A MANAGERIAL PERSPECTIVE ON THE IMPACTS OF IMPLEMENTATION OF MINIMUM WAGE IN MALAYSIA

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Abstract

The main method of communication between employers and employees is through salaries. They stand for the most important facets of daily life. Malaysia's minimum wage law provides incentives for employers and employees to implement productivity-enhancing measures. The goal of the government is to make Malaysia into a nation with a highly productive and high-income economy. A minimum wage legislation will pressure businesses to increase prices in the short term, particularly for businesses that rely on low-paid labor. Firms may be compelled to shift higher up the value chain to compete. These adjustments will contribute to Malaysia becoming a high-value-added, high-income economy. The minimum wage is anticipated to have a favorable impact on the Malaysian economy in the medium to long term. A rise in employee income is also anticipated to lead to increased consumer spending and vigor in the economy. The policy will help to advance a better and more equitable wage structure as well as higher value-added economic activity.

Keywords: *Minimum wage, labor market, labor market*

INTRODUCTION

Malaysia aspires to become a developed high-income nation in the near future. Because of the development, Malaysia confronts a variety of complexities in the labor market, including increasingly sophisticated professions with low pay relative to output. According to Kaviyarasu Elangkovan (2012), labor market factors play a significant role in determining salaries in Malaysia. The labor market in Malaysia is characterized by the presence of many low-skilled workers and an excessive reliance on imported unskilled laborers. While wages are compensation for laborers who perform physically demanding tasks, the amount of wage payments is often determined daily or by the quantity of work completed. As a result, Malaysia's low wage growth in contrast to its rising productivity demonstrates an unproductive labor market and wage tyranny, particularly for low-paid workers.

The Malaysian government announced on February 5, 2022, that the national minimum wage will be raised to about RM1,500 per month by the end of 2022. This entails a raise of 25% above the RM 1,200 current minimum salary. There is always a minimum salary in Malaysia. 2013 saw the implementation of Malaysia's first monthly minimum wage of RM900. It was increased to RM1,000 (11.11%) in 2016, RM1,100 (10%) in 2019, and RM1,200 (10%) in 2020. (9.09%) (Nor M. K., 2017; Osman & Shahiri, 2014; Ahmad, Yussof, & Zakaria, 2019). As a result, the projected 25 percent growth in 2022 will be far higher than it was before. Additionally, it will go into effect while Malaysia's economy is getting back on track following COVID-19 and significant inflationary pressures. The Minimum Wage Act is designed to prevent companies from abusing their employees, to support fair wage distribution, and to provide low-wage workers with a minimum standard of living (Nor & Ibrahim, 2020). The introduction of the minimum wage is expected to play an important role in Malaysia's goal of becoming a high-income and productive economy. By encouraging businesses to invest in automation and innovative technologies, the minimum wage policy hopes to lessen reliance on low-paid immigrant labor. As a result, one of the key elements in making Malaysia a productive nation is the minimum wage. Regarding the minimum wage, opinions diverge. For instance, conventional economic theory predicts that raising the minimum wage will result in a decline in welfare (Page, Spetz, & Millar, 2005; Neumark & Wascher, 2002; Azar, 2012). Contradictory empirical data are also available. Studies have shown that the minimum wage has both negligible and detrimental consequences (Doucouliagos & Stanley, 2009; Dube, Lester, & Reich, 2010).

The implementation of the RM1,500 minimum salary effective May 1 was gazetted in the Federal Government Gazette on the 27th of April 2022. According to the gazette, starting on May 1, 2022, the monthly salary rate due to the employee who is not paid a basic salary but is paid based on wages per work, tonnage, assignment, travel, or commission shall not be less than RM1,500 (Chamber, 2022). The gazette also noted that starting on January 1, 2023, rather than May 1, only companies with fewer than five employees will be exempt from paying the RM1,500 minimum wage. The minimum wage that must be paid to an employee depends on the place of employment and is RM1,200 for areas under the administration of the City Council or Municipal Council and RM1,100 for all other places from May 1 to December 31. The Minimum Wage Order 2020 was subsequently revoked, according to the gazette.

