

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

*By: Simran Gill*

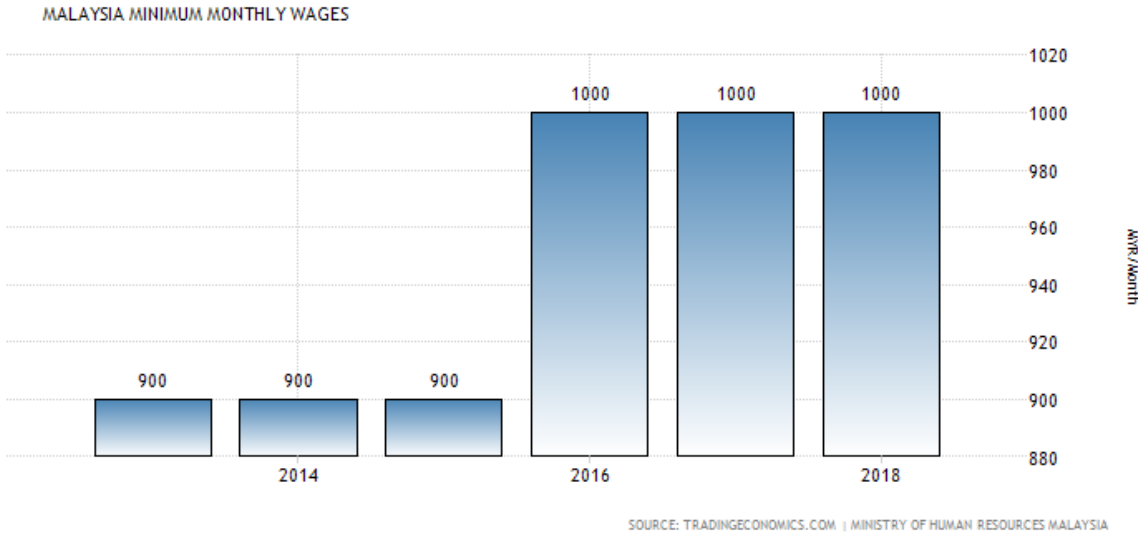
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Malaysia is recognised as one of the fastest growing economies in Southeast Asia. It boasts a Gross Domestic Product (GDP) of 296.4 billion USD (as of 2016), coming in quite close with Singapore’s Gross Domestic Product at 297 billion USD (as of 2016).

Due to this, it is no surprise that Malaysia has one of the highest minimum wage rates in the Southeast Asian region. Malaysia’s minimum wage is defined as the lowest wage required to be given to working individuals, not including domestic servants and apprentices.

The minimum wage in Malaysia was announced in October 2010 and is currently at an all-time high at RM 1000. The lowest minimum wage rate was in 2014 at RM 900. Since then it was increased to RM 1000 in 2016 and has remained constant ever since.

According to Pakatan Harapan’s manifesto, it is stated that they plan to increase the minimum wage to RM 1500, however at the time of writing this essay, no information has been released regarding the proposed new minimum wage.

