

Minimum Wage Level and The Number of Jobs in Malaysia

Maimunah Ali^{1,*}

¹Department of Business Management, Faculty of Technology Management and Business, Universiti Tun Hussein Onn Malaysia, Parit Raja, Batu Pahat, 86400, Johor, MALAYSIA

*Corresponding Author Designation

DOI: <https://doi.org/10.30880/rmtb.2020.01.01.067>

Received 30 September 2020; Accepted 01 November 2020; Available online 01 December 2020

Abstract: This study aims to assess the implementation of the minimum wage level on the number of jobs offered in Malaysia. Gazetted by the Minimum Wages Consultative Council in 2011, the gazette became law in 2013. Economic theories suggest that the implementation of the minimum wage law would alleviate the unemployment level in a country due to the reduction in vacancies and job placement being offered by employers to avoid incurring higher production cost. Therefore, this employs analysis of time-series data from JobsMalaysia website and the minimum wage level to ascertain the effect of the minimum wage level on the the number of total jobs offered in Malaysia before and after the implementation of the Minimum Wage Act 2013. The results show that the minimum wage level has little or insignificant effect on the number of jobs offered in Malaysia.

Keywords: Wage, Job, Employee

1. Introduction

Minimum wage refers to the lowest wage hourly, daily or monthly payable to employees (Human Resource Ministry, 2013). Under the Minimum Wage Order 2012, this interpretation of minimum wage is exactly the same as the one stated under Section 2 of the Minimum Wage Consultative Council 2013 (Act 7320) as confirmed by Abdullah (2010). There are various reasons why the Minimum Wage Order is enacted. Among them are to ensure that workers and their families are able to fulfill their basic necessities, ensuring adequate social protection to workers, encourage industries to move into technology incentive investments that enhance global production chain and workers' productivity as well as to reduce the nation's dependency on less-skilled labour (IDEAS, 2010). According to the International Labour Organization (ILO), minimum wage is an ideal minimum amount, that has to be paid by employer to employees in accordance to the daily minimum needs of a worker and his or her family (ILO, 2020).

*Corresponding author: maimunah@uthm.edu.my

2020 UTHM Publisher. All right reserved.

penerbit.uthm.edu.my/periodicals/index.php/rmbt

1.1 Research Background

Malaysia has enacted the Minimum Wage Act starting 1 January 2013. According to this Act, the minimum level paid to employees should be at RM900 per month (RM4.33 per hour) for the Peninsular of Malaysia, while the rate for Sabah, Sarawak and the Federal State of Labuan is at RM800 per month. The rate applies to all local and foreign labours except for domestic help and gardener. The aim of the Minimum Wage Act (2013) is to ensure that the basic needs of workers and their families are fulfilled, to protect them from exploitation and to encourage firms to explore into a higher value chain investment and productivity, through technology incentive expedition (Ministry of Human Resource, 2013). However, the Malaysian government has increased the minimum wage for major towns under 56 city and municipality councils. The minimum wage rate experiences further changes with the recent being The [Minimum Wages Order 2020](#) ('2020 Order') that was gazetted on 10 January 2020 and came into operation on 1 February 2020. When the 2020 Order comes into force, two different sets of minimum wage rates will apply in Malaysia.

For an employee whose place of employment is in any of the 16 City Council areas or the 40 Municipal Council areas specified in the Schedule to the 2020 Order, the minimum wage rates are as in Table 1.

Table 1: Minimum wage rate at 16 Councils Areas or 40 Municipal Council Areas

Minimum wage rates				
Monthly	Daily			Hourly
	Number of working days in a week			
	6	5	4	
RM1,200.00	RM46.15	RM55.38	RM69.23	RM5.77

For an employee whose place of employment in Malaysia is in any area other than the City Council areas or Municipal Council areas specified in the Schedule to the 2020 Order, the minimum wage rates are as in Table 2.

Table 2: Minimum wage rate in any area other than City Council or Municipal Council

Minimum wage rates				
Monthly	Daily			Hourly
	Number of working days in a week			
	6	5	4	
RM1,100.00	RM42.31	RM50.77	RM63.46	RM5.29

. The new wage hike came into force on February 1, 2020. The minimum wage is now RM1,200 (US\$283) per month, an increase of 100 ringgits (US\$23) from 2019. The increase in the minimum monthly wage under the 2020 Order to RM1,200 per month in major cities in Malaysia was announced during the 2020 Malaysian Budget. In addition, the 2020 Order increases the minimum monthly wage for the other parts of the country by RM50 to RM1,100 (The Star, 2020).