LITERATURE REVIEW

According to the minimum wage policy established by the International Labor Organization, an employer should pay their employees the minimum wage to cover their daily living expenses and those of their families (International Labor Organization, 2014; Omar & Inaba, 2020). In a way, the minimum wage should also reflect the nation's present economic and social climate. Payments are made on a daily, hourly, or monthly basis. According to common legislation, the minimum wage must be paid to all employees when they are hired. It refers to the compensation rate that is set higher than the present salary rate from an economic standpoint (Grigsby, Hurst, & Yildirmaz, 2021). A minimum wage policy that is appropriate for each nation's economic structure is adopted by about 90% of nations worldwide. Some of them began implementing a minimum wage policy in the 1990s.

Australia, for instance, established a minimum wage regulation as early as 1904, whereas the United States did so in 1938 (Bayari, 2012; Mutari, Power, & Figart, 2002). Even developing nations like South Korea and Sri Lanka, which are in the third world, have embraced this minimum wage legislation (Baek & Park, 2016; Rahman, Subramaniam, & Singh, 2020).

Additionally, the minimum wage legislation is truly a tool to end poverty like price regulation in that it does not differentiate between the poor, middle class, and wealthy (Dabla-Norris, Kochhar, Suphaphiphat, Ricka, & Tsounta, 2015). Regardless of wealth or property position, everyone can benefit from the pricing of needs that the government controls. Like the minimum wage, wealthier people and members of the middle class can also find work at the minimum pay if they want. Teenagers from middle-class and wealthy households, for instance, tend to work most of the time and receive the minimum salary around the world. A policy is considered blunt when it is non-discriminatory. Not only do the impoverished gain from it, but also those who are not poor. The minimum wage law can be viewed as a universally applicable law (Williams, 2009).

In the case of Malaysia, the government considered social and economic factors while determining the minimum wage, including gross monthly household income, cost of living, and employment involvement (Che Ahmat, Arendt, & Russell, 2019; Ahmat, Arendt, & Russell, 2019). With more money in workers' hands to spend on products and services, even with some inflationary effects, it can be argued that the higher salary will have a net beneficial effect on the economy because it will better buffer against modest job losses (Mair, Druckman, & Jackson, 2019). There is growing empirical support for the idea that minimum wage legislation has an impact on employment among workers covered by the laws as well as the rate of economic development in a nation, both positively and negatively (Caliendo, 2019; Wang, 2019; Bruttel, 2019; Bauducco, 2018).

According to a study in the United States based on research by Ralph Smith and Bruce Vavrichek (1987), workers who get this minimum wage have an impact on consumers' ability to buy products and services, which in turn tends to support economic growth in a nation. According to a report published in 1986 by the Congressional Budget Office of the United States Congress, 4 out of every 5 workers receiving the minimum wage were receiving wages from the middle class and the wealthy in addition to the poor. These wages were being used to buy more goods and provide better service (United States. Congressional Budget Office., 1986). Some theories disagree with the claim that consumer purchasing power is a signal rather than a measure of economic growth, even though it is a gauge of a nation's capacity for economic expansion. The correlation between household spending habits and economic growth is positive, even though it just serves as a signal (Fornell, 2010).

A 10 percent increase in the minimum wage would result in a 4 percent increase in food prices. Still, overall inflation would remain below 0.4 percent, according to a census conducted by Sara Lemos of the University of Leicester in 2008 on 30 research publications on the topic (Lemos, S., 2008). These results demonstrate that, at least in the United States, it was determined that a 10 percent rise in the minimum wage would result in a 4 percent increase in food costs while the total inflation rate was less than 0.4 percent. These results suggest that a raise in the minimum wage affects the consumer price index and economic growth, at least in the United States. The minimum wage will enhance customers' purchasing power, which will have an impact on economic growth, according to Lee (2012) and Thiagarajah (2000), who both mentioned this study.