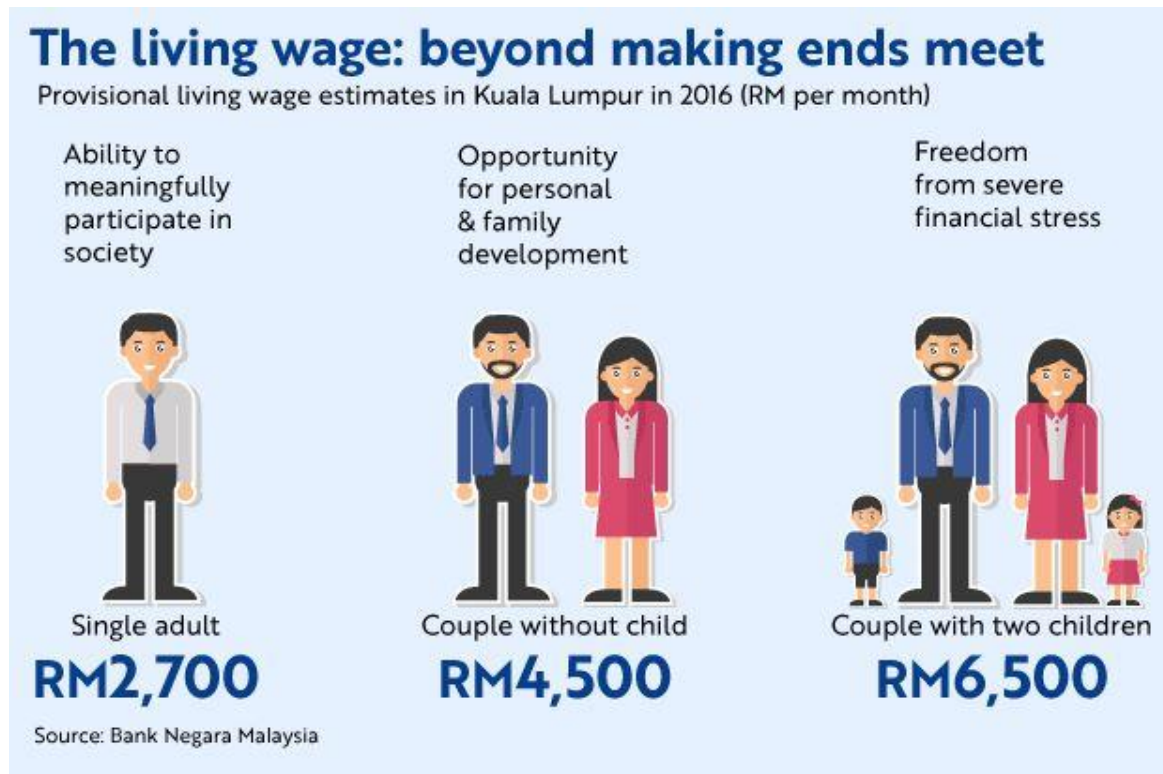


*Diagram 1*

*Note: The graph depicts Peninsular Malaysia’s Minimum Wage Rate. The minimum wage rate in East Malaysia is currently at RM 920.*

Bank Negara has recently brought the idea or concept of ‘Living Wage’ to the public. The Living Wage concept is the required income needed for a household to afford the minimum living standard and the ability to be free from financial burdens.

It can also be described as an equitable wage. Quoting Bank Negara, “The Living wage concept is not just about meeting basic needs but also providing for meaningful participation in society, the opportunity for personal and family development, and freedom from severe financial stress”



*Diagram 2*

*Description: The image shows an estimate of how much the living wage would be in different size of households.*

In summary, minimum wage is the required wage to be paid which is enforced by Law. Living wage on the other hand, is the wage that is able to incur the cost of the current living standard (which constantly fluctuates) Due to this, living wage is usually higher than the minimum wage. This can be seen when Diagram 1 and 2 are compared to each other. The minimum wage in Malaysia is currently at RM 1000 however the living wage for a single adult is RM 2700.

That is a difference of RM 1700 which is quite an immense difference. Being a resident of Kuala Lumpur is quite taxing, with the cost of living steadily on the rise. How can one person support his or herself with a mere RM1000? Rental itself takes away half if not more of their wage, and they will lose the ability to actively and wilfully take part in society.

Now brings the question – should minimum wage in Malaysia be set according to the living wage concept?

Firstly, wages are a fixed cost of production, and increasing wages to meet the living wage will raise the cost of production for firms. Due to the increased cost of production, firms will be forced to hike prices which will engender inflation.

Inflation brings along a new set of problems - it will increase the cost of living and reduce the purchasing power of individuals. Inflation also tends to result to fewer savings and more borrowing. What good will following the living wage concept bring when in the long run it is simply going to increase the cost of living for us Malaysians?

Furthermore, larger firms may resolve to become more capital intensive rather than stay labour-intensive as wages will rise immensely following the living wage concept. Machinery has been proven to be an effective substitute to labour. Moreover, the cost of machinery may even be lesser than labour costs, further fuelling the change for firms to become more capital intensive. This will increase the unemployment rate, mainly in low skilled jobs (such as factory workers etc.) and the standard of living will go down. Malaysia is on its way to becoming a more economically developed country (MEDC), so why jeopardise that?

