

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



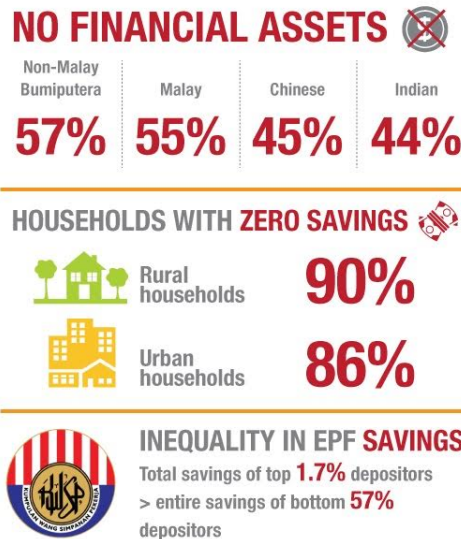
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Written by: Shacind Ananthan

“Half of Malaysians earn below RM2000 a month” (The Edge Markets). This headline shook the living daylight out of me. Living in a rapidly developing city, I was baffled by how people make their ends meet when I was slapped by this reality. In this essay, I will highlight the difference between minimum and living wage, critically analyse some flaws I found in the Bank Negara Malaysia’s (BNM) Living Wage article and evaluate if the “living wage” concept should be used to set the minimum wage.

The simplest way to define minimum wage, is the lowest wage an employer may pay its employee. It is a law that is tabled and debated in parliament and is compulsory to be followed. Living wage, as defined by Bank Negara, is “the minimum income level for a household to afford a minimum acceptable living standard”. It is merely a benchmark of the lowest amount of income required to live a dignified life, and not a statutory control. The current minimum monthly wage is RM1000 in peninsula Malaysia and between RM 800 to 900 in Sabah and Sarawak.

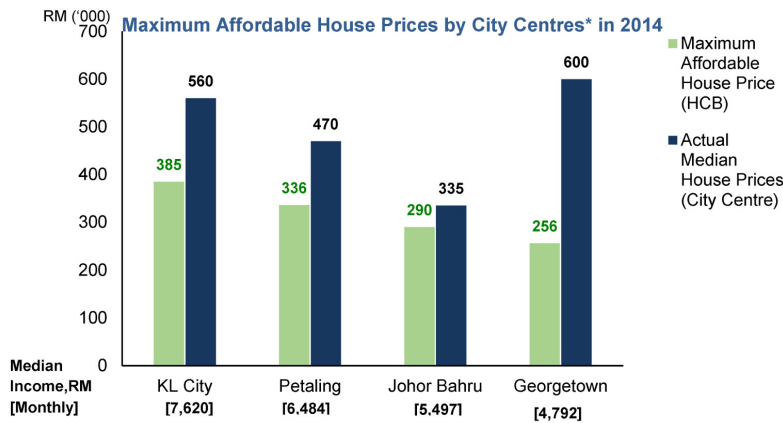
Before evaluating if minimum wage should be set according to BNM’s Living wage, there are a few flaws in the article that needs to be pointed out. The components of the “acceptable living standard” in the BNM article includes the ability to participate in society, opportunity for personal & family development, and the freedom from severe financial stress. Though it states that savings are taken into account, it fails to state the proportion of the income saved. According to a study by the Federation of Malaysian Consumer Associations (FOMCA), an alarming 30 to 40% of Malaysians are deprived of savings for emergency and retirement. In a report by EPF in 2016, 90% of rural households and 86% of urban households have zero savings. 68% of Malaysians aged 54 have only RM50, 000 in savings. In the scenario where a person spends RM1000 a month after retirement, the RM50, 000 disappear in less than 5 years, after which they would have no money at all. So the first point I’m trying to make is simple- that a reasonably significant amount of the income must be dedicated to savings (but is not included in the living wage). Savings need to be considered a basic necessity in this day and age where unexpected costs are common so Malaysians are prepared and will not fall into a debt trap. I believe the Living wage is a guide for people to estimate and budget their expenses and income, so a significant part of it should be savings.



Source: Malaysia Human Development Report, 2013, UNDP

Secondly, the BNM's living wage does not include hidden unnecessary costs that the Bottom 40% of households (B40) group face. Minimum wage is a significant topic among the fresh graduates and low-skilled workers, where their earnings are either just enough to cover their expenses, or insufficient. To answer why B40 group face extra costs, we have to critically analyse and understand their lifestyle choices and spending patterns. What is it that makes it hard for them to escape this subsistence level? Though the B40 group income has risen 6% per year from 2014 to 2016; the real income increase is only 3.8% (Report of Household Income and Basic Amenities Survey 2016, Department of Statistics, Malaysia), which is an average of a mere RM 150 a year.