Based on the neoclassical theory of job participation, there is always enough skilled labor available to support the nation's rising production (Pissarides, 2000). Therefore, a country's economic growth will be boosted by a rise in national output. Some claim that raising the minimum wage will also make it easier for more people to find employment (Jardim, 2022; Meer & West, 2016). To put it another way, raising the minimum wage can lower unemployment (Siregar, 2022; Maloney, 1995; Marjit, Ganguly, & Acharyya, 2021).

David Card and Alan B. Krueger are well-known advocates for the minimum wage. In 1993, they conducted a study on the impact of the minimum wage on workers in the fast-food industry. They found that the higher minimum wage has increased the number of workers in fast-food restaurants. Raising the minimum wage, according to Card and Krueger (1994), can lower the unemployment rate, which will therefore enhance economic growth. Even President Clinton utilized this discovery to urge Congress to raise the federal minimum wage because it was so widely accepted (Lenhoff & Withers, 1994). However, several economists have expressed doubts about the study's findings. Finally, Card and Krueger altered their earlier finding that the minimum wage lowers the unemployment rate to one that the minimum wage has minimal impact on unemployment in favor of economic growth (Card, Katz, & Krueger, 1994; Card & Krueger, 2015).

Employment and Income During COVID

	('000)			Changes (%)		
	H1	2021	2022	H1	2021	2022
Available Labor	15,936.20	15,847.90	16,117.30	1.60	1.20	1.70
Labor Utilization	15,179	15,116.70	15,468.60	1.1	1.1	2.3
Unemployment	757.2	731.2-760.7	648.7	-4.8	(4.6)-(4.8)	-4

H1	Jan to Jun 2021
2021	Estimation
2022	Forecasted

Table 1: Malaysia Labor Market Indicator (Ketua Ekonomi, Bahagian Fiskal dan Ekonomi, Kementerian Kewangan Malaysia, 2021)

Based on Table 1, the recovery in the labor market remained uneven in the first half of 2021 following the implementation of PKP 3.0 to curb the increase in new cases of COVID-19. Restrictions targeted on economic activity and social to reduce the spread of pandemics have weakened aggregate demand for labor. Although the number of employments recorded growth of 1.1% or 151,790 employment, but an increase such is lower than labor force growth of 1.6%. By that is, the unemployment rate remains high i.e., 4.8% or 757,200 people compared to 4.3% in the same period the previous year.

The COVID-19 pandemic and the implementation of various Movement Control Order (MCO) throughout Malaysia has adversely affected people and businesses, especially micro, small, and medium enterprises. Some sectors could not operate normally as a result of movement restrictions and changes in user behavior thus affecting employment and economic resilience.

	2019	2020
Percapita Income	RM46,450	RM43,475
Average salaries	RM3,224	RM2,933
Unemployment	508,200	711,000

Table 2: Selected Statistics from the Department of Statistics Malaysia (Ketua Ekonomi, Bahagian Fiskal dan Ekonomi, Kementerian Kewangan Malaysia, 2021)

Table 2: Selected Statistics from the Department of Statistics Malaysia (Ketua Ekonomi, Bahagian Fiskal dan Ekonomi, Kementerian Kewangan Malaysia, 2021)
As shown in Table 2, the Department of Statistics Malaysia (DOSM) reported per capita income in 2020 decreased by 6.5% to RM43,475 from RM46,450 in 2019 (Ketua Ekonomi, Bahagian Fiskal dan Ekonomi, Kementerian Kewangan Malaysia, 2022). At the same time, average salaries and wages decreased by 9% from RM3,224 in 2019 to RM2,933 in 2020. The number of unemployed also increased by 39.9% from 508,200 people in 2019 to 711,000 people by 2020. The decline which is shown in the statistics has been causing an economic contraction by 2020.