Taking Tutti Frutti – a frozen yoghurt store that can be found all over Malaysia for example. They have been using a self-serve approach to sell their frozen yoghurt. This limits the amount of workers required, which reduces their labour costs. Customers dispense the frozen yoghurt from machines into a container and then bring it to the counter where it is weighed. Depending on the weight, the customer pays. There is usually only one worker – the cashier.

If businesses are already becoming more capital intensive because of labour costs, can you imagine what will happen when those labour costs are remarkably increased following the living wage concept? Think about all the people, (unskilled workers in particular) who are going to be retrenched from their jobs. As they are unskilled, job options are quite limited for them – so how will they get back on their feet?



*Image 1*

*Description: An image of one of Tutti Frutti's outlets. A customer is dispensing the frozen yoghurt himself and there is no need for a worker to be present (except at the cashier).*

Small businesses will suffer the most as they may not have the required funds to either pay the increased labour costs or automate their business. As explained earlier, increased wages ultimately will lead to increased prices. The increased prices may lead consumers to stop purchasing goods and services from these small firms, cogently ruining their business. This goes hand in hand with the law of demand – when the price is high, demand is low. These small businesses may be forced to close as they aren't able to sustain in the market.

On the other hand, many workers in low income earning jobs have been suffering, often living on pay check to pay check simply because the minimum wage is nowhere near enough to sustain them and their families. How are they going to live a meaningful life in society when they cannot attain the minimum acceptable living standard as they are going through all these financial challenges?

As mentioned before, the minimum living standard is not simply about acquiring and being able to afford basic needs, but also includes social aspects. For example: being able to afford a holiday, or buying a birthday present for a family member. Additionally, attaining the minimum living standard also includes being free from financial stress and burdens.

Paying workers according to the living wage concept will not only ensure that they obtain the minimum living standard, but it may also become a source of motivation for them as it provides an incentive for them to be productive. It might even help boost and improve morale. According to Taylor's theory of motivation – money is the sole motivator for workers. Although this may not be true for all workers, a majority of them do seem to be motivated by money. When workers are motivated they have higher job satisfaction and, they become more productive which means that they will produce a higher output.

A higher output may lead to greater sales and profit for the firm. In addition to that, a higher or larger output will allow the firm to benefit from economies of scale which means that although they have increased labour costs, they will get cost savings on producing their products. As the firms are enjoying cost savings, they can decrease prices from their products which consumers can enjoy. The firms will also be able to compete more effectively in the market.