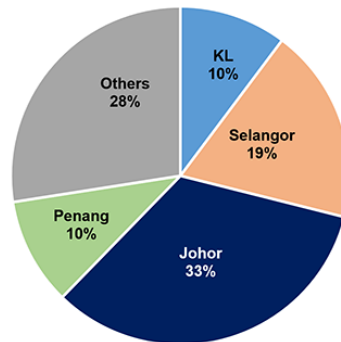
Barbara Ehrenreich, an activist, authored a book called "Nickel and Dimed" in which she spent a year working minimum wage jobs and documented her observations and struggles. The goal is to see if she can achieve equilibrium between her income and expenses. In her book, it is understood that her biggest costs were transportation and housing. This very applicable to the Malaysian scenario. A BNM Report on Housing Market Development shows clearly that the houses in KL and Penang were categorised as unaffordable based on their household incomes and worse in city centres such as KL City, Petaling, Johor Bahru and Georgetown.



Source: BNM estimates, DOSM, and NAPIC

Most youngsters are reluctant buy or rent properties in these areas and choose to live on the suburbs where it is relatively cheaper, but still on the higher end. Those who actually buy or rent properties in these areas pay so much more which takes up a huge chunk of their income. The figure below illustrates how these states with the most unaffordable houses have the highest unsold properties.

Total Unsold Residential Properties by States
4Q 2017p



Source: National Property Information Centre (NAPIC)

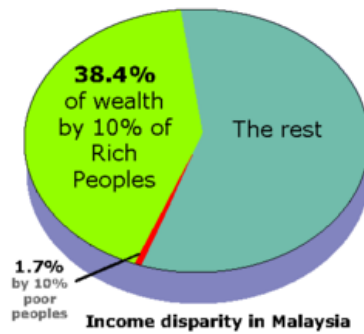
Transportation becomes a major issue, as navigating through these busy, hectic cities takes too long or expensive. Although public transport is rampant in KL city and Petaling, it isn't very reliable in places like Georgetown and Johor Bahru, so people opt to cab hailing services like Grab and Uber. The recent secession of Uber into Grab in March 2018 also meant higher charges due to the monopolisation of the transport market and also higher demand. These extra charges and waste of productive time takes out a huge chunk out of their income is one of the causes why

the B40 group is so reliant on incentives and demand for higher wage. Thus, my second point, that the living wage does not include these hidden costs that occur in the daily lives of the B40 group due to the irregularities in the market and other debts.

However, the key question is, should the minimum wage be set according to the living wage. There are a few advantages and disadvantages that I would like to evaluate. The first, arguably the most significant benefit is that employee morale will increase drastically and employee turnover rates would decrease as a result. It is a win-win situation and both parties will benefit. Firms will gain greatly as a rise in productivity will increase outputs so profits will be maximised. Employees on the other hand, are mentally and physically healthier so they are motivated to improve their skills.

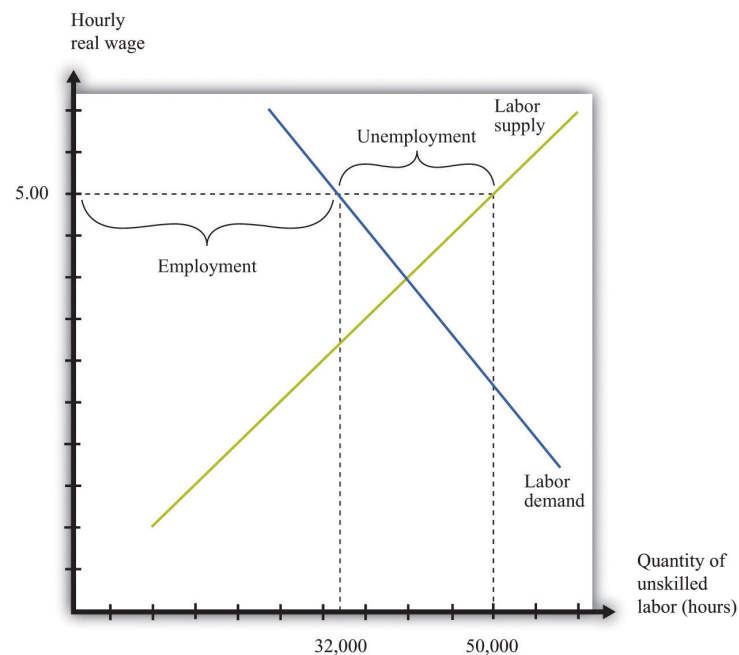
On the macro perspective, there will be more taxable income for government and reduced welfare payments. Consequently, a huge boost to the economy will follow and a reduction in nation's deficit due to lesser spending and more tax revenue. Economists in the UK predict that the British government will save nearly 1 billion pounds of welfare payments (Financial Times).

Furthermore, increasing the minimum wage would reduce the wage gap between professional and low skilled workers. Despite the fact that poverty is not high in Malaysia, the income disparity between rural and urbanites is present. According to the World Bank, Malaysia ranks high in income inequality among other Organisation for Economic Cooperation and Development (OECD) members. Malaysia's Gini coefficient is 0.41 after taxes and transfers, 0.14 points higher than other OECD countries. The 2014/2015 Economic Report pointed that the rural-urban income gap ratio was 1:1.85 in 2014, where the urbanites earned higher. The top 10% richest Malaysians hold a huge concentration of wealth. The figure below illustrates this clearly.



