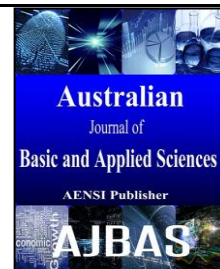




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Minimum Wages and Quality of Life - Perspectives of the Low-Skilled Employees

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ABSTRACT

The National Minimum Wage Policy which has been implemented in various forms in more than 90% of the countries in the world was implemented partially in Malaysia in January 2013 and fully by January 2014. According to the International Labour Organization (ILO), the main concern of this policy is poverty and the vulnerable, low-skilled employees. By setting floor wages for all employees in Malaysia, this policy's main target is to protect the low-skilled employees against exploitation and also serve as a tool to reduce poverty and inequality in the labour market in terms of wage distribution. Being a new policy initiative, the study wanted to explore how employees perceive this wage policy. This exploratory study set out to examine the perception of low-skilled employees towards the implementation of this wage policy. The perception of employees who were going to be affected by the policy answered questions on how the minimum wages policy might impact them, the family and the organization. Using purposive sampling, 403 respondents earning an income below RM 900 were interviewed in late 2013 before the policy was implemented. Findings reveal that generally most employees perceive that their quality of life will be improved and their motivational level will also improve encouraging them to work harder. However, they also felt that the employers' expectations will increase due to an increase in the cost of production. As this study was done before the full implementation of the policy, findings of this study can be used by policy makers to do a cost-benefit analysis of the Minimum Wages Policy on the low-skilled employees.

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INTRODUCTION

The National Minimum Wage Policy came into effect on January 1, 2013 for employers with six or more employees and on July 1, 2013 for employers with five or less employees. The policy for small and medium enterprises (SME) with foreign employees came into effect on January 1, 2014. While the employers' concern was an increase in labour cost of 40% to 60%, most of them were not satisfied with a 2% to 3% increase in productivity (The Edge, 2014). The policy set a minimum wage of RM900 per month for Peninsular Malaysia and RM800 per month for Sabah, Sarawak and the Federal Territory of Labuan, covering both the local and foreign workforce, except for domestic workers such as domestic helpers and gardeners.

According to Bank Negara Malaysia, (2012) the affected workers in Peninsular Malaysia would receive a 33% increase in wages, while those in East Malaysia a 38% increment. As in any new policy, there were arguments for and against the minimum wage policy. There was resistance from the employers in terms of worries in escalating costs of

living and fears of driving away foreign investors. Minimum wages also interferes with market forces in wage setting, increases business costs and leads to some inflationary impact as higher costs will be passed to consumers. While the policy signals the government's commitment to reducing poverty, it also will boost productivity growth, which is positive for employers.

The Malaysian government agreed to this plan on the 15th of October 2010, with the main objectives of mainly to ensure all basic necessities of employees and families are met. This particular initiative from the government is part of the New Economic Model (NEM) and Economic Transformation Program (ETP) which they sought to provide assistance to the low-income employees. Specifically the policy intends to offer sufficient social protection to employees in order to reduce nation's dependency on unskilled foreign labour consequently encouraging industry to move up the value chain by investing in higher technology and increase labour productivity.

However, this policy raised serious concerns among various quarters, including economists,

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analysts, employers and consumer groups where they believe there will be a ripple effect on both employers and employees.

Hence, this exploratory study set out to examine the perception of employees towards the implementation of this policy. Employees earning an income below RM 900 who were affected by the policy answered a questionnaire on how the minimum wage policy might impact them, the family and the organization. This study was conducted in December 2013, where the policy was still not implemented fully at that stage.

Literature Review:

The economic theory posits that any increase in wages will affect positively on income but negatively on employment. Proponents of minimum wage laws implicitly assume that the income effect is greater than the unemployment effect, but empirical findings show that it is far from clear. Earlier studies in the United States, being among a pioneer country in adopting the minimum wage law, showed that minimum wages result in significantly longer dependency on welfare, do not help the target groups, and cost entry-level employment opportunities (Employment Policies Institute, 1995). Independent academic studies also reported that the relationships between the minimum wage and the rate of poverty are found to be from statistical insignificant to marginally significant (Card and Krueger, 1995; Addison and Blackburn, 1999).

Bird and Manning (2003) assessed the efficiency of minimum wage policy as a tool of poverty reduction in a developing country. The simulation results indicate that minimum wage legislation is not an effective target antipoverty instrument. Along the same line, Neumark and Wascher (2006) found that minimum wages had marginally increased poverty. The evidence indicates that in the wake of minimum wage increases, some families gain and others lose.

In Japan, Kawaguchi and Mori (2009) found that an increase in the minimum wage moderately reduces the employment of male teenagers and middle-aged, married females, while it encourages the employment of high school age youth. They further concluded that a rising minimum wage does not seem to be a powerful policy for alleviating poverty in Japan because it is not well targeted toward poor households and it reduces the employment of less-skilled workers.

