

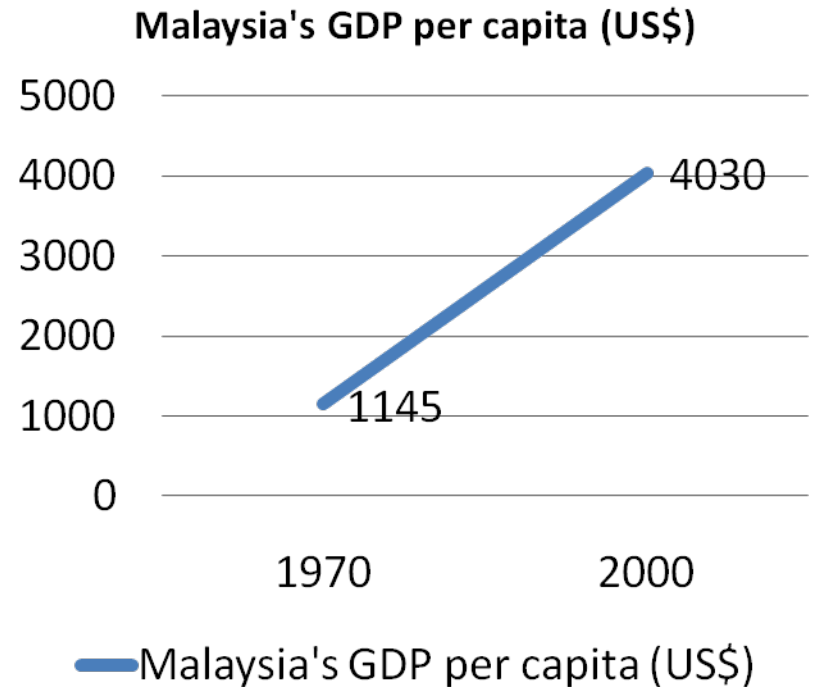
# A Fairer Wage Policy for Malaysia's Working Poor

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# Introduction

Lower labour cost has allowed Malaysia to remain competitive globally with a strong GDP growth rate of roughly 7% every year from 1970 to 2000.



Malaysia's 2020 goal of becoming a high income developed nation means that we can no longer rely on cheap labour to give us a competitive edge.

# Introduction

Decades of subsidies have allowed employers to continue to suppress wages resulting in the constant decline in purchasing power of workers' wages.

About 40% of Malaysian households still earn less than RM1500 a month.



Therefore, it is necessary for cheap labour to end!

# Introduction

The New Economic Model recognizes that Malaysia needs to **invest in new technology, training and skills and innovation** in order to provide a high income economy and a higher standard of living.

A flexible and fairer minimum wage policy is complementary to this and is a more direct way to force Malaysian firms to modernize and invest as the NEM advises.

# MTUC's Proposal

- Minimum wage of RM900 plus RM300 as a cost of living allowance
- High minimum wage level (60% of the average wage)
- Likely to result in high rates of non-compliance and job losses
- No flexibility for employers to deal with the varying market conditions specific to each sector

# Collective Bargaining

- We call for tripartite collective bargaining in the form of a national Minimum Wage Council which will manage the bargaining agreements between employer and employee representatives from each low paying sector.
- Agreements, once approved by the Minimum Wage Council, will be extended 'erga omnes' to all workers in that sector.
- State Government for each state will be able to recommend a higher and fairer minimum wage than the basic rate set which will help to take in to account the varying costs of living in each state.
- The Minimum Wage Council will be responsible for making sure that wage adjustments are in line with prescribed guidelines and Malaysia's long term economic and social development plan.
- The aim of the minimum wage should be to allow low income workers to maintain a decent standard of living without unduly limiting the flexibility of employers to allow Malaysia to remain competitive at the global level.

# Collective Bargaining

- Collective bargaining agreements are the best method for setting minimum wages as there has been significant evidence, provided by the International Labour Organization (ILO) which is a tripartite multilateral body, which finds it to be accurate at setting wages close to a worker's value.
- Closely relate worker's wages to their productivity and to improve the transmission between economic growth and the growth of wages. (Workers' wages will be able to keep up with price increases and thus maintain their purchasing power.)
- Centralized or coordinated bargaining is linked with lower overall wage disparity.
- Important to cover other aspects of working conditions, such as hours of work and quality of employment.
- As collective bargaining reflects the needs of employers as well as employees, it thus allows firms to continue to be flexible in different market conditions and a changing global scene.

# Unemployment Effect

- Minimum wage will increase unemployment, as employers will reduce their demand for labour as labour costs have increased.
- ILO & Economic Policy Institute (EPI): Little or no significant unemployment effect from the implementation of an appropriate level of minimum wage.
- Tripartite collective bargaining will ensure that the minimum wage is set at a suitable level so employers will not find the increase in cost too significant and their demand for labour will not fall.

