

## Breaking Views

### The case for a minimum wage — Andrew Lo

AUG 16 — Of late there has been a growing debate on whether or not Malaysia should introduce a minimum wage policy. The call for a minimum wage has been on the ascendancy ever since MTUC first proposed a nationwide minimum wage more than 12 years ago, when Tun Dr Mahathir Mohamad was still the prime minister.

However, because of the undying objection by the business community led by the Malaysian Employers Federation (MEF), the government at that time rejected the idea of a nationwide minimum wage, asserting that it will lead in an increase in the cost of doing business and thus will hurt Malaysian competitiveness.

The business community convinced the government to adopt a market-friendly policy and that wages levels must be determined by market forces.

Recently, the consensus has somewhat shifted and the idea of a minimum wage is not as pariah as it once was.

Even Prime Minister Datuk Seri Najib Razak has just stated that business must embrace minimum wage as a business strategy and as an opportunity to revitalise their businesses. Even employers' groups such as the respected Federation of Malaysian Manufacturers (FMM) has proposed a minimum wage model that is reasonable, workable and forward looking.

However, the MEF steadfastly declared that "even if the world is to come to an end, and we are born again, MEF will still strongly oppose a minimum wage".

Such strong objections from the MEF are not at all surprising as the MEF's sole interest is the maximising of profits by its members. I will be the first to accept that employers are in business to make money and to generate profits. So whatever decision that employers make is built on this premise.

I will venture to add that minimum wage is not just a social tool to reduce poverty, it is a fiscal tool to enhance economic growth and productivity improvements, as the empirical evidence in countries that has minimum wage structure has demonstrated. More than 90 per cent of countries worldwide have a minimum wage.

So the first question is how to convince employers that a minimum wage is in their economic interest in the long run and the second question is to convince the government that it is in Malaysia's economic interest to have a minimum wage.

Our competitors in the '80s, Taiwan and Korea and even Hong Kong, the bastion of capitalism and free markets, have minimum wage systems while in Singapore the head of the trade union movement is a government minister and thus the country is able to formulate an inclusive wage policy that has seen wage levels more than three times higher than Malaysia and productivity growth that has outstripped us.

These four countries, that were on par with us in the 1980s, have overtaken us, became high-income nations and members of the OECD while we are stuck in the middle-income trap. Today, we are competing with Thailand, Vietnam and Indonesia and the Philippines. All these countries also have minimum wage and if we still stick to the archaic views expressed by the MEF, we will be overtaken by them soon.

Essentially, the debate on minimum wage hinges on:

- workers want a minimum wage as a means to increase wage levels to provide sufficient purchasing power to enable a worker to have a basic standard of living
- Employers reject it as an increase cost of doing business and it would hurt competitiveness.
- The government aims to develop the country into a high-income nation and fully developed by 2020.

#### Wages to be determined by market forces?

The empirical evidence has clearly pointed to the fact that wage levels in Malaysia have been suppressed and have lagged behind by all measures. The World Bank has reported that wages in Malaysia increased by only 2.6 per cent per annum. That is below inflation. The proportion of wages as a portion of GDP has also fallen.

The recently-concluded National Employment Returns (NER) showed that 34 per cent of Malaysians earned less than RM700 — below poverty line. In Sabah and Sarawak, where the cost of living is much higher, the figures are a dismal 63 per cent and 48 per cent respectively. A further 37 per cent nationwide earned between RM700 and RM1,500. For a country aiming to be a developed nation in 10 years' time, it is alarming that 72 per cent of workers earned less than RM1,500. These are corroborated by similar figures from the Employees Provident Fund.

The starting salary of an associate professor in our universities is the same in 1975 as it is today. MEF's own figures presented to the government stated that the starting pay of a doctorate holder is just RM2,370 a month. Maybe this is one of the reasons as to why the standards of our universities are dropping.

A clerk (with diploma) in Malaysia earns RM1,131 while in Singapore he is paid an equivalent of RM4,747. Fifteen years ago, the salary for a part-time worker at a fast-food restaurant was RM3.80 an hour. Today in Sabah it is just RM2.50 while the price of a burger has gone up from RM1.20 to more than RM4 in the same period.

What is disheartening is the government recently issued recommendations for public servants to take part-time jobs to make ends meet.