Source: UNDHP Report, 2014

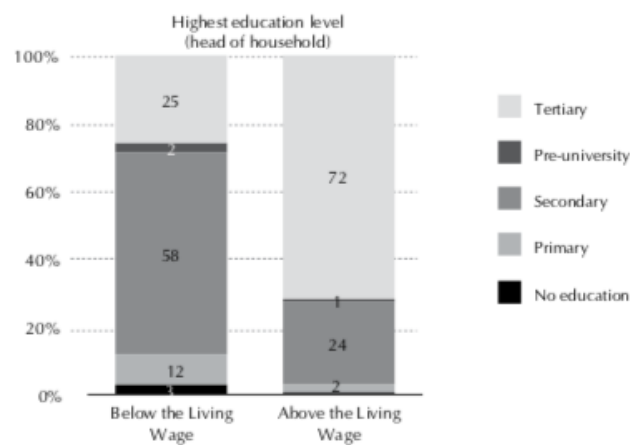
Setting the minimum wage according to BNM's living wage also has its drawbacks. First of all, businesses would not be able to cope with the steep hike in wages and would be forced to fire employees in order to minimize losses. A survey involving 1,213 businesses and HR professionals in the US (New Express Employment Professionals Survey, 2014) stated 38% of employers said they would dismiss employees if the minimum wage was increased by just 40%. 54% said they would decrease hiring levels which will result in severe unemployment. Looking at the scenario in Malaysia, the current minimum wage is RM1500 and increasing it to at least RM2700 (the living wage for a single adult) would be an 80% increase in wages. This is highly risky will result in market uncertainty loss in market confidence.



Source: https://saylordotorg.github.io/text_microeconomics-theory-through-applications/s14-02-the-effects-of-a-minimum-wage.html

The figure above illustrates the impact of minimum wages on the economy and should the minimum wage rise steeply, the unemployment will rise further. The most feasible way that the government can reduce the unemployment is to create demand for jobs.

Secondly, although imposing a higher minimum wage reduces income disparity among the professionals and low skilled workers, the move could be a disincentive for people to work jobs that require higher skill and specialization. This move could backfire as lesser professionals are produced resulting in slower economic growth.



Source: BNM estimates using Household Income and Expenditure Survey 2016, Department of Statistics, Malaysia

Another observation is, the figure above shows that a 25% of Malaysians earning below the living wage did undergo tertiary education. This implies that there are other factors influencing the job climate such as a surplus of labour or lesser job opportunities, which forces the tertiary educated to settle for a lesser paying job.

Besides that, a substantially higher minimum wage could increase the price of goods in the country and can cause a higher level of inflation. This is because businesses and firms may hike the price up due to the increase in cost of production trying to maximise profits. A move like this will not benefit the employees as well because the increase in real income is not much. A study in Purdue University in 2015 found that raising the wage of fast food employees to \$15 to \$22 per hour results in a

price increase of 4.3 to 25%, or a reduction in product size from 12% to 70%. Either way, this makes the consumer worst off as consumer welfare is minimized.

Based on the observations and comparison of the minimum and living wage, the minimum wage is certainly too low people to cope with cost of living in the city and needs to be increased. Though the cost of living is more bearable in the suburbs and rural area, it is still on the higher end because those working in rural areas don't earn as much as the urbanites do. I also think that the BNM's living wage is short sighted because it only computes the income needed to pay bills and expenses. It does not include key necessities like savings and extra costs (like student loans, extra transport costs for those who do not live in KL City and Petaling, and waste of productive time) for the B40 group, which accumulates to a significant amount. However, it is unfeasible for Malaysia to increase the minimum wage by 100 to 200%. This will cause unnecessary economic issues such as unemployment, inflationary pressures and will be a disincentive for business and development.

The living wage should only be a guideline to people on how much their costs are in a month. It must act as a stimulant for people to diversify their income sources such as investments in shares, properties and reduce excessive spending so they can estimate and plan their income and expenses.

The government ought to take pre-emptive measures before imposing a higher minimum wage. Examples could be introducing the minimum wage during a period of economic boom to reduce the chances of severe unemployment. This is because businesses will be more willing to compensate the extra costs. Other than that, the government should implement the increase in wage in stages. This will allow them to observe how the market reacts, allow businesses to adjust and tweak a few things to prevent an unstable economy. Weighing the costs and benefits, looking at it from a macroeconomic perspective, the minimum wage **should not** be set according to the living wage because it has more dire consequences than benefits. Though the idea of income equality, more productivity and increased tax revenue sounds fantastic, it can be achieved through different ways such as creating more demand for jobs, and implementing policies to safeguard employees' welfare like benefits.

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