

LETTER | Benefits of raising minimum wage

LETTER | On May 1, 2022, the federal government gazetted RM1,500 as the new minimum wage for Malaysia. The federal executive branch was empowered by the federal law known as National Wages Consultative Council Act 2011 denoted as Act 732 to determine the minimum wage.

The establishment of minimum wage in Malaysia is credited to Parti Sosialis Malaysia (PSM). In 2002, PSM linked with Jaringan Rakyat Tertindas (Jerit) launched the “Minimum Wage Campaign for All Malaysian Workers”.

PSM conducted several class-based actions such as roadshows, signature campaigns, leaflets and public assembly nationwide demanding minimum wage etc. In 2011, the government caved in on the rising workers’ pressure led by PSM to introduce the minimum wage.

Opponents of minimum wage particularly capitalists, businesses, liberal think-tanks and employers argue around the lopsided and biased notion that minimum wage will hurt the economy and kill jobs. Contrary to popular belief, raising the minimum wage has multi-fold economic benefits to the overall society.

Improve productivity and competition

Firstly, raising the minimum wage increases capital productivity. One such example is the petrol stations. Prior to the introduction of minimum wage, petrol stations employed fuel pump attendants for a salary of RM400 per month to collect cash from motorists and fill petrol.

The minimum wage made petrol pump attendants financially unviable, so petroleum dealers pushed for self-service with debit and credit card payments.

Bank Negara Malaysia regulations allow banks to issue credit cards to individuals with a monthly salary above RM2,000 to prevent excessive indebtedness.

The debit card was unpopular at petrol stations due to the RM200 pre-authorisation deduction. Hence, 80 percent of the population could neither utilise credit cards nor debit cards for petrol purchases.

In 2018, Petronas introduced the Setel payment app whereby motorists pay for fuel through smartphones. The Setel app eliminated interaction with the petrol station counter.

This minimised time of vehicles parked at the petrol pump without fuelling as motorists do not have to walk to the counter. The asset utilisation rate of Petronas’ petrol stations increased as more vehicles were refuelled per petrol pump compared to the competitors at peak period.

The Setel app allowed Petronas’ petrol stations to operate 24 hours a day without the presence of workers after midnight. Thus, Petronas based petrol stations experienced better sales compared to other brands with limited operational hours. Generally, Petronas’ petrol stations experience improved capital productivity compared to its competitors.

Besides that, the introduction of Setel by Petronas kickstarted industry-wide competition. Recently, Caltex introduced CaltexGo app similar to Petronas’ Setel app.

Meanwhile, Shell is testing the Touch n'Go based RFID payment method for petrol sales at five Shell petrol stations. The underlying material condition to improve competition and productivity of capital was created by raising the minimum wage.

Curtail unemployment

Contrary to popular belief, an increase in minimum wage curtails the increase in the unemployment rate. The **Department of Statistics of Malaysia (DOSM)** reported a stagnant unemployment rate coinciding with the year when the minimum wage was raised. The curtail in the unemployment rate is due to increase overtime costs.

The Employment Act 1955 stipulates that labour overtime costs between 150 percent and 300 percent relative to the normal hourly rate depending on the day of work. The hourly rate is pro-rated from the minimum wage since the year 2011.

The increase in the minimum wage by 10 percent increases normal work hours remuneration cost by 11.3 percent inclusive of employers' EPF contribution. However, overtime cost rises between 15 percent and 30 percent relative to the normal rate. The increase in overtime costs prompts employers to curtail overtime by expanding the workforce.

For example, an electronic factory that operates for 24 hours per day will replace two work shifts per day (eight normal hours and four overtime hours) with three work shifts per day (eight normal hours). The blue-collar workforce of the electronic factory increases by 50 percent to curtail overtime costs.

Increases domestic consumption

Thirdly, an increase in minimum wage will increase domestic consumption. The positive spill can capture at the micro level from the net profit of supermarkets and macro-level from revenue of fast-moving consumer goods (FMCGs).

Micro-level analysis reveals that profits of supermarkets can be split into two categories; price-controlled essential items and life-quality groceries.

The profit margin for controlled essential items such as rice, cooking oil, bread and eggs are fixed by the government. Meanwhile, profit margins from lifestyle groceries such as detergent, shampoo, Koko-Crunch, ice cream, chocolate, and biscuits are not controlled.

Generally, the profit margin from controlled items is smaller compared to lifestyle groceries. The increase in minimum wage will increase sales from higher profit items of lifestyle groceries at grocery stores, supermarkets, and hypermarkets.

FMCGs such as Nestle, F&N Dairy, Unilever, Colgate-Palmolive, and Dutch Lady experience higher than usual revenue growth when the minimum wage is raised.

During the years 2013 and 2016, Nestle Malaysia experienced a sharp rise in domestic sales. For the year 2018, Nestle Malaysia suffered an export decline worth RM118 million, but domestic consumption increased by RM117 million.

The revenue increase was caused by higher spending power due to an increase in the minimum wage in those same years.

Reduce govt debt repayment

The increase in minimum wage will reduce government debt costs. About 18 percent of the federal budget goes into servicing government debt.

The debts are mostly held as publicly-traded bonds on Bursa Malaysia. EPF is the biggest sole holder of government bonds.

Government bonds are crucial to the EPF portfolio to ensure the minimum rate of return of 2.5 percent per annum.

The long-term holding of bonds by EPF reduces the bond supply for daily trading which increases the bond value. The increase in minimum wage will increase the contribution amount to EPF to acquire government bonds.

Subsequently, reduces the interest rate of the bond which translates into a lower debt service amount.

Reduces political patronage

Lastly, an increase in the minimum wage reduces political patronage of public resources. Liberal economists and think tanks argue for smaller governments by outsourcing government services without acknowledging that it breeds corruption and political patronage. One such example is school security outsourcing contracts.

The introduction of computer labs in 1996 demanded the need for school security guards. Dr Mahathir Mohamad's first regime did not expand the in-house security staff under Chief Government Security Office (CGSO).

Instead, the school security service was dished out to political cronies causing serious leakages. The outsourcing of essential services is smeared with political patronage, cronyism, corruption, and leakages.

According to research conducted by Jaringan Pekerja Kontrak Kerajaan (JPKK), the premium for 800 school security contractors after minimum wage payment to 40,000 security personnel is RM500 million. The increase in minimum wage puts upward pressure on the government to increase contract value.

However, government revenue constraint erases any room for an increase in contract value. The increase in minimum wage makes more sense for the government to directly employ the 40,000 securities directly as government staff and redistribute the RM500 million of contractor premium as wages.

The system survived for 15 years without an annual wage increment. The political patronage model through outsourcing contracts is crumbling under the full weight of the minimum wage policy.

The ending of the outsourcing model will reduce corruption and political patronage.

Moving forward

In conclusion, an increase in the minimum wage will have a positive impact on all tripartite entities of the society; capital, labour and government.

The MPs need to amend the minimum wage-related legislation to peg the annual minimum wage increment to Malaysia's GDP growth.

This will make the national economic growth more equitable as wage increases parallel with economic growth.

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