

“Discuss critically if minimum wage in Malaysia should be set according to the 'living wage' concept?”

In 2016, Bank Negara Malaysia conducted a study and concluded that the minimum wage in Malaysia should be set according to the 'living wage' concept.¹ Investopedia defined 'minimum wage' as a legal enactment of the lowest possible wage paid for labour.² According to Parker, a 'living wage' is the basic income that supports them for more than mere survival needs and is financially prepared for unpredictable events.³ This means that the minimum wage in Malaysia should be increased to accommodate the wants of society to allow personal development and social participation, not just merely surviving above the poverty line. The main motivation behind the policy proposed by Bank Negara Malaysia is to reduce income inequality among the people.⁴ In reality, 33.8% of workers in the private sector in 2009 are earning only RM 700 every month (Seman, 2014).⁵ This is well below the RM 800 level of the country's Poverty Line Income (PLI). Findings from the World Bank also showed that the salary increment in Malaysia is not proportioned to the rising living costs and productivity. For the past decade, the increment in wages was 2.6% compared to a rise in productivity level of 6.7%.⁶ Furthermore, the provisional living wage estimated for a single adult living in Kuala Lumpur in 2016 is RM 2700, a childless couple would survive beyond basic needs at RM 4500, while RM 6500 is estimated for a couple with two children.⁷ However, whether or not it is appropriate for the Malaysian government to introduce a minimum wage that is set according to the living wage concept remains a much debatable topic today.

Yes, setting the minimum wage according to the living wage requirements will benefit low-income workers in Malaysia. However, this does not guarantee long-term advantages to the country. This is because once workers are given minimum wages that allows them to actively participate in social activities, they may be demotivated to improve their skills or perform their duties with higher productivity.⁸ As pointed out, Malaysia should not only set a minimum wage according to the living wage concept, but also adopt the Progressive Wage

¹ News Straits Times (2018), 'Bank Negara introduces 'living wage' concept'.

² Investopedia (2018), 'Minimum Wage'.

³ Parker, J., et al. (2016), 'The living wage: concepts, contexts and future concerns'.

⁴ Chong, E., Kong, F. A. (2018), 'The Living Wage: Beyond Making Ends Meet'.

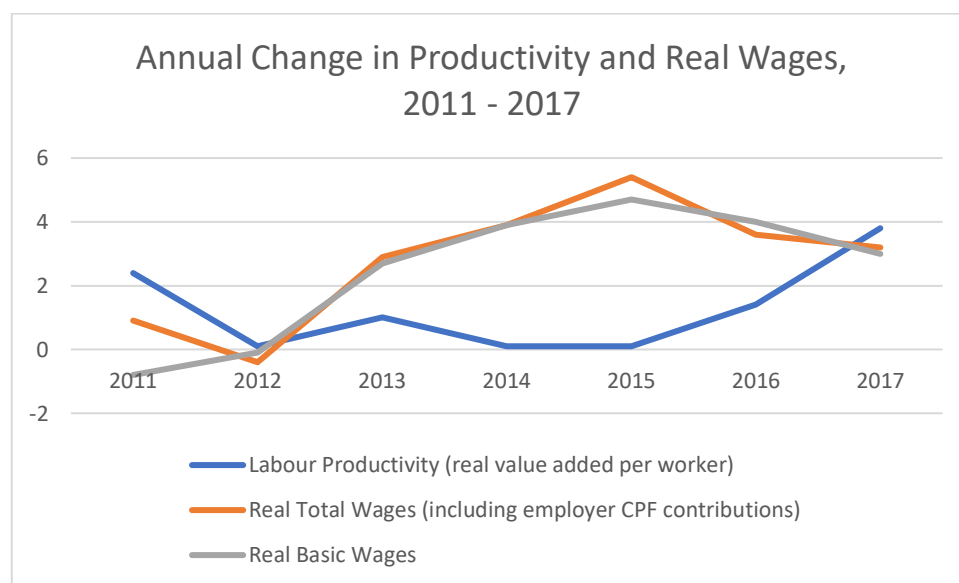
⁵ Seman, Z. R., (2014), 'Malaysia implements minimum wages'.

⁶ Mahyut, S. M. (2013), 'Minimum Wage in Malaysia: The Challenge on The Implementation Of The Law'.

⁷ The Star Online (2018), 'Bank Negara clears air over living wage'.