DISCUSSION

Malaysia's minimum wage is determined by the protection given to the lowest-income workers. These are often workers in socially excluded groups such as young people and women. Without direct government intervention, they may lack the bargaining power to demand higher wages. Some argue that raising the minimum wage hurts low-wage workers because it is an artificial value imposed by the government, not determined by market dynamics. This is because people with low skills and experience are less productive. As a result, higher cost structures postpone hiring these employees at lower rates until they gain more experience. However, the wage policy in Malaysia should be based on the domestic context. In 2013, the minimum wage was first set at RM900 per month for Peninsular Malaysia and RM800 for East Malaysia (Che Ahmat, Arendt, & Russell, 2019). The rate has increased gradually over the years. About a decade later, it is expected to reach RM1,500 a month effective May 1, 2022.

This seems to be a fair rate given that the International Labor Organization (ILO) reports that the average worldwide minimum wage for developing and emerging countries is about 67% of the median wage (International Labor Organization, 2020). At the end of 2019 before the COVID-19 pandemic, according to the Department of Statistics Malaysia (DOSM), the median income in Malaysia was RM2,442 with the minimum wage set at RM1,200 (Hussain, 2022). However, the COVID-19 pandemic has reduced the median income to RM2,206, the minimum salary of RM 1,500 representing around 68 percent, which is in line with the average for the world, according to DOSM data. The median pay is anticipated to surpass 2019 levels by 2024, with the economy projected to experience a robust recovery of more than 5.5 percent in 2022. At some point, this will equal a minimum pay that is 60% of the median wage (Department of Statistics Malaysia, 2022).

Research on the implementation of previous minimum wage levels in Malaysia shows that it tends to increase labor productivity, function as a driver, and reduce employee turnover (Al-Suraihi, Samikon, Al-Suraihi, & Ibrahim, 2021). Long-term research has demonstrated that it lowers unemployment and raises labor participation rates. According to research, the earlier hikes in 2016 did not significantly reduce the need for workers (Hussain, 2022). It has been suggested that increasing the minimum wage would increase inflationary pressures. Most workers' incomes in metropolitan areas in Malaysia, however, are close to the suggested amount of RM1,500. So, there is not much more price pressure in this area. According to the existing strategy, it is expected that these new rates will contribute to the disparity between earnings and costs in urban and rural areas.

Additionally, Malaysian employment is not much influenced by inflation. Research in Malaysia demonstrates that the labor market in Malaysia has a propensity to adhere to the wage-efficiency theory, which states that greater expenses (wages) will be offset by higher productivity and employee retention (Basri, Karim, Ismail, & Sulaiman, 2018). As a result, there will not likely be significant inflationary pressures because rising productivity will then balance the possibility of rising prices. The new rate of greater minimum wage may point to a favorable picture.

However, there is a need to investigate alternatives to the minimum wage in the future given the possibility that it could imperil Small and Medium Enterprises (SMEs) that are unable to offer higher compensation. Currently, company owners play a part in eradicating poverty through the application of the minimum wage law. However, a new strategy utilizing social assistance programs for low-wage employees will enable all taxpayers to share the financial burden. B40 households will gain from partial coverage of housing costs, healthcare costs, and childcare costs, among other things.

Malaysia has long been caught in the middle-income trap. This situation is due to the country's economic policy, which has always attempted to compete as an export hub by utilizing low labor costs. The present goal of Malaysia is to end this cycle and attain high revenue. The question of whether Malaysia needs a sizable percentage of the workforce to be highly trained is being discussed. Instead of employing high-skilled workers, Malaysia depends too heavily on the participation of low-skilled individuals. The brain drain issue, where many gifted and highly educated Malaysians leave the nation, is one of the causes.

