum income.