So clearly market forces, as propagated by MEF, have not worked. There are two reasons:

#### STIFLED TRADE UNIONS

Market forces are controlled by business, and combined by the government policy of stifling trade unions movement by segregating trade unions, only 3 per cent of private sector workers are trade union members and less than 2 per cent are covered by collective agreements. The MEF has a declared policy of challenging trade union membership, recognition. While the number of trade unions has increased most of the unions are in-house unions with less than 100 members.

The presence of millions of foreign workers

Malaysia is perhaps the only country in the world that made it extremely difficult for high-value and knowledgeable workers to work here, but has welcome millions of low-wage and unskilled workers. This has undoubtedly suppressed wages as Malaysian workers have to compete for low wages.

#### SECTORAL MINIMUM WAGE

In an attempt to placate demand for a national legislated minimum wage, the government the past decade tried to introduce a sectoral minimum wage by way of the Wages Council Act 1957, an archaic legislation. The last sectoral minimum wage was implemented in 1972 and, as evident by the minimum wage for security guards, has not work at all.

#### MEF'S RATIONAL VALID?

Recently, the MEF in trying to justify its strong objection to a minimum wage gave several reasons. See the *NST* report of August 11, 2010.

#### A loss of foreign exchange

MEF executive director Shamsuddin Bardan believes a minimum wage system will hurt the country, local businesses and workers as it tends to benefit low-skilled workers.

"Many of the low-skilled and low-income workers here are foreigners. If they were to get minimum wages, that will result in more money being remitted out of the country.

"A recorded total of RM18 billion was remitted in 2008. If foreign low-skilled workers have the benefit of minimum wages, then we can expect an even greater loss this year," Shamsuddin said.

I would rationalise that a minimum wage will reduced the need for foreign workers and the total remittances will actually be reduced, not increased.

#### MINIMUM WAGE WILL LEAD TO RETENCHMENT

"If companies are legally compelled to pay their employees more than they can afford, then naturally they would have to retrench their workers to cut costs, which would lead to higher unemployment. It is ironic that the model designed to protect employees will actually cause them to lose their jobs."

We can see here that the MEF's reasons are mere emotional sensationalism and threats without any empirical evidence to support such statements.

First the presence of more than two million legal (and god knows how many illegal) foreign workers showed that there is no unemployment in Malaysia. Our official unemployment rate is less than 4 per cent; which by World Bank standards show full employment.

Second, going by the MEF's argument that minimum wage only benefit foreign workers, then any retrenchments are the low-wage earners, who they have admitted are foreign workers. Surely, this will help our nation's objective to reduce foreign workers.

Frankly, If a firm cannot even provide a decent living wage to its workers — one that is enough to meet their basic needs — it has no business being in business

#### Productivity-linked wage system (PLWS)

The MEF suggested that a wage system that operates based on productivity would be more appropriate, rather than paying workers a fixed base amount. According to Shamsuddin, the existing productivity-linked wage system (PLWS) was already a functional one and so there was no need to implement a new minimum wage system.

"Productivity levels cannot be increased by implementing a minimum wage model. In fact, it would cause the opposite to happen. PLWS is exactly how the country could become a high-income nation.

"Take salesmen, for example. Their pay could be RM500 a month, but they could earn RM3,000 or more if they succeed in meeting their sales target. Not only do workers get better pay, it also improves their company's core productivity."

I fully support the idea of performance pay and it is one way to improve performance productivity. However, performance pay without a decent basic salary is exploitation at its worst.

The fundamental principal of PLWS is a fixed component (meaning a basic salary/wage that can provide a decent living) and a variable component that is based on performance and productivity. So the MEF's rational of using PLWS to justify its rejection of a minimum wage cannot be reconciled with the fundamental principle of PLWS.

As to the claim by the MEF that the existing PLWS is a functional one, we only have to look to the plight of workers in the plantations (which are now full of foreign workers). Nowhere is the struggle for a minimum wage more pressing than in Malaysia's vast rubber and oil palm plantations. For decades, estate workers have been paid wages based on PLWS — on the number of days worked, the market price of commodities, harvested quantity, and other factors beyond their control.

The MEF's views on productivity improvement are simplistic — the more cars you sell the more you earn.

You can tap rubber for 25 hours a day, but if you still use the same tapping tool your grandfather used, how do you increase output? Or the construction workers who still use hand-assembled timber formwork to construct flyovers and buildings instead of pre-fabricated ones?