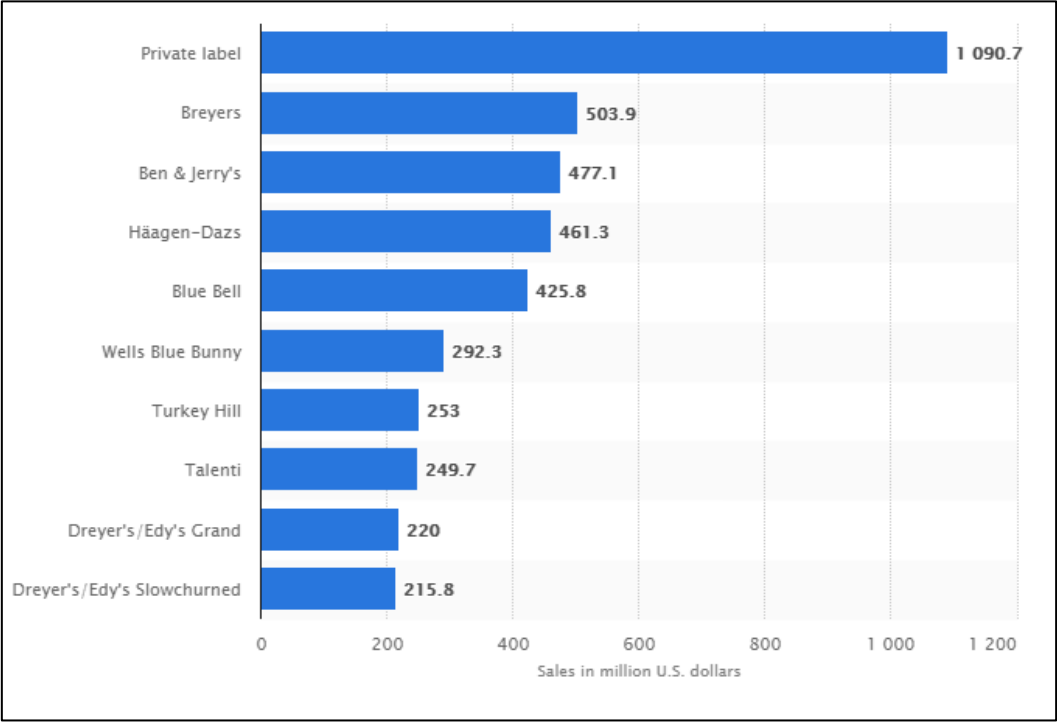


*Image 2*

*Description: The Ben and Jerry Company logo*

Taking Ben and Jerry's – a successful ice cream company based in United States for example. They pay their full-time workers following the living wage concept. In 2015, they paid their workers a cool \$ 16.92 an hour which is around RM 69.08. This wage is more than double the amount of the federal minimum wage there.

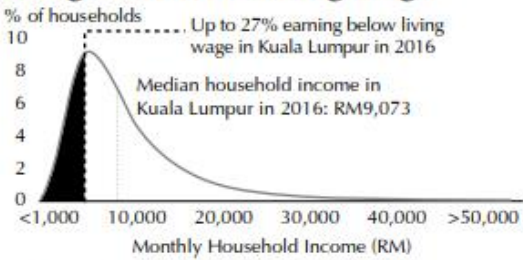
They even research the cost of living every year to make sure their wage is able to meet the minimum living standard. Although they bear high labour costs, they are still one of the most popular ice creams brands in the country, with high sales to boot. This elucidates the impression that paying workers using the living wage concept, will ruin a business or cause a steep decrease in profit.



*Diagram 3*  
 Description: This chart shows the top selling ice cream in the United States for the year 2017. Ben and Jerry's in the third most sold ice cream, with sales of \$477.1 million, roughly RM 2 billion.

There are plenty of pros and cons of adopting the living wage concept, as highlighted in this essay. In my opinion, I do believe the minimum wage in Malaysia should be set following the living wage concept. This will ensure a greater standard of living for all Malaysians, and bring our nation to new heights.

**Up to 27% of households in Kuala Lumpur were earning below the living wage**



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

*Diagram 4*  
 Description: A diagram depicting the median household income in Malaysia. By adopting the living wage concept, an additional 27% of households in Kuala Lumpur will be able to meet the minimum living standard and be able to meaningfully take part in society. We will be ultimately raising the standard of living in Malaysia, one household at a time

However, calculating the living wage must be done accurately. It must be at a level that is attainable and sustainable for employers. If the living wage is set too high, it ultimately will be passed on to consumers as mentioned earlier via an increase in the pricing of goods and services which in turn will lead to an increase in cost of living.

Additionally, the living wage should not only ensure the employee is achieving the minimum standard of living, but also coincide with the ability of the employer to pay the living wage and the employee’s productivity. If the employee is not productive – what is the point of paying them higher wages? This will just result in a loss for the employer and the firm as the labour costs will be high but the productivity and output would be low.

Productivity is a problem that must be tackled. Many Malaysians work long hours, and many shifts; however we are the least productive. In comparison to citizens in countries such as Australia, Hong Kong and Singapore, Malaysians work much longer hours. In fact, Malaysians work an average of 15 hours more than their required hours (which are stated in their contracts).

AIA Vitality recently did a study on the Malaysian workforce and it showed that many Malaysians are overworked and stressed, which leads to productivity loss. The living wage concept will help reduce the stress of the workforce as they will no longer have to work long hours to be able to afford the ever-increasing cost of living. Reducing the stress of the workforce will also ensure better employee health, efficaciously limiting absenteeism and increasing productivity.