According to Saget (2004), there are at least three conditions to be met in order for the minimum wage to have a positive effect on the standards of living of workers and their families: firstly, all or most workers must be entitled to receive at least the minimum wage in exchange for their work. Secondly, employers must comply with the minimum wage and thirdly, there is no increase in prices following the rise in the minimum wage. However, there are studies conducted in America which argue

that minimum wage increases and not reduce poverty levels. Wilson, M. (2012).

Employers, using economic theories, argue that wages for labor should be determined by market forces where the wage level at the interaction point of the supply and demand curves for labor. Any attempt at setting a minimum wage higher than that determined by the efficient market would lead to a distortion in the economy, and in fact would reduce employment opportunities for workers (Fong, 2008).

Methodology:

This paper is based on a primary survey which is using a non-random purposive sampling method where 600 respondents who are earning less than RM900 per month were interviewed using a two-page questionnaire. As the respondents were low-skilled and not very educated, the researcher filled up the questionnaire by interviewing them. Only 403 completed questionnaires were used for analysis. The questionnaire consisted of three parts. The first and second parts of the questionnaire had information about respondent's job history and respondent's background respectively. The last part of the questionnaire contained 20 likert scale questions to measure the perception of respondents towards the implementation of the minimum wage policy. The data was analysed using descriptive statistics and cross-tabulation analysis because the main aim of this paper is to explore the perception of low income, low-skilled workers towards the implementation of minimum wage.

Profile of Respondents:

A total of 403 respondents working and earning below RM900, from Klang Valley (Kuala Lumpur, Petaling Jaya, Shah Alam and Klang) were interviewed. Slightly more than half of the respondents are male and majority (80%) are below 30 years old. Malays make up of two thirds of the respondents. In term of highest educational level obtained, only 10 percent of the respondents obtained primary school or below. Nearly 90 percent of the respondents have obtained secondary education or at least diploma/certificates. Only one 25 percent of them are currently married and 10 percent of them are currently pursuing some training or education. Only 8.5 percent of the respondents have worked for more than five years at their current job. Majority of them have only worked for more than one year in their current job. This may reflect the high turnover of lower income job. Less than five percent of the respondents are employed in more than one job.

Findings and Discussion:

Perception of respondents on the effect of implementation of minimum wage was divided into three parts, namely the effect of minimum wage on themselves, their employers and their families.

In terms of impact of minimum wage on

themselves, as shown in Table 1, only slightly more than 50 percent of the respondents felt that minimum wage will increase their work load. However, more interestingly, nearly 80 percent perceive that it will improve the quality of their lives. In short, at least 70 percent of them believe that minimum wage will benefit them and hence, motivate them to work harder. However, a small percentage (25%) of them are concerned that minimum wage may cause them to lose their job and thus, do more harm to them. Nevertheless, they still feel that minimum wage will definitely reduce their multiple jobs as their income will increase. Therefore, overall, the low-skilled earners feel that the policy will have a positive impact on them.

In terms of impact of minimum wage on the employers', 35 percent of the respondents strongly think that employers will replace local workers with foreign workers when minimum wage is implemented. This perception conforms to studies such as one done in USA (Wilson, M. 2012) Hence,

they feel that the policy might increase the number of illegal or undocumented foreign workers in this country. More than 50 percent of the respondents believe that minimum wage will increase the production cost. Another interesting point highlighted in this study is that more than 70 percent of the respondents have the fear that minimum wages will lead to higher expectation in productivity from employers and might possibly lead to reduction in the number of workers. Therefore, low income workers perceive that minimum wage will have a negative impact on their employers which might spill-over to harm the local workers.

In terms of the effect of minimum wage on the family of low income workers, respondents strongly believe that minimum wage will increase their household income and benefit their families. However, about 25 percent of them have a concern that minimum wage might cause their family members to lose their job.

Table 1: Perception of Employee on Effect of the Implementation of Minimum Wage on Themselves, their Employers and their Families

Perception of Employee on the impact of Minimum Wage on Themselves	Agree		Disagree/Unsure	
	%	N	%	N
Minimum wage will increase my current work load.	57.3	231	42.7	172
Minimum wage will cause me to lose my job.	24.6	99	75.4	304
Minimum wage will do more harm to me.	23.3	94	76.7	309
Minimum wage will enable me to increase my quality of life.	78.7	317	21.3	86
Minimum wage will benefit me.	77.3	313	22.3	90
Minimum wage will enable me to reduce my multiple jobs.	43.4	175	56.6	228
Minimum wage will motivate me to work harder.	69.2	279	30.8	124
Perception of Employee on the impact of Minimum Wage on Employer	Agree		Disagree/Unsure	
	%	N	%	N
Minimum wage will cause my employer to replace me with foreign worker.	35.0	141	65.0	262
Minimum wage will increase the number of illegal workers in this country.	52.4	211	47.6	192
Minimum wage will increase my employer's production costs.	57.6	232	42.3	171
Minimum wage will cause my employer to have higher expectation on my productivity.	71.0	286	29.0	117
Perception of Employee on the impact of Minimum Wage on Employee's Family	Agree		Disagree/Unsure	
	%	N	%	N
Minimum wage will cause some of my family members to lose their job.	27.0	109	73.0	294
Minimum wage will increase my household income.	76.7	309	23.3	94
Minimum wage will benefit my family.	78.2	315	21.8	88
Minimum wage will enable me to have sufficient money to support my family.	74.9	302	25.1	101