⁸ iMoney (2017), 'Is It Time for Singapore to Implement a Minimum Wage?'.

Model (PWM) from Singapore. The PWM provides a clear guide for workers in the cleaning, landscape and security workforce to improve their skills and productivity in order to get a pay-rise.⁹ The model is compulsory for all Singapore citizens and permanent residents residing in Singapore and encouraged to be practised on foreign workers as well. As shown in Graph 1, labour productivity rose from 2.4% in 2011 to 3.8% in 2017 after the PWM was introduced in June 2012.¹⁰ There was also a significant uplift in the real minimum wages from -0.1% in 2012 to 4.7% in 2014. Workers experienced a contraction in the real minimum wages in the following 2 years only because it was deflated by the Consumer Price Index (CPI). Hence, it is wise for Malaysia to implement a minimum wage according to the living wage concept, but it is even wiser to form a Progressive Wage Model to ensure that workers are constantly striving to outdo themselves.



Graph 1

Another reason for Malaysia to impose the living wage concept as the minimum wage is because it benefits businesses in terms of the relationship between employees and employers.¹¹ Employers pay labour according to the cost of living, not just the wage price floor set by the government so that their staffs can lead a relatively comfortable standard of living. In countries like the United Kingdom where the living wage policy is not mandatory, there are

⁹ Ministry of Manpower, Singapore (2017), 'What is the Progressive Wage Model'.

¹⁰ Ministry of Manpower, Singapore (2018), 'Singapore Yearbook of Manpower Statistics 2018'.

¹¹ Living Wage Foundation (2017), 'The Real Living Wage - Good for Business - Good for Society'.

already around 4400 employers implementing the real living wage policy and accredited under the Living Wage Foundation, both in government and private firms.¹¹ This causes a pleasant work relation and encourages employee loyalty, plus reducing workforce turnover cost and increasing productivity.¹² In fact, 58% of employers accredited by the Living Wage Foundation reported an improved workforce relation after voluntarily implementing the living wage concept.¹¹ Do bear in mind that in the United Kingdom, the National Living Wage introduced back in 2016 may be confused by many as it is not really calculated according to the living costs of individuals and are only applicable for those who are 25 years old and above.¹³ However, with more and more employers taking up the initiative to pay their workers according to the real living wage, they are enjoying the many benefits of it. Hence, by implementing the living wage concept, the advantages of improved work relations can be foreseen.

Besides that, Malaysia should administer the living wage framework for minimum wage because it contributes to better health among workers.¹⁴ Although the living wage is not a legal statute in Canada, however it is actively practised by employers in both public and private sectors. It is undeniable that an individual's income affects his or her maintenance of health. Statistics by the Living Wage Canada showed that it costed employers from British Columbia, Canada an annual amount of \$600 million for the healthcare of low-income workers with young children before the introduction of the living wage.¹⁴ This is because when one is unable to sufficiently support his or her family financially, low-income workers are more likely to experience chronic stress. They also lack the financial resources and information to access treatments for diseases.¹⁵ This puts them in a disadvantaged position where they may make unreasonable decisions such as continue neglecting their health issues to prioritise their young children. Consequently, this reduces the productivity of businesses and increases the cost of production for employers. Therefore, with a living wage concept introduced in Malaysia, low-income workers will benefit from good health and employers can cut medical costs.

However, there are also downsides to the introduction of a living wage policy. According to Burton, the living wage policy is unsustainable.¹⁶ This is because only big corporations and firms are able to afford to pay labour at the living wage level. Small and

¹² Bent, C. L. (2014), 'Why is a strong Employee/Employer Relationship essential to any business and how can this be achieved?'

¹³ O'Flynn, N., Burnip, L. (2018), 'Wage War What is the National Living Wage 2018, when did it increase and how much is the UK minimum wage for 16, 18 and 25-year-olds?'

¹⁴ Living Wage for Families (2013), 'Living Wages Are Good for Your Health'.

¹⁵ Health Poverty Action (2018), 'Key Facts: Poverty and Poor Health'.