Diagram 5

Description: The diagram shows the reasons of productivity loss in Malaysians – most of which can be solved by implementing the living wage concept.

In order for the living wage concept to work, employees must recognise that attaining the living wage comes with an added responsibility. They must ensure that they are productive and are producing a larger output so the employer is able to withstand and afford the higher labour costs.

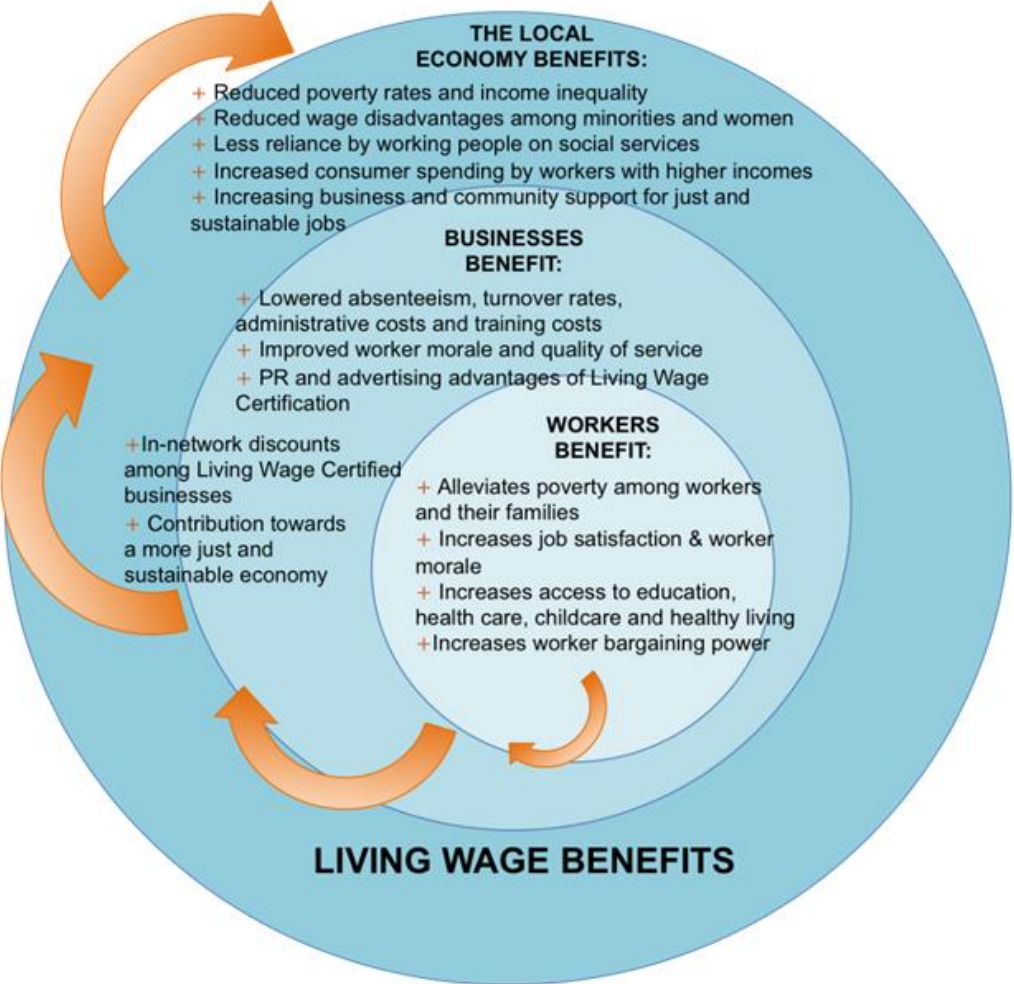


Diagram 6

Description: This diagram highlights the benefits of the living wage.

The living wage concept is a great tool that can be used to help better our nation. It can help guide employers on how they can give their employees an equitable wage. As proven in this essay, the living concept (when done correctly) not only benefits employees but also the local economy and employers- bearing few negative side effects on the economy. Let us utilise this concept and make Malaysia a better place for all its citizens.

Word Count: 1998 words

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