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IMPACT OF THE MINIMUM WAGE ON THE EMPLOYMENT RATE OF THE POPULATION

Abstract: this article outlines the impact of minimum wage policies on employment in Malaysia. It examines the historical context and economic theories surrounding minimum wage, highlighting mixed effect on job availability, particularly in low-skill sectors.

employment

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ВЛИЯНИЕ МИНИМАЛЬНОГО РАЗМЕРА ОПЛАТЫ ТРУДА НА УРОВЕНЬ ЗАНЯТОСТИ НАСЕЛЕНИЯ

Аннотация: в этой статье описывается влияние политики минимальной заработной платы на занятость в Малайзии. В ней рассматриваются исторический контекст и экономические теории, связанные с минимальной заработной платой, подчеркивается неоднозначное влияние минимальной заработной платы на доступность рабочих мест, особенно в секторах с низкой квалификацией.

Ключевые слова: минимальная заработная плата, занятость

Apart from domestic workers, all workers are subject to Malaysia's minimum wage regulation, which was first implemented in 2013. The minimum wage was initially established at RM 900 per month in Peninsular Malaysia and RM 800 per month in the Federal Territory of Labuan Sabah, and Sarawak [2].

The Malaysian government increased the minimum wage for workers in the city council or municipal council districts to RM5.77 hourly and RM1200 monthly during the early stages of the coronavirus disease (COVID-19) pandemic in 2020. Nonetheless, the minimum salary for workers in other areas would continue at RM5.29 hourly and RM1100 monthly. Dato' Sri Ismail Sabri Yaakob, the former Prime Minister of Malaysia, declared in March 2022 that the minimum wage would be increased to RM1500 monthly from 1 May 2022 onwards, which was an increase from the current RM1200 monthly. Increases in the minimum wage would be implemented in May 2022 for private sector firms with five or more workers and effective in January 2023 for firms with fewer than five workers. The legislation resulted from the Ministry of Human Resources reporting in 2012 that 33.8% of private-sector employees were compensated with less than RM700 monthly, which was below the poverty line income (PLI) of RM800 determined in 2009. The legislation would guarantee that all employees receive a salary above the poverty threshold, thereby enhancing life quality [3].

Following stakeholder consultation and consideration of National Wages Consultative Council (NWCC) ideas, the government sets the minimum wage levels.

The Council's suggestions may be adopted by the government, or it may supervise the development of new ones. To direct these salary changes, the NWCC has set the standards and a process.

Technical specialists comprise the National Wages Consultive Council, an advisory body established under the National Wages Consultive Act of 2011. At least four meetings of the Council are required annually. Prior to offering suggestions, the Council needs to talk to the public regarding the coverage and pay rates. Gather information, evaluate it, and carry out and publish studies on wages and socioeconomic variables. The Council may also offer suggestions regarding the areas or industries that the minimum wage should apply to or not apply to, as well as matters pertaining to the wage policy's implementation [1].

The Minimum Wages Order 2022 establishes a minimum wage that is the same in every state, city, and region of nation. The national minimum wage is paid to both domestic and foreign workers who have a signed contract of service.

A "contract of service" is any written or verbal agreement, explicit or implicit, whereby one party agrees to hire another as an employee and the other agrees to work for them, according to Section 2 of the National Wages Consultive Council Act 2011 (Act 732). Apprenticeship contracts are not included in this definition.

Raising the minimum wage will result in fewer jobs, according to neoclassical economic theory, after two potential unfavorable responses from businesses. Raising the minimum wage could force companies to raise the costs of their goods and services, which could lead to a decline in customer demand. Additionally, high-skilled individuals would replace low-skilled workers with higher minimum salaries, a phenomenon known as the labor substitution effect. Previous research showed that raising the minimum wage will encourage businesses to hire highly skilled or non-poverty workers, which would negatively affect low-skilled or poor people [4].

One of the primary objectives of implementing a minimum wage in Malaysia is to alleviate poverty among the lowest-paid workers. By increasing the minimum wage, the government aims to ensure that workers can better meet their basic needs, such as food, housing, healthcare, and education. This increase can lead to improved living standards, benefiting not only individual workers but also their families.

In discussions around minimum wage, it is essential to recognize that uplifts in income can directly translate to enhanced access to essential services. With more disposable income, low-wage workers might invest more in healthcare and education, fostering a healthier and better-educated workforce in the long term.

However, raising the minimum wage can bring about inflationary pressures. Businesses facing increased labor costs may choose to pass these costs onto consumers, raising prices for goods and services. This scenario can effectively erode the purchasing power of the wage increases, limiting the intended benefits for low-income workers.

The relationship between minimum wage increases and employment is complex and often debated. Some studies suggest that higher minimum wages may lead to job losses, particularly in small businesses that may not have the financial flexibility to absorb increased labor costs. Conversely, other research indicates that employment levels may not significantly decline, and in certain cases, could even improve as businesses experience higher consumer spending due to increased wages.

Higher minimum wages can also affect the competitiveness of various sectors within the Malaysian economy. Businesses operating on thin margins may find it challenging to comply with wage increases, potentially leading to workforce reductions or even closures. However, on the flip side, some sectors may experience benefits from increased productivity and reduced turnover due to better employee satisfaction and retention.

The impact of minimum wage increases can vary widely across different sectors of the economy. Industries such as agriculture, retail, and services, which typically rely on lower-wage labor, may feel the effects more acutely than higher-skilled sectors. Additionally, Malaysia's diverse economic landscape features significant regional disparities, with varying costs of living across the country. A uniform minimum wage may not adequately address these disparities, prompting discussions on tailored wage rates for different local economies.

A considerable portion of Malaysia's labor force operates in the informal economy, where minimum wage laws may be challenging to enforce. This reality means that many workers in this sector do not benefit from wage increases, shining a light on the need for stronger labor market regulations and protections for informal workers. Increased minimum wages can have broader economic effects, contributing to boosted domestic demand. Workers with higher incomes are likely to spend more on goods and services, stimulating economic growth and potentially fostering a cycle of reinvestment within the local economy [4].

Despite the potential benefits, the effective implementation of minimum wage policies poses several challenges. Monitoring compliance and ensuring that employers adhere to mandated wages require robust regulatory frameworks and enforcement mechanisms. Without these, the intended benefits of minimum wage increases may not be fully realized.

In summary, the impact of minimum wage policies in Malaysia is multifaceted, encompassing benefits such as poverty reduction and improved living standards, as well as challenges including inflation and potential job losses. As the government navigates the complexities of labor market dynamics, ongoing research and careful evaluation of both positive and negative outcomes will be critical to optimizing the performance and effectiveness of minimum wage policies. The goal remains clear: to create a balanced economic environment that supports both growth and social equity.

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