For a country to achieve the status of a developed country, it must be driven by technology, the capacities of its economic sectors, strong consumer purchasing power of goods and services, and the development of highly qualified and productive employment participation. In addition to upholding minimum wage laws, it is desirable to implement policies that help workers become more productive, which in turn promotes the growth of the Malaysian economy. Additionally, today's economy of the country still heavily relies on the use of cheap labor. Due to its low labor costs, Malaysia is unquestionably still competitive, but it still lacks a capital-based, technical, and highly skilled human capital-based economy. Malaysia also employs the possibility of permitting the private sector to progressively modify the labor-to-capital mix of their manufacturing. As labor income rises, the ratio of labor capital will increase, boosting consumer spending power and bringing down the unemployment rate, which will support Malaysia's economic growth. Additionally, Malaysia uses the price control mechanism and Petroleum Subsidy to control the cost of living, making Malaysian workers less expensive to hire due to the low cost of living (Bank Negara Malaysia, 2015).

Furthermore, Malaysia introduced a wage system known as the Productivity Related Wage System before the minimum wage was imposed (Bahagian Perancangan dan Penyelidikan Dasar, Jabatan Perhubungan Perusahaan Malaysia, 2013). The balance between the labor force's average yield and the number of hours of work that are available during the production process is how employee work productivity is typically described. Considering this, the idea of productivity refers to mental attitudes and behaviors that are focused on constant development (continuous improvement).

Additionally, two basic standards can be used to determine productivity: value productivity and physical productivity. Value productivity is measured based on the values of ability, attitude, behavior, discipline, motivation, and dedication to work, whereas physical productivity is measured in terms of the quantity and quality of things produced. Some businesses in Malaysia still use this system today. With employment involvement and production productivity come wage changes in this system. Therefore, increased employment participation should go hand in hand with any salary gain achieved through skill development. This increases the company's ability to compete, and employees benefit from job security and a minimum wage that is in line with their abilities. Since market forces in Malaysia decide the wage rate of the private sector and wage setting is done through supply and demand, it is the responsibility of a policymaker to execute the minimum wage. By optimizing its human resources, a corporation can increase productivity among its workers. The development of motivation as one of the elements that might directly influence a rise in employee output is a strategy for enhancing human resources. Offering adequate compensation from the company is one of the strategies to encourage workers to boost their output. When the pay offered to the employees is equal to the effort given, the employees will be motivated to work as hard as they can. As a result, remuneration may have an impact on an increase in employee productivity. On the other side, insufficient compensation will decrease employees' motivation and passion for work rather than boost production.

The workers aim to meet the most basic demands in their lives—such as the need to eat, drink, dress, and live—with the money they receive. As a result, when it comes to paying each employee, the business should take care to do it in a way that ensures the lowest wage is sufficient to cover their employees' fundamental needs. It has a strong correlation because if an employee's basic requirements are not addressed, their productivity will suffer. Giving fair and reasonable compensation is necessary for this so that workers feel valued by the business. When employees feel valued by their employers, they will typically work harder for them, increasing productivity and helping the organizations reach their objectives.

This ensures that Malaysia is always competitive in global economic competition. The Institute for Management Development World Competitiveness (2022), reported that Malaysia is ranked 32nd out of 64 countries in terms of competitiveness. According to the research, this position needs to be enhanced without incurring additional expenses, although productivity improvement is also needed. The National Wage Consultative Council and the Collective Agreement are two of the groups that will work with the government to set the minimum wage through market forces. The government thinks it would be less appropriate to implement a minimum wage soon for all work sectors since it will make Malaysia less competitive in attracting foreign investment. In line with the nation's development objectives, the government seeks to construct a wage structure based on productivity. While raising the standard of living for employees, this policy aims to keep the country competitive. The minimum wage law has contributed to the growth of the Malaysian economy, even though its impact has slightly decreased. This is because the minimum wage policy in contemporary Malaysia and other countries has a positive impact since it must be assessed in terms of numerous economic, political, social, global markets, consumer purchasing power, infrastructure, education, and input sources. This is parallel to Nuemark et.al (2004) recommendation that minimum wage can influence economic growth. The indicators of the consumer price index, the employment participation rate, and the unemployment rate serve as benchmarks for evaluating the success of the minimum wage policy.

