



Higher minimum wage does not mean higher unemployment

PETALING JAYA: The implementation of a RM1,500 minimum monthly wage from May 1, with exemption for some sectors, is not expected to increase Malaysia's unemployment rate, although it could have a negative impact on small and medium enterprises (SME).

The country's unemployment rate is currently at its lowest since the first movement control order (MCO) that was implemented in March 2020. The unemployment rate in February 2022 stood at 4.1% versus 5.30% in May 2020.

FastJobs Malaysia general manager Joelle Pang opined that the implementation of the minimum wage policy will be a win-all situation for the country in the long run. Besides that, she pointed out, the median wage offered has already exceeded the minimum wage to be implemented.

As Malaysia's economy reopens gradually, there is a huge increase in demand for talent to support rising operational requirements, Pang said. But some employers might hire fewer workers because their companies are forced to pay higher wages.

"However, if we look back to the data from the **Statistics Department**, we can see that when the nationwide minimum wage was inaugurated in 2014, and when it was raised in 2016 and 2019, it did not trigger widespread job losses. Both unemployment rate and GDP growth rates held steady in those years.

"That being said, it is true that the imposition of a higher minimum wage so soon after the reopening of most economic sectors could impact companies negatively, especially SME, as many are still recovering from the aftermath of the pandemic and multiple rounds of MCO.

"However, it is still imperative for wages to be increased to a baseline that would enable Malaysians to have a better economic ability to spend their money, and this will improve the country's economy at a faster rate," Pang told SunBiz.

She views a higher minimum wage as a motivator that increases the efficiency of the local labour market and decreases employee turnover.

Pang noted that some companies, including Aeon and Sime Darby Plantation, have already started to implement the higher minimum wage, and she expects more companies to follow suit.

"These companies are aware that they may run the risk of missing out on this recovery period if they do not have the necessary manpower to operate during the longer operating hours, and to serve the needs of consumers that are rebounding after the pandemic.

"An interesting point to note is that companies that are currently not able to fulfil their operational needs are already hiring part-timers and freelancers from the gig economy at daily shift rates that when added together, more than exceed the minimum wage of RM1,500.

“It shows the demand for an operational workforce by companies if they want to ride on the growth and economic rebound that comes with the reopening of the Malaysian economy and elsewhere,” she said.

Malaysia University of Science and Technology Provost for Research and Innovation Dr Geoffrey Williams said the minimum wage is meant in part to transfer money from employers to employees without funding from the government.

“The employers can pay despite the complaints that they cannot,” he opined.

Concurring with Pang, Williams said “higher minimum wages raise consumption at the lower-income segment and promote economic growth in the long term”.

Besides, increasing the minimum wage signals that Malaysia is reforming its employment environment which has been in a negative spotlight in recent years. It will improve foreign investor sentiment, according to him.

“Foreign investors will not be deterred by a higher minimum wage because they would pay it anyway. Many would be horrified that wages were so low before and that they remain so low. So increasing minimum wages is not a deterrent, it will be viewed positively.

“Second, if higher labour cost encourages firms to change their business models and introduce productivity-improving technology they can offer higher-value services in the supply chain to foreign companies that invest here. This would also help attract FDI because it signals that local firms compete on quality and technology, not on low-paid labour.”

Williams also said Malaysia does not have a properly functioning labour market in which the right wage can emerge.

“The enforcement of labour contracts, especially for foreign workers, is impossible in the current system. The imbalance between employers and employees in negotiating wages is too much in favour of employers. We do not have effective trade unions for example and certainly not in low-paid job sectors.”

Besides, wages are not determined by individual contributions to production. Employees are all given the same wage and the same terms on a take-it-or-leave-it basis, he said.

“The simple reality is that the minimum wage is necessary because of the failure of the labour market to provide fair wages. If we fully reform the labour market, with a tax credit system (negative income tax) and an effective system to enforce contracts and the rule of law then things would be different.”

Williams cited a meta-study by John Schmitt in 2013 of 64 minimum wage studies that showed insignificant effects on employment from a practical and statistical perspective.

In addition, a 2019 study in the Quarterly Journal of Economics found that increases in the minimum wage did not impact the overall number of low-wage jobs in the five years after they were introduced.

Williams also cited the work of Professor David Card, who won the Nobel Prize in Economics last year, as evidence that the minimum wage does not reduce jobs overall.

“So we do not expect a widespread loss of jobs but we might see some job losses in non-viable companies.

“SME that cannot afford to pay the minimum wage would be forced to change their business model and become more efficient. The benefits of a minimum wage is that it weans bad managers away from low-paid business models

“Those that cannot make effective changes would close but then their businesses were not viable anyway,” he said.

Center for Market Education Sdn Bhd CEO Dr Carmelo Ferlito said people earning below minimum wage are a limited part of the workforce, mainly unskilled workers (often foreign workers). Therefore, there is the risk of growing unemployment. But he sees this risk to eventually stretch over time.

The biggest effect of the higher minimum wage, he said, will be for manufacturers which limit and delay their post-pandemic recovery plans, and therefore may limit growth and create less opportunity for jobs in the future.

He also cautioned that forcing higher wages by law is a tool for bad economic consequences.

“Pay the right price for something, and the right price can only emerge in the market; also, workers are not all the same, you do not get the same for each worker; to pay them equally is a source of inequality because it does not take into account the individual contribution to the production process.”

Ferlito said that wages should be the outcome of a negotiation, not an imposition.

“We can refer to less investment too, and therefore slower growth.

“Another can be rising prices for consumer goods not only because of the higher costs (which entrepreneurs will try to transfer to selling prices) but also because higher wages increase the demand for consumption goods and therefore the price for those goods.

“The ‘original sin’ in the current debate is that it is fixated with the minimum wage while little is discussed about growth chances. Social mobility is the real issue,” said Ferlito.

<https://www.thesundaily.my/business/higher-minimum-wage-does-not-mean-higher-unemployment-YK9095274>