I would also say that PLWS does not increase Total Factor Productivity (TFP, a true measure of productivity), just nominal productivity. For example, if you increase the number of burger stall workers, you produce more burgers, but the productivity of each worker does not increase. Even if you demand that workers work 24 hours instead of eight hours, you produce three times more burgers. But the output per worker per hour does not increase.

And how does PLWS increase the productivity of the young toll attendant who hands out entry tickets to motorists at toll plazas? Hand out more tickets in a given hour? Motorists will have to speed and most likely cause more crashes into toll plazas.

The answer would be to automate the issuing of tickets. But employers would not invest in the machines because it is more profitable to employ cheap labour.

Another example, in Incheon Airport in South Korea, two women in their sixties can effectively manage the luggage trolleys, while in KLIA we have an army of Bangladeshis. This is not because Korean women eat lots of ginseng, but they have a

machine that collects the trolleys magnetically and tows them along. Again Koreans have to be innovative and invest in R&D, hence increasing productivity because they cannot rely on cheap labour.

Even, in Malaysia the banking industry is a shining example. The banking industry is the most densely unionised, with even assistant managers being union members. Yes once in a while you hear of picketing, but productivity, wage levels and more importantly profits are consistently the highest in the country. Investment in technology and management systems is the highest and business efficiency has improved to an extent that banking now is global, 24 hours a day, seven days a week and 52 weeks a year. And you know what? Apart for some expatriates, not a single foreign worker.

So contrary to popular belief, higher wages lead to higher productivity. Higher wages will encourage employers to invest in research and development to increase overall productivity and efficiency.

The real reason that Malaysian productivity is low is not because Malaysian workers are not productive. It is due to the fact that employers were very successful in suppressing wages that there was no incentive to invest in research and development for productivity improvement.

It is more profitable for employers to pay RM12 a day for foreign labour rather than invest in modern equipment, production processes and better human resource management. It must be noted that spending on R&D by the private sector in Malaysia is extremely low.

#### Upgrade skills

The MEF has always claimed Malaysian workers are unskilled and therefore cannot attract higher wages. It has called on the government to continue to pour billions to set up training schools and certifications colleges. This is actually a subsidy. We have half a million highly skilled workers in Singapore (the majority of whom are trained by these government-funded institutes). They worked in Singapore because Malaysian employers refuse to pay high wages.

There is no point spending billions to produce graduates when they earn less than RM1,000 when they enter the job market.

#### Subsidy rationalism

I have argued that the government must gradually reduce and eliminate most forms of subsidies but it must also allow wages to increase. A reasonable minimum wage will facilitate the subsidy rationalisation.

The MEF unashamedly argues that the government must maintain subsidies, saying that farmers in Japan and the US are subsidised. This shows that it is well aware the government is subsidising wages through the various subsidies of essential goods and fuel.

#### A minimum wage will hurt Malaysia's competitiveness

It would be illuminating how employers always use this age-old argument. In the debate during the introduction of a minimum wage in Hong Kong, the business lobby and Hong Kong's executives argue that minimum wage legislation will hurt Hong Kong's competitiveness because global investors would see Hong Kong as being less competitive if such a law were passed. (The Hong Kong legislature passed the minimum wage law by 54 votes to 1.)

Hong Kong is constantly ranked in the top three in the world in terms of competitiveness. Malaysia is in the top 10. So nothing will satisfy businesses' quest for more and more profits. Most countries that are ranked higher than us have a minimum wage.

Again, empirical evidence studies in more than 100 countries worldwide showed that there is minimal negative impact on competitiveness and unemployment where a reasonable, value adjusted, and regularly reviewed minimum wage is implemented.

The government is the largest employer in the country. Apart from civil servants, the government also either directly through GLCs and indirectly controls large portions of private sector employers — from plantations, to banks, to trading corporations, SEDCs, privatised agencies, transport and heavy industries including airlines, oil and gas and infrastructure and hotels.

To be a high-income nation under New Economic Model, the government has to be serious and change our policy of being a low-wage country, restructure employment to create decent and productive jobs. A minimum wage policy will go a long way to achieving this aim.

An immediate benefit to the country is that higher wages will lead to higher purchasing power which in turn will lead to increase domestic demand and reduce our reliance on exports which are at the mercy of other countries' economic performance.

\* Andrew Lo is the chief executive officer of the Sarawak Bank Employees Union and secretary of the Sarawak MTUC.

\* This is the personal opinion of the writer or the publication. The Malaysian Insider does not endorse the view unless specified.