

Balancing the cost and benefit of minimum wage

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KOTA KINABALU:

A study must be conducted to estimate the potential effects on unemployment rate, inflation rate, micro and small enterprises, foreign direct investment (FDI) and the economy as a whole, before any decisions are made on the increment of the minimum wage in the future.



Universiti Malaysia Sabah's (UMS) Faculty of Business, Economics and Accountancy (Financial Economics Programme) Senior Lecturer Dr Rafiq Idris (pic) said in addition to that, engagement involving all stakeholders is necessary.

"I support the current effort to increase the minimum wage. It's reasonable. However, there should not be a sudden increase as it may affect micro and small enterprises adversely in the future," he said.

Dr Rafiq said the sharp increase in the cost of living in recent years had become the subject of heated debate in Malaysia and many have come up with proposals to reduce the cost of living.

One of the many suggestions is to increase the minimum wage rate. In the recent budget announcement, the Government announced that a minimum wage of RM1,100 is to be enforced by January 1 next year.

A few months back, the Government had expressed its intention to increase the minimum wage from RM920 to RM1,050 starting January next year. However, the 2019 National Budget highlighted that it is going to be increased to RM1,100.

Theoretically, in economics, minimum

wage is a type of price control where minimum wage is being set above the equilibrium wage, he said, adding minimum wage is generally being introduced or reviewed when the authority believes that the existing wage is unfair for low income workers.

"What are the potential benefits of an increase in minimum wage? First, in general, it has the potential to mitigate the problem of migration. If opportunities are limited and wage is too low in certain areas, this can lead to the problem of migration.

"In addition, from the perspective of workers, it is good because it can help in cushioning the impact of the rising cost of living," he said, adding that despite the positive potential effects, there are also potential negative effects.

"First, it can lead to unemployment effect. The increase in wage will give a budgetary pressure to many employers especially the micro and small enterprises.

"The ultimate reaction to this is either stop taking new workers, stringent in taking new workers or retrench/reduce the number of existing workers," said Dr Rafiq.

"Secondly, the effects can be inflationary. If a company decides to maintain or increase the number of workers for expansion, they may end up by increasing the selling price of their goods or services. This is to avoid reduction in profits.

"Third, if the increase is too sharp, it may affect the FDI inflow into the country and there will be a risk of outflow as well, if investors feel the salary does not match with the skills or level of productivity," he said.