¹⁶ Burton, S. (2017), 'Why are so many people against a living wage in the US?'

medium enterprises (SME) are unable to sustain the high costs of labour if the living wage concept is executed. This will cause many small business owners to close their stores and indirectly diminishing the entrepreneurial spirit in our country, which contradicts with the entrepreneurial development policies the Malaysian government has set.¹⁷ To support this claim, a study was done by the University of Washington to investigate the impact of a wage hike in the minimum wage in Seattle, the United State of America. The Minimum Wage Ordinance was passed by the Seattle Parliament in June 2014, where the minimum wage was increased gradually to \$15 per working hour, effective April 2015.¹⁸ The Seattle Minimum Wage Study Team reported that the share of single-location establishments opened in the baseline quarter (Q2, 2014) which closed by Q4, 2015 increased from 0% to a staggering 17.78%.¹⁹ Therefore, this proves that the implementation of the living wage concept may benefit low-income workers and their families but threatens small business owners and budding entrepreneurs.

Other than that, a living wage framework equals to a higher minimum wage. Consequently, a higher minimum wage translates to higher unemployment rates.²⁰ To illustrate, Washington D.C. has the highest minimum wage in the United States of America, \$13.25 per hour.²¹ The state also sits at the 43rd rank out of 51 states in the country when it comes to unemployment rates.²² This phenomenon can be explained using the demand and supply curve in Graph 2. Prior to the introduction of the living wage concept, the price for labour in the market according to the minimum wage is at P_E , while the quantity demanded and quantity supplied for labour is balanced at the equilibrium level, Q_E . After the living wage concept is implemented, the price for labour now increases to P_S . The quantity supplied increases to Q_S because workers are willing to work at a higher pay. On the contrary, employers are discouraged to employ more workers at this price as their cost of production has increased. With the quantity demanded by employers decreasing to Q_D , a surplus of labour force occurs in the market. Hence, the unemployment rate rises. Thus, if the living wage policy is executed, it will contribute to higher unemployment rates in Malaysia.

¹⁷ Nor, N. A. A. M. (2015), 'Entrepreneurship Development Policy in Malaysia'.

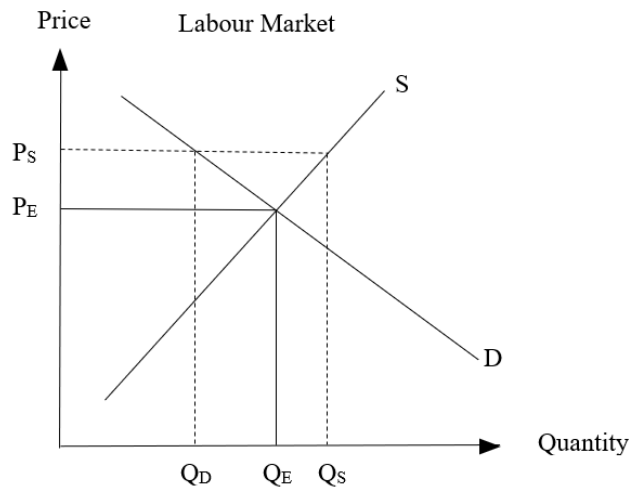
¹⁸ Kelley, P. (2016), 'Minimum Wage Study: Effects of Seattle wage hike modest, may be overshadowed by strong economy'.

¹⁹ The Seattle Minimum Wage Study Team (2016), 'Report on the Impact of Seattle's Minimum Wage Ordinance on Wages, Workers, Jobs, and Establishments Through 2015'.

²⁰ Garthwaite, C. (2003), 'High Minimum Wage Equals High Unemployment'.

²¹ National Conference of State Legislature (2018), 'State Minimum Wages: 2018 Minimum Wage by State'.

²² Bureau of Labor Statistics (2018), 'Local Area Unemployment Statistics'.



Graph 2

In conclusion, the implementation of a minimum wage that is set according to the living wage concept no doubt comes with its pros and cons. As a developing country, Malaysia should strive to achieve a higher productivity rate, improve the people’s standard of living and reduce the wealth disparity gap. Despite the foreseen challenges that come with it, the government can execute intervention programmes and plans to minimise the disadvantages. For instance, an introduction of subsidies for SMEs for the first 5 years into the living wage policy. This will aid small business owners to adapt to the new policy without compromising the closure of small entrepreneurial businesses. Tax evasion should also be focused so that the government can afford to pay low-income workers based on the living wage framework.²³ Ergo, I strongly believe that the minimum wage in Malaysia should be set according to the 'living wage' concept, under the condition that the negative impacts are minimised as much as possible, as it will benefit our society as a whole.

(1848 word)

²³ MacLennan, C. (2017), ‘Paying A Living Wage in Aotearoa New Zealand in 2017 – How the Government Can Do It’.

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