

Topic:

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

To quote a recent report by Star Online, "...Bank Negara is recommending that employers provide a living wage that better reflects the cost of living." (The Star Online, 29 March 2018). This article allows readers the understanding of the solemnity in setting minimum wage according to the 'living wage concept especially in our country, Malaysia. According to the article, it is stated that up to 27% of households were earning below the living wage. Before the elaboration on the conformity of those two concepts, a sound definition of what minimum wage is would be a good way to start this essay.

What is minimum wage? Theoretically, a minimum wage is refers to a legal minimum wage that an employer has to compensate their workers (Bamford & Grant, 2016). It is the lowest wage at which workers are entitled in returns for their labour services to firm. From a public point of view, minimum wage may be an efficient move against poverty and income erosion of the poorest household. With minimum wage, income inequality and poverty rate can be reduced. Current minimum wage in Malaysia is RM1,000 a month in the Peninsular and RM920 a month in Sabah, Sarawak and the Federal Territory of Labuan, as aligned with the requirements of Act 732, which was reviewed on July 1, 2016 (New Straits Time, 1 November 2017). With this implementation, household that used to earn below minimum wage may have less financial constraints. It is noted that higher income earners or those earned above minimum wage are not benefitting at all from this implementation.




On the other hand, living wage is an income level that households require to be able to afford a minimum acceptable living standard, which consists of; the aptness to participate in society, the chance for personal and family development, and freedom from severe financial stress (New Straits Times, 28 March 2018). In simpler words it can be referred as fair wage or decent wage. Living wage is not like minimum wage, and it is pay according to the living costs of one individual so that they can maintain their minimum standard of living. Living wage is way costly to firms and may trigger dissatisfaction among employers, which is why a minimum wage based on living wage had been proposed but yet to be confirmed if it should be set that way.

From the two definitions, it is observed that both are significantly divergent to each other, but as physicians have said, every diverging molecule will have a point of convergence at the beginning. In this case, will the setting of minimum wage according to the living wage be the starting point?

If minimum wage were to be set by the living wage of the country, one of the possible outcomes would be an undecided amount in which the businesses are supposed to pay the workers. This is due to the fact that every single person will have a different rate of living wage. Malaysia is famous for being a country of different races and religions, and hence different levels of needs for the people. Some of them may have higher levels of living wage due to an extended amount of people dependent on them. For example, the living wage of a man with 2 children will surpass the living wage of a man who lives alone, *ceteris paribus*.

Provisional living wage estimates in Kuala Lumpur for 2016

In Kuala Lumpur, the provisional estimates of a living wage range between RM2,700 and RM6,500 per month

	 Single adult	 Couple without child	 Couple with two children
Estimates of a living wage in Kuala Lumpur (RM/month)	2,700	4,500	6,500
Key assumptions on the representative basket of goods and services	<ul style="list-style-type: none"> • Rents a room • Eats out more often, cooks occasionally • Drives less, uses more public transport 	<ul style="list-style-type: none"> • Rents a one-bedroom apartment • Eats out half of the time • Owns two vehicles (a motorcycle and a car) 	<ul style="list-style-type: none"> • Rents a three-bedroom apartment • Cooks most of the time, eats out during weekends • Owns two vehicles • Pays for private extra classes and childcare

Note: The estimates above are provisional and subject to further revision as the underlying assumptions and cost estimates are refined. Single-adult households include adults who live alone and those who live together with non-related members of a household.

Source: Bank Negara Malaysia estimates using data from Household Expenditure Surveys 2014 and 2016, Department of Statistics, Malaysia, Ministry of Domestic Trade, Co-operatives and Consumerism, and the National Property Information Centre

(Source: *The Edge Markets*, 29 March 2018)

As the above table manifests, it is perceptible that living wage is different as each person in the equation has different needs and wants which automatically making living wage in Malaysia varied across the states.

With living wage being unfixed, it may result in it being above or below equilibrium. When the minimum wage is above equilibrium, it may result in firms passing wage rises onto the consumers in the form of higher prices. This will cause

supply curve to shift to the left and leads to higher price charged on goods. In association with this, the increase in minimum would also lead to inflation due to two reasons, which is demand pull inflation originating from an increase in spending by workers due to higher purchasing power which allows demand-pull inflation to occur. Besides that, applying living wage as a base for minimum wage will most probably result in an increase in labour costs thus leading to cost push inflation as well.

Looking at the positive outcomes from setting minimum wage based on living wage concept, it may encourage more labour supply in the long run, as it is a form of motivation in the eyes of the people to go into the workforce, grounded on Vroom's expectancy theory. This also aligned with general incentive theory where people are motivated to work longer and perform at their best level if they are fairly compensated. If the workforce is productive enough, it may contribute to higher economic growth which refer to a situation where Malaysia's real gross domestic product increase. This may benefit the society as the economy is growing and getting prosperous.

Whether implementation of minimum wage according to living wage concept will be ever executed or not, it depends on government's willingness to take a shot. Government may lose a significant votes, particularly those who are doing business as they are less likely to benefit from such policy. However, it depends on government whether to partially subsidise this policy or reducing corporate tax to ease employer's financial burden, to ensure smooth execution of minimum wage based on living wage concept. On the other hand, using living wage as a minimum wage may also result in the inefficiency of the workforce and lack of proper resource allocation. The money used by the country in issuing the living wage as a form of minimum wage could be used in other welfare policy such as provision of public goods (e.g. public parks, better national defence, etc) and merit goods (e.g. hospitals, public universities, etc). In an extreme case, if minimum wage were to be based on living wage, the increase in wage expenses may result in businesses to decrease the size of their workforce and this will results in higher unemployment rate.

As they say, every cloud has a silver lining. Even when there may be many drawbacks in the setting of living wage as minimum wage, within them an advantage may also surface. If minimum wage were to set according to living wage, the people of the country are able to afford their basic needs such as food, water and shelter.

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Nowadays, less fortunate people who have a harder time in receiving income but are burdened with a lot of financial issues may forgo some basic needs of themselves as opportunity cost in order to have enough emolument to buy other, more important needs, like food supply. One major example is the need of enough rest. The current working population tends to lose sleep because they want to do their up-most best in their careers because it is that hard to earn money with the regular 9 to 5 schedules. In recent studies, more than 40 percent of professionals delineated that they constantly lose sleep because they can't get their job off their minds, according to a survey of 2,800 people by global staffing firm Accountemps. (CNBC, 8 March 2018). This shows how much living wage is important to be used as a regulator for the minimum amount of money each person can have in order to survive.

In my humble conclusion, I believe that minimum wage should not be based upon living wage especially now. As Malaysia is currently rule by new government, certain people have low confidence level on how stable is Malaysia's economy especially with the shocking revelation of international debt staggering at RM1 trillion (Anisah & Jamrisko, Bloomberg, 24 May 2018). Government may reconsider this policy in the future once the economy stability achieved. Even though on the surface there may be an abundance of preferment in using living wage as a plinth in the minimum wage level, we should always see the far end of the decisions, and currently, the advantages only side with the short term advancement of the country which are going to be visible to the people. As Abraham Lincoln once said, "You can't evade the responsibility of tomorrow by evading it today."

1,387 words

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