# Implications: Raises Standard of Living

- Helps to improve the standard of living of the poorest working Malaysians who need it the most.
- This fits with the NEM and the goal of a high income country with a high standard of living and quality of life.



# Implications:

## Encourages Investment in Technology and Machinery

- By increasing the cost of labour, capital becomes relatively less expensive and firms will begin to seek opportunities to invest in labour saving capital.



- Vital step towards modernization and in the transformation to a developed country.
- Result in the training of workers to use such technology and therefore the acquiring of higher level skills.

# Implications:

## Encourages Innovation and R&D

- Employers will be encouraged to innovate and seek new ways to do existing methods.
- With new methods come the requirement of new skills and a higher skilled workforce.
- Innovation also has the advantage that it can be passed between firms leading to higher overall efficiency and higher economic growth.



# Implications:

## Promotes Investment in Training and Skills Development

- Employers will seek to get more value from their employees.
- Invest in training to ensure the skills of the workers develop and thus are more productive.
- Acquiring of higher level skills is an essential process in becoming a high income country and a key part of the NEM.
- Enforcing a minimum wage level is just another way of forcing firms to begin increasing their productivity and moving away from the reliance on cheap labour and perhaps an easier way than removing subsidies and price controls.



# Implications:

## Improves Productivity

- With investment in technology, training and innovation, the productivity of workers will increase.
- Employers pay more attention to increasing efficiency, reducing waste of resources and increasing work intensification.
- Increased motivation for employees to work harder as higher wages make them feel more valued or an increased work ethic as employers demand more return from the higher cost of employing workers.

# Implications:

## Aligns Private Sector Wages with Public Sector Wages

- Public sector workers are relatively well paid and have recently had a 35% increase in salary and a 100% increase in the cost of living allowance.
- With higher wages many workers have been attracted to the public sector at a cost to the private sector which is losing out in both quality and quantity of workers.
- It is vital to encourage workers back in to the private sector and a minimum wage is essential to do so.

# Implications: Stimulates Economic Growth

- An increase in wages will increase people's incomes. This will result in increased spending, generating demand for goods and services which will in turn increase demand for labour.
- Higher incomes also result in higher saving which contributes to increased investment, as resources saved by individuals and deposited in banks can be lent to businesses for investment in capital.
- Both higher spending and saving will lead to higher economic growth.



# Implications:

## Promotes Foreign Investment

- A minimum wage that results in the increased training and skills of workers is likely to attract foreign investment in Malaysia as workers here will still be relatively cheaper than in the west yet...  
higher skilled after the investments employers have made in training and technology following the implementation of the minimum wage policy.



# Implications:

## Aligns Malaysia with International Standards

- Malaysia is behind the international standard of having legislation or binding collective bargaining regarding minimum wages which 90% of countries currently have.
- Although Malaysia has a minimum wage in a few sectors, it is a recognized fact that these minimum wages are insufficient to provide a decent standard of living and are rarely updated to be a significant policy.
- Existing collective bargaining agreements in sectors with trade unions also do not cover the majority of the low paid working population. Therefore a more comprehensive minimum wage policy is needed.

# Comment on Impact on Foreign Workers

- A higher wage will attract more Malaysians to work, it may also attract more foreign workers if they are included in the minimum wage.
- Exclusion of foreign workers could lead to an increased demand for foreign labour by employers as they would have a lower cost than Malaysian workers.

If foreign workers were excluded from the minimum wage policy, it would need to be accompanied by some form of quota regulation.

- To encourage Malaysians to do this work, better health and safety regulations need to put in place.

Making foreign labour more costly by making visas and work permits more expensive or compulsory will also help to lower demand for foreign labour in the long run.

# Conclusion

A **minimum wage is necessary** for Malaysia to become the high income economy it aspires to.

It **encourages firms to stop relying on cheap labour and instead focus on innovation, technology and skill development**, an essential process in modernization and in becoming a developed nation.

# Conclusion

Collective bargaining managed by a central body offers the best method of setting a minimum wage by reducing overall wage inequality and linking wages to productivity and economic growth.

State Governments can recommend higher and fairer minimum wages for their respective states reflecting the higher cost of living in different parts of Malaysia.

# Conclusion (cont.)

In order for Malaysia to reach developed country status, along with a minimum wage policy, it is also essential that **Government subsidies are reduced or removed and more flexibility is given to employers in hiring and firing.**

Furthermore, while a minimum wage does assist the poor, it only benefits the working poor, therefore a **comprehensive safety net to protect the poor in general and in particular the out of work poor is essential.**