CONCLUSION

Salaries are the primary means of communication between employers and employees in any working relationship. They also represent the most significant aspects of daily living. To establish an organization, wages or salaries are crucial for every employer. In addition to the minimum pay rate, which is a measurement of the services provided by each work performed in each organization, wages are a significant source of revenue for employees to decide the level of their quality of life. In contrast to employers, the set compensation is a component of an organization's production costs. As a result, it is crucial to figure out the level of competition, job performance, and the kind and amount of people needed to complete each task inside the firm.

With the implementation of the latest minimum wage exercise in Malaysia, it presented both sides of the argument. Among the positive arguments is that with this pay increase, more people who were previously unemployed will be enticed to start working. When more people start working because of higher wage incentives, the unemployment rate will decline. Another positive benefit derived from this exercise is that the rise in household income due to the growth in salaries will improve consumer spending power. The amount of extreme poverty in the nation will be able to decline because of this condition. Less reliance on government aid, including subsidies, medical care, and other services, is the outcome of this growth in capacity. The government will be able to indirectly reduce costs for taxpaying citizens. Furthermore, the rise in pay they receive will feed the economic cycle once more. With an increase in their earnings, spending on food, childcare, and other family expenses will also rise. In addition to increasing tax income, this has a direct positive impact on the local economy, including businesses like restaurants and shopping.

The minimum wage policy offers incentives to businesses and employees to apply productivity development initiatives in keeping with the government's objective to turn Malaysia into an economy with high income and high productivity. Businesses may be more inclined to invest in automation and modern technology that can increase production capacity when the cost is proportionate to diminishing capital and people, relying solely on low-paid foreign labor. Businesses may be encouraged to offer training to enhance the abilities and output of their personnel. Firms may be compelled to shift higher up the value chain to compete if they are less dependent on low-skilled, low-wage people. Employees may be enticed to enter the business before it receives less attention by the opportunity of more jobs at greater earnings and the possibility of learning higher skills. These adjustments will contribute to Malaysia becoming a high-value-added, high-income economy.

One of the criticisms of the minimum wage was that it would force firms to pay their employees more compensation than they would have otherwise. Due to this situation, the company will have to pay greater labor costs, which might not be consistent with the productivity of the organization. Given that the adoption of the minimum wage has increased the cost of workers' compensation, an increase in the price of products and services will also occur. However, in the medium to long term, it is believed that the minimum wage legislation will help the Malaysian economy. In the short term, it is expected that the minimum wage legislation will have little effect on inflation. The impact on company costs is predicted to be limited because greater productivity would offset the consequences of pay increases.

A minimum wage legislation will pressure businesses to increase prices in the short term, particularly for businesses that rely on low-paid labor. This forces adjustments to be made in a variety of ways, such as accepting cost increases by reducing margins, boosting production, reducing overall expenses by increasing efficiency, and cutting back on staff. In some cases, businesses can pass through cost increases to customers. For businesses operating in a highly competitive market setting, this approach might not be the best choice. If this policy is immediately adjusted, it may result in cost-reducing measures being taken or, if appropriate, through steps that transfer expenses for more employee-intensive businesses that are experiencing financial limitations.

The minimum wage policy is anticipated to have a favorable impact on the Malaysian economy in the medium to long term. A minimum wage policy against inflation is anticipated to have well-controlled short-term costs and hazards. Because the impact of pay increases will be lessened by greater productivity, the impact on corporate costs is anticipated to be minimal.

In a nutshell, given that low-income households have larger MPCs (marginal propensity to consume), a rise in employee income is anticipated to lead to increased consumer spending and more vigor in the economy. The minimum wage policy will help to advance a better and more equitable wage structure as well as higher value-added economic activity and higher-skilled employment. Other productivity-improving initiatives, such as offering training to supplement staff abilities, enhancing the standard of education, and facilitating investment in automation and innovative technology, are used in conjunction with this policy to further its goals. The objectives of the minimum wage policy are anticipated to be accomplished with the aid of institutional and governmental support, oversight, and proper enforcement.

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