To analyse whether there was a difference in terms of perception among non-generation Y (above 35 years) and generation Y (below 35 years), further cross tabulations analysis was done. Interesting results were revealed in particular to generation Y workers. 60 percent of generation Y compared to 46 percent of non-generation Y think that minimum wage will increase their workload. The difference is significant at 5 percent significance level. Furthermore, about half of the generation Y perceive that they will be retrenched when minimum wage is introduced compared to only 21 percent of non-

generation Y. This may reflect that generation Y workers perceive that their work will be at risk with the implementation of minimum wage. Hence, generation Y workers (75 percent) compared to generation X workers (88 percent) felt that the minimum wage will not increase their household income or benefit their family. Nevertheless, generation Y workers are two times more likely than generation X to take up some form of training or education with the additional income from implementation of minimum wage.

Table 2: Perception of Generation Y on the implementation of Minimum Wage

	Generation Y workers who agree	Non- Generation Y workers who agree
Minimum wage will increase my current work load **	60 %	46 %
Minimum wage will enable me to take up some form of training or education ***	46 %	27 %

Minimum wage will increase my household income ***	74 %	88 %
Minimum wage will benefit my family **	75 %	88 %
Minimum wage will cause my employer to reduce his/her number of workers ***	48 %	31 %

Note: *** significant at 1 percent; ** Significant at 5 percent

In terms of gender, more female workers (47 percent) compared to male workers (37 percent) reported that minimum wage will encourage them to take up some form of training or education. This may indicate that probably female workers' wages are much less than their counterparts and hence, minimum wage will enable them financially to invest in human capital.

As expected, workers with lower level of education (primary education(13%) are five times less likely compared to workers with higher education (at least diploma)(55 %) to further equip themselves with some form of training or education when their wages increased to minimum wage level. Therefore minimum wage may not have impact on increasing the human capital of lower educated workers.

Conclusion and Implications:

The minimum wage policy is expected to have a positive impact on the Malaysian economy, not immediately but in the medium to long term. As this study shows, the employees perceive a positive impact of the wage-policy on themselves and their families. They perceive that their motivational level will be improved and hence they expect productivity to improve. One of the important objectives of the policy is to improve the quality of living and move the low-income, low-skilled earners above the poverty-line income. This is reflected by the respondents in this study. A large number feel that they will lead a better quality of life with a slightly higher income.

The biggest concern of employers and employer unions is business cost and productivity. However, economists argue that this increase in production cost can be mitigated through improvements in productivity. Along the same line, the respondents fear the expectations of higher productivity from the employers due to the slight increase in income.

Even though the study concludes that the employees' feel that the minimum wage policy will have a positive impact on them, there is a big concern here in terms of attitude. It was noted that even though the employees earned a low income, less than 5 percent took the initiative to improve their socio-economic status by doing other jobs. Given that low-wage households tend to have a higher marginal propensity to consume, the increase in the incomes of the affected workers can be expected to result in higher consumer spending and hence a positive impact on the nation's economy.

Being an exploratory study using a purposive sampling of respondents who were low-skilled and earned an income below RM900, it was quite a challenge to get a nation-wide sample which resulted

in a small sample size.

In terms of implication, the minimum wage policy is just one of the many poverty reducing devices. Just like most policies, minimum wage creates winners and losers, hence policymakers should focus on policies that generate faster economic growth to benefit all workers. There are many other factors which affect poverty, such as a person's employability, the prevalence of transfer payments, and the existence of single-parent families. Hence to reduce poverty, minimum wage policy should be accompanied by other initiatives which focus on how to best help the low-skilled work force attain higher incomes such as more investment in education, health and access to social infrastructure.

Besides reducing the poverty of the vulnerable group and the low-skilled workers, another objective of the minimum wage policy is to be a positive step towards encouraging a fairer wage structure and contributing towards the promotion of higher value-added economic activities and higher-skilled jobs. Hence this objective can only be met with government and institutional support, as well as a well-functioning mechanism to monitor the regulation, such as a labour inspectorate. As this study was done before the full implementation of the policy, findings of this study can be used by policy makers to do a cost-benefit analysis of the Minimum Wages Policy on the low-skilled employees.

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