

THE CASE :FOR A MINIMUM WAGE IN MALAYSIA

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THE CASE FOR A MINIMUM WAGE

1. 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 national wide minimum wage more than 12 years ago, when Tun Mahathir is still the Prime Minister,
2. 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.
3. The business community convinced the government to adopt a market friendly policy and that wages levels must be determined by market forces.
4. Recently, the consensus has somewhat shifted and the idea of a minimum wage is not as pariah as it once was.
5. Even the Prime Minister, Datuk Seri Najib, has just stated that business must embraced Minimum wage as a business strategy and as an opportunity to revitalize 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.
6. However MEF however steadfastly declared that "Even if the world is to come to an End, and we are born again, MEF will still strongly opposed a minimum wage"
7. Such strong objections from MEF are not at all surprising as MEF' sole interest is the maximizing 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.
8. 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% of countries worldwide have a minimum wage.
9. So the 1st 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 the Malaysia's economic interest to have a minimum wage.
10. Our competitors in the 80s; Taiwan and Korea & 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 3 time higher than Malaysia and productivity growth that has outstripped us.

11. These 4 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 Philippines. All these countries also have minimum wage and if we still stick to the archaic views expressed by MEF, we will be overtaken by them soon.
12. 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 hurt competitiveness.
 - The government aim to develop the country into a high-income nation and fully developed by 2020.

Wages to be determined by market forces?

13. The empirical evidence has clearly pointed to the fact that wage levels in Malaysia has been suppressed and has lagged behind by all measures. The World Bank has reported that wages in Malaysia has increased by only 2.6% pa. That is below inflation. The proportion of wages as a portion of GDP has also fallen.
14. The recently concluded National Employment Returns (NER) showed that 34% of Malaysians earned less than \$700- below poverty line. In Sabah and Sarawak, where the cost of living is much higher, the figures are a dismal 63% and 48% respectively. A further 37% nationwide earned between \$700 to \$1500. For a country to be a developed nation in 10 years time, it is alarming that 72% of workers earned than \$1500. These are collaborated by Employees Provident Fund's similar figures.
15. The starting salary of an associate professor in our Universities is the same in 1975 as it was today. MEF's own figures presented to the government stated that the starting pay of a Doctorate is just \$2370 a month. Maybe this is one of the reasons as to why the standards of our universities are dropping.
16. A clerk (with diploma) in Malaysia earns \$1131 while in Spore he is paid an equivalent of \$4747.00. 15 years ago, the salary for a part time worker at a fast food restaurant is \$3.80 an hour. Today in Sabah it is just \$2.50 while the price of a burger has gone up from \$1.20 to more than \$4 in the same period.
17. What is disheartening is the Government recently issued recommendations for public servants to take part time jobs to make ends meet.
18. So clearly market forces, as propagated by MEF, has not worked. There are 2 reasons:

STIFFLED TRADE UNIONS

19. Market forces are controlled by business, and combined by the government policy of stifling trade unions movement by segregating trade unions, only 3% of private sector workers are trade union members and less than 2% are covered by collective agreements. 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 present of millions of foreign workers.

20. 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

21. 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?

22. Recently, MEF in trying to justify its strong objection to a minimum wage several reasons. See NST report 11 Aug 2010.

A Loss of foreign exchange

23. Malaysian Employers Federation (MEF) executive director Tuan 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.

24. I would rationalize that a minimum wage will reduced the need for foreign workers of the total remittances will actually reduced, not increased.

B 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."

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

26. First the presence of more than 2 million legal (and god knows how many illegals) foreign workers showed that there is no unemployment in Malaysia. Our official unemployment rate is less than 4%; which by World Bank standards show full employment.
27. Second, going by MEF's argument that minimum wage only benefits foreign workers, then any retrenchment are the low wage earners, who they have admitted are foreign workers?. Surely this will help our nation's objective to reduce foreign workers.
28. 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

C Productivity linked wages System (PLWS)

- a. 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 him 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

29. 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.
30. 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 MEF's rational of using PLWS to justify its rejection of a minimum wage cannot be reconciled with the fundamental principle of PLWS.
31. As to the claim by MEF that the existing PLWS is a functional one, we only have to look to the plight of 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 PLWS -on the number of days worked, the market price of commodities, harvested quantity, and other factors beyond their control.
32. MEF's views on productivity improvement are simplistic- the more cars you sell the more you earn
33. 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 used hand assembled timber formwork to constructed flyovers and buildings instead of pre-fabricated ones.

34. I would also say that PLWS do not increase Total Factor Productivity (TFP-a true measure of productivity), just nominal productivity. Example- if you increase the number of burger stalls workers, you produce more burgers, but the productivity of each worker does not increase. Even if you demand that workers to work 24 hours instead of 8 hours, you produce 3 times more burgers. But the output per worker per hour does not increase.
35. 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? Motorist will have to speed up and most likely cause more crashes into toll plazas.
36. 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.
37. Another example, in Incheon Airport in Korea, 2 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 collect the trolleys magnetically and towed them along. Again Koreans have to be innovative and invest in R & D, hence increase productivity because they cannot rely on cheap labour.
38. Even, in Malaysia the banking industry is a shining example. The banking industry is the most densely unionized, with even Assistant managers are union members. Yes once in a while you hear of picketing, but productivity, wage levels and more important profits are consistently the highest in the country. Investment in technology and management systems are the highest and business efficiency have improved to an extent that banking now is global, 24 hours a day, 7 days a week and 52 weeks a year. And you know what? Apart for some expatriates, not a single foreign worker. S
39. So contrary to popular belief, **higher wages leads to higher productivity**. Higher wages will encourage employers to invest in research and development to increase overall productivity and efficiency.
40. 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 is no incentive to invest in research and development for productivity improvement.
41. It is more profitable for employers to pay \$12 a day for foreign labour rather than invest in modern equipments, production processes and better human resources managements. It must be noted that spending on Research and Development by the private sector in Malaysia is extremely low.

D Upgrade skills

42. 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 Spore because Malaysian employers refuse to pay high wages.

43. There is no point to spend billions to produce graduates when they earn less than \$1000 when they enter the job market.

E Subsidy rationalism

44. I have argue that the government must gradually reduced and eliminate most forms of subsidies but it must also allow wages to increase. A reasonable minimum wage will facilitate the subsidies rationalization.
45. MEF unashamedly argue that the government must maintain subsidy, saying that farmers in Japan and USA are subsidized. This show that it is well aware the government is subsidizing wages through the various subsidies of essential good and fuel.

F A minimum Wage will hurt Malaysia's Competitiveness

46. It would be illuminating how employers always use this age-old argument. In the debate during the introduction of a minimum age in Hong Kong, business lobby and Hong Kong's executives argues 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 Hongkong Legislation passed the the minimum wage law 54 votes to 1)
47. Hong Kong is constantly ranked the top 3 in the worked in term of competitiveness. Malaysia is in the top 10. So nothing will satisfy the business' quest for more and more profits. Most countries that are ranked higher than us have minimum wage.
48. 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.
49. The Government is the largest employer in the country. Apart from Civil servants, the Government also either directly through GLCs and indirectly through GLIC controls large portions of private sector employers – From plantations, to Banks, to Trading Corporations, SEDCs, privatized agencies, transport and heavy industries including airlines, oil & gas and infrastructure and hotels.
50. 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 achieve this aim.
51. 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.

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