1.2 Problem Statements

Although the increase in minimum wage rates seeks to assist workers to cope with the high cost of living in Malaysia, the increase may also drive up the cost of production and indirectly result in an increase in the cost of living and reduce the attractiveness of the country to foreign investors. The rationale for the different wage rates based on the locality of the place of employment is to account for the difference in cost of living between the localities set out in the Schedule to the 2020 Order and the other locations in Malaysia. The adoption of different minimum wage rates based on the place of employment of an employee may have an anomalous effect on an employer who has places of business within and outside the localities set out in the Schedule to the 2020 Order. For example, if an employer has a manufacturing facility located within one of the localities set out in the Schedule to the 2020 Order, and another located outside those localities, the employer will be required to apply different minimum wage rates to its employees who carry out the same job functions merely by reason that they are employed at different localities.

Opponents of the minimum wage law assert that the act of fixing the amount to which workers are paid would cause businesses to shut down, restrict employment and that it could drive away capital since fixing the amount paid to workers caused firm's production cost to increase (Webb, 1912). According to Neoclassical Theory, firm will respond to a rise in minimum wage in two ways. First, it will cut employment and the number of jobs offered in the labour market while secondly, firm will substitute high-skilled labour for less-skilled workers whose wages have risen (Case, Fair, Oster, 2017). However, recent models have shown that minimum wages can lead firms to increase employment such as Flinn (2006) and Drazen (1986). In general, these models suggest that employment effects may depend on the group of workers affected and on the specifics of labour markets. Given the nature of theory ambiguities, empirical studies on the Malaysian data are taken to test and identify the consequences of the Minimum Wage Law on the Malaysian Labour Market.

1.3 Research Questions

This paper addresses the following research question:

Does minimum wage rate affects the number of jobs offered in Malaysia?

1.4 Research Objectives

To examine the effect of the minimum wage rate on the number of jobs offered in Malaysia.

1.5 Significance of the Study

The minimum wage enacted in 2013 is one of the tool used to enhance workers welfare in Malaysia. The Workers Act 1955 that was in force previously seems to side with employers in terms of wages and welfare of workers (Sabri, 2015). The implementation of the minimum wage rate has the potential to reduce poverty among workers by increasing their purchasing power through the increase in income level. According to the ILO, the minimum wage rate could also be used as an anti-poverty tool in over 1,00 countries especially among women and child labours by increasing the salary above their current income. Furthermore, minimum wage rate is to aid the lower income earners especially those with lower skills and educational level (IDEAS, 2010). Results from this study could also influence the government policy on further legalising minimum wage rate on different types of labour market and on different segments of the job markets in Malaysia.

1.6 Scope of the Study

This study focuses on the number of jobs in Malaysia prior and post implementation of the Minimum Wage Act 2013. Thus, a time series data on the number of jobs from 2010 – 2018 are analysed using descriptive statistics.

2. Literature Review

Chand (2016) asserted that the theory of wage can be classified as the wage fund theory, the living allowance theory and extra value salary theory. The wage fund theory was introduced by Adam Smith (1723 – 1790), based on the assumption that the wage paid to the workers comes from a pool of fixed wealth fund of the employer. Furthermore, he claimed the wage fund existed from saving where the demand for labour and wage is depended on the size of the wage fund available. Thus, the bigger the size of the wage fund, the higher would be the salary of the worker and vice versa (Case *et al.*, 2017). Ricardo (1823) on the other hand, concluded that the living allowance theory defined that workers are paid to enable them to create and sustain competition without disrupting the status quo. The basic assumption used is should the workers are paid more than the cost of living, the number of workers will increase and it will alleviate the wage level similar to the level of living cost. Vice versa, should the workers are paid less than the cost of living, the number of workers will drop, famine, disease and malnutrition will spread. Therefore, Ricardo (1823) concluded that the wage rate should always increase in accordance to the cost of living. This cost of living wage is also known as the minimum wage. Marx (1883) argued that the added value theory is based on the assumption that labour has a similar price as salary. He further asserted that payment of wage in accordance to the cost of living is an advantage to the firm since the excess wealth will go to the owner instead.

The demand for labour is a derived demand since labour is a factor of production. The derived demand for factor is a production decision of firms. The decision to determine the quantity of factor used in a production operation relies on factor's price. One important criterion used is the effect of the additional factor cost on the additional output, known as Marginal Product Theory. The theory of marginal product calculated the value of the firm should it increase output by adding one or more factor to the current production. Therefore, the firm decision to hire additional worker should be based on the comparison between the marginal product of labour and the marginal cost of hiring worker (Parkin, 2018). According to the neo-classical theory, changes in the demand for labour depend on three factors; the firm's production price, the price of other factors of production and technology. The firm's output price affects the firm's demand for labour through the value of marginal product. The higher the firm's product price, the higher the value of marginal product. Thus, the demand for labour will also increase as firm's increase their production to meet supply. The price of other factors of production contribute to the changes in the demand for labour through factor substitution effect. Should the price of other factors increase, firm will substitute other factors with labour in the long-run in accordance to the economies of scale. From the view point of technology, the introduction of new technology reduces the demand for labour. Technology increases productivity by increasing output using the same amount of labour or production moves from labour-incentive to capital-incentive.

3. Research Methodology

The research used quantitative method where numerical data are employed to study the effect of minimum wage rate on the number of jobs offered in Malaysia. The data on minimum wage rate is taken from the website of the Human Resources Ministry while data on number of jobs offered are taken from the portal of JobsMalaysia.com.

3.1 Research Design

This study is a comparative research design to study the effect of minimum wage rate on the number of jobs offered in Malaysia. It is a quantitative study involving secondary data from official reports and websites of government agencies.

3.2 Data Collection

Data are secondary based on reports and websites of government agencies in Malaysia. The types of data taken no of jobs offered in Malaysia that are broken down into nine groups of jobs according to MASCOM (2008). They are managers, professional, technician and allied professional, clerical worker, services and sales worker, agriculture skill worker, forestry and fishery, skilled crafts, machine operator and installation and basic work. These types of jobs are then further divided into skilled, semi-skilled and less-skilled.

3.3 Data Analysis

The empirical study used descriptive and inferential statistics to analyse the effect of minimum wage rate on the number of jobs offered in Malaysia. Apart from using frequencies, percentage and mode, the use of comparative analysis such as the chi-square test is used to analyse the before and after data, given the non-normality test result.

4. Data Analysis and Results

The data are arranged according to trend in the number of jobs offered in Malaysia from 2010 – 2018 according to the sates in Malaysia.

4.1 Number of Jobs Offered

Figure 1 shows the trend of jobs offered in percentage according to the states in Malaysia from 2012 – 2014.

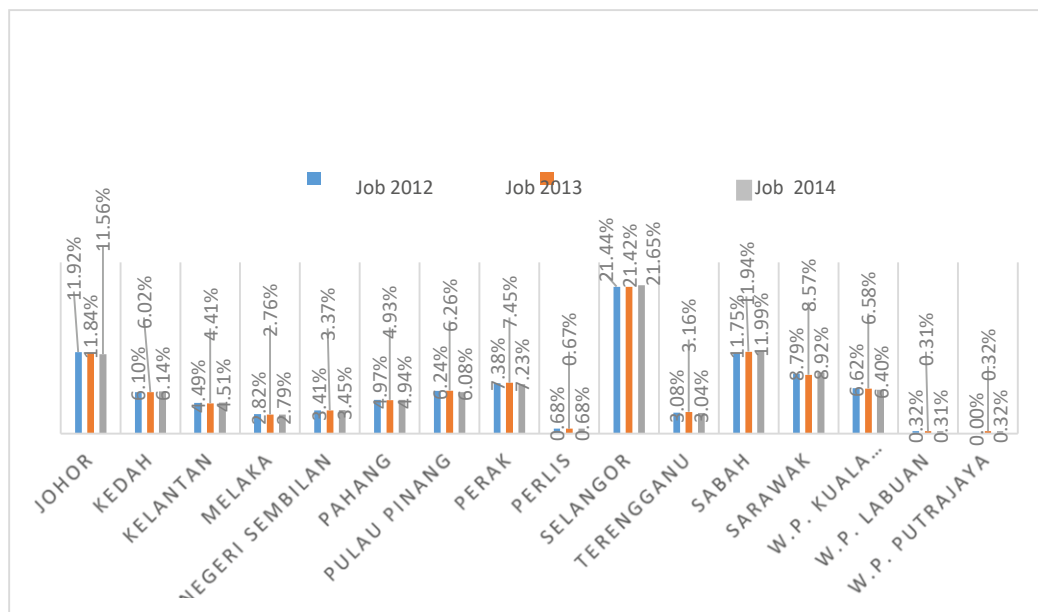


Figure.1: Number of jobs offered according to states (source: DOSM, 2018)

According to Figure 1, jobs offered in percentage from 2012 – 2014 according to states in Malaysia. Areas that experience the highest changes in the number of jobs offered are Selangor and the Federal Territory Kuala Lumpur. In Selangor, there is a 0.21% increase between 2012 – 2014 totalling up to 225,000 jobs in the said period, while in Kuala Lumpur, there is an increase of 0.31% in the number of jobs offered between 2012 – 2014. Figure 2 on the other hand, showed the trend in the number of jobs offered from 2015 to 2017 according to the states in Malaysia.

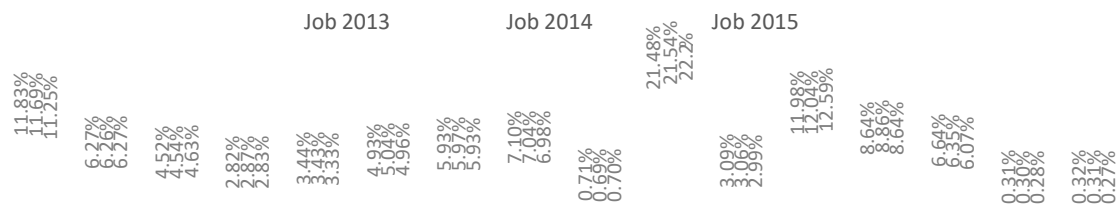


Figure 2: Number of jobs offered according to states from 2015 – 2017 (source: DOSM, 2018)

Figure 2 showed there seems to be a little reduction in the number of jobs offered. Majority of the states showed little dip in the number of jobs offered such as Johor, Kedah, Kelantan, Kuala Lumpur and Labuan. A comparative analysis on the number of jobs offered according to the period before and after the implementation of the minimum wage rate was conducted to show the effect of the implementation of minimum wage law in Malaysia using a chi-square test. The results are shown in Table 3.

Table 3: Results of chi square analysis

<i>Chi-square</i>	Value	Df	P value (2-sided)
Pearson Chi-Square	16.000 ^a	15	.382
Likelihood Ratio	15.442	15	.420
Linear-by-Linear Association	.067	1	.796
N of Valid Cases	16		

H1: There is a significant change in the number of jobs offered before and after the minimum wage rate implementation.

The chi square result shows a p value > 0.005, thus the null hypothesis is accepted. There is no significant change in the number of jobs offered in Malaysia before and after the implementation of the minimum wage rate.

5. Discussion and Conclusion

Our finding showed that the implementation of the minimum wage rate does not significantly changes the number of jobs offered in Malaysia from 2012 – 2017. This is supported by Parkinson *et al.* (1992) that stated higher salary will not only encourage labour to enter into market, but will also reduced job turnover that will in turn increases the cost of production should workers are replaced frequently. Job satisfaction that comes from higher salary could increase labour productivity that lead to higher profits

for the firm.

Acknowledgement

The authors would also like to thank the Faculty of Technology Management and Business, Universiti Tun Hussein Onn Malaysia for its support.

References

- Abdullah, A. (2010). *Adakah gaji minima cara terbaik untuk membantu golongan miskin ?* Retrieved from <http://ideas.org.my/wp-content/uploads/2010/07/Gaji-Minima-untuk-membantu->
- Chi *et al.* (2011). Quality management practices and competitive performance: Empirical evidence from Japanese manufacturing companies. *Intern. Journal of Production Economics*, 133(2), 518-529. doi:10.1016/j.ijpe.2011.01.024
- Fanti & Gori (2011). *Gaji Minimum Bagi Pekerja Tidak Mahir*, dipetik oleh Azura A.R (2016), Impak Pelaksanaan Gaji Minima ke atas Prestasi Kerja: Kajian Terhadap Syarikat IKS di Kawasan Utara pada 23 November 2016
- Ibrahim N. (2012). *Gaji Minimum Sektor Swasta RM900 di Semenanjung dan RM800 di Sabah Sarawak & Labuan*, Retrieved from <http://nurizspace.com/2012/05/gaji>
- Smriti Chand (2016), *Top 7 Theories of Wages– Explained*, Retrieved from <http://www.yourarticlelibrary.com/employee-management/wages/top7-theories-of-wages-explained/35346/> on 6th May 2016
- MASCO (2008). *Prinsip Pengelasan Pekerjaan*, Retrieved from <http://static.jobsmalaysia.gov.my/html/jobsm/masco/ms/Prinsip-pengelasan-pekerjaan.pdf> on retrieved 23 november 2016
- Parkin M. (2014). The demand for a factor production books of Michael Parkin, *Economics* (pp 417-424).
- Parkinson et al, (1992). *Gaji minimum dan pekerjaan pengurus*, Retrieved from <http://ir.unimas.my/3460/1/Faktorfaktor%20yang%20mempengaruhi%0kadar%20pusingan%20ganti%20kerja.pdf> on 23 November 2016
- R. Blasingame (2016). *Placement*, Retrieved from <https://www.ideals.illinois.edu/handle/2142/5566>, on 5th May 2016
- Sabri, A. R. (2015). *Pindaan Akta Pekerja hanya untungkan majikan*, Retrieved from <https://www.malaysiakini.com/news/140515> on 29 January 2006. www.thestar.com.my/news/nation/2020/01/14 retrieved on 